ASCENSION

CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION (UNAUDITED)

For the Quarters Ended September 30, 2019 and 2018

Ascension

Consolidated Financial Statements
and Supplementary Information

Quarters Ended September 30, 2019 and 2018

Contents

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Consolidated Balance Sheets

(Dollars in Thousands)

	September 30, 2019	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,162,679**	$ 896,262
Short-term investments	**104,643**	92,072
Accounts receivable	**3,210,236**	3,172,747
Inventories	**415,889**	409,129
Due from brokers *(see Notes 4 and 5)*	**93,840**	324,977
Estimated third-party payor settlements	**158,405**	178,556
Other *(see Notes 4 and 5)*	**997,835**	959,477
Total current assets	**6,143,527**	6,033,220
Long-term investments *(see Notes 4 and 5)*	**19,172,286**	19,786,061
Property and equipment, net	**10,684,268**	10,851,422
Other assets:		
Right-of-use assets - leases	**1,471,349**	-
Investment in unconsolidated entities	**1,232,008**	1,233,209
Capitalized software costs, net	**602,759**	641,533
Other *(see Notes 4 and 5)*	**1,145,994**	1,173,051
Total other assets	**4,452,110**	3,047,793
Total assets	**$ 40,452,191**	$ 39,718,496

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Consolidated Balance Sheets

(Dollars in Thousands)

	September 30, 2019	June 30, 2019
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 106,482**	$ 125,577
Long-term debt subject to short-term remarketing arrangements*	**949,295**	1,043,150
Current portion of lease obligations	**270,940**	-
Accounts payable and accrued liabilities *(see Notes 4 and 5)*	**2,522,268**	2,951,322
Estimated third-party payor settlements	**582,319**	599,959
Due to brokers *(see Notes 4 and 5)*	**332,105**	369,213
Current portion of self-insurance liabilities	**272,044**	269,561
Other	**753,201**	465,499
Total current liabilities	**5,788,654**	5,824,281
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	**6,645,908**	6,760,464
Lease obligations, less current portion	**1,204,607**	-
Self-insurance liabilities	**685,861**	675,860
Pension and other postretirement liabilities	**1,494,127**	1,580,867
Other *(see Notes 4 and 5)*	**1,314,359**	1,352,740
Total noncurrent liabilities	**11,344,862**	10,369,931
Total liabilities	**17,133,516**	16,194,212
Net assets:		
Without donor restrictions:		
Controlling interest	**20,574,931**	20,776,747
Noncontrolling interests	**1,979,794**	1,988,121
Total net assets without donor restrictions	**22,554,725**	22,764,868
Net assets with donor restrictions	**763,950**	759,416
Total net assets	**23,318,675**	23,524,284
Total liabilities and net assets	**$ 40,452,191**	$ 39,718,496

*Consists of variable rate demand bonds with put options that may be exercised at the option of the bondholders, with stated repayment installments through 2047, as well as certain serial mode bonds with scheduled remarketing/mandatory tender dates occurring prior to June 30, 2020. In the event that bonds are not remarketed upon the exercise of put options or the scheduled mandatory tenders, management would utilize other sources to access the necessary liquidity. Potential sources include liquidating investments, a draw on the line of credit totaling $1 billion, and issuing commercial paper. The commercial paper program is supported by $300 million of the $1 billion line of credit.

The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	The three months ended September 30, 2019	2018
Operating revenue:		
Net patient service revenue	**$ 6,058,923**	5,729,054
Other revenue	**404,082**	429,128
Total operating revenue	**6,463,005**	6,158,182
Operating expenses:		
Salaries and wages	**2,591,997**	2,517,490
Employee benefits	**555,521**	558,620
Purchased services	**729,919**	641,306
Professional fees	**332,139**	314,139
Supplies	**970,847**	889,207
Insurance	**71,054**	71,880
Interest	**65,837**	67,584
Provider tax	**164,354**	160,198
Depreciation and amortization	**319,423**	303,135
Other	**653,792**	655,014
Total operating expenses before impairment, restructuring and nonrecurring losses, net	**6,454,883**	6,178,573
Income (loss) from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring losses, net	**8,122**	(20,391)
Self-insurance trust fund investment return	**3,752**	9,482
Income (loss) from recurring operations	**11,874**	(10,909)
Impairment, restructuring and nonrecurring losses, net	**(34,990)**	(17,072)
Loss from operations	**(23,116)**	(27,981)
Nonoperating gains (losses):		
Investment return (loss), net	**(203,809)**	421,999
Other	**17,340**	64,873
Total nonoperating gains (losses), net	**(186,469)**	486,872
Excess (deficit) of revenues and gains over expenses and losses	**(209,585)**	458,891
Less noncontrolling interests	**25,104**	43,960
Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest	**(234,689)**	414,931

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Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	The three months ended September 30, 2019	2018
Net assets without donor restrictions, controlling interest:		
Excess (deficit) of revenues and gains over expenses and losses	**$ (234,689)**	$ 414,931
Transfers to sponsors and other affiliates, net	**(16,537)**	(1,674)
Net assets released from restrictions for property acquisitions	**5,561**	10,527
Pension and other postretirement liability adjustments	**28,247**	15,672
Change in unconsolidated entities' net assets	**1,855**	8,214
Membership interest changes, net	**(632)**	-
Other	**14,350**	6,918
Increase (decrease) in net assets without donor restrictions, controlling interest	**(201,845)**	454,588
Gain (loss) from discontinued operations	**29**	(3,769)
Increase (decrease) in net assets without donor restrictions, controlling interest	**(201,816)**	450,819
Net assets without donor restrictions, noncontrolling interest:		
Excess of revenues and gains over expenses and losses	**25,104**	43,960
Net distributions of capital	**(32,248)**	(5,888)
Membership interest changes, net	**(1,183)**	-
Increase (decrease) in net assets without donor restrictions, noncontrolling interests	**(8,327)**	38,072
Net assets with donor restrictions:		
Contributions and grants	**16,577**	26,604
Investment return	**3,658**	10,326
Net assets released from restrictions	**(14,928)**	(21,693)
Other	**(773)**	739
Increase in net assets with donor restrictions	**4,534**	15,976
Increase (decrease) in net assets	**(205,609)**	504,867
Net assets, beginning of period	**23,524,284**	23,117,757
Net assets, end of period	**$ 23,318,675**	$ 23,622,624

The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Statements of Cash Flows (continued)

(Dollars in Thousands)

	The three months ended September 30, 2019	2018
Operating activities		
Increase (decrease) in net assets	**$ (205,609)**	$ 504,867
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	**319,423**	303,135
Amortization of bond premiums and debt issuance costs	**(5,657)**	(6,147)
Loss on extinguishment of debt	**(220)**	55
Pension and other postretirement liability adjustments	**(28,247)**	(15,672)
Unrealized (gains) losses on investments, net	**692,387**	(222,834)
Change in fair value of interest rate swaps	**10,504**	(10,267)
Change in equity of unconsolidated entities	**(39,920)**	(41,053)
Loss (gain) on sale of assets, net	**441**	(25,311)
Impairment and nonrecurring expenses	**1,633**	483
Transfers to sponsor and other affiliates, net	**16,537**	1,674
Donor restricted contributions, investment return and other	**(20,450)**	(30,660)
Other restricted activity	**(875)**	(5,650)
Distributions of noncontrolling interest, net	**32,248**	5,888
Other	**10,432**	(70)
Increase (decrease) in:		
Short-term investments	**(12,570)**	3,389
Accounts receivable	**(27,457)**	38,971
Inventories and other current assets	**(43,540)**	(35,531)
Due from brokers	**231,137**	(95,757)
Investments classified as trading	**(75,808)**	(211,840)
Other assets	**(2,137)**	(24,508)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(434,386)**	(287,865)
Estimated third-party payor settlements, net	**(2,065)**	(36,403)
Due to brokers	**(37,108)**	239,589
Other current liabilities	**291,772**	78,010
Self-insurance liabilities	**12,484**	(42,446)
Other noncurrent liabilities	**(80,304)**	(10,463)
Net cash provided by continuing operating activities	**602,645**	73,584
Net cash provided by (used in) discontinued operations	**5,656**	(3,568)
Net cash provided by operating activities	**608,301**	70,016

Continued on next page.

Ascension

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	The three months ended September 30,	
	2019	**2018**
Investing activities		
Property, equipment, and capitalized software additions, net	**$ (216,783)**	$ (242,738)
Proceeds from sale of property and equipment	**2,369**	27,333
Distributions from unconsolidated entities, net	**36,474**	17,576
Net cash used in investing activities before discontinued operations	**(177,940)**	(197,829)
Net cash provided by discontinued operations	**-**	20,727
Net cash used in investing activities	**(177,940)**	(177,102)
Financing activities		
Issuance of debt	**129,577**	-
Repayment of debt, inlcuding lease obligations	**(265,366)**	(922)
Increase (decrease) in assets under bond indenture agreements	**180**	(34)
Transfers to sponsors and other affiliates, net	**(16,537)**	(1,674)
Donor restricted contributions, investment return, and other	**20,450**	30,660
Distributions of noncontrolling interest, net	**(32,248)**	(5,888)
Net cash (used in) provided by financing activities	**(163,944)**	22,142
Net increase (decrease) in cash and cash equivalents	**266,417**	(84,944)
Cash and cash equivalents at beginning of period	**896,262**	850,958
Cash and cash equivalents at end of period	**$ 1,162,679**	$ 766,014

The accompanying notes are an integral part of the consolidated financial statements.

1. Organization and Mission

Organizational Structure

Ascension Health Alliance, d/b/a Ascension (Ascension), is a Missouri nonprofit corporation formed on September 13, 2011. Ascension is a Catholic national health system consisting primarily of nonprofit corporations that own and operate local healthcare facilities, or Ministry Markets, located in 21 states and the District of Columbia. Ascension also serves as the member or shareholder of various subsidiaries including, but not limited to:

- Ascension Care Management
- AscensionConnect
- Ascension Global Mission
- Ascension Holdings
- Ascension Leadership Academy
- Ascension Ministry Service Center
- Ascension Technologies
- Ascension Capital
    - Ascension Investment Management (AIM)
    - AV Holding Company
    - Ascension Ventures (AV)
- The Resource Group
- Smart Health Solutions

Ascension is also the majority investor in Ascension Alpha Fund, LLC (Alpha Fund) as discussed in the Pooled Investment Fund note. Ascension and its member organizations are hereafter referred to collectively as the System.

Sponsorship

Ascension is sponsored by Ascension Sponsor, a Public Juridic Person. The Participating Entities of Ascension Sponsor are the Daughters of Charity of St. Vincent de Paul, St. Louise Province; the Congregation of St. Joseph; the Congregation of the Sisters of St. Joseph of Carondelet; the Congregation of Alexian Brothers of the Immaculate Conception Province, Inc. – American Province; and the Sisters of the Sorrowful Mother of the Third Order of St. Francis of Assisi – US/Caribbean Province.

1. Organization and Mission (continued)

Mission

The System directs its governance and management activities toward strong, vibrant, Catholic Ministries united in service and healing, and dedicates its resources to spiritually centered care which sustains and improves the health of the individuals and communities it serves. In accordance with the System's mission of service to those persons living in poverty and other vulnerable persons, each Ministry Market accepts patients regardless of their ability to pay. The System uses four categories to identify the resources utilized for the care of persons living in poverty and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.

- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.

- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.

- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured and underinsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for financial assistance are not included in the cost of providing care of persons living in poverty and other community benefit programs. The cost of providing care to persons living in poverty and other community benefit programs is estimated by reducing charges forgone by a factor derived from the ratio of each entity's total operating expenses to the entity's billed charges for patient care. Certain costs such as graduate medical education and certain other activities are excluded from total operating expenses for purposes of this computation.

(Dollars in Thousands)

1. Organization and Mission (continued)

The amount of traditional charity care provided, determined on the basis of cost, was $191,723 and $137,543 for the three months ended September 30, 2019 and 2018, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost is reported in the accompanying supplementary information.

2. Significant Accounting Policies

Principles of Consolidation

All corporations and other entities for which operating control is exercised by the System or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. Investments in entities where the System does not have operating control are recorded under the equity or cost method of accounting. Income from unconsolidated entities is included in consolidated excess of revenues and gains over expenses and losses in the accompanying Consolidated Statements of Operations and Changes in Net Assets as follows:

	Three Months Ended September 30,	
	2019	**2018**
Other revenue	**$ 38,438**	$ 20,005
Nonoperating gains	**(504)**	2,575

Use of Estimates

Management has made estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Carrying values of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of financial instruments measured at fair value are disclosed in the Fair Value Measurements note.

2. Significant Accounting Policies (continued)

New Accounting Standards Adopted

The System adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) No. 2016-02, *Leases (Topic 842)* on July 1, 2019. See the Leases footnote for additional information.

The system adopted the FASB ASU 2017-07, *Compensation – Retirement Benefits (Topic 715)* using the full retrospective method of application, and our accounting policies related to the cost of benefits were revised accordingly effective July 1, 2019, as discussed below. The most significant impact of adopting the new standard is to the presentation of the System's Consolidated Statement of Operations and Changes in Net Assets for employers that sponsor defined benefit pension and post-retirement benefit plans, where the service cost component of net periodic benefit cost related to these plans is now reported in the same financial statement line as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented separately from service cost and outside of operating income. The prior period consolidated financial statements presented were adjusted accordingly.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits with original maturities of three months or less.

Short-Term Investments

Short-term investments consist of investments with original maturities exceeding three months and up to one year.

Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market value using first-in, first-out (FIFO) or a methodology that closely approximates FIFO.

2. Significant Accounting Policies (continued)

Long-Term Investments and Investment Return

Investments, excluding investments in unconsolidated entities, are measured at fair value, are classified as trading securities, and include pooled short-term investment funds; U.S. government, state, municipal and agency obligations; corporate and foreign fixed income securities; asset-backed securities; and equity securities. Investments also include alternative investments and other investments which are valued based on the net asset value of the investments, as further discussed in the Fair Value Measurements note. Investments also include derivatives held by the Alpha Fund, also measured at fair value, as discussed in the Pooled Investment Fund note.

Long-term investments include assets limited as to use of approximately $1,354,000 and $1,343,000 at September 30, 2019 and June 30, 2019, respectively, comprised primarily of investments placed in trust and held by captive insurance companies for the payment of self-insured claims and investments which are limited as to use, as designated by donors.

Purchases and sales of investments are accounted for on a trade-date basis. Investment returns consist of dividends, interest, and gains and losses. The cost of substantially all securities sold is based on the FIFO method. Investment returns, excluding returns of self-insurance trust funds, are reported as nonoperating gains (losses) in the Consolidated Statements of Operations and Changes in Net Assets, unless the return is restricted by donor or law. Investment returns of self-insurance trust funds are reported as a separate component of income from operations in the Consolidated Statements of Operations and Changes in Net Assets.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives used in computing depreciation is as follows: buildings and leasehold improvements, 2 to 40 years; and equipment, 2 to 20 years. Depreciation expense for the three months ended September 30, 2019 and 2018 was $264,234 and $246,249, respectively.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

A summary of property and equipment is as follows:

	September 30, 2019	June 30, 2019
Land and improvements	**$ 1,265,454**	$ 1,256,944
Buildings and equipment	**19,670,639**	19,309,205
	20,936,093	20,566,149
Less accumulated depreciation	**10,863,079**	10,605,708
	10,073,014	9,960,441
Construction in progress	**611,254**	890,981
Total property and equipment, net	**$ 10,684,268**	$ 10,851,422

Several capital projects have remaining construction and related equipment purchase commitments of approximately $519,560 as of September 30, 2019.

Intangible Assets

Intangible assets primarily consist of goodwill and capitalized computer software costs, including internally developed software. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage, and the nature of the costs. Intangible assets are included in the Consolidated Balance Sheets as presented in the table that follows.

Capitalized software costs in the following table include software in progress of $82,461 and $96,717 at September 30, 2019 and June 30, 2019, respectively:

	September 30, 2019	June 30, 2019
Capitalized software costs	**$ 2,348,533**	$ 2,342,789
Less accumulated amortization	**1,745,774**	1,701,256
Capitalized software costs, net	**602,759**	641,533
Goodwill	**258,317**	255,581
Other, net	**43,189**	44,319
Intangible assets included in other	**301,506**	299,900
Total intangible assets, net	**$ 904,265**	$ 941,433

2. Significant Accounting Policies (continued)

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets for the three months ended September 30, 2019 and 2018 was $55,189 and $56,886, respectively.

The System is substantially complete with a significant multi-year, System-wide enterprise resource planning project (Symphony). Capitalized costs of Symphony were approximately $363,000 at both September 30, 2019 and June 30, 2019 and are being amortized on a straight-line basis over the expected useful life of the software. Accumulated amortization of Symphony was approximately $245,000 and $235,000 at September 30, 2019 and June 30, 2019, respectively. See the Impairment, Restructuring, and Nonrecurring Losses discussion below for additional information about costs associated with Symphony.

Noncontrolling Interests

The consolidated financial statements include all assets, liabilities, revenues, and expenses of entities that are controlled by the System and therefore consolidated. Noncontrolling interests in the Consolidated Balance Sheets represent the portion of net assets owned by entities outside the System, for those entities in which the System's ownership interest is less than 100%.

Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions are those whose use by the System has not been limited by donors and are available for general operating use.

Net Assets With Donor Restrictions

Net assets with donor restrictions include those whose use by the System has been limited by donors for a specific time period or purpose, primarily for patient care, operations, and property and equipment. This category also includes net assets restricted by donors to be maintained in perpetuity, which include endowment funds.

2. Significant Accounting Policies (continued)

The income from these funds is used primarily to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as net assets without donor restrictions. Net assets with donor restrictions consist solely of controlling interests of the System.

Performance Indicator

The performance indicator is the excess of revenues and gains over expenses and losses. Changes in net assets without donor restrictions that are excluded from the performance indicator primarily include pension and other postretirement liability adjustments, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, and change in unconsolidated entities' net assets.

Operating and Nonoperating Activities

The System's primary mission is to meet the healthcare needs in its market areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, long-term care, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the System's primary mission are considered to be nonoperating.

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue relates to contracts with patients and in most cases involve a third-party payor (Medicare, Medicaid, commercial and other managed care insurance companies) in which the System's performance obligations are to provide health care services. Net patient service revenues are recorded at expected collectible amounts over the time in which obligations to provide health care services are satisfied. Revenue is accrued to estimate the amount of revenue earned to date for patients who have not been discharged and whose care services are not complete as of the reporting period. Substantially all the System's performance obligations are satisfied in one year.

The transaction price is determined based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with our charity care policy, and implicit price concessions provided primarily to uninsured patients. Patients who have health care insurance may also have discounts applied related to their copayment or deductible. Implicit price concessions are recorded as a direct reduction to net patient service revenue and are based primarily on historical collection experience.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Estimates of contractual adjustments and discounts are determined by major payor classes for inpatient and outpatient revenues based on contractual agreements, discount policies and historical experience. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and frequent changes in commercial and managed care contractual terms resulting from contract renegotiations and renewals.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by $16,121 and $11,128 for the three months ended September 30, 2019 and 2018, respectively.

Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item.

These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and our historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews and investigations.

Net patient service revenue earned for the three months ended September 30, 2019 and 2018, is as follows:

	Three months ended September 30,	
	2019	**2018**
Inpatient care	**$ 2,890,114**	$ 2,727,713
Ambulatory care	**2,349,353**	2,240,887
Physician practices	**688,789**	640,742
Long-term care	**130,667**	119,712
Total net patient service revenue	**$ 6,058,923**	$ 5,729,054

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

The System grants credit without collateral to its patients. Net patient service revenues earned by payor and significant concentrations of accounts receivable are as follows:

	Net Patient Service Revenue		Accounts Receivable	
	September 30,		September 30,	June 30,
	2019	2018	2019	2019
Medicare - traditional and managed	**36 %**	35 %	**28 %**	28 %
Medicaid - traditional and managed	**13**	14	**11**	11
Other commercial and managed care	**44**	43	**41**	41
Self-Pay and other	**7**	8	**20**	20
	100 %	100 %	**100 %**	100 %

Deductibles, copayments, and coinsurance under third-party payment programs which are the patient's responsibility are included within the primary payor category in the preceding table.

The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient deductibles and copayments remain outstanding.

Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed.

The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections of revenues and accounts receivable as a primary source of information in estimating the collectability of our accounts receivable. Management updates the hindsight analysis at least quarterly, using primarily a rolling twelve-month collection history and write-off data. These routine, quarterly changes in estimates have not resulted in material adjustments to the valuations of accounts receivable or period-to-period comparisons of results of operations.

2. Significant Accounting Policies (continued)

Other Operating Revenue

Other operating revenues are recorded at amounts the System expects to collect in exchange for providing goods or services not directly associated with patient care and recorded over the time in which obligations to provide goods or services are satisfied. The amounts recognized reflect consideration due from customers, third party payors, and others.

Impairment, Restructuring, and Nonrecurring Losses

Long-lived assets are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets.

Where impairment is indicated, the carrying amount of these long-lived assets is reduced to fair value based on future discounted net cash flows or other estimates of fair value.

Nonrecurring expenses associated with Symphony primarily include deployment costs to implement Symphony in certain Health Ministries.

During the three months ended September 30, 2019, the System recorded total impairment, restructuring, and nonrecurring losses, net of $34,990. This amount was comprised primarily of $6,373 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of $23,945, and other nonrecurring expenses of $4,672.

During the three months ended September 30, 2018, the System recorded total impairment, restructuring, and nonrecurring losses, net of $17,072. This amount was comprised primarily of $185 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of $13,063, and other nonrecurring expenses of $3,824.

Amortization

Bond issuance costs, discounts, and premiums are amortized over the term of the bonds using a method approximating the effective interest method.

Capitalized software, including internally developed software, is amortized on a straight-line basis over the expected useful life of the software.

2. Significant Accounting Policies (continued)

Income Taxes

The member healthcare entities of the System are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or Section 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). The System accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The System has determined that no material unrecognized tax benefits or liabilities exist as of September 30, 2019.

Regulatory Compliance

Ascension periodically undergoes investigations or audits by federal, state and local agencies involving compliance with a variety of laws and regulations. These investigations seek to determine compliance with, among other things, laws and regulations relating to Medicare and Medicaid reimbursement, including billing practice for certain services. While no assurance can be given concerning the outcome of any current investigation, management believes that adequate reserves have been established, when available information indicates that a loss is probable and the range of loss can be reasonably estimated, and the outcome of any current investigations will not have a material effect on the accompanying consolidated financial statements of the System.

Reclassifications

Certain reclassifications were made to the accompanying September 30, 2018 consolidated financial statements to conform to the September 30, 2019 presentation.

Subsequent Events

The System evaluates the impact of subsequent events, which are events that occur after the Consolidated Balance Sheet date but before the consolidated financial statements are issued, for potential recognition or disclosure in the consolidated financial statements as of the Consolidated Balance Sheet date. For the three months ended September 30, 2019, the System evaluated subsequent events through November 18, 2019, representing the date on which the accompanying consolidated financial statements were issued.

3. Organizational Changes

Business Combinations

Bay County Health System, LLC – Florida

Effective March 14, 2019, Sacred Heart Health System, Inc. (Sacred Heart), a subsidiary of Ascension, acquired the remaining interest in a joint venture previously owned by LHP Bay County, LLC and Sacred Heart.

Divestitures

During the three months ended September 30, 2019 and 2018, Ascension, including certain of its wholly owned subsidiaries, completed the sale of, or undertook actions to sell or transfer ownership of, certain assets and liabilities.

Assets Held for Sale

On September 28, 2018, Ascension entered into an asset sale agreement to sell certain assets and liabilities and substantially all related operations of St. Vincent's Medical Center, an Ascension subsidiary located in Bridgeport, Connecticut, to Hartford HealthCare Corporation. Assets and liabilities held for sale at September 30, 2019 were $265,138 and $31,683,

respectively, and are included in other current assets and other current liabilities in the accompanying Consolidated Balance Sheet. Assets and liabilities held for sale at June 30, 2019 were $265,816 and $39,938, respectively. The sale was completed on October 1, 2019.

Discontinued Operations

On September 1, 2018, Ascension completed the sale of substantially all assets and certain liabilities of Our Lady of Lourdes Hospital at Pasco in Pasco, Washington, d/b/a Lourdes Health Network, to RCCH HealthCare Partners.

The loss from discontinued operations was $3,769 for the three months ended September 30, 2018.

4. Pooled Investment Fund

At September 30, 2019 and June 30, 2019, a significant portion of the System's investments consists of the System's interest in the Alpha Fund, a limited liability company organized in the state of Delaware. Certain System investments, including some held by the Health Ministries and their consolidated foundations, are managed outside of the Alpha Fund.

The Alpha Fund includes the investment interests of the System and other Alpha Fund members. AIM, a wholly owned subsidiary of the System, serves as the manager and primary investment advisor of the Alpha Fund, overseeing the investment strategies offered to the Alpha Fund's members.

AIM provides expertise in the areas of asset allocation, selection and monitoring of outside investment managers, and risk management. The Alpha Fund is consolidated in the System's financial statements.

Ascension and the Alpha Fund invests in certain alternative investment funds which include contractual commitments to provide capital contributions during the investment period, which is typically five years and can extend to the end of the fund term. During these contractual periods, investment managers may require investment in accordance with the terms of the agreement.

Commitments not funded during the investment period will expire and remain unfunded. As of September 30, 2019, contractual agreements expire between October 2019 and September 2029. The remaining unfunded capital commitments total approximately $1,661,000 for 219 individual funds as of September 30, 2019. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments in the Alpha Fund.

In the normal course of business, the Fund enters into derivative contracts (derivatives) for trading purposes following Fund guidelines. Derivatives in which the Fund may invest include options, futures contracts, swaps, forward settling mortgage-backed securities, and index-based instruments. Advisers selected by AIM to manage the Fund's assets may actively trade futures contracts, options, and foreign currency forward contracts. AIM may direct these advisers to execute derivative transactions. These transactions are used to hedge against changes in the interest rates, security prices, currency fluctuations, and other market developments to manage risk or for the purposes of earning additional income. Derivatives are either exchange-traded or over the counter contracts. Exchange-traded derivatives are standard contracts traded on a regulated exchange. Over the counter contracts are private contracts negotiated with counterparties.

4. Pooled Investment Fund (continued)

See the Fair Value Measurements note for a discussion of how fair value for the Alpha Fund's derivatives is determined. At September 30, 2019 and June 30, 2019, the gross notional value of Alpha Fund derivatives outstanding was approximately $8,174,000 and $9,347,000, respectively.

The fair value of Alpha Fund derivatives in an asset position was $47,104 and $75,647 at September 30, 2019 and June 30, 2019, respectively, while the fair value of Alpha Fund derivatives in a liability position was $86,279 and $57,771 at September 30, 2019 and June 30, 2019, respectively. These derivatives are included in long-term investments in the accompanying Consolidated Balance Sheets at September 30, 2019 and June 30, 2019.

The Alpha Fund also participates in a securities lending program, whereby a portion of the Alpha Fund's investments are loaned to selected established brokerage firms in return for securities from the brokers as collateral for the investments loaned, usually on a short-term basis. The fair value of collateral held by the Alpha Fund associated with such lending agreements amounts to $446,570 at September 30, 2019.

Due from brokers and due to brokers on the Consolidated Balance Sheets at September 30, 2019 and June 30, 2019, represent the Alpha Fund's positions and amounts due from or to various brokers, primarily for security transactions not yet settled, and cash held by brokers for securities sold, not yet purchased.

5. Cash and Investments

The System's cash and investments are reported in the Consolidated Balance Sheets as presented in the table that follows. Total cash and investments, net, includes both the System's membership interest in the Alpha Fund and the noncontrolling interests held by other Alpha Fund members. System unrestricted cash and investments, net, represent the System's cash and investments excluding the noncontrolling interests held by other Alpha Fund members and assets limited as to use.

(Dollars in Thousands)

5. Cash and Investments (continued)

	September 30, 2019	June 30, 2019
Cash and cash equivalents	**$ 1,162,679**	$ 896,262
Short-term investments	**104,643**	92,072
Long-term investments	**19,172,286**	19,786,061
Subtotal	**20,439,608**	20,774,395
Other Alpha Fund assets and liabilities:		
In other current assets	**44,365**	41,461
In accounts payable and other accrued liabilities	**(10,148)**	(11,542)
In other noncurrent liabilities	**(282)**	(20)
Due (to) from brokers, net	**(238,265)**	(44,236)
Total cash and investments, net	**20,235,278**	20,760,058
Less noncontrolling interests of Alpha Fund	**1,752,188**	1,755,068
System cash and investments, including assets limited as to use	**18,483,090**	19,004,990
Less assets limited as to use:		
Under bond indenture agreement	**859**	1,039
Self-insurance trust funds	**644,392**	639,006
With donor restrictions	**709,135**	703,017
Total assets limited as to use	**1,354,386**	1,343,062
System unrestricted cash and investments, net	**$ 17,128,704**	$ 17,661,928

The composition of cash and cash equivalents, short-term investments and long-term investments, which include certain assets limited as to use, is summarized as follows.

	September 30, 2019	June 30, 2019
Cash and cash equivalents and short-term investments	**$ 1,997,112**	$ 1,089,466
Pooled short-term investment funds	**197,495**	728,104
U.S. government, state, municipal and agency obligations	**2,314,863**	2,741,689
Corporate and foreign fixed income securities	**1,692,436**	1,675,874
Asset-backed securities	**3,087,861**	3,078,928
Equity securities	**5,070,609**	5,358,824
Alternative investments and other investments:		
Private equity and real estate funds	**2,827,409**	2,768,605
Hedge funds	**1,808,092**	1,839,334
Commodities funds and other investments	**1,443,731**	1,493,571
Total alternative investments and other investments	**6,079,232**	6,101,510
Total cash and cash equivalents, short-term investments, and long-term investments	**$ 20,439,608**	$ 20,774,395

(Dollars in Thousands)

5. Cash and Investments (continued)

Investment return recognized by the System for the three months ended September 30, 2019 and 2018, is summarized in the following table. Total investment return includes the System's return on certain investments held and managed outside the Alpha Fund and the investment return of the Alpha Fund. System investment return represents the System's total investment return, net of the investment return earned by the noncontrolling interests of other Alpha Fund members.

	Three months ended September 30,	
	2019	**2018**
Interest and dividends	**$ 76,048**	$ 69,973
Net gain (loss) on investments reported at fair value	**(276,105)**	361,508
Restricted investment return and unrealized gains, net	**3,658**	10,326
Investment return (loss), net	**(196,399)**	441,807
Less return earned by noncontrolling interests of Alpha Fund	**9,712**	29,946
System investment return (loss), net	**$ (206,111)**	$ 411,861

Investment return is reduced by external and direct internal investment expenses.

(Dollars in Thousands)

6. Financial Assets and Liquidity Resources

As of September 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, principal payments on debt, and capital expenditures not financed with debt, are as follows:

	September 30, 2019
Financial assets:	
Cash and cash equivalents	$ 1,162,679
Short term investments	104,643
Accounts receivable	3,210,236
Due from brokers	93,840
Other current assets	997,835
Long term investments	19,172,286
Total financial assets	24,741,519
Less:	
Assets limited as to use and other restricted funds	(1,463,649)
Noncontrolling interests of Alpha Fund	(1,752,188)
Investments with liquidity more than one year	(3,558,367)
Total financial assets available within one year	17,967,315
Liquidity resources:	
Unused lines of credit	1,000,000
Total financial assets and liquidity resources available within one year	$ 18,967,315

As part of the System's investment policy, highly liquid investments are held to enhance the System's ability to satisfy liquidity. The System also maintains lines of credit as further discussed in the Long-Term Debt note.

7. Fair Value Measurements

The System measures the fair value of assets and liabilities in accordance with FASB ASC 820, *Fair Value Measurement*. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability at the measurement date. Assets and liabilities reported at fair value are classified and disclosed in one of the following four categories:

> Level 1 – Quoted prices (unadjusted) that are readily available in active markets/exchanges for identical assets or liabilities.
>
> Level 2 – Pricing inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar assets and liabilities in active markets/exchanges or prices quoted for identical or similar assets and liabilities in markets that are not active. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
>
> Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any, market activity for such asset or liability. Inputs to determine the fair value of Level 3 assets and liabilities require management judgment and estimation.
>
> Net Asset Value – Values are based on the calculated net asset value. The calculated net asset values for underlying investments are fair value estimates determined by an external fund manager and other sources based on quoted market prices, operating results, balance sheet stability, growth, and other business and market sector factors.

The System categorizes, for disclosure purposes, assets and liabilities measured at fair value in the consolidated financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs that are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The System's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

7. Fair Value Measurements (continued)

There were no significant transfers between Levels 1 and 2 during the three months ended September 30, 2019 and September 30, 2018.

As of September 30, 2019, and June 30, 2019, the assets and liabilities listed in the fair value hierarchy tables below use the following valuation techniques and inputs:

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents and certain short-term investments include certificates of deposit, whose fair value is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates. Other short-term investments designated as Level 2 investments primarily consist of commercial paper, whose fair value is based on the income approach. Significant observable inputs include security cost, maturity, credit rating, interest rate, and par value.

Pooled Short-term Investment Fund

The pooled short-term investment fund is a short-term exchange traded money market fund primarily invested in treasury securities.

U S. Government, State, Municipal, and Agency Obligations

The fair value of investments in U.S. government, state, municipal, and agency obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, and issuer spreads.

Corporate and Foreign Fixed Income Securities

The fair value of investments in U.S. and international corporate bonds and foreign government bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security-specific characteristics (e.g., such as early redemption options).

7. Fair Value Measurements (continued)

Asset-backed Securities

The fair value of U.S. agency, mortgage, and other asset-backed securities is primarily determined using techniques that are consistent with the income approach. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and observable broker/dealer quotes.

Equity Securities

The fair value of investments in U.S. and international equity securities is primarily determined using techniques that are consistent with the market and income approaches. The values for underlying investments are based on readily available quoted market prices or represent fair value estimates determined by an external fund manager based on market prices, operating results, balance sheet stability, growth, dividend, dividend yield, and other business and market sector fundamentals.

Alternative Investments and Other Investments

Alternative investments consist of private equity, hedge funds, private equity funds, commodity funds, and real estate partnerships. The fair value of private equity is primarily determined using techniques consistent with both the market and income approaches, based on the System's estimates and assumptions in the absence of observable market data. The market approach considers comparable company, comparable transaction, and company-specific information, including but not limited to restrictions on disposition, subsequent purchases of the same or similar securities by other investors, pending mergers or acquisitions, and current financial position and operating results. The income approach considers the projected operating performance of the portfolio company.

The fair value of hedge funds, private equity funds, commodity funds, and real estate partnerships is primarily determined using net asset values, which approximate fair value, as determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth, and other business and market sector fundamentals.

Other investments include derivative assets and derivative liabilities of the Alpha Fund, whose fair value is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include the time value of money, counterparty credit risk, interest rates, Treasury yields, volatilities, credit spreads, maturity date, recovery rates, and the current market and contractual prices of the underlying financial instruments.

7. Fair Value Measurements (continued)

Benefit Plan Assets

The fair value of benefit plan assets is based on original investment into a guaranteed fund, plus guaranteed, annuity contract-based interest rates. Significant unobservable inputs to the guaranteed rate include the fair value and average duration of the portfolio of investments underlying annuity contract, the contract value, and the annualized weighted-average yield to maturity of the underlying investment portfolio.

Interest Rate Swap Assets and Liabilities

The fair value of interest rate swaps is primarily determined using techniques consistent with the income method. Under the income method, fair values are calculated based on present value of expected future cash flows using discount rates appropriate with risks involved.

Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

Investments Sold, Not Yet Purchased

The fair value of investments sold, not yet purchased is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark, constant maturity curves, and spreads.

(Dollars in Thousands)

7. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at September 30, 2019, for all financial assets and liabilities measured at fair value on a recurring basis in the System's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
September 30, 2019				
Cash equivalents	$ 54,097	$ 602	$ -	$ 54,699
Short-term investments	47,371	11,160	-	58,531
Pooled short-term investment funds	197,495	-	-	197,495
U.S. government, state, municipal and agency obligations	-	2,314,863	-	2,314,863
Corporate and foreign fixed income securities	-	1,672,641	19,795	1,692,436
Asset-backed securities	-	2,756,171	331,690	3,087,861
Equity securities	4,776,226	73,400	8,670	4,858,296
Alternative investments and other investments:				
Private equity and real estate funds	3,090	2,500	241,608	247,198
Commodities funds and other investments	24,695	(34,194)	1,160	(8,339)
Assets at net asset value:				
Corporate and foreign fixed income securities				-
Equity securities				212,313
Private equity and real estate funds				2,580,211
Hedge funds				1,808,092
Commodities funds and other investments				1,366,767
Cash and other investments not at fair value				1,969,185
Cash and investments				$ 20,439,608
Benefit plan assets, in other noncurrent assets	$ 460,286	$ 57	$ 50,371	$ 510,714
Interest rate swaps, in other noncurrent assets	-	2,590	-	2,590
Investments sold, not yet purchased, in other noncurrent liabilities	-	282	-	282
Interest rate swaps, included in other noncurrent liabilities	-	147,404	-	147,404

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

7. Fair Value Measurements (continued)

For the three months ended September 30, 2019, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following:

	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
Three Months Ended September 30, 2019						
Beginning balance	$ 3,655	$ 203,694	$ 8,386	$ 333,434	$ 1,247	$ 50,078
Total realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	89	(5,435)	257	(892)	1,876	-
Included in changes in net assets	-	-	-	-	2	-
Purchases	16,504	110,954	31	6,074	443	190
Issuances	-	-	-	-	-	-
Sales	(749)	(7,470)	(4)	(22,708)	(2,397)	(252)
Transfers into Level 3	1,236	99,147	-	-	-	633
Transfers out of Level 3	(940)	(69,200)	-	(74,300)	(11)	(278)
Ending balance	$ 19,795	$ 331,690	$ 8,670	$ 241,608	$ 1,160	$ 50,371
The amount of total gains or losses for the period included in nonoperating gains (losses) attributable to the changes in unrealized gains or losses relating to assets still held at September 30, 2019	$ 100	$ (5,456)	$ 285	$ -	$ 256	$ -

The basis for recognizing and valuing transfers into or out of Level 3, in the Level 3 rollforward, is as of the beginning of the period in which the transfers occur.

(Dollars in Thousands)

7. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2019, for all financial assets and liabilities measured at fair value on a recurring basis in the System's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
June 30, 2019				
Cash equivalents	$ 51,440	$ 702	$ -	$ 52,142
Short-term investments	52,989	20,206	-	73,195
Pooled short-term investment funds	728,104	-	-	728,104
U.S. government, state, municipal and agency obligations	-	2,741,689	-	2,741,689
Corporate and foreign fixed income securities	-	1,622,233	3,655	1,625,888
Asset-backed securities	-	2,875,234	203,694	3,078,928
Equity securities	4,212,135	64,892	8,386	4,285,413
Alternative investments and other investments:				
Private equity and real estate funds	2,868	2,500	333,434	338,802
Commodities funds and other investments	23,150	24,507	1,247	48,904
Assets at net asset value:				
Corporate and foreign fixed income securities				49,986
Equity securities				1,073,411
Private equity and real estate funds				2,429,803
Hedge funds				1,839,334
Commodities funds and other investments				1,363,501
Cash and other investments not at fair value				1,045,295
Cash and investments				$ 20,774,395
Benefit plan assets, in other noncurrent assets	$ 461,534	$ -	$ 50,078	$ 511,612
Interest rate swaps, in other noncurrent assets	-	3,174	-	3,174
Investments sold, not yet purchased, in other noncurrent liabilities	-	20	-	20
Interest rate swaps, included in other noncurrent liabilities	-	137,484	-	137,484

(Dollars in Thousands)

7. Fair Value Measurements (continued)

For the three months ended September 30, 2018, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following:

	Short-term investments	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
Three Months Ended September 30, 2018							
Beginning balance	$ 1,130	$ 11,956	$ 305,278	$ 29,239	$ 295,109	$ 1,121	$ 47,827
Total realized and unrealized gains (losses):							
Included in nonoperating gains (losses)	(126)	(84)	(178)	776	20,979	16,154	-
Included in changes in net assets	-	-	-	-	-	11	-
Purchases	-	377	66,981	26	25,572	(1,201)	584
Sales	-	(1,003)	(29,575)	(70)	-	(1,773)	(416)
Transfers into Level 3	-	23,773	7,622	-	-		200
Transfers out of Level 3	-	(4,348)	-	(18,164)	-	(412)	(1,793)
Ending balance	$ 1,004	$ 30,671	$ 350,128	$ 11,807	$ 341,622	$ 13,900	$ 46,402
The amount of total gains or losses for the period included in nonoperating gains (losses) attributable to the changes in unrealized gains or losses relating to assets still held at September 30, 2018	$ -	$ (152)	$ (182)	$ 822	$ -	$ 15,544	$ -

The basis for recognizing and valuing transfers into or out of Level 3, in the Level 3 rollforward, is as of the beginning of the period in which the transfers occur.

8. Derivative Instruments

The System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. Interest rate swaps with varying characteristics are outstanding under the Master Trust Indenture of the System. These swaps have historically been used to effectively convert interest rates on variable rate bonds to fixed rates and rates on fixed rate bonds to variable rates. At September 30, 2019 and June 30, 2019 the notional values of outstanding interest rate swaps were $1,019,350 and $1,020,775, respectively.

The System recognizes the fair value of its interest rate swaps in the Consolidated Balance Sheets as assets, recorded in other noncurrent assets, or liabilities, recorded in other noncurrent liabilities, as appropriate.

The fair value of interest rate swaps in an asset position was $2,590 and $3,174 at September 30, 2019 and June 30, 2019, respectively. The fair value of interest rate swaps in a liability position was $147,404 and $137,484 at September 30, 2019 and June 30, 2019, respectively.

The System's interest rate swap agreements include collateral requirements for each counterparty under such agreements, based upon specific contractual criteria, subject to master netting arrangements. Collateral requirements are calculated based on the System's credit ratings. The applicable credit rating is the Senior Credit Group long-term debt credit ratings (Senior Debt Credit Ratings), as obtained from each of two major credit rating agencies. Credit rating and the net liability position of total interest rate swap agreements outstanding with each counterparty determine the amount of collateral to be posted. No collateral was posted at September 30, 2019 and June 30, 2019.

The System does not account for any of its interest rate swaps as hedges, and accordingly, all changes in the fair value of interest rate swaps are recognized in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets. The System does not offset fair value amounts recognized for derivative instruments.

(Dollars in Thousands)

9. Leases

The System adopted FASB's ASU 2016-02, *Leases*, on July 1, 2019, electing to apply the new standard at the adoption date and not recast comparative periods presented. For leases that commenced before the effective date of ASU 2016-02, the System also elected not to reassess expired or existing contracts, lease classification, or initial direct costs. Using its incremental borrowing rate, Ascension recorded right-of-use assets and liabilities for operating leases of approximately $1,400,000 in its consolidated balance sheet, representing the present value of remaining lease payments for operating leases.

At September 30, 2019, Ascension's total right of use lease assets and related current and long-term lease obligations were comprised primarily of operating leases.

The components of lease expense recognized in Other Operating Expenses in the Consolidated Statement of Operations and Changes in Net Assets were as follows:

	Three Months Ended September 30, 2019
Operating and finance lease cost	$ 97,783
Variable lease cost	20,583
Total lease cost	$ 118,366

The weighted-average remaining lease term for operating leases at September 30, 2019 was approximately 9 years, while the weighted average discount rate for operating leases was approximately 2.6%.

(Dollars in Thousands)

9. Leases (continued)

The following table reconciles undiscounted future operating and finance lease obligations for each of the next five years and thereafter, as of September 30, 2019, to lease obligations recorded on the Consolidated Balance Sheet at September 30, 2019.

Twelve Months Ending September 30,		Operating and Finance Leases
2020	$	303,128
2021		255,350
2022		218,974
2023		183,684
2024		139,747
Thereafter		556,861
Total future undiscounted lease obligations	$	1,657,744
Less: amount of lease payments representing interest		(182,197)
Present value of future lease obligations		1,475,547
Less: current portion of lease obligations		(270,940)
Long-term lease obligations	$	1,204,607

10. Retirement Plans

Defined-Benefit Plans

Certain System entities participate in defined-benefit pension plans (the System Plans), which are noncontributory, defined-benefit pension plans. Benefits are based on each participant’s years of service and compensation. Primarily all of the System Plans’ assets are invested in the Master Pension Trust (the Trust).

The System Plans’ assets primarily consist of short-term investments, equity, fixed income, and alternative investments, consisting of various hedge funds, real estate funds, private equity funds, commodity funds, private credit funds, and certain other private funds. The investments in these alternative investment funds may also include contractual commitments to provide capital contributions during the investment period, which is typically five years, and may extend the end of the fund term.

(Dollars in Thousands)

10. Retirement Plans (continued)

During these contractual periods, investment managers may require the System Plans to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded.

Contributions to the System Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to participants. Most System defined benefit plans were frozen effective December 31, 2012. Two of the System Plans remain ongoing at September 30, 2019.

The assets of the System Plans are available to pay the benefits of eligible employees and retirees of all participating entities. In the event entities participating in the System Plans are unable to fulfill their financial obligations under the System Plans, the other participating entities are obligated to do so.

The following table provides the components of net periodic benefit costs for the System plans:

	Three months ended September 30,	
	2019	**2018**
Components of net periodic benefit cost		
Service cost, included in operating expenses	**$ 82**	$ 171
Interest cost	**84,997**	97,335
Expected return on plan assets	**(176,153)**	(179,427)
Amortization of prior service credit	**(156)**	(629)
Amortization of actuarial loss	**27,717**	16,534
Net periodic benefit cost	**$ (63,513)**	$ (66,016)

(Dollars in Thousands)

11. Contingencies and Commitments

The System is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on the System's Consolidated Balance Sheet.

The System enters into agreements with non-employed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The maximum amount of future payments that the System could be required to make under these guarantees is approximately $9,300.

The System entered into Master Service Agreements for information technology services provided by third parties. The maximum amount of future payments that the System could be required to make under these agreements is approximately $244,500.

Guarantees and other commitments represent contingent commitments issued by Ascension Health Alliance Senior and Subordinate Credit Groups, generally to guarantee the performance of an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and other transactions. The terms of guarantees are equal to the terms of the related debt, which can be as long as 21 years. The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Groups at September 30, 2019:

Hospital de la Concepción 2017 Series A debt guarantee	$	23,330
St. Vincent de Paul Series 2000 A debt guarantee		28,300
Other guarantees and commitments		43,961

(Dollars in Thousands)

12. Functional Expenses

Ascension provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services. Management support services include administration, finance and accounting, revenue cycle, information technology, public relations, human resources, legal, supply chain, risk management, compliance and other functions. Expenses are allocated to healthcare services and management support services based on the functional department for which they are incurred. Departmental expenses may include various allocations of costs based on direct assignment, expenses or other methods.

Expenses by functional classification for the three months ended September 30, 2019 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	$ 2,939,671	$ 207,847	$ 3,147,518
Purchased services and professional fees	766,797	295,261	1,062,058
Supplies	970,346	501	970,847
Other	1,152,149	122,311	1,274,460
Total operating expenses	**$ 5,828,963**	**$ 625,920**	**$ 6,454,883**

Expenses by functional classification for the three months ended September 30, 2018 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	$ 2,874,024	$ 202,086	$ 3,076,110
Purchased services and professional fees	674,249	281,196	955,445
Supplies	888,872	335	889,207
Other	1,153,500	104,311	1,257,811
Total operating expenses	**$ 5,590,645**	**$ 587,928**	**$ 6,178,573**

Supplementary Information

Ascension

Schedule of Net Cost of Providing Care of Persons
Living in Poverty and Other Community Benefit Programs
(Dollars in Thousands)

Three Months Ended September 30, 2019 and 2018

The net cost of providing care to persons living in poverty and other community benefit programs is as follows:

	September 30,	
	2019	**2018**
Traditional charity care provided	**$ 191,723**	$ 137,543
Unpaid cost of public programs for persons living in poverty	**283,686**	237,533
Other programs for persons living in poverty and other vulnerable persons	**33,583**	36,140
Community benefit programs	**79,068**	81,530
Care of persons living in poverty and other community benefit programs	**$ 588,060**	$ 492,746

Management's Discussion and Analysis of Financial Condition and Results of Operations for Ascension

For the three months ended September 30, 2019 and 2018

Ascension

The following information should be read in conjunction with Ascension's consolidated financial statements and related notes to the consolidated financial statements.

Introduction to Management's Discussion and Analysis

The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

Unless otherwise indicated, all financial and statistical information included herein relates to continuing operations. MD&A includes the following sections:

- Strategic Direction
- Portfolio Changes
- New Accounting Standards Adopted
- Results of Operations — Consolidated
- Liquidity and Capital Resources

Strategic Direction

Ascension is driven by the changing consumer landscape to put our patients and their needs first. Providing care for all persons where, how and when they need it – that is the organization's strategic purpose.

With a commitment to the Mission, Vision and Values of Ascension, the organization is working to optimize and transform core healthcare operations while also creating new models of care that help meet the needs of people in the communities we serve.

Ascension continues to make strategic and purposeful investments to improve the health of individuals and communities served, engage with consumers in new ways and support the shift to expanded ambulatory presence. To best position itself for the future, the organization is connecting with consumers when and where they need care.

Ascension is continuing its Mission-inspired Transformation initiative to accelerate new and innovative approaches to various operational areas. In alignment with the Advanced Strategic Direction, the Mission-inspired Transformation creates a roadmap for how Ascension will work to implement new strategies while reimagining health and wellness for the sustainability of our organization and to have an even greater impact on all those we serve.

Portfolio Changes during the Quarter

On September 28, 2018, Ascension entered into an agreement to sell certain assets and liabilities and substantially all related operations of St. Vincent's Medical Center, an Ascension subsidiary located in Bridgeport, Connecticut, to Hartford HealthCare Corporation. The sale was completed on October 1, 2019.

On September 1, 2019, Ascension and Allegan Healthcare Group, Inc., in Allegan, Michigan, signed a definitive agreement for Allegan to join Ascension Michigan. The independent, nonprofit Allegan Healthcare Group includes 25-bed Allegan General Hospital, a critical access hospital; Allegan Professional Health Services, Inc.; and Allegan General Hospital Foundation. The addition of Allegan General Hospital to Ascension Michigan will strengthen healthcare access and delivery to our western Michigan communities and ensure the continued provision of high quality healthcare well into the future.

New Accounting Standards Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, Leases (Topic 842), and a related ASU 2018-11, Leases (Topic 842): Targeted Improvements, in July 2018. The primary effect of prospectively adopting this guidance, effective for the System on July 1, 2019, is the recognition of right-of-use assets and obligations for operating leases and inclusion on the System's Consolidated Balance Sheet.

The System also adopted FASB ASU 2017-07, Compensation – Retirement Benefits (Topic 715) using the full retrospective method of application. The most significant impact of adopting the new standard is to the presentation of employee benefit costs in the System's Consolidated Statement of Operations and Changes in Net Assets. Only the service cost component of employer sponsored defined benefit pension and post-retirement benefit plans is now included in employee benefit costs. Other components of such benefit plans are required to be presented separately from the service cost and are included in nonoperating income. The prior period presented has been adjusted for comparability.

Results of Operations – Consolidated

The following table reflects summary financial information, on a consolidated basis.

Select Financial Data (in millions)

	9/30/2019	6/30/2019
Current Assets	$ 6,144	$ 6,033
Long-Term Investments	19,172	19,786
Property and Equipment	10,684	10,851
Other Assets	4,452	3,048
Total Assets	$ 40,452	$ 39,718

	9/30/2019	6/30/2019
Current Liabilities	$ 5,788	$ 5,824
Long-Term Liabilities	11,345	10,370
Total Liabilities	17,133	16,194
Net Assets	23,319	23,524
Total Liabilities and Net Assets	$ 40,452	$ 39,718

Select Financial Data (in millions)

Three months ended September 30,	2019	2018
Net Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs	$ 588	$ 493
Total Operating Revenue	6,463	6,158
Income (loss) from Recurring Operations	12	(11)

*September 30, 2018 Income (loss) from recurring operations has been restated for the retrospective impact of implementing the required pension income accounting change implemented in Fiscal 2020.

Changes in the healthcare landscape and planned changes in the way that we provide services to our communities have resulted in expected shifts in volumes within our System. Over the past several years, Ascension has systematically been building capacity to manage the care of those we serve in a different manner, as we migrate from fee for service to fee for value and from inpatient to outpatient care. Ascension care delivery is evolving from treating people when they are sick to being a partner in the well-being of individuals – measuring the care we provide by the quality outcomes and experience to patients.

On a consolidated basis, recurring operating margin was 0.2% for the three months ended September 30, 2019 as compared to that for the three months ended September 30, 2018 of (0.2)%, both including adoption of Topic 715 to reflect changes in accounting for retirement benefits as previously discussed. The drivers impacting net patient service revenue are further discussed below.

The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for `the three months ended September 30, 2019 and 2018.

Volume Trends and Key Performance Indicators

Three months ended September 30,	2019	2018
Volume Trends		
Equivalent Discharges	439,013	434,590
Total Admissions	205,838	203,863
Case Mix Index	1.70	1.65
Acute Average Length of Stay (days)	4.46	4.41
Emergency Room Visits	839,183	837,602
Surgery Visits (IP & OP)	161,530	158,349
Physician Office and Clinic Visits	3,954,845	3,593,343
Revenue (in millions)		
Total Operating Revenue	$ 6,463	$ 6,158
Net Patient Service Revenue	6,059	5,729
Key Performance Indicators		
Recurring Operating Margin	0.2%	(0.2%)
Recurring Operating EBITDA Margin	6.2%	5.9%
Operating EBITDA Margin	5.7%	5.6%

Total Operating Revenue

Total operating revenue increased $305 million, or 4.9%, for the three months ended September 30, 2019, as compared to the same period in the prior year primarily due to expanding service line growth and sites of care as well as the acquisition of the remaining interest in the Bay County Health System (Bay County) joint venture effective March 14, 2019.

Net Patient Service Revenue and Volume Trends

For the period ended September 30, 2019, net patient service revenue increased $330 million, or 5.8%, compared to the same period in the prior year. Net patient service revenue per equivalent discharge increased 4.7% compared to the same period in the prior year primarily due to the 2.9% increase in case mix index and inflationary increases in payor payments.

For the period ended September 30, 2019, equivalent discharges, inpatient admissions, emergency room visits, and inpatient surgeries increased 1.0%, 1.0%, 0.2%, and 1.5%, respectively, as compared to the same period in the prior year primarily due to the expansion of employed physicians in the System, growth initiatives and the previously mentioned acquisition of Bay County.

Outpatient volumes increased 2.4% compared to the same period in the prior year primarily due to an increase in physician office and clinic visits of 10.1% driven by our strategic purpose. Outpatient surgeries increased 2.2% compared to the same period in the prior year.

Community Benefit and Uncompensated Care

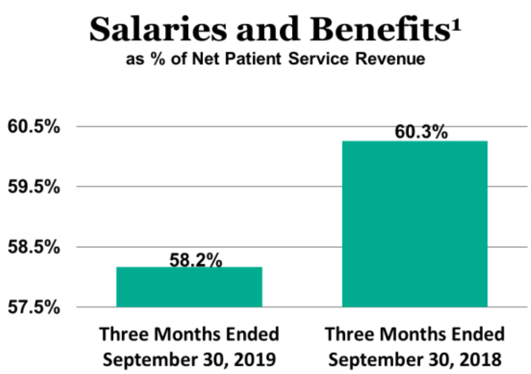
Ascension provided over $588 million in Care of Persons Living in Poverty and other Community Benefit Programs for the period ended September 30, 2019. Through programs, donations, health education, free care, and more, the organization's uncompensated care and other community benefit fulfills unmet needs in communities across 21 states and the District of Columbia.

Total Operating Expenses

Total operating expenses increased $276 million, or 4.5%, as compared to the same period in the prior year primarily due to expanding service line and sites of care partially offset by continued expense management practices.

As volumes continue to shift to outpatient services, Ascension is managing its cost structure to align with revenues.

- Total salaries, wages and benefits increased $71.4 million, or 2.3%, compared to the same period in the prior year. Salaries, wages, and benefits have increased due to moderate merit and cost of living adjustments. This increase was partially offset by focused initiatives addressing productivity and pay practices resulting in greater efficiencies. Salaries, wages, and benefits, including the purchased services labor component, as a percentage of net patient service revenue, has improved from 60.3% as of the period ended September 30, 2018 to 58.2% as of the same period September 30, 2019.



[1] Includes the purchased services labor component and physician fees

- Supplies expense increased $81.6 million, or 9.2%, as compared to the same period in the prior year due to an increase in the acuity of patient care as evidenced by the previously mentioned 2.9% increase in case mix index and increased surgical and medical supplies costs driven by an increase in volumes and surgeries. Supplies expense as a percentage of net patient service revenue was 16.6% as of September 30, 2019.

- Purchased services and professional fees increased $106.6 million, or 11.2%, as compared to the same period in the prior year primarily due to the transition of revenue services to a preferred provider partner organization, R1. There were offsetting decreases in salaries and wages, benefits, collection agency fees and other related operating costs for the transition of these services.

Impairment, Restructuring and Nonrecurring Losses

Net impairment, restructuring and nonrecurring losses were $35.0 million for the three months ended September 30, 2019, as compared to losses of $17.1 million during the same period in the prior year.

Investment Return

Ascension experienced investment losses for the three months ended September 30, 2019 primarily driven by unrealized losses in strategic investments. Excluding these unrealized losses, self-insurance investment performance, and noncontrolling interests, Ascension experienced a favorable 0.8% return for the same period. Substantially all the System's cash and investments are invested in a broadly diversified portfolio that is managed by Ascension Investment Management (AIM), a wholly owned subsidiary of Ascension. The System has maintained a consistent investment strategy during the current fiscal year.

Total net investments under management by AIM are $40.9 billion at September 30, 2019.

Liquidity and Capital Resources

Net unrestricted cash and investments for the System were $17.1 billion at September 30, 2019 compared to $17.7 billion at June 30, 2019. Days cash on hand was 257 days at September 30, 2019. Net days in accounts receivable increased 2 days from 47 days at June 30, 2019 to 49 days at September 30, 2019. Total debt to capitalization is 27.5% at September 30, 2019 and improved from 27.6% at June 30, 2019.

Balance Sheet Ratios

	9/30/2019	6/30/2019
Days Cash on Hand	257	271
Net Days in Accounts Receivable	49	47
Cash-to-Senior Debt	224.4%	227.7%
Senior Debt to Capitalization	27.1%	27.2%
Total Debt to Capitalization	27.5%	27.6%

Ascension

Consolidated Statistical Information
For the Year Ended

	September 30, 2019	September 30, 2018
Discharges by Service Type		
Acute Care	**186,388**	184,595
Psychiatric Care	**13,489**	14,013
Rehabilitation Care	**3,035**	3,135
Skilled Nursing Facility Care	**626**	792
Long Term Acute Care	**371**	339
Other L.T. Sub-Acute Care	**1,929**	988
Total Discharges by Service	**205,838**	203,863
Patient Days by Service Type		
Acute Care	**831,434**	815,000
Psychiatric Care	**94,034**	98,314
Rehabilitation Care	**35,306**	37,373
Skilled Nursing Facility Care	**367,781**	374,417
Assisted Living	**67,200**	82,822
Residential Living	**3,574**	3,220
Long Term Acute Care	**11,343**	10,934
Other L.T. Sub-Acute Care	**163,416**	161,327
Total Patient Days by Service	**1,574,088**	1,583,408
Newborn Births	**22,428**	22,731
Newborn Patient Days	**42,043**	44,860
Outpatient Visits (Includes ER Visits)	**7,644,594**	7,468,786
Surgical Visits - Outpatient	**110,425**	108,014
Emergency Room Visits	**839,183**	837,602
Full Time Equivalent Employees	**138,818**	139,927
Total Available Beds	**28,928**	28,419
Total Available Beds Excluding Bassinets	**27,747**	27,266