

ASCENSION

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION (UNAUDITED)**

For the Quarters and Nine Months Ended March 31, 2022 and 2021

Ascension

Consolidated Financial Statements
and Supplementary Information (Unaudited)

For the Quarters and Nine Months Ended March 31, 2022 and 2021

Contents

Consolidated Financial Statements

Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9

Supplementary Information

Schedule of Net Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs	47
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Ascension

Consolidated Balance Sheets (unaudited) (Dollars in Thousands)

	March 31, 2022	June 30, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 599,817	\$ 670,022
Short-term investments	85,997	97,222
Accounts receivable	3,460,558	3,253,061
Inventories	540,308	534,263
Due from brokers <i>(see Notes 5 and 6)</i>	142,805	97,225
Estimated third-party payor settlements	234,529	208,630
Other <i>(see Notes 5 and 6)</i>	881,015	1,120,666
Total current assets	5,945,029	5,981,089
Long-term investments <i>(see Notes 5 and 6)</i>	25,520,743	26,768,323
Property and equipment, net	11,146,585	11,066,802
Other assets:		
Right-of-use assets - leases	1,343,089	1,313,370
Investment in unconsolidated entities	1,319,292	1,363,777
Capitalized software costs, net	513,640	525,824
Other <i>(see Notes 5 and 6)</i>	1,402,054	1,380,054
Total other assets	4,578,075	4,583,025
Total assets	<u>\$47,190,432</u>	<u>\$ 48,399,239</u>

Continued on next page.

Ascension

Consolidated Balance Sheets (unaudited) (Dollars in Thousands)

	March 31, 2022	June 30, 2021
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 91,888	\$ 92,406
Long-term debt subject to short-term remarketing arrangements*	742,950	627,390
Current portion of lease obligations	267,313	245,535
Accounts payable and accrued liabilities (see Notes 5 and 6)	3,014,858	3,028,487
Estimated third-party payor settlements	813,325	756,700
Due to brokers (see Notes 5 and 6)	357,236	219,503
Current portion of self-insurance liabilities	314,960	314,960
Current portion of Medicare advanced payments	981,645	1,271,737
Other	804,658	686,804
Total current liabilities	7,388,833	7,243,522
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	6,496,190	6,805,332
Lease obligations, less current portion	1,108,519	1,097,255
Self-insurance liabilities	812,485	760,043
Pension and other postretirement liabilities	689,481	965,579
Medicare advanced payments	-	512,380
Other (see Notes 5 and 6)	1,450,898	1,738,913
Total noncurrent liabilities	10,557,573	11,879,502
Total liabilities	17,946,406	19,123,024
Net assets:		
Without donor restrictions:		
Controlling interest	25,992,690	25,705,637
Noncontrolling interests	2,476,804	2,726,836
Total net assets without donor restrictions	28,469,494	28,432,473
Net assets with donor restrictions	774,532	843,742
Total net assets	29,244,026	29,276,215
Total liabilities and net assets	\$47,190,432	\$ 48,399,239

*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 March 31, 2023. In the event that bonds are not remarketed upon the exercise of put options for the variable bonds or scheduled mandatory tender bonds, management would utilize other sources to access the necessary liquidity. Potential sources include a drawdown on the \$1 billion line of credit, issuing commercial paper, and liquidating investments.

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

Ascension

Consolidated Statements of Operations and Changes in Net Assets (unaudited) (Dollars in Thousands)

	The three months ended March 31,		The nine months ended March 31,	
	2022	2021	2022	2021
Operating revenue:				
Net patient service revenue	\$ 6,135,605	\$ 6,017,132	\$ 19,003,870	\$ 18,199,369
Other revenue	554,211	544,368	1,884,020	2,311,438
Total operating revenue	6,689,816	6,561,500	20,887,890	20,510,807
Operating expenses:				
Salaries and wages	3,147,748	2,728,589	9,043,129	8,055,459
Employee benefits	585,880	577,317	1,774,277	1,767,915
Purchased services	819,101	750,864	2,446,806	2,199,218
Professional fees	352,764	320,854	1,034,807	971,632
Supplies	1,024,277	950,462	3,147,843	3,007,584
Insurance	85,366	73,319	254,774	225,979
Interest	56,372	54,928	169,808	167,583
Provider tax	170,922	170,136	542,253	503,112
Depreciation and amortization	335,632	327,686	999,026	987,556
Other	763,716	635,718	2,122,882	1,922,805
Total operating expenses	7,341,778	6,589,873	21,535,605	19,808,843
(Loss) income from operations before self-insurance trust fund investment return and nonrecurring gains (losses), net	(651,962)	(28,373)	(647,715)	701,964
Self-insurance trust fund investment return	(35,245)	13,998	(17,079)	97,168
(Loss) income from recurring operations	(687,207)	(14,375)	(664,794)	799,132
Nonrecurring gains (losses), net	16,071	(2,339)	24,705	(19,917)
(Loss) income from operations	(671,136)	(16,714)	(640,089)	779,215
Nonoperating gains (losses):				
Investment return, net	(312,823)	1,064,766	736,388	4,572,093
Other	69,391	55,060	158,273	(75,190)
Total nonoperating gains (losses), net	(243,432)	1,119,826	894,661	4,496,903
(Deficit) excess of revenues and gains over expenses and losses	(914,568)	1,103,112	254,572	5,276,118
Less noncontrolling interests	(29,831)	145,790	109,366	507,278
(Deficit) excess of revenues and gains over expenses and losses attributable to controlling interest	(884,737)	957,322	145,206	4,768,840

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Ascension

Consolidated Statements of Operations and Changes in Net Assets (unaudited) (Dollars in Thousands)

	The three months ended March 31,		The nine months ended March 31,	
	2022	2021	2022	2021
Net assets without donor restrictions, controlling interest:				
(Deficit) excess of revenues and gains over expenses and losses	\$ (884,737)	\$ 957,322	\$ 145,206	\$ 4,768,840
Transfers (to) from sponsors and other affiliates, net	(1,175)	516	(1,371)	(1,491)
Net assets released from restrictions for property acquisitions	6,278	11,335	23,292	27,645
Pension and other postretirement liability adjustments	37,770	40,730	112,914	121,645
Change in unconsolidated entities' net assets	(20,259)	6,227	(18,969)	29,621
Other	36,748	(1,917)	25,981	(5,186)
(Decrease) increase in net assets without donor restrictions, controlling interest	(825,375)	1,014,213	287,053	4,941,074
Net assets without donor restrictions, noncontrolling interest:				
(Deficit) excess of revenues and gains over expenses and losses	(29,831)	145,790	109,366	507,278
Net (distributions) contributions of capital	(52,394)	(41,193)	(353,311)	9,488
Other	(1,997)	-	(6,087)	1
(Decrease) increase in net assets without donor restrictions, noncontrolling interests	(84,222)	104,597	(250,032)	516,767
Net assets with donor restrictions:				
Contributions and grants	7,127	21,492	87,106	67,958
Investment return	(9,210)	18,797	(712)	76,602
Net assets released from restrictions	(14,691)	(21,487)	(47,992)	(54,213)
Divestiture	-	-	(92,623)	-
Other	(17,366)	(33,328)	(14,989)	(48,791)
(Decrease) increase in net assets with donor restrictions	(34,140)	(14,526)	(69,210)	41,556
(Decrease) increase in net assets	(943,737)	1,104,284	(32,189)	5,499,397
Net assets, beginning of period	30,187,763	25,982,361	29,276,215	21,587,248
Net assets, end of period	\$ 29,244,026	\$ 27,086,645	\$ 29,244,026	\$ 27,086,645

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

Ascension

Consolidated Statements of Cash Flows (unaudited) (Dollars in Thousands)

	The nine months ended March 31,	
	2022	2021
Operating activities		
(Decrease) increase in net assets	\$ (32,189)	\$ 5,499,397
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	999,026	987,556
Amortization of bond premiums, discounts, and debt issuance costs	(25,671)	(31,795)
Loss on extinguishment of debt	-	12,117
Pension and other postretirement liability adjustments	(112,914)	(121,645)
Unrealized losses (gains) on unrestricted investments, net	844,259	(2,750,501)
Change in fair value of interest rate swaps	(46,339)	(56,525)
Change in equity of unconsolidated entities	(147,464)	(181,509)
Gain on sale of assets, net	(80,270)	(73,393)
Impairment and nonrecurring expenses	4,644	16,748
Transfers to sponsor and other affiliates, net	1,371	1,491
Donor restricted contributions, investment return and other	(61,695)	(119,050)
Distributions (contributions) of noncontrolling interest, net	353,311	(9,488)
Other	3,841	56,859
(Increase) decrease in:		
Short-term investments	11,225	12,977
Accounts receivable	(211,668)	(477,131)
Inventories and other current assets	(30,208)	(64,638)
Due from brokers	(45,580)	(15,574)
Long-term investments	408,570	(1,642,043)
Other assets	(19,294)	(69,110)
Increase (decrease) in:		
Accounts payable and accrued liabilities	31,268	(199,091)
Estimated third-party payor settlements, net	30,726	23,089
Due to brokers	137,733	218,897
Medicare advanced payments	(802,577)	-
Other current liabilities	149,018	(110,891)
Self-insurance liabilities	52,442	35,107
Other noncurrent liabilities	(401,383)	689
Net cash provided by operating activities	1,010,182	942,543

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Ascension

Consolidated Statements of Cash Flows (unaudited) (Dollars in Thousands)

	The nine months ended March 31,	
	2022	2021
Investing activities		
Property, equipment, and capitalized software additions, net	\$ (1,113,865)	\$ (1,030,230)
Proceeds from sale of property and equipment	11,226	34,331
Distributions from unconsolidated entities, net	189,226	80,935
Net proceeds from sale/acquisition of other assets	300,332	153,235
Net cash used in investing activities	(613,081)	(761,729)
Financing activities		
Issuance of debt	5,579	-
Repayment of debt, including financing lease obligations	(174,648)	(285,038)
Decrease (increase) in assets under bond indenture agreements	1,023	(55)
Transfers to sponsors and other affiliates, net	(1,371)	(1,491)
Donor restricted contributions, investment return, and other	61,695	119,050
(Distributions) contributions of noncontrolling interest, net	(353,311)	9,488
Net cash used in financing activities	(461,033)	(158,046)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(63,932)	22,768
Cash, cash equivalents, and restricted cash at beginning of period	727,913	676,716
Cash, cash equivalents, and restricted cash at end of period	\$ 663,981	\$ 699,484
Cash and cash equivalents	\$ 599,817	\$ 650,894
Restricted cash, included in long-term investments	64,164	48,590
Cash, cash equivalents, and restricted cash at end of period	\$ 663,981	\$ 699,484

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

Ascension

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

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 19 states and the District of Columbia. Ascension also serves as the direct or indirect member or shareholder of various subsidiaries including, but not limited to:

- Ascension Care Management
- Ascension Risk Services
- Ascension Foundation
- Ascension Global Mission
- Ascension Healthcare
- Ascension Holdings
- Ascension Leadership Academy
- Ascension Technologies
- Ascension Capital
 - o Ascension Investment Management (AIM)
 - o Ascension Ventures (AV)
 - o AV Holding Company
- The Resource Group
- Smart Health Solutions

Ascension is also the majority investor in Ascension Alpha Fund, LLC (Alpha Fund), a limited liability company organized in the state of Delaware, as well as the majority limited partner of various venture capital funds (the Venture Funds), as further discussed in the Investment Funds note. The Alpha Fund and the Venture Funds are collectively referred to as Investment Funds. Ascension and its member organizations are hereafter referred to collectively as the System.

Sponsorship

Ascension is sponsored by the Ascension Sponsor, a Public Juridic Person. The Participating Entities of the Ascension Sponsor include 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.

Ascension

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

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 persons who are vulnerable.
- Unreimbursed costs of community benefit programs and services for the broader 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 for persons living in poverty and other community benefit programs. The cost of providing care for 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.

The amount of traditional charity care provided, determined on the basis of cost, was \$395,693 and \$369,204 for the nine months ended March 31, 2022 and 2021, 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.

Ascension

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

2. Significant Accounting Policies

Principles of Consolidation

The System consolidates all entities for which operating control is exercised by the System or one of its member entities, and all significant inter-entity transactions have been eliminated in consolidation. Excluding investments where the fair value option is elected, investments in entities where the System does not have operating control are recorded under the equity method of accounting, and results of operations are included in other operating revenue.

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.

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.

Ascension

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

2. Significant Accounting Policies (continued)

Long-Term Investments and Investment Return

Long-term investments are primarily comprised of the Investment Funds, which are consolidated by the System. Certain investments within the Investment Funds are measured at fair value, while other investments, including alternative investments, are valued based on the net asset value of the investments. Further information about long-term investments and investment return are contained in the Investment Funds, Cash and Investments, and Fair Value Measurements notes.

Long-term investments include assets limited as to use of \$1,615,461 and \$1,560,296 at March 31, 2022 and June 30, 2021, respectively. Assets limited as to use are primarily investments with donor restrictions, including restricted cash and cash equivalents and assets placed in trust or held by captive insurance companies for the payment of self-insured claims.

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 and restricted investment returns, are reported as nonoperating gains (losses) in the Consolidated Statements of Operations and Changes in Net Assets. 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 March 31, 2022 and 2021 was approximately \$280,000 and \$273,000, respectively. Depreciation expense for the nine months ended March 31, 2022 and 2021 was approximately \$836,000 and \$820,000, respectively.

Ascension

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

2. Significant Accounting Policies (continued)

A summary of property and equipment is as follows:

	March 31, 2022	June 30, 2021
Land and improvements	\$ 1,450,474	\$ 1,372,957
Buildings and equipment	22,009,142	21,327,952
	<u>23,459,616</u>	<u>22,700,909</u>
Less accumulated depreciation	12,947,175	12,138,572
	<u>10,512,441</u>	<u>10,562,337</u>
Construction in progress	634,144	504,465
Total property and equipment, net	<u>\$ 11,146,585</u>	<u>\$ 11,066,802</u>

Several capital projects have remaining construction and related equipment purchase commitments of approximately \$909,000 as of March 31, 2022.

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.

Ascension

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

2. Significant Accounting Policies (continued)

Capitalized software costs in the following table include software in progress of \$122,815 and \$103,977 at March 31, 2022 and June 30, 2021, respectively:

	March 31, 2022	June 30, 2021
Capitalized software costs	\$ 2,597,717	\$ 2,473,145
Less accumulated amortization	2,084,077	1,947,321
Capitalized software costs, net	513,640	525,824
Goodwill	392,711	356,726
Other, net	35,709	37,308
Intangible assets included in other assets	428,420	394,034
Total intangible assets, net	<u>\$ 942,060</u>	<u>\$ 919,858</u>

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. Intangible assets with definite lives, primarily capitalized computer software costs, are amortized on a straight line basis over their expected useful lives. Amortization expense for these intangible assets was approximately \$55,000 and \$54,000 for the three months ended March 31, 2022 and 2021, respectively. Amortization expense for these intangible assets for the nine months ended March 31, 2022 and 2021 was \$163,000 and \$167,000, respectively.

Asset Impairment

Long-lived assets, intangible assets, and joint ventures 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 an asset or group of assets is reduced to fair value based on future discounted net cash flows or other estimates of fair value.

Ascension

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

2. Significant Accounting Policies (continued)

Noncontrolling Interests

The Consolidated Financial Statements include all assets, liabilities, revenues, and expenses of entities that are controlled and consolidated by the System. 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. The income generated from these restricted investments is primarily used 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.

Performance Indicator

The performance indicator is the excess of revenues and gains over expenses and losses. Pension and other postretirement liability adjustments, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, and changes in unconsolidated entities' net assets are not included in the performance indicator.

Ascension

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

2. Significant Accounting Policies (continued)

Operating and Nonoperating Activities

The System's primary mission is to meet the healthcare needs in its communities served 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 classified as operating activities, while activities resulting in gains or losses peripheral to the System's primary mission are classified as 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 the System's 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.

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.

Ascension

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

2. Significant Accounting Policies (continued)

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 \$152,526 and \$114,862 for the nine months ended March 31, 2022 and 2021, 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 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 March 31, 2022 and 2021, is as follows:

	The three months ended March 31,	
	2022	2021
Inpatient care	\$ 2,936,707	\$ 2,857,674
Ambulatory care	2,398,792	2,374,739
Physician practices	704,002	687,855
Long-term care	96,104	96,864
Total net patient service revenue	<u>\$ 6,135,605</u>	<u>\$ 6,017,132</u>

Ascension

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

2. Significant Accounting Policies (continued)

Net patient service revenue earned for the nine months ended March 31, 2022 and 2021, is as follows:

	The nine months ended March 31,	
	2022	2021
Inpatient care	\$ 9,007,525	\$ 8,686,019
Ambulatory care	7,497,936	7,108,741
Physician practices	2,203,995	2,079,775
Long-term care	294,414	324,834
Total net patient service revenue	\$ 19,003,870	\$ 18,199,369

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	
	The nine months ended		March 31, June 30,	
	March 31,		March 31,	June 30,
	2022	2021	2022	2021
Medicare - traditional and managed	35.8 %	36.7 %	30.5 %	30.3 %
Medicaid - traditional and managed	14.5	13.0	9.6	9.8
Other commercial and managed care	43.0	42.6	45.7	46.0
Self-Pay and other	6.7	7.7	14.2	13.9
	100.0 %	100.0 %	100.0 %	100.0 %

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. Accounts are written off when all reasonable internal and external collection efforts have been performed.

Ascension

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

2. Significant Accounting Policies (continued)

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. 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 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.

Ascension

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

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.

Components of other operating revenue are included in the following table for the three months ended March 31, 2022 and 2021:

	The three months ended March 31,	
	2022	2021
Cafeteria and vending	\$ 16,495	\$ 15,158
COVID-19 funding (<i>see Note 3</i>)	77,052	110,065
Contracted services	61,157	47,619
Donations and grants	29,306	16,735
Gains on asset sales	5,229	6,267
Insurance plans	33,540	18,966
Joint venture income	47,135	45,547
Lab services	21,062	22,976
Lease and rental income	22,559	21,407
Retail pharmacy	154,061	107,398
Supplemental care programs	38,432	37,532
Other	48,183	94,698
Total other revenue	<u>\$ 554,211</u>	<u>\$ 544,368</u>

Ascension

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

2. Significant Accounting Policies (continued)

Components of other operating revenue are included in the following table for the nine months ended March 31, 2022 and 2021:

	The nine months ended March 31,	
	2022	2021
Cafeteria and vending	\$ 48,113	\$ 41,942
COVID-19 funding (see Note 3)	311,342	889,292
Contracted services	172,045	157,315
Donations and grants	71,824	59,359
Gains on asset sales	84,871	81,609
Insurance plans	77,808	56,456
Joint venture income	166,306	159,343
Lab services	63,050	69,394
Lease and rental income	67,201	63,485
Retail pharmacy	426,736	335,322
Supplemental care programs	196,418	210,763
Other	198,306	187,158
Total other revenue	<u>\$ 1,884,020</u>	<u>\$ 2,311,438</u>

Supplemental care is revenue related to expansion and improvement of care through programs including accountable care organizations, shared savings, and other similar arrangements. Contracted services primarily include revenue from services provided under third party arrangements.

Nonrecurring Gains (Losses), Net

Nonrecurring gains (losses) are primarily related to natural disasters and related insurance proceeds and other recoveries.

Ascension

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

2. Significant Accounting Policies (continued)

Amortization

Bond issuance costs, discounts, and premiums are amortized over the term of the bonds or the fixed interest period, if applicable, primarily using a method approximating the effective interest method.

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 March 31, 2022.

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 Consolidated Financial Statements of the System.

Reclassifications

Certain reclassifications were made to the March 31, 2021 Consolidated Financial Statements to conform to the March 31, 2022 presentation.

Ascension

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

2. Significant Accounting Policies (continued)

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 nine months ended March 31, 2022, the System evaluated subsequent events through April 29, 2022, representing the date on which the Consolidated Financial Statements were issued.

Effective April 1, 2022, Ascension and Adventist Health System Sunbelt Healthcare Corporation (AdventHealth), have disaffiliated from AMITA Health, the joint operating company that had served the healthcare needs of the greater Chicago area from 2015 through March 31, 2022. Beginning April 1, 2022, Ascension operates and continues to consolidate its 15 hospitals and related healthcare facilities in the Chicagoland area separately from AdventHealth.

3. COVID-19

In March 2021 and 2020, the U.S. government issued legislation to authorize funding to healthcare providers to prevent, prepare for, and respond to coronavirus, and to reimburse the recipient for health care related expenses and lost revenues attributable to coronavirus. Additionally, funds are available to reimburse providers for COVID-19 related treatment of uninsured patients. Ascension has recognized revenue (COVID-19 Funding) from payments received under these pieces of legislation.

For the nine months ended March 31, 2022 and 2021, the System recognized COVID-19 Funding revenue of \$311,342 and \$889,292, respectively, which is included in other operating revenue in the Consolidated Statement of Operations and Changes in Net Assets. Management continues to monitor compliance with the terms and conditions of the COVID-19 Funding. If unable to attest to or comply with current or future terms and conditions, the System's ability to retain some or all of the distributions received may be impacted.

In April 2020, the System requested Medicare advanced payments under the Centers for Medicare and Medicaid Services' Accelerated and Advanced Payment Program (Program) designed to increase cash flow to Medicare providers and suppliers impacted by COVID-19. Of the approximate \$2,000,000 the System received in April 2020, recoupments of approximately \$1,002,000 have occurred in accordance with the terms of the Program, of which \$802,577 occurred during the nine months ended March 31, 2022.

Ascension

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

4. Organizational Changes

Divestitures

During the nine months ended March 31, 2022 and 2021, 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 as follows.

Assets Held for Sale / Sold

Effective August 1, 2021, Ministry Health Care, Inc., a wholly owned subsidiary of Ascension, completed the transition of its sole membership interest in seven hospitals and related clinical and other business representing substantially all operations in the Northern and Central Wisconsin markets to Aspirus, Inc. At June 30, 2021 assets held for sale are \$355,312, including restricted assets of \$90,145, and liabilities held for sale are \$31,930. Assets and liabilities held for sale are included in other current assets and other current liabilities in the Consolidated Balance Sheet at that date.

Effective August 1, 2020, Ascension St. Clare's Hospital, Inc., an Ascension Wisconsin subsidiary, completed the sale of certain of its assets and liabilities and substantially all related operations, as well as interests in two related joint ventures, to MCHS Hospitals, Inc., a subsidiary of Marshfield Clinic, Inc.

Membership Donation

Effective September 1, 2020, Ascension completed the separation of St. Mary's Healthcare, a wholly owned subsidiary of Ascension located in Amsterdam, New York. The separation was accounted for as a donation of unrestricted net assets of approximately \$135,000 included in other nonoperating gains (losses) and restricted net assets of approximately \$13,000 included in other net assets with donor restrictions in the Consolidated Statements of Operations and Changes in Net Assets.

Other

In February 2022, Ascension, through certain of its controlled affiliates, and Laboratory Corporation of America Holdings (Labcorp) entered into agreements whereby Ascension will transition certain assets of its outreach laboratory business to Labcorp, and will also transition management of Ascension's hospital-based laboratories in certain markets to Labcorp. This transition is expected to be finalized after all necessary approvals are obtained.

Ascension

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

5. Investment Funds

A significant portion of the System's investments are in the Investment Funds. Certain additional investments are held by the Ministry Markets and their consolidated foundations outside of the Investment Funds.

Alpha Fund

The Alpha Fund is consolidated by the System, and includes the investment interests of the System and noncontrolling Alpha Fund investors.

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 investors. AIM provides expertise in the areas of asset allocation, selection and monitoring of outside investment managers, and risk management.

Ascension and the Alpha Fund invest 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 March 31, 2022, contractual agreements expire between April 2022 and March 2028.

The remaining unfunded capital commitments total approximately \$1,782,000 for 269 individual funds as of March 31, 2022. 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 Alpha Fund enters into derivative contracts (derivatives) for trading purposes, following Alpha Fund guidelines. Advisers selected by AIM to manage the Alpha Fund's assets may actively trade futures contracts, options, swaps, forward settling mortgage-backed securities, index-based instruments, and foreign currency forward contracts.

Ascension

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

5. Investment Funds (continued)

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.

At March 31, 2022 and June 30, 2021, the gross notional value of Alpha Fund derivatives outstanding was approximately \$14,324,000 and \$11,879,000, respectively. See the Fair Value Measurements note for a discussion of the Alpha Fund derivatives' fair value determination.

The fair value of Alpha Fund derivatives in an asset position was \$112,420 and \$167,757 at March 31, 2022 and June 30, 2021, respectively, while the fair value of Alpha Fund derivatives in a liability position was \$180,242 and \$40,360 at March 31, 2022 and June 30, 2021, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets.

Due from brokers and due to brokers on the Consolidated Balance Sheets represent the Alpha Fund's positions and amounts due from or to various brokers, primarily for security transactions not yet settled.

Venture Funds

The Venture Funds are consolidated by the System, and include the investment interests of the System and other noncontrolling limited partners. The general partners of the Venture Funds are wholly owned subsidiaries of AV Holding Company. The Venture Funds invest primarily in equity securities of privately held domestic entities, and are reported at fair value.

Ascension

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

6. 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 the net assets of Investment Funds. Other assets (liabilities), net of the Investment Funds are primarily amounts due from and to brokers. System unrestricted cash and investments, net, represent the System's cash and investments excluding assets limited as to use and the noncontrolling interests of Investment Funds.

	March 31, 2022	June 30, 2021
Cash and cash equivalents	\$ 599,817	\$ 670,022
Short-term investments	85,997	97,222
Long-term investments	25,520,743	26,768,323
Subtotal	26,206,557	27,535,567
Investment Funds' other assets (liabilities), net	(196,391)	(98,981)
Total cash and investments, net	26,010,166	27,436,586
Less noncontrolling interest of Investment Funds	2,253,952	2,510,212
System cash and investments, including assets limited as to use	23,756,214	24,926,374
Less assets limited as to use:		
Under bond indenture agreement	154	1,177
Self-insurance trust funds	894,143	844,013
With donor restrictions	721,164	715,106
Total assets limited as to use	1,615,461	1,560,296
System unrestricted cash and investments, net	\$ 22,140,753	\$ 23,366,078

Ascension

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

6. Cash and Investments (continued)

The System's 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.

	March 31, 2022	June 30, 2021
Cash and cash equivalents and short-term investments	\$ 760,680	\$ 837,416
Pooled short-term investment funds	1,248,128	1,502,891
U.S. government, state, municipal and agency obligations	4,496,832	4,056,443
Corporate and foreign fixed income securities	2,405,698	2,798,810
Asset-backed securities	3,096,810	2,814,692
Equity securities	6,780,032	8,507,145
Alternative investments and other investments:		
Private equity and real estate funds	4,650,391	4,193,658
Private credit and energy funds	1,510,931	1,450,386
Hedge funds	907,816	989,114
Other investments	349,239	385,012
Total alternative investments and other investments	7,418,377	7,018,170
Total cash and cash equivalents, short-term investments, and long-term investments	<u>\$ 26,206,557</u>	<u>\$ 27,535,567</u>

Investment return recognized by the System for the nine months ended March 31, 2022 and 2021, is summarized in the following table. Total investment return includes the System's return on Investment Funds and on certain investments held and managed outside the Investment Funds. System investment return is net of the investment return earned by the noncontrolling interests of the Investment Funds.

	The nine months ended March 31,	
	2022	2021
Interest and dividends	\$ 217,918	\$ 237,325
Net gains on investments reported at fair value	501,391	4,431,936
Restricted investment return and unrealized gains (losses), net	(712)	76,602
Total investment return, net	718,597	4,745,863
Less Investment Funds' noncontrolling interest return, net	37,999	441,916
System investment return, net	<u>\$ 680,598</u>	<u>\$ 4,303,947</u>

Total and system investment returns are net of external and direct internal investment expenses.

Ascension

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

7. Financial Assets and Liquidity Resources

As of March 31, 2022 and June 30, 2021, respectively, 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:

	March 31, 2022	June 30, 2021
Financial assets:		
Cash and cash equivalents	\$ 599,817	\$ 670,022
Short-term investments	85,997	97,222
Accounts receivable	3,460,558	3,253,061
Due from brokers	142,805	97,225
Other current assets	881,015	1,120,666
Long-term investments	25,520,743	26,768,323
Total financial assets	30,690,935	32,006,519
Less:		
Assets limited as to use and internally designated funds	(1,659,575)	(1,653,166)
Noncontrolling interests of Investment Funds	(2,253,952)	(2,510,212)
Investments with liquidity more than one year	(5,237,533)	(4,897,829)
Total financial assets available within one year	21,539,875	22,945,312
Liquidity resources:		
Unused line(s) of credit	1,000,000	600,000
Total financial assets and liquidity resources available within one year	<u>\$ 22,539,875</u>	<u>\$ 23,545,312</u>

As part of the System's investment policy, highly liquid investments are held to enhance the System's ability to satisfy liquidity requirements. The System also maintains a line of credit.

Ascension

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

8. 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.

Ascension

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

8. Fair Value Measurements (continued)

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.

As of March 31, 2022, and June 30, 2021, 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.

Ascension

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

8. Fair Value Measurements (continued)

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).

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 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, private credit and energy 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.

Ascension

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

8. Fair Value Measurements (continued)

The fair value of hedge funds, private equity funds, private credit and energy 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.

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.

Ascension

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

8. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at March 31, 2022, 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
March 31, 2022				
Cash equivalents	\$ 28,224	\$ 3,972	\$ -	\$ 32,196
Short-term investments	55,681	9,815	-	65,496
Pooled short-term investment funds	1,248,128	-	-	1,248,128
U.S. government, state, municipal and agency obligations	-	4,496,832	-	4,496,832
Corporate and foreign fixed income securities	-	2,396,430	9,268	2,405,698
Asset-backed securities	-	2,717,112	379,698	3,096,810
Equity securities	4,447,532	17,629	36,310	4,501,471
Alternative investments and other investments:				
Private equity and real estate funds	-	-	698,561	698,561
Other investments	13,535	251,376	4,111	269,022
Assets at net asset value:				
Equity securities				2,278,561
Private equity and real estate funds				3,951,333
Private credit and energy funds				1,510,931
Hedge funds				907,816
Other investments				3,639
Cash and other investments not at fair value				740,063
Cash and investments				<u>\$ 26,206,557</u>
Benefit plan assets, in other noncurrent assets	\$ 615,927	\$ -	\$ 56,207	\$ 672,134
Interest rate swaps, in other noncurrent assets	-	(978)	-	(978)
Investments sold, not yet purchased, in other noncurrent liabilities	5	443	-	448
Interest rate swaps, included in other noncurrent liabilities	-	76,740	-	76,740

Ascension

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

8. Fair Value Measurements (continued)

For the three months ended March 31, 2022, 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	Other Investments	Benefit Plan Assets
The three months ended						
March 31, 2022						
Beginning balance	\$ 12,321	\$ 469,465	\$ 34,558	\$ 680,708	\$ 3,665	\$ 55,282
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	605	(5,633)	(4,353)	18,279	702	-
Included in changes in net assets	-	-	-	-	(6)	-
Purchases	-	41,391	6,129	15,485	26	1,389
Sales	(3,658)	(109,175)	(24)	(16,007)	(276)	(2,603)
Transfers into Level 3	-	-	-	101	-	3,213
Transfers out of Level 3	-	(16,350)	-	(5)	-	(1,074)
Ending balance	<u>\$ 9,268</u>	<u>\$ 379,698</u>	<u>\$ 36,310</u>	<u>\$ 698,561</u>	<u>\$ 4,111</u>	<u>\$ 56,207</u>
 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 March 31, 2022	 <u>\$ 30</u>	 <u>\$ (4,954)</u>	 <u>\$ (4,376)</u>	 <u>\$ -</u>	 <u>\$ 426</u>	 <u>\$ -</u>

Ascension

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

8. Fair Value Measurements (continued)

For the nine months ended March 31, 2022, 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	Other Investments	Benefit Plan Assets
The nine months ended						
March 31, 2022						
Beginning balance	\$ 8,009	\$ 479,273	\$ 33,151	\$ 733,753	\$ 3,711	\$ 58,504
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	870	(10,310)	(2,458)	19,190	671	-
Included in changes in net assets	-	-	-	-	(12)	-
Purchases	10,092	127,324	6,148	57,250	80	2,588
Sales	(9,091)	(203,802)	(531)	(106,084)	(339)	(8,865)
Transfers into Level 3	-	3,603	-	40	-	6,134
Transfers out of Level 3	(612)	(16,390)	-	(5,588)	-	(2,154)
Ending balance	<u>\$ 9,268</u>	<u>\$ 379,698</u>	<u>\$ 36,310</u>	<u>\$ 698,561</u>	<u>\$ 4,111</u>	<u>\$ 56,207</u>

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 March 31, 2022

<u>\$ 55</u>	<u>\$ (8,838)</u>	<u>\$ (2,625)</u>	<u>\$ -</u>	<u>\$ 341</u>	<u>\$ -</u>
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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.

Ascension

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

8. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2021, 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, 2021				
Cash equivalents	\$ 19,508	\$ 3,826	\$ -	\$ 23,334
Short-term investments	78,134	9,962	-	88,096
Pooled short-term investment funds	1,502,891	-	-	1,502,891
U.S. government, state, municipal and agency obligations	-	4,056,443	-	4,056,443
Corporate and foreign fixed income securities	-	2,790,801	8,009	2,798,810
Asset-backed securities	-	2,335,419	479,273	2,814,692
Equity securities	6,570,042	13,912	33,151	6,617,105
Alternative investments and other investments:				
Private equity and real estate funds	-	2,500	733,753	736,253
Other investments	215,024	96,079	3,711	314,814
Assets at net asset value:				
Equity securities				1,890,040
Private equity and real estate funds				3,456,906
Private credit and energy funds				1,450,386
Hedge funds				989,114
Other investments				5,343
Cash and other investments not at fair value				791,340
Cash and investments				<u>\$ 27,535,567</u>
Benefit plan assets, in other noncurrent assets	\$ 657,870	\$ 17,381	\$ 58,504	\$ 733,755
Interest rate swaps, in other noncurrent assets	-	2,497	-	2,497
Investments sold, not yet purchased, in other noncurrent liabilities	175	469	-	644
Interest rate swaps, included in other noncurrent liabilities	-	126,554	-	126,554

Ascension

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

8. Fair Value Measurements (continued)

For the three months ended March 31, 2021, 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	Other Investments	Benefit Plan Assets
The three months ended						
March 31, 2021						
Beginning balance	\$ 3,329	\$ 580,513	\$ 26,499	\$ 573,064	\$ 37,887	\$ 66,955
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	944	16,646	2,185	71,168	714	-
Included in changes in net assets	-	-	-	(1,870)	8	-
Purchases	356	79,696	1,370	18,473	19,100	1,403
Sales	(1,338)	(52,884)	(561)	(35,208)	(83)	(5,036)
Transfers into Level 3	1,062	-	-	-	-	636
Transfers out of Level 3	-	(3,220)	-	(41,500)	-	(1,165)
Ending balance	<u>\$ 4,353</u>	<u>\$ 620,751</u>	<u>\$ 29,493</u>	<u>\$ 584,127</u>	<u>\$ 57,626</u>	<u>\$ 62,793</u>
 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 March 31, 2021	 <u>\$ 944</u>	 <u>\$ 15,254</u>	 <u>\$ 2,178</u>	 <u>\$ -</u>	 <u>\$ 170</u>	 <u>\$ -</u>

Ascension

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

8. Fair Value Measurements (continued)

For the nine months ended March 31, 2021, 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	Other Investments	Benefit Plan Assets
The nine months ended						
March 31, 2021						
Beginning balance	\$ 7,489	\$ 734,511	\$ 20,921	\$ 351,731	\$ 3,817	\$ 59,435
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	5,887	59,959	(939)	261,041	481	-
Included in changes in net assets	-	-	-	(108)	18	-
Purchases	4,090	120,511	8,785	60,265	54,702	3,663
Sales	(14,103)	(215,083)	(1,088)	(47,302)	(82)	(9,424)
Transfers into Level 3	990	3,720	1,814	-	-	10,678
Transfers out of Level 3	-	(82,867)	-	(41,500)	(1,310)	(1,559)
Ending balance	<u>\$ 4,353</u>	<u>\$ 620,751</u>	<u>\$ 29,493</u>	<u>\$ 584,127</u>	<u>\$ 57,626</u>	<u>\$ 62,793</u>

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 March 31, 2021

\$ (1,524)	\$ 52,653	\$ (825)	\$ -	\$ (147)	\$ -
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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.

Ascension

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

9. Derivative Instruments

As provided for in the System's Master Trust Indenture, the System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. 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 March 31, 2022 and June 30, 2021, the notional values of outstanding interest rate swaps were \$826,215 and \$894,445, 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 System does not offset fair value amounts recognized for derivative instruments. There are no interest rate swaps in an asset position at March 31, 2022. The fair value of interest rate swaps in an asset position at June 30, 2021 was \$2,497. The fair value of interest rate swaps in a liability position was \$77,719 and \$126,554 at March 31, 2022 and June 30, 2021, 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 as of March 31, 2022 and June 30, 2021.

The System does not designate 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 Consolidated Statements of Operations and Changes in Net Assets.

10. Leases

The System is a party to primarily real estate and medical and information technology equipment leases as a lessee and real estate leases as a lessor. Many leases include rental escalation clauses or renewal options which are factored into the determination of lease payments when appropriate. As most of the System's operating leases do not provide an implicit rate, the System uses its incremental borrowing rate based upon information available at the lease commencement date in determining the present value of lease payments. In addition, the System does not separate lease and non-lease components.

Ascension

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

10. Leases (continued)

All components of total lease cost are recognized in other operating expenses, excluding interest on finance lease liabilities, which is recognized in interest. The following table provides the total lease cost included in the Consolidated Statement of Operations and Changes in Net Assets:

	The three months ended March 31,		The nine months ended March 31,	
	2022	2021	2022	2021
Operating lease cost	\$ 84,458	\$ 81,742	\$ 259,417	\$ 245,080
Finance lease cost:				
Interest on lease liabilities	749	781	2,199	2,247
Amortization of right-of-use-asset	710	790	2,130	2,676
Variable lease cost	17,559	15,549	48,912	49,941
Total lease cost	\$ 103,476	\$ 98,862	\$ 312,658	\$ 299,944

The weighted average remaining lease terms and the weighted average discount rates at March 31, 2022 and 2021 were as follows:

	March 31, 2022		March 31, 2021	
	Operating Leases	Finance Leases	Operating Leases	Finance Leases
Weighted-average remaining lease term	8.2 years	27.8 years	8.1 years	28.8 years
Weighted-average discount rate	2.4%	3.3%	2.4%	3.3%

The following table provides the cash paid for amounts included in the measurement of lease obligations:

	The three months ended March 31,		The nine months ended March 31,	
	2022	2021	2022	2021
Operating leases	\$ 83,459	\$ 85,557	\$ 256,819	\$ 254,835
Finance leases	1,044	1,337	3,051	4,134
Total cash paid	\$ 84,503	\$ 86,894	\$ 259,870	\$ 258,969

Ascension

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

10. Leases (continued)

The following table reconciles undiscounted future operating and finance lease obligations for each of the next five years and thereafter, as of March 31, 2022, to lease obligations recorded on the Consolidated Balance Sheets at March 31, 2022.

Twelve months ended March 31:	Operating Leases	Finance Leases	Total
2023	\$ 287,873	\$ 3,926	\$ 291,799
2024	242,543	3,994	246,537
2025	189,936	4,063	193,999
2026	153,967	4,134	158,101
2027	118,705	4,206	122,911
Thereafter	419,404	112,226	531,630
Total future undiscounted lease obligations	1,412,428	132,549	1,544,977
Less: amount of lease payments representing interest	(119,480)	(49,665)	(169,145)
Present value of future lease obligations	1,292,948	82,884	1,375,832
Less: current portion of lease obligations	(266,084)	(1,229)	(267,313)
Long-term lease obligations	<u>\$ 1,026,864</u>	<u>\$ 81,655</u>	<u>\$ 1,108,519</u>

For leases where the System is a lessor, future minimum noncancelable receipts on operating leases for each of the next five years and thereafter, as of March 31, 2022, are as follows:

Twelve months ended March 31:	Operating Leases
2023	\$ 65,270
2024	50,186
2025	39,490
2026	30,007
2027	23,544
Thereafter	339,972
Total	<u>\$ 548,469</u>

For the three month periods ended March 31, 2022 and 2021, lease income was approximately \$21,000 and \$19,000, respectively. For the nine months ended March 31, 2022 and 2021, lease income was approximately \$62,000 and \$58,000, respectively.

Ascension

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

11. Retirement 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 equity securities, U.S. government, state, municipal and agency obligations, asset-backed securities, and alternative investments including primarily private equity and real estate funds.

Contributions to the System Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to participants. As of December 31, 2019, all System Plans were frozen.

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 gain for the System included in Other non-operating gains (losses) in the Consolidated Statements of Operations and Changes in Net Assets.

	The three months ended March 31,		The nine months ended March 31,	
	2022	2021	2022	2021
Components of net periodic benefit gain:				
Interest cost	\$ (73,865)	\$ (75,449)	\$ (221,602)	\$ (226,373)
Expected return on plan assets	171,431	165,117	514,294	495,351
Amortization of prior service credit	(73)	(64)	(219)	(192)
Amortization of actuarial loss	(37,834)	(40,713)	(113,501)	(122,153)
Net periodic benefit gain	<u>\$ 59,659</u>	<u>\$ 48,891</u>	<u>\$ 178,972</u>	<u>\$ 146,633</u>

Ascension

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

12. 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 Sheets.

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 \$10,000.

The System has entered into Master Service Agreements for information technology services provided by third parties, under which future committed payments of approximately \$667,724 will be made over the upcoming 3 to 5 years.

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 17 years.

The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Groups at March 31, 2022:

Hospital de la Concepción 2017 Series A debt guarantee	\$	18,375
St. Vincent de Paul Series 2000 A debt guarantee		28,300
Other guarantees and commitments		50,531

13. 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.

Ascension

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

13. Functional Expenses (continued)

Expenses by functional classification for the three months ended March 31, 2022 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	\$ 3,477,058	\$ 256,570	\$ 3,733,628
Purchased services and professional fees	843,228	328,637	1,171,865
Supplies	1,023,066	1,211	1,024,277
Other	1,280,748	131,260	1,412,008
Total operating expenses	<u><u>\$ 6,624,100</u></u>	<u><u>\$ 717,678</u></u>	<u><u>\$ 7,341,778</u></u>

Expenses by functional classification for the three months ended March 31, 2021 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	\$ 3,020,643	\$ 285,263	\$ 3,305,906
Purchased services and professional fees	759,626	312,092	1,071,718
Supplies	949,280	1,182	950,462
Other	1,148,434	113,353	1,261,787
Total operating expenses	<u><u>\$ 5,877,983</u></u>	<u><u>\$ 711,890</u></u>	<u><u>\$ 6,589,873</u></u>

Ascension

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

13. Functional Expenses (continued)

Expenses by functional classification for the nine months ended March 31, 2022 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	\$ 10,043,916	\$ 773,490	\$ 10,817,406
Purchased services and professional fees	2,508,478	973,135	3,481,613
Supplies	3,143,033	4,810	3,147,843
Other	3,699,158	389,585	4,088,743
Total operating expenses	\$ 19,394,585	\$ 2,141,020	\$ 21,535,605

Expenses by functional classification for the nine months ended March 31, 2021 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	\$ 9,019,707	\$ 803,667	\$ 9,823,374
Purchased services and professional fees	2,296,429	874,421	3,170,850
Supplies	3,002,970	4,614	3,007,584
Other	3,441,041	365,994	3,807,035
Total operating expenses	\$ 17,760,147	\$ 2,048,696	\$ 19,808,843

Supplementary Information

Ascension

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

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

	The nine months ended	
	March 31,	
	2022	2021
Traditional charity care provided	\$ 395,693	\$ 369,204
Unpaid cost of public programs for persons living in poverty	1,003,988	885,451
Other programs for persons living in poverty and other persons who are vulnerable	54,913	59,207
Community benefit programs	273,331	454,252
Care of persons living in poverty and other community benefit programs	<u>\$ 1,727,925</u>	<u>\$ 1,768,114</u>

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

As of and for the nine months ended March 31, 2022 and 2021



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

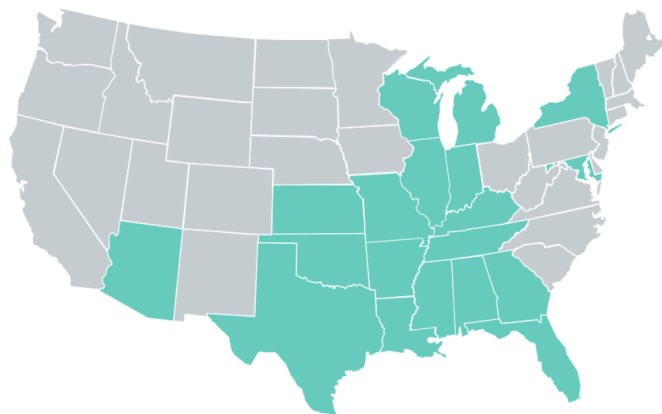
The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

The MD&A includes the following sections:

- Organization and Mission
- Executive Overview
- Organizational Changes
- Novel Coronavirus (COVID-19)
- Select Financial Information

Organization and Mission

Ascension is a faith-based healthcare organization dedicated to transformation through innovation across the continuum of care. As one of the largest non-profit and Catholic health systems in the U.S., Ascension is committed to its Mission, Vision, and Values by delivering compassionate, personalized care to all, with special attention to persons living in poverty and those most vulnerable. At March 31, 2022, the System included approximately 138,000 associates and 40,000 aligned providers, approximately 2,600 sites of care – including 142 hospitals and 40 senior living facilities – in 19 states and the District of Columbia, while providing a variety of healthcare-related services including clinical and managed care services, investment management (including venture capital and direct strategic investing), facilities management, risk management, and contracting through Ascension's own group purchasing organization.



Executive Overview

Similar to other U.S. Healthcare providers, Ascension's operations and volumes have been disrupted by several unexpected COVID-19 surges creating continued volatility for the nine months ended March 31, 2022 (YTD Q3 FY22). COVID-19 cases peaked during this past quarter and coupled with historic levels of staff furloughs, rising labor costs, ongoing workforce shortages and sporadic closures of surgical and procedural areas combined to result in a very challenging quarter for financial performance. Notwithstanding these challenges, Ascension's operational performance improved with each month as the quarter progressed (January to March 2022). The System remains resilient with various economic improvement plans implemented to further operational performance in the coming months with a continued focus on caring for our patients and caregivers.

Organizational Changes

Ascension continues to make strategic and purposeful decisions to improve the health of individuals and communities served, engage with consumers in where, when and how they need care, and support the shift to expanded ambulatory and telehealth presence. To strengthen hospital operations and gain capabilities for the future, the organization's changes to its portfolio are as follows.

Effective August 1, 2020, Ascension divested certain assets and liabilities and substantially all related operations of Ascension St. Clare's Hospital in Weston, Wisconsin, to Marshfield Clinic Health System.

Effective September 1, 2020, St. Mary's Healthcare in Amsterdam, New York, separated from the Ascension System and began to operate as an independent, Catholic healthcare organization under the governance of a local Board.

Effective August 1, 2021, Ministry Health Care, Inc., a wholly owned subsidiary of Ascension, transitioned its sole membership interest in seven hospitals and related clinical and other business, representing substantially all operations in the Northern and Central Wisconsin markets, to Aspirus, Inc.

Subsequent to March 31, 2022, effective on April 1, 2022, Ascension and AdventHealth have disaffiliated from AMITA Health, the joint operating company that had served the healthcare needs of the greater Chicago area from 2015 through March 31, 2022. The rebranded Ascension facilities and providers, Ascension Illinois, are

committed to continuing to serve healthcare needs in the greater Chicago area.

In February 2022, Ascension, through certain of its controlled affiliates, entered into agreements with Laboratory Corporation of America Holdings (Labcorp) whereby Ascension will transition certain assets of its outreach laboratory business and management of certain Ascension hospital-based laboratories to Labcorp after all necessary approvals are obtained. Once finalized, this transition will support expansion of laboratory services and implementation of advanced technology, providing for an enhanced consumer experience.

In addition to optimizing our acute care assets focused on patients with more complex needs, we have and will continue to invest in accelerating growth in our ancillary services and ambulatory networks. One example is the formation of Ascension Rx, building upon our existing retail pharmacies through growth of specialty pharmacy and a nationwide mail order distribution center. Additional investments are also being made in our ambulatory surgery center, imaging and outpatient physical therapy sites that enhance Ascension's footprint of service offerings and provide greater convenience to consumers.

Novel Coronavirus (COVID-19)

The global novel coronavirus (COVID-19) pandemic has continued to have unprecedented economic, operational and financial impact for the U.S. healthcare industry. Similarly, Ascension's patients, employees, business operations and communities served continue to be negatively impacted by the challenges of a prolonged and operationally disruptive pandemic.

Recurrent surges of COVID-19 cases across the nation during the nine months ended March 31, 2022 and most profoundly during the three months ended March 31, 2022 (Q3 FY22), continued to have an impact on Ascension's volumes and contributed to unprecedented operational and financial challenges as further discussed below. Localized intermittent COVID-related restrictions and surges also resulted in the cancellation or deferral of elective procedures at certain times in almost all markets throughout the period. Consumer hesitation continues to impact Ascension's markets to varying degrees, as the System's volumes remain below levels at the onset of the pandemic (comparable nine months ended March 31, 2020) in all categories except physician office and clinic visits. In the month of January 2022, similar to many other healthcare providers, Ascension experienced the peak of the latest surge, representing the highest COVID positive inpatient census since the beginning of the pandemic. However, by the end of Q3 FY22, Ascension's COVID positive inpatient census was among the lowest

levels since March 2020, contributing to a favorable volume trend at the end of the quarter.

During YTD Q3 FY22, federal, state and local governmental relief funds and programs helped to offset the adverse financial impacts of the pandemic although to a much lesser extent than the comparable nine months of the prior year. The System recognized revenue associated with U.S. government legislation that authorized funding for health care providers for COVID-19 relief and other pandemic-related grants (COVID-19 Funding). Payments received reimburse eligible healthcare providers for lost revenues or healthcare-related expenses attributable to COVID-19, as well as increased Medicare reimbursement rates for inpatients diagnosed with COVID-19. For YTD Q3 FY22, the System recognized revenue associated with COVID-19 Funding of approximately \$311 million, representing a significant decrease from the \$889 million recognized during the same nine months of the prior fiscal year. The recognition of COVID-19 Funding is included within Other operating revenue in the Consolidated Statement of Operations and Changes in Net Assets.

While Ascension experienced expansion and growth in certain other operations and continued to focus on stewardship consistent with our Mission, the System was not able to fully absorb the additional operating expense impacts, most notably present in Q3 FY22, resulting from the confluence of workforce shortages and wage inflation during the height of the latest COVID-19 surge.

Select Financial Information (dollars in millions)

Consolidated Operations

The following table reflects selected financial information on a consolidated basis for the nine months ended March 31, 2022 and 2021.

Nine months ended March 31,

	2022	2021
Net Patient Service Revenue	\$ 19,004	\$ 18,199
Other Operating Revenue	1,884	2,311
Operating Expenses	21,536	19,809
Income (loss) from Operations	(640)	779
Operating Margin	-3.1%	3.8%
Operating EBIDA Margin	2.5%	9.4%

On a consolidated basis, Ascension's operating margin was -3.1% for the nine months ended March 31, 2022, as compared to 3.8% for the same period in the prior year. Operating EBIDA margin was 2.5% for the nine months ended March 31, 2022, as compared to 9.4% for the same period of the prior year. Decreases in margins are impacted by the aforementioned decrease in government funding intended to offset losses incurred during the pandemic along with the increasing cost of compensating our caregivers and other associates.

Volume Trends

During the nine months ended March 31, 2022, the System experienced increased volumes over the same period in the prior year, representing the impact of caring for patients through the most recent and significant COVID surges while also continuing the recovery of pandemic-impacted volumes. While overall volumes are improving, almost all volume categories still remain below comparable levels at the onset of the pandemic (for the nine months ended March 31, 2020).

The following table reflects certain patient volume information, on a consolidated basis, for the nine months ended March 31, 2022 and 2021.

Nine months ended March 31,

Volume Metrics

	2022	2021
Equivalent Discharges	1,158,202	1,146,517
Total Admissions	550,327	552,006
Surgery Visits (IP & OP)	434,443	445,321
Emergency Room Visits	2,233,686	1,947,731
Urgent Care Visits	409,617	298,141
Physician Office and Clinic Visits	12,016,949	11,693,219

The following table reflects select patient volume trend comparisons for the nine months ended March 31, 2022 and 2021. Due to the organizational changes noted, the most meaningful volume comparisons are on the same facility basis.

Volume Trends

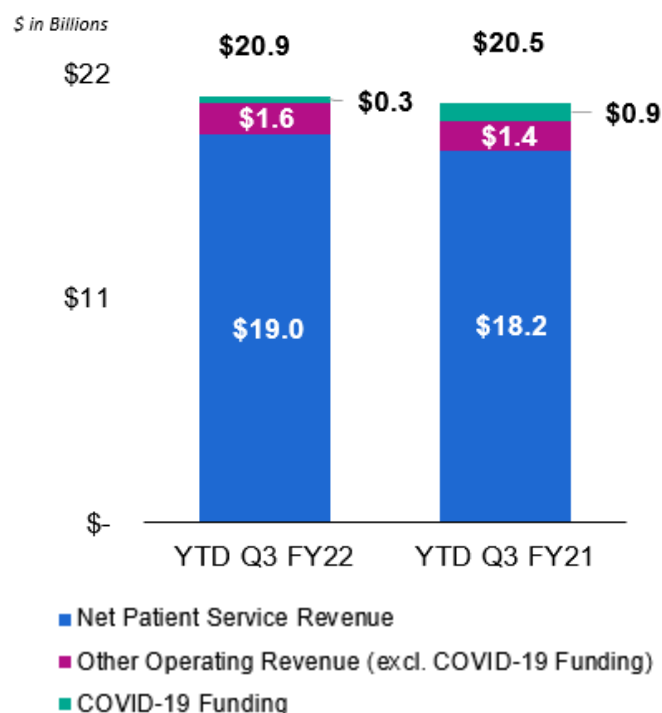
Equivalent Discharges	2.7%	1.0%
Total Admissions	0.8%	(0.3%)
Surgery Visits (IP & OP)	(0.8%)	(2.4%)
Emergency Room Visits	16.7%	14.7%
Urgent Care Visits	45.6%	37.4%
Physician Office and Clinic Visits	4.7%	2.8%

	Same Facility Volume Incr/(Decr)	Total Volume Incr/(Decr)
Equivalent Discharges	2.7%	1.0%
Total Admissions	0.8%	(0.3%)
Surgery Visits (IP & OP)	(0.8%)	(2.4%)
Emergency Room Visits	16.7%	14.7%
Urgent Care Visits	45.6%	37.4%
Physician Office and Clinic Visits	4.7%	2.8%

Consistent with industry trends, the System continues to experience a shift from inpatient to outpatient surgeries and was also impacted by the management of elective procedures, most notably surgeries, based on workforce shortages and disruptions caused by additional COVID-19 surges. In Q3 FY22, the System experienced its lowest rate of total monthly surgeries in January, yet volumes rebounded from the impact of the latest pandemic surge late in the quarter with total monthly surgeries reaching their highest number in March.

For the nine months ended March 31, 2022, virtual provider office (VPO) visits of ~870,000 decreased from the same period in the prior year. VPO visits represent approximately 7% of visits in the current year as compared to approximately 10% of total physician visits in the prior year. Overall, outpatient visits have been increasing with YTD Q3 FY22 volumes improving 3.3% on a same facility basis over the prior year.

Total Operating Revenue



Total operating revenue increased by \$377 million or 1.8% during the nine months ended March 31, 2022, as compared to the same period in the prior year.

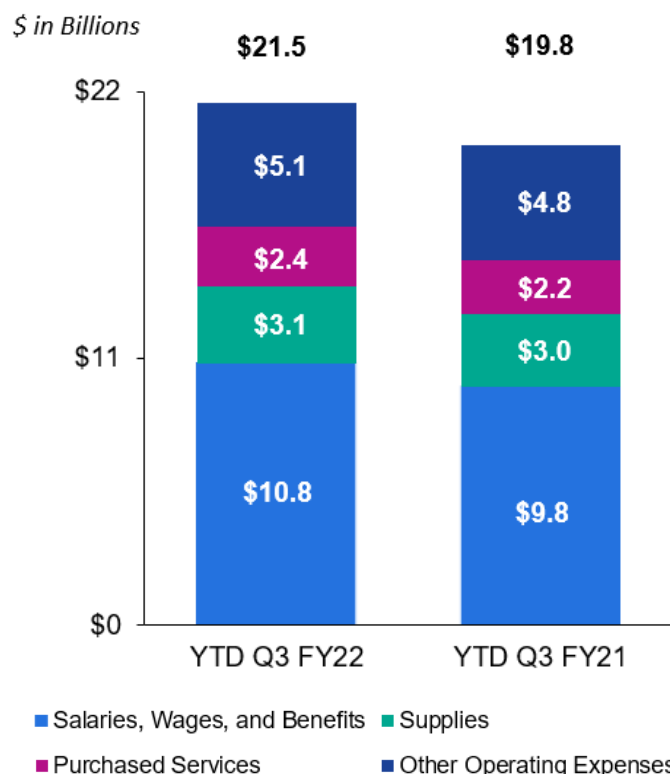
The System experienced an increase over prior year in net patient service revenue (NPSR) of \$805 million or 4.4% for the nine months ended March 31, 2022 despite the continued impact of the pandemic surges that resulted in less surgical and procedural volumes and more medical cases. The System's same facility operations have shown growth in NPSR of 6.3% for the nine months ended March 31, 2022, as compared to the same period in the prior year. NPSR also exceeded levels at the onset of the pandemic (nine months ended March 31, 2020) by 5.6%.

For the nine months ended March 31, 2022, NPSR per equivalent discharge increased 3.4%, or 3.5% on a same facility basis compared to the prior year. Aside from the previously mentioned volume increases, NPSR growth was impacted by improved rate and yield due to moderate inflationary increases in payor payments and increased provider tax revenue. The System's case mix index of 1.86 remained elevated due to higher-acuity patients, including COVID-positive patients, seeking care during the recent surge of the pandemic. Ascension has also implemented several economic improvement plans focused on service line growth to further our volume recovery.

For YTD Q3 FY22, COVID-19 Funding revenue recognized decreased \$578 million. Exclusive of COVID-19 Funding, total other operating revenue increased by \$151 million or

10.6% during the nine months ended March 31, 2022, as compared to the same period in the prior year due to the maturation of our pharmacy services and other ancillary and ambulatory strategic growth initiatives.

Total Operating Expenses



Total operating expenses increased \$1.7 billion or 8.7% or 10.3% on a same facility basis during the nine months ended March 31, 2022, as compared to the same period in the prior year. Consistent with the overall healthcare provider industry, labor-related challenges continue to drive expense growth amid the recurring COVID-19 surges. In particular, Ascension's labor-related expenses escalated in Q3 FY22 with the peak of the latest COVID-19 surge resulting in workforce shortages from levels necessary to maintain the workforce needed to care for our patients.

The System experienced a 7.6% (7.4% same facility) increase in cost per equivalent discharge during the nine months ended March 31, 2022, primarily due to increases in labor costs impacted by the pandemic as previously discussed. The treatment of COVID positive patients through the recent surges led to an increase in the average length of stay, along with increased caregiver compensation and supply costs.

Total salaries, wages and benefits increased \$994 million, or 10.1%, for the nine months ended March 31, 2022, compared to the same period in the prior year. The increase is primarily due to staffing challenges including

increased utilization of contract and premium labor and market wage adjustments, along with critical care bonuses, as a result of staffing shortages and challenges related to staff furloughs and departures that have accelerated through the recent COVID surges of the pandemic, most notably impacting Q3 FY22. Ascension experienced the height of labor spending for FY22 in January driven primarily by utilization of contract labor, premium labor and overtime spend that aligned to the peak of the most recent COVID-19 surge. As Q3 FY22 progressed, the System's trends in these areas improved with the reduction in the number of COVID-19 patients and with the implementation of certain economic improvement plans focused on stabilization of the workforce including reduction of agency staffing rates and utilization. Additionally, Ascension's length of stay was reduced 13.3% during Q3 FY22 as our COVID-19 positive inpatient census declined. To meet the changing needs of the healthcare environment and our associates, Ascension's renewed commitment is focused on the following: 1) attracting, rewarding and retaining the best talent, 2) providing career growth and development, 3) ensuring a culture of inclusion, flexibility and transparency and 4) supporting the transformation of care delivery models for the future.

Supply expenses increased \$140 million, or 4.7%, during the nine months ended March 31, 2022, as compared to the same period in the prior year due primarily to an increase in pharmaceutical COVID-19 therapy treatments and other COVID-19 medical supplies along with volume-driven increases in other supply categories, including surgical and implant supplies.

In addition to labor-related expense challenges discussed above, the System experienced an increase in purchased services and other operating expenses. Purchased services increased \$248 million, or 11.3%, for the nine months ended March 31, 2022, as compared to the prior year as increased volumes and NPSR resulted in higher outsourced revenue cycle fees and purchased medical and lab services along with a change in outsourcing certain IT services. Other operating expenses (includes professional fees, insurance, provider tax, income tax and other operating expenses) increased \$345 million, or 7.2%, for the nine months ended March 31, 2022 due primarily to an increase in cost of goods sold associated with the increased pharmacy revenue discussed above, along with increases in physician fees, provider tax expense, and self-insured medical malpractice insurance cost associated with industry-wide claims severity trends. Other miscellaneous expense categories also experienced increases as volumes continued to recover.

Non-Operating Income - Investment Return

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. Total net investments under management by AIM, including non-Ascension investors, were approximately \$47.5 billion at March 31, 2022.

Ascension's long-term investment funds, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced volatility and moderation from the prior year with a return of 2.8% during the nine months ended March 31, 2022. The net investment earnings for the nine months ended March 31, 2022 were \$736 million; investment income in the same period of the prior fiscal year was \$4.6 billion.

Financial Position

Ascension's balance sheet and liquidity levels remain strong with more than sufficient liquidity to continue to provide care for patients, despite the economic challenges resulting from the prolonged pandemic. The following table reflects selected financial information on a consolidated basis.

	3/31/2022	6/30/2021
Current Assets	\$ 5,945	\$ 5,981
Long-Term Investments	25,521	26,768
Property and Equipment	11,147	11,067
Other Assets	4,578	4,583
Total Assets	\$ 47,190	\$ 48,399

	3/31/2022	6/30/2021
Current Liabilities	\$ 7,389	\$ 7,244
Long-Term Liabilities	10,558	11,879
Total Liabilities	17,946	19,123
Net Assets	29,244	29,276
Total Liabilities and Net Assets	\$ 47,190	\$ 48,399

Financial Assets and Liquidity Resources

The System's cash and investment position remains strong and includes highly liquid investments. Net unrestricted cash and investments were \$22.1 billion at March 31, 2022, which is approximately 47% of the System's total assets. The System's days cash on hand was 295 days as of March 31, 2022, as further discussed in this section.

Additionally, Ascension maintains one line of credit, totalling \$1 billion. As of March 31, 2022, there were no borrowings under the line of credit. The line is committed through November 18, 2024. The System also has access to a \$1.0 billion taxable commercial paper program.

During fiscal year 2020, Ascension applied for and received approximately \$2.0 billion of Medicare Advance Payments. The advanced payments are recorded within long-term investments and current and noncurrent liabilities on the System's Consolidated Balance Sheets. Medicare Advance Payments represent approximately 13 and 26 days cash as of March 31, 2022, and June 30, 2021, respectively. In accordance with the terms and conditions of the Medicare Advance Payment program, recoupments of approximately \$803 million occurred during the nine months ended March 31, 2022 with a total of approximately \$1.0 billion recouped to date.

In addition, Ascension has deferred employer payroll tax payments pursuant to the Paycheck Protection Program and Health Care Enhancement Act that represent approximately 2.5 days and 5 days of cash as of March 31, 2022 and June 30, 2021, respectively.

Balance Sheet Ratios

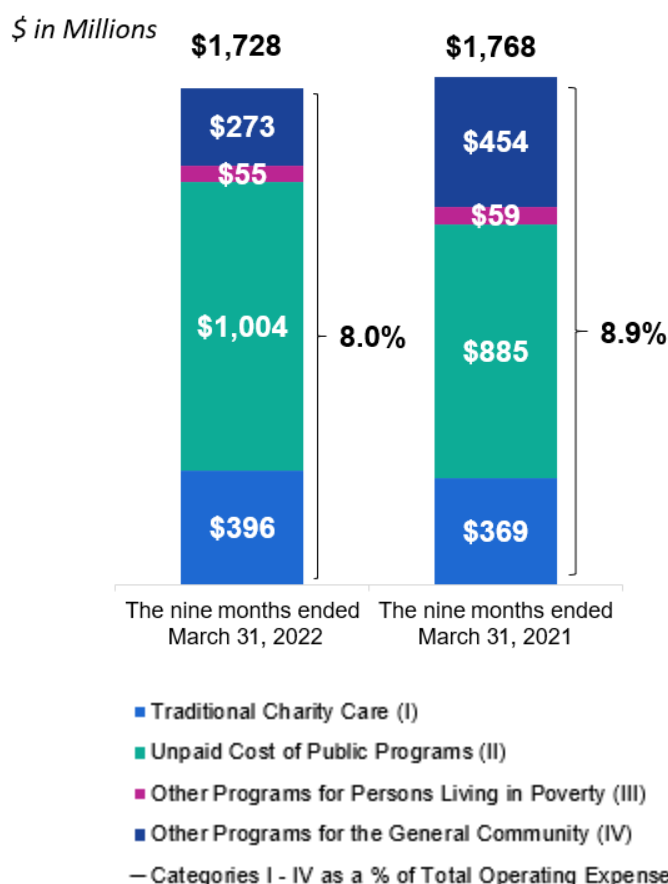
	3/31/2022	6/30/2021
Days Cash on Hand	295	336
Net Days in Accounts Receivable	50.7	47.3
Cash-to-Debt	302.0%	310.5%
Total Debt to Capitalization	22.0%	22.6%
Debt Service Coverage	7.08	11.04

The System's Master Trust Indenture requires Ascension to maintain an annual debt service coverage ratio of 1.10

and Ascension was well above this covenant at March 31, 2022.

Net days in accounts receivable increased from 47.3 days at June 30, 2021, to 50.7 days at March 31, 2022 largely attributable to slower payment of claims from commercial payors, particularly large dollar claims.

Care of Persons Living in Poverty and Community Benefit



Ascension provided \$1.7 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the nine months ended March 31, 2022. Through programs, donations, health education, trauma programs, free care and more, the organization's uncompensated care and other community benefits fulfill unmet needs in the communities we serve.

The System experienced an increase in Medicaid gross charges and equivalent discharges throughout the nine months ended March 31, 2022 compared to the same period in the prior year as overall volumes increased and more patients were eligible and shifted to public programs (i.e., Medicaid) in select markets. The System's traditional charity care provided during the nine months ended March 31, 2022, also increased slightly as compared to the same

period in the prior year due to a decrease in the COVID-19 relief funding from HRSA for uninsured COVID-19 patients along with a higher cost of caring for patients.

Other programs for the general community decreased from prior year due to the donation of the net assets of St. Mary's Hospital in Amsterdam to the community on September 1, 2020.

The System continues to deliver compassionate, personalized care to all, with special attention to persons living in poverty and those most vulnerable, despite the continued pandemic-related challenges experienced during the nine months ended March 31, 2022.

Ascension

Consolidated Statistical Information For the Nine Months Ended

	March 31,	
	2022	2021
<u>Discharges by Service Type</u>		
Acute Care	501,165	503,761
Psychiatric Care	31,965	32,847
Rehabilitation Care	8,379	8,129
Skilled Nursing Facility Care and Residential Living	705	742
Long Term Acute Care	914	1,081
Other L.T. Sub-Acute Care	7,199	5,446
Total Discharges by Service	550,327	552,006
<u>Patient Days by Service Type</u>		
Acute Care	2,645,096	2,496,404
Psychiatric Care	235,970	243,668
Rehabilitation Care	99,341	101,939
Skilled Nursing Facility Care	655,719	781,823
Assisted Living	154,542	162,436
Residential Living	8,521	10,367
Long Term Acute Care	33,531	37,492
Other L.T. Sub-Acute Care	410,123	432,706
Total Patient Days by Service	4,242,843	4,266,835
Newborn Births	60,240	58,337
Newborn Patient Days	111,366	101,216
Outpatient Visits (Includes Surgical and ER Visits)	20,902,999	20,968,971
Surgical Visits - Outpatient	314,782	313,766
Emergency Room (ER) Visits	2,233,686	1,947,731
Full Time Equivalent Employees	133,526	134,955
Total Available Beds	26,222	27,478
Total Available Beds Excluding Bassinets	25,050	26,269