

**ASCENSION**

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

For the Three Months Ended September 30, 2020 and 2019

Ascension

Consolidated Financial Statements  
and Supplementary Information

For the Three Months Ended September 30, 2020 and 2019

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# Ascension

## Consolidated Balance Sheets (unaudited) (Dollars in Thousands)

	September 30, 2020	June 30, 2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 649,123	\$ 625,814
Short-term investments	83,920	103,264
Accounts receivable	2,984,953	2,761,239
Inventories	509,723	502,601
Due from brokers <i>(see Notes 5 and 6)</i>	148,855	108,575
Estimated third-party payor settlements	171,589	124,999
Other <i>(see Notes 5 and 6)</i>	770,711	790,693
Total current assets	5,318,874	5,017,185
Long-term investments <i>(see Notes 5 and 6)</i>	22,552,130	21,272,811
Property and equipment, net	11,200,086	11,351,194
Other assets:		
Right-of-use assets - leases	1,304,449	1,262,380
Investment in unconsolidated entities	1,293,040	1,258,472
Capitalized software costs, net	571,507	597,005
Other <i>(see Notes 5 and 6)</i>	1,154,891	1,129,247
Total other assets	4,323,887	4,247,104
Total assets	\$ 43,394,977	\$ 41,888,294

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# Ascension

## Consolidated Balance Sheets (unaudited) (Dollars in Thousands)

	September 30, 2020	June 30, 2020
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 100,686	\$ 96,537
Long-term debt subject to short-term remarketing arrangements*	794,000	842,010
Current portion of lease obligations	235,834	236,569
Accounts payable and accrued liabilities (see Notes 5 and 6)	2,683,817	3,139,198
Estimated third-party payor settlements	702,763	650,543
Due to brokers (see Notes 5 and 6)	251,179	59,881
Current portion of self-insurance liabilities	239,653	237,548
Current portion of Medicare advanced payments	493,781	1,994,958
Other	922,506	682,316
Total current liabilities	6,424,219	7,939,560
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	6,758,665	6,773,381
Lease obligations, less current portion	1,083,148	1,037,883
Self-insurance liabilities	724,302	739,674
Pension and other postretirement liabilities	2,147,185	2,237,185
Medicare advanced payments	1,489,473	-
Other (see Notes 5 and 6)	1,725,431	1,573,363
Total noncurrent liabilities	13,928,204	12,361,486
Total liabilities	20,352,423	20,301,046
Net assets:		
Without donor restrictions:		
Controlling interest	20,084,357	18,838,776
Noncontrolling interests	2,156,503	1,963,884
Total net assets without donor restrictions	22,240,860	20,802,660
Net assets with donor restrictions	801,694	784,588
Total net assets	23,042,554	21,587,248
Total liabilities and net assets	\$ 43,394,977	\$ 41,888,294

\*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 September 30, 2021. In the event that bonds are not remarketed upon the exercise of put options or the scheduled mandatory tenders, management would utilize other sources to access the necessary liquidity. Potential sources include a drawdown on the \$1 billion line of credit, issuing commercial paper, and liquidating investments. The commercial paper program is supported by \$300 million of the \$1 billion line of credit.

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

# Ascension

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

	The three months ended September 30,	
	2020	2019
Operating revenue:		
Net patient service revenue	\$ 5,977,323	\$ 6,058,923
Other revenue	649,523	404,082
Total operating revenue	6,626,846	6,463,005
Operating expenses:		
Salaries and wages	2,648,420	2,591,997
Employee benefits	579,149	555,521
Purchased services	706,232	729,919
Professional fees	320,485	332,139
Supplies	984,196	970,847
Insurance	74,107	71,054
Interest	58,394	65,837
Provider tax	166,002	164,354
Depreciation and amortization	325,407	319,423
Other	642,449	653,792
Total operating expenses before impairment, restructuring and nonrecurring losses, net	6,504,841	6,454,883
Income from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring losses, net	122,005	8,122
Self-insurance trust fund investment return	30,701	3,752
Income from recurring operations	152,706	11,874
Impairment, restructuring and nonrecurring losses, net	(9,221)	(34,990)
Income (loss) from operations	143,485	(23,116)
Nonoperating gains (losses):		
Investment return, net	1,317,380	(203,809)
Other	(150,161)	17,340
Total nonoperating gains (losses), net	1,167,219	(186,469)
Excess (deficit) of revenues and gains over expenses and losses	1,310,704	(209,585)
Less noncontrolling interests	132,021	25,104
Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest	1,178,683	(234,689)

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# Ascension

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

	The three months ended September 30,	
	2020	2019
Net assets without donor restrictions, controlling interest:		
Excess (deficit) of revenues and gains over expenses and losses	\$ 1,178,683	\$ (234,689)
Transfers to sponsors and other affiliates, net	1,030	(16,537)
Net assets released from restrictions for property acquisitions	9,613	5,561
Pension and other postretirement liability adjustments	40,222	28,247
Change in unconsolidated entities' net assets	17,013	1,855
Membership interest changes, net	-	(632)
Other	(980)	14,379
Increase (decrease) in net assets without donor restrictions, controlling interest	1,245,581	(201,816)
Net assets without donor restrictions, noncontrolling interest:		
Excess of revenues and gains over expenses and losses	132,021	25,104
Net contributions (distributions) of capital	60,597	(32,248)
Membership interest changes, net	1	(1,183)
Increase (decrease) in net assets without donor restrictions, noncontrolling interests	192,619	(8,327)
Net assets with donor restrictions:		
Contributions and grants	22,349	16,577
Investment return	27,265	3,658
Net assets released from restrictions	(17,727)	(14,928)
Other	(14,781)	(773)
Increase in net assets with donor restrictions	17,106	4,534
Increase (decrease) in net assets	1,455,306	(205,609)
Net assets, beginning of period	21,587,248	23,524,284
Net assets, end of period	\$ 23,042,554	\$ 23,318,675

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

# Ascension

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

	The three months ended September 30,	
	2020	2019
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ 1,455,306	\$ (205,609)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	325,407	319,423
Amortization of bond premiums, discounts, and debt issuance costs	(9,240)	(5,657)
Loss on extinguishment of debt	-	(220)
Pension and other postretirement liability adjustments	(40,222)	(28,247)
Unrealized (gains) losses on unrestricted investments, net	(1,107,060)	691,397
Change in fair value of interest rate swaps	(8,267)	10,504
Change in equity of unconsolidated entities	(65,867)	(39,920)
Gain on sale of assets, net	(36,558)	441
Impairment and nonrecurring expenses	282	2,557
Transfers to sponsor and other affiliates, net	(1,030)	16,537
Donor restricted contributions, investment return and other	(26,952)	(11,086)
(Contributions) distributions of noncontrolling interest, net	(60,597)	32,248
Other	56,892	11,475
(Increase) decrease in:		
Short-term investments	19,344	(12,570)
Accounts receivable	(243,951)	(27,457)
Inventories and other current assets	(56,194)	(43,717)
Due from brokers	(40,280)	231,137
Investments classified as trading	(173,658)	(75,160)
Other assets	(31,872)	(96,898)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(278,851)	(434,386)
Estimated third-party payor settlements, net	6,931	(2,065)
Due to brokers	191,298	(37,108)
Other current liabilities	250,068	292,278
Self-insurance liabilities	(13,267)	12,484
Other noncurrent liabilities	114,594	(76,828)
Net cash provided by continuing operating activities	226,256	523,553

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# Ascension

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

	The three months ended September 30,	
	2020	2019
<b>Investing activities</b>		
Property, equipment, and capitalized software additions, net	\$ (396,326)	\$ (119,754)
Proceeds from sale of property and equipment	1,035	2,369
Distributions from unconsolidated entities, net	8,187	36,474
Net proceeds from sale/acquisition of other assets	141,537	-
Net cash used in investing activities	(245,567)	(80,911)
<b>Financing activities</b>		
Issuance of debt	-	129,577
Repayment of debt, including financing lease obligations	(50,038)	(266,020)
(Increase) decrease in assets under bond indenture agreements	(15)	180
Transfers to sponsors and other affiliates, net	1,030	(16,537)
Donor restricted contributions, investment return, and other	26,952	11,086
Contributions (distributions) of noncontrolling interest, net	60,597	(32,248)
Net cash provided by (used in) financing activities	38,526	(173,962)
Net increase in cash, cash equivalents, and restricted cash	19,215	268,680
Cash, cash equivalents, and restricted cash at beginning of period	717,216	1,004,073
Cash, cash equivalents, and restricted cash at end of period	\$ 736,431	\$ 1,272,753
Cash and cash equivalents	\$ 649,123	\$ 1,162,679
Restricted cash, included in long-term investments	87,308	110,074
Cash, cash equivalents, and restricted cash at end of period	\$ 736,431	\$ 1,272,753

*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 member or shareholder of various subsidiaries including, but not limited to:

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

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

#### Sponsorship

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

## 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 of persons living in poverty and other community benefit programs. The cost of providing care to persons living in poverty and other community benefit programs is estimated by reducing charges forgone by a factor derived from the ratio of each entity's total operating expenses to the entity's billed charges for patient care. Certain costs such as graduate medical education and certain other activities are excluded from total operating expenses for purposes of this computation.

The amount of traditional charity care provided, determined on the basis of cost, was \$163,538 and \$191,723 for the three months ended September 30, 2020 and 2019, 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

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

	The three months ended September 30,	
	2020	2019
Other revenue	\$ 57,789	\$ 38,438
Nonoperating gains (losses), net	(9)	(504)

### 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.

### New Accounting Standards Adopted

Effective July 1, 2019, the System adopted the FASB ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, using the full retrospective method of application. The most significant impact of adopting the new standard is to the presentation of the System's Consolidated Statements of Cash Flows. Changes in cash, cash equivalents, and restricted cash and cash equivalents are presented within the Consolidated Statements of Cash Flows. The prior period Consolidated Statement of Cash Flows presented was adjusted accordingly.

## Ascension

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

#### **2. Significant Accounting Policies (continued)**

##### **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.

##### **Long-Term Investments and Investment Return**

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

Long-term investments include assets limited as to use of \$1,447,989 and \$1,376,582 at September 30, 2020 and June 30, 2020, respectively, comprised primarily of investments placed in trust and held by captive insurance companies for the payment of self-insured claims. Long-term investments also include donor restricted cash and cash equivalents.

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

## Ascension

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

#### 2. Significant Accounting Policies (continued)

##### Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives used in computing depreciation is as follows: buildings and leasehold improvements, 2 to 40 years; and equipment, 2 to 20 years. Depreciation expense for the three months ended September 30, 2020 and 2019 was approximately \$269,000 and \$264,000, respectively.

A summary of property and equipment is as follows:

	September 30, 2020	June 30, 2020
Land and improvements	\$ 1,364,652	\$ 1,345,273
Buildings and equipment	20,671,756	20,343,912
	<u>22,036,408</u>	<u>21,689,185</u>
Less accumulated depreciation	11,604,338	11,512,931
	<u>10,432,070</u>	<u>10,176,254</u>
Construction in progress	768,016	1,174,940
Total property and equipment, net	<u><u>\$ 11,200,086</u></u>	<u><u>\$ 11,351,194</u></u>

Several capital projects have remaining construction and related equipment purchase commitments of approximately \$437,000 as of September 30, 2020.

##### 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 \$108,873 and \$101,763 at September 30, 2020 and June 30, 2020, respectively:

	September 30, 2020	June 30, 2020
Capitalized software costs	\$ 2,550,157	\$ 2,531,331
Less accumulated amortization	1,978,650	1,934,326
Capitalized software costs, net	571,507	597,005
Goodwill	264,916	265,853
Other, net	39,667	39,871
Intangible assets included in other assets	304,583	305,724
Total intangible assets, net	\$ 876,090	\$ 902,729

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets for the three months ended September 30, 2020 and 2019 was approximately \$56,000 and \$55,000, respectively.

#### Noncontrolling Interests

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

#### Net Assets

##### *Net Assets Without Donor Restrictions*

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

## Ascension

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

#### **2. Significant Accounting Policies (continued)**

##### *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 from these funds 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. Net assets with donor restrictions consist solely of controlling interests of the System.

##### **Performance Indicator**

The performance indicator is the (deficit) 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.

##### **Operating and Nonoperating Activities**

The System's primary mission is to meet the healthcare needs in its market areas through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, long-term care, and other healthcare services.

Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the System's primary mission are considered to be nonoperating.

##### **Net Patient Service Revenue and Accounts Receivable**

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

## Ascension

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

#### **2. Significant Accounting Policies (continued)**

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.

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 \$10,218 and \$16,121 for the three months ended September 30, 2020 and 2019, 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.



## Ascension

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

#### 2. Significant Accounting Policies (continued)

Net patient service revenue earned for the three months ended September 30, 2020 and 2019, is as follows:

	<b>The three months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Inpatient care	\$ 2,853,946	\$ 2,890,114
Ambulatory care	2,310,533	2,349,353
Physician practices	695,249	688,789
Long-term care	117,595	130,667
Total net patient service revenue	<u>\$ 5,977,323</u>	<u>\$ 6,058,923</u>

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:

	<b>Net Patient Service Revenue</b>		<b>Accounts Receivable</b>	
	<b>The three months ended</b>		<b>September 30,</b>	<b>June 30,</b>
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2020</b>
Medicare - traditional and managed	36.6 %	36.4 %	30.4 %	30.5 %
Medicaid - traditional and managed	12.9	13.3	10.4	10.6
Other commercial and managed care	42.6	43.7	43.3	42.2
Self-Pay and other	7.9	6.6	15.9	16.7
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

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

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

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

## Ascension

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

#### 2. Significant Accounting Policies (continued)

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.

#### 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 September 30, 2020 and 2019:

	The three months ended September 30,	
	2020	2019
Cafeteria and vending	\$ 13,053	\$ 21,086
CARES Act Relief Funding ( <i>see Note 3</i> )	184,849	-
Contracted services	52,378	47,973
Donations and grants	20,081	32,224
Gains on asset sales	36,928	987
Insurance plans	17,985	20,137
Joint venture income	57,789	38,438
Lab services	20,832	19,754
Lease and rental income	21,162	26,126
Retail pharmacy	116,223	91,520
Supplemental care programs	68,233	49,527
Other	40,010	56,310
Total other revenue	<u>\$ 649,523</u>	<u>\$ 404,082</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.

## Ascension

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

#### **2. Significant Accounting Policies (continued)**

##### **Impairment, Restructuring, and Nonrecurring Losses**

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

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

During the three months ended September 30, 2020 and 2019, the System recorded total impairment, restructuring, and nonrecurring losses, net of \$9,221 and \$34,990, respectively, consisting primarily of one-time termination benefits and other restructuring and nonrecurring expenses.

##### **Amortization**

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

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

##### **Income Taxes**

The member healthcare entities of the System are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or Section 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). The System accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The System has determined that no material unrecognized tax benefits or liabilities exist as of September 30, 2020.

##### **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.

## Ascension

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

#### **2. Significant Accounting Policies (continued)**

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 September 30, 2019 Consolidated Financial Statements to conform to the September 30, 2020 presentation.

#### **Subsequent Events**

The System evaluates the impact of subsequent events, which are events that occur after the Consolidated Balance Sheet date, but before the Consolidated Financial Statements are issued, for potential recognition or disclosure in the Consolidated Financial Statements as of the Consolidated Balance Sheet date. For the three months ended September 30, 2020, the System evaluated subsequent events through November 20, 2020, representing the date on which the Consolidated Financial Statements were issued.

During this period, there were no subsequent events requiring recognition in the Consolidated Financial Statements and no unrecognized subsequent events requiring disclosure.

#### **3. COVID-19 Pandemic and CARES Act Funding**

On March 11, 2020, the World Health Organization designated the COVID-19 outbreak as a global pandemic. In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act authorizes funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Relief Fund). Payments from the Relief Fund are to be used to prevent, prepare for, and respond to coronavirus, and shall 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.

For the three months ended September 30, 2020, the System recognized revenue associated with Relief Fund payments of \$184,849, which is included in other operating revenue in the Consolidated Statement of Operations. Relief Fund payments received, but not yet recognized are recorded in other current liabilities in the Consolidated Balance Sheet at September 30, 2020. Management continues to monitor compliance with the terms and conditions of the Relief Fund.

## Ascension

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

#### 3. COVID-19 Pandemic and CARES Act Funding (continued)

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. The Program allows eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. The System received approximately \$2,000,000 of advanced payments in April 2020, which were recognized in current and long-term liabilities in the Consolidated Balance Sheet as of September 30, 2020, based on the Program's repayment requirements.

#### 4. Organizational Changes

##### Divestitures

During the three months ended September 30, 2020 and 2019, Ascension, including certain of its wholly owned subsidiaries, completed the sale of, or undertook actions to sell or transfer ownership of, certain assets and liabilities.

##### *Assets Held for Sale*

Effective October 1, 2019, Ascension completed the sale of certain assets and liabilities and substantially all related operations of St. Vincent's Medical Center, an Ascension subsidiary located in Bridgeport, Connecticut, to Hartford HealthCare Corporation.

Effective August 1, 2020, Ascension completed the sale of certain assets and liabilities and substantially all related operations of Ascension St. Clare's Hospital, Inc. (St. Clare's), an Ascension Wisconsin subsidiary, as well as interests in two related joint ventures to MCHS Hospitals, Inc. (MCHS), a subsidiary of Marshfield Clinic, Inc. Assets and liabilities held for sale at June 30, 2020 were \$91,057 and \$2,023, respectively, and are included in other current assets and other current liabilities in the Consolidated Balance Sheets.

##### *Membership Contributions*

Effective September 1, 2020, Ascension completed the separation of St. Mary's Healthcare (St. Mary's), a wholly owned subsidiary of Ascension located in Amsterdam, New York.

## Ascension

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

#### **4. Organizational Changes (continued)**

The separation was accounted for as a donation of unrestricted net assets of approximately \$132,000 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.

#### **5. Pooled Investment Fund**

At September 30, 2020 and 2019, respectively, a significant portion of the System's investments consists of its interest in the Alpha Fund, a limited liability company organized in the state of Delaware. Certain System investments, including some held by the Ministry Markets and their consolidated foundations, are managed outside of the Alpha Fund.

The Alpha Fund includes the investment interests of the System and other Alpha Fund members. AIM, a wholly owned subsidiary of the System, serves as the manager and primary investment advisor of the Alpha Fund, overseeing the investment strategies offered to the Alpha Fund's members. AIM provides expertise in the areas of asset allocation, selection and monitoring of outside investment managers, and risk management. The Alpha Fund is consolidated in the System's Consolidated Financial Statements.

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 September 30, 2020, contractual agreements expire between October 2020 and August 2026.

The remaining unfunded capital commitments total approximately \$1,727,000 for 233 individual funds as of September 30, 2020. 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. Derivatives in which the Alpha Fund may invest include options, futures contracts, swaps, forward settling mortgage-backed securities, and index-based instruments. Advisers selected by AIM to manage the Alpha Fund's assets may actively trade futures contracts, options, and foreign currency forward contracts.

## Ascension

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

#### 5. Pooled Investment Fund (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.

See the Fair Value Measurements note for a discussion of how fair value for the Alpha Fund's derivatives is determined. At September 30, 2020 and June 30, 2020, the gross notional value of Alpha Fund derivatives outstanding was approximately \$8,857,000 and \$9,948,000, respectively.

The fair value of Alpha Fund derivatives in an asset position was \$175,994 and \$45,395 at September 30, 2020 and June 30, 2020, respectively, while the fair value of Alpha Fund derivatives in a liability position was \$46,050 and \$97,298 at September 30, 2020 and June 30, 2020, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets.

During the three months ended September 30, 2019, the Alpha Fund participated in a securities lending program, whereby a portion of the Alpha Fund's investments were loaned to selected established brokerage firms in return for securities from the brokers as collateral for the investments loaned, usually on a short-term basis. Participation in the securities lending program ceased during the year ended June 30, 2020, and as such, did not have any outstanding loans as of June 30, 2020 or September 30, 2020.

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, and cash held by brokers for securities sold, not yet purchased.

## 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 both the System's membership interest in the Alpha Fund and the noncontrolling interests held by other Alpha Fund members. System unrestricted cash and investments, net, represent the System's cash and investments excluding the noncontrolling interests held by other Alpha Fund members and assets limited as to use.

	September 30, 2020	June 30, 2020
Cash and cash equivalents	\$ 649,123	\$ 625,814
Short-term investments	83,920	103,264
Long-term investments	22,552,130	21,272,811
Subtotal	23,285,173	22,001,889
Other Alpha Fund assets and liabilities:		
In other current assets	32,527	38,599
In accounts payable and other accrued liabilities	(9,747)	(10,413)
In other noncurrent liabilities	(535)	(525)
Due (to) from brokers, net	(102,324)	48,694
Total cash and investments, net	23,205,094	22,078,244
Less noncontrolling interests of Alpha Fund	1,852,200	1,707,465
System cash and investments, including assets limited as to use	21,352,894	20,370,779
Less assets limited as to use:		
Under bond indenture agreement	1,107	1,092
Self-insurance trust funds	689,753	632,222
With donor restrictions	757,129	743,268
Total assets limited as to use	1,447,989	1,376,582
System unrestricted cash and investments, net	\$ 19,904,905	\$ 18,994,197



## Ascension

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

#### 6. Cash and Investments (continued)

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

	September 30, 2020	June 30, 2020
Cash and cash equivalents and short-term investments	\$ 868,021	\$ 914,967
Pooled short-term investment funds	1,174,118	835,156
U.S. government, state, municipal and agency obligations	4,164,476	3,944,488
Corporate and foreign fixed income securities	1,748,495	2,038,195
Asset-backed securities	2,759,276	2,701,379
Equity securities	6,238,556	5,436,613
Alternative investments and other investments:		
Private equity and real estate funds	3,542,487	3,423,494
Hedge funds	1,299,317	1,356,772
Commodities funds and other investments	1,490,427	1,350,825
Total alternative investments and other investments	6,332,231	6,131,091
Total cash and cash equivalents, short-term investments, and long-term investments	\$ 23,285,173	\$ 22,001,889

Investment return recognized by the System for the three months ended September 30, 2020 and 2019, is summarized in the following table. Total investment return includes the System's return on certain investments held and managed outside the Alpha Fund and the investment return of the Alpha Fund. System investment return represents the System's total investment return, net of the investment return earned by the noncontrolling interests of other Alpha Fund members.

	The three months ended September 30, 2020	2019
Interest and dividends	\$ 49,275	\$ 76,048
Net gains (losses) on investments reported at fair value	1,298,806	(276,105)
Restricted investment return and unrealized gains, net	27,265	3,658
Total investment return	1,375,346	(196,399)
Less return earned by noncontrolling interests of Alpha Fund	75,455	9,712
System investment return	\$ 1,299,891	\$ (206,111)

Investment return is reduced by 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 September 30, 2020 and June 30, 2020, 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:

	September 30, 2020	June 30, 2020
Financial assets:		
Cash and cash equivalents	\$ 649,123	\$ 625,814
Short-term investments	83,920	103,264
Accounts receivable	2,984,953	2,761,239
Due from brokers	148,855	108,575
Other current assets	770,711	790,693
Long-term investments	22,552,130	21,272,811
Total financial assets	27,189,692	25,662,396
Less:		
Assets limited as to use and other restricted funds	(1,565,784)	(1,476,023)
Noncontrolling interests of Alpha Fund	(1,852,200)	(1,707,465)
Investments with liquidity more than one year	(4,155,080)	(4,044,787)
Total financial assets available within one year	19,616,628	18,434,121
Liquidity resources:		
Unused lines of credit	1,000,000	1,000,000
Total financial assets and liquidity resources available within one year	\$ 20,616,628	\$ 19,434,121

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

#### 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.

## Ascension

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

#### 8. Fair Value Measurements (continued)

Level 2 pricing inputs include prices quoted for similar assets and liabilities in active markets/exchanges or prices quoted for identical or similar assets and liabilities in markets that are not active. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any, market activity for such asset or liability. Inputs to determine the fair value of Level 3 assets and liabilities require management judgment and estimation.

Net Asset Value – Values are based on the calculated net asset value. The calculated net asset values for underlying investments are fair value estimates determined by an external fund manager and other sources based on quoted market prices, operating results, balance sheet stability, growth, and other business and market sector factors.

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

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

As of September 30, 2020 and June 30, 2020, 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.

## Ascension

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

#### **8. Fair Value Measurements (continued)**

Other short-term investments designated as Level 2 investments primarily consist of commercial paper, whose fair value is based on the income approach. Significant observable inputs include security cost, maturity, credit rating, interest rate, and par value.

##### *Pooled Short-Term Investment Fund*

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

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

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

##### *Corporate and Foreign Fixed Income Securities*

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

##### *Asset-backed Securities*

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

##### *Equity Securities*

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

## Ascension

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

#### 8. Fair Value Measurements (continued)

##### *Alternative Investments and Other Investments*

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

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

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

##### *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.

# Ascension

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

### 8. Fair Value Measurements (continued)

#### *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.

The following table summarizes fair value measurements, by level, at September 30, 2020, 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
<b>September 30, 2020</b>				
Cash equivalents	\$ 25,179	\$ 970	\$ -	\$ 26,149
Short-term investments	51,821	89,885	-	141,706
Pooled short-term investment funds	1,174,118	-	-	1,174,118
U.S. government, state, municipal and agency obligations	-	4,164,476	-	4,164,476
Corporate and foreign fixed income securities	-	1,738,402	10,093	1,748,495
Asset-backed securities	-	2,133,205	626,071	2,759,276
Equity securities	4,572,579	55,055	22,927	4,650,561
Alternative investments and other investments:				
Private equity and real estate funds	3,561	2,500	450,457	456,518
Commodities funds and other investments	44,749	94,601	2,398	141,748
Assets at net asset value:				
Equity securities				1,587,995
Private equity and real estate funds				3,085,506
Hedge funds				1,299,317
Commodities funds and other investments				1,260,512
Cash and other investments not at fair value				788,796
Cash and investments				<u>\$ 23,285,173</u>
Benefit plan assets, in other noncurrent assets	\$ 531,020	\$ 16,262	\$ 67,286	\$ 614,568
Interest rate swaps, in other noncurrent assets	-	2,927	-	2,927
Investments sold, not yet purchased, in other noncurrent liabilities	-	535	-	535
Interest rate swaps, included in other noncurrent liabilities	-	163,662	-	163,662

# Ascension

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

### 8. Fair Value Measurements (continued)

For the three months ended September 30, 2020, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following:

	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
<b>The three months ended</b>						
<b>September 30, 2020</b>						
Beginning balance	\$ 7,489	\$ 734,511	\$ 20,921	\$ 351,731	\$ 3,817	\$ 59,435
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	(119)	27,295	(373)	86,424	(117)	-
Included in changes in net assets	-	-	-	(25)	7	-
Purchases	-	14,128	1,551	15,000	1	1,532
Settlements	-	-	-	-	-	-
Issuances	-	-	-	-	-	-
Sales	(1,828)	(47,911)	(571)	(2,673)	-	(3,359)
Transfers into Level 3	4,551	3,720	1,399	-	-	9,862
Transfers out of Level 3	-	(105,672)	-	-	(1,310)	(184)
Ending balance	<u>\$ 10,093</u>	<u>\$ 626,071</u>	<u>\$ 22,927</u>	<u>\$ 450,457</u>	<u>\$ 2,398</u>	<u>\$ 67,286</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 September 30, 2020						
	<u>\$ (132)</u>	<u>\$ 26,854</u>	<u>\$ (177)</u>	<u>\$ -</u>	<u>\$ 84</u>	<u>\$ -</u>

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, 2020, 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
<b>June 30, 2020</b>				
Cash equivalents	\$ 34,959	\$ 440	\$ -	\$ 35,399
Short-term investments	65,862	125,331	-	191,193
Pooled short-term investment funds	835,156	-	-	835,156
U.S. government, state, municipal and agency obligations	-	3,944,488	-	3,944,488
Corporate and foreign fixed income securities	-	2,030,706	7,489	2,038,195
Asset-backed securities	-	1,966,868	734,511	2,701,379
Equity securities	4,322,277	54,056	20,921	4,397,254
Alternative investments and other investments:				
Private equity and real estate funds	3,474	2,500	351,731	357,705
Commodities funds and other investments	29,076	(57,778)	3,817	(24,885)
Assets at net asset value:				
Equity securities				1,039,359
Private equity and real estate funds				3,065,326
Hedge funds				1,356,772
Commodities funds and other investments				1,280,404
Cash and other investments not at fair value				784,144
Cash and investments				<u>\$ 22,001,889</u>
 Benefit plan assets, in other noncurrent assets	 \$ 495,956	 \$ 15,901	 \$ 59,435	 \$ 571,292
Interest rate swaps, in other noncurrent assets	-	2,785	-	2,785
Investments sold, not yet purchased, in other noncurrent liabilities	28	496		524
Interest rate swaps, included in other noncurrent liabilities	-	171,787	-	171,787



## Ascension

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

#### 8. Fair Value Measurements (continued)

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

	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
<b>The three months ended</b>						
<b>September 30, 2019</b>						
Beginning balance	\$ 3,655	\$ 203,694	\$ 8,386	\$ 333,434	\$ 1,247	\$ 50,078
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	89	(5,435)	257	(892)	1,876	-
Included in changes in net assets	-	-	-	-	2	-
Purchases	16,504	110,954	31	6,074	443	190
Settlements	-	-	-	-	-	-
Issuances	-	-	-	-	-	-
Sales	(749)	(7,470)	(4)	(22,708)	(2,397)	(252)
Transfers into Level 3	1,236	99,147	-	-	-	633
Transfers out of Level 3	(940)	(69,200)	-	(74,300)	(11)	(278)
Ending balance	<u>\$ 19,795</u>	<u>\$ 331,690</u>	<u>\$ 8,670</u>	<u>\$ 241,608</u>	<u>\$ 1,160</u>	<u>\$ 50,371</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 September 30, 2019	<u>\$ 100</u>	<u>\$ (5,456)</u>	<u>\$ 285</u>	<u>\$ -</u>	<u>\$ 256</u>	<u>\$ -</u>

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.

#### 9. Derivative Instruments

The System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. Interest rate swaps with varying characteristics are outstanding under the Master Trust Indenture of the System. These swaps have historically been used to effectively convert interest rates on variable rate bonds to fixed rates and rates on fixed rate bonds to variable rates. At September 30, 2020 and June 30, 2020, the notional values of outstanding interest rate swaps were \$952,275 and \$953,750, respectively.

The System recognizes the fair value of its interest rate swaps in the Consolidated Balance Sheets as assets, recorded in other noncurrent assets, or liabilities, recorded in other noncurrent liabilities, as appropriate. The fair value of interest rate swaps in an asset position was \$2,927, and \$2,785 at September 30, 2020 and June 30, 2020, respectively. The fair value of interest rate swaps in a liability position was \$163,662 and \$171,787 at September 30, 2020 and June 30, 2020, respectively.

## Ascension

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

#### 9. Derivative Instruments (continued)

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 September 30, 2020 or June 30, 2020.

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

#### 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.

All components of total lease cost are recognized in other operating expenses, excluding interest on finance lease liabilities, which is recognized in interest. Total lease cost included in the Consolidated Statement of Operations and Changes in Net Assets was as follows:

	Three months ended September 30,	
	2020	2019
Operating lease cost	\$ 81,944	\$ 85,729
Finance lease cost:		
Interest on lease liabilities	769	187
Amortization of right-of-use-asset	1,146	528
Variable lease cost	18,011	20,691
Total lease cost	<u>\$ 101,870</u>	<u>\$ 107,135</u>

## Ascension

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

#### 10. Leases (continued)

The weighted average remaining lease terms and the weighted average discount rates at September 30, 2020 were as follows:

	<b>Operating Leases</b>	<b>Finance Leases</b>
Weighted-average remaining lease term	8.6 years	29.3 years
Weighted-average discount rate	2.8%	3.3%

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

Cash paid for amounts included in the measurement of lease obligations for the three months ended September 30, 2020 and 2019 were as follows:

	<b>Three months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Operating leases	\$ 85,383	\$ 83,851
Finance leases	1,468	464
Total cash paid	<u>\$ 86,851</u>	<u>\$ 84,315</u>

The following table reconciles undiscounted future operating and finance lease obligations for each of the next five years and thereafter, as of September 30, 2020, to lease obligations recorded on the Consolidated Balance Sheets at September 30, 2020.

<b>Twelve months ending September 30:</b>	<b>Operating Leases</b>	<b>Finance Leases</b>	<b>Total</b>
2021	\$ 265,335	\$ 5,247	\$ 270,582
2022	233,023	4,073	237,096
2023	198,305	3,957	202,262
2024	153,834	4,026	157,860
2025	109,836	4,096	113,932
Thereafter	454,804	118,502	573,306
Total future undiscounted lease obligations	1,415,137	139,901	1,555,038
Less: amount of lease payments representing interest	(181,956)	(54,100)	(236,056)
Present value of future lease obligations	1,233,181	85,801	1,318,982
Less: current portion of lease obligations	(234,094)	(1,740)	(235,834)
Long-term lease obligations	<u>\$ 999,087</u>	<u>\$ 84,061</u>	<u>\$ 1,083,148</u>

## Ascension

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

#### 10. Leases (continued)

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 September 30, 2020, are as follows:

Twelve months ending September 30:	Operating Leases
2021	\$ 56,860
2022	44,356
2023	33,322
2024	24,297
2025	16,251
Thereafter	269,337
Total	<u>\$ 444,423</u>

For the three months ended September 30, 2020 and 2019, lease income was approximately \$19,000 and \$22,000, respectively.

#### 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 short-term investments, equity, fixed income, and alternative investments, consisting of various hedge funds, real estate funds, private equity funds, commodity funds, private credit funds, and certain other private funds.

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 are 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.

## Ascension

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

#### 11. Retirement Plans (continued)

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

	Three months ended September 30,	
	2020	2019
<b>Components of net periodic benefit cost</b>		
Service cost	\$ -	\$ 82
Interest cost	75,476	84,997
Expected return on plan assets	(165,117)	(176,153)
Amortization of prior service credit	64	(156)
Amortization of actuarial loss	40,727	27,717
Net periodic benefit cost	<u>\$ (48,850)</u>	<u>\$ (63,513)</u>

#### 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 \$6,600.

The System entered into Master Service Agreements for information technology services provided by third parties. The maximum amount of future payments that the System could be required to make under these agreements is approximately \$374,900.

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 19 years. The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Groups at September 30, 2020:

Hospital de la Concepción 2017 Series A debt guarantee	\$ 21,735
St. Vincent de Paul Series 2000 A debt guarantee	28,300
Other guarantees and commitments	59,509

## Ascension

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

#### 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.

Expenses by functional classification for the three months ended September 30, 2020 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	\$ 3,047,728	\$ 179,841	\$ 3,227,569
Purchased services and professional fees	767,286	259,431	1,026,717
Supplies	982,742	1,454	984,196
Other	1,120,641	145,718	1,266,359
Total operating expenses	<u>\$ 5,918,397</u>	<u>\$ 586,444</u>	<u>\$ 6,504,841</u>

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

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	\$ 2,939,672	\$ 207,846	\$ 3,147,518
Purchased services and professional fees	764,334	297,724	1,062,058
Supplies	969,793	1,054	970,847
Other	1,120,579	153,881	1,274,460
Total operating expenses	<u>\$ 5,794,378</u>	<u>\$ 660,505</u>	<u>\$ 6,454,883</u>

## Supplementary Information

# Ascension

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

Three Months ended September 30, 2020 and 2019

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

	The three months ended September 30,	
	2020	2019
Traditional charity care provided	\$ 163,538	\$ 191,723
Unpaid cost of public programs for persons living in poverty	266,988	283,686
Other programs for persons living in poverty and other persons who are vulnerable	19,009	33,583
Community benefit programs	91,371	79,068
Care of persons living in poverty and other community benefit programs	<u>\$ 540,906</u>	<u>\$ 588,060</u>



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

For the three months ended September 30, 2020 and 2019



**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

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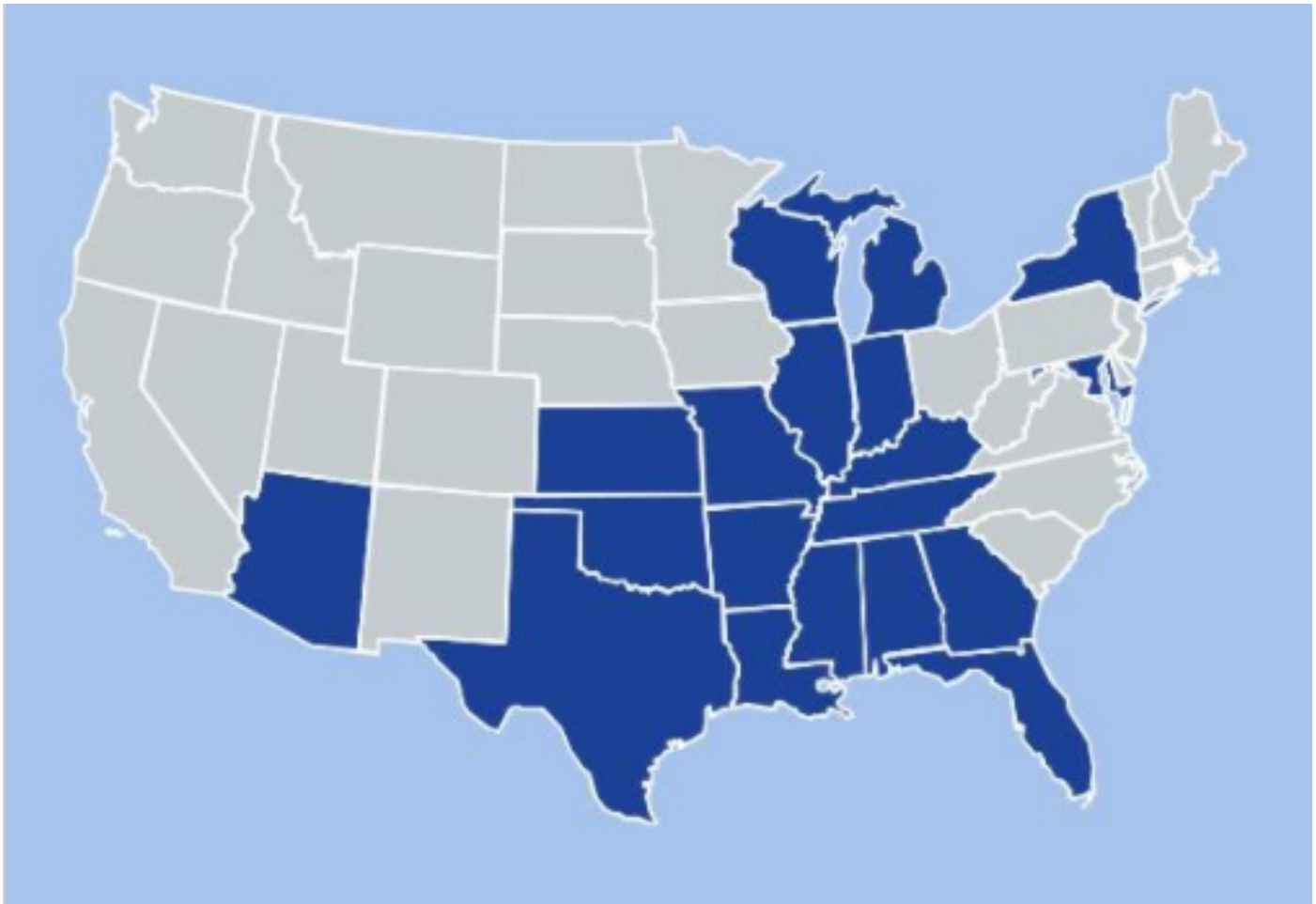
The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

The MD&A includes the following sections:

- Organization and Mission
- 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 leading 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 September 30, 2020, the System included more than 160,000 associates and 40,000 aligned providers, operating more than 2,600 sites of care – including 145 hospitals and more than 50 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.



## Organizational Changes

Ascension continues to make strategic and purposeful decisions to improve the health of individuals and communities served, engage with consumers in new ways and support the shift to expanded ambulatory and telehealth presence. To best position itself for the future, the organization is making changes to its portfolio as further discussed below.

Effective July 1, 2020, Ascension St. Vincent's and The University of Alabama at Birmingham Health System ("UABHS") formed an alliance that will increase access to high-quality, innovative medical care through multiple outlets and health programs.

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

Effective September 1, 2020, in accordance with an agreement between the Board of Directors of St. Mary's Healthcare ("St. Mary's") in Amsterdam, New York, and the Board of Directors of Ascension, St. Mary's separated from the Ascension System. St. Mary's will operate as an independent, Catholic healthcare organization under the governance of the local Board.

Effective September 1, 2020, Ascension Wisconsin's Ministry Health Care, Inc. ("MHC") contributed MHC's membership interest in Saint Elizabeth's Hospital of Wabasha, Inc. to Gundersen Lutheran Health System, Inc.

## Novel Coronavirus (COVID-19)

The global novel coronavirus (COVID-19) pandemic has had significant economic and operational impact on the U.S. healthcare industry, as well as specific impact on Ascension business operations, employees and patients at sites of care, and communities served by the System. Consumer confidence and healthcare hesitation as a result of COVID-19 continue to affect Ascension markets, to varying degrees. The System's operations and volumes remain at levels below pre-pandemic levels for the three months ended September 30, 2020.

The System continues to move forward with its Economic and Operational Recovery Strategy with a focus on ensuring that our response supports the care of all individuals – including those who are vulnerable and need special attention now and in the future.

## Select Financial Information

### Financial Position (in millions)

Ascension's balance sheet and liquidity levels remain strong with liquidity to address the economic challenges resulting from COVID-19. The following table reflects selected financial information on a consolidated basis.

	9/30/2020	6/30/2020
Current Assets	\$ 5,319	\$ 5,017
Long Term Investments	22,552	21,273
Property and Equipment	11,200	11,351
Other Assets	4,324	4,247
Total Assets	\$ 43,395	\$ 41,888

	9/30/2020	6/30/2020
Current Liabilities	\$ 6,424	\$ 7,940
Long-Term Liabilities	13,928	12,361
Total Liabilities	20,352	20,301
Net Assets	23,043	21,587
Total Liabilities and Net Assets	\$ 43,395	\$ 41,888

### 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 \$19.9 billion at September 30, 2020, which is approximately 45.9% of the System's total assets. The System's days cash on hand was 296 days as of September 30, 2020, as further discussed below.

Additionally, Ascension maintains two lines of credit, totalling \$1 billion. As of September 30, 2020, there were no outstanding borrowings under either line of credit. Both lines of credit are committed through December 4, 2020. The System also has access to a \$1.0 billion taxable commercial paper program.

During the quarter ended June 30, 2020, Ascension applied for and received approximately \$2.0 billion of Medicare Advanced Payments, with repayment to occur based on the terms and conditions of the program. The advanced payments are recorded within long-term investments and current and long-term liabilities on the System's Consolidated Balance Sheets.

### Balance Sheet Ratios

	9/30/2020	6/30/2020
Days Cash on Hand*	296	284
Net Days in Accounts Receivable**	45.9	47.8
Cash-to-Debt	260.1%	246.3%
Total Debt to Capitalization	27.6%	29.0%
Debt Service Coverage	2.90	3.34

\* September 30, 2020 Days Cash on Hand increased as a result of favorable investment return during the first quarter.

\*\* Net days in AR as of June 30, 2020 were adjusted to "normalize" the significant disruption to volumes during April 2020.

As discussed in the investment return section of this document, days cash on hand increased as a result of favorable investment returns during the three months ended September 30, 2020.

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 September 30, 2020.

Net days in accounts receivable decreased from 47.8 days at June 30, 2020 to 45.9 days at September 30, 2020.

### Consolidated Operations (in millions)

The following table reflects selected financial information on a consolidated basis for the three months ended September 30, 2020 and 2019.

#### Three months ended September 30,

	2020	2019
Net Patient Service Revenue	\$ 5,973	\$ 6,059
Total Operating Revenue	6,627	6,463
Total Operating Expenses	6,505	6,455
Income from Recurring Operations	153	12
Nonoperating Gains (Losses), net	1,167	(186)
Net Income (Loss)**	1,179	(235)
Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs	541	588

\*\* Excluding noncontrolling interest.

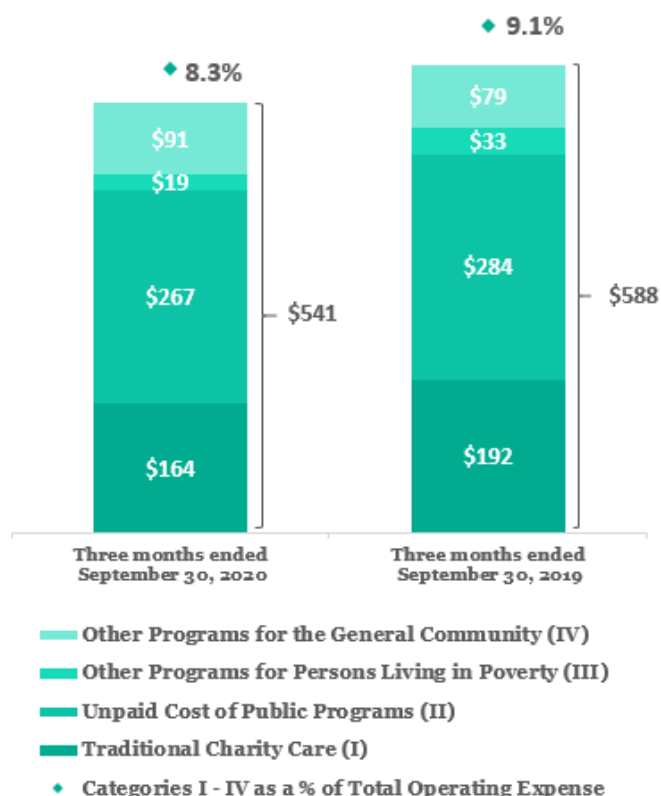
## Community Benefit

Ascension provided \$541 million in Care of Persons Living in Poverty and Other Community Benefit Programs for the three months ended September 30, 2020. Through programs, donations, health education, free care, and more, the organization's uncompensated care and other community benefits fulfills unmet needs in communities we serve.

The total cost of providing care to persons living in poverty and other community benefit programs decreased 8.0% as compared to the same period in the prior year, primarily due to volume decreases related to the pandemic.

With decreases in patient volumes due to the pandemic, both traditional charity care costs (Category I) and the unpaid costs of public programs for persons living in poverty (Category II) decreased 14.7% and 5.9%, respectively.

### Care of Persons Living in Poverty and Other Vulnerable Persons (dollars in millions)



## Volume Trends and Key Performance Indicators

The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for the three months ended September 30, 2020 and 2019.

### Three months ended September 30,

2020	2019
------	------

### Volume Trends

Equivalent Discharges	391,997	439,013
Total Admissions	186,759	205,838
Case Mix Index	1.81	1.70
Emergency Room Visits	669,155	839,183
Surgery Visits (IP & OP)	151,478	161,530
Physician Office and Clinic Visits	3,840,640	3,954,845
Urgent Care Visits	111,616	162,427

### Key Performance Indicators

Recurring Operating Margin	2.3%	0.2%
Recurring Operating EBITDA Margin	8.1%	6.2%
Operating EBITDA Margin	8.0%	5.7%

For the three months ended September 30, 2020, the System's volumes have been impacted by the pandemic and continue to recover. Equivalent discharges, admissions, ER visits, and surgery visits during the month of September 2020 were 90%, 91%, 78%, and 99%, respectively, of those compared to September 2019.

Total outpatient visits for the three months ended September 30, 2020 decreased 7.6% as compared to the prior year. On a same facility basis, total outpatient visits decreased 5.5% for the three months ended September 30, 2020 as compared to the same period in the prior year.

Physician office and clinic visits for the three months ended September 30, 2020 decreased 2.9% as compared to the same period in the prior year. On a same facility basis, physician office and clinic visits decreased less than 1% for the three months ended September 30, 2020 as compared to the same period in the prior year.

On a consolidated basis, recurring operating margin was 2.3% for the three months ended September 30, 2020 as compared to 0.2% for the same period in the prior year. Operating EBITDA margin was 8.0% for the three months ended September 30, 2020 as compared to 5.7% in the same period of the prior year.

### Total Operating Revenue

Net patient service revenue (NPSR) remains impacted by COVID-19, as the System experienced a decrease in NPSR of 1.3% for the three months ended September 30, 2020. On a same facility basis, NPSR increased 1.0% for the three months ended September 30, 2020.

For the three months ended September 30, 2020, NPSR per equivalent discharge increased 10.5% compared to the prior year primarily due to increased case mix index and decreased uncompensated care.

The System's case mix index increased 6.0% for the three months ended September 30, 2020 as compared to the prior year. This increase is primarily due to higher acuity patients, including COVID positive patients, seeking care during the pandemic.

Other operating revenue increased 60.7% during the three months ended September 30, 2020, primarily due to favorable joint venture performance, CARES Act Relief Funding, increases in retail pharmacy sales and a gain on the sale of a joint venture.

### Total Operating Expenses

Total operating expenses increased by less than 1%, as compared to the prior year primarily due to increases in salaries, wages and employee benefits partially offset by System efforts to manage expenses to volumes. Total salaries, wages and benefits increased \$80 million, or 2.5% for the three months ended September 30, 2020, compared to the same period in the prior year. The increases were expected and primarily due to cost of living adjustments and onboarding of additional physicians.

The System experienced a modest increase in supplies expense of \$13.3 million, or 1.4%, during the first quarter of the fiscal year, as compared to the same period in the prior year, primarily due to the higher patient acuity, personal protective equipment and testing related supplies.

Purchased services and professional fees decreased \$35.3 million, or 3.3%, as compared to the same period in the prior year primarily due to the previously mentioned focused effort on expense management as a result of the pandemic.

### Impairment, Restructuring and Nonrecurring Losses

Net impairment, restructuring and nonrecurring losses were \$9.2 million for the three months ended September 30, 2020. Losses are primarily due to one-time termination and restructuring expenses.

### 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 \$45.9 billion at September 30, 2020.

Ascension's long-term investment pool, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced a return of 5.0% during the three months ended September 30, 2020. Although the investment market remains volatile, a continued rebound during the first quarter of the fiscal year contributed to the favorable return.

# Ascension

## Consolidated Statistical Information For the Three Months Ended

	September 30,	
	2020	2019
<b><u>Discharges by Service Type</u></b>		
Acute Care	170,029	186,388
Psychiatric Care	11,478	13,489
Rehabilitation Care	2,833	3,035
Skilled Nursing Facility Care and Residential Living	296	626
Long Term Acute Care	367	371
Other L.T. Sub-Acute Care	1,756	1,929
<b>Total Discharges by Service</b>	<b>186,759</b>	<b>205,838</b>
<b><u>Patient Days by Service Type</u></b>		
Acute Care	801,593	831,434
Psychiatric Care	79,301	94,034
Rehabilitation Care	34,850	35,306
Skilled Nursing Facility Care	302,189	367,781
Assisted Living	59,394	67,200
Residential Living	4,434	3,574
Long Term Acute Care	11,724	11,343
Other L.T. Sub-Acute Care	152,341	163,416
<b>Total Patient Days by Service</b>	<b>1,445,826</b>	<b>1,574,088</b>
<b>Newborn Births</b>	<b>20,779</b>	<b>22,428</b>
<b>Newborn Patient Days</b>	<b>36,202</b>	<b>42,043</b>
<b>Outpatient Visits (Includes Surgical and ER Visits)</b>	<b>7,059,791</b>	<b>7,644,594</b>
<b>Surgical Visits - Outpatient</b>	<b>105,359</b>	<b>110,425</b>
<b>Emergency Room (ER) Visits</b>	<b>669,155</b>	<b>839,183</b>
<b>Full Time Equivalent Employees</b>	<b>134,825</b>	<b>138,818</b>
<b>Total Available Beds</b>	<b>27,843</b>	<b>28,928</b>
<b>Total Available Beds Excluding Bassinets</b>	<b>26,635</b>	<b>27,747</b>