ASCENSION

CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION (UNAUDITED)

For the Quarters and Nine Months Ended March 31, 2020 and 2019

Ascension

Consolidated Financial Statements
and Supplementary Information

For the Quarters and Nine Months Ended March 31, 2020 and 2019

Contents

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Consolidated Balance Sheets (unaudited)

(Dollars in Thousands)

	March 31, 2020	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	**$ 875,460**	$ 896,262
Short-term investments	**89,314**	92,072
Accounts receivable	**2,961,395**	3,172,747
Inventories	**469,256**	409,129
Due from brokers *(see Notes 5 and 6)*	**53,607**	324,977
Estimated third-party payor settlements	**168,614**	178,556
Other *(see Notes 5 and 6)*	**799,992**	959,477
Total current assets	**5,417,638**	6,033,220
Long-term investments *(see Notes 5 and 6)*	**17,757,771**	19,786,061
Property and equipment, net	**10,819,698**	10,851,422
Other assets:		
Right-of-use assets - leases	**1,258,158**	-
Investment in unconsolidated entities	**1,233,634**	1,233,209
Capitalized software costs, net	**611,258**	641,533
Other *(see Notes 5 and 6)*	**1,172,145**	1,173,051
Total other assets	**4,275,195**	3,047,793
Total assets	**$38,270,302**	$39,718,496

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Consolidated Balance Sheets (unaudited)

(Dollars in Thousands)

	March 31, 2020	June 30, 2019
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 113,214**	125,577
Long-term debt subject to short-term remarketing arrangements*	**884,935**	1,043,150
Current portion of lease obligations	**239,573**	-
Accounts payable and accrued liabilities *(see Notes 5 and 6)*	**2,606,225**	2,951,322
Estimated third-party payor settlements	**654,105**	599,959
Due to brokers *(see Notes 5 and 6)*	**396,756**	369,213
Current portion of self-insurance liabilities	**260,014**	269,561
Other	**612,200**	465,499
Total current liabilities	**5,767,022**	5,824,281
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	**6,579,814**	6,760,464
Lease obligations, less current portion	**1,028,199**	-
Self-insurance liabilities	**671,023**	675,860
Pension and other postretirement liabilities	**1,319,251**	1,580,867
Other *(see Notes 5 and 6)*	**1,398,255**	1,352,740
Total noncurrent liabilities	**10,996,542**	10,369,931
Total liabilities	**16,763,564**	16,194,212
Net assets:		
Without donor restrictions:		
Controlling interest	**18,931,883**	20,776,747
Noncontrolling interests	**1,804,866**	1,988,121
Total net assets without donor restrictions	**20,736,749**	22,764,868
Net assets with donor restrictions	**769,989**	759,416
Total net assets	**21,506,738**	23,524,284
Total liabilities and net assets	**$38,270,302**	$39,718,496

*Consists of variable rate demand bonds with put options that may be exercised at the option of the bondholders, with stated repayment installments through 2047, as well as certain serial mode bonds with scheduled remarketing/mandatory tender dates occurring prior to March 31, 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 liquidating investments, a draw on the line of credit totaling $1 billion (refer to Note 3 for additional information), and issuing commercial paper. The commercial paper program is supported by $300 million of the $1 billion line of credit.

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

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Consolidated Statements of Operations And Changes in Net Assets (unaudited)

(Dollars in Thousands)

	The three months ended March 31,		The nine months ended March 31,	
	2020	**2019**	**2020**	**2019**
Operating revenue:				
Net patient service revenue	**$ 5,715,384**	$ 5,887,722	**$ 17,989,418**	$ 17,646,857
Other revenue	**424,397**	410,624	**1,257,527**	1,257,506
Total operating revenue	**6,139,781**	6,298,346	**19,246,945**	18,904,363
Operating expenses:				
Salaries and wages	**2,610,094**	2,543,340	**7,817,769**	7,626,226
Employee benefits	**562,375**	554,480	**1,701,530**	1,698,394
Purchased services	**742,914**	677,772	**2,207,717**	1,971,578
Professional fees	**332,781**	315,802	**999,912**	941,474
Supplies	**931,966**	917,001	**2,882,546**	2,771,206
Insurance	**70,640**	68,563	**223,656**	206,743
Interest	**60,202**	67,059	**188,754**	201,425
Provider tax	**147,611**	162,876	**479,544**	454,955
Depreciation and amortization	**310,062**	303,836	**939,248**	910,058
Other	**665,735**	616,885	**1,966,650**	1,890,469
Total operating expenses before impairment, restructuring and nonrecurring losses, net	**6,434,380**	6,227,614	**19,407,326**	18,672,528
Income (loss) from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring losses, net	**(294,599)**	70,732	**(160,381)**	231,835
Self-insurance trust fund investment return (loss)	**(87,791)**	35,814	**(62,963)**	10,218
Income (loss) from recurring operations	**(382,390)**	106,546	**(223,344)**	242,053
Impairment, restructuring and nonrecurring losses, net	**(46,993)**	(26,433)	**(121,564)**	(68,863)
Income (loss) from operations	**(429,383)**	80,113	**(344,908)**	173,190
Nonoperating gains (losses):				
Investment return (loss), net	**(2,488,491)**	1,141,177	**(1,732,837)**	341,373
Contributions (losses) from business combinations	**-**	57,559	**-**	57,559
Other	**(1,478)**	23,921	**66,057**	116,194
Total nonoperating gains (losses), net	**(2,489,969)**	1,222,657	**(1,666,780)**	515,126
Excess (deficit) of revenues and gains over expenses and losses	**(2,919,352)**	1,302,770	**(2,011,688)**	688,316
Less noncontrolling interests	**(189,855)**	**131,024**	**(77,718)**	84,447
Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest	**(2,729,497)**	1,171,746	**(1,933,970)**	603,869

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

	The three months ended March 31, 2020	The three months ended March 31, 2019	The nine months ended March 31, 2020	The nine months ended March 31, 2019
Net assets without donor restrictions, controlling interest:				
Excess (deficit) of revenues and gains over expenses and losses	**$ (2,729,497)**	$ 1,171,746	**$ (1,933,970)**	$ 603,869
Transfers to sponsors and other affiliates, net	**4,390**	(1,221)	**(14,790)**	(4,080)
Net assets released from restrictions for property acquisitions	**13,103**	14,325	**21,739**	31,721
Pension and other postretirement liability adjustments	**27,488**	15,587	**83,024**	46,773
Change in unconsolidated entities' net assets	**(6,911)**	2,660	**(4,440)**	1,871
Membership interest changes, net	**-**	(18,603)	**(687)**	(18,603)
Other	**(4,228)**	(11,929)	**3,220**	(5,167)
Increase (decrease) in net assets without donor restrictions, controlling interest	**(2,695,655)**	1,172,565	**(1,845,904)**	656,384
Gain (loss) from discontinued operations	**754**	4,306	**1,042**	(1,808)
Increase (decrease) in net assets without donor restrictions, controlling interest	**(2,694,901)**	1,176,871	**(1,844,862)**	654,576
Net assets without donor restrictions, noncontrolling interest:				
Excess (deficit) of revenues and gains over expenses and losses	**(189,855)**	131,024	**(77,718)**	84,447
Net contributions (distributions) of capital	**39,367**	(80,094)	**(104,403)**	(128,190)
Membership interest changes, net	**-**	18,602	**(1,135)**	18,603
Increase (decrease) in net assets without donor restrictions, noncontrolling interests	**(150,488)**	69,532	**(183,256)**	(25,140)
Net assets with donor restrictions:				
Contributions and grants	**22,832**	26,917	**78,546**	91,109
Investment return (loss)	**(31,363)**	25,372	**(10,401)**	8,689
Net assets released from restrictions	**(22,838)**	(26,973)	**(50,325)**	(65,551)
Other	**(5,531)**	4,568	**(7,248)**	2,947
Increase (decrease) in net assets with donor restrictions	**(36,900)**	29,884	**10,572**	37,194
Increase (decrease) in net assets	**(2,882,289)**	1,276,287	**(2,017,546)**	666,630
Net assets, beginning of period	**24,389,027**	22,508,100	**23,524,284**	23,117,757
Net assets, end of period	**$ 21,506,738**	$ 23,784,387	**$ 21,506,738**	$ 23,784,387

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

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Consolidated Statements of Cash Flows (unaudited) (continued)

(Dollars in Thousands)

	The nine months ended March 31, 2020	2019
Operating activities		
(Decrease) increase in net assets	**$ (2,017,546)**	$ 666,630
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	**939,248**	910,058
Operating lease amortization expense	**110,156**	-
Amortization of bond premiums, discounts, and debt issuance costs	**(19,715)**	(18,329)
Loss on extinguishment of debt	**2,853**	98
Pension and other postretirement liability adjustments	**(83,024)**	(46,773)
Contributions (losses) from business combinations	**-**	(46,561)
Unrealized (gains) losses on unrestricted investments, net	**2,448,857**	21,023
Change in fair value of interest rate swaps	**36,481**	12,804
Change in equity of unconsolidated entities	**(119,041)**	(126,277)
Gain on sale of assets, net	**(2,833)**	(36,874)
Impairment and nonrecurring expenses	**42,365**	1,159
Transfers to sponsor and other affiliates, net	**14,790**	4,080
Donor restricted contributions, investment return and other	**(34,484)**	(69,968)
Distributions of noncontrolling interest, net	**104,403**	128,190
Other	**15,146**	(205)
(Increase) decrease in:		
Short-term investments	**2,758**	20,952
Accounts receivable	**216,539**	(142,005)
Inventories and other current assets	**(71,853)**	(477,018)
Due from brokers	**271,370**	(22,477)
Investments classified as trading	**(419,941)**	137,719
Other assets	**(33,679)**	(99,617)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(344,828)**	(174,125)
Estimated third-party payor settlements, net	**56,687**	(81,824)
Due to brokers	**27,543**	68,557
Other current liabilities	**245,762**	477,155
Self-insurance liabilities	**(14,384)**	(78,640)
Other noncurrent liabilities	**(325,333)**	(153,635)
Net cash provided by continuing operating activities	**1,048,297**	874,097
Net cash provided by (used in) discontinued operations	**3,100**	(1,589)
Net cash provided by operating activities	**1,051,397**	872,508

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Consolidated Statements of Cash Flows (unaudited) (continued)

(Dollars in Thousands)

	The nine months ended March 31, 2020	2019
Investing activities		
Property, equipment, and capitalized software additions, net	**$ (1,092,886)**	$ (868,081)
Proceeds from sale of property and equipment	**8,954**	38,290
Distributions from unconsolidated entities, net	**101,717**	77,346
Net proceeds from sale/acquisition of other assets	**236,250**	-
Net cash used in investing activities before discontinued operations	**(745,965)**	(752,445)
Net cash provided by discontinued operations	**-**	20,727
Net cash used in investing activities	**(745,965)**	(731,718)
Financing activities		
Issuance of debt	**1,051,333**	144,775
Repayment of debt, including financing lease obligations	**(1,292,834)**	(231,692)
Increase (decrease) in assets under bond indenture agreements	**(24)**	2,535
Transfers to sponsors and other affiliates, net	**(14,790)**	(4,080)
Donor restricted contributions, investment return, and other	**34,484**	69,968
Distributions of noncontrolling interest, net	**(104,403)**	(128,190)
Net cash used in financing activities	**(326,234)**	(146,684)
Net decrease in cash and cash equivalents	**(20,802)**	(5,894)
Cash and cash equivalents at beginning of period	**896,262**	850,958
Cash and cash equivalents at end of period	**$ 875,460**	$ 845,064

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

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

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

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

Sponsorship

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

1. Organization and Mission (continued)

Mission

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

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

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

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

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

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

(Dollars in Thousands)

1. Organization and Mission (continued)

The amount of traditional charity care provided, determined on the basis of cost, was $546,073 and $445,469 for the nine months ended March 31, 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.

2. Significant Accounting Policies

Principles of Consolidation

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

	The nine months ended March 31,	
	2020	**2019**
Other revenue	**$ 124,575**	$ 108,346
Nonoperating (losses) gains	**(655)**	5,542

Use of Estimates

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

Fair Value of Financial Instruments

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

2. Significant Accounting Policies (continued)

New Accounting Standards Adopted

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

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

Cash and Cash Equivalents

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

Short-Term Investments

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

Inventories

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

2. Significant Accounting Policies (continued)

Long-Term Investments and Investment Return

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

Long-term investments include assets limited as to use of approximately $1,318,000 and $1,343,000 at March 31, 2020 and June 30, 2019, respectively, comprised primarily of investments placed in trust and held by captive insurance companies for the payment of self-insured claims and investments which are limited as to use, as designated by donors.

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

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives used in computing depreciation is as follows: buildings and leasehold improvements, 2 to 40 years; and equipment, 2 to 20 years. Depreciation expense for the nine months ended March 31, 2020 and 2019 was approximately $771,200 and $737,300, respectively.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

A summary of property and equipment is as follows:

	March 31, 2020	June 30, 2019
Land and improvements	**$ 1,288,682**	$ 1,256,944
Buildings and equipment	**20,003,183**	19,309,205
	21,291,865	20,566,149
Less accumulated depreciation	**11,278,838**	10,605,708
	10,013,027	9,960,441
Construction in progress	**806,671**	890,981
Total property and equipment, net	**$ 10,819,698**	$ 10,851,422

Several capital projects have remaining construction and related equipment purchase commitments of approximately $801,000 as of March 31, 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.

Capitalized software costs in the following table include software in progress of $98,791 and $96,717 at March 31, 2020 and June 30, 2019, respectively:

	March 31, 2020	June 30, 2019
Capitalized software costs	**$ 2,491,449**	$ 2,342,789
Less accumulated amortization	**1,880,191**	1,701,256
Capitalized software costs, net	**611,258**	641,533
Goodwill	**259,008**	255,581
Other, net	**40,967**	44,319
Intangible assets included in other assets	**299,975**	299,900
Total intangible assets, net	**$ 911,233**	$ 941,433

2. Significant Accounting Policies (continued)

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets for the nine months ended March 31, 2020 and 2019 was approximately \$168,000 and \$172,800, 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.

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

2. Significant Accounting Policies (continued)

Operating and Nonoperating Activities

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

Net Patient Service Revenue and Accounts Receivable

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

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

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 $86,284 and $109,675 for the nine months ended March 31, 2020 and 2019, respectively.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

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

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

Net patient service revenue earned for the three months ended March 31, 2020 and 2019, is as follows:

	The three months ended March 31,	
	2020	**2019**
Inpatient care	**$ 2,763,444**	$ 2,881,205
Ambulatory care	**2,162,519**	2,231,026
Physician practices	**657,649**	653,666
Long-term care	**131,772**	121,825
Total net patient service revenue	**$ 5,715,384**	$ 5,887,722

Net patient service revenue earned for the nine months ended March 31, 2020 and 2019, is as follows:

	The nine months ended March 31,	
	2020	**2019**
Inpatient care	**$ 8,488,191**	$ 8,515,645
Ambulatory care	**6,994,667**	6,789,160
Physician practices	**2,110,784**	1,979,998
Long-term care	**395,776**	362,054
Total net patient service revenue	**$ 17,989,418**	$ 17,646,857

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

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

	Net Patient Service Revenue The nine months ended March 31,		Accounts Receivable	
			March 31,	June 30,
	2020	**2019**	**2020**	**2019**
Medicare - traditional and managed	**37.5 %**	36.3 %	**27.7 %**	28.2 %
Medicaid - traditional and managed	**13.2**	13.8	**11.1**	11.1
Other commercial and managed care	**43.4**	43.9	**42.7**	41.0
Self-Pay and other	**5.9**	6.0	**18.5**	19.7
	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.

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

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

2. Significant Accounting Policies (continued)

Other Operating Revenue

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

Impairment, Restructuring, and Nonrecurring Losses

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

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

During the nine months ended March 31, 2020, the System recorded total impairment, restructuring, and nonrecurring losses, net of $121,564. This amount was comprised primarily of one-time termination benefits and other restructuring expenses of $74,622, asset impairment of $40,191, and other nonrecurring expenses of $6,751.

During the nine months ended March 31, 2019, the System recorded total impairment, restructuring, and nonrecurring losses, net of $68,863. This amount was comprised primarily of one-time termination benefits and other restructuring expenses of $48,004, asset impairment of $1,160, and other nonrecurring expenses of $19,699.

Amortization

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

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

2. Significant Accounting Policies (continued)

Income Taxes

The member healthcare entities of the System are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or Section 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). The System accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The System has determined that no material unrecognized tax benefits or liabilities exist as of March 31, 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. While no assurance can be given concerning the outcome of any current investigation, management believes that adequate reserves have been established, when available information indicates that a loss is probable and the range of loss can be reasonably estimated, and the outcome of any current investigations will not have a material effect on the accompanying consolidated financial statements of the System.

Reclassifications

Certain reclassifications were made to the accompanying March 31, 2019 consolidated financial statements to conform to the March 31, 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 nine months ended March 31, 2020, the System evaluated subsequent events through May 22, 2020, representing the date on which the accompanying consolidated financial statements were issued. Refer to the Novel Coronavirus (COVID-19) note below for further information.

3. Novel Coronavirus (COVID-19)

On March 11, 2020, the World Health Organization designated the COVID-19 outbreak as a global pandemic. In conjunction with the Centers for Disease Control and Prevention recommendations made in mid-March 2020, Ascension deferred all nonessential medical and surgical procedures and suspended elective procedures. Federal, state and local government policies resulted in a substantial portion of the population to remain at home and forced the closure of certain businesses, which had an impact to the System's volumes and revenues for most services.

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 or lost revenues attributable to coronavirus and are not required to be repaid, provided the recipients attest to and comply with the terms and conditions.

Subsequent to March 31, 2020, the U.S. Department of Health and Human Services made distributions from the Relief Fund including the general distribution and targeted distributions to support hospitals in high impact areas and rural providers. Additionally, funds were made available to reimburse providers for COVID-19 related treatment of uninsured patients. The System received payments from the Relief Fund subsequent to March 31, 2020.

Subsequent to March 31, 2020, the System requested accelerated Medicare payments as provided for in the CARES Act. The accelerated Medicare payment 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. In April 2020, the System received approximately $2.0 billion of accelerated payments with repayment to occur based upon the terms and conditions of the program.

To provide for additional liquidity, on April 6, 2020, the System drew $500,000 on its $700,000 line of credit, which may be used for general corporate purposes. In addition to the remaining $200,000 undrawn capacity on the working capital line of credit, the System has $300,000 available under a second line of credit which may be used as a source of funding for unremarketed variable debt or for general corporate purposes. Both lines of credit are committed through December 4, 2020. In addition, the System has access to a $1.0 billion taxable commercial paper program.

4. Organizational Changes

Business Combination

Bay County Health System, LLC – Florida

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

Divestitures

During the nine months ended March 31, 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

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

On February 18, 2020, Ascension entered into an asset sale agreement and separate membership interest purchase agreements to sell 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. The sales are expected to close after all necessary approvals are obtained. Assets and liabilities held for sale at March 31, 2020 were $94,183 and $2,655, respectively, and are included in other current assets and other current liabilities in the accompanying Consolidated Balance Sheet.

Discontinued Operations

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

4. Organizational Changes (continued)

Membership Contributions

On April 18, 2020, St. Mary's Healthcare (St. Mary's), a wholly owned subsidiary of Ascension located in Amsterdam, New York, and Ascension signed a separation agreement to separate St. Mary's from Ascension. The transaction is expected to close after all necessary approvals are obtained.

On May 1, 2020, Ministry Healthcare, Inc., an Ascension Wisconsin subsidiary, and Gundersen Lutheran Health System, Inc. signed a membership contribution agreement to contribute the membership interest in Saint Elizabeth's Hospital of Wabasha, Inc., located in Wabasha, Minnesota to Gundersen. The transaction is expected to close after all necessary approvals are obtained.

5. Pooled Investment Fund

At March 31, 2020 and June 30, 2019, a significant portion of the System's investments consists of the System's interest in the Alpha Fund, a limited liability company organized in the state of Delaware. Certain System investments, including some held by the Health Ministries and their consolidated foundations, are managed outside of the Alpha Fund.

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

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

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

Commitments not funded during the investment period will expire and remain unfunded. As of March 31, 2020, contractual agreements expire between April 2020 and November 2025.

5. Pooled Investment Fund (continued)

The remaining unfunded capital commitments total approximately $1,733,000 for 226 individual funds as of March 31, 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 Fund enters into derivative contracts (derivatives) for trading purposes following Fund guidelines. Derivatives in which the Fund may invest include options, futures contracts, swaps, forward settling mortgage-backed securities, and index-based instruments. Advisers selected by AIM to manage the Fund's assets may actively trade futures contracts, options, and foreign currency forward contracts. AIM may direct these advisers to execute derivative transactions. These transactions are used to hedge against changes in the interest rates, security prices, currency fluctuations, and other market developments to manage risk or for the purposes of earning additional income. Derivatives are either exchange-traded or over the counter contracts. Exchange-traded derivatives are standard contracts traded on a regulated exchange. Over the counter contracts are private contracts negotiated with counterparties.

See the Fair Value Measurements note for a discussion of how fair value for the Alpha Fund's derivatives is determined. At March 31, 2020 and June 30, 2019, the gross notional value of Alpha Fund derivatives outstanding was approximately $11,360,000 and $9,347,000, respectively.

The fair value of Alpha Fund derivatives in an asset position was $47,268 and $75,647 at March 31, 2020 and June 30, 2019, respectively, while the fair value of Alpha Fund derivatives in a liability position was $354,368 and $57,771 at March 31, 2020 and June 30, 2019, respectively. These derivatives are included in long-term investments in the accompanying Consolidated Balance Sheets at March 31, 2020 and June 30, 2019.

The Alpha Fund also participates in a securities lending program, whereby a portion of the Alpha Fund's investments are loaned to selected established brokerage firms in return for securities from the brokers as collateral for the investments loaned, usually on a short-term basis. The fair value of collateral held by the Alpha Fund associated with such lending agreements amounts to approximately $382,000 at March 31, 2020.

Due from brokers and due to brokers on the Consolidated Balance Sheets at March 31, 2020 and June 30, 2019, represent the Alpha Fund's positions and amounts due from or to various brokers, primarily for security transactions not yet settled, and cash held by brokers for securities sold, not yet purchased.

(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.

	March 31, 2020	June 30, 2019
Cash and cash equivalents	**$ 875,460**	$ 896,262
Short-term investments	**89,314**	92,072
Long-term investments	**17,757,771**	19,786,061
Subtotal	**18,722,545**	20,774,395
Other Alpha Fund assets and liabilities:		
In other current assets	**38,138**	41,461
In accounts payable and other accrued liabilities	**(8,604)**	(11,542)
In other noncurrent liabilities	**(347)**	(20)
Due (to) from brokers, net	**(343,149)**	(44,236)
Total cash and investments, net	**18,408,583**	20,760,058
Less noncontrolling interests of Alpha Fund	**1,572,030**	1,755,068
System cash and investments, including assets limited as to use	**16,836,553**	19,004,990
Less assets limited as to use:		
Under bond indenture agreement	**1,063**	1,039
Self-insurance trust funds	**587,835**	639,006
With donor restrictions	**729,181**	703,017
Total assets limited as to use	**1,318,079**	1,343,062
System unrestricted cash and investments, net	**$ 15,518,474**	$ 17,661,928

(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.

	March 31, 2020	June 30, 2019
Cash and cash equivalents and short-term investments	**$ 990,990**	$ 1,086,485
Pooled short-term investment funds	**624,462**	728,104
U.S. government, state, municipal and agency obligations	**2,368,311**	2,741,689
Corporate and foreign fixed income securities	**1,564,755**	1,678,389
Asset-backed securities	**2,900,517**	3,078,928
Equity securities	**4,723,651**	5,358,824
Alternative investments and other investments:		
Private equity and real estate funds	**2,736,123**	2,769,071
Hedge funds	**1,361,144**	1,839,334
Commodities funds and other investments	**1,452,592**	1,493,571
Total alternative investments and other investments	**5,549,859**	6,101,976
Total cash and cash equivalents, short-term investments, and long-term investments	**$ 18,722,545**	$ 20,774,395

Investment return recognized by the System for the nine months ended March 31, 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 nine months ended March 31, 2020	2019
Interest and dividends	**$ 295,411**	$ 272,070
Net (losses) gains on investments reported at fair value	**(2,091,211)**	79,521
Restricted investment return and unrealized (losses) gains, net	**(10,401)**	8,689
Investment (loss) return, net	**(1,806,201)**	360,280
Less (losses) return earned by noncontrolling interests of Alpha Fund	**(136,674)**	22,736
System investment (loss) return, net	**$ (1,669,527)**	$ 337,544

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

(Dollars in Thousands)

7. Financial Assets and Liquidity Resources

As of March 31, 2020, 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, 2020
Financial assets:	
Cash and cash equivalents	$ 875,460
Short term investments	89,314
Accounts receivable	2,961,395
Due from brokers	53,607
Other current assets	799,992
Long term investments	17,757,771
Total financial assets	22,537,539
Less:	
Assets limited as to use and other restricted funds	(1,413,530)
Noncontrolling interests of Alpha Fund	(1,572,030)
Investments with liquidity more than one year	(3,362,795)
Total financial assets available within one year	16,189,184
Liquidity resources:	
Unused lines of credit	1,000,000
Total financial assets and liquidity resources available within one year	$ 17,189,184

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

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.

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.

8. Fair Value Measurements (continued)

There were no significant transfers between Levels 1 and 2 during the nine months ended March 31, 2020 and March 31, 2019.

As of March 31, 2020, and June 30, 2019, the assets and liabilities listed in the fair value hierarchy tables below use the following valuation techniques and inputs:

Cash and Cash Equivalents and Short-Term Investments

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

Pooled Short-term Investment Fund

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

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

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

Corporate and Foreign Fixed Income Securities

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

8. Fair Value Measurements (continued)

Asset-backed Securities

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

Equity Securities

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

Alternative Investments and Other Investments

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

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

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

8. Fair Value Measurements (continued)

Benefit Plan Assets

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

Interest Rate Swap Assets and Liabilities

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

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

Investments Sold, Not Yet Purchased

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

(Dollars in Thousands)

8. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at March 31, 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
March 31, 2020				
Cash equivalents	$ 27,295	$ 492	$ -	$ 27,787
Short-term investments	10,095	8,879	-	18,974
Pooled short-term investment funds	624,462	-	-	624,462
U.S. government, state, municipal and agency obligations	-	2,368,311	-	2,368,311
Corporate and foreign fixed income securities	-	1,537,052	27,703	1,564,755
Asset-backed securities	-	2,548,357	352,160	2,900,517
Equity securities	3,781,878	45,664	25,952	3,853,494
Alternative investments and other investments:				
Private equity and real estate funds	2,592	2,500	319,789	324,881
Commodities funds and other investments	(2)	115,094	2,743	117,835
Assets at net asset value:				
Corporate and foreign fixed income securities				-
Equity securities				177,116
Private equity and real estate funds				2,410,778
Hedge funds				1,361,144
Commodities funds and other investments				1,237,606
Cash and other investments not at fair value				1,734,885
Cash and investments				$ 18,722,545
Benefit plan assets, in other noncurrent assets	$ 482,949	$ 15,552	$ 52,359	$ 550,860
Interest rate swaps, in other noncurrent assets	-	2,384	-	2,384
Investments sold, not yet purchased, in other noncurrent liabilities	-	89	-	89
Interest rate swaps, included in other noncurrent liabilities	-	174,755	-	174,755

(Dollars in Thousands)

8. Fair Value Measurements (continued)

For the three months ended March 31, 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
Three Months Ended March 31, 2020						
Beginning balance	$ 52,577	$ 266,956	$ 24,771	$ 267,106	$ 1,464	$ 51,021
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	(855)	4,924	(2,872)	16,443	1,576	-
Included in changes in net assets	-	-	-	(3)	(304)	-
Purchases	3,636	97,549	4,856	39,031	373	3,359
Settlements	-	-	-	-	-	-
Issuances	-	-	-	157	-	-
Sales	(13,592)	(17,783)	(868)	(2,945)	(366)	(3,880)
Transfers into Level 3	7,061	8,014	65	-	-	2,784
Transfers out of Level 3	(21,124)	(7,500)	-	-	-	(925)
Ending balance	$ 27,703	$ 352,160	$ 25,952	$ 319,789	$ 2,743	$ 52,359
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, 2020	$ (778)	$ 4,493	$ (9,127)	$ -	$ -	$ -

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

(Dollars in Thousands)

8. Fair Value Measurements (continued)

For the nine months ended March 31, 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
The Nine Months Ended March 31, 2020						
Beginning balance	$ 3,655	$ 203,694	$ 8,386	$ 333,434	$ 1,247	$ 50,078
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	(8,052)	(5,331)	977	25,823	1,433	-
Included in changes in net assets	-	-	-	498	(324)	-
Purchases	24,608	158,695	17,416	59,830	447	3,330
Settlements	-	-	-	-	-	-
Issuances	-	-	-	157	-	-
Sales	(2,830)	(28,462)	(13,038)	(25,653)	(60)	(4,357)
Transfers into Level 3	11,262	76,769	12,211	-	-	4,700
Transfers out of Level 3	(940)	(53,205)	-	(74,300)	-	(1,392)
Ending balance	$ 27,703	$ 352,160	$ 25,952	$ 319,789	$ 2,743	$ 52,359
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, 2020	$ (2,424)	$ (4,931)	$ (5,560)	$ -	$ -	$ -

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

(Dollars in Thousands)

8. Fair Value Measurements (continued)

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

	Level 1	Level 2	Level 3	Total
June 30, 2019				
Cash equivalents	$ 51,440	$ 702	$ -	$ 52,142
Short-term investments	52,989	20,206	-	73,195
Pooled short-term investment funds	728,104	-	-	728,104
U.S. government, state, municipal and agency obligations	-	2,741,689	-	2,741,689
Corporate and foreign fixed income securities	-	1,622,233	3,655	1,625,888
Asset-backed securities	-	2,875,234	203,694	3,078,928
Equity securities	4,212,135	64,892	8,386	4,285,413
Alternative investments and other investments:				
Private equity and real estate funds	2,868	2,500	333,434	338,802
Commodities funds and other investments	23,150	24,507	1,247	48,904
Assets at net asset value:				
Corporate and foreign fixed income securities				49,986
Equity securities				154,929
Private equity and real estate funds				2,429,803
Hedge funds				1,839,334
Commodities funds and other investments				1,363,501
Cash and other investments not at fair value				1,963,777
Cash and investments				$ 20,774,395
Benefit plan assets, in other noncurrent assets	$ 461,534	$ -	$ 50,078	$ 511,612
Interest rate swaps, in other noncurrent assets	-	3,174	-	3,174
Investments sold, not yet purchased, in other noncurrent liabilities	-	20	-	20
Interest rate swaps, included in other noncurrent liabilities	-	137,484	-	137,484

(Dollars in Thousands)

8. Fair Value Measurements (continued)

For the three months ended March 31, 2019, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following:

	Short-term investments	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
Three Months Ended March 31, 2019							
Beginning balance	$ 2,165	$ 15,058	$ 371,460	$ 18,623	$ 275,878	$ 1,527	$ 48,349
Realized and unrealized gains (losses):							
Included in nonoperating gains (losses)	-	48	(2,568)	(2,030)	41,459	(6,508)	-
Included in changes in net assets	-	-	-	-	-	(14)	-
Purchases	-	7,264	6,172	7,526	327	(607)	221
Settlements	-	-	-	-	-	-	-
Issuances	-	-	-	-	594	-	-
Sales	-	(3,048)	-	(9,550)	(38,453)	8,502	(560)
Transfers into Level 3	-	2,179	3,249	-	-	4	291
Transfers out of Level 3	(2,165)	(7,678)	(225,857)	(2,831)	-	-	(77)
Ending balance	$ -	$ 13,823	$ 152,456	$ 11,738	$ 279,805	$ 2,904	$ 48,224
The amount of total gains or losse 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, 2019	$ -	$ 620	$ (2,568)	$ (2,136)	$ -	$ (107)	$ -

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

(Dollars in Thousands)

8. Fair Value Measurements (continued)

For the nine months ended March 31, 2019, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following:

	Short-term investments	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
The Nine Months Ended March 31, 2019							
Beginning balance	$ 1,130	$ 11,956	$ 305,278	$ 29,239	$ 295,109	$ 1,121	$ 47,827
Realized and unrealized gains (losses):							
Included in nonoperating gains (losses)	-	45	(5,543)	(3,466)	71,280	17,049	-
Included in changes in net assets	-	-	-	-	-	(11)	-
Purchases	-	5,407	101,273	7,579	38,323	(1,202)	1,903
Settlements	-	-	-	-	-	-	-
Issuances	-	-	-	-	594	-	(6)
Sales	-	(6,999)	(101,851)	(310)	(125,242)	(12,238)	(7,228)
Transfers into Level 3	-	6,517	2,158	-	44	-	7,979
Transfers out of Level 3	(1,130)	(3,103)	(148,859)	(21,304)	(303)	(1,815)	(2,251)
Ending balance	$ -	$ 13,823	$ 152,456	$ 11,738	$ 279,805	$ 2,904	$ 48,224
The amount of total gains or losses for the the period included in nonoperating gains (losses) attributable to the changes in unrealized gains or losses relating to assets still held at March 31, 2019	$ -	$ (208)	$ (5,967)	$ (3,320)	$ -	$ (107)	$ -

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 March 31, 2020 and June 30, 2019 the notional values of outstanding interest rate swaps were $953,750 and $1,020,775, respectively.

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

The fair value of interest rate swaps in an asset position was $2,384 and $3,174 at March 31, 2020 and June 30, 2019, respectively. The fair value of interest rate swaps in a liability position was $174,755 and $137,484 at March 31, 2020 and June 30, 2019, respectively.

The System's interest rate swap agreements include collateral requirements for each counterparty under such agreements, based upon specific contractual criteria, subject to master netting arrangements. Collateral requirements are calculated based on the System's credit ratings. The applicable credit rating is the Senior Credit Group long-term debt credit ratings (Senior Debt Credit Ratings), as obtained from each of two major credit rating agencies. Credit rating and the net liability position of total interest rate swap agreements outstanding with each counterparty determine the amount of collateral to be posted. No collateral was posted at March 31, 2020 and June 30, 2019.

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

10. Leases

On July 1, 2019, the System adopted FASB's ASU 2016-02, *Leases*, electing to apply the optional transition method, which allows entities to forego comparative reporting requirements. For leases that commenced before the effective date of ASU 2016-02, the System elected the package of transition provisions available that allowed carryforward of the historical assessment of (1) whether contracts are or contain leases, (2) lease classification for any expired leases and (3) initial direct costs. In addition, the System does not separate lease and non-lease components.

(Dollars in Thousands)

10. Leases (continued)

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 our 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. Ascension recorded right-of-use assets and liabilities for operating leases of approximately $1,400,000 in its consolidated balance sheet on July 1, 2019, representing the present value of remaining lease payments for operating leases.

All components of total lease cost are recognized in Other Operating Expenses, excluding interest on 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 March 31, 2020	Nine Months Ended March 31, 2020
Operating lease cost	$ 84,033	$ 254,120
Finance lease cost:		
Interest on lease liabilities	610	986
Amortization of right-of-use-asset	962	2,022
Variable lease cost	18,943	59,686
Total lease cost	$ 104,548	$ 316,814

The weighted average remaining lease terms and the weighted average discount rates at March 31, 2020 were as follows:

	Operating Leases	Finance Leases
Weighted-average remaining lease term	7.8 years	29.8 years
Weighted-average discount rate	2.6%	3.3%

Cash paid for amounts included in the measurement of lease liabilities for the nine months ended March 31, 2020 were $245,275 for operating leases and $1,858 for finance leases.

(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, 2020, to lease obligations recorded on the Consolidated Balance Sheet at March 31, 2020.

Twelve Months Ending March 31,	Operating Leases	Finance Leases	Total
2021	$ 267,394	$ 6,051	$ 273,445
2022	228,734	4,267	233,001
2023	198,802	3,933	202,735
2024	157,328	4,001	161,329
2025	109,117	4,071	113,188
Thereafter	382,009	120,587	502,596
Total future undiscounted lease obligations	1,343,384	142,910	1,486,294
Less: amount of lease payments representing interest	(162,871)	(55,651)	(218,522)
Present value of future lease obligations	1,180,513	87,259	1,267,772
Less: current portion of lease obligations	(236,951)	(2,622)	(239,573)
Long-term lease obligations	$ 943,562	$ 84,637	$ 1,028,199

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, 2020, are as follows:

Twelve Months Ending March 31,	Operating Leases
2021	$ 60,035
2022	45,262
2023	34,741
2024	25,183
2025	17,181
Thereafter	273,695
Total	$ 456,097

For the three and nine months ended March 31, 2020, lease income was approximately $21,000 and $64,000, respectively.

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

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

Contributions to the System Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to participants. Most System defined benefit plans were frozen effective December 31, 2012. As of March 31, 2020, 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.

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

	Three months ended March 31,		Nine months ended March 31,	
	2020	**2019**	**2020**	**2019**
Components of net periodic benefit cost				
Service cost, included in operating expenses	**$ -**	$ 171	**$ 173**	$ 512
Interest cost	**84,913**	97,285	**254,776**	291,993
Expected return on plan assets	**(176,144)**	(179,427)	**(528,432)**	(538,282)
Amortization of prior service credit	**(156)**	(629)	**(468)**	(1,888)
Amortization of actuarial loss	**27,693**	16,523	**83,103**	49,580
Net periodic benefit cost	**$ (63,694)**	$ (66,077)	**$ (190,848)**	$ (198,085)

(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 Sheet.

The System enters into agreements with non-employed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The maximum amount of future payments that the System could be required to make under these guarantees is approximately $5,000.

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 $253,900.

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 March 31, 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		60,244

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.

(Dollars in Thousands)

13. Functional Expenses (continued)

Expenses by functional classification for the three months ended March 31, 2020 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	$ 2,982,725	$ 189,744	$ 3,172,469
Purchased services and professional fees	783,634	292,061	1,075,695
Supplies	929,837	2,129	931,966
Other	1,118,569	135,681	1,254,250
Total operating expenses	**$ 5,814,765**	**$ 619,615**	**$ 6,434,380**

Expenses by functional classification for the nine months ended March 31, 2020 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	$ 8,903,475	$ 615,824	$ 9,519,299
Purchased services and professional fees	2,331,285	876,344	3,207,629
Supplies	2,879,147	3,399	2,882,546
Other	3,396,258	401,594	3,797,852
Total operating expenses	**$ 17,510,165**	**$ 1,897,161**	**$ 19,407,326**

Expenses by functional classification for the three months ended March 31, 2019 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	$ 2,877,808	$ 220,012	$ 3,097,820
Purchased services and professional fees	704,727	288,847	993,574
Supplies	916,652	349	917,001
Other	1,092,079	127,140	1,219,219
Total operating expenses	**$ 5,591,266**	**$ 636,348**	**$ 6,227,614**

(Dollars in Thousands)

13. Functional Expenses (continued)

Expenses by functional classification for the nine months ended March 31, 2019 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	$ 8,683,985	$ 640,636	$ 9,324,621
Purchased services and professional fees	2,080,296	832,756	2,913,052
Supplies	2,770,035	1,171	2,771,206
Other	3,277,701	385,948	3,663,649
Total operating expenses	**$ 16,812,017**	**$ 1,860,511**	**$ 18,672,528**

Supplementary Information

Ascension

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

(Dollars in Thousands)

Nine months ended March 31, 2020 and 2019

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, 2020	**2019**
Traditional charity care provided	**$ 546,073**	$ 445,469
Unpaid cost of public programs for persons living in poverty	**864,109**	673,472
Other programs for persons living in poverty and other vulnerable persons	**76,200**	107,275
Community benefit programs	**243,497**	251,016
Care of persons living in poverty and other community benefit programs	**$ 1,729,879**	$1,477,232

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

For the nine months ended March 31, 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

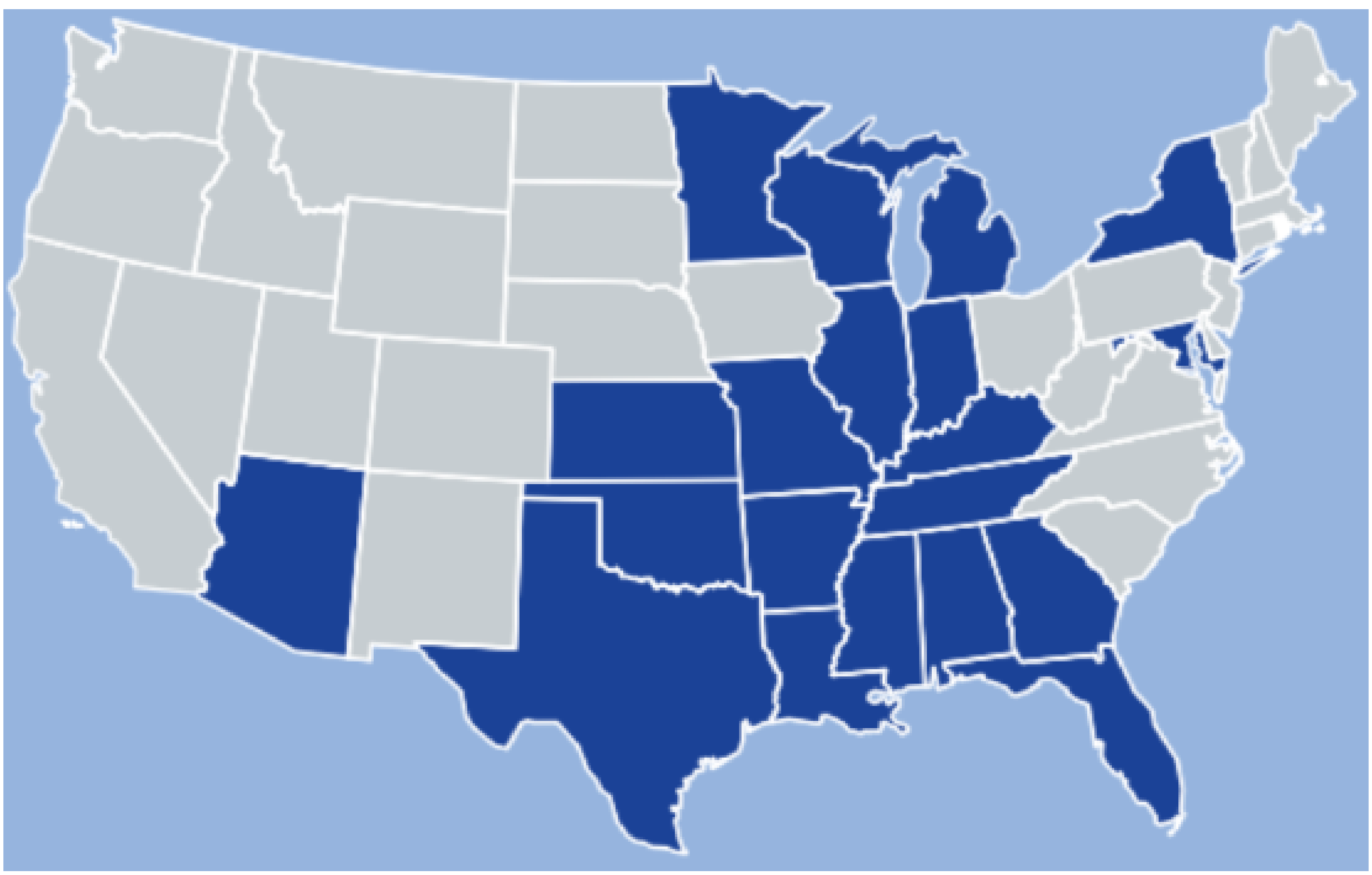
The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

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

- Organization and Mission
- New Accounting Standards Adopted
- 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. The System includes more than 150,000 associates and 40,000 aligned providers, operating more than 2,600 sites of care – including 150 hospitals and more than 50 senior living facilities – in 20 states and the District of Columbia, while providing a variety of services including clinical and network services, venture capital investing, investment management, 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 presence. To best position itself for the future, the organization is making changes to its portfolio as further discussed below.

On February 18, 2020, Ascension St. Clare's Hospital ("St. Clare's") signed a definitive agreement with Marshfield Clinic Health System ("MCHS") for MCHS to acquire substantially all the assets of St. Clare's in Weston, Wisconsin. The transaction is expected to close in the summer of 2020, subject to obtaining necessary approvals.

On March 6, 2020, Ascension St. Vincent's and The University of Alabama at Birmingham Health System ("UABHS") executed a definitive agreement to form an alliance that will increase access to high-quality, innovative medical care through multiple outlets and health programs. The transaction is expected to be effective in fiscal year 2021, subject to obtaining necessary approvals.

On April 18, 2020, the Board of Directors of St. Mary's Healthcare ("St. Mary's") in Amsterdam, New York, and the Board of Directors of Ascension signed an agreement to separate St. Mary's from the Ascension System. St. Mary's will soon operate as an independent, Catholic healthcare organization under the governance of the local Board. The transition of St. Mary's is anticipated to be effective in the summer of 2020, subject to obtaining necessary approvals.

On May 1, 2020, Ascension Wisconsin's Ministry Health Care, Inc. ("MHC") and Gundersen Lutheran Health System, Inc. ("Gundersen") signed a membership contribution agreement to contribute the membership interest in Saint Elizabeth's Hospital of Wabasha, Inc., located in Wabasha, Minnesota to Gundersen. The transaction is expected to close after all necessary approvals are obtained.

Novel Coronavirus (COVID-19)

The unprecedented international outbreak of the novel coronavirus (COVID-19) has had numerous economic and operational impacts on the U.S. economy and global financial markets, as well as affecting Ascension employees, patients, communities and business operations. COVID-19 has been encountered across all Ascension markets, to varying degrees, and has had an adverse effect on the System's revenues and operating margin.

In mid-March 2020, Ascension, in conjunction with CDC recommendations, deferred all elective, nonessential medical and surgical procedures to prepare for the surge of COVID-19 patients. A majority of the United States' population was subject to voluntary or involuntary shelter-in-place mandates, contributing to the System's recent volume reductions, including emergency room and physician office visits unrelated to COVID-19.

Governmental and commercial entity responses to COVID-19 have affected healthcare operations in other ways, including disruptions in the production or supply of pharmaceuticals and medical supplies and increased the costs of such products.

Ascension organized a centralized response beginning mid-March to address the continuing expansion of COVID-19 across the world, the nation, Ascension's communities and Ascension's sites of care. In addition to quickly deploying a remote work arrangement across the system, Ascension established a COVID-19 National Command Center ("Command Center") to coordinate planning and response efforts, in coordination with Incident Command Centers in each of Ascension's Ministries. The Command Center leads the System's response to all COVID-19 matters, including widespread communication and coordination, decision-making, prioritized resource allocation, and preparation and dissemination of policies on a real-time basis. The Command Center has expanded its focus on the development of an economic and operational recovery strategy.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was signed into law, which provides over $2 trillion to be used for a variety of purposes, including, but not limited to, direct financial aid to American families, payroll and operating expense support for small businesses, loan assistance for distressed industries and direction to the Federal Reserve System to support the capital markets. Additionally, the CARES Act increased funding for the Public Health and Social Services Emergency Fund (Relief Fund) to reimburse eligible health care providers for healthcare-related expenses or lost revenues that are attributable to COVID-19. Certain provisions of this legislation include funding to reimburse providers for expenses and lost revenues related to the COVID-19, as well as increased Medicare reimbursement rates for inpatients diagnosed with COVID-19.

New Accounting Standards Adopted

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

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

Select Financial Information

Financial Position (in millions)

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

	3/31/2020	6/30/2019
Current Assets	$ 5,417	$ 6,033
Long Term Investments	17,758	19,786
Property and Equipment	10,820	10,851
Other Assets	4,275	3,048
Total Assets	**$ 38,270**	**$ 39,718**

	3/31/2020	6/30/2019
Current Liabilities	$ 5,767	$ 5,824
Long-Term Liabilities	10,996	10,370
Total Liabilities	16,763	16,194
Net Assets	21,507	23,524
Total Liabilities and Net Assets	**$ 38,270**	**$ 39,718**

Cash and Investments

The System's cash and investment position remains strong and includes highly liquid investments as reported in Ascension's Monthly Liquidity summary posted on the System's website. Net unrestricted cash and investments were $15.5 billion at March 31, 2020, which is approximately 40.5% of the System's total assets. The System's days cash on hand was 231 days as of March 31, 2020.

Subsequent to March 31, 2020, Ascension drew $500 million on its $700 million line of credit, which may be used for general corporate purposes. In addition to the remaining $200 million undrawn capacity on the working capital line of credit, the System has $300 million available under a second line of credit which may be used as a source of funding for unremarketed variable debt or for general corporate purposes. Both lines of credit are committed through December 4, 2020. The System also has access to a $1.0 billion taxable commercial paper program.

Subsequent to March 31, 2020, Ascension applied for and received just under $2 billion of Medicare Advanced Payments.

Balance Sheet Ratios

	3/31/2020	6/30/2019
Days Cash on Hand	231	271
Net Days in Accounts Receivable	47.1	47.5
Cash-to-Debt	204.8%	222.7%
Total Debt to Capitalization	28.6%	27.6%
Debt Service Coverage	5.05	5.51

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

Net days in accounts receivable improved from 47.5 days at June 30, 2019 to 47.1 days at March 31, 2020, partially due to the previously mentioned decline in March volumes.

Consolidated Operations (in millions)

The following table reflects selected financial information on a consolidated basis through the nine months ended March 31, 2020.

Nine months ended March 31,

	2020	2019
Total Operating Revenue	$ 19, 247	$ 18,904
Total Operating Expenses	19,407	18,673
Income (Loss) from Recurring Operations*	(223)	242
Nonoperating Gains (Losses), net	(1,667)	515
Net Income (Loss)**	(2,012)	688
Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs	1,730	1,477

* March 31, 2019 income from recurring operations has been restated for the retrospective impact of implementing the required pension income accounting change implemented in Fiscal 2020.

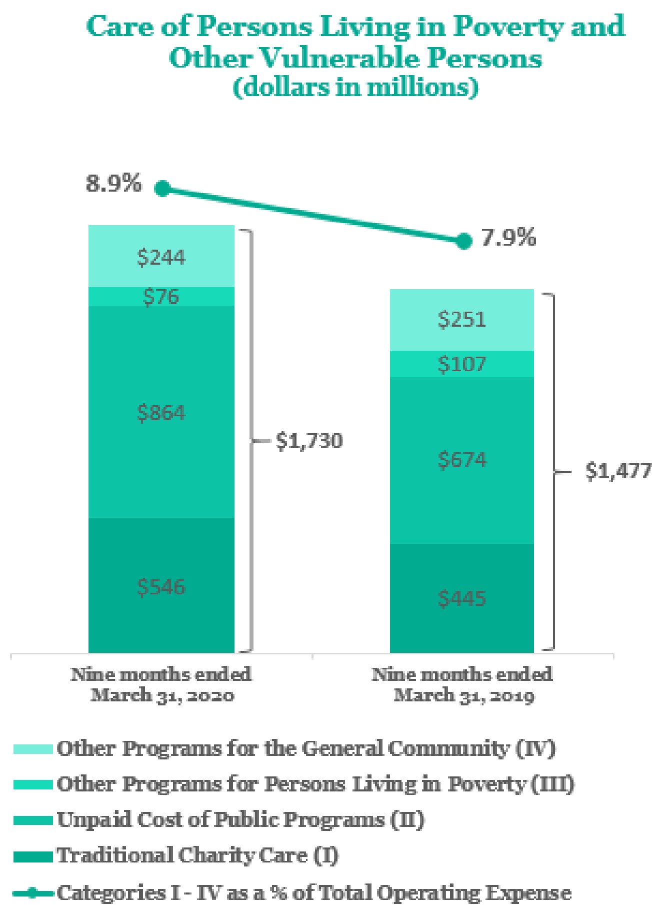
** Excluding noncontrolling interest.

Community Benefit

Ascension provided approximately $1.7 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the period ended March 31, 2020. Through programs, donations, health education, free care, and more, the organization's uncompensated care and other community benefits fulfills unmet needs in communities across 20 states and the District of Columbia.

The total cost of providing care to persons living in poverty and other community benefit programs increased $253 million or 17.1% as compared to the same period in the prior year.

Traditional charity care costs (Category I) increased $101 million or 22.6%, primarily due to more patients qualifying for charity at certain Ministry Markets. The unpaid costs of public programs for persons living in poverty (Category II) increased $190 million or 28.3%, primarily due to further transition to Medicaid managed care and Medicaid reimbursement program changes. In addition, greater supplemental payments were received during the first nine months of the prior year, which offset costs in both Categories I and II.



Volume Trends and Key Performance Indicators

The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for the nine months ended March 31, 2020 and 2019.

	Nine months ended March 31, 2020	Nine months ended March 31, 2019
Volume Trends		
Equivalent Discharges	1,274,923	1,280,479
Total Admissions	603,234	609,361
Case Mix Index	1.70	1.69
Emergency Room Visits	2,467,188	2,484,928
Surgery Visits (IP & OP)	472,990	479,944
Physician Office and Clinic Visits	11,757,758	11,160,146
Urgent Care Visits	489,362	493,742
Key Performance Indicators		
Recurring Operating Margin	(1.2%)	1.3%
Recurring Operating EBITDA Margin	4.8%	7.2%
Operating EBITDA Margin	4.1%	6.8%

Volumes were trending favorably prior to the COVID-19 outbreak, as equivalent discharges increased 1.4% through the eight months ended February 29, 2020, as compared to the same period in the prior year. Overall volume decreases experienced during the nine months ended March 31, 2020 as compared to the same period in the prior year are due to the previously mentioned cancelled elective surgeries and procedures due to the outbreak.

Total outpatient visits for the nine months ended March 31, 2020 increased 1.7% as compared to the same period in the prior year. Outpatient visits were dampened in March as a result of COVID-19, as outpatient visits had increased by 4.2% through February 29, 2020, as compared to the same period in the prior year. Despite the COVID-19 impact, physician office and clinic visits increased 5.4% compared to the same period in the prior year primarily due to service line expansion.

On a consolidated basis, recurring operating margin was (1.2%) for the nine months ended March 31, 2020 as compared to that for the nine months ended March 31, 2019 of 1.3%, both including adoption of Topic 715 to reflect changes in accounting for retirement benefits as previously discussed. Operating EBITDA margin was 4.1% for the nine month period ended March 31, 2020.

Total Operating Revenue

Net patient service revenues were significantly impacted by COVID-19, as the System experienced a decrease of 15.3% during the month of March, as compared to the same period in the prior year. For the nine months ended March 31, 2020, net patient service revenues increased 1.9%, compared to the same period in the prior year due to higher acuity of patients served, expansion of service lines and sites of care, and volume increases in physician office visits, softened during the month of March due to the previously mentioned deferred or cancelled procedures. On a same facility basis, net patient service revenue increased 2.5% for the nine months ended March 31, 2020, as compared to the same period ended March 31, 2019.

Net patient service revenue per equivalent discharge increased 2.4% compared to the same period in the prior year primarily due to an increase in case mix index and inflationary increases in payor payments. On a same facility basis, the increase in net patient service revenue per equivalent discharge was 2.8%.

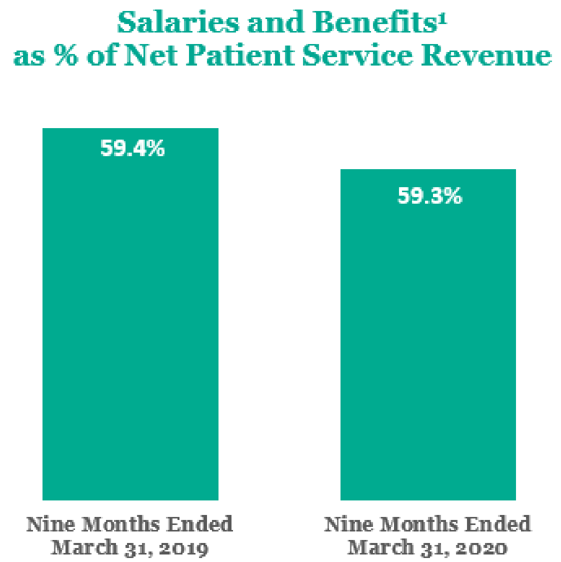
Other operating revenue remained stable throughout the nine months ending March 31, 2020, as compared to the same period in the prior year. On a same facility basis, other operating revenue increased 1.4% over the same period.

Total Operating Expenses

Total operating expenses increased $735 million, or 3.9%, as compared to the same period in the prior year primarily due to normal increases in operations prior to the COVID-19 outbreak. Expanded service lines, sites of care, and continued transition toward standardized revenue cycle services brought additional expenses which correlated with increased volumes experienced prior to the pandemic.

Total salaries, wages and benefits increased $194.7 million, or 2.1% for the nine months ended March 31, 2020, compared to the same period in the prior year. The increases year over year were expected and primarily due to moderate merit and cost of living adjustments and onboarding of additional physicians and mid-level providers for service line expansion.

Favorable trends were seen through February 2020 with a reduction in compensation and benefits as a percentage of net patient service revenue. The degree of favorability was adversely impacted by the decline in volumes experienced in the month of March 2020. While impacted by COVID-19 in March, salaries, wages and benefits, including the purchased services labor component, as a percentage of net patient service revenue, has slightly improved from 59.4% as of the nine months ended March 31, 2019, to 59.3% as of the same period ended March 31, 2020.



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

Supplies expense increased $111.3 million, or 4%, as compared to the same period in the prior year, with a 6.8% increase in the month of March, partially due to procurement of supplies at unexpectedly high rates to prepare for the anticipated surge of COVID-19 patients. Prior to the outbreak of COVID-19, increases were primarily driven by higher acuity of patients and higher volumes of surgeries.

Supplies expense as a percentage of net patient service revenue increased by 1.3% for the period ended March 31, 2020, as compared with the same period in the prior year. On a same facility basis, the increase was 0.8%. The increase in supplies as a percentage of net patient service revenue year over year was 0.4% prior to the outbreak of COVID-19.

Purchased services and professional fees increased $294.6 million, or 10.1%, as compared to the same period in the prior year primarily due to the transition of revenue services to a preferred provider partner organization. There were offsetting decreases in salaries and wages, benefits, collection agency fees and other related operating costs for the transition of these services.

Impairment, Restructuring and Nonrecurring Losses

Net impairment, restructuring and nonrecurring losses were $121.6 million for the nine months ended March 31, 2020, as compared to losses of $68.9 million during the same period in the prior year, primarily due to one-time termination and restructuring expenses and impairment of certain long-lived assets.

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 $36.9 billion at March 31, 2020.

Ascension's long-term investment pool, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced a loss of (9.1%) during the nine months ended March 31, 2020, primarily due to unrealized losses from the unprecedented economic downturn, resulting from the outbreak of COVID-19.

Ascension

Consolidated Statistical Information
For the Nine Months Ended

	March 31, 2020	March 31, 2019
Discharges by Service Type		
Acute Care	**547,620**	550,428
Psychiatric Care	**39,171**	40,707
Rehabilitation Care	**9,164**	9,379
Skilled Nursing Facility Care	**1,688**	2,190
Long Term Acute Care	**1,069**	997
Other L.T. Sub-Acute Care	**4,522**	5,660
Total Discharges by Service	**603,234**	609,361
Patient Days by Service Type		
Acute Care	**2,491,814**	2,490,881
Psychiatric Care	**265,848**	284,807
Rehabilitation Care	**107,084**	109,746
Skilled Nursing Facility Care	**1,096,827**	1,113,631
Assisted Living	**200,284**	242,144
Residential Living	**10,745**	10,251
Long Term Acute Care	**33,607**	33,201
Other L.T. Sub-Acute Care	**481,234**	486,246
Total Patient Days by Service	**4,687,443**	4,770,907
Newborn Births	**62,511**	64,448
Newborn Patient Days	**117,024**	124,879
Outpatient Visits (Includes ER Visits)	**22,399,713**	21,526,668
Surgical Visits - Outpatient	**325,822**	329,253
Emergency Room Visits	**2,467,188**	2,484,928
Full Time Equivalent Employees	**138,109**	140,495
Total Available Beds	**28,197**	28,288
Total Available Beds Excluding Bassinets	**27,016**	27,122