Consolidated Financial Statements and Supplementary Information

Ascension Health Alliance
d/b/a Ascension
Years Ended June 30, 2018 and 2017
With Reports of Independent Auditors

Ascension

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2018 and 2017

Contents

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Report of Independent Auditors

The Board of Directors
Ascension Health Alliance d/b/a Ascension

We have audited the accompanying consolidated financial statements of Ascension Health Alliance d/b/a Ascension, which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ascension Health Alliance d/b/a Ascension at June 30, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

September 12, 2018

Ascension

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2018	June 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	**$ 850,958**	$ 857,605
Short-term investments	**83,166**	103,857
Accounts receivable, less allowance for doubtful accounts ($1,384,294 and $1,316,163 at June 30, 2018 and 2017, respectively)	**3,163,172**	2,758,554
Inventories	**414,169**	354,041
Due from brokers *(see Notes 4 and 5)*	**91,919**	197,195
Estimated third-party payor settlements	**129,693**	133,715
Other *(see Notes 4 and 5)*	**780,713**	762,900
Total current assets	**5,513,790**	5,167,867
Long-term investments *(see Notes 4 and 5)*	**19,404,559**	16,999,371
Property and equipment, net	**10,597,730**	9,182,978
Other assets:		
Investment in unconsolidated entities	**1,139,306**	1,196,651
Capitalized software costs, net	**793,322**	880,819
Other *(see Notes 4 and 5)*	**1,078,905**	892,739
Total other assets	**3,011,533**	2,970,209
Total assets	**$ 38,527,612**	$ 34,320,425

Continued on next page.

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Consolidated Balance Sheets (continued)

(Dollars in Thousands)

	June 30, 2018	2017
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 100,919**	$ 298,270
Long-term debt subject to short-term remarketing arrangements*	**738,770**	999,785
Accounts payable and accrued liabilities *(see Notes 4 and 5)*	**2,915,838**	2,742,377
Estimated third-party payor settlements	**683,229**	480,694
Due to brokers *(see Notes 4 and 5)*	**253,264**	115,783
Current portion of self-insurance liabilities	**288,975**	206,787
Other	**407,496**	340,756
Total current liabilities	**5,388,491**	5,184,452
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	**7,123,611**	5,699,440
Self-insurance liabilities	**756,028**	513,010
Pension and other postretirement liabilities	**914,045**	1,318,331
Other *(see Notes 4 and 5)*	**1,227,680**	1,191,068
Total noncurrent liabilities	**10,021,364**	8,721,849
Total liabilities	**15,409,855**	13,906,301
Net assets:		
Unrestricted		
Controlling interest	**20,446,065**	17,933,923
Noncontrolling interests	**1,930,466**	1,798,361
Unrestricted net assets	**22,376,531**	19,732,284
Temporarily restricted	**508,900**	468,938
Permanently restricted	**232,326**	212,902
Total net assets	**23,117,757**	20,414,124
Total liabilities and net assets	**$ 38,527,612**	$ 34,320,425

*Consists of variable rate demand bonds with put options that may be exercised at the option of the bondholders, with stated repayment installments through 2047, as well as certain serial mode bonds with scheduled remarketing/mandatory tender dates occurring prior to June 30, 2019. In the event that bonds are not remarketed upon the exercise of put options or the scheduled mandatory tenders, management would utilize other sources to access the necessary liquidity. Potential sources include liquidating investments, a draw on the line of credit totaling $1 billion, and issuing commercial paper. The commercial paper program is supported by $300 million of the $1 billion line of credit.

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

Ascension

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended June 30, 2018	2017
Operating revenue:		
Net patient service revenue	**$ 22,795,035**	$ 22,104,376
Less provision for doubtful accounts	**1,129,175**	1,083,661
Net patient service revenue, less provision for doubtful accounts	**21,665,860**	21,020,715
Other revenue	**1,493,096**	1,693,038
Total operating revenue	**23,158,956**	22,713,753
Operating expenses:		
Salaries and wages	**9,407,216**	9,301,057
Employee benefits	**1,856,103**	1,829,642
Purchased services	**2,320,700**	1,931,021
Professional fees	**1,258,652**	1,299,517
Supplies	**3,387,222**	3,267,278
Insurance	**237,275**	177,352
Interest	**238,981**	223,356
Provider tax	**531,703**	445,791
Depreciation and amortization	**1,132,378**	1,083,684
Other	**2,518,918**	2,415,575
Total operating expenses before impairment, restructuring and nonrecurring losses, net	**22,889,148**	21,974,273
Income from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring losses, net	**269,808**	739,480
Self-insurance trust fund investment return	**28,000**	43,621
Income from recurring operations	**297,808**	783,101
Impairment, restructuring and nonrecurring losses, net	**(193,047)**	(230,407)
Income from operations	**104,761**	552,694
Nonoperating gains (losses):		
Investment return	**1,589,337**	1,420,160
Contributions from business combinations	**734,127**	-
Other	**(53,239)**	(111,671)
Total nonoperating gains, net	**2,270,225**	1,308,489
Excess of revenues and gains over expenses and losses	**2,374,986**	1,861,183
Less noncontrolling interests	**213,948**	222,266
Excess of revenues and gains over expenses and losses attributable to controlling interest	**2,161,038**	1,638,917

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Ascension

Consolidated Statements of Operations and Changes in Net Assets (continued)

(Dollars in Thousands)

	Year Ended June 30, 2018	2017
Unrestricted net assets, controlling interest:		
Excess of revenues and gains over expenses and losses	**$ 2,161,038**	$ 1,638,917
Transfers to sponsors and other affiliates, net	**(5,189)**	(5,062)
Net assets released from restrictions for property acquisitions	**51,458**	92,104
Pension and other postretirement liability adjustments	**313,638**	(301,182)
Change in unconsolidated entities' net assets	**1,612**	8,039
Other	**5,740**	2,795
Increase in unrestricted net assets, controlling interest, before gain (loss) from discontinued operations	**2,528,297**	1,435,611
(Loss) gain from discontinued operations	**(16,155)**	226
Increase in unrestricted net assets, controlling interest	**2,512,142**	1,435,837
Unrestricted net assets, noncontrolling interests:		
Excess of revenues and gains over expenses and losses	**213,948**	222,266
Distributions of capital	**(149,990)**	(139,477)
Contributions of capital	**92,301**	285,894
Membership interest changes, net	**(27,653)**	210
Contributions from business combinations	**5,478**	-
Other	**(1,979)**	24
Increase in unrestricted net assets, noncontrolling interests	**132,105**	368,917
Temporarily restricted net assets, controlling interest:		
Contributions and grants	**102,954**	123,594
Investment return	**22,795**	29,410
Net assets released from restrictions	**(104,873)**	(153,648)
Contributions from business combinations	**17,853**	-
Other	**1,233**	1,588
Increase in temporarily restricted net assets, controlling interest	**39,962**	944
Permanently restricted net assets, controlling interest:		
Contributions	**6,512**	8,046
Investment return	**4,603**	7,263
Contributions from business combinations	**13,497**	-
Other	**(5,188)**	77
Increase in permanently restricted net assets, controlling interest	**19,424**	15,386
Increase in net assets	**2,703,633**	1,821,084
Net assets, beginning of year	**20,414,124**	18,593,040
Net assets, end of year	**$ 23,117,757**	$ 20,414,124

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

Ascension

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30,	
	2018	**2017**
Operating activities		
Increase in net assets	**$ 2,703,633**	$ 1,821,084
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**1,132,378**	1,083,684
Amortization of bond premiums and debt issuance costs	**(18,814)**	(19,241)
Loss (gain) on extinguishment of debt	**9,850**	(10,907)
Provision for doubtful accounts	**1,133,640**	1,086,621
Pension and other postretirement liability adjustments	**(313,638)**	301,182
Contributions from business combinations	**(770,955)**	-
Unrealized gains on investments, net	**(506,736)**	(624,047)
Change in fair value of interest rate swaps	**(49,019)**	(70,119)
Change in equity of unconsolidated entities	**(95,224)**	(118,630)
Gain on sale of assets, net	**(34,796)**	(250,594)
Impairment and nonrecurring expenses	**11,482**	40,482
Transfers to sponsor and other affiliates, net	**5,189**	5,062
Restricted contributions, investment return, and other	**(152,401)**	(144,085)
Other restricted activity	**(31,988)**	18,976
Distributions (contributions) of noncontrolling interest, net	**57,689**	(146,417)
Other	**(234)**	(234)
Decrease (increase) in:		
Short-term investments	**64,739**	11,268
Accounts receivable	**(1,197,269)**	(1,114,753)
Inventories and other current assets	**43,202**	(57,727)
Due from brokers	**105,276**	116,522
Investments classified as trading	**(1,170,443)**	(1,282,576)
Other assets	**(134,160)**	(13,502)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(153,406)**	206,615
Estimated third-party payor settlements, net	**31,963**	19,880
Due to brokers	**137,481**	10,123
Other current liabilities	**35,633**	55,323
Self-insurance liabilities	**(30,182)**	(13,751)
Other noncurrent liabilities	**(196,950)**	(180,709)
Net cash provided by continuing operating activities	**615,940**	729,530
Net cash provided by discontinued operations	**14,540**	7,513
Net cash provided by operating activities	**630,480**	737,043

Continued on next page.

Ascension

Consolidated Statements of Cash Flows (continued)

(Dollars in Thousands)

	Year Ended June 30, 2018	2017
Investing activities		
Property, equipment, and capitalized software additions, net	**$ (1,170,085)**	$ (1,272,212)
Proceeds from sale of property and equipment	**15,335**	3,830
Distributions from unconsolidated entities, net	**208,663**	52,990
Net proceeds from sale/acquisition of other assets	**298,825**	354,933
Net cash used by continuing investing activities	**(647,262)**	(860,459)
Net cash provided by discontinued operations - investing	**-**	112,238
Net cash used by investing activities	**(647,262)**	(748,221)
Financing activities		
Issuance of debt	**695,501**	1,308,307
Repayment of debt	**(789,442)**	(1,407,063)
Debt issuance costs paid	**(3,091)**	(5,989)
Decrease in assets under bond indenture agreements	**15,869**	498
Transfers to sponsors and other affiliates, net	**(5,189)**	(10,062)
Restricted contributions, investment return, and other	**154,176**	140,438
(Distributions) contributions of noncontrolling interest, net	**(57,689)**	146,417
Net cash provided by financing activities	**10,135**	172,546
Net (decrease) increase in cash and cash equivalents	**(6,647)**	161,368
Cash and cash equivalents at beginning of year	**857,605**	696,237
Cash and cash equivalents at end of year	**$ 850,958**	$ 857,605

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

1. Organization and Mission

Organizational Structure

Ascension Health Alliance, d/b/a Ascension (Ascension), is a Missouri nonprofit corporation formed on September 13, 2011. Ascension is the sole corporate member and parent organization of Ascension Health (d/b/a Ascension Healthcare), a Catholic national health system consisting primarily of nonprofit corporations that own and operate local healthcare facilities, or Ministry Markets, located in 22 states and the District of Columbia.

Ascension serves as the member or shareholder of various subsidiaries as listed below:

- Ascension Care Management
- Ascension Global Mission
- Ascension Healthcare
- Ascension Holdings
- Ascension Technologies
- Ascension Investment Management (AIM)
- Ascension Leadership Institute
- Ascension Ministry and Mission Fund
- Ascension Ministry Service Center
- Ascension Ventures (AV)
- AV Holding Company
- Consulting Network
- 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.

1. Organization and Mission (continued)

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.

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.

(Dollars in Thousands)

1. Organization and Mission (continued)

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

The amount of traditional charity care provided, determined on the basis of cost, was $576,267 and $537,672 for the years ended June 30, 2018 and 2017, 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:

	Year Ended June 30,	
	2018	**2017**
Other revenue	**$ 106,584**	$ 105,473
Nonoperating gains	**5,248**	2,601

2. Significant Accounting Policies (continued)

Use of Estimates

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

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Short-Term Investments

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

Inventories

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

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 \$1,391,000 and \$1,342,000 at June 30, 2018 and 2017, 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 years ended June 30, 2018 and 2017 was \$900,676 and \$851,540, respectively.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

A summary of property and equipment at June 30, 2018 and 2017 is as follows:

	June 30, 2018	June 30, 2017
Land and improvements	**$ 1,252,833**	$ 950,074
Buildings and equipment	**18,684,610**	17,069,585
	19,937,443	18,019,659
Less accumulated depreciation	**10,019,090**	9,447,994
	9,918,353	8,571,665
Construction in progress	**679,377**	611,313
Total property and equipment, net	**$10,597,730**	$ 9,182,978

Several capital projects have remaining construction and related equipment purchase commitments of approximately $591,600 as of June 30, 2018.

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 $143,562 and $228,499 at June 30, 2018 and 2017, respectively:

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

	June 30, 2018	June 30, 2017
Capitalized software costs	**$ 2,319,947**	$ 2,213,989
Less accumulated amortization	**1,526,625**	1,333,170
Capitalized software costs, net	**793,322**	880,819
Goodwill	**212,061**	211,278
Other, net	**23,361**	27,781
Intangible assets included in other assets	**235,422**	239,059
Total intangible assets, net	**$ 1,028,744**	$ 1,119,878

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 years ended June 30, 2018 and 2017 was $231,702 and $232,144, respectively.

Estimated future amortization of intangible assets with definite lives, excluding software in progress, as of June 30 is as follows:

Year ending June 30:	
2019	$ 204,825
2020	171,291
2021	131,523
2022	93,658
2023	45,531
Thereafter	17,141
Total	$ 663,969

2. Significant Accounting Policies (continued)

During the year ended June 30, 2018, the System substantially completed a significant multi-year, System-wide enterprise resource planning project (Symphony). Capitalized costs of Symphony were approximately $363,000 and $351,000 at June 30, 2018 and 2017, respectively, and are being amortized on a straight-line basis over the expected useful life of the software. Accumulated amortization of Symphony was approximately $195,000 and $160,000 at June 30, 2018 and 2017, respectively. See the Impairment, Restructuring, and Nonrecurring Losses discussion below for additional information about costs associated with Symphony.

Noncontrolling Interests

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, which include endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donors' wishes, primarily to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted.

Temporarily and permanently restricted net assets 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 unrestricted net assets 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, Accounts Receivable, and Allowance for Doubtful Accounts

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. The System recognizes patient service revenue at the time services are rendered, even though the patient's ability to pay may not be completely assessed at that time. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a 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 $60,037 and $128,100 for the year ended June 30, 2018 and 2017, respectively.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

The percentage of net patient service revenue, less provision for doubtful accounts earned by payor for the years ended June 30, 2018 and 2017, is as follows:

	Year Ended June 30, 2018	2017
Medicare - traditional and managed	**36 %**	36 %
Medicaid - traditional and managed	**14**	13
Commercial and other managed care	**45**	46
Self-Pay and other	**5**	5
	100 %	100 %

The System grants credit without collateral to its patients, who are primarily local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable, less allowance for doubtful accounts, at June 30, 2018 and 2017, are as follows:

	June 30, 2018	2017
Medicare - traditional and managed	**27 %**	27 %
Medicaid - traditional and managed	**12**	11
Commercial and other managed care	**40**	42
Self-Pay and other	**21**	20
	100 %	100 %

2. Significant Accounting Policies (continued)

The provision for doubtful accounts is based upon management's assessment of expected net collections considering historical experience, economic conditions, trends in healthcare coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for doubtful accounts to establish an appropriate allowance for doubtful accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the System follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the System. Accounts receivable are written off after collection efforts have been followed in accordance with the System's policies. The methodology for determining the allowance for doubtful accounts and related write-offs on uninsured patient accounts has remained consistent with the prior year.

Other Operating Revenue

Other operating revenue includes gains on sales of assets, retail pharmacy revenue, income from unconsolidated entities, premium revenue, net assets released from restrictions for operating purposes, and other nonpatient service revenue. Gains on sales of assets were $47,624 and $258,631 for the years ended June 30, 2018 and 2017, respectively. Assets sold during the years ended June 30, 2018 and 2017 include certain nonhospital operating entities and patient care equipment.

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.

2. Significant Accounting Policies (continued)

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

During the year ended June 30, 2018, the System recorded total impairment, restructuring, and nonrecurring losses, net of $193,047. This amount was comprised primarily of software implementation costs, including Symphony, of $11,881, one-time termination benefits and other restructuring expenses of $97,565, impairment expenses of $11,482 and other nonrecurring expenses of $72,119.

During the year ended June 30, 2017, the System recorded total impairment, restructuring, and nonrecurring losses, net of $230,407. This amount was comprised primarily of $110,390 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of $86,669, impairment expenses of $34,689, and other nonrecurring expenses of $38,659 partially offset by a pension curtailment gain of $40,000.

Amortization

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

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

Income Taxes

The member healthcare entities of the System are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or Section 501(c)(2), and their related income is exempt from federal income tax under Section 501(a).

The System accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The System has determined that no material unrecognized tax benefits or liabilities exist as of June 30, 2018.

2. Significant Accounting Policies (continued)

In compliance with the Tax Cuts and Jobs Act of 2017, enacted in December 2017, the federal components of the deferred tax assets were revalued from 35% to 21%. The valuation allowance related to these deferred tax assets was reduced accordingly.

The System had deferred tax assets of approximately $386,000 and $461,000 for federal and state income tax purposes primarily related to net operating loss carryforwards for the years ended June 30, 2018 and 2017, respectively, with expiration dates through 2038. A valuation allowance of approximately $384,000 and $459,000 was recorded due to the uncertainty regarding use of the deferred tax assets for the years ended June 30, 2018 and 2017, respectively.

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 financial statements of the System.

Reclassifications

Certain reclassifications were made to the accompanying June 30, 2017 consolidated financial statements to conform to the June 30, 2018 presentation.

2. Significant Accounting Policies (continued)

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 also requires expanded disclosures regarding an entity's revenue recognition policies and significant judgements employed in the determination of revenue. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The requirements of ASU 2014-09 will result in changes to the presentation and disclosure of revenue from services to patients. Currently, a significant portion of the System's provision for doubtful accounts relates to uninsured patients as well as deductibles and co-pays due from patients with insurance. Under ASU 2014-09, the estimated uncollectible amounts due from patients are generally considered implicit price concessions that are a direct reduction to net patient service revenue, with a corresponding significant reduction in the amounts presented separately as provision for doubtful accounts. Although the adoption of ASU 2014-09 will have a significant impact on the amounts presented in certain categories of the System's Consolidated Statements of Operations and Changes in Net Assets, it will not materially impact the System's financial position, results of operations or cash flows. Ascension adopted the standard effective July 1, 2018 using the full retrospective method.

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 year ended June 30, 2018, the System evaluated subsequent events through September 12, 2018, representing the date on which the accompanying consolidated financial statements were issued.

Refer to the Discontinued Operations disclosure in Note 3 for information on the sale of Our Lady of Lourdes Hospital at Pasco in Pasco, Washington.

(Dollars in Thousands)

3. Organizational Changes

Business Combinations

Presence Health Network - Illinois

Effective March 1, 2018 (the Closing Date), certain entities formerly controlled by Presence Health Network (Presence) were acquired by Ascension Healthcare in a series of transactions. These transactions were accounted for as an acquisition in accordance with Accounting Standards Codification (ASC) Topic 958-805, *Business Combinations – Not-for-Profit Entities* and acquired assets and liabilities were recorded at fair value. Third party valuation specialists assisted in the fair value determination of certain assets and liabilities. The preliminary fair value of the net assets of Presence totaling $770,955 was recognized in the Consolidated Statements of Operations and Changes in Net Assets for the year ended June 30, 2018 as a nonoperating contribution from business combination. The valuation of the acquired assets and liabilities was substantially complete as of June 30, 2018.

	Presence
Net working capital	$ 241,128
Long-term investments	713,389
Property and equipment	1,420,158
Investment in unconsolidated entities	14,420
Other long-term assets	45,771
Long-term debt	(1,106,782)
Self-insurance liabilities	(355,388)
Pension and other post retirement liabilities	(124,524)
Other long-term liabilities	(77,217)
Fair value of total net assets	$ 770,955

The fair value of net assets of $770,955 in the preceding table was recognized in the Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2018, as a nonoperating contribution from business combinations of $734,127, and contributions of unrestricted – noncontrolling, temporarily and permanently restricted net assets of $5,478, $17,853 and $13,497, respectively.

(Dollars in Thousands)

3. Organizational Changes (continued)

For the year ended June 30, 2018, Ascension recognized four months of revenues from Presence totaling \$802,573, and a deficit of revenues and gains over expenses and losses totaling \$18,395, of which \$18,714 was attributable to controlling interest.

The following unaudited pro forma financial information presents the combined results of operations of Ascension and Presence for the years ended June 30, 2018 and 2017, respectively, as though the business combination transaction had occurred on June 30, 2016. This pro forma financial information is not necessarily indicative of the results of operations that would occur if these entities were consolidated into the System during those periods, nor is it necessarily indicative of future operating results.

	Year Ended June 30,	
	2018	**2017**
Total operating revenue	**$ 24,780,242**	$ 25,226,723
Excess of revenues and gains over expenses and losses attributable to controlling interest	**1,462,912**	1,647,479
Increase in unrestricted net assets - controlling interest	**1,841,128**	1,532,569
Increase in unrestricted net assets - noncontrolling interests	**126,428**	368,917
Increase (decrease) in temporarily restricted net assets	**14,418**	(733)
Increase in permanently restricted net assets	**3,424**	15,703

The pro forma excess of revenues and gains over expenses and losses and other changes in net assets above excludes certain adjustments attributable to the business combination transactions.

3. Organizational Changes (continued)

Divestitures

Discontinued Operations

During the year ended June 30, 2018 and 2017, Ascension, including certain of its wholly owned subsidiaries, completed the sale of, or undertook actions to sell or transfer ownership of, certain assets and liabilities, as follows:

- On September 28, 2016, St. Joseph Regional Medical Center, Inc. in Lewiston, Idaho (St. Joseph Regional), a wholly owned subsidiary of Ascension Healthcare, and Capella Healthcare, Inc. (a predecessor corporation of RCCH HealthCare Partners) (RCCH) entered into an asset purchase agreement, whereby RCCH purchased substantially all assets and assumed certain liabilities associated with the operations of St. Joseph Regional. Assets and liabilities of St. Joseph Regional's foundation remain with Ascension Healthcare. The sale was completed on May 1, 2017.

- On September 28, 2016, Our Lady of Lourdes Hospital at Pasco in Pasco, Washington, d/b/a Lourdes Health Network (Lourdes Health), a wholly owned subsidiary of Ascension Healthcare, and RCCH entered into an asset purchase agreement, whereby RCCH will purchase substantially all assets and assume certain liabilities associated with the operations of Lourdes Health. Assets and liabilities of Lourdes Health's foundation will remain with Ascension Healthcare. The sale closed on September 1, 2018.

Assets and liabilities associated with the Lourdes Health transaction were held for sale and qualified for discontinued operations as of June 30, 2018 and 2017, and are included in other current assets and other current liabilities, respectively, in the System's Consolidated Balance Sheets. Assets held for sale were $33,184 and $44,935 at June 30, 2018 and 2017, respectively, while liabilities held for sale were $24,518 and $22,531at June 30, 2018 and 2017, respectively.

Net income of the entities, which include revenues over expenses of both entities, was included in discontinued operations in the Consolidated Statements of Operations and Changes in Net Assets. The (loss) gain from discontinued operations was ($16,155) and $226 for the years ended June 30, 2018 and 2017, respectively. Total operating revenues of the entities were $145,254 and $260,219 for the years ended June 30, 2018 and 2017, respectively.

3. Organizational Changes (continued)

Assets Held for Sale

On March 31, 2017, St. Joseph's Hospital of Marshfield, Inc. in Marshfield, Wisconsin (SJHM), a subsidiary of Ministry Health Care (Ministry), entered into an asset sale agreement with MCHS Hospitals Inc. (Marshfield Clinic) whereby Marshfield Clinic purchased substantially all the assets and assumed certain liabilities associated with SJHM. Ministry is a subsidiary of Ascension Healthcare. The sale was completed on June 30, 2017.

Net income of SJHM is included in the excess of revenues and gains over expenses and losses in the Consolidated Statements of Operations and Changes in Net Assets and is $32,766 for the year ended June 30, 2017. Revenues of SJHM total $300,346 for the year ended June 30, 2017.

Other

On March 23, 2018, Ascension signed a nonbinding letter of intent with Hartford HealthCare Corporation for the nonprofit system to acquire St. Vincent's Medical Center, an Ascension subsidiary located in Bridgeport, Connecticut, and substantially all of its related operations (St. Vincent facilities). Completion of the proposed transaction is subject to due diligence and execution of a final definitive agreement, including obtaining all necessary regulatory approvals. Operating revenue of the St. Vincent facilities was approximately $500,000 for the year ended June 30, 2018.

On November 2, 2017, Ascension and Ascension Ventures (collectively "Ascension") entered into a contribution and redemption agreement with Narayana Hrudayalaya Limited, Narayana Cayman Holdings LTD and Health City Cayman Islands LTD for Ascension to sell its interest in Health City Cayman Islands Ltd. The transaction was completed on January 3, 2018.

4. Pooled Investment Fund

At June 30, 2018 and 2017, 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. The portion of the Alpha Fund's net assets representing interests held by entities other than the System are reflected in noncontrolling interests in the Consolidated Balance Sheets, which amount to $1,714,371 and $1,598,399 at June 30, 2018 and 2017, respectively.

The Alpha Fund invests in a diversified portfolio of investments including alternative investments, such as real asset funds, hedge funds, private equity funds, commodity funds, and private credit funds. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods ranging from 1 to 180 days. Due to redemption restrictions, investments in certain of these funds, whose fair value was approximately $2,838,000 at June 30, 2018, cannot currently be redeemed for periods ranging from one to eleven years. However, the potential for the Alpha Fund to sell its interest in these funds in a secondary market prior to the end of the fund term does exist.

The Alpha Fund's investments in certain alternative investment funds also 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 the Alpha Fund to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2018, contractual agreements of the Alpha Fund expire between July 2018 and April 2024. The remaining unfunded capital commitments of the Alpha Fund total approximately $1,913,000 for 199 individual funds as of June 30, 2018. 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.

4. Pooled Investment Fund (continued)

In the normal course of operations and within established Alpha Fund guidelines, the Alpha Fund may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options, and forward contracts as well as warrants and swaps. These instruments are used primarily to adjust the portfolio duration, restructure term structure exposure, change sector exposure, and arbitrage market inefficiencies. See the Fair Value Measurements note for a discussion of how fair value for the Alpha Fund's derivatives is determined.

At June 30, 2018 and 2017, the notional value of Alpha Fund derivatives outstanding was approximately $7,215,000 and $5,533,000, respectively. The fair value of Alpha Fund derivatives in an asset position was $27,533 and $30,032 at June 30, 2018 and 2017, respectively, while the fair value of Alpha Fund derivatives in a liability position was $71,584 and $28,809 at June 30, 2018 and 2017, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets at June 30, 2018 and 2017.

Due from brokers and due to brokers on the Consolidated Balance Sheets at June 30, 2018 and 2017, 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)

5. Cash and Investments

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

	June 30, 2018	June 30, 2017
Cash and cash equivalents	**$ 850,958**	$ 857,605
Short-term investments	**83,166**	103,857
Long-term investments	**19,404,559**	16,999,371
Subtotal	**20,338,683**	17,960,833
Other Alpha Fund assets and liabilities:		
In other current assets	**38,161**	34,314
In other long-term assets	**-**	2,174
In accounts payable and other accrued liabilities	**(12,403)**	(14,698)
In other current liabilities	**-**	(330)
In other noncurrent liabilities	**(3,321)**	(2,342)
Due (to) from brokers, net	**(161,345)**	81,412
Total cash and investments, net	**20,199,775**	18,061,363
Less noncontrolling interests of Alpha Fund	**1,714,371**	1,598,399
System cash and investments, including assets limited as to use	**18,485,404**	16,462,964
Less assets limited as to use:		
Under bond indenture agreement	**3,635**	19,504
Self-insurance trust funds	**697,588**	689,197
Temporarily or permanently restricted	**689,988**	649,891
Total assets limited as to use	**1,391,211**	1,358,592
System unrestricted cash and investments, net	**$ 17,094,193**	$ 15,104,372

(Dollars in Thousands)

5. Cash and Investments (continued)

At June 30, 2018 and 2017, 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.

	June 30, 2018	June 30, 2017
Cash and cash equivalents and short-term investments	**$ 1,137,098**	$ 1,200,191
Pooled short-term investment funds	**965,960**	515,516
U.S. government, state, municipal and agency obligations	**2,752,951**	2,534,968
Corporate and foreign fixed income securities	**1,983,790**	2,501,060
Asset-backed securities	**1,610,733**	1,190,364
Equity securities	**5,766,018**	4,282,517
Alternative investments and other investments:		
Private equity and real estate funds	**2,334,655**	2,002,292
Hedge funds	**2,325,236**	2,068,742
Commodities funds and other investments	**1,462,242**	1,665,183
Total alternative investments and other investments	**6,122,133**	5,736,217
Total cash and cash equivalents, short-term investments, and long-term investments	**$ 20,338,683**	$ 17,960,833

(Dollars in Thousands)

5. Cash and Investments (continued)

Investment return recognized by the System for the year ended June 30, 2018 and 2017, 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.

	Year Ended June 30,	
	2018	**2017**
Interest and dividends	**$ 363,228**	$ 256,949
Net gains on investments reported at fair value	**1,254,109**	1,206,832
Restricted investment return and unrealized gains, net	**27,398**	36,673
Total investment return	**1,644,735**	1,500,454
Less return earned by noncontrolling interests of Alpha Fund	**113,207**	140,511
System investment return	**$ 1,531,528**	$ 1,359,943

6. 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.

6. Fair Value Measurements (continued)

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 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.

There were no significant transfers between Levels 1 and 2 during the years ended June 30, 2018 and 2017.

As of June 30, 2018, and 2017, the assets and liabilities listed in the fair value hierarchy tables below use the following valuation techniques and inputs:

6. Fair Value Measurements (continued)

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).

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.

6. Fair Value Measurements (continued)

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 interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

6. 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)

6. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2018, 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, 2018				
Cash equivalents	$ 43,822	$ 370	$ -	$ 44,192
Short-term investments	49,070	100,793	1,130	150,993
Pooled short-term investment funds	965,960	-	-	965,960
U.S. government, state, municipal and agency obligations	-	2,752,951	-	2,752,951
Corporate and foreign fixed income securities	-	1,971,834	11,956	1,983,790
Asset-backed securities	-	1,305,455	305,278	1,610,733
Equity securities	4,705,172	44,329	29,239	4,778,740
Alternative investments and other investments:				
Private equity and real estate funds	1,952	2,400	295,109	299,461
Commodities funds and other investments	(13,648)	(12,221)	1,121	(24,748)
Assets at net asset value:				
Corporate and foreign fixed income securities				-
Equity securities				987,278
Private equity and real estate funds				2,035,194
Hedge funds				2,325,236
Commodities funds and other investments				1,390,328
Cash and other investments not at fair value				1,038,575
Cash and investments				$ 20,338,683
Benefit plan assets, in other noncurrent assets	$ 453,193	$ 762	$ 47,827	$ 501,782
Interest rate swaps, in other noncurrent assets	-	1,930	-	1,930
Investments sold, not yet purchased, in other noncurrent liabilities	2,912	409	-	3,321
Interest rate swaps, included in other noncurrent liabilities	-	108,781	-	108,781

(Dollars in Thousands)

6. Fair Value Measurements (continued)

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

	Short-term investments	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
Year Ended June 30, 2018							
Beginning balance	$ 345	$ 28,119	$ 193,211	$ 4,738	$ 241,420	$ 7,493	$ 54,698
Total realized and unrealized gains (losses):							
Included in nonoperating gains (losses)	-	383	1,585	7,856	101,835	(11,994)	-
Included in changes in net assets	-	-	-	-	-	(173)	-
Purchases	1,130	8,255	239,778	18,547	55,733	329	61,744
Sales	-	(27,625)	(134,369)	(1,902)	(84,008)	5,280	(56,111)
Transfers into Level 3	-	13,638	5,073	-	-	186	44,057
Transfers out of Level 3	(345)	(10,814)	-	-	(19,871)	-	(56,561)
Ending balance	$ 1,130	$ 11,956	$ 305,278	$ 29,239	$ 295,109	$ 1,121	$ 47,827
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 June 30, 2018	$ -	$ (735)	$ (2,029)	$ 7,725	$ (6,243)	$ (3,783)	$ -

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)

6. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2017, 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, 2017				
Cash equivalents	$ 61,317	$ 579	$ -	$ 61,896
Short-term investments	109,387	103,344	345	213,076
Pooled short-term investment funds	515,516	-	-	515,516
U.S. government, state, municipal and agency obligations	-	2,534,968	-	2,534,968
Corporate and foreign fixed income securities	-	2,371,296	28,119	2,399,415
Asset-backed securities	-	997,153	193,211	1,190,364
Equity securities	3,775,634	43,353	4,738	3,823,725
Alternative investments and other investments:				
Private equity and real estate funds	1,873	2,400	241,420	245,693
Commodities funds and other investments	12,537	5,339	7,493	25,369
Assets at net asset value:				
Corporate and foreign fixed income securities				101,645
Equity securities				458,792
Private equity and real estate funds				1,756,599
Hedge funds				2,068,742
Commodities funds and other investments				1,553,370
Cash and other investments not at fair value				1,011,663
Cash and investments				$ 17,960,833
Benefit plan assets, in other noncurrent assets	$ 312,120	$ 47,163	$ 54,698	$ 413,981
Interest rate swaps, in other noncurrent assets	-	1,648	-	1,648
Investments sold, not yet purchased, in other noncurrent liabilities	-	2,342	-	2,342
Interest rate swaps, included in other noncurrent liabilities	-	157,518	-	157,518

(Dollars in Thousands)

6. Fair Value Measurements (continued)

For the year ended June 30, 2017, 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
Year Ended June 30, 2017							
Beginning balance	$ 287	$ 29,545	$ 142,831	$ 3,759	$ 197,886	$ 4,464	$ 56,070
Total realized and unrealized gains (losses):							
Included in income from operations	-	-	-	-	-	-	-
Included in nonoperating gains (losses)	58	3,428	14,434	663	28,731	19	-
Included in changes in net assets	-	-	-	-	-	(35)	-
Purchases	-	6,357	154,039	1,158	57,900	2,880	127,432
Sales	-	(5,033)	(84,813)	(584)	(43,141)	-	(127,097)
Transfers into Level 3	-	2,379	-	121	44	320	54,003
Transfers out of Level 3	-	(8,557)	(33,280)	(379)	-	(155)	(55,710)
Ending balance	$ 345	$ 28,119	$ 193,211	$ 4,738	$ 241,420	$ 7,493	$ 54,698
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 June 30, 2017	$ -	$ 3,377	$ 8,404	$ 705	$ 800	$ 3,339	$ -

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

(Dollars in Thousands)

7. Long-Term Debt

Long-term debt at June 30, 2018 and 2017 is comprised of the following and is presented in accordance with the specific master trust indenture to which the debt relates. As further discussed below, certain portions of long-term debt are secured under the Mercy Regional Health Center, Inc. Master Trust Indenture; the Alexian Brothers Health System Master Trust Indenture (discharged on October 10, 2017); and the St. John Health System Master Trust Indenture (discharged on September 7, 2017).

	June 30,	
	2018	**2017**
Tax-exempt hospital revenue bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture:		
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2047; interest (1.48% to 1.58% at June 30, 2018) set at prevailing market rates	**$ 519,965**	$ 533,935
Fixed rate serial, term and mode bonds fixed to maturity payable in installments through November 2051; interest at 3.00% to 5.00%	**3,854,395**	2,723,220
Fixed rate serial mode bonds payable through 2047 with purchase dates ranging from March 2019 through July 2024; interest at 1.10% to 5.00% through the purchase dates	**1,210,955**	1,386,245
Tax-exempt hospital revenue bonds – unsecured under Ascension Health Alliance Subordinate Master Trust Indenture:		
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2025; interest (1.48% at June 30, 2018) set at prevailing market rates	**35,065**	39,085
Fixed rate serial mode bonds with maturity payable installments through November 2027; interest at 4.00%	**51,955**	-
Fixed rate serial mode bonds payable through 2027 with purchase dates through August 2020; interest at 1.25% to 2.80%	**298,140**	387,260

(Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30, 2018	June 30, 2017
Taxable bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture:		
Taxable fixed rate term bonds payable in installments through November 2053; interest at 4.847%	**$ 425,000**	$ 425,000
Taxable fixed rate term bonds payable as of November 2046; interest at 3.945%	**1,170,000**	925,000
Total hospital revenue bonds under Senior Master Trust Indenture and Subordinate Master Trust Indenture	**7,565,475**	6,419,745
Tax-exempt hospital revenue bonds – secured under Mercy Regional Health Center, Inc. Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through November 2029; interest at 4.00% to 5.00%	**19,615**	20,790
Total hospital revenue bonds under the Mercy Regional Health Center, Inc. Master Trust Indenture	**19,615**	20,790
Tax-exempt hospital revenue bonds – secured under Alexian Brothers Health System Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through February 2038; interest at 4.25% to 5.50%	**-**	49,090
Total hospital revenue bonds under the Alexian Brothers Health System Master Trust Indenture	**-**	49,090
Tax-exempt hospital revenue bonds – secured under St. John Health System Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through February 2042; interest at 4.00% to 5.00%	**-**	165,110
Total hospital revenue bonds under the St. John Health System Master Trust Indenture	**-**	165,110
Total hospital revenue bonds – all Master Trust Indentures	**7,585,090**	6,654,735

(Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30, 2018	June 30, 2017
Other debt:		
Obligations under capital leases	**$ 10,340**	$ 22,134
Other	**46,803**	84,783
	7,642,233	6,761,652
Unamortized premium, net	**360,164**	274,438
Less debt issuance cost, net	**(39,097)**	(38,595)
Less current portion	**(100,919)**	(298,270)
Less long-term debt subject to short-term remarketing arrangements	**(738,770)**	(999,785)
Long-term debt, less current portion and long-term debt subject to short-term remarketing arrangements	**$ 7,123,611**	$ 5,699,440

	June 30, 2018	June 30, 2017
Ascension Health Alliance Senior Master Trust Indenture long-term debt obligations, including unamortized premium and cost of issuance, net	**$ 6,741,328**	$ 5,332,260
Ascension Health Alliance Subordinate Master Trust Indenture long-term debt obligations, including unamortized premium and cost of issuance, net	**323,050**	239,406
Alexian Brothers Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net	**-**	34,498
Mercy Regional Health Center, Inc. Master Trust Indenture long-term debt obligations, including unamortized premium, net	**19,664**	21,158
Other	**39,569**	72,118
Long-term debt, less current portion, and long-term debt subject to short-term remarketing arrangements	**$ 7,123,611**	$ 5,699,440

(Dollars in Thousands)

7. Long-Term Debt (continued)

Scheduled principal repayments of long-term debt, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, as of June 30, 2018, are as follows:

	Ascension Health Alliance MTIs	Mercy Regional Health Center, Inc. MTI	Other Debt	Total
Year Ending June 30:				
2019	$ 82,115	$ 1,230	$ 17,574	$ 100,919
2020	91,880	1,285	3,675	96,840
2021	121,465	1,350	2,989	125,804
2022	129,145	1,420	13,742	144,307
2023	134,540	1,495	1,653	137,688
Thereafter	7,006,330	12,835	17,510	7,036,675
Total	$ 7,565,475	$ 19,615	$ 57,143	$ 7,642,233

The carrying values of fixed rate bonds were $7,030,060 and $6,081,715 at June 30, 2018 and 2017, respectively. The fair values of these fixed rate bonds were $7,391,287 and $6,446,481 at June 30, 2018 and 2017, respectively, representing Level 2 measurements obtained from an independent third party valuation service. The carrying amounts of variable rate bonds and other notes payable approximate fair value.

During the years ended June 30, 2018 and 2017, interest paid was approximately $248,000 and $236,000, respectively. Capitalized interest was approximately $1,500 and $5,700 for the years ended June 30, 2018 and 2017, respectively.

7. Long-Term Debt (continued)

Certain members of the System formed the Ascension Health Alliance Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as either a senior obligated group member, a senior designated affiliate, or a senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (Senior MTI) to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by the System.

Senior designated affiliates and senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI. The System may cause each senior designated affiliate to transfer such amounts as are necessary to enable the obligated group to comply with the terms of the Senior MTI, including payment of the outstanding obligations. Additionally, each senior limited designated affiliate has an independent limited designated affiliate agreement and promissory note with the System with stipulated repayment terms and conditions, each subject to the governing law of the senior limited designated affiliate's state of incorporation.

Pursuant to a Supplemental Master Indenture dated February 1, 2005, senior obligated group members, which are operating entities, have pledged and assigned to the Master Trustee a security interest in all of their rights, title, and interest in their pledged revenues and proceeds thereof.

A Subordinate Credit Group, which is comprised of subordinate obligated group members, subordinate designated affiliates, and subordinate limited designated affiliates, was created under the Subordinate Master Trust Indenture (Subordinate MTI). The subordinate obligated group members are jointly and severally liable under the Subordinate MTI to make all payments required with respect to obligations under the Subordinate MTI and may be entities not controlled directly or indirectly by the System. Subordinate designated affiliates and subordinate limited designated affiliates are not obligated to make debt service payments on the obligations under the Subordinate MTI.

The System may cause each subordinate designated affiliate to transfer such amounts as are necessary to enable the obligated group members to comply with the terms of the Subordinate MTI, including payment of the outstanding obligations. Additionally, each subordinate limited designated affiliate has an independent subordinate limited designated affiliate agreement and promissory note with the System, with stipulated repayment terms and conditions, each subject to the governing law of the subordinate limited designated affiliate's state of incorporation.

7. Long-Term Debt (continued)

The unsecured variable rate demand bonds of both the Senior and Subordinate Credit Groups, while subject to long-term amortization periods, may be put to the System at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2018, the principal amount of such bonds has been classified as a current liability in the accompanying Consolidated Balance Sheets. Management believes the likelihood of a material amount of bonds being put to the System to be remote. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including the line of credit, commercial paper program, and maintaining unrestricted assets as a source of self-liquidity.

Alexian Brothers and St. John Health System joined Ascension Healthcare on January 1, 2012 and April 1, 2013, respectively. Prior to October 2017, a portion of the bonds issued for the benefit of Alexian Brothers was secured by the Alexian Brothers Health System Master Trust Indenture (As Amended and Restated), dated October 1, 1992, between the Members of the Alexian Brothers Health System Obligated Group established under this document and the Alexian Brothers Health System Master Trustee. Prior to October 2017, the St. John Health System bonds were secured by the St. John Health System Restated Master Trust Indenture dated October 1, 1999, by and between St. John Health System and the St. John Health Master Trustee.

In September and October 2017, all previously outstanding bonds issued under the Alexian Brothers and St. John Health System Master Trust Indentures were defeased. Certain entities of Alexian Brothers and St. John Health System have been added to the Ascension Senior Credit Group. In October 2017, Ascension issued $245,000 of taxable bonds through a reopening of the Series 2016A taxable bond offering, a Senior Credit Group Obligation. The debt was issued primarily to refund the Series 2012 St. John Health System bonds and the Series 2008 and Series 2010 Alexian Brothers bonds. The only remaining bond series outside of the Ascension Master Trust Indenture is the Master Trust Indenture dated January 15, 2013, between Mercy Regional Health Center, Inc. and the Mercy Regional Health Center, Inc. Master Trustee.

7. Long-Term Debt (continued)

In May 2018, Ascension issued an Ascension Credit Group Master Trust Indenture Obligation (the "Ascension Obligation") to secure the $1,000,000 Illinois Finance Authority Revenue Bonds, Series 2016C (Presence Health Network) (the "Presence Bonds"). As permitted by the bond trust indenture for the Presence Bonds, the Direct Note Obligation originally issued under the Presence Master Trust Indenture dated as of August 1, 2016 was surrendered and cancelled concurrent with the execution of the Ascension Obligation. The Presence Master Trust Indenture was also cancelled simultaneously.

Due to aggregate financing activity during the fiscal years ended June 30, 2018 and 2017, (losses) gains on extinguishment of debt of ($9,850) and $10,907, respectively, were recorded, which are included in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

As of June 30, 2018, the Senior Credit Group had two lines of credit totaling $1,000,000. The first line of credit totals $300,000 which may be used as a source of funding for unremarketed variable debt (including commercial paper) or for general corporate purposes. The second line of credit totals $700,000 which may be used for general corporate purposes. Both lines are committed to December 4, 2020 and as of June 30, 2018 and 2017, there were no borrowings under either line of credit.

As of June 30, 2018, the Senior Credit Group had a $100,000 revolving line of credit related to its letters of credit program toward which a bank commitment of $100,000 extends to November 21, 2018. The revolving line of credit may be accessed solely in the form of Letters of Credit issued by the bank for the benefit of the members of the Credit Groups. Of this $100,000 revolving line of credit, letters of credit totaling $72,358 have been issued as of June 30, 2018. No borrowings were outstanding under the letters of credit as of June 30, 2018 and 2017.

(Dollars in Thousands)

8. Derivative Instruments

The System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. Interest rate swaps with varying characteristics are outstanding under the Master Trust Indentures of the System and St. John Health. 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 June 30, 2018 and 2017, the notional values of outstanding interest rate swaps were as follows:

	June 30, 2018	June 30, 2017
Ascension Health Alliance MTI	**$ 1,084,975**	$ 1,146,600
St. John Health System MTI	**-**	100,000
Total	**$ 1,084,975**	$ 1,246,600

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 respective fair values of interest rate swaps in an asset and liability position for the System and St. John Health were as follows:

	June 30, 2018		June 30, 2017	
	Asset	Liability	Asset	Liability
Ascension Health Alliance MTI	**$ 1,930**	**$ 108,781**	$ 1,648	$ 157,394
St. John Health System MTI	**-**	**-**	-	124
Total	**$ 1,930**	**$ 108,781**	$ 1,648	$ 157,518

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 separately calculated for the System and St. John Health based on the credit ratings of each. The St. John Health swap agreement was terminated on September 8, 2017. In the case of the System, 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 June 30, 2018 and 2017.

8. Derivative Instruments (continued)

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.

9. Retirement Plans

Defined-Benefit Plans

Certain System entities participate in defined-benefit pension plans (the System Plans), which are noncontributory, defined-benefit pension plans. Benefits are based on each participant's years of service and compensation. All of the System Plans' assets are invested in Trusts, which include the Master Pension Trust (the Trust) and one additional other trust (the Other Trust). The System Plans' assets primarily consist of short-term investments, equity, fixed income, and alternative investments, consisting of various hedge funds, real estate funds, private equity funds, commodity funds, private credit funds, and certain other private funds. Contributions to the System Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to participants.

Most System defined benefit plans were frozen effective December 31, 2012. Two of the System Plans remain ongoing at June 30, 2018. During the year ended June 30, 2017, the System froze a defined benefit plan which resulted in the recognition of a curtailment gain of $40,000 which was recognized in total impairment, restructuring, and nonrecurring losses as discussed in Note 2.

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.

(Dollars in Thousands)

9. Retirement Plans (continued)

The following table sets forth the combined benefit obligations and assets of the System Plans at June 30, 2018 and 2017, components of net periodic benefit costs for the years then ended, and a reconciliation of the amounts recognized in the accompanying consolidated financial statements.

	Year Ended June 30, 2018	2017
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 9,173,650**	$ 9,435,964
Service cost	**6,418**	28,174
Interest cost	**352,931**	341,998
Assumption change	**(535,210)**	(64,274)
Actuarial loss	**51,229**	45,331
Acquisitions	**893,732**	-
Curtailment	**(3,780)**	(58,351)
Benefits paid	**(497,416)**	(555,192)
Projected benefit obligation at end of year	**9,441,554**	9,173,650
Change in plan assets:		
Fair value of plan assets at beginning of year	**7,919,767**	8,199,379
Actual return on plan assets	**405,550**	269,419
Employer contributions	**5,601**	6,161
Acquisitions	**769,208**	-
Benefits paid	**(497,416)**	(555,192)
Fair value of plan assets at end of year	**8,602,710**	7,919,767
Net amount recognized at end of year and funded status	**$ (838,844)**	$ (1,253,883)
Accumulated benefit obligation at end of year	**$ 9,438,370**	$ 9,169,399

(Dollars in Thousands)

9. Retirement Plans (continued)

The System Plans' funded status as a percentage of both the projected and accumulated benefit obligations was 91.1% at June 30, 2018. The System Plans' funded status as a percentage of the projected and accumulated benefit obligations at June 30, 2017, was 86.3% and 86.4%, respectively.

Included in unrestricted net assets at June 30, 2018 and 2017, are the following amounts that have not yet been recognized in net periodic pension cost for the System Plans:

	Year Ended June 30,	
	2018	**2017**
Unrecognized prior service credit	**$ (2,509)**	$ (5,285)
Unrecognized actuarial loss	**1,576,969**	1,857,547
	$ 1,574,460	$ 1,852,262

Changes in plan assets and benefit obligations recognized in unrestricted net assets for System Plans during 2018 and 2017 include:

	Year Ended June 30,	
	2018	**2017**
Current year actuarial (gain) loss	**$ (206,792)**	$ 334,981
Amortization of actuarial loss	**(73,786)**	(24,141)
Amortization of prior service credit	**2,776**	3,008
	$ (277,802)	$ 313,848

(Dollars in Thousands)

9. Retirement Plans (continued)

	Year Ended June 30, 2018	2017
Components of net periodic benefit cost		
Service cost	**$ 6,418**	$ 28,174
Interest cost	**352,931**	341,998
Expected return on plan assets	**(686,518)**	(681,695)
Amortization of prior service credit	**(2,740)**	(2,842)
Amortization of actuarial loss	**74,540**	60,827
Curtailment gain	**(36)**	(40,000)
Settlement (gain) loss	**(754)**	3,148
Net periodic benefit	**$ (256,159)**	$ (290,390)

The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending June 30, 2019, are $2,500 and $65,196, respectively.

The assumptions used to determine the benefit obligation and net periodic benefit cost for the System Plans are set forth below:

	June 30, 2018	2017
To determine benefit obligations:		
Weighted-average discount rate	**4.30%**	3.87%
To determine net periodic benefit cost:		
Weighted-average discount rate	**3.87%**	3.80%
Weighted-average expected long-term rate of return on plan assets	**8.50%**	8.50%

9. Retirement Plans (continued)

The expected long-term rate of return on the System Plans' assets is based on historical and projected rates of return for current and planned asset categories in the investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

The System Plans' assets invested in the Trust are invested in a portfolio designed to protect principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, with a reasonable and prudent level of risk. Diversification is achieved by allocating to funds and managers that correlate to one of three economic strategies: growth, deflation, and inflation. Growth strategies include U.S. equity, emerging market equity, global equity, international equity, directional hedge funds, private equity, high yield, and private credit. Deflation strategies include core fixed income, absolute return hedge funds, and cash. Inflation strategies include inflation-linked bonds, commodity-related investments, and real assets. The System Plans use multiple investment managers with complementary styles, philosophies, and approaches. In accordance with the System Plans' objectives, derivatives may also be used to gain market exposure in an efficient and timely manner.

In accordance with the System Plans' asset diversification targets, as presented in the table that follows, the Trust holds certain alternative investments, consisting of various hedge funds, real asset funds, private equity funds, commodity funds, private credit funds, and certain other private funds. These investments do not have observable market values. As such, each of these investments is valued at net asset value (NAV) as determined by each fund's investment manager, which approximates fair value. Management elected to use the NAV per share, or equivalent, for fair value. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods ranging from 1 to 180 days. Due to redemption restrictions, investments of certain private funds, whose fair value was approximately $1,007,000 at June 30, 2018, cannot currently be redeemed. However, the potential for the System Plans to sell their interest in real asset funds and private equity funds in a secondary market prior to the end of the fund term does exist.

(Dollars in Thousands)

9. Retirement Plans (continued)

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 to 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. As of June 30, 2018, investment periods expire between July 2018 and April 2024. The remaining unfunded capital commitments of the Trust total approximately $715,000 for 118 individual contracts as of June 30, 2018.The weighted-average asset allocation for the System Plans in the Trust at the end of fiscal 2018 and 2017 and the target allocation for fiscal 2019, by asset category, are as follows:

Asset Category	Target Allocation 2019	Percentage of Plan Assets at June 30, 2018	2017
Growth	57 %	**60 %**	57 %
Deflation	28	**25**	27
Inflation	15	**15**	16
Total	100 %	**100 %**	100 %

The System Plans' assets in the Other Trust are invested in portfolios designated to best serve the participants of the System Plans' through a long-term investment strategy designed to ensure that funds are available to pay benefits as they become due and to maximize the total return at a prudent level of investment risk. The System Plans' assets invested in the Other Trust are diversified among various asset classes based upon established investment guidelines. The allocation of the System Plans' assets in the Other Trust at the end of fiscal 2018 and the target allocation of fiscal 2019, by asset category, are as follows:

Asset Category	Target Allocation 2019	Percentage of Plan Assets at June 30, 2018
Equity securities	60 %	**68** %
Fixed-income securities and real assets	40	**31**
Cash and cash equivalents	-	**1**
Total	100 %	**100** %

(Dollars in Thousands)

9. Retirement Plans (continued)

The following tables summarize fair value measurements at June 30, 2018 and 2017, by asset class and by level, for the System Plans' assets and liabilities. As also discussed in the Fair Value Measurements note, the System follows the three-level fair value hierarchy to categorize plan assets and liabilities recognized at fair value, which prioritizes the inputs used to measure such fair values. The inputs and valuation techniques discussed in the Fair Value Measurements note also apply to the System Plans' assets and liabilities as presented in the following tables.

	Level 1	Level 2	Level 3	Total
June 30, 2018				
Short-term investments	$ 480,368	$ 57,743	$ -	$ 538,111
Derivatives receivable	3,461	93,046	-	96,507
U.S. government, state, municipal and agency obligations	-	1,392,245	-	1,392,245
Corporate and foreign fixed income securities	-	741,841	1,034	742,875
Asset-backed securities	-	676,429	6,078	682,507
Equity securities	2,702,687	7,073	1,778	2,711,538
Assets at net value:				
Corporate and foreign fixed income securities				10,256
Equity securities				238,192
Private equity and real estate funds				1,091,535
Hedge funds				1,057,421
Commodities funds and other investments				131,694
Other receivables				336,253
Total				9,029,134
Derivatives payable	5,061	313,649	391	319,101
Other payables				107,323
Total				426,424
Fair value of plan assets				$ 8,602,710

(Dollars in Thousands)

9. Retirement Plans (continued)

	Level 1	Level 2	Level 3	Total
June 30, 2017				
Short-term investments	$ 459,619	$ 21,466	$ -	$ 481,085
Derivatives receivable	73	21,900	19,144	41,117
U.S. government, state, municipal and agency obligations	-	1,389,683	-	1,389,683
Corporate and foreign fixed income securities	-	876,984	931	877,915
Asset-backed securities	-	467,600	4,523	472,123
Equity securities	2,092,749	323	12,481	2,105,553
Assets at net value:				
Corporate and foreign fixed income securities				10,723
Equity securities				259,556
Private equity and real estate funds				965,209
Hedge funds				1,033,739
Commodities funds and other investments				303,244
Other receivables				229,757
Total				8,169,704
Derivatives payable	1,267	187,443	19,347	208,057
Other payables				41,880
Total				249,937
Fair value of plan assets				$ 7,919,767

(Dollars in Thousands)

9. Retirement Plans (continued)

For the years ended June 30, 2018 and 2017, the changes in the fair value of the System Plans' assets measured using significant unobservable inputs (Level 3) consisted of the following:

	Net Derivatives	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities
June 30, 2018				
Beginning balance	**$ (203)**	**$ 931**	**$ 4,523**	**$ 12,481**
Total actual return on assets	**8,376**	**(472)**	**640**	**1,166**
Purchases, issuances, and settlements	**(8,564)**	**(1,044)**	**617**	**(12,420)**
Transfers into Level 3	**-**	**1,619**	**298**	**551**
Ending balance	**$ (391)**	**$ 1,034**	**$ 6,078**	**$ 1,778**
Actual return on plan assets relating to plan assets still held at June 30, 2018	**$ -**	**$ 4**	**$ 638**	**$ (4)**

	Net Derivatives	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities
June 30, 2017				
Beginning balance	$ 50,368	$ 7,870	$ 41,220	$ 12,321
Total actual return on assets	-	1,282	3,013	(1,758)
Purchases, issuances, and settlements	(203)	(9,319)	(33,183)	(1,529)
Transfers (out of) into Level 3	(50,368)	1,098	(6,527)	3,447
Ending balance	$ (203)	$ 931	$ 4,523	$ 12,481
Actual return on plan assets relating to plan assets still held at June 30, 2017	$ -	$ 450	$ 177	$ (33)

(Dollars in Thousands)

9. Retirement Plans (continued)

The Trust has entered into a series of swap agreements with a net notional amount of approximately $2,273,800. The combined targeted duration of these swaps and the Trust's fixed income investments approximates the duration of the liabilities of the Trust. Currently, 50% of the dollar duration of the liability is subject to this economic hedge. The purpose of this strategy is to economically hedge the change in the net funded status for a significant portion of the liability that can occur due to changes in interest rates.

Information about the expected cash flows for the System Plans follows:

Expected employer contributions 2019	$	6,520
Expected benefit payments:		
2019		654,636
2020		681,579
2021		679,165
2022		682,465
2023		666,948
2024-2028		3,116,913

The contribution amount above includes expected amounts paid to Trusts. The benefit payment amounts above reflect the total benefits expected to be paid from Trusts.

Other Postretirement Benefit Plans

In addition to the retirement plan described above, certain Health Ministries sponsor postretirement benefit plans that provide healthcare benefits to qualified retirees who meet certain eligibility requirements. The total benefit obligation of these plans at June 30, 2018 and 2017 is $22,635 and $28,987, respectively. The net asset included in pension and other postretirement liabilities in the accompanying Consolidated Balance Sheets at June 30, 2018 and 2017 is $27,244 and $17,972, respectively. The change in the plans' assets and benefit obligations recognized in unrestricted net assets during the year ended June 30, 2018 and 2017, was an increase of $2,293 and $4,468, respectively.

9. Retirement Plans (continued)

Defined-Contribution Plans

System entities participate in contributory and noncontributory defined-contribution plans covering all eligible associates. There are three primary types of contributions to these plans: employer automatic contributions, employee contributions, and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary and, for certain entities, increases over specified periods of employee service. These benefits are funded annually, and participants become fully vested over a period of time. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period, and participants become fully vested in these employer contributions immediately. Expenses for the defined-contribution plans were $391,397 and $349,514 during 2018 and 2017, respectively, and are included in employee benefits in the Consolidated Statements of Operations and Changes in Net Assets.

10. Self-Insurance Programs

Certain System hospitals and other entities participate in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. Within these pooled risk programs, various insurance policies have been purchased to provide coverage in excess of the self-insured limits. The System provides this self-insurance through various trust funds and captive insurance companies. Actuarially determined amounts, discounted at 5.5%, are contributed to the trust funds and the captive insurance companies to provide for the estimated cost of claims. The associated loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported, which were discounted at 5.5% in 2018 and 2017.

Entities acquired in the Presence business combination did not participate in the Ascension pooled risk program as of June 30, 2018. At June 30, 2018, the loss reserves for estimated self-insured professional, general liability, and workers' compensation claims for Presence entities were actuarially determined and recorded on an undiscounted basis. The self-insured professional and general liabilities for these entities are retained up to $20,000 per occurrence with no aggregate and subject to reinsurance by commercial carriers up to $170,000.

10. Self-Insurance Programs (continued)

Professional and General Liability Programs

Professional and general liability coverage is primarily provided on a claims-made basis through a wholly owned onshore trust and through Ascension Health Insurance, Ltd. (AHIL), a direct subsidiary of Ascension Risk Services.

The wholly owned onshore revocable trust has a self-insured retention up to $10,000 per occurrence with no aggregate. Excess coverage is provided through AHIL with limits up to $225,000. AHIL retains $5,000 per incident and in the aggregate for professional liability. The excess coverage is reinsured by commercial carriers.

Employed physicians and certain entities in the states of Indiana, Kansas, Pennsylvania, and Wisconsin are provided coverage by ProAssurance Corporation (ProAssurance) on a fronted basis and are reinsured through AHIL. These entities and physicians are provided professional liability coverage with limits in compliance with participation in the Patient Compensation Funds. The Patient Compensation Funds apply to claims in excess of the primary self-insured limit, except the Fund in Kansas, which only covers claims up to the first $1,000 and then the trust and AHIL cover amounts above $1,000.

Effective July 1, 2014, the reinsurance of Ascension's independent physician professional liability program with ProAssurance, the System's partner insurance company, was transferred from AHIL to Sunflower Assurance, Ltd. (Sunflower), a wholly owned subsidiary of Ascension Risk Services

Beginning July 1, 2014, Sunflower offered physician professional liability coverage through insurance or reinsurance arrangements to nonemployed physicians practicing at the System's various facilities, primarily in Michigan, Indiana, Texas, Florida, Illinois and Alabama. Coverage is offered to physicians with limits ranging from $100 per claim to $1,000 per claim with various aggregate limits. Beginning July 1, 2014, AHIL offered similar coverage to employed physicians in the states of Indiana, Kansas, Pennsylvania and Wisconsin.

10. Self-Insurance Programs (continued)

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is professional and general liability expense of $185,050 and $167,393 for the years ended June 30, 2018 and 2017, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are professional and general liability loss reserves of $867,297 and $541,177 at June 30, 2018 and 2017, respectively.

Workers' Compensation

Workers' compensation coverage is primarily provided on an occurrence basis through a grantor trust. The self-insured trust provides coverage up to $1,500 per occurrence with no aggregate. The trust provides a mechanism for funding the workers' compensation obligations of its members

Included in employee benefits in the accompanying Consolidated Statements of Operations and Changes in Net Assets is workers' compensation expense of $31,064 and $49,767 for the years ended June 30, 2018 and 2017, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are workers' compensation loss reserves of $135,052 and $131,566 at June 30, 2018 and 2017, respectively.

11. Lease Commitments

Certain System entities are lessees under operating lease agreements for the use of space in buildings owned by third parties, including medical office buildings (MOBs) and medical and information technology equipment. In addition, certain System entities have subleased space within buildings where the entity has a current operating lease commitment. Certain System entities are also lessors under operating lease agreements, primarily ground leases related to third-party-owned MOBs on land owned by the System entity.

(Dollars in Thousands)

11. Lease Commitments (continued)

The System's future minimum noncancelable payments associated with operating leases with terms of one year or more where a System entity is the lessee, as well as future minimum noncancelable receipts associated with operating leases where a System entity is the sublessor or lessor, are presented in the table that follows. Future minimum payments and receipts relate to noncancelable leases with terms of one year or more.

	Future Payments Where the System is Lessee	Future Receipts Where the System is Sublessor/Lessor	Net Future Payments
Year ending June 30:			
2019	$ 213,362	$ 43,397	$ 169,965
2020	203,260	34,628	168,632
2021	163,658	28,040	135,618
2022	131,698	22,640	109,058
2023	108,201	17,521	90,680
Thereafter	449,441	256,378	193,063
Total	$ 1,269,620	$ 402,604	$ 867,016

Rental expense under operating leases amounted to $425,750 and $396,656 in 2018 and 2017, respectively.

12. Related Parties

The System has agreements with related parties for revenue cycle management services and clinical engineering services. The System expensed approximately $877,000 and $585,000 for these services during the years ended June 30, 2018 and 2017.

(Dollars in Thousands)

13. Contingencies and Commitments

The System is involved in litigation and regulatory investigations arising in the ordinary course of business. Regulatory investigations also occur from time to time. 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 $7,600.

The System entered into Master Service Agreements for information technology services provided by third parties. The maximum amount of future payments that the System could be required to make under these agreements is approximately $259,400.

Guarantees and other commitments represent contingent commitments issued by Ascension Health Alliance Senior and Subordinate Credit Groups, generally to guarantee the performance of an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and other transactions. The terms of guarantees are equal to the terms of the related debt, which can be as long as 21 years. The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Groups at June 30, 2018:

Hospital de la Concepción 2017 Series A debt guarantee	$ 24,870
St. Vincent de Paul Series 2000 A debt guarantee	28,300
Other guarantees and commitments	19,700

Supplementary Information

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Report of Independent Auditors on Supplementary Information

The Board of Directors
Ascension Health Alliance d/b/a Ascension

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Net Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

September 12, 2018

Ascension

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

(Dollars in Thousands)

Years Ended June 30, 2018 and 2017

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

	Year Ended June 30, 2018	2017
Traditional charity care provided	**$ 576,267**	$ 537,672
Unpaid cost of public programs for persons living in poverty	**913,131**	793,905
Other programs for persons living in poverty and other vulnerable persons	**171,757**	149,271
Community benefit programs	**320,817**	362,455
Care of persons living in poverty and other community benefit programs	**$ 1,981,972**	$ 1,843,303