# ASCENSION

CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION (UNAUDITED)

For the Quarters and Nine Months Ended March 31, 2019 and 2018

Ascension

Consolidated Interim Financial Statements
and Supplementary Information

For the Quarters and Nine Months Ended March 31, 2019 and 2018

## Contents

# Ascension

## Consolidated Balance Sheets

*(Dollars in Thousands)*

| | March 31, 2019 | June 30, 2018 |
|---|---|---|
| **Assets** | (unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | **$ 845,064** | $ 850,958 |
| Short-term investments | **62,214** | 83,166 |
| Accounts receivable | **3,271,348** | 3,163,172 |
| Inventories | **419,878** | 414,169 |
| Due from brokers *(see Notes 4 and 5)* | **114,396** | 91,919 |
| Estimated third-party payor settlements | **151,209** | 129,693 |
| Other *(see Notes 4 and 5)* | **1,480,080** | 780,713 |
| Total current assets | **6,344,189** | 5,513,790 |
| Long-term investments *(see Notes 4 and 5)* | **19,244,791** | 19,404,559 |
| Property and equipment, net | **10,588,411** | 10,597,730 |
| Other assets: | | |
| Investment in unconsolidated entities | **1,184,400** | 1,139,306 |
| Capitalized software costs, net | **664,892** | 793,322 |
| Other *(see Notes 4 and 5)* | **1,189,670** | 1,078,905 |
| Total other assets | **3,038,962** | 3,011,533 |
| Total assets | **$ 39,216,353** | $ 38,527,612 |

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## Consolidated Balance Sheets (continued)

*(Dollars in Thousands)*

| | March 31, 2019 | June 30, 2018 |
|---|---|---|
| **Liabilities and net assets** | (unaudited) | |
| Current liabilities: | | |
| Current portion of long-term debt | **$ 125,712** | $ 100,919 |
| Long-term debt subject to short-term remarketing arrangements* | **838,025** | 738,770 |
| Accounts payable and accrued liabilities *(see Notes 4 and 5)* | **2,744,191** | 2,915,838 |
| Estimated third-party payor settlements | **617,717** | 683,229 |
| Due to brokers *(see Notes 4 and 5)* | **321,821** | 253,264 |
| Current portion of self-insurance liabilities | **249,020** | 288,975 |
| Other | **885,168** | 407,496 |
| Total current liabilities | **5,781,654** | 5,388,491 |
| | | |
| Noncurrent liabilities: | | |
| Long-term debt (senior and subordinated) | **6,971,133** | 7,123,611 |
| Self-insurance liabilities | **717,343** | 756,028 |
| Pension and other postretirement liabilities | **678,090** | 914,045 |
| Other *(see Notes 4 and 5)* | **1,283,746** | 1,227,680 |
| Total noncurrent liabilities | **9,650,312** | 10,021,364 |
| Total liabilities | **15,431,966** | 15,409,855 |
| | | |
| Net assets: | | |
| Unrestricted | | |
| Controlling interest | **21,100,641** | 20,446,065 |
| Noncontrolling interests | **1,905,326** | 1,930,466 |
| Unrestricted net assets | **23,005,967** | 22,376,531 |
| | | |
| Temporarily restricted | **543,755** | 508,900 |
| Permanently restricted | **234,665** | 232,326 |
| | | |
| Total net assets | **23,784,387** | 23,117,757 |
| | | |
| Total liabilities and net assets | **$ 39,216,353** | $ 38,527,612 |

*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 (unaudited) (continued)

*(Dollars in Thousands)*

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Operating revenue: | | | | |
| Net patient service revenue | **5,887,722** | 5,442,982 | **17,646,857** | 15,987,785 |
| Other revenue | **410,624** | 338,109 | **1,257,506** | 1,097,181 |
| Total operating revenue | **6,298,346** | 5,781,091 | **18,904,363** | 17,084,966 |
| Operating expenses: | | | | |
| Salaries and wages | **2,543,340** | 2,349,381 | **7,626,226** | 6,938,180 |
| Employee benefits | **490,015** | 448,508 | **1,505,190** | 1,393,117 |
| Purchased services | **677,772** | 579,309 | **1,971,578** | 1,688,229 |
| Professional fees | **315,802** | 311,131 | **941,474** | 920,248 |
| Supplies | **917,001** | 824,714 | **2,771,206** | 2,483,604 |
| Insurance | **68,563** | 56,828 | **206,743** | 169,932 |
| Interest | **67,059** | 60,490 | **201,425** | 171,853 |
| Provider tax | **162,876** | 131,346 | **454,955** | 378,240 |
| Depreciation and amortization | **303,836** | 282,501 | **910,058** | 824,279 |
| Other | **616,885** | 613,144 | **1,890,469** | 1,857,831 |
| Total operating expenses before impairment, restructuring and nonrecurring losses, net | **6,163,149** | 5,657,352 | **18,479,324** | 16,825,513 |
| Income from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring losses, net | **135,197** | 123,739 | **425,039** | 259,453 |
| Self-insurance trust fund investment return | **35,814** | (4,964) | **10,218** | 22,318 |
| Income from recurring operations | **171,011** | 118,775 | **435,257** | 281,771 |
| Impairment, restructuring and nonrecurring losses, net | **(26,433)** | (46,304) | **(68,863)** | (124,644) |
| Income from operations | **144,578** | 72,471 | **366,394** | 157,127 |
| Nonoperating gains (losses): | | | | |
| Investment return | **1,141,177** | 210,165 | **341,373** | 1,171,110 |
| Contributions from business combinations | **57,559** | 390,695 | **57,559** | 390,695 |
| Other | **(40,544)** | (306) | **(77,010)** | (38,050) |
| Total nonoperating gains (losses), net | **1,158,192** | 600,554 | **321,922** | 1,523,755 |
| Excess of revenues and gains over expenses and losses | **1,302,770** | 673,025 | **688,316** | 1,680,882 |
| Less noncontrolling interests | **131,024** | 28,160 | **84,447** | 153,846 |
| Excess of revenues and gains over expenses and losses attributable to controlling interest | **1,171,746** | 644,865 | **603,869** | 1,527,036 |

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# Ascension

## Consolidated Statements of Cash Flows (unaudited)

*(Dollars in Thousands)*

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Unrestricted net assets, controlling interest: | | | | |
| Excess of revenues and gains over expenses and losses | **$ 1,171,746** | $ 644,865 | **$ 603,869** | $ 1,527,036 |
| Transfers to sponsors and other affiliates, net | **(1,221)** | (1,258) | **(4,080)** | (4,618) |
| Net assets released from restrictions for property acquisitions | **14,325** | 19,410 | **31,721** | 36,516 |
| Pension and other postretirement liability adjustments | **15,587** | 17,708 | **46,773** | 52,458 |
| Change in unconsolidated entities' net assets | **2,660** | (431) | **1,871** | 5,075 |
| Membership interest changes, net | **(18,603)** | 87 | **(18,603)** | 87 |
| Other | **(11,929)** | (40) | **(5,167)** | 6,055 |
| Increase in unrestricted net assets, controlling interest | **1,172,565** | 680,341 | **656,384** | 1,622,609 |
| Gain (loss) from discontinued operations | **4,306** | 360 | **(1,808)** | 6,608 |
| Increase in unrestricted net assets, controlling interest | **1,176,871** | 680,701 | **654,576** | 1,629,217 |
| Unrestricted net assets, noncontrolling interests: | | | | |
| Excess of revenues and gains over expenses and losses | **131,024** | 28,160 | **84,447** | 153,846 |
| Net distributions of capital | **(80,094)** | (24,791) | **(128,190)** | (48,491) |
| Membership interest changes, net | **18,604** | (29,216) | **18,602** | (27,653) |
| Contributions from business combinations | **-** | 5,568 | **-** | 5,568 |
| Other | **(2)** | 1 | **1** | (1) |
| Increase (decrease) in unrestricted net assets, noncontrolling interests | **69,532** | (20,278) | **(25,140)** | 83,269 |
| Temporarily restricted net assets, controlling interest: | | | | |
| Contributions and grants | **26,574** | 26,620 | **88,761** | 75,930 |
| Investment return | **20,236** | 546 | **7,415** | 20,633 |
| Net assets released from restrictions | **(26,973)** | (33,009) | **(65,551)** | (75,996) |
| Contributions from business combinations | **-** | 17,856 | **-** | 17,856 |
| Other | **4,753** | 1,142 | **4,230** | 5,753 |
| Increase in temporarily restricted net assets, controlling interest | **24,590** | 13,155 | **34,855** | 44,176 |
| Permanently restricted net assets, controlling interest: | | | | |
| Contributions | **343** | 607 | **2,348** | 4,638 |
| Investment return | **5,136** | 2,393 | **1,274** | 6,668 |
| Contributions from business combinations | **-** | 13,497 | **-** | 13,497 |
| Other | **(185)** | 456 | **(1,283)** | (214) |
| Increase in permanently restricted net assets, controlling interest | **5,294** | 16,953 | **2,339** | 24,589 |
| Increase in net assets | **1,276,287** | 690,531 | **666,630** | 1,781,251 |
| Net assets, beginning of period | **22,508,100** | 21,504,844 | **23,117,757** | 20,414,124 |
| Net assets, end of period | **$ 23,784,387** | $ 22,195,375 | **$ 23,784,387** | $ 22,195,375 |

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

# Ascension

## Consolidated Statements of Cash Flows (unaudited) (continued)

*(Dollars in Thousands)*

| | Nine Months Ended March 31, 2019 | Nine Months Ended March 31, 2018 |
|---|---|---|
| **Operating activities** | | |
| Increase in net assets | **$ 666,630** | $ 1,781,251 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | **910,058** | 824,279 |
| Amortization of bond premiums and debt issuance costs | **(18,329)** | (13,218) |
| Loss on extinguishment of debt | **98** | 9,850 |
| Pension and other postretirement liability adjustments | **(46,773)** | (52,458) |
| Contributions from business combinations | **(46,561)** | (427,616) |
| Unrealized (gains) losses on investments, net | **23,774** | (445,217) |
| Change in fair value of interest rate swaps | **12,804** | (38,150) |
| Change in equity of unconsolidated entities | **(126,277)** | (60,242) |
| Gain on sale of assets, net | **(36,874)** | (42,906) |
| Impairment and nonrecurring expenses | **1,159** | 1,792 |
| Transfers to sponsor and other affiliates, net | **4,080** | 4,618 |
| Restricted contributions, investment return, and other | **(105,497)** | (128,981) |
| Other restricted activity | **(28,506)** | (41,464) |
| Distributions of noncontrolling interest, net | **128,190** | 48,491 |
| Other | **(205)** | (170) |
| Increase (decrease) in: | | |
| Short-term investments | **20,951** | (46,967) |
| Accounts receivable | **(142,005)** | (109,118) |
| Inventories and other current assets | **(476,200)** | 20,215 |
| Due from brokers | **(22,477)** | 78,273 |
| Investments classified as trading | **161,522** | (712,666) |
| Other assets | **(98,060)** | 203,720 |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | **(174,126)** | (376,528) |
| Estimated third-party payor settlements, net | **(81,824)** | (35,345) |
| Due to brokers | **68,557** | 78,057 |
| Other current liabilities | **477,155** | (24,105) |
| Self-insurance liabilities | **(78,640)** | 1,249 |
| Other noncurrent liabilities | **(164,643)** | (142,645) |
| Net cash provided by continuing operating activities | **827,981** | 353,999 |
| Net cash used in discontinued operations | **(1,589)** | (6,554) |
| Net cash provided by operating activities | **826,392** | 347,445 |

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# Ascension

## Consolidated Statements of Cash Flows (unaudited) (continued)

*(Dollars in Thousands)*

| | Nine Months Ended March 31, 2019 | Nine Months Ended March 31, 2018 |
|---|---|---|
| **Investing activities** | | |
| Property, equipment, and capitalized software additions, net | **$ (857,151)** | $ (693,605) |
| Proceeds from sale of property and equipment | **38,290** | 14,153 |
| Distributions from unconsolidated entities, net | **77,346** | 179,408 |
| Net proceeds from sale/acquisition of other assets | **-** | 12,500 |
| Net cash used by continuing investing activities | **(741,515)** | (487,544) |
| Net cash provided by discontinued operations - investing | **20,727** | - |
| Net cash used in investing activities | **(720,788)** | (487,544) |
| | | |
| **Financing activities** | | |
| Issuance of debt | **-** | 491,690 |
| Repayment of debt | **(87,013)** | (573,529) |
| Debt issuance costs paid | **(247)** | (2,489) |
| Decrease in assets under bond indenture agreements | **2,535** | 15,695 |
| Transfers to sponsors and other affiliates, net | **(4,080)** | (4,618) |
| Restricted contributions, investment return, and other | **105,497** | 130,756 |
| Distributions of noncontrolling interest, net | **(128,190)** | (48,491) |
| Net cash (used in) provided by financing activities | **(111,498)** | 9,014 |
| | | |
| Net decrease in cash and cash equivalents | (5,894) | (131,085) |
| Cash and cash equivalents at beginning of period | **850,958** | 857,605 |
| Cash and cash equivalents at end of period | **$ 845,064** | $ 726,520 |

*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 21 states and the District of Columbia.

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

- Ascension Care Management
- Ascension Connect
- Ascension Global Mission
- Ascension Healthcare
- Ascension Holdings
- Ascension Technologies
- Ascension Investment Management (AIM)
- Ascension Leadership Academy
- Ascension Associate Assistance 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.

### 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

**1. Organization and Mission (continued)**

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.

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

*(Dollars in Thousands)*

## 1. Organization and Mission (continued)

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 $445,565 and $449,998 for the nine months ended March 31, 2019 and 2018, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost is reported in the accompanying supplementary information.

## 2. Significant Accounting Policies

### Principles of Consolidation

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

| | Nine Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Other revenue | **$ 108,346** | $ 62,846 |
| Nonoperating gains | **5,542** | 7,077 |

### 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.

## 2. Significant Accounting Policies (continued)

### Fair Value of Financial Instruments

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

### New Accounting Standards

The System adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the full retrospective method of application, and our accounting policies related to revenues were revised accordingly effective July 1, 2018, as discussed below. The most significant impact of adopting the new standard is to the presentation of the System's Consolidated Statements of Operations and Changes in Net Assets, where the provision for doubtful accounts is no longer a separate line item and net patient service revenue is presented net of estimated implicit price concessions (formerly referred to as bad debt allowance). The adoption of the new standard did not have an impact on the System's recognition of net revenues for any periods prior to adoption and eliminated the presentation of the allowance for doubtful accounts on the Consolidated Balance Sheets.

### 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 $1,326,000 and $1,391,000 at March 31, 2019 and June 30, 2018, respectively, comprised primarily of investments placed in trust and held by captive insurance companies for the payment of self-insured claims and investments which are limited as to use, as designated by donors.

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

**Property and Equipment**

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives used in computing depreciation is as follows: buildings and leasehold improvements, 2 to 40 years; and equipment, 2 to 20 years. Depreciation expense for the nine months ended March 31, 2019 and 2018 was $737,727 and $657,469 respectively.

*(Dollars in Thousands)*

## 2. Significant Accounting Policies (continued)

A summary of property and equipment at March 31, 2019 and June 30, 2018 is as follows:

| | March 31, 2019 | June 30, 2018 |
|---|---|---|
| Land and improvements | **$ 1,253,803** | $ 1,252,833 |
| Buildings and equipment | **19,056,740** | 18,684,610 |
| | **20,310,543** | 19,937,443 |
| Less accumulated depreciation | **10,407,474** | 10,019,090 |
| | **9,903,069** | 9,918,353 |
| Construction in progress | **685,342** | 679,377 |
| Total property and equipment, net | **$ 10,588,411** | $ 10,597,730 |

Several capital projects have remaining construction and related equipment purchase commitments of approximately $763,000 as of March 31, 2019.

### Intangible Assets

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

*(Dollars in Thousands)*

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

Capitalized software costs in the following table include software in progress of $116,161 and $143,562 at March 31, 2019 and June 30, 2018, respectively:

| | March 31, 2019 | June 30, 2018 |
|---|---|---|
| Capitalized software costs | **$ 2,317,057** | $ 2,319,947 |
| Less accumulated amortization | **1,652,165** | 1,526,625 |
| Capitalized software costs, net | **664,892** | 793,322 |
| Goodwill | **256,896** | 212,061 |
| Other, net | **45,526** | 23,361 |
| Intangible assets included in other assets | **302,422** | 235,422 |
| Total intangible assets, net | **$ 967,314** | $ 1,028,744 |

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets for the nine months ended March 31, 2019 and 2018 was $172,331 and $166,810, respectively.

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 at both March 31, 2019 and June 30, 2018 and are being amortized on a straight-line basis over the expected useful life of the software. Accumulated amortization of Symphony was approximately $225,000 and $195,000 at March 31, 2019 and June 30, 2018, respectively. See the Impairment, Restructuring, and Nonrecurring Losses discussion below for additional information about costs associated with Symphony.

## 2. Significant Accounting Policies (continued)

### 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.

### 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.

## 2. Significant Accounting Policies (continued)

### Net Patient Service Revenue and Accounts Receivable

Net patient service revenue relates to contracts with patients and in most cases involve a third-party payor (Medicare, Medicaid, commercial and other managed care insurance companies) in which the System's performance obligations are to provide health care services. Net patient service revenues are recorded during the period in which obligations to provide health care services are satisfied at expected collectible amounts. Requirements to recognize revenue for inpatient services are generally satisfied over periods that average approximately five days and for outpatient services are generally satisfied over a period of less than one day. Revenue is accrued to estimate the amount of revenue earned to date for patients who have not been discharged and whose care services are not complete as of the reporting period.

We determine the transaction price based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with our charity care policy, and implicit price concessions provided primarily to uninsured patients. Patients who have health care insurance may also have discounts applied related to their copayment or deductible. Implicit price concessions are recorded as a direct reduction to net patient service revenue and are based primarily on historical collection experience. We determine our estimates of contractual adjustments and discounts based on contractual agreements, our discount policies and historical experience. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and frequent changes in commercial and managed care contractual terms resulting from contract renegotiations and renewals.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by $109,675 and $51,500 for the nine months ended March 31, 2019 and 2018, respectively.

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

*(Dollars in Thousands)*

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

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

The percentage of net patient service revenue earned by payor for the periods ended March 31, 2019 and 2018, is as follows:

| | March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Medicare - traditional and managed | **36 %** | 35 % |
| Medicaid - traditional and managed | **14** | 13 |
| Other commercial and managed care | **44** | 44 |
| Self-Pay and other | **6** | 8 |
| | **100 %** | 100 % |

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

*(Dollars in Thousands)*

## 2. Significant Accounting Policies (continued)

The System grants credit without collateral to its patients. Significant concentrations of accounts receivable as of March 31, 2019 and June 30, 2018, are as follows:

| | **March 31, 2019** | **June 30, 2018** |
|---|---|---|
| Medicare - traditional and managed | **28 %** | 27 % |
| Medicaid - traditional and managed | **12** | 12 |
| Other commercial and managed care | **41** | 40 |
| Self-Pay and other | **19** | 21 |
| | **100 %** | 100 % |

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

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

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

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

**Other Operating Revenue**

Other operating 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 $44,333 and $45,929 for the nine months ended March 31, 2019 and 2018, respectively. Assets sold during the nine months ended March 31, 2019 and 2018 included patient care equipment. The adoption of ASU 2014-09 did not have a material impact as it relates to other operating revenue.

**Impairment, Restructuring, and Nonrecurring Losses**

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

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

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

During the nine months ended March 31, 2019, the System recorded total impairment, restructuring, and nonrecurring losses, net of $68,863. This amount was comprised primarily of one-time termination benefits and other restructuring expenses of $49,281 and other nonrecurring expenses of $19,582.

During the nine months ended March 31, 2018, the System recorded total impairment, restructuring, and nonrecurring losses, net of $124,644. This amount was comprised primarily of $12,649 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of $57,226, and other nonrecurring expenses of $54,769.

## 2. Significant Accounting Policies (continued)

### 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 March 31, 2019.

In compliance with the Tax Cuts and Jobs Act of 2017, enacted in March 2018, the federal components of the deferred tax assets were revalued from 35% to 21%. The valuation allowance related to these deferred tax assets remains valued at 21% in accordance with the Act.

### 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.

## 2. Significant Accounting Policies (continued)

### Reclassifications

Certain reclassifications were made to the accompanying March 31, 2018 consolidated financial statements to conform to the March 31, 2019 presentation.

### Subsequent Events

The System evaluates the impact of subsequent events, which are events that occur after the Consolidated Balance Sheet date but before the consolidated financial statements are issued, for potential recognition or disclosure in the consolidated financial statements as of the Consolidated Balance Sheet date. For the nine months ended March 31, 2019, the System evaluated subsequent events through May 16, 2019, representing the date on which the accompanying consolidated financial statements were issued.

## 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.

*(Dollars in Thousands)*

**3. Organizational Changes (continued)**

| | 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.

The following pro forma financial information presents the combined results of operations of Ascension and Presence for the nine months ended March 31, 2018 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.

*(Dollars in Thousands)*

## 3. Organizational Changes (continued)

| | Nine Months Ended March 31, 2018 |
|---|---|
| Total operating revenue | $ 18,706,252 |
| Excess of revenues and gains over expenses and losses attributable to controlling interest | 1,172,342 |
| Increase in unrestricted net assets - controlling interest | 1,301,635 |
| Increase in unrestricted net assets - noncontrolling interests | 77,502 |
| Increase in temporarily restricted net assets | 18,629 |
| Increase in permanently restricted net assets | 8,589 |

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

*Bay County Health System, LLC – Florida*

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

### Divestitures

*Discontinued Operations*

During the nine months ended March 31, 2019 and 2018, Ascension, including certain of its wholly owned subsidiaries, completed the sale of, or undertook actions to sell or transfer ownership of, certain assets and liabilities.

## 3. Organizational Changes (continued)

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 was completed 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 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 while liabilities held for sale were $24,518 at June 30, 2018.

Net income of Lourdes Health, which include excess (deficit) of revenues over expenses, was included in the (loss) gain from discontinued operations in the Consolidated Statements of Operations and Changes in Net Assets. The (loss) gain from discontinued operations was ($1,808) and $6,608 for the nine months ended March 31, 2019 and 2018, respectively. Total operating revenues of the entities were $23,702 and $105,854 for the nine months ended March 31, 2019 and 2018, respectively.

### Assets Held for Sale

On September 28, 2018, Ascension Healthcare entered into an asset sale agreement with Hartford HealthCare Corporation for the nonprofit system to acquire St. Vincent's Medical Center, an Ascension Healthcare subsidiary located in Bridgeport, Connecticut, and substantially all of its related operations (St. Vincent facilities). The sale is expected to close after obtaining all necessary regulatory approvals.

Assets and liabilities associated with the aforementioned transaction are designated as assets and liabilities held for sale and included in other current assets and other current liabilities, respectively, in the System's Consolidated Balance Sheets. Assets and liabilities held for sale were $266,638 and $19,267 respectively, at March 31, 2019. Net income of the St. Vincent facilities 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 $72,285 and $70,974 for the nine months ended March 31, 2019 and 2018, respectively. Revenues of the St. Vincent facilities total $366,151 and $383,254 for the nine months ended March 31, 2019 and 2018, respectively.

## 3. Organizational Changes (continued)

### Other

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 March 31, 2019 and June 30, 2018, 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 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.

**4. Pooled Investment Fund (continued)**

Commitments not funded during the investment period will expire and remain unfunded. As of March 31, 2019, contractual agreements of the Alpha Fund expire between April 2019 and April 2024. The remaining unfunded capital commitments of the Alpha Fund total approximately $749,000 for 131 individual funds as of March 31, 2019. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments in the Alpha Fund.

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

At March 31, 2019 and June 30, 2018, the gross notional value of Alpha Fund derivatives outstanding was approximately $7,750,000 and $7,215,000, respectively.

The fair value of Alpha Fund derivatives in an asset position was $76,859 and $27,533 at March 31, 2019 and June 30, 2018, respectively, while the fair value of Alpha Fund derivatives in a liability position was $19,785 and $71,584 at March 31, 2019 and June 30, 2018, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets at March 31, 2019 and June 30, 2018.

The Alpha Fund also participates in a securities lending program, whereby a portion of the Alpha Fund's investments are loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned, usually on a short-term basis. The fair value of collateral held by the Alpha Fund associated with such lending agreements amounts to approximately $442,000 at March 31, 2019 and is included in other current assets in

**4. Pooled Investment Fund (continued)**

the Consolidated Balance Sheets, while the liability associated with the obligation to repay such collateral is also approximately $442,000 at March 31, 2019, and is included in other current liabilities in the Consolidated Balance Sheets.

The fair value of collateral received under the Alpha Fund's securities lending program is valued based on the type of collateral received. Cash collateral is invested in a commingled fund whose value is primarily determined using net asset values, which approximate fair value, as determined by an external fund manager based on significant observable market inputs such as available trades, quotes, benchmark curves, sector groupings, and matrix pricing. Non-cash collateral received under the program, primarily equity and fixed income securities, are valued based on the methods previously described.

Due from brokers and due to brokers on the Consolidated Balance Sheets at March 31, 2019 and June 30, 2018, 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.

| | March 31, 2019 | June 30, 2018 |
|---|---|---|
| Cash and cash equivalents | **$ 845,064** | $ 850,958 |
| Short-term investments | **62,214** | 83,166 |
| Long-term investments | **19,244,791** | 19,404,559 |
| Subtotal | **20,152,069** | 20,338,683 |
| Other Alpha Fund assets and liabilities: | | |
| In other current assets | **479,495** | 38,161 |
| In accounts payable and other accrued liabilities | **(11,968)** | (12,403) |
| In other current liabilities | **(442,110)** | - |
| In other noncurrent liabilities | **(719)** | (3,321) |
| Due (to) from brokers, net | **(207,425)** | (161,345) |
| Total cash and investments, net | **19,969,342** | 20,199,775 |
| Less noncontrolling interests of Alpha Fund | **1,691,291** | 1,714,371 |
| System cash and investments, including assets limited as to use | **18,278,051** | 18,485,404 |
| Less assets limited as to use: | | |
| Under bond indenture agreement | **1,100** | 3,635 |
| Self-insurance trust funds | **600,216** | 697,588 |
| Temporarily or permanently restricted | **725,042** | 689,988 |
| Total assets limited as to use | **1,326,358** | 1,391,211 |
| System unrestricted cash and investments, net | **$ 16,951,693** | $ 17,094,193 |

*(Dollars in Thousands)*

## 5. Cash and Investments (continued)

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

| | March 31, 2019 | June 30, 2018 |
|---|---|---|
| Cash and cash equivalents and short-term investments | **$ 1,081,195** | $ 1,137,098 |
| Pooled short-term investment funds | **301,050** | 965,960 |
| U.S. government, state, municipal and agency obligations | **3,322,846** | 2,752,951 |
| Corporate and foreign fixed income securities | **1,816,429** | 1,983,790 |
| Asset-backed securities | **2,438,532** | 1,610,733 |
| Equity securities | **5,137,669** | 5,766,018 |
| Alternative investments and other investments: | | |
| Private equity and real estate funds | **2,440,093** | 2,334,655 |
| Hedge funds | **2,124,712** | 2,325,236 |
| Commodities funds and other investments | **1,489,543** | 1,462,242 |
| Total alternative investments and other investments | **6,054,348** | 6,122,133 |
| Total cash and cash equivalents, short-term investments, and long-term investments | **$ 20,152,069** | $ 20,338,683 |

Investment return recognized by the System for the nine months ended March 31, 2019 and 2018, is summarized in the following table. Total investment return includes the System's return on certain investments held and managed outside the Alpha Fund and the investment return of the Alpha Fund. System investment return represents the System's total investment return, net of the investment return earned by the noncontrolling interests of other Alpha Fund members.

| | Nine Months Ended March 31, 2019 | 2018 |
|---|---|---|
| Interest and dividends | **$ 272,070** | $ 214,180 |
| Net gains on investments reported at fair value | **79,521** | 979,248 |
| Restricted investment return and unrealized gains, net | **8,689** | 27,301 |
| Total investment return | **360,280** | 1,220,729 |
| Less return earned by noncontrolling interests of Alpha Fund | **22,736** | 86,545 |
| System investment return | **$ 337,544** | $ 1,134,184 |

## 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.

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.

**6. Fair Value Measurements (continued)**

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

There were no significant transfers between Levels 1 and 2 during the nine months ended March 31, 2019 and 2018.

As of March 31, 2019, and June 30, 2018, the assets and liabilities listed in the fair value hierarchy tables below use the following valuation techniques and inputs:

*Cash and Cash Equivalents and Short-Term Investments*

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

*Pooled Short-term Investment Fund*

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

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

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

**6. Fair Value Measurements (continued)**

*Corporate and Foreign Fixed Income Securities*

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

*Asset-backed Securities*

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

*Equity Securities*

The fair value of investments in U.S. and international equity securities is primarily determined using techniques that are consistent with the market and income approaches. The values for underlying investments are based on readily available quoted market prices or represent fair value estimates 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.

**6. Fair Value Measurements (continued)**

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

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

*Benefit Plan Assets*

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

*Interest Rate Swap Assets and Liabilities*

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

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

*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 March 31, 2019, for all financial assets and liabilities measured at fair value on a recurring basis in the System's consolidated financial statements:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **March 31, 2019** | | | | |
| Cash equivalents | $ 42,760 | $ 598 | $ - | $ 43,358 |
| Short-term investments | 50,438 | 52,948 | - | 103,386 |
| Pooled short-term investment funds | 301,050 | - | - | 301,050 |
| U.S. government, state, municipal and agency obligations | - | 3,322,846 | - | 3,322,846 |
| Corporate and foreign fixed income securities | - | 1,765,634 | 13,823 | 1,779,457 |
| Asset-backed securities | - | 2,286,076 | 152,456 | 2,438,532 |
| Equity securities | 4,228,208 | 56,643 | 11,738 | 4,296,589 |
| Alternative investments and other investments: | | | | |
| Private equity and real estate funds | 2,779 | 2,500 | 279,805 | 285,084 |
| Commodities funds and other investments | 32,337 | 55,910 | 2,904 | 91,151 |
| Assets at net asset value: | | | | |
| Corporate and foreign fixed income securities | | | | 36,972 |
| Equity securities | | | | 841,080 |
| Private equity and real estate funds | | | | 2,155,009 |
| Hedge funds | | | | 2,130,354 |
| Commodities funds and other investments | | | | 1,315,302 |
| Cash and other investments not at fair value | | | | 1,011,899 |
| Cash and investments | | | | $ 20,152,069 |
| Securities lending collateral, in other current assets | $ 208,822 | $ 233,288 | $ - | $ 442,110 |
| Benefit plan assets, in other noncurrent assets | $ 441,782 | $ - | $ 48,224 | $ 490,006 |
| Interest rate swaps, in other noncurrent assets | - | 2,597 | - | 2,597 |
| Investments sold, not yet purchased, in other noncurrent liabilities | - | 719 | - | 719 |
| Interest rate swaps, included in other noncurrent liabilities | - | 122,252 | - | 122,252 |

*(Dollars in Thousands)*

## 6. Fair Value Measurements (continued)

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

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

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

*(Dollars in Thousands)*

## 6. Fair Value Measurements (continued)

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

| | Short-term investments | Corporate and Foreign Fixed Income Securities | Asset-Backed Securities | Equity Securities | Private Equity and Real Estate Funds | Commodities Funds and Other Investments | Benefit Plan Assets |
|---|---|---|---|---|---|---|---|
| **Nine Months Ended March 31, 2019** | | | | | | | |
| Beginning balance | $ 1,130 | $ 11,956 | $ 305,278 | $ 29,239 | $ 295,109 | $ 1,121 | $ 47,827 |
| Total realized and unrealized gains (losses): | | | | | | | |
| Included in nonoperating gains (losses) | - | 45 | (5,543) | (3,466) | 71,280 | 17,049 | - |
| Included in changes in net assets | - | - | - | - | - | (11) | - |
| Purchases | - | 5,407 | 101,273 | 7,579 | 38,323 | (1,202) | 1,897 |
| Issuances | - | - | - | - | 594 | - | - |
| Sales | - | (6,999) | (101,851) | (310) | (125,242) | (12,238) | (7,228) |
| Transfers into Level 3 | - | 6,517 | 2,158 | - | 44 | - | 7,979 |
| Transfers out of Level 3 | (1,130) | (3,103) | (148,859) | (21,304) | (303) | (1,815) | (2,251) |
| Ending balance | $ - | $ 13,823 | $ 152,456 | $ 11,738 | $ 279,805 | $ 2,904 | $ 48,224 |
| The amount of total gains or losses for the period included in nonoperating gains (losses) attributable to the changes in unrealized gains or losses relating to assets still held at March 31, 2019 | $ - | $ (208) | $ (5,967) | $ (3,320) | $ - | $ (107) | $ - |

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

*(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 |

*(Dollars in Thousands)*

## 6. Fair Value Measurements (continued)

For the three months ended March 31, 2018, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following:

| | Short-term investments | Corporate and Foreign Fixed Income Securities | Asset-Backed Securities | Equity Securities | Private Equity and Real Estate Funds | Commodities Funds and Other Investments | Benefit Plan Assets |
|---|---|---|---|---|---|---|---|
| **Three Months Ended March 31, 2018** | | | | | | | |
| Beginning balance | $ 387 | $ 30,909 | $ 228,434 | $ 837 | $ 224,770 | $ 31,275 | $ 46,001 |
| Total realized and unrealized gains (losses): | | | | | | | |
| Included in nonoperating gains (losses) | - | (441) | 982 | 344 | 27,580 | 6,083 | - |
| Included in changes in net assets | - | - | - | - | - | 10 | - |
| Purchases | - | 4,578 | 112,066 | 305 | 2,190 | (514) | 5,647 |
| Sales | - | (4,119) | (44,697) | (60) | (6,067) | (28,144) | (8,314) |
| Transfers into Level 3 | - | - | - | 3,001 | - | 10 | 15,330 |
| Transfers out of Level 3 | (387) | (20,141) | (669) | - | - | - | (9,554) |
| Ending balance | $ - | $ 10,786 | $ 296,116 | $ 4,427 | $ 248,438 | $ 8,720 | $ 49,110 |
| The amount of total gains or losses for the period included in nonoperating gains (losses) attributable to the changes in unrealized gains or losses relating to assets still held at March 31, 2018 | $ - | $ (420) | $ 211 | $ 371 | $ - | $ 4,782 | $ - |

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)

For the nine months ended March 31, 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 |
|---|---|---|---|---|---|---|---|
| **Nine Months Ended March 31, 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) | - | (503) | 5,838 | 828 | 47,898 | 1,144 | - |
| Included in changes in net assets | - | - | - | - | - | 55 | - |
| Purchases | - | 6,168 | 223,256 | 530 | 37,372 | 2,101 | 8,147 |
| Issuances | - | - | - | - | 42 | - | - |
| Sales | - | (6,127) | (124,325) | (1,665) | (78,294) | (2,262) | (14,942) |
| Transfers into Level 3 | - | - | - | - | - | 189 | 9,504 |
| Transfers out of Level 3 | (345) | (16,871) | (1,864) | (4) | - | - | (8,297) |
| Ending balance | $ - | $ 10,786 | $ 296,116 | $ 4,427 | $ 248,438 | $ 8,720 | $ 49,110 |
| The amount of total gains or losses for the period included in nonoperating gains (losses) attributable to the changes in unrealized gains or losses relating to assets still held at March 31, 2018 | $ - | $ (523) | $ 2,444 | $ 756 | $ (8,600) | $ 4,782 | $ - |

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.

## 7. 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 System’s Master Trust Indenture. 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.

*(Dollars in Thousands)*

## 7. Derivative Instruments (continued)

At March 31, 2019 and June 30, 2018, the notional values of outstanding interest rate swaps were as follows:

| | March 31, 2019 | June 30, 2018 |
|---|---|---|
| Ascension Health Alliance MTI | **$ 1,020,775** | $ 1,084,975 |

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 were as follows:

| | March 31, 2019 | | June 30, 2018 | |
|---|---|---|---|---|
| | Asset | Liability | Asset | Liability |
| Ascension Health Alliance MTI | **$ 2,597** | **$ 122,252** | **$ 1,930** | **$ 108,781** |

The System's interest rate swap agreements include collateral requirements for each counterparty under such agreements, based upon specific contractual criteria, subject to master netting arrangements. Collateral requirements are calculated based on the System's credit ratings. The applicable credit rating is the Senior Credit Group long-term debt credit ratings (Senior Debt Credit Ratings), as obtained from each of two major credit rating agencies. Credit rating and the net liability position of total interest rate swap agreements outstanding with each counterparty determine the amount of collateral to be posted. No collateral was posted at March 31, 2019 and June 30, 2018.

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

*(Dollars in Thousands)*

## 8. 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 other trusts (the Other Trusts). 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.

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.

Most System defined benefit plans were frozen effective December 31, 2012. Two of the System Plans remain ongoing at March 31, 2019.

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

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Components of net periodic benefit cost** | | | | |
| Service cost | **$ 171** | $ 450 | **$ 512** | $ 5,889 |
| Interest cost | **97,285** | 88,194 | **291,993** | 258,807 |
| Expected return on plan assets | **(179,427)** | (171,629) | **(538,282)** | (506,474) |
| Amortization of prior service credit | **(629)** | (684) | **(1,888)** | (2,054) |
| Amortization of actuarial loss | **16,523** | 18,600 | **49,580** | 55,801 |
| Net periodic benefit cost | **$ (66,077)** | $ (65,069) | **$ (198,085)** | $ (188,031) |

*(Dollars in Thousands)*

## 9. Contingencies and Commitments

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

The System enters into agreements with non-employed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The maximum amount of future payments that the System could be required to make under these guarantees is approximately $6,300.

The System entered into Master Service Agreements for information technology services provided by third parties. The maximum amount of future payments that the System could be required to make under these agreements is approximately $273,000.
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 March 31, 2019:

| | | |
|---|---|---|
| Hospital de la Concepción 2017 Series A debt guarantee | $ | 23,330 |
| St. Vincent de Paul Series 2000 A debt guarantee | | 28,300 |
| Other guarantees and commitments | | 33,200 |

Supplementary Information

*(Dollars in Thousands)*

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

| | Nine Months Ended March 31, | |
|---|---|---|
| | **2019** | **2018** |
| Traditional charity care provided | **$ 445,565** | $ 449,998 |
| Unpaid cost of public programs for persons living in poverty | **674,172** | 796,234 |
| Other programs for persons living in poverty and other vulnerable persons | **107,275** | 136,945 |
| Community benefit programs | **251,016** | 216,707 |
| Care of persons living in poverty and other community benefit programs | **$ 1,478,028** | $1,599,884 |