Consolidated Financial Statements and Supplementary Information

Ascension Health Alliance
d/b/a Ascension
Years Ended June 30, 2016 and 2015
With Reports of Independent Auditors

Ascension

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2016 and 2015

Contents

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Report of Independent Auditors

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, 2016 and 2015, and the related consolidated statements of operations and changes in nets 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, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

September 12, 2016

Ascension

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2016		June 30, 2015	
Assets				
Current assets:				
Cash and cash equivalents	**$**	**696,237**	$	688,228
Short-term investments		**122,545**		146,822
Accounts receivable, less allowance for doubtful accounts ($1,362,060 and $1,280,568 at June 30, 2016 and 2015, respectively)		**2,746,506**		2,520,115
Inventories		**349,077**		324,423
Due from brokers *(see Notes 4 and 5)*		**313,717**		148,865
Estimated third-party payor settlements		**186,354**		226,122
Other *(see Notes 4 and 5)*		**978,744**		973,109
Total current assets		**5,393,180**		5,027,684
Long-term investments *(see Notes 4 and 5)*		**15,069,123**		14,990,505
Property and equipment, net		**9,020,005**		8,273,930
Other assets:				
Investment in unconsolidated entities		**1,115,871**		789,693
Capitalized software costs, net		**926,710**		790,881
Other *(see Notes 4 and 5)*		**944,288**		972,197
Total other assets		**2,986,869**		2,552,771
Total assets	**$**	**32,469,177**	$	30,844,890

	June 30,	
	2016	**2015**
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 96,193**	$ 84,985
Long-term debt subject to short-term remarketing arrangements*	**1,666,245**	1,176,790
Accounts payable and accrued liabilities *(see Notes 4 and 5)*	**2,500,748**	2,314,922
Estimated third-party payor settlements	**513,677**	416,908
Due to brokers *(see Notes 4 and 5)*	**105,660**	131,061
Current portion of self-insurance liabilities	**219,638**	247,356
Other	**292,044**	367,130
Total current liabilities	**5,394,205**	4,739,152
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	**5,427,616**	5,010,084
Self-insurance liabilities	**513,985**	513,856
Pension and other postretirement liabilities	**1,298,653**	564,342
Other *(see Notes 4 and 5)*	**1,241,678**	1,084,794
Total noncurrent liabilities	**8,481,932**	7,173,076
Total liabilities	**13,876,137**	11,912,228
Net assets:		
Unrestricted		
Controlling interest	**16,498,086**	16,749,357
Noncontrolling interests	**1,429,444**	1,572,608
Unrestricted net assets	**17,927,530**	18,321,965
Temporarily restricted	**467,994**	417,909
Permanently restricted	**197,516**	192,788
Total net assets	**18,593,040**	18,932,662
Total liabilities and net assets	**$ 32,469,177**	$ 30,844,890

*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, 2017. 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 drawon the line of credit totaling $1billion, and issuing commercial paper. The commercial paper program is supported by $500 million of the $1billion 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,	
	2016	**2015**
Operating revenue:		
Net patient service revenue	**$ 21,301,133**	$ 19,857,725
Less provision for doubtful accounts	**1,142,289**	1,101,118
Net patient service revenue, less provision for doubtful accounts	**20,158,844**	18,756,607
Other revenue	**1,739,490**	1,782,196
Total operating revenue	**21,898,334**	20,538,803
Operating expenses:		
Salaries and wages	**9,043,625**	8,518,165
Employee benefits	**1,748,110**	1,733,798
Purchased services	**1,500,887**	1,256,530
Professional fees	**1,369,103**	1,268,911
Supplies	**3,114,261**	2,903,487
Insurance	**160,232**	158,786
Interest	**194,962**	196,013
Depreciation and amortization	**1,032,541**	949,477
Other	**2,737,244**	2,707,929
Total operating expenses before impairment, restructuring and nonrecurring losses, net	**20,900,965**	19,693,096
Income from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring losses, net	**997,369**	845,707
Self-insurance trust fund investment return	**(16,334)**	(15,137)
Impairment, restructuring and nonrecurring losses, net	**(227,832)**	(134,022)
Income from operations	**753,203**	696,548
Nonoperating gains (losses):		
Investment return	**(358,297)**	36,455
Loss on extinguishment of debt	**(13,594)**	(992)
Losses on interest rate swaps	**(86,536)**	(23,596)
(Loss) income from unconsolidated entities	**(40,649)**	5,210
Contributions from business combinations	**304,961**	-
Other	**(81,339)**	(75,852)
Total nonoperating losses, net	**(275,454)**	(58,775)
Excess of revenues and gains over expenses and losses	**477,749**	637,773
Less noncontrolling interests	**16,365**	75,177
Excess of revenues and gains over expenses and losses attributable to controlling interest	**461,384**	562,596

Continued on next page.

Ascension

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

(Dollars in Thousands)

	Year Ended June 30, 2016	2015
Unrestricted net assets, controlling interest:		
Excess of revenues and gains over expenses and losses	**$ 461,384**	$ 562,596
Transfers to sponsors and other affiliates, net	**(8,654)**	(14,877)
Net assets released from restrictions for property acquisitions	**45,058**	38,008
Pension and other postretirement liability adjustments	**(729,197)**	(513,220)
Change in unconsolidated entities' net assets	**(6,976)**	(15,874)
Other	**3,344**	592
(Decrease) increase in unrestricted net assets, controlling interest, before loss from discontinued operations	**(235,041)**	57,225
Loss from discontinued operations	**(16,230)**	(44,058)
(Decrease) increase in unrestricted net assets, controlling interest	**(251,271)**	13,167
Unrestricted net assets, noncontrolling interests:		
Excess of revenues and gains over expenses and losses	**16,365**	75,177
Distributions of capital	**(254,788)**	(195,794)
Contributions of capital	**96,150**	47,192
Membership interest changes, net	**-**	(5,824)
Other	**(891)**	(4,249)
Decrease in unrestricted net assets, noncontrolling interests	**(143,164)**	(83,498)
Temporarily restricted net assets, controlling interest:		
Contributions and grants	**140,210**	117,547
Investment return	**(4,643)**	6,491
Net assets released from restrictions	**(97,392)**	(98,959)
Contributions from business combinations	**16,091**	-
Other	**(4,181)**	1,604
Increase in temporarily restricted net assets, controlling interest	**50,085**	26,683
Permanently restricted net assets, controlling interest:		
Contributions	**5,298**	6,087
Investment return	**(1,706)**	1,278
Contributions from business combinations	**2,363**	-
Other	**(1,227)**	(6,192)
Increase in permanently restricted net assets, controlling interest	**4,728**	1,173
Decrease in net assets	**(339,622)**	(42,475)
Net assets, beginning of year	**18,932,662**	18,975,137
Net assets, end of year	**$18,593,040**	$ 18,932,662

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, 2016	2015
Operating activities		
Decrease in net assets	**$ (339,622)**	$ (42,475)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	**1,032,541**	949,477
Amortization of bond premiums	**(20,714)**	(22,657)
Loss on extinguishment of debt	**13,594**	992
Provision for doubtful accounts	**1,148,342**	1,105,816
Pension and other postretirement liability adjustments	**729,197**	513,220
Contributions from business combinations	**(323,415)**	-
Unrealized losses on investments, net	**493,528**	457,096
Change in fair value of interest rate swaps	**84,433**	21,780
Gain on sale of assets, net	**(192,042)**	(38,167)
Impairment and nonrecurring expenses	**21,271**	27,968
Transfers to sponsor and other affiliates, net	**8,654**	14,877
Restricted contributions, investment return, and other	**(165,458)**	(129,843)
Other restricted activity	**(61,162)**	(20,087)
Distributions of noncontrolling interest, net	**158,638**	148,602
Other	**(222)**	(261)
Decrease (increase) in:		
Short-term investments	**71,832**	(43,877)
Accounts receivable	**(1,190,839)**	(1,230,601)
Inventories and other current assets	**(64,525)**	(57,801)
Due from brokers	**(164,852)**	(111,379)
Investments classified as trading	**(516,524)**	(436,686)
Other assets	**108,461**	42,581
Increase (decrease) in:		
Accounts payable and accrued liabilities	**7,596**	39,674
Estimated third-party payor settlements, net	**128,440**	(22,753)
Due to brokers	**(25,401)**	47,285
Other current liabilities	**(89,934)**	113,974
Self-insurance liabilities	**(53,004)**	(7,409)
Other noncurrent liabilities	**(200,824)**	(325,766)
Net cash provided by continuing operating activities	**597,989**	993,580
Net cash provided by and adjustments to reconcile change in net assets for discontinued operations	**134,956**	127,984
Net cash provided by operating activities	**732,945**	1,121,564

Ascension

Consolidated Statements of Cash Flows (continued)

(Dollars in Thousands)

	Year Ended June 30, 2016	2015
Investing activities		
Property, equipment, and capitalized software additions, net	**(1,139,060)**	(918,586)
Proceeds from sale of property and equipment	**13,643**	6,701
Issuance of note receivable for business combination	**(637,109)**	-
Net proceeds from sale/acquisition of other assets	**296,071**	40,516
Net cash used in investing activities	**(1,466,455)**	(871,369)
Financing activities		
Issuance of debt	**5,154,869**	753,371
Repayment of debt	**(4,403,407)**	(892,816)
Decrease in assets under bond indenture agreements	**18,303**	5,564
Transfers to sponsors and other affiliates, net	**(12,867)**	(27,745)
Restricted contributions, investment return, and other	**143,259**	129,843
Distributions of noncontrolling interest, net	**(158,638)**	(148,602)
Net cash provided by (used in) financing activities	**741,519**	(180,385)
Net increase in cash and cash equivalents	**8,009**	69,810
Cash and cash equivalents at beginning of year	**688,228**	618,418
Cash and cash equivalents at end of year	**$ 696,237**	$ 688,228

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, a Catholic national health system consisting primarily of nonprofit corporations that own and operate local healthcare facilities, or Ministry Markets, located in 24 states and the District of Columbia.

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

- Alpha Fund
- Ascension Care Management
- Ascension Global Mission
- Ascension Health
- Ascension Holdings
- Ascension Information Services
- Ascension Investment Management (AIM)
- Ascension Leadership Institute
- Ascension Ministry and Mission Fund
- Ascension Ministry Service Center
- Ascension Risk Services
- Ascension Ventures (AV)
- AV Holding Company
- The Resource Group
- Smart Health Solutions

Ascension and its member organizations are hereafter referred to collectively as the System.

Sponsorship

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

1. Organization and Mission (continued)

Mission

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

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

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

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

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

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

(Dollars in Thousands)

1. Organization and Mission (continued)

The amount of traditional charity care provided, determined on the basis of cost, was $495,863 and $500,067 for the years ended June 30, 2016 and 2015, 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 (loss) 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,	
	2016	**2015**
Other revenue	**$ 114,085**	$ 64,792
Nonoperating (losses) gains	**(40,649)**	5,210

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.

Cash and Cash Equivalents

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

Short-Term Investments

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

Inventories

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

Long-Term Investments and Investment Return

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

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Long-term investments include assets limited as to use of approximately $1,284,000 and $1,306,000, at June 30, 2016 and 2015, 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 average cost 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. A summary of property and equipment at June 30, 2016 and 2015, is as follows:

	Year Ended June 30,	
	2016	**2015**
Land and improvements	**$ 935,542**	$ 882,702
Buildings and equipment	**16,505,068**	15,646,664
	17,440,610	16,529,366
Less accumulated depreciation	**8,981,575**	8,646,863
	8,459,035	7,882,503
Construction in progress	**560,970**	391,427
Total property and equipment, net	**$ 9,020,005**	$ 8,273,930

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2016 and 2015 was $825,681 and $772,407, respectively.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Several capital projects have remaining construction and related equipment purchase commitments of approximately $587,000 as of June 30, 2016.

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 table below include software in progress of $244,552 and $180,427 at June 30, 2016 and 2015, respectively:

	Year Ended June 30,	
	2016	**2015**
Capitalized software costs	**$ 2,050,184**	$ 1,743,423
Less accumulated amortization	**1,123,474**	952,542
Capitalized software costs, net	**926,710**	790,881
Goodwill	**210,320**	206,563
Other, net	**31,731**	37,974
Intangible assets included in other assets	**242,051**	244,537
Total intangible assets, net	**$ 1,168,761**	$ 1,035,418

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 in 2016 and 2015 was $206,860 and $177,070, respectively.

2. Significant Accounting Policies (continued)

The System is in the final phases of a significant multi-year, System-wide enterprise resource planning project, including information technology and process standardization (Symphony), which is expected to continue through fiscal year 2017. The project is facilitating a transition to a common software product for various finance, information technology, procurement, and human resources management processes, including standardization of those processes throughout the System. Capitalized costs of Symphony were approximately $329,000 and $323,000 at June 30, 2016 and 2015, respectively, and are being amortized on a straight-line basis over the expected useful life of the software. Certain costs of this project were also expensed. Accumulated amortization of Symphony was approximately $120,000 and $87,000 at June 30, 2016 and 2015, 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.

2. Significant Accounting Policies (continued)

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, change in unconsolidated entities' net assets, discontinued operations, and contributions received of property and equipment.

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 $102,217 and $100,950 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, is as follows:

	Year Ended June 30, 2016	2015
Medicare - traditional and managed	**35 %**	35 %
Medicaid - traditional and managed	**12**	11
Commercial and other managed care	**49**	50
Self-Pay and other	**4**	4
	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, 2016 and 2015, are as follows:

	Year Ended June 30, 2016	2015
Medicare - traditional and managed	**27 %**	27 %
Medicaid - traditional and managed	**9**	9
Commercial and other managed care	**42**	43
Self-Pay and other	**22**	21
	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 net gains on sales of assets, clinical engineering services, retail pharmacy revenue, income from unconsolidated entities, premium revenue, net assets released from restrictions for operating purposes, and other nonpatient service revenue. Net gains on sales of assets were $201,330 and $47,456 for the years ended June 30, 2016 and 2015, respectively. Assets sold during the years ended June 30, 2016 and 2015 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 include project management and process re-engineering costs, amortization expense for those Health Ministries not yet on Symphony, as well as costs to develop a business intelligence data warehouse. Costs associated with product deployment are recorded as nonrecurring losses, and costs associated with product support are recorded as recurring operating expenses.

During the year ended June 30, 2016, the System recorded total impairment, restructuring, and nonrecurring losses, net of $227,832. This amount was comprised primarily of $129,494 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of $72,097, impairment expenses of $14,064, and other nonrecurring expenses of $12,177.

During the year ended June 30, 2015, the System recorded total impairment, restructuring, and nonrecurring losses, net of $134,022. This amount was comprised primarily of $100,541 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of $11,304, impairment expenses of $19,208, and other nonrecurring expenses of $2,969.

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, 2016.

2. Significant Accounting Policies (continued)

The System had deferred tax assets of approximately $378,000 and $354,000 for federal and state income tax purposes primarily related to net operating loss carryforwards for the years ended June 30, 2016 and 2015, respectively. A valuation allowance of approximately $377,000 and $344,000 was recorded due to the uncertainty regarding use of the deferred tax assets for the years ended June 30, 2016 and 2015, respectively.

Regulatory Compliance

Various federal and state agencies have initiated investigations regarding reimbursement claimed by certain members of the System. The investigations are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be readily determined; however, in the opinion of management, the results of the investigations will not have a material adverse impact on the consolidated financial statements of the System.

Reclassifications

Certain reclassifications were made to the 2015 accompanying consolidated financial statements to conform to the 2016 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 year ended June 30, 2016, the System evaluated subsequent events through September 12, 2016, representing the date on which the accompanying audited consolidated financial statements were issued.

(Dollars in Thousands)

3. Organizational Changes

Business Combinations

Crittenton Hospital Medical Center – Michigan

Effective October 1, 2015, Ascension Michigan became the sole corporate member of Crittenton Hospital Medical Center (Crittenton) under the terms of an agreement among Ascension Michigan, Crittenton and Ascension Health. The fair value of the unrestricted net assets totaling $137,912 was recognized in the Consolidated Statements of Operations and Changes in Net Assets for the year ended June 30, 2016 as a nonoperating contribution from business combination.

Wheaton Franciscan Healthcare – Southeast Wisconsin, Inc.

Effective March 1, 2016, Ascension Health became the sole corporate member of Wheaton Franciscan Healthcare – Southeast Wisconsin, Inc. (Wheaton) under the terms of an agreement between Ascension Health and Wheaton Franciscan Services, Inc. The fair value of the unrestricted net assets totaling $167,049 was recognized in the Consolidated Statements of Operations and Changes in Net Assets for the year ended June 30, 2016 as a nonoperating contribution from business combination.

The fair values of Crittenton and Wheaton's net assets, by major type, that were recognized by the System during the year ended June 30, 2016 were as follows. The valuations of these net assets were substantially complete as of June 30, 2016.

	Crittenton	Wheaton	Total
Net working capital	$ 80,335	$ 312,129	$ 392,464
Long-term investments	102,890	27,511	130,401
Property and equipment	193,174	645,299	838,473
Investments in unconsolidated entities	4,491	58,174	62,665
Intangible assets, including capitalized software costs	-	48,820	48,820
Other long-term assets	795	2,567	3,362
Long-term debt	(161,205)	(641,936)	(803,141)
Other long-term liabilites assumed	(79,177)	(270,452)	(349,629)
Fair value of total net assets	$ 141,303	$ 182,112	$ 323,415

(Dollars in Thousands)

3. Organizational Changes (continued)

The fair value of net assets of $323,415 in the preceding table was recognized in the Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2016, as a nonoperating contribution from business combinations of $304,961, and contributions of temporarily and permanently restricted net assets of $16,091 and $2,363, respectively.

During the year ended June 30, 2016, Ascension recognized revenues of Crittenton and Wheaton combined totaling $611,100, and an excess of revenues and gains over expenses and losses totaling $15,560, of which all was attributable to controlling interest. Ascension recognized a decrease in unrestricted net assets – controlling interests, excluding the excess of revenues and gains over expenses and losses of $15,560 above, of $10,003 and a decrease in temporarily restricted net assets of Crittenton and Wheaton of $618 for the year ended June 30, 2016.

The following unaudited pro forma financial information presents the combined results of operations of Ascension, Crittenton and Wheaton for the years ended June 30, 2016 and 2015, respectively, as though the business combination transactions had occurred on July 1, 2014. 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,	
	2016	**2015**
Total operating revenue	**$ 22,838,814**	$ 22,102,272
Excess of revenues and gains over expenses and losses attributable to controlling interest	**118,977**	838,856
(Decrease) increase in unrestricted net assets - controlling interest	**(532,879)**	266,808
Decrease in unrestricted net assets - noncontrolling interests	**(143,164)**	(83,498)
Increase in temporarily restricted net assets	**36,226**	43,487
Increase in permanently restricted net assets	**2,636**	3,900

3. Organizational Changes (continued)

Divestitures

Discontinued Operations

During the year ended June 30, 2016, Ascension, including certain of its wholly owned subsidiaries, closed on the sale of, or undertook actions to sell or transfer ownership of, certain assets and liabilities, as follows:

- In February 2015, Carondelet Health, a wholly owned subsidiary of Ascension Health, sold certain assets and liabilities associated with the operations of Carondelet Health, including St. Joseph Medical Center in Kansas City, Missouri and St. Mary's Medical Center in Blue Springs, Missouri to Prime Healthcare Services (Prime). Operations and associated assets and liabilities of Carondelet Health's long-term care facilities and of two charitable foundations remain with Ascension.

- In June 2015, Ascension entered into two separate non-binding letters of intent with a third party to pursue the potential sale of certain Ascension assets and liabilities and related operations in the states of Washington and Idaho. Completion of these proposed transactions is subject to due diligence and execution of final definitive agreements, including obtaining all necessary regulatory approvals.

- On July 1, 2015, Catholic Health, Inc. (Catholic Health) became the sole corporate member of Mount St. Mary's Hospital in Lewiston, New York under the terms of an affiliation agreement between Ascension Health and Catholic Health.

- On September 1, 2015, Carondelet Health Network, a subsidiary of Ascension Health, sold certain assets, liabilities and related operations, excluding certain non-acute entities, in Tucson, Arizona to CHN Holdings, LLC, a joint venture in which Ascension holds a noncontrolling interest.

3. Organizational Changes (continued)

Assets and liabilities associated with the aforementioned transactions were held for sale and qualified for discontinued operations as of June 30, 2016 and 2015, and are included in other current assets and other current liabilities, respectively, in the System's Consolidated Balance Sheets. Assets held for sale were $144,490 and $392,613 at June 30, 2016 and 2015, respectively, while liabilities held for sale were $30,552 and $112,923 at June 30, 2016 and 2015, respectively. Net losses of the entities, which include losses of Carondelet Health Network through the September 1, 2015 sale date and a $14,520 loss on sale, are included in the loss from discontinued operations in the Consolidated Statements of Operations and Changes in Net Assets and were $15,790 and $47,916 for the years ended June 30, 2016 and 2015, respectively. Revenues of the entities were $355,516 and $1,020,288 for the years ended June 30, 2016 and 2015, respectively, which includes revenues of Carondelet Health through the sale date.

Assets Held for Sale

In March 2016, Ministry Health Care (Ministry), a subsidiary of Ascension Health, entered into a non-binding letter of intent with Marshfield Clinic Health Systems, Inc. (Marshfield Clinic) to pursue the potential sale of substantially all the assets of Saint Joseph's Hospital of Marshfield, Inc. (Marshfield), a wholly owned subsidiary of Ministry. In addition, the letter of intent also includes Ascension's acquisition of Marshfield Clinic's 50% membership interest in The Diagnostic & Treatment Center, LLC. Completion of the proposed transactions is subject to due diligence and execution of final definitive agreements, including 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 $161,058 and $11,760 at June 30, 2016, respectively. Net income of Marshfield 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 $35,499 and $54,207 for the years ended June 30, 2016 and 2015, respectively. Revenues of Marshfield total $319,959 and $374,539 for the years ended June 30, 2016 and 2015, respectively.

3. Organizational Changes (continued)

Other

In addition to the transactions discussed above, effective November 1, 2014, Ministry Health Care, Inc. (Ministry), a subsidiary of Ascension Health, and Ministry's wholly owned subsidiary, Ministry Holdings, Inc., (MHI), sold a 50% membership interest in MHI to Froedtert Health, Inc. The sale resulted in a loss of control by Ministry over MHI, and as such, Ministry deconsolidated MHI as of that date. The 50% investment in MHI, which was renamed Network Health, Inc. in conjunction with the sale transaction, was reported at its fair value on the November 1, 2014 transaction date, subsequent to which this investment has been accounted for using the equity method of accounting. This transaction resulted in a gain, which is included in other operating revenue in the Consolidated Statements of Operations and Changes in Net Assets for the year ended June 30, 2015.

Effective February 1, 2015, Ascension Health and Adventist Health System entered into a joint operating agreement, which provides for an integrated health delivery system in Illinois, known as AMITA Health (AMITA). AMITA includes five hospitals of Alexian Brothers Health System (Alexian) a subsidiary of Ascension Health, and four hospitals of Adventist Midwest Health (Adventist), a subsidiary of Adventist Health System. The creation of AMITA Health did not result in a change in control of the hospitals of Alexian and Adventist. Both parties share the cash flows generated by AMITA based on an agreed upon split.

In May 2016, Ascension sold primarily all of the assets, liabilities and operations of its Medxcel, Inc. business to TMX Holdings, LLLP (TMX), a partnership in which Ascension maintains a 50% interest. As a result of the transaction, Ascension recognized a gain, which is included in other operating revenue in the Consolidated Statements of Operations and Changes in Net Assets for the year ended June 30, 2016, and the interest in TMX was recorded at its initial fair value. Subsequent to the transaction, Ascension is accounting for its interest in TMX under the equity method of accounting.

4. Pooled Investment Fund

At June 30, 2016 and 2015, 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 $1,256,666 and $1,405,401 at June 30, 2016 and 2015, 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 120 days. Due to redemption restrictions, investments in certain of these funds, whose fair value was approximately $1,981,000 at June 30, 2016, cannot currently be redeemed. 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.

4. Pooled Investment Fund (continued)

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, 2016, contractual agreements of the Alpha Fund expire between October 2016 and January 2022. The remaining unfunded capital commitments of the Alpha Fund total approximately $1,590,000 for 141 individual funds as of June 30, 2016. 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 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, 2016 and 2015, the notional value of Alpha Fund derivatives outstanding was approximately $4,540,000 and $3,615,000, respectively. The fair value of Alpha Fund derivatives in an asset position was $34,713 and $15,826 at June 30, 2016 and 2015, respectively, while the fair value of Alpha Fund derivatives in a liability position was $31,677 and $33,595 at June 30, 2016 and 2015, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets at June 30, 2016 and 2015.

Due from brokers and due to brokers on the Consolidated Balance Sheets at June 30, 2016 and 2015, 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, 2016	June 30, 2015
Cash and cash equivalents	**$ 696,237**	$ 688,228
Short-term investments	**122,545**	146,822
Long-term investments	**15,069,123**	14,990,505
Subtotal	**15,887,905**	15,825,555
Other Alpha Fund assets and liabilities:		
In other current assets	**27,768**	28,356
In other long-term assets	**2,335**	2,491
In accounts payable and other accrued liabilities	**(9,312)**	(9,035)
In other noncurrent liabilities	**(4,569)**	(3,256)
Due from brokers, net	**208,057**	17,804
Total cash and investments, net	**16,112,184**	15,861,915
Less noncontrolling interests of Alpha Fund	**1,256,666**	1,405,401
System cash and investments, including assets limited as to use	**14,855,518**	14,456,514
Less assets limited as to use:		
Under bond indenture agreement	**20,002**	38,305
Self-insurance trust funds	**676,375**	713,174
Temporarily or permanently restricted	**595,761**	595,931
Total assets limited as to use	**1,292,138**	1,347,410
System unrestricted cash and investments, net	**$ 13,563,380**	$ 13,109,104

(Dollars in Thousands)

5. Cash and Investments (continued)

At June 30, 2016 and 2015, 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, 2016	June 30, 2015
Cash and cash equivalents and short-term investments	**$ 935,026**	$ 942,760
Pooled short-term investment funds	**471,099**	413,223
U.S. government, state, municipal and agency obligations	**3,064,411**	2,749,101
Corporate and foreign fixed income securities	**1,728,149**	1,705,427
Asset-backed securities	**771,971**	874,440
Equity securities	**2,996,662**	3,218,447
Alternative investments and other investments:		
Private equity and real estate funds	**1,648,545**	1,436,158
Hedge funds	**2,677,275**	3,030,653
Commodities funds and other investments	**1,594,767**	1,455,346
Total alternative investments and other investments	**5,920,587**	5,922,157
Total cash and cash equivalents, short-term investments, and long-term investments	**$ 15,887,905**	$ 15,825,555

As of June 30, 2016 and 2015, the System's membership interest in the Alpha Fund totaled $11,861,266 and $11,974,700, respectively. As of June 30, 2016 and 2015, the noncontrolling interest (see Note 4) in the Alpha Fund, representing interests held by entities other than the System, totaled $1,256,666 and $1,405,401, respectively.

Investment return recognized by the System for the years ended June 30, 2016 and 2015, 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.

(Dollars in Thousands)

5. Cash and Investments (continued)

	Year Ended June 30, 2016	2015
Interest and dividends	**$ 234,677**	$ 231,114
Net losses on investments reported at fair value	**(609,308)**	(209,796)
Restricted investment return and unrealized losses, net	**(6,349)**	7,769
Total investment return	**(380,980)**	29,087
Less return earned by noncontrolling interests of Alpha Fund	**(42,756)**	(9,563)
System investment return	**$ (338,224)**	$ 38,650

6. Fair Value Measurements

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.

6. Fair Value Measurements (continued)

The System follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

Level 1 – Quoted prices (unadjusted) that are readily available in active markets or exchanges for identical assets or liabilities on the reporting date.

Level 2 – Inputs other than quoted market 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 or 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 the determination of fair value for 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.

There were no significant transfers between Levels 1 and 2 during the years ended June 30, 2016 and 2015.

As of June 30, 2016 and 2015, 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 to the income approach include data points for benchmark constant maturity curves and spreads.

Corporate and Foreign Fixed Income Securities

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such 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, such as early redemption options.

Asset-backed Securities

The fair value of U.S. agency and corporate asset-backed securities is primarily determined using techniques consistent with the income approach. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and 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 consistent with the market and income approaches. The values for underlying investments are fair value estimates determined by external fund managers based on quoted 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 pooled 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 market approach. 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, 2016, 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, 2016				
Cash equivalents	$ 497,847	$ 12,173	$ -	$ 510,020
Short-term investments	46,750	20,291	287	67,328
Pooled short-term investment funds	471,099	-	-	471,099
U.S. government, state, municipal and agency obligations	-	3,064,411	-	3,064,411
Corporate and foreign fixed income securities	-	1,604,725	29,545	1,634,270
Asset-backed securities	-	629,140	142,831	771,971
Equity securities	2,671,500	130,930	3,759	2,806,189
Alternative investments and other investments:				
Private equity and real estate funds	1,409	2,400	197,886	201,695
Commodities funds and other investments	13,420	5,183	4,464	23,067
Assets at net asset value:				
Corporate and foreign fixed income securities				93,879
Equity securities				190,473
Private equity and real estate funds				1,446,850
Hedge funds				2,677,275
Commodities funds and other investments				1,454,136
Cash and other assets not at fair value				475,242
Cash and investments				$ 15,887,905
Benefit plan assets, in other noncurrent assets	$ 336,434	$ 33,055	$ 56,070	$ 425,559
Interest rate swaps, in other noncurrent assets	-	10,713	-	10,713
Investments sold, not yet purchased, in other noncurrent liabilities	-	4,569	-	4,569
Interest rate swaps, included in other noncurrent liabilities	-	236,702	-	236,702

(Dollars in Thousands)

6. Fair Value Measurements (continued)

For the year ended June 30, 2016, 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, 2016							
Beginning balance	$ 301	$ 26,599	$ 89,364	$ 2,198	$ 187,338	$ (4,245)	$ 35,256
Total realized and unrealized gains (losses):							
Included in nonoperating gains (losses)	(14)	(2,661)	(3,472)	(61)	17,014	(6,445)	(3)
Included in changes in net assets	-	-	-	-	-	(47)	-
Purchases	-	19,410	82,958	611	50,400	8,701	31,245
Sales	-	(10,790)	(40,064)	(2,222)	(55,697)	-	(19,892)
Transfers into Level 3	-	3,512	16,075	3,233	1	6,500	25,508
Transfers out of Level 3	-	(6,525)	(2,030)	-	(1,170)	-	(16,044)
Ending balance	$ 287	$ 29,545	$ 142,831	$ 3,759	$ 197,886	$ 4,464	$ 56,070
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, 2016	$ -	$ (1,625)	$ (5,621)	$ 494	$ 4,153	$ -	$ -

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, 2015, 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, 2015				
Cash equivalents	$ 523,021	$ 12,050	$ -	$ 535,071
Short-term investments	63,107	42,523	301	105,931
Pooled short-term investment funds	413,223	-	-	413,223
U.S. government, state, municipal and agency obligations	-	2,749,101	-	2,749,101
Corporate and foreign fixed income securities	-	1,523,567	26,599	1,550,166
Asset-backed securities	-	785,076	89,364	874,440
Equity securities	3,040,776	41,380	2,198	3,084,354
Alternative investments and other investments:				
Private equity and real estate funds	19	5,901	187,338	193,258
Commodities funds and other investments	57,566	(6,217)	(4,245)	47,104
Assets at net asset value:				
Corporate and foreign fixed income securities				155,261
Equity securities				134,093
Private equity and real estate funds				1,242,900
Hedge funds				3,030,653
Commodities funds and other investments				1,309,726
Cash and other assets not at fair value				400,274
Cash and investments				$ 15,825,555
Benefit plan assets, in other noncurrent assets	$ 323,421	$ 1,243	$ 35,256	$ 359,920
Interest rate swaps, in other noncurrent assets	-	46,495	-	46,495
Investments sold, not yet purchased, in other noncurrent liabilities	151	3,105	-	3,256
Interest rate swaps, included in other noncurrent liabilities	-	188,051	-	188,051

(Dollars in Thousands)

6. Fair Value Measurements (continued)

For the year ended June 30, 2015, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following. Level 3 investments of the Alpha Fund are included in transfers in the table below.

	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, 2015							
Beginning balance	$ 293	$ 15,611	$ 99,921	$ 51,578	$ 167,754	$ 62,686	$ 40,493
Total realized and unrealized gains (losses):							
Included in income from operations	-	(12)	1	(1,681)	-	(165)	-
Included in nonoperating gains (losses)	7	(241)	(1,411)	550	81,505	(85,737)	-
Included in changes in net assets	-	-	-	-	34	-	-
Purchases	1	18,939	62,740	749	48,858	75,174	11,580
Sales	-	(7,615)	(37,714)	(27,528)	(83,572)	(15,381)	(14,893)
Transfers into Level 3	-	2,447	10,268	-	132,964	4,648	3,518
Transfers out of Level 3	-	(2,530)	(44,441)	(21,470)	(160,205)	(45,470)	(5,442)
Ending balance	$ 301	$ 26,599	$ 89,364	$ 2,198	$ 187,338	$ (4,245)	$ 35,256
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, 2015	$ -	$ (275)	$ (1,012)	$ 407	$ 3,058	$ (81,115)	$ -

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, 2016 and 2015 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 Alexian Brothers Health System Master Trust Indenture; the Mercy Regional Health Center, Inc. Master Trust Indenture; The Howard Young Medical Center, Inc. Master Trust Indenture; the St. John Health System Master Trust Indenture; and the Ministry Health Care Master Trust Indenture.

	June 30, 2016	June 30, 2015
Tax-exempt hospital revenue bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture:		
Variable rate demand bonds, subject to a put provision that provides for a cumulative 7-month notice and remarketing period, payable through November 2047; interest (0.68% at June 30, 2016) tied to a market index plus a spread	**$ 350,890**	$ 391,160
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2047; interest (0.40% to 0.45% at June 30, 2016) set at prevailing market rates	**254,170**	189,285
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2033; interest (0.40% to 0.45% at June 30, 2016) set at prevailing market rates	**299,650**	307,300
Indexed put bonds subject to weekly rate resets based on a taxable index, payable through November 2046; interest at 1.264% at June 30, 2016	**153,800**	153,800
Fixed rate put bonds (converted from an indexed put bond mode based on a taxable index in May 2009) payable through November 2046; interest at 4.10% at June 30, 2016	**153,690**	153,690
Fixed rate serial and term bonds payable in installments through November 2051; interest at 3.00% to 5.00%	**2,392,360**	1,168,765
Fixed rate serial and term bonds payable in installments through November 2039; interest at 5.00%	**-**	585,290
Fixed rate serial mode bonds payable through 2047 with purchase dates ranging from February 2017 through April 2022; interest at 0.95% to 5.00% through the purchase dates	**1,120,680**	1,140,045

(Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30, 2016	2015
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 2026; interest (0.40% at June 30, 2016) set at prevailing market rates	**$ 42,985**	$ 54,180
Fixed rate serial mode bonds payable through 2027 with purchase dates through May 2020; interest at 1.15% to 5.00%	**419,055**	434,675
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 3.945% and 4.847%	**1,125,000**	425,000
Total hospital revenue bonds under Senior Master Trust Indenture and Subordinate Master Trust Indenture	**6,312,280**	5,003,190
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%	**61,935**	153,370
Total hospital revenue bonds under the Alexian Brothers Health System Master Trust Indenture	**61,935**	153,370
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%	**21,915**	22,995
Total hospital revenue bonds under the Mercy Regional Health Center, Inc. Master Trust Indenture	**21,915**	22,995
Tax-exempt hospital revenue bonds – secured under The Howard Young Medical Center, Inc. Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through August 2030; interest at 3.00% to 5.00%	**-**	18,310
Total hospital revenue bonds under The Howard Young Medical Center, Inc. Master Trust Indenture	**-**	18,310

(Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30, 2016	June 30, 2015
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%	**$ 385,240**	$ 395,215
Total hospital revenue bonds under the St. John Health System Master Trust Indenture	**385,240**	395,215
Tax-exempt hospital revenue bonds – secured under Ministry Health Care Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through August 2035; interest at 3.00% to 5.50%	**-**	347,230
Total hospital revenue bonds under the Ministry Health Care Master Trust Indenture	**-**	347,230
Total hospital revenue bonds – all Master Trust Indentures	**6,781,370**	5,940,310
Other debt:		
Obligations under capital leases	**24,987**	27,572
Other	**111,923**	116,586
	6,918,280	6,084,468
Unamortized premium, net	**271,774**	187,391
Less current portion	**(96,193)**	(84,985)
Less long-term debt subject to short-term remarketing arrangements	**(1,666,245)**	(1,176,790)
Long-term debt, less current portion and long-term debt subject to short-term remarketing arrangements	**$ 5,427,616**	$ 5,010,084

(Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30, 2016	June 30, 2015
Ascension Health Alliance Senior Master Trust Indenture long-term debt obligations, including unamortized premium, net	**$ 4,388,376**	$ 3,403,592
Ascension Health Alliance Subordinate Master Trust Indenture long-term debt obligations, including unamortized premium, net	**434,542**	493,746
Alexian Brothers Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net	**50,296**	152,220
Mercy Regional Health Center, Inc. Master Trust Indenture long-term debt obligations, including unamortized premium, net	**22,627**	24,072
The Howard Young Medical Center, Inc. Master Trust Indenture long-term debt obligations, including unamortized premium, net	**-**	18,900
St. John Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net	**403,132**	415,212
Ministry Health Care Master Trust Indenture long-term debt obligations, including unamortized premium, net	**-**	367,008
Other	**128,643**	135,334
Long-term debt, less current portion, and long-term debt subject to short-term remarketing arrangements	**$ 5,427,616**	$ 5,010,084

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, 2016, are as follows:

	Ascension Health Alliance MTIs	Alexian Brothers Health System MTI	Mercy Regional Health Center, Inc. MTI	St. John Health System MTI	Other Debt	Total
Year Ending June 30:						
2017	$ 65,455	$ 12,845	$ 1,125	$ 7,900	$ 8,868	$ 96,193
2018	68,530	15,355	1,175	6,810	9,140	101,010
2019	88,780	2,080	1,230	7,150	22,621	121,861
2020	91,880	2,495	1,285	7,510	21,251	124,421
2021	95,345	1,700	1,350	7,895	8,949	115,239
Thereafter	5,902,290	27,460	15,750	347,975	66,081	6,359,556
Total	$ 6,312,280	$ 61,935	$ 21,915	$ 385,240	$ 136,910	$ 6,918,280

7. Long-Term Debt (continued)

The carrying amounts of variable rate bonds and other notes payable approximate fair value. The fair values of the unsecured fixed rate serial and term bonds are obtained from independent public valuation services. The fair value of fixed rate serial and term bonds, including the component of variable rate demand bonds subject to long-term fixed interest rates, approximates carrying value at June 30, 2016 and 2015. During the years ended June 30, 2016 and 2015, interest paid was approximately $203,000 and $220,000, respectively. Capitalized interest was approximately $3,700 and $3,200 for the years ended June 30, 2016 and 2015, respectively.

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.

7. Long-Term Debt (continued)

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.

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, 2016, 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.

On January 1, 2012, Alexian Brothers became part of the System. Subsequently, the System redeemed or refinanced a portion of Alexian Brothers' debt; however, a portion of the bonds previously issued for the benefit of Alexian Brothers remains outstanding (the Alexian Brothers' Bonds). The Alexian Brothers' Bonds continue to be 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.

On April 1, 2013, Marian Health System joined Ascension Health. Subsequently, the System redeemed or refinanced a portion of the debt of the Marian Systems; however, a portion of the bonds previously issued for the benefit of the Marian Systems remains outstanding. These bonds continue to be secured by the respective Master Trust Indentures, including the Amended and Restated Master Trust Indenture dated October 1, 1999, by and between St. John Health System and the St. John Health Master Trustee; and 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 order to terminate the respective Master Trust Indentures of Crittenton and Wheaton, and the redemption or defeasance of all associated outstanding debt, Ascension issued taxable commercial paper of approximately $161,000 and $637,000, respectively, during the year ended June 30, 2016. Following the discharge of these Master Trust Indentures, certain Crittenton and Wheaton entities were added to the Senior and Subordinate Credit Groups.

In May 2016, Ascension issued $2,046,250 of debt, consisting of $1,346,250 tax-exempt bonds through issuing authorities in Wisconsin, Alabama and Michigan, and $700,000 taxable bonds. The debt was issued to refund certain Ascension 2006 fixed rate bonds payable through 2039, to refund the commercial paper associated with the Crittenton and Wheaton transactions, to refund the remaining debt of Ministry Health Care, Inc. and Howard Young Health Care, Inc. and to reimburse the System for previous capital expenditures. Subsequent to the closing, both the Ministry Health Care Master Trust Indenture and The Howard Young Medical Center, Inc. Master Trust Indenture were terminated and certain Ministry Health Care, Inc. and Howard Young Health Care, Inc. entities were added to the Senior and Subordinate Credit Groups.

Due to aggregate financing activity during the fiscal years ended June 30, 2016 and 2015, losses on extinguishment of debt of $13,594 and $992, 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, 2016, the Senior Credit Group has two lines of credit totaling $1,000,000. The first line of credit totals $500,000 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 $500,000 which may be used for general corporate purposes. Both lines are committed to November 3, 2017 and as of June 30, 2016 and 2015, there were no borrowings under either line of credit.

(Dollars in Thousands)

7. Long-Term Debt (continued)

As of June 30, 2016, the Senior Credit Group has 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 24, 2016. 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 $78,892 have been issued as of June 30, 2016. No borrowings were outstanding under the letters of credit as of June 30, 2016 and 2015.

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, Alexian Brothers, Ministry Health Care, 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, 2016 and 2015, the notional values of outstanding interest rate swaps were as follows:

	June 30,	
	2016	**2015**
Ascension Health Alliance MTI	**$ 2,146,107**	$ 2,128,757
Alexian Brothers Health System MTI	**-**	31,220
Ministry Health Care MTI	**-**	191,800
St. John Health System MTI	**100,000**	100,000
Total	**$ 2,246,107**	$ 2,451,777

(Dollars in Thousands)

8. Derivative Instruments (continued)

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, Alexian Brothers, Ministry Health Care and St. John Health were as follows:

	June 30, 2016		June 30, 2015	
	Asset	Liability	Asset	Liability
Ascension Health Alliance MTI	$ 10,713	$ 236,367	$ 41,516	$ 168,008
Alexian Brothers Health System MTI	-	-	-	1,170
Ministry Health Care MTI	-	-	4,708	18,873
St. John Health System MTI	-	335	271	-
Total	$ 10,713	$ 236,702	$ 46,495	$ 188,051

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, Alexian Brothers, Ministry Health Care, and St. John Health based on the credit ratings of each. 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, 2016 and 2015.

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 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.

Most System defined benefit plans were frozen effective December 31, 2012. Four of the System Plans remain ongoing with $25,467 of service cost recognized during the year ended June 30, 2016.

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, 2016 and 2015, 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,	
	2016	**2015**
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$7,786,840**	$ 7,691,959
Service cost	**25,467**	35,558
Interest cost	**352,212**	323,991
Assumption change	**583,125**	102,950
Actuarial loss	**41,378**	43,967
Acquisitions	**1,069,401**	-
Curtailment	**(12,206)**	(19,613)
Benefits paid	**(410,253)**	(391,972)
Projected benefit obligation at end of year	**9,435,964**	7,786,840
Accumulated benefit obligation at end of year	**9,386,710**	7,763,448
Change in plan assets:		
Fair value of plan assets at beginning of year	**7,305,030**	7,465,115
Actual return on plan assets	**482,083**	190,859
Employer contributions	**24,381**	41,027
Acquisitions	**798,138**	-
Benefits paid	**(410,253)**	(391,971)
Fair value of plan assets at end of year	**8,199,379**	7,305,030
Net amount recognized at end of year and funded status	**$ (1,236,585)**	$ (481,810)

The System Plans' funded status as a percentage of the projected benefit obligation at June 30, 2016 and 2015, was 86.9% and 93.8%, respectively. The System Plans' funded status as a percentage of the accumulated benefit obligation at June 30, 2016 and 2015, was 87.4% and 94.1%, respectively.

(Dollars in Thousands)

9. Retirement Plans (continued)

Included in unrestricted net assets at June 30, 2016 and 2015, are the following amounts that have not yet been recognized in net periodic pension cost for the System Plans:

	Year Ended June 30, 2016	2015
Unrecognized prior service credit	**$ (8,293)**	$ (12,071)
Unrecognized actuarial loss	**1,546,707**	833,066
	$ 1,538,414	$ 820,995

Changes in plan assets and benefit obligations recognized in unrestricted net assets for System Plans during 2016 and 2015 include:

	Year Ended June 30, 2016	2015
Current year actuarial loss	**$ 749,175**	$ 528,084
Amortization of actuarial loss	**(35,534)**	(25,956)
Amortization of prior service credit	**3,778**	5,277
	$ 717,419	$ 507,405

	Year Ended June 30, 2016	2015
Components of net periodic benefit cost		
Service cost	**$ 25,467**	$ 35,558
Interest cost	**352,212**	323,991
Expected return on plan assets	**(618,961)**	(591,639)
Amortization of prior service credit	**(3,140)**	(3,423)
Amortization of actuarial loss	**34,985**	27,360
Curtailment gain	**(638)**	(1,854)
Settlement gain	**549**	(1,404)
Net periodic benefit	**$ (209,526)**	$ (211,411)

(Dollars in Thousands)

9. Retirement Plans (continued)

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, 2017, are $3,000 and $64,811, respectively.

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

	June 30,	
	2016	**2015**
Weighted-average discount rate	**3.80%**	4.48%
Weighted-average rate of compensation increase	**4.00%**	4.00%
Weighted-average expected long-term rate of return on plan assets	**8.36%**	8.30%

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.

(Dollars in Thousands)

9. Retirement Plans (continued)

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 120 days. Due to redemption restrictions, investments of certain private funds, whose fair value was approximately $1,981,000 at June 30, 2016, 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.

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, 2016, investment periods expire between October 2016 and September 2018. The remaining unfunded capital commitments of the Trust total approximately $238,000 for 59 individual contracts as of June 30, 2016.

The weighted-average asset allocation for the System Plans in the Trust at the end of fiscal 2016 and 2015 and the target allocation for fiscal 2017, by asset category, are as follows:

	Target Allocation	Percentage of Plan Assets At Year-End	
Asset Category	**2017**	**2016**	**2015**
Growth	57 %	**46 %**	53 %
Deflation	28	**38**	29
Inflation	15	**16**	18
Total	100 %	**100 %**	100 %

(Dollars in Thousands)

9. Retirement Plans (continued)

The following tables summarize fair value measurements at June 30, 2016 and 2015, 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, 2016				
Short-term investments	$ 1,235,230	$ -	$ -	$ 1,235,230
Derivatives receivable	31,674	280,634	55,187	367,495
U.S. government, state, municipal and agency obligations	1,840	1,567,670	-	1,569,510
Corporate and foreign fixed income securities	-	617,395	7,870	625,265
Asset-backed securities	-	154,113	41,220	195,333
Equity securities	1,555,564	12,226	12,321	1,580,111
Assets at net asset value:				
Corporate and foreign fixed income securities				8,929
Equity securities				97,760
Private equity and real estate funds				908,403
Hedge funds				1,406,679
Commodities funds and other investments				349,516
Other receivables				241,603
Total				8,585,834
Derivatives payable	30,917	11,291	4,819	47,027
Other payables				339,428
Total				386,455
Fair value of plan assets				$ 8,199,379

(Dollars in Thousands)

9. Retirement Plans (continued)

	Level 1	Level 2	Level 3	Total
June 30, 2015				
Short-term investments	$ 388,255	$ -	$ -	$ 388,255
Derivatives receivable	4	35,381	5,443	40,828
U.S. government, state, municipal and agency obligations	-	1,304,665	-	1,304,665
Corporate and foreign fixed income securities	-	707,838	3,372	711,210
Asset-backed securities	-	170,791	19,610	190,401
Equity securities	1,648,055	309,259	1,345	1,958,659
Assets at net asset value:				
Corporate and foreign fixed income securities				28,531
Equity securities				57,027
Private equity and real estate funds				966,266
Hedge funds				1,462,938
Commodities funds and other investments				350,788
Other receivables				74,703
Total				7,534,271
Derivatives payable	54	132,987	14,180	147,221
Investments sold, not yet purchased	2,146	-	-	2,146
Other payables				79,874
Total				229,241
Fair value of plan assets				$ 7,305,030

(Dollars in Thousands)

9. Retirement Plans (continued)

For the years ended June 30, 2016 and 2015, 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, 2016				
Beginning balance	**$ (8,737)**	**$ 3,372**	**$ 19,610**	**$ 1,345**
Acquisitions	**-**	**-**	**-**	**8,190**
Total actual return on assets	**(3,649)**	**(1,200)**	**(73)**	**2,008**
Purchases, issuances, and settlements	**62,754**	**6,184**	**26,325**	**738**
Transfers (out of) into Level 3	**-**	**(486)**	**(4,642)**	**40**
Ending balance	**$ 50,368**	**$ 7,870**	**$ 41,220**	**$ 12,321**
Actual return on plan assets relating to plan assets still held at June 30, 2016	**$ 50,368**	**$ (1,642)**	**$ (446)**	**$ (58)**

	Net Derivatives	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities
June 30, 2015				
Beginning balance	$ 16,424	$ 1,820	$ 24,080	$ 3,045
Total actual return on assets	(9,715)	(1,311)	(515)	(306)
Purchases, issuances, and settlements	(15,446)	7,716	898	(1,747)
Transfers (out of) into Level 3	-	(4,853)	(4,853)	353
Ending balance	$ (8,737)	$ 3,372	$ 19,610	$ 1,345
Actual return on plan assets relating to plan assets still held at June 30, 2015	$ (9,140)	$ (1,269)	$ (139)	$ (553)

(Dollars in Thousands)

9. Retirement Plans (continued)

The Trust has entered into a series of swap agreements with a net notional amount of $4,374,410. The combined targeted duration of these swaps and the Trust's fixed income investments approximates the duration of the liabilities of the Trust. Currently, 75% 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 2017	$ 30,042
Expected benefit payments:	
2017	625,090
2018	632,035
2019	596,819
2020	601,883
2021	599,422

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.

9. Retirement Plans (continued)

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, 2016 and 2015 is $36,044 and $44,274, respectively. The net asset included in pension and other postretirement liabilities in the accompanying Consolidated Balance Sheets at June 30, 2016 and 2015 is $7,954 and $2,040, respectively. The change in the plans' assets and benefit obligations recognized in unrestricted net assets during the year ended June 30, 2016 and 2015, was a decrease of $3,731 and $3,633, respectively.

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 $326,881 and $284,866 during 2016 and 2015, respectively.

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. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. The System provides its self-insurance through various trust funds and captive insurance companies. Actuarially determined amounts, discounted at 6% for the System, are contributed to the trust funds and the captive insurance companies to provide for the estimated cost of claims. The 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 are discounted at 6% in 2016 and 2015 for the System. Those entities not participating in the self-insured programs are insured under separate policies.

Professional and General Liability Programs

Professional and general liability coverage is provided on a claims-made or occurrence basis through a wholly owned onshore trust and through Ascension Health Insurance (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 $205,000. AHIL retains $5,000 per incident and in the aggregate for professional liability. AHIL also retains a 20% quota share of the first $25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers.

Sunflower Assurance, Inc. (Sunflower) was acquired when Via Christi Health joined the System. Prior to acquisition, Sunflower provided excess coverage with limits up to $75,000 above the primary coverage for Via Christi Health and retained 10% of the first reinsurance layer of $10,000 on a quota share basis. The remaining excess coverage was reinsured by commercial carriers. As of October 1, 2013, Via Christi Health's primary and excess medical professional and general liability and employed physician programs were integrated into the System trust and AHIL. After January 1, 2014, the employer stop loss and employee life insurance coverage provided by Sunflower to Via Christi Health were not renewed and are in run off.

10. Self-Insurance Programs (continued)

Effective July 1, 2014, the reinsurance of Ascension's independent physician professional liability program with ProAssurance Corporation (ProAssurance), the System's partner insurance company, was transferred from AHIL to Sunflower.

Employed physicians and certain entities in the states of Indiana, Kansas, Pennsylvania, and Wisconsin are provided coverage by 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.

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.

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is professional and general liability expense of $122,683 and $105,037 for the years ended June 30, 2016 and 2015, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are professional and general liability loss reserves of $552,656 and $566,134 at June 30, 2016 and 2015, respectively.

Workers' Compensation

Workers' compensation coverage is 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. Prior to October 1, 2013, workers' compensation coverage for Via Christi Health, Ministry, and St. John Health System, a subsidiary of Ascension Health, (collectively the former Marian Health System) was self-insured or commercially insured up to various limits and excess insurance against catastrophic loss was obtained through commercial insurers.

(Dollars in Thousands)

10. Self-Insurance Programs (continued)

Included in employee benefits in the accompanying Consolidated Statements of Operations and Changes in Net Assets is workers' compensation expense of $41,777 and $44,746 for the years ended June 30, 2016 and 2015, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are workers' compensation loss reserves of $138,221 and $137,239 at June 30, 2016 and 2015, 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.

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 (Receipts)
Year ending June 30:			
2017	$ 164,000	$ 41,813	$ 122,187
2018	145,992	35,371	110,621
2019	105,889	28,041	77,848
2020	76,478	22,119	54,359
2021	54,584	18,621	35,963
Thereafter	178,354	284,019	(105,665)
Total	$ 725,297	$ 429,984	$ 295,313

11. Lease Commitments (continued)

Rental expense under operating leases amounted to $391,054 and $383,752 in 2016 and 2015, respectively.

12. 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.

In September 2010, Ascension Health received a letter from the U.S. Department of Justice (the DOJ) in connection with its nationwide review to determine whether, in certain cases, implantable cardioverter defibrillators (ICD) were provided to certain Medicare beneficiaries in accordance with national coverage criteria. The DOJ's investigation spans a time frame beginning in 2003. Effective June 26, 2015, the DOJ and Ascension Health entered into a Settlement Agreement, thereby settling all issues alleged as part of the investigation. The release in the Settlement Agreement extends through March 31, 2015 and includes all of Ascension Health's individual hospitals subject to the investigation.

In March 2013, Ascension and certain of its subsidiaries were named as defendants to litigation surrounding the Church Plan status of various System pension plans. On May 9, 2014, the United States District Court, Eastern District of Michigan, Southern Division, issued a Decision and Order Granting Defendants' Motion to Dismiss in favor of Ascension and the other defendants. On June 11, 2014, the plaintiff in the case filed a Notice of Appeal. On March 17, 2015, upon motion of the parties, the Sixth Circuit remanded the case to the District Court to consider approving a proposed settlement of the lawsuit by the parties. On September 17, 2015, the District Court issued its Order approving the proposed settlement, and the settlement became final on November 16, 2015.

(Dollars in Thousands)

12. Contingencies and Commitments (continued)

The System enters into agreements with non-employed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The carrying amounts of the liability for the System's obligation under these guarantees were $21,152 and $31,380 at June 30, 2016 and 2015, respectively, and are included in other current and noncurrent liabilities in the accompanying Consolidated Balance Sheets. The maximum amount of future payments that the System could be required to make under these guarantees is approximately $65,589.

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 $142,004.

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 25 years. The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Groups at June 30, 2016:

Hospital de la Concepción 2000 Series A debt guarantee	$ 27,165
St. Vincent de Paul Series 2000 A debt guarantee	28,300
Other guarantees and commitments	26,798

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, the Credit Group Consolidated Balance Sheets, the Credit Group Consolidated Statement of Operations and Changes in Net Assets, the Schedule of Credit Group Cash and Investments, and the Schedule of Credit Group Statistical Information are 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, except for that portion marked "unaudited," 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, except for that portion marked "unaudited" on which we express no opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

September 12, 2016

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, 2016 and 2015

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

	Year Ended June 30, 2016	2015
Traditional charity care provided	**$ 495,863**	$ 500,067
Unpaid cost of public programs for persons living in poverty	**804,361**	857,283
Other programs for persons living in poverty and other vulnerable persons	**151,177**	142,843
Community benefit programs	**365,800**	410,169
Care of persons living in poverty and other community benefit programs	**$ 1,817,201**	$ 1,910,362

Ascension

Credit Group[1] Financial Statements
Consolidated Balance Sheets
(Dollars in Thousands)

	June 30,	
	2016	**2015**
Assets		
Current assets:		
Cash and cash equivalents	**$ 676,338**	$ 369,707
Short-term investments	**120,139**	107,148
Accounts receivable, less allowance for doubtful accounts ($1,203,752 and $1,086,946 at June 30, 2016 and 2015, respectively)	**2,457,775**	2,019,830
Inventories	**313,373**	266,412
Due from brokers	**313,717**	148,865
Estimated third-party payor settlements	**180,655**	219,754
Other	**1,047,280**	1,021,679
Total current assets	**5,109,277**	4,153,395
Long-term investments	**14,995,607**	14,825,293
Property and equipment, net	**7,713,956**	6,196,874
Other assets:		
Investment in unconsolidated entities	**959,823**	554,999
Capitalized software costs, net	**874,921**	707,888
Due from affiliates	**445,066**	629,727
Other	**869,473**	840,578
Total other assets	**3,149,283**	2,733,192
Total assets	**$ 30,968,123**	$ 27,908,754

Continued on next page.

[1] The Credit Group Financial Statements are comprised of the System (see Note 1) excluding the assets, liabilities and net assets of Alexian Brothers Health System (ABHS), including senior care facilities previously a part of ABHS and still a member of the Alexian Brothers Health System Master Trust Indenture (Alexian Brothers), and St. John Health System, Inc. (St. John). Ministry Health Care, Inc. (Ministry) became a member of the Credit Group in June 2016, but Ministry is excluded from the Credit Group for the year ended June 30, 2015. The Credit Group Financial Statements also include the System's noncontrolling interest (see Note 2) of the Alpha Fund (see Notes 4 and 5), which represents $1,256,666, or approximately 8.8%, and $1,405,401, or approximately 10.0%, of the Alpha Fund's net assets as of June 30, 2016 and 2015, respectively. See Note 5 for further discussion of noncontrolling interests of the Alpha Fund.

Ascension

Credit Group[1] Financial Statements
Consolidated Balance Sheets (continued)
(Dollars in Thousands)

	June 30, 2016	June 30, 2015
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 74,088**	$ 55,018
Long-term debt subject to short-term remarketing arrangements	**1,666,245**	1,176,790
Accounts payable and accrued liabilities	**2,321,853**	1,929,677
Estimated third-party payor settlements	**403,974**	303,952
Due to brokers	**105,660**	131,061
Current portion of self-insurance liabilities	**208,023**	228,470
Other	**244,790**	318,696
Total current liabilities	**5,024,633**	4,143,664
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	**4,946,705**	4,013,590
Self-insurance liabilities	**483,404**	483,041
Pension and other postretirement liabilities	**1,211,038**	435,919
Other [2]	**1,896,020**	2,361,699
Total noncurrent liabilities	**8,537,167**	7,294,249
Total liabilities	**13,561,800**	11,437,913
Net assets:		
Unrestricted		
Controlling interest	**15,348,952**	14,401,351
Noncontrolling interests [3]	**1,430,052**	1,570,641
Unrestricted net assets	**16,779,004**	15,971,992
Temporarily restricted	**440,555**	373,721
Permanently restricted	**186,764**	125,128
Total net assets	**17,406,323**	16,470,841
Total liabilities and net assets	**$ 30,968,123**	$ 27,908,754

[2] Includes $735,440 at June 30, 2016 representing the amounts due to Alexian Brothers and St. John from Ascension attributable to interests in investments held by Ascension and $1,444,171 at June 30, 2015 representing the amounts due to Alexian Brothers, St. John and Ministry from Ascension attributable to interests in investments held by Ascension.

[3] Includes $1,256,666 and $1,405,401 at June 30, 2016 and 2015, respectively, attributable to the Alpha Fund (see Notes 4 and 5).

Ascension

Credit Group[1] Financial Statements
Consolidated Statement of Operations and Changes in Net Assets
(Dollars in Thousands)

	Year Ended June 30, 2016[5]	Year Ended June 30, 2015
Operating revenue:		
Net patient service revenue	**$18,973,765**	$ 16,151,787
Less provision for doubtful accounts	**991,536**	937,646
Net patient service revenue, less provision for doubtful accounts	**17,982,229**	15,214,141
Other revenue	**1,782,810**	1,496,945
Total operating revenue	**19,765,039**	16,711,086
Operating expenses:		
Salaries and wages	**8,123,907**	6,929,569
Employee benefits	**1,587,726**	1,391,593
Purchased services	**1,308,812**	982,118
Professional fees	**1,259,951**	1,089,779
Supplies	**2,776,848**	2,381,789
Insurance	**174,040**	158,954
Interest	**169,591**	152,851
Depreciation and amortization	**913,493**	749,206
Other	**2,520,736**	2,153,158
Total operating expenses before impairment, restructuring and nonrecurring losses, net	**18,835,104**	15,989,017
Income from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring losses, net	**929,935**	722,069
Self-insurance trust fund investment return	**(16,334)**	(15,137)
Impairment, restructuring and nonrecurring losses, net	**(193,831)**	(126,927)
Income from operations	**719,770**	580,005
Nonoperating gains (losses):		
Investment return[4]	**(335,296)**	43,227
Loss on extinguishment of debt	**(5,849)**	(992)
Losses on interest rate swaps	**(85,884)**	(24,495)
(Loss) income from unconsolidated entities	**(41,188)**	4,689
Contributions from business combinations	**304,961**	-
Other	**(74,498)**	(64,786)
Total nonoperating losses, net	**(237,754)**	(42,357)
Excess of revenues and gains over expenses and losses	**482,016**	537,648
Less noncontrolling interests	**16,365**	75,805
Excess of revenues and gains over expenses and losses attributable to controlling interest	**465,651**	461,843

Continued on next page.

[4] Includes the investment return of ($411,690) and ($34,180) for the years ended June 30, 2016 and 2015, respectively, attributable to the Alpha Fund. Of the Alpha Fund's investment return, ($42,756) and ($9,563) for the years ended June 30, 2016 and 2015, respectively, is included in the noncontrolling interests.

[5] As Ministry became a member of the Credit Group in June 2016, Ministry's financial results for the fiscal year ended June 30, 2015 are excluded from the Credit Group Consolidated Statement of Operations and Changes in Net Assets for that period, yet included for the fiscal year ended June 30, 2016 as if the change had occurred as of July 1, 2015.

Ascension

Credit Group[1] Financial Statements
Consolidated Statement of Operations and Changes in Net Assets (continued)
(Dollars in Thousands)

	Year Ended June 30,	
	2016 [5]	**2015**
Unrestricted net assets, controlling interest:		
Excess of revenues and gains over expenses and losses	**$ 465,651**	$ 461,843
Transfers to sponsors and other affiliates, net	**(31,169)**	(5,352)
Net assets released from restrictions for property acquisitions	**44,297**	35,308
Pension and other postretirement liability adjustments	**(706,169)**	(459,508)
Change in unconsolidated entities' net assets	**(6,976)**	(2,730)
Addition to Credit Group [1,5]	**1,198,250**	-
Other	**(53)**	(2,194)
Increase in unrestricted net assets, controlling interest, before loss from discontinued operations	**963,831**	27,367
Loss from discontinued operations	**(16,230)**	(44,058)
Increase (decrease) in unrestricted net assets, controlling interest	**947,601**	(16,691)
Unrestricted net assets, noncontrolling interest:		
Excess (deficit) of revenues and gains over expenses and losses	**16,365**	75,805
Distributions of capital	**(254,788)**	(195,760)
Contributions of capital	**96,150**	45,578
Membership interest changes, net	**-**	(5,824)
Addition to Credit Group [1,5]	**2,578**	-
Other	**(894)**	(4,250)
Decrease in unrestricted net assets, noncontrolling interest [6]	**(140,589)**	(84,451)
Temporarily restricted net assets, controlling interest:		
Contributions and grants	**117,875**	94,832
Investment return	**(5,157)**	4,892
Net assets released from restrictions	**(78,575)**	(76,560)
Contributions from business combinations	**16,091**	-
Addition to Credit Group [1,5]	**20,782**	-
Other	**(4,182)**	1,453
Increase in temporarily restricted net assets, controlling interest	**66,834**	24,617
Permanently restricted net assets, controlling interest:		
Contributions	**5,298**	5,759
Investment return	**(1,706)**	(27)
Contributions from business combinations	**2,363**	-
Addition to Credit Group [1,5]	**56,924**	-
Other	**(1,243)**	(4,412)
Increase in permanently restricted net assets, controlling interest	**61,636**	1,320
Increase (decrease) in net assets	**935,482**	(75,205)
Net assets, beginning of period	**16,470,841**	16,546,046
Net assets, end of period	**$17,406,323**	$ 16,470,841

[6] Includes net distributions of $105,978, comprised of distributions of $174,413 and contributions of $68,435 for the year ended June 30, 2016 and net distributions of $75,117, comprised of distributions of $107,382 and contributions of $32,265 for the year ended June 30, 2015, attributable to the Alpha Fund.

Ascension

Schedule of Credit Group Cash and Investments

(Dollars in Thousands)

The Credit Group's cash and investments at June 30, 2016 and 2015, are presented in the table that follows. Total cash and investments, net, includes both the Credit Group's membership interest in the Alpha Fund as well as the noncontrolling interests held by other Alpha Fund members. Credit Group unrestricted cash and investments, net, represent the Credit Group's cash and investments excluding the noncontrolling interests held by other Alpha Fund members and assets limited as to use.

	June 30, 2016	June 30, 2015
Cash and cash equivalents	**$ 676,338**	$ 369,707
Short-term investments	**120,139**	107,148
Long-term investments	**14,995,607**	14,825,293
Subtotal	**15,792,084**	15,302,148
Other Alpha Fund assets and liabilities:		
In other current assets	**27,768**	28,356
In other long-term assets	**2,335**	2,491
In accounts payable and accrued liabilities	**(9,312)**	(9,035)
In other noncurrent liabilities	**(4,569)**	(3,256)
Due from brokers, net	**208,057**	17,804
Total cash and investments, net	**16,016,363**	15,338,508
Less noncontrolling interests of Alpha Fund	**1,256,666**	1,405,401
Less interest in investments held by Ascension on behalf of:		
Alexian Brothers	**453,093**	373,833
St. John Health System	**282,347**	400,789
Ministry Health System	**-**	669,549
Credit Group cash and investments, net including assets limited as to use	**14,024,257**	12,488,936
Less assets limited as to use:		
Under bond indenture agreements	**2,910**	2,910
Self insurance trust funds	**675,762**	705,134
Temporarily or permanently restricted	**566,308**	472,628
Credit Group unrestricted cash and investments, net	**$ 12,779,277**	$ 11,308,264

Ascension

Schedule of Credit Group Statistical Information (unaudited)

(Dollars in Thousands)

	Year Ended June 30, 2016	Year Ended June 30, 2015
Total Available Beds	**18,683**	15,841
Total Patient Days	**4,179,141**	3,833,805
Total Discharges	**693,075**	624,350
Average Length of Stay	**6.03**	6.14
Total Outpatient Visits	**24,104,285**	20,190,989

The percentage of net patient service revenue, less provision for doubtful accounts, earned by payor for the years ended June 30, 2016 and 2015, are as follows:

	Year Ended June 30, 2016	Year Ended June 30, 2015
Medicare - traditional and managed	**36 %**	37 %
Medicaid - traditional and managed	**13**	11
Commercial and other managed care	**50**	50
Self-Pay and other	**1**	2
	100 %	100 %

Significant concentrations of accounts receivable, less allowance for doubtful accounts, at June 30, 2016 and 2015, are as follows:

	June 30, 2016	June 30, 2015
Medicare - traditional and managed	**28 %**	27 %
Medicaid - traditional and managed	**9**	9
Commercial and other managed care	**43**	43
Self-Pay and other	**20**	21
	100 %	100 %