ASCENSION

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Years Ended June 30, 2020 and 2019
With Reports of Independent Auditors

Ascension

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2020 and 2019

Contents

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Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Ascension Health Alliance d/b/a Ascension, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ascension Health Alliance d/b/a Ascension at June 30, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2016-02, "Leases (Topic 842)"

As discussed in Notes 2 and 11 (lease FN) to the consolidated financial statements, Ascension changed its method for recognizing the rights and obligations arising from lease contracts, including existing and new arrangements as a result of the adoption of Accounting Standards Update 2016-02, *Leases (Topic 842)* effective July 1, 2019. Our opinion is not modified with respect to this matter.

Ernst + Young LLP

September 16, 2020

Ascension

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2020	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	**$ 625,814**	$ 896,262
Short-term investments	**103,264**	92,072
Accounts receivable	**2,761,239**	3,172,747
Inventories	**502,601**	409,129
Due from brokers *(see Notes 5 and 6)*	**108,575**	324,977
Estimated third-party payor settlements	**124,999**	178,556
Other *(see Notes 5 and 6)*	**790,693**	959,477
Total current assets	**5,017,185**	6,033,220
Long-term investments *(see Notes 5 and 6)*	**21,272,811**	19,786,061
Property and equipment, net	**11,351,194**	10,851,422
Other assets:		
Right-of-use assets - leases	**1,262,380**	-
Investment in unconsolidated entities	**1,258,472**	1,233,209
Capitalized software costs, net	**597,005**	641,533
Other *(see Notes 5 and 6)*	**1,129,247**	1,173,051
Total other assets	**4,247,104**	3,047,793
Total assets	**$41,888,294**	$ 39,718,496

Continued on next page.

Ascension

Consolidated Balance Sheets

(Dollars in Thousands)

	June 30, 2020	June 30, 2019
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 96,537**	$ 125,577
Long-term debt subject to short-term remarketing arrangements*	**842,010**	1,043,150
Current portion of lease obligations	**236,569**	-
Accounts payable and accrued liabilities *(see Notes 5 and 6)*	**3,139,198**	2,951,322
Estimated third-party payor settlements	**650,543**	599,959
Due to brokers *(see Notes 5 and 6)*	**59,881**	369,213
Current portion of self-insurance liabilities	**237,548**	269,561
Medicare advanced payments	**1,994,958**	-
Other	**682,316**	465,499
Total current liabilities	**7,939,560**	5,824,281
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	**6,773,381**	6,760,464
Lease obligations, less current portion	**1,037,883**	-
Self-insurance liabilities	**739,674**	675,860
Pension and other postretirement liabilities	**2,237,185**	1,580,867
Other *(see Notes 5 and 6)*	**1,573,363**	1,352,740
Total noncurrent liabilities	**12,361,486**	10,369,931
Total liabilities	**20,301,046**	16,194,212
Net assets:		
Without donor restrictions:		
Controlling interest	**18,838,776**	20,776,747
Noncontrolling interests	**1,963,884**	1,988,121
Total net assets without donor restrictions	**20,802,660**	22,764,868
Net assets with donor restrictions	**784,588**	759,416
Total net assets	**21,587,248**	23,524,284
Total liabilities and net assets	**$41,888,294**	$ 39,718,496

*Consists of variable rate demand bonds with put options that may be exercised at the option of the bondholders, with stated repayment installments through 2047, as well as certain serial mode bonds with scheduled remarketing/mandatory tender dates occurring prior to June 30, 2021. In the event that bonds are not remarketed upon the exercise of put options or the scheduled mandatory tenders, management would utilize other sources to access the necessary liquidity. Potential sources include a drawdown on the $1 billion line of credit, issuing commercial paper, and liquidating investments. The commercial paper program is supported by $300 million of the $1 billion line of credit.

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

Ascension

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

	The years ended June 30,	
	2020	2019
Operating revenue:		
Net patient service revenue	**$ 22,778,729**	$ 23,706,590
Other revenue	**2,482,785**	1,616,217
Total operating revenue	**25,261,514**	25,322,807
Operating expenses:		
Salaries and wages	**10,436,710**	10,133,885
Employee benefits	**2,250,752**	2,248,330
Purchased services	**2,935,873**	2,730,431
Professional fees	**1,319,701**	1,306,585
Supplies	**3,662,249**	3,721,362
Insurance	**323,539**	288,598
Interest	**251,667**	268,338
Provider tax	**637,475**	629,983
Depreciation and amortization	**1,261,680**	1,212,908
Other	**2,632,988**	2,499,163
Total operating expenses before impairment, restructuring and nonrecurring losses, net	**25,712,634**	25,039,583
(Loss) income from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring losses, net	**(451,120)**	283,224
Self-insurance trust fund investment return	**(14,150)**	24,555
(Loss) income from recurring operations	**(465,270)**	307,779
Impairment, restructuring and nonrecurring losses, net	**(174,126)**	(177,157)
(Loss) income from operations	**(639,396)**	130,622
Nonoperating gains (losses):		
Investment return, net	**(410,225)**	1,108,597
Other	**83,476**	165,137
Total nonoperating (losses) gains, net	**(326,749)**	1,273,734
(Deficit) excess of revenues and gains over expenses and losses	**(966,145)**	1,404,356
Less noncontrolling interests	**73,711**	177,741
(Deficit) excess of revenues and gains over expenses and losses attributable to controlling interest	**(1,039,856)**	1,226,615

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Ascension

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

(Dollars in Thousands)

	The years ended June 30, 2020	2019
Net assets without donor restrictions, controlling interest:		
(Deficit) excess of revenues and gains over expenses and losses	**$ (1,039,856)**	$ 1,226,615
Transfers to sponsors and other affiliates, net	**(13,445)**	(4,958)
Net assets released from restrictions for property acquisitions	**34,026**	69,958
Pension and other postretirement liability adjustments	**(917,197)**	(956,059)
Change in unconsolidated entities' net assets	**(904)**	4,242
Membership interest changes, net	**(687)**	(18,603)
Other	**(1,199)**	6,314
(Decrease) increase in net assets without donor restrictions, controlling interest	**(1,939,262)**	327,509
Gain from discontinued operations	**1,291**	3,173
(Decrease) increase in net assets without donor restrictions, controlling interest	**(1,937,971)**	330,682
Net assets without donor restrictions, noncontrolling interest:		
Excess of revenues and gains over expenses and losses	**73,711**	177,741
Net distributions of capital	**(96,749)**	(133,501)
Membership interest changes, net	**(1,200)**	18,603
Other	**1**	(5,188)
(Decrease) increase in net assets without donor restrictions, noncontrolling interests	**(24,237)**	57,655
Net assets with donor restrictions:		
Contributions and grants	**105,674**	120,536
Investment return	**5,680**	19,595
Net assets released from restrictions	**(78,538)**	(118,869)
Other	**(7,644)**	(3,072)
Increase in net assets with donor restrictions	**25,172**	18,190
(Decrease) increase in net assets	**(1,937,036)**	406,527
Net assets, beginning of year	**23,524,284**	23,117,757
Net assets, end of year	**$ 21,587,248**	$ 23,524,284

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

Ascension

Consolidated Statements of Cash Flows (continued)

(Dollars in Thousands)

	The years ended June 30,	
	2020	**2019**
Operating activities		
(Decrease) increase in net assets	$ **(1,937,036)**	$ 406,527
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**1,261,680**	1,212,909
Amortization of bond premiums, discounts, and debt issuance costs	**(27,143)**	(23,882)
Loss on extinguishment of debt	**2,853**	100
Pension and other postretirement liability adjustments	**917,197**	956,059
Unrealized (gains) losses on unrestricted investments, net	**885,828**	(489,636)
Change in fair value of interest rate swaps	**34,692**	29,947
Change in equity of unconsolidated entities	**(166,980)**	(204,337)
Gain on sale of assets, net	**(551)**	(35,262)
Impairment and nonrecurring expenses	**66,256**	30,532
Transfers to sponsor and other affiliates, net	**13,445**	4,958
Donor restricted contributions, investment return and other	**(62,009)**	(89,598)
Distributions of noncontrolling interest, net	**96,749**	133,501
Other	**26,125**	(17,032)
(Increase) decrease in:		
Short-term investments	**(11,192)**	(8,906)
Accounts receivable	**422,705**	(49,101)
Inventories and other current assets	**(100,798)**	46,665
Due from brokers	**216,402**	(233,058)
Investments classified as trading	**(2,388,952)**	106,732
Other assets	**11,771**	(85,941)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**24,360**	68,556
Estimated third-party payor settlements, net	**96,741**	(129,989)
Due to brokers	**(309,332)**	115,949
Medicare advanced payments	**1,994,958**	-
Other current liabilities	**240,123**	38,125
Self-insurance liabilities	**31,801**	(99,582)
Other noncurrent liabilities	**(60,611)**	(186,043)
Net cash provided by continuing operating activities	**1,279,082**	1,498,193
Net cash provided by discontinued operations	**13,389**	14,278
Net cash provided by operating activities	**1,292,471**	1,512,471

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Ascension

Consolidated Statements of Cash Flows (continued)

(Dollars in Thousands)

	The years ended June 30,	
	2020	**2019**
Investing activities		
Property, equipment, and capitalized software additions, net	**$ (1,764,833)**	$ (1,457,242)
Proceeds from sale of property and equipment	**12,167**	44,076
Distributions from unconsolidated entities, net	**95,253**	99,148
Net proceeds from sale/acquisition of other assets	**236,250**	-
Net cash used in investing activities	**(1,421,163)**	(1,314,018)
Financing activities		
Issuance of debt	**1,966,408**	225,236
Repayment of debt, including financing lease obligations	**(2,076,335)**	(312,402)
(Increase) decrease in assets under bond indenture agreements	**(53)**	2,596
Transfers to sponsors and other affiliates, net	**(13,445)**	(4,958)
Donor restricted contributions, investment return, and other	**62,009**	89,598
Distributions of noncontrolling interest, net	**(96,749)**	(133,501)
Net cash used in financing activities	**(158,165)**	(133,431)
Net (decrease) increase in cash, cash equivalents, and restricted cash	**(286,857)**	65,022
Cash, cash equivalents, and restricted cash at beginning of year	**1,004,073**	939,051
Cash, cash equivalents, and restricted cash at end of year	**$ 717,216**	$ 1,004,073
Cash and cash equivalents	**$ 625,814**	$ 896,262
Restricted cash, included in long-term investments	**91,402**	107,811
Cash, cash equivalents, and restricted cash at end of year	**$ 717,216**	$ 1,004,073

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 a Catholic national health system consisting primarily of nonprofit corporations that own and operate local healthcare facilities, or Ministry Markets, located in 20 states and the District of Columbia. Ascension also serves as the member or shareholder of various subsidiaries including, but not limited to:

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

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

Sponsorship

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

1. Organization and Mission (continued)

Mission

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

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

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

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

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

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

(Dollars in Thousands)

1. Organization and Mission (continued)

The amount of traditional charity care provided, determined on the basis of cost, was $664,994 and $605,855 for the years ended June 30, 2020 and 2019, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost is reported in the accompanying supplementary information.

2. Significant Accounting Policies

Principles of Consolidation

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

	The years ended June 30,	
	2020	**2019**
Other revenue	**$ 168,127**	$ 181,427
Nonoperating gains, net	**163**	8,019

Use of Estimates

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

Fair Value of Financial Instruments

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

2. Significant Accounting Policies (continued)

New Accounting Standards Adopted

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

Effective July 1, 2019, the System adopted the FASB ASU 2017-07*, Compensation – Retirement Benefits (Topic 715)* using the full retrospective method of application, and accounting policies related to the cost of benefits were revised. The most significant impact of adopting the new standard is to the presentation of the System's Consolidated Statement of Operations and Changes in Net Assets for employers that sponsor defined-benefit pension and post-retirement benefit plans, where the service cost component of net periodic benefit cost related to these plans is now reported in the same financial statement line as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented separately from service cost and outside of operating income. The Consolidated Financial Statements for the year ending June 30, 2019 were restated for the retrospective adoption of ASU 2017-07, reducing income from operations by approximately $252,000, while increasing nonoperating income by the same amount.

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

Cash and Cash Equivalents

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

Short-Term Investments

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

2. Significant Accounting Policies (continued)

Inventories

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

Long-Term Investments and Investment Return

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

Long-term investments include assets limited as to use of $1,376,581 and $1,343,062 at June 30, 2020 and 2019, respectively, comprised primarily of investments placed in trust and held by captive insurance companies for the payment of self-insured claims. Long-term investments also include donor restricted cash and cash equivalents.

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

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives used in computing depreciation is as follows: buildings and leasehold improvements, 2 to 40 years; and equipment, 2 to 20 years. Depreciation expense for the years ended June 30, 2020 and 2019 was approximately $1,037,000 and $986,000, respectively.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

A summary of property and equipment is as follows:

	June 30, 2020	June 30, 2019
Land and improvements	$ 1,345,273	$ 1,256,944
Buildings and equipment	20,343,912	19,309,205
	21,689,185	20,566,149
Less accumulated depreciation	11,512,931	10,605,708
	10,176,254	9,960,441
Construction in progress	1,174,940	890,981
Total property and equipment, net	$ 11,351,194	$ 10,851,422

Several capital projects have remaining construction and related equipment purchase commitments of approximately $533,000 as of June 30, 2020.

Intangible Assets

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

Capitalized software costs in the following table include software in progress of $101,763 and $96,717 at June 30, 2020 and 2019, respectively:

	June 30, 2020	June 30, 2019
Capitalized software costs	$ 2,531,331	$ 2,342,789
Less accumulated amortization	1,934,326	1,701,256
Capitalized software costs, net	597,005	641,533
Goodwill	265,853	255,581
Other, net	39,871	44,319
Intangible assets included in other assets	305,724	299,900
Total intangible assets, net	$ 902,729	$ 941,433

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets for the years ended June 30, 2020 and 2019 was approximately $225,000 and $227,000, respectively.

Estimated future amortization of intangible assets with definite lives, excluding software in progress, as of June 30, 2020 is as follows:

The years ending June 30:	
2021	$ 193,524
2022	151,022
2023	85,265
2024	39,033
2025	26,789
Thereafter	30,326
Total	$ 525,959

Noncontrolling Interests

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

Net Assets

Net Assets Without Donor Restrictions

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

Net Assets With Donor Restrictions

Net assets with donor restrictions include those whose use by the System has been limited by donors for a specific time period or purpose, primarily for patient care, operations, and property and equipment.

2. Significant Accounting Policies (continued)

This category also includes net assets restricted by donors to be maintained in perpetuity. The income from these funds is primarily used to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as net assets without donor restrictions. Net assets with donor restrictions consist solely of controlling interests of the System.

Performance Indicator

The performance indicator is the (deficit) excess of revenues and gains over expenses and losses. Pension and other postretirement liability adjustments, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, and changes in unconsolidated entities' net assets are not included in the performance indicator.

Operating and Nonoperating Activities

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

Net Patient Service Revenue and Accounts Receivable

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

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

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Estimates of contractual adjustments and discounts are determined by major payor classes for inpatient and outpatient revenues based on contractual agreements, discount policies and historical experience. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and frequent changes in commercial and managed care contractual terms resulting from contract renegotiations and renewals.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by $106,355 and $127,562 for the years ended June 30, 2020 and 2019, respectively.

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

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

Net patient service revenue earned for the years ended June 30, 2020 and 2019, is as follows:

	The years ended June 30,	
	2020	**2019**
Inpatient care	**$ 10,954,561**	$ 11,483,963
Ambulatory care	**8,716,511**	9,067,023
Physician practices	**2,596,214**	2,677,659
Long-term care	**511,443**	477,945
Total net patient service revenue	**$ 22,778,729**	$ 23,706,590

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

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

	Net Patient Service Revenue		Accounts Receivable	
	The years ended June 30,		June 30,	June 30,
	2020	2019	**2020**	2019
Medicare - traditional and managed	**37.1 %**	35.6 %	**30.5 %**	28.2 %
Medicaid - traditional and managed	**13.1**	13.9	**10.6**	11.1
Other commercial and managed care	**43.1**	43.9	**42.2**	41.0
Self-Pay and other	**6.7**	6.6	**16.7**	19.7
	100.0 %	100.0 %	**100.0 %**	100.0 %

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

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

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

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

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Other Operating Revenue

Other operating revenues are recorded at amounts the System expects to collect in exchange for providing goods or services not directly associated with patient care and recorded over the time in which obligations to provide goods or services are satisfied.

The amounts recognized reflect consideration due from customers, third party payors, and others. Components of other operating revenue are included in the following table for the years ended June 30, 2020 and 2019:

	The years ended June 30, 2020	2019
Cafeteria and vending	**$ 73,812**	$ 84,226
CARES Act Relief Funding (*see Note 3*)	**883,216**	-
Contracted services	**219,667**	180,971
Donations and grants	**114,590**	146,508
Gains on sales of property and equipment	**8,808**	49,251
Insurance plans	**77,040**	79,368
Joint venture income	**168,127**	181,427
Lab services	**76,048**	81,789
Lease and rental income	**88,632**	98,210
Retail pharmacy	**403,305**	317,805
Supplemental care programs	**203,274**	204,197
Other	**166,266**	192,465
Total other revenue	**$ 2,482,785**	$ 1,616,217

Supplemental care is revenue related to expansion and improvement of care through programs including accountable care organizations, shared savings, and other similar arrangements. Contracted services primarily include revenue from services provided under third party arrangements.

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.

2. Significant Accounting Policies (continued)

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

During the year ended June 30, 2020, the System recorded total impairment, restructuring, and nonrecurring losses, net of $174,126. This amount was comprised primarily of one-time termination benefits and other restructuring expenses of $106,191, asset impairment of $62,988, and other nonrecurring expenses of $4,947.

During the year ended June 30, 2019, the System recorded total impairment, restructuring, and nonrecurring losses, net of $177,157. This amount was comprised primarily of one-time termination benefits and other restructuring expenses of $93,979, asset impairment of $23,651, and other nonrecurring expenses of $59,527.

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, 2020.

In compliance with the Tax Cuts and Jobs Act of 2017 (The Act), enacted December 22, 2017, the federal components of both the deferred tax assets and the valuation allowance were revalued from 35% to 21%.

The System had deferred tax assets of approximately $426,000 and $399,000 for federal and state income tax purposes primarily related to net operating loss carryforwards for the years ended June 30, 2020 and 2019, respectively.

2. Significant Accounting Policies (continued)

Net operating losses incurred prior to July 1, 2018 have expiration dates through 2038, while net operating losses incurred during the current fiscal year and in any future periods can be carried forward indefinitely, under The Act. A valuation allowance of approximately $424,000 and $394,000 was recorded due to the uncertainty regarding use of the deferred tax assets for the years ended June 30, 2020 and 2019, respectively.

Regulatory Compliance

Ascension periodically undergoes investigations or audits by federal, state and local agencies involving compliance with a variety of laws and regulations. These investigations seek to determine compliance with, among other things, laws and regulations relating to Medicare and Medicaid reimbursement, including billing practice for certain services. While no assurance can be given concerning the outcome of any current investigation, management believes that adequate reserves have been established, when available information indicates that a loss is probable and the range of loss can be reasonably estimated, and the outcome of any current investigations will not have a material effect on the Consolidated Financial Statements of the System.

Reclassifications

Certain reclassifications were made to the June 30, 2019 Consolidated Financial Statements to conform to the June 30, 2020 presentation.

Subsequent Events

The System evaluates the impact of subsequent events, which are events that occur after the Consolidated Balance Sheet date, but before the Consolidated Financial Statements are issued, for potential recognition or disclosure in the Consolidated Financial Statements as of the Consolidated Balance Sheet date. For the year ended June 30, 2020, the System evaluated subsequent events through September 16, 2020, representing the date on which the Consolidated Financial Statements were issued.

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

3. COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the COVID-19 outbreak as a global pandemic. Federal, state and local government policies resulted in a substantial portion of the population to remain at home and forced the closure of certain businesses, which had an impact on the System's volumes and revenues for most services. Starting in mid-March, Ascension deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates across the System during the final quarter of the fiscal year.

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act authorizes funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Relief Fund). Payments from the Relief Fund are to be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the recipient for health care related expenses or lost revenues attributable to coronavirus and are not required to be repaid, provided the recipients attest to and comply with the terms and conditions.

The U.S. Department of Health and Human Services' distributions from the Relief Fund include general distribution and targeted distributions to support hospitals in high impact areas and rural providers. Additionally, funds are available to reimburse providers for COVID-19 related treatment of uninsured patients. Through June 2020, the System received approximately $1,100,000 in funding and recognized revenue of $883,216, which is included in other operating revenue for the year ended June 30, 2020. The unrecognized amount of the Relief Fund distributions is recorded in other current liabilities in the System's Consolidated Balance Sheets. Management will continue to monitor compliance with the terms and conditions of the Relief Fund and the impact of the pandemic on the System's revenues and expenses. If unable to attest to or comply with current or future terms and conditions, the System's ability to retain some or all of the distributions received may be impacted.

In April 2020, the System requested Medicare advanced payments under the Centers for Medicare and Medicaid Services' Accelerated and Advanced Payment Program designed to increase cash flow to Medicare providers and suppliers impacted by COVID-19. The Medicare advanced payment program allows eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. The System received approximately $2,000,000 of advanced payments with repayment to occur based upon the terms and conditions of the program, which are included in current liabilities as of June 30, 2020.

4. Organizational Changes

Business Combination

Bay County Health System, LLC – Florida

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

Divestitures

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

Assets Held for Sale

On October 1, 2019, Ascension completed the sale of certain assets and liabilities and substantially all related operations of St. Vincent's Medical Center, an Ascension subsidiary located in Bridgeport, Connecticut, to Hartford HealthCare Corporation. Assets and liabilities held for sale at June 30, 2019 were $265,816 and $39,938, respectively, and are included in other current assets and other current liabilities in the Consolidated Balance Sheets.

On February 18, 2020, Ascension entered into an asset sale agreement and separate membership interest purchase agreements to sell certain assets and liabilities and substantially all related operations of Ascension St. Clare's Hospital, Inc. (St. Clare's), an Ascension Wisconsin subsidiary, as well as interests in two related joint ventures to MCHS Hospitals, Inc. (MCHS), a subsidiary of Marshfield Clinic, Inc. Assets and liabilities held for sale at June 30, 2020 were $91,057 and $2,023, respectively, and are included in other current assets and other current liabilities in the Consolidated Balance Sheets. The transaction closed on August 1, 2020.

Discontinued Operations

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

4. Organizational Changes (continued)

Membership Contributions

On April 18, 2020, St. Mary's Healthcare (St. Mary's), a wholly owned subsidiary of Ascension located in Amsterdam, New York, and Ascension signed a separation agreement to separate St. Mary's from Ascension. The transaction closed on September 1, 2020.

5. Pooled Investment Fund

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

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

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

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

Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2020, contractual agreements expire between July 2020 and November 2025.

The remaining unfunded capital commitments total approximately $1,801,000 for 232 individual funds as of June 30, 2020. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments in the Alpha Fund.

5. Pooled Investment Fund (continued)

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

See the Fair Value Measurements note for a discussion of how fair value for the Alpha Fund's derivatives is determined. At June 30, 2020 and 2019, the gross notional value of Alpha Fund derivatives outstanding was approximately $9,948,000 and $9,347,000, respectively.

The fair value of Alpha Fund derivatives in an asset position was $45,395 and $75,647 at June 30, 2020 and 2019, respectively, while the fair value of Alpha Fund derivatives in a liability position was $97,298 and $57,771 at June 30, 2020 and 2019, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets.

During the years ended June 30, 2020 and 2019, the Alpha Fund participated in a securities lending program, whereby a portion of the Alpha Fund's investments were loaned to selected established brokerage firms in return for securities from the brokers as collateral for the investments loaned, usually on a short-term basis. The fair value of collateral held by the Alpha Fund associated with such lending agreements was approximately $391,000 at June 30, 2019. Participation in the securities lending program ceased during the year ended June 30, 2020, and as such, did not have any outstanding loans as of June 30, 2020.

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

(Dollars in Thousands)

6. Cash and Investments

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

	June 30, 2020	June 30, 2019
Cash and cash equivalents	**$ 625,814**	$ 896,262
Short-term investments	**103,264**	92,072
Long-term investments	**21,272,811**	19,786,061
Subtotal	**22,001,889**	20,774,395
Other Alpha Fund assets and liabilities:		
In other current assets	**38,600**	41,461
In accounts payable and other accrued liabilities	**(10,413)**	(11,542)
In other noncurrent liabilities	**(525)**	(20)
Due (to) from brokers, net	**48,693**	(44,236)
Total cash and investments, net	**22,078,244**	20,760,058
Less noncontrolling interests of Alpha Fund	**1,707,465**	1,755,068
System cash and investments, including assets limited as to use	**20,370,779**	19,004,990
Less assets limited as to use:		
Under bond indenture agreement	**1,092**	1,039
Self-insurance trust funds	**632,222**	639,006
With donor restrictions	**743,268**	703,017
Total assets limited as to use	**1,376,582**	1,343,062
System unrestricted cash and investments, net	**$ 18,994,197**	$ 17,661,928

(Dollars in Thousands)

6. Cash and Investments (continued)

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

	June 30, 2020	June 30, 2019
Cash and cash equivalents and short-term investments	**$ 914,967**	$ 1,086,485
Pooled short-term investment funds	**835,156**	728,104
U.S. government, state, municipal and agency obligations	**3,944,488**	2,741,689
Corporate and foreign fixed income securities	**2,038,195**	1,678,389
Asset-backed securities	**2,701,379**	3,078,928
Equity securities	**5,436,613**	5,358,824
Alternative investments and other investments:		
Private equity and real estate funds	**3,423,494**	2,769,071
Hedge funds	**1,356,772**	1,839,334
Commodities funds and other investments	**1,350,825**	1,493,571
Total alternative investments and other investments	**6,131,091**	6,101,976
Total cash and cash equivalents, short-term investments, and long-term investments	**$ 22,001,889**	$ 20,774,395

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

	The years ended June 30, 2020	2019
Interest and dividends	**$ 411,105**	$ 441,983
Net (losses) gains on investments reported at fair value	**(835,480)**	691,169
Restricted investment return and unrealized gains, net	**5,680**	19,595
Total investment return	**(418,695)**	1,152,747
Less return earned by noncontrolling interests of Alpha Fund	**(15,592)**	80,592
System investment return	**$ (403,103)**	$ 1,072,155

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

(Dollars in Thousands)

7. Financial Assets and Liquidity Resources

As of June 30, 2020, and 2019, respectively, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, principal payments on debt, and capital expenditures not financed with debt, are as follows:

Financial assets:	**June 30, 2020**	June 30, 2019
Cash and cash equivalents	**$ 625,814**	$ 896,262
Short-term investments	**103,264**	92,072
Accounts receivable	**2,761,239**	3,172,747
Due from brokers	**108,575**	324,977
Other current assets	**790,693**	959,477
Long-term investments	**21,272,811**	19,786,061
Total financial assets	**25,662,396**	25,231,596
Less:		
Assets limited as to use and other restricted funds	**(1,476,023)**	(1,456,257)
Noncontrolling interests of Alpha Fund	**(1,707,465)**	(1,755,068)
Investments with liquidity more than one year	**(4,044,787)**	(3,516,214)
Total financial assets available within one year	**18,434,121**	18,504,057
Liquidity resources:		
Unused lines of credit	**1,000,000**	1,000,000
Total financial assets and liquidity resources available within one year	**$ 19,434,121**	$ 19,504,057

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

8. Fair Value Measurements

The System measures the fair value of assets and liabilities in accordance with FASB ASC 820, *Fair Value Measurement*. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability at the measurement date. Assets and liabilities reported at fair value are classified and disclosed in one of the following four categories:

> Level 1 – Quoted prices (unadjusted) that are readily available in active markets/exchanges for identical assets or liabilities.
>
> Level 2 – Pricing inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar assets and liabilities in active markets/exchanges or prices quoted for identical or similar assets and liabilities in markets that are not active. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
>
> Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any, market activity for such asset or liability. Inputs to determine the fair value of Level 3 assets and liabilities require management judgment and estimation.
>
> Net Asset Value – Values are based on the calculated net asset value. The calculated net asset values for underlying investments are fair value estimates determined by an external fund manager and other sources based on quoted market prices, operating results, balance sheet stability, growth, and other business and market sector factors.

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

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

8. Fair Value Measurements (continued)

There were no significant transfers between Levels 1 and 2 during the years ended June 30, 2020 and 2019.

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

Cash and Cash Equivalents and Short-Term Investments

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

Pooled Short-Term Investment Fund

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

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

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

Corporate and Foreign Fixed Income Securities

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

8. Fair Value Measurements (continued)

Asset-backed Securities

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

Equity Securities

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

Alternative Investments and Other Investments

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

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

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

8. Fair Value Measurements (continued)

Benefit Plan Assets

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

Interest Rate Swap Assets and Liabilities

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

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

Investments Sold, Not Yet Purchased

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

(Dollars in Thousands)

8. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2020, for all financial assets and liabilities measured at fair value on a recurring basis in the System's Consolidated Financial Statements:

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

(Dollars in Thousands)

8. Fair Value Measurements (continued)

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

	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
The Year Ended June 30, 2020						
Beginning balance	$ 3,655	$ 203,694	$ 8,386	$ 333,434	$ 1,247	$ 50,078
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	(7,416)	(91,434)	5,817	51,497	(179)	-
Included in changes in net assets	-	-	-	6	(273)	-
Purchases	14,192	381,948	12,826	66,562	3,082	6,000
Issuances	-	-	-	185	-	-
Sales	(2,951)	(140,969)	(5,797)	(25,653)	(60)	(7,926)
Transfers into Level 3	9	385,548	21	-	-	13,533
Transfers out of Level 3	-	(4,276)	(332)	(74,300)	-	(2,250)
Ending balance	$ 7,489	$ 734,511	$ 20,921	$ 351,731	$ 3,817	$ 59,435
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, 2020	$ (1,798)	$ (65,062)	$ 1,217	$ -	$ (1,612)	$ -

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

(Dollars in Thousands)

8. Fair Value Measurements (continued)

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

	Level 1	Level 2	Level 3	Total
June 30, 2019				
Cash equivalents	$ 51,440	$ 702	$ -	$ 52,142
Short-term investments	52,989	20,206	-	73,195
Pooled short-term investment funds	728,104	-	-	728,104
U.S. government, state, municipal and agency obligations	-	2,741,689	-	2,741,689
Corporate and foreign fixed income securities	-	1,622,233	3,655	1,625,888
Asset-backed securities	-	2,875,234	203,694	3,078,928
Equity securities	4,212,135	64,892	8,386	4,285,413
Alternative investments and other investments:				
Private equity and real estate funds	2,868	2,500	333,434	338,802
Commodities funds and other investments	23,150	24,507	1,247	48,904
Assets at net asset value:				
Corporate and foreign fixed income securities				49,986
Equity securities				1,073,411
Private equity and real estate funds				2,429,803
Hedge funds				1,839,334
Commodities funds and other investments				1,363,501
Cash and other investments not at fair value				1,045,295
Cash and investments				$ 20,774,395
Benefit plan assets, in other noncurrent assets	$ 461,534	$ -	$ 50,078	$ 511,612
Interest rate swaps, in other noncurrent assets	-	3,174	-	3,174
Investments sold, not yet purchased, in other noncurrent liabilities	-	20	-	20
Interest rate swaps, included in other noncurrent liabilities	-	137,484	-	137,484

(Dollars in Thousands)

8. Fair Value Measurements (continued)

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

	Short-term investments	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
The Year Ended June 30, 2019							
Beginning balance	$ 1,130	$ 11,956	$ 305,278	$ 29,239	$ 295,109	$ 1,121	$ 47,827
Realized and unrealized gains (losses):							
Included in nonoperating gains (losses)	-	(233)	(4,101)	(12,700)	118,049	17,631	-
Included in changes in net assets	-	-	-	-	-	44	-
Purchases	-	1,128	144,734	18,942	61,215	(1,197)	4,185
Issuances	-	-	-	-	615	-	-
Sales	-	(11,273)	(124,160)	(5,919)	(141,295)	(14,537)	(9,686)
Transfers into Level 3	-	5,189	4,642	128	44	-	9,907
Transfers out of Level 3	(1,130)	(3,112)	(122,699)	(21,304)	(303)	(1,815)	(2,155)
Ending balance	$ -	$ 3,655	$ 203,694	$ 8,386	$ 333,434	$ 1,247	$ 50,078
The amount of total gains or losses for the the period included in nonoperating gains (losses) attributable to the changes in unrealized gains or losses relating to assets still held at June 30, 2019	$ -	$ (604)	$ (4,904)	$ (10,038)	$ -	$ 317	$ -

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)

9. Long-Term Debt

Long-term debt at June 30, 2020 and 2019 is comprised of the following and is presented in accordance with the specific master trust indenture to which the debt relates.

	June 30, 2020	June 30, 2019
Tax-exempt hospital revenue bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture:		
Variable rate demand bonds, subject to a seven-day put provision, payable through November 2047; interest (0.10% to 0.13% at June 30, 2020) set at prevailing market rates	**$ 500,090**	$ 532,815
Fixed rate serial, term and mode bonds fixed to maturity payable in installments through November 2051; interest at 3.00% to 5.00%	**3,141,475**	3,892,290
Fixed rate serial mode bonds payable through 2047 with purchase dates ranging from August 2020 through March 2026; interest at 1.55% to 5.00% through the purchase dates	**889,180**	1,104,500
Tax-exempt hospital revenue bonds – unsecured under Ascension Health Alliance Subordinate Master Trust Indenture:		
Variable rate demand bonds, subject to a seven-day put provision, payable through November 2025; interest (0.12%% at June 30, 2020) set at prevailing market rates	**26,635**	30,915
Fixed rate serial mode bonds with maturity payable installments through November 2027; interest at 4.00% to 5.00%	**129,475**	50,575
Fixed rate serial mode bonds payable through 2027 with purchase dates as of August 2020; interest at 1.35%	**48,010**	269,520
Taxable bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture:		
Taxable fixed rate term bonds payable as of November 2053; interest at 4.847%	**425,000**	425,000
Taxable fixed rate term bonds payable as of November 2046; interest at 3.945%	**1,170,000**	1,170,000
Taxable fixed rate term bonds payable through November 2039; interest at 2.532% to 3.106%	**1,010,600**	-
Total hospital revenue bonds under Senior Master Trust Indenture and Subordinate Master Trust Indenture	**7,340,465**	7,475,615
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 5.00%	**17,100**	18,385
Total hospital revenue bonds – all Master Trust Indentures	**$ 7,357,565**	$ 7,494,000

(Dollars in Thousands)

9. Long-Term Debt (continued)

	June 30, 2020	June 30, 2019
Total hospital revenue bonds – all Master Trust Indentures	**$ 7,357,565**	$ 7,494,000
Other debt:		
Obligations under capital leases	**-**	100,253
Other	**36,535**	31,025
	7,394,100	7,625,278
Unamortized premium, net	**354,807**	341,179
Less debt issuance cost, net	**(36,979)**	(37,266)
Less current portion	**(96,537)**	(125,577)
Less long-term debt subject to short-term remarketing arrangements	**(842,010)**	(1,043,150)
Long-term debt, less current portion and long-term debt subject to short-term remarketing arrangements	**$ 6,773,381**	$ 6,760,464

	June 30, 2020	June 30, 2019
Ascension Health Alliance Senior Master Trust Indenture long-term debt obligations, including unamortized premium and cost of issuance, net	**$ 6,595,160**	$ 6,528,206
Ascension Health Alliance Subordinate Master Trust Indenture long-term debt obligations, including unamortized premium and cost of issuance, net	**126,442**	95,761
Mercy Regional Health Center, Inc. Master Trust Indenture long-term debt obligations, including unamortized premium, net	**16,581**	18,141
Other	**35,198**	118,356
Long-term debt, less current portion, and long-term debt subject to short-term remarketing arrangements	**$ 6,773,381**	$ 6,760,464

(Dollars in Thousands)

9. Long-Term Debt (continued)

Scheduled principal repayments of long-term debt, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, as of June 30, 2020, are as follows:

	Ascension Health Alliance MTIs	Mercy Regional Health Center, Inc. MTI	Other Debt	Total
Year Ending June 30:				
2021	$ 93,850	$ 1,350	$ 1,337	$ 96,537
2022	103,045	1,420	9,570	114,035
2023	109,440	1,495	5,449	116,384
2024	115,415	1,570	7,444	124,429
2025	122,535	1,650	4,482	128,667
Thereafter	6,796,180	9,615	8,253	6,814,048
Total	$ 7,340,465	$ 17,100	$ 36,535	$ 7,394,100

The carrying values of fixed rate bonds were $6,830,840 and $6,930,270 at June 30, 2020 and 2019, respectively. The fair values of these fixed rate bonds were $7,858,587 and $7,567,480 at June 30, 2020 and 2019, respectively, representing Level 2 measurements obtained from an independent third-party valuation service. The carrying amounts of variable rate bonds and other notes payable approximate fair value.

During the years ended June 30, 2020 and 2019, interest paid was approximately $288,000 and $299,000, respectively. Capitalized interest was approximately $5,200 and $3,500 for the years ended June 30, 2020 and 2019, 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.

9. Long-Term Debt (continued)

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

The System may cause each subordinate designated affiliate to transfer such amounts as are necessary to enable the obligated group members to comply with the terms of the Subordinate MTI, including payment of the outstanding obligations. Additionally, each subordinate limited designated affiliate has an independent subordinate limited designated affiliate agreement and promissory note with the System, which 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, 2020, the principal amount of such bonds has been classified as a current liability in the 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.

In October 2019, the Senior Credit Group issued $138,580 tax exempt bonds and taxable bonds of $710,600. The debt was issued primarily to refund certain Series 2010 and Series 2012 bonds.

9. Long-Term Debt (continued)

In April 2020, The Senior Credit Group issued $300,000 of taxable bonds, as a reopening of the October 2019 taxable issuance. The debt was issued primarily to provide funding for the redemption of five series of bonds secured under the Senior and Subordinate Master Trust Indentures, upon their respective mandatory tender dates ranging from May through November 2020. As of June 30, 2020, $183,410 of the bonds have been retired.

Due to aggregate financing activity during the fiscal years ended June 30, 2020 and 2019, losses on extinguishment of debt of $2,853 and $100, respectively, were recorded, which are included in nonoperating gains (losses) in the Consolidated Statements of Operations and Changes in Net Assets.

As of June 30, 2020, the Senior Credit Group had two lines of credit totaling $1,000,000. The first line of credit totals $300,000 which may be used as a source of funding for unremarketed variable debt (including commercial paper) or for general corporate purposes. The second line of credit totals $700,000 which may be used for general corporate purposes. Both lines are committed to December 4, 2020 and as of June 30, 2020 and 2019, there were no outstanding borrowings under either line of credit.

As of June 30, 2020, the Senior Credit Group had a $100,000 revolving line of credit related to its letters of credit program toward which a bank commitment of $100,000 extends to November 12, 2020. 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 $75,500 have been issued as of June 30, 2020. No borrowings were outstanding under the letters of credit as of June 30, 2020 and 2019.

10. Derivative Instruments

The System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. Interest rate swaps with varying characteristics are outstanding under the Master Trust Indenture of the System. These swaps have historically been used to effectively convert interest rates on variable rate bonds to fixed rates and rates on fixed rate bonds to variable rates. At June 30, 2020 and 2019, the notional values of outstanding interest rate swaps were $953,750 and $1,020,775, respectively.

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

10. Derivative Instruments (continued)

The fair value of interest rate swaps in an asset position was $2,785 and $3,174 at June 30, 2020 and 2019, respectively. The fair value of interest rate swaps in a liability position was $171,787 and $137,484 at June 30, 2020 and 2019, respectively.

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

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

11. Leases

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

The System is a party to primarily real estate and medical and information technology equipment leases as a lessee and real estate leases as a lessor. Many leases include rental escalation clauses or renewal options which are factored into the determination of lease payments when appropriate. As most of the System's operating leases do not provide an implicit rate, the System uses its incremental borrowing rate based upon information available at the lease commencement date in determining the present value of lease payments. Ascension recorded right-of-use assets and obligations for operating leases of approximately $1,400,000 in the Consolidated Balance Sheets on July 1, 2019, representing the present value of remaining lease payments for operating leases.

(Dollars in Thousands)

11. Leases (continued)

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

	The year ended June 30, 2020
Operating lease cost	$ 341,550
Finance lease cost:	
Interest on lease liabilities	1,786
Amortization of right-of-use-asset	3,178
Variable lease cost	78,671
Total lease cost	$ 425,185

Rental expense for operating leases was $417,362 for the year ended June 30, 2019.

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

	Operating Leases	Finance Leases
Weighted-average remaining lease term	8.2 years	29.5 years
Weighted-average discount rate	2.6%	3.3%

Cash paid for amounts included in the measurement of lease obligations was $335,604 for operating leases and $3,378 for finance leases for the year ended June 30, 2020.

(Dollars in Thousands)

11. Leases (continued)

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

The years ending June 30:	Operating Leases	Finance Leases	Total
2021	$ 253,942	$ 5,578	$ 259,520
2022	219,714	4,143	223,857
2023	189,040	3,945	192,985
2024	149,236	4,014	153,250
2025	102,543	4,083	106,626
Thereafter	390,336	119,544	509,880
Total future undiscounted lease obligations	1,304,811	141,307	1,446,118
Less: amount of lease payments representing interest	(116,863)	(54,803)	(171,666)
Present value of future lease obligations	1,187,948	86,504	1,274,452
Less: current portion of lease obligations	(234,349)	(2,220)	(236,569)
Long-term lease obligations	$ 953,599	$ 84,284	$ 1,037,883

For leases where the System is a lessor, future minimum noncancelable receipts on operating leases for each of the next five years and thereafter, as of June 30, 2020, are as follows:

The years ending June 30:	Operating Leases
2021	$ 59,618
2022	46,399
2023	35,498
2024	25,910
2025	17,993
Thereafter	270,701
Total	$ 456,119

For the year ended June 30, 2020, lease income was approximately $84,000.

12. Retirement Plans

Certain System entities participate in defined-benefit pension plans (the System Plans), which are noncontributory, defined-benefit pension plans. Benefits are based on each participant's years of service and compensation. Primarily all of the System Plans' assets are invested in the Master Pension Trust (the Trust).

(Dollars in Thousands)

12. Retirement Plans (continued)

The System Plans' assets primarily consist of short-term investments, equity, fixed income, and alternative investments, consisting of various hedge funds, real estate funds, private equity funds, commodity funds, private credit funds, and certain other private funds.

Contributions to the System Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to participants. As of December 31, 2019, all System Plans are frozen.

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

The following table sets forth the combined benefit obligations and assets of the System Plans at June 30, 2020 and 2019, components of net periodic benefit costs for the years then ended, and a reconciliation of the amounts recognized in the Consolidated Financial Statements.

	The years ended June 30, 2020	2019
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 10,011,648**	$ 9,441,554
Service cost	**173**	682
Interest cost	**339,693**	389,386
Assumption change	**526,658**	711,560
Actuarial loss	**123,866**	40,486
Curtailment	**(527)**	-
Benefits paid	**(582,158)**	(572,020)
Projected benefit obligation at end of year	**10,419,353**	10,011,648
Change in plan assets:		
Fair value of plan assets at beginning of year	**8,503,103**	8,602,710
Actual return on plan assets	**327,966**	468,256
Employer contributions	**781**	4,157
Benefits paid	**(582,158)**	(572,020)
Fair value of plan assets at end of year	**8,249,692**	8,503,103
Net amount recognized at end of year and funded status	**$ (2,169,661)**	$ (1,508,545)
Accumulated benefit obligation at end of year	**$ 10,419,353**	$ 10,010,998

(Dollars in Thousands)

12. Retirement Plans (continued)

The System Plans' funded status as a percentage of both the projected and accumulated benefit obligations was 79.2% and 84.9% at June 30, 2020 and 2019, respectively.

Included in net assets without donor restrictions at June 30, 2020 and 2019, are the following amounts that have not yet been recognized in net periodic pension cost for the System Plans:

	The years ended June 30,	
	2020	**2019**
Unrecognized prior service credit	**$ 633**	$ 8
Unrecognized actuarial loss	**3,413,728**	2,506,799
	$ 3,414,361	$ 2,506,807

Changes in plan assets and benefit obligations recognized in net assets without donor restrictions for System Plans during 2020 and 2019 include:

	The years ended June 30,	
	2020	**2019**
Current year actuarial loss	**$ 1,026,604**	$ 1,001,500
Amortization of actuarial loss	**(119,675)**	(71,671)
Amortization of prior service credit	**625**	2,518
	$ 907,554	$ 932,347

	The years ended June 30,	
	2020	**2019**
Components of net periodic benefit cost:		
Service cost	**$ 173**	$ 682
Interest cost	**339,693**	389,386
Expected return on plan assets	**(704,576)**	(717,710)
Amortization of prior service credit	**(625)**	(2,518)
Amortization of actuarial loss	**110,818**	65,952
Settlement loss	**8,857**	5,719
Net periodic benefit cost	**$ (245,660)**	$ (258,489)

(Dollars in Thousands)

12. Retirement Plans (continued)

The prior service cost and actuarial loss included in net assets without donor restrictions that are expected to be recognized in net periodic pension cost during the year ending June 30, 2021, are $256 and $163,876, respectively.

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

	The years ended June 30,	
	2020	**2019**
To determine benefit obligations:		
Discount rate	**3.03%**	3.55%
To determine net periodic benefit cost:		
Discount rate	**3.55%**	4.30%
Expected return on plan assets	**8.30%**	8.37%

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)

12. 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, private equity funds, commodity funds, private credit funds, and certain other private funds. These investments do not have observable market values. As such, each of these investments is valued at net asset value (NAV) as determined by each fund's investment manager, which approximates fair value. Management elected to use the NAV per share, or equivalent, for fair value. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods ranging from 1 to 180 days. Due to redemption restrictions, investments of certain private funds, whose fair value was approximately $1,226,000 at June 30, 2020, 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, 2020, investment periods expire between September 2020 and November 2025. The remaining unfunded capital commitments of the Trust total approximately $720,892 for 156 individual contracts as of June 30, 2020.

The weighted-average asset allocation for the System Plans in the Trust at the end of fiscal 2020 and 2019 and the target allocation for fiscal 2021, by asset category, are as follows:

	Target Allocation	**Percentage of Plan Assets at June 30,**	
Asset Category:	**2021**	**2020**	**2019**
Growth	55%	53%	57%
Deflation	32%	36%	31%
Inflation	13%	11%	12%
Total	100%	100%	100%

(Dollars in Thousands)

12. Retirement Plans (continued)

The following tables summarize fair value measurements at June 30, 2020 and 2019, 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 prioritize 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, 2020				
Short-term investments	$ 1,142,692	$ -	$ -	$ 1,142,692
Derivatives receivable	472	515,660	-	516,132
U.S. government, state, municipal and agency obligations	-	1,310,661	-	1,310,661
Corporate and foreign fixed income securities	-	564,483	3,916	568,399
Asset-backed securities	-	1,262,240	12,122	1,274,362
Equity securities	1,812,980	860	3,385	1,817,225
Assets at net asset value:				
Corporate and foreign government fixed maturities				17,885
Equity securities				158,361
Private equity and real estate funds				1,448,733
Hedge funds				606,159
Commodities funds and other investments				121
Other receivables				132,583
Total				8,993,313
Derivatives payable	-	407,459	-	407,459
Other payables				336,162
Total				743,621
Fair value of plan assets				$ 8,249,692

(Dollars in Thousands)

12. Retirement Plans (continued)

	Level 1	Level 2	Level 3	Total
June 30, 2019				
Short-term investments	$ 614,483	$ 12,993	$ -	$ 627,476
Derivatives receivable	2,123	144,629	1,590	148,342
U.S. government, state, municipal and agency obligations	-	1,594,359	-	1,594,359
Corporate and foreign fixed income securities	-	539,310	1,057	540,367
Asset-backed securities	-	1,353,768	18,134	1,371,902
Equity securities	1,959,773	4,434	14	1,964,221
Assets at net asset value:				
Corporate and foreign government fixed maturities				13,097
Equity securities				138,360
Private equity and real estate funds				1,314,431
Hedge funds				900,388
Commodities funds and other investments				32,396
Other receivables				187,571
Total				8,832,910
Derivatives payable	2,841	210,938	641	214,420
Liabilities not at fair value				115,387
Total				329,807
Fair value of plan assets				$ 8,503,103

(Dollars in Thousands)

12. Retirement Plans (continued)

For the years ended June 30, 2020 and 2019, 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, 2020				
Beginning balance	**$ 949**	**$ 1,057**	**$ 18,134**	**$ 14**
Total actual return on assets	**(5,636)**	**(1,181)**	**(1,917)**	**(754)**
Purchases, issuances, and settlements	**4,687**	**3,824**	**(1,930)**	**4,061**
Transfers (out of) into Level 3	**-**	**216**	**(2,165)**	**64**
Ending balance	**$ -**	**$ 3,916**	**$ 12,122**	**$ 3,385**
Actual return on plan assets relating to plan assets still held at June 30, 2020	**$ -**	**$ (44)**	**$ (2,467)**	**$ (572)**

	Net Derivatives	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities
June 30, 2019				
Beginning balance	$ (391)	$ 1,034	$ 6,078	$ 1,778
Total actual return on assets	1,447	1,040	(84)	(2,023)
Purchases, issuances, and settlements	(107)	(1,017)	14,101	475
Transfers (out of) into Level 3	-	-	(1,961)	(216)
Ending balance	$ 949	$ 1,057	$ 18,134	$ 14
Actual return on plan assets relating to plan assets still held at June 30, 2019	$ 1,590	$ -	$ (236)	$ (1,917)

(Dollars in Thousands)

12. Retirement Plans (continued)

The Trust has entered into a series of swap agreements with a net notional amount of approximately \$3,216,200. The combined targeted duration of these swaps and the Trust's fixed income investments approximates the duration of the liabilities of the Trust. Currently, 50% of the dollar duration of the liability is subject to this economic hedge. The purpose of this strategy is to economically hedge the change in the net funded status for a significant portion of the liability that can occur due to changes in interest rates.

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

Expected employer contributions 2021	$ 9,180
Expected benefit payments:	
2021	922,945
2022	687,700
2023	696,100
2024	682,660
2025	671,400
2026-2030	3,094,100

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

Defined-Contribution Plans

System entities participate in contributory and noncontributory defined-contribution plans covering all eligible associates. Employer automatic contributions, employee contributions, and employer matching contributions are the primary types of contributions to the plans. 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 over time. Expenses for the defined-contribution plans were \$416,612 and \$382,456 for the years ended June 30, 2020 and 2019, respectively, and are included in employee benefits in the Consolidated Statements of Operations and Changes in Net Assets.

13. Self-Insurance Programs

Certain System hospitals and other entities participate in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. Within these pooled risk programs, various insurance policies have been purchased to provide coverage in excess of the self-insured limits. The System provides this self-insurance through various trust funds and captive insurance companies. Actuarially determined amounts, discounted at 5.5%, are contributed to the trust funds and the captive insurance companies to provide for the estimated cost of claims. The associated loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported, which were discounted at 5.5% in 2020 and 2019.

Entities acquired in the Presence business combination did not participate in the Ascension pooled risk program prior to July 1, 2018. At June 30, 2020, the loss reserves for estimated self-insured professional, general liability, and workers' compensation claims reported prior to July 1, 2018 for Presence entities were actuarially determined and recorded on an undiscounted basis. The self-insured professional and general liabilities for these claims are retained up to $20,000 per occurrence with no aggregate and subject to reinsurance by commercial carriers up to $170,000.

Professional and General Liability Programs

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

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 $250,000. AHIL retains 100% of the first $10,000 per incident and in the aggregate for professional liability. The excess coverage is reinsured by commercial carriers.

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

13. Self-Insurance Programs (continued)

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

Beginning July 1, 2014, Sunflower offered physician professional liability coverage through insurance or reinsurance arrangements to non-employed 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, and Wisconsin.

Included in operating expenses in the Consolidated Statements of Operations and Changes in Net Assets is professional and general liability claim and insurance expense of $274,342 and $258,473 for the years ended June 30, 2020 and 2019, respectively. Included in current and long-term self-insurance liabilities on the Consolidated Balance Sheets are professional and general liability loss reserves of $817,921 and $785,021 at June 30, 2020 and 2019, respectively.

Workers' Compensation

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

Included in employee benefits in the Consolidated Statements of Operations and Changes in Net Assets is workers' compensation claim and insurance expense of $60,806 and $60,092 for the years ended June 30, 2020 and 2019, respectively. Included in current and long-term self-insurance liabilities on the Consolidated Balance Sheets are workers' compensation loss reserves of $148,994 and $135,809 at June 30, 2020 and 2019, respectively.

14. Related Parties

The System has agreements with related parties for revenue cycle management services and clinical engineering services. The System expensed approximately $1,185,000 and $1,076,000 for these services during the years ended June 30, 2020 and 2019.

(Dollars in Thousands)

15. Contingencies and Commitments

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

The System enters into agreements with non-employed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The maximum amount of future payments that the System could be required to make under these guarantees is approximately $4,000.

The System entered into Master Service Agreements for information technology services provided by third parties. The maximum amount of future payments that the System could be required to make under these agreements is approximately $235,400.

Guarantees and other commitments represent contingent commitments issued by Ascension Health Alliance Senior and Subordinate Credit Groups, generally to guarantee the performance of an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and other transactions. The terms of guarantees are equal to the terms of the related debt, which can be as long as 19 years. The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Groups at June 30, 2020:

Hospital de la Concepción 2017 Series A debt guarantee	$	21,735
St. Vincent de Paul Series 2000 A debt guarantee		28,300
Other guarantees and commitments		58,699

(Dollars in Thousands)

16. Functional Expenses

Ascension provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services. Management support services include administration, finance and accounting, revenue cycle, information technology, public relations, human resources, legal, supply chain, risk management, compliance and other functions. Expenses are allocated to healthcare services and management support services based on the functional department for which they are incurred. Departmental expenses may include various allocations of costs based on direct assignment, expenses or other methods.

Expenses by functional classification for the year ended June 30, 2020 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	$ 11,881,634	$ 805,828	$ 12,687,462
Purchased services and professional fees	3,089,833	1,165,741	4,255,574
Supplies	3,658,037	4,212	3,662,249
Other	4,576,380	530,969	5,107,349
Total operating expenses	**$ 23,205,884**	**$ 2,506,750**	**$ 25,712,634**

Expenses by functional classification for the year ended June 30, 2019 consist of the following:

	Health care services	Management support services	Total
Salaries, wages, and employee benefits	$ 11,528,723	$ 853,492	$ 12,382,215
Purchased services and professional fees	2,925,958	1,111,058	4,037,016
Supplies	3,719,849	1,513	3,721,362
Other	4,401,576	497,414	4,898,990
Total operating expenses	**$ 22,576,106**	**$ 2,463,477**	**$ 25,039,583**

Supplementary Information

Building a better
working world

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Report of Independent Auditors on Supplementary Information

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

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

Ernst & Young LLP

September 16, 2020

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, 2020 and 2019

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

	The years ended June 30,	
	2020	**2019***
Traditional charity care provided	**$ 664,944**	$ 605,855
Unpaid cost of public programs for persons living in poverty	**1,299,739**	903,974
Other programs for persons living in poverty and other vulnerable persons	**100,490**	154,552
Community benefit programs	**365,251**	343,486
Care of persons living in poverty and other community benefit programs	**$2,430,424**	$ 2,007,867

* Restated