

**ASCENSION**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND SUPPLEMENTARY  
INFORMATION (UNAUDITED)**

For the Quarters and Six Months Ended December 31, 2022 and 2021

Ascension

Consolidated Financial Statements  
and Supplementary Information

For the Quarters and Six Months Ended December 31, 2022 and 2021

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## Ascension

### Consolidated Balance Sheets (unaudited) (Dollars in Thousands)

|  | <b>December 31,</b>  | <b>June 30,</b>      |
|--|----------------------|----------------------|
|  | <b>2022</b>          | <b>2022</b>          |
| <b>Assets</b>                                    |                      |                      |
| <b>Current assets:</b>                           |                      |                      |
| Cash and cash equivalents                        | \$ 715,516           | \$ 747,084           |
| Short-term investments                           | 56,571               | 70,284               |
| Accounts receivable                              | 3,455,085            | 3,435,376            |
| Inventories                                      | 512,440              | 511,064              |
| Due from brokers <i>(see Notes 5 and 6)</i>      | 113,424              | 142,075              |
| Estimated third-party payor settlements          | 387,488              | 219,544              |
| Other  | 984,192              | 940,170              |
| <b>Total current assets</b>                      | <b>6,224,716</b>     | <b>6,065,597</b>     |
| Long-term investments <i>(see Notes 5 and 6)</i> | 19,403,850           | 22,058,171           |
| Property and equipment, net                      | 11,445,601           | 11,424,061           |
| <b>Other assets:</b>                             |                      |                      |
| Right-of-use assets - leases                     | 1,321,706            | 1,323,258            |
| Investment in unconsolidated entities            | 1,311,392            | 1,309,662            |
| Capitalized software costs, net                  | 509,387              | 500,547              |
| Other  | 1,420,944            | 1,394,484            |
| <b>Total other assets</b>                        | <b>4,563,429</b>     | <b>4,527,951</b>     |
| <b>Total assets</b>                              | <b>\$ 41,637,596</b> | <b>\$ 44,075,780</b> |

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# Ascension

## Consolidated Balance Sheets (unaudited) (Dollars in Thousands)

|  | <b>December 31,<br/>2022</b> | <b>June 30,<br/>2022</b> |
|--|------------------------------|--------------------------|
| <b>Liabilities and net assets</b>                              |                              |                          |
| <b>Current liabilities:</b>                                    |                              |                          |
| Current portion of long-term debt                              | \$ 95,169                    | \$ 91,618                |
| Long-term debt subject to short-term remarketing arrangements* | 760,525                      | 774,630                  |
| Current portion of lease obligations                           | 267,782                      | 265,528                  |
| Accounts payable and accrued liabilities                       | 2,774,000                    | 3,323,858                |
| Estimated third-party payor settlements                        | 659,580                      | 752,532                  |
| Due to brokers (see Notes 5 and 6)                             | 196,497                      | 75,789                   |
| Current portion of self-insurance liabilities                  | 307,762                      | 307,762                  |
| Current portion of Medicare advanced payments                  | -                            | 522,045                  |
| Other  | 536,730                      | 613,416                  |
| <b>Total current liabilities</b>                               | <b>5,598,045</b>             | <b>6,727,178</b>         |
| <b>Noncurrent liabilities:</b>                                 |                              |                          |
| Long-term debt (senior and subordinated)                       | 6,347,056                    | 6,409,810                |
| Lease obligations, less current portion                        | 1,089,455                    | 1,093,735                |
| Self-insurance liabilities                                     | 879,194                      | 824,552                  |
| Pension and other postretirement liabilities                   | 451,263                      | 562,609                  |
| Other  | 1,356,826                    | 1,332,350                |
| <b>Total noncurrent liabilities</b>                            | <b>10,123,794</b>            | <b>10,223,056</b>        |
| <b>Total liabilities</b>                                       | <b>15,721,839</b>            | <b>16,950,234</b>        |
| <b>Net assets:</b>   |                              |                          |
| <b>Without donor restrictions:</b>                             |                              |                          |
| Controlling interest   | 22,921,257                   | 24,067,446               |
| Noncontrolling interests                                       | 2,230,023                    | 2,307,734                |
| <b>Total net assets without donor restrictions</b>             | <b>25,151,280</b>            | <b>26,375,180</b>        |
| <b>Net assets with donor restrictions</b>                      | <b>764,477</b>               | <b>750,366</b>           |
| <b>Total net assets</b>  | <b>25,915,757</b>            | <b>27,125,546</b>        |
| <b>Total liabilities and net assets</b>                        | <b>\$ 41,637,596</b>         | <b>\$ 44,075,780</b>     |

\*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 December 31, 2023. In the event that bonds are not remarketed upon the exercise of put options for the variable bonds or scheduled mandatory tender bonds, management would utilize other sources to access the necessary liquidity. Potential sources include a drawdown on the System's line of credit, issuing commercial paper, and liquidating investments.

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

# Ascension

## Consolidated Statements of Operations and Changes in Net Assets (unaudited) *(Dollars in Thousands)*

|   | The three months ended<br>December 31, |                  | The six months ended<br>December 31, |                   |
|---|--|------------------|--------------------------------------|-------------------|
|   | 2022                                   | 2021             | 2022                                 | 2021              |
| Operating revenue:  |  |                  |                                      |                   |
| Net patient service revenue   | \$ 6,550,846                           | \$ 6,484,165     | \$ 12,859,043                        | \$ 12,868,265     |
| Other revenue   | 526,382                                | 776,904          | 1,453,625                            | 1,329,809         |
| Total operating revenue   | <u>7,077,228</u>                       | <u>7,261,069</u> | <u>14,312,668</u>                    | <u>14,198,074</u> |
| Operating expenses:   |  |                  |                                      |                   |
| Salaries and wages  | 2,958,493                              | 3,066,664        | 5,955,821                            | 5,895,380         |
| Employee benefits   | 640,256                                | 599,263          | 1,255,222                            | 1,188,398         |
| Purchased services  | 975,377                                | 832,607          | 1,832,180                            | 1,627,705         |
| Professional fees   | 369,019                                | 345,102          | 725,242                              | 682,043           |
| Supplies  | 1,008,726                              | 1,069,537        | 2,032,983                            | 2,123,566         |
| Insurance   | 88,482                                 | 85,317           | 176,832                              | 169,408           |
| Interest  | 57,737                                 | 56,472           | 113,426                              | 113,436           |
| Provider tax  | 210,160                                | 204,403          | 398,728                              | 371,331           |
| Depreciation and amortization   | 323,399                                | 334,832          | 653,608                              | 663,395           |
| Other   | 767,618                                | 675,661          | 1,574,191                            | 1,359,165         |
| Total operating expenses  | <u>7,399,267</u>                       | <u>7,269,858</u> | <u>14,718,233</u>                    | <u>14,193,827</u> |
| Income (loss) from operations before self-insurance trust fund investment return and nonrecurring gains (losses), net | (322,039)                              | (8,789)          | (405,565)                            | 4,247             |
| Self-insurance trust fund investment return   | 31,263                                 | 15,379           | (3,834)                              | 18,165            |
| Income (loss) from recurring operations   | (290,776)                              | 6,590            | (409,399)                            | 22,412            |
| Nonrecurring gains (losses), net  | (626)                                  | (450)            | (571)                                | 8,635             |
| Income (loss) from operations   | <u>(291,402)</u>                       | <u>6,140</u>     | <u>(409,970)</u>                     | <u>31,047</u>     |
| Nonoperating gains (losses):  |  |                  |                                      |                   |
| Investment return, net  | (6,163)                                | 1,015,847        | (798,566)                            | 1,049,211         |
| Other   | 17,094                                 | 42,534           | 48,719                               | 88,882            |
| Total nonoperating gains (losses), net  | <u>10,931</u>                          | <u>1,058,381</u> | <u>(749,847)</u>                     | <u>1,138,093</u>  |
| Excess (deficit) of revenues and gains over expenses and losses   | (280,471)                              | 1,064,521        | (1,159,817)                          | 1,169,140         |
| Less noncontrolling interests   | 67,934                                 | 114,980          | 420                                  | 139,197           |
| Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest                  | <u>(348,405)</u>                       | <u>949,541</u>   | <u>(1,160,237)</u>                   | <u>1,029,943</u>  |

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# Ascension

## Consolidated Statements of Operations and Changes in Net Assets (unaudited) *(Dollars in Thousands)*

|   | The three months ended<br>December 31, |                      | The six months ended<br>December 31, |                      |
|---|--|----------------------|--------------------------------------|----------------------|
|   | 2022                                   | 2021                 | 2022                                 | 2021                 |
| Net assets without donor restrictions, controlling interest:                          |  |                      |                                      |                      |
| Excess (deficit) of revenues and gains over expenses and losses                       | \$ (348,405)                           | \$ 949,541           | \$ (1,160,237)                       | \$ 1,029,943         |
| Transfers (to) from sponsors and other affiliates, net                                | (16,237)                               | 428                  | (15,055)                             | (196)                |
| Net assets released from restrictions for property acquisitions                       | 10,240                                 | 3,348                | 13,687                               | 17,014               |
| Pension and other postretirement liability adjustments                                | 22,751                                 | 37,490               | 45,223                               | 75,144               |
| Change in unconsolidated entities' net assets   | 1,226                                  | (8,434)              | (44,128)                             | 1,290                |
| Other   | 17,118                                 | (10,328)             | 14,321                               | (10,767)             |
| Increase (decrease) in net assets without donor restrictions, controlling interest    | <u>(313,307)</u>                       | <u>972,045</u>       | <u>(1,146,189)</u>                   | <u>1,112,428</u>     |
| Net assets without donor restrictions, noncontrolling interest:                       |  |                      |                                      |                      |
| Excess (deficit) of revenues and gains over expenses and losses                       | 67,934                                 | 114,980              | 420                                  | 139,197              |
| Net contributions (distributions) of capital  | (54,317)                               | (36,077)             | (82,054)                             | (300,917)            |
| Other   | 41                                     | (4,090)              | 3,923                                | (4,090)              |
| Increase (decrease) in net assets without donor restrictions, noncontrolling interest | <u>13,658</u>                          | <u>74,813</u>        | <u>(77,711)</u>                      | <u>(165,810)</u>     |
| Net assets with donor restrictions:   |  |                      |                                      |                      |
| Contributions and grants  | 39,186                                 | 59,510               | 62,926                               | 79,979               |
| Investment return   | 6,407                                  | 4,917                | (3,139)                              | 8,498                |
| Net assets released from restrictions   | (24,376)                               | (11,399)             | (37,916)                             | (33,301)             |
| Divestiture   | -                                      | -                    | -                                    | (92,623)             |
| Other   | (1,419)                                | 564                  | (7,760)                              | 2,377                |
| Increase (decrease) in net assets with donor restrictions                             | <u>19,798</u>                          | <u>53,592</u>        | <u>14,111</u>                        | <u>(35,070)</u>      |
| Increase (decrease) in net assets   | <u>(279,851)</u>                       | <u>1,100,450</u>     | <u>(1,209,789)</u>                   | <u>911,548</u>       |
| Net assets, beginning of period   | <u>26,195,608</u>                      | <u>29,087,313</u>    | <u>27,125,546</u>                    | <u>29,276,215</u>    |
| Net assets, end of period   | <u>\$ 25,915,757</u>                   | <u>\$ 30,187,763</u> | <u>\$ 25,915,757</u>                 | <u>\$ 30,187,763</u> |

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

## Ascension

### Consolidated Statements of Cash Flows (unaudited) (Dollars in Thousands)

|  | <b>The six months ended</b> |                |
|--|-----------------------------|----------------|
|  | <b>December 31,</b>         |                |
|  | <b>2022</b>                 | <b>2021</b>    |
| <b>Operating activities</b>  |                             |                |
| Increase (decrease) in net assets  | \$ (1,209,789)              | \$ 911,548     |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: |                             |                |
| Depreciation and amortization  | 653,608                     | 663,395        |
| Amortization of bond premiums, discounts, and debt issuance costs  | (15,659)                    | (17,543)       |
| Pension and other postretirement liability adjustments   | (45,223)                    | (75,144)       |
| Unrealized losses (gains) on unrestricted investments, net   | 653,595                     | 337,688        |
| Change in fair value of interest rate swaps  | (24,642)                    | (16,583)       |
| Change in equity of unconsolidated entities  | (62,388)                    | (120,560)      |
| Gain on sale of assets, net  | (362,588)                   | (75,499)       |
| Impairment and nonrecurring expenses   | 290                         | 4,644          |
| Transfers to (from) sponsor and other affiliates, net  | 15,055                      | 196            |
| Donor restricted contributions, investment return and other  | (35,558)                    | (72,189)       |
| Distributions (contributions) of noncontrolling interest, net  | 82,054                      | 300,919        |
| Other  | 1,486                       | 3,997          |
| (Increase) decrease in:  |                             |                |
| Short-term investments   | 13,713                      | (1,704)        |
| Accounts receivable  | (19,709)                    | (185,352)      |
| Inventories and other current assets   | (89,355)                    | (241,242)      |
| Due from brokers   | 28,651                      | (111,575)      |
| Long-term investments  | 2,000,761                   | 396,510        |
| Other assets   | (28,293)                    | (12,531)       |
| Increase (decrease) in:  |                             |                |
| Accounts payable and accrued liabilities   | (504,624)                   | (121,588)      |
| Estimated third-party payor settlements, net   | (260,896)                   | (121,942)      |
| Due to brokers   | 120,708                     | 19,365         |
| Medicare advanced payments   | (522,045)                   | (513,995)      |
| Other current liabilities  | (81,682)                    | 123,649        |
| Self-insurance liabilities   | 54,642                      | 37,377         |
| Other noncurrent liabilities   | (15,468)                    | (325,023)      |
| Net cash provided by (used in) operating activities  | <b>346,644</b>              | <b>786,818</b> |

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## Ascension

### Consolidated Statements of Cash Flows (unaudited) (Dollars in Thousands)

|  | <b>The six months ended<br/>December 31,</b> |              |
|--|--|--------------|
|  | <b>2022</b>                                  | <b>2021</b>  |
| <b>Investing activities</b>  |  |              |
| Property, equipment, and capitalized software additions, net           | \$ (763,385)                                 | \$ (729,352) |
| Proceeds from sale of property and equipment                           | 9,040  | 8,451        |
| Distributions from unconsolidated entities, net                        | 62,188                                       | 78,132       |
| Net proceeds from sale/acquisition of other assets                     | 434,117                                      | 299,582      |
| Net cash provided by (used in) investing activities                    | (258,040)                                    | (343,187)    |
| <b>Financing activities</b>  |  |              |
| Issuance of debt   | 35,578                                       | 779          |
| Repayment of debt, including financing lease obligations               | (93,799)                                     | (144,009)    |
| Decrease (increase) in assets under bond agreements                    | 44   | (60)         |
| Transfers (to) from sponsors and other affiliates, net                 | (15,055)                                     | (196)        |
| Donor restricted contributions, investment return, and other           | 35,558                                       | 72,185       |
| (Distributions) contributions of noncontrolling interest, net          | (82,054)                                     | (300,919)    |
| Net cash provided by (used in) financing activities                    | (119,728)                                    | (372,220)    |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | (31,124)                                     | 71,411       |
| Cash, cash equivalents, and restricted cash at beginning of period     | 813,452                                      | 727,913      |
| Cash, cash equivalents, and restricted cash at end of period           | \$ 782,328                                   | \$ 799,324   |
| Cash and cash equivalents  | \$ 715,516                                   | \$ 737,380   |
| Restricted cash, included in long-term investments                     | 66,812                                       | 61,944       |
| Cash, cash equivalents, and restricted cash at end of period           | \$ 782,328                                   | \$ 799,324   |

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



# Ascension

## Notes to Consolidated Financial Statements (unaudited) (Dollars in Thousands)

### 1. Organization and Mission

#### Organizational Structure

Ascension Health Alliance, d/b/a Ascension (Ascension), is a Missouri nonprofit corporation formed on September 13, 2011. Ascension is a Catholic national health system consisting primarily of nonprofit corporations that own and operate local healthcare facilities, or Ministry Markets, located in 19 states and the District of Columbia. Ascension also serves as the direct or indirect member or shareholder of various subsidiaries including, but not limited to:

- Ascension Care Management
- Ascension Risk Services
- Ascension Foundation
- Ascension Global Mission
- Ascension Healthcare
- Ascension Holdings
- Ascension Leadership Academy
- Ascension Technologies
- Ascension Capital
  - Ascension Investment Management (AIM)
  - Ascension Ventures (AV)
  - AV Holding Company
- The Resource Group
- SmartHealth Solutions

Ascension is also the majority investor in Ascension Alpha Fund, LLC (Alpha Fund), a limited liability company organized in the state of Delaware, as well as the majority limited partner of various venture capital funds (the Venture Funds), as further discussed in the Investment Funds note. The Alpha Fund and the Venture Funds are collectively referred to as Investment Funds. Ascension and its member organizations are hereafter referred to collectively as the System.

#### Sponsorship

Ascension is sponsored by the Ascension Sponsor, a Public Juridic Person. The Participating Entities of the Ascension Sponsor include 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.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 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 persons who are vulnerable.
- Unreimbursed costs of community benefit programs and services for the broader 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 for persons living in poverty and other community benefit programs. The cost of providing care for persons living in poverty and other community benefit programs is estimated by reducing charges forgone by a factor derived from the ratio of each entity's total operating expenses to the entity's billed charges for patient care. Certain costs such as graduate medical education and certain other activities are excluded from total operating expenses for purposes of this computation.

The amount of traditional charity care provided, determined on the basis of cost, was \$273,350 and \$251,328 for the six months ended December 31, 2022 and 2021, 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.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies**

##### **Principles of Consolidation**

The System consolidates all entities for which operating control is exercised by the System or one of its member entities, and all significant inter-entity transactions have been eliminated in consolidation. Excluding investments where the fair value option is elected, investments in entities where the System does not have operating control are recorded under the equity method of accounting, and results of operations are included in other operating revenue.

##### **Use of Estimates**

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

##### **Fair Value of Financial Instruments**

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

##### **Cash and Cash Equivalents**

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

##### **Short-Term Investments**

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

##### **Inventories**

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

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) *(Dollars in Thousands)*

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

##### **Long-Term Investments and Investment Return**

Long-term investments are primarily comprised of the Investment Funds, which are consolidated by the System. The System's investments, including the Investment Funds, are measured at fair value or net asset value. Further information about long-term investments and investment return are discussed in the Investment Funds, Cash and Investments, and Fair Value Measurements notes.

Long-term investments include assets limited as to use of \$1,584,681 and \$1,492,774 at December 31, 2022 and June 30, 2022, respectively. Assets limited as to use are primarily investments with donor restrictions, including restricted cash and cash equivalents, and assets placed in trust or held by captive insurance companies for the payment of self-insured claims.

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 and restricted investment returns, are reported as nonoperating gains (losses) in the Consolidated Statements of Operations and Changes in Net Assets. 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 three months ended December 31, 2022 and 2021 was approximately \$277,000 and \$280,000, respectively. Depreciation expense for the six months ended December 31, 2022 and 2021 was approximately \$555,000 and \$556,000, respectively.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

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

A summary of property and equipment is as follows:

|                                   | <b>December 31,</b>  | <b>June 30,</b> |
|-----------------------------------|----------------------|-----------------|
|                                   | <b>2022</b>          | <b>2022</b>     |
| Land and improvements             | <b>\$ 1,501,946</b>  | \$ 1,458,294    |
| Buildings and equipment           | <b>22,867,947</b>    | 22,143,058      |
|                                   | <b>24,369,893</b>    | 23,601,352      |
| Less accumulated depreciation     | <b>13,611,041</b>    | 13,105,544      |
|                                   | <b>10,758,852</b>    | 10,495,808      |
| Construction in progress          | <b>686,749</b>       | 928,253         |
| Total property and equipment, net | <b>\$ 11,445,601</b> | \$ 11,424,061   |

Several capital projects have remaining construction and related equipment purchase commitments of approximately \$1,223,000 as of December 31, 2022.

#### 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.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

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

Capitalized software costs in the following table include software in progress of \$115,809 and \$129,165 at December 31, 2022 and June 30, 2022, respectively:

|  | December 31,<br>2022 | June 30,<br>2022    |
|--|----------------------|---------------------|
| Capitalized software costs                 | \$ 2,718,669         | \$ 2,619,142        |
| Less accumulated amortization              | 2,209,282            | 2,118,595           |
| Capitalized software costs, net            | 509,387              | 500,547             |
| Goodwill                                   | 524,991              | 497,503             |
| Other, net                                 | 43,233               | 45,072              |
| Intangible assets included in other assets | 568,224              | 542,575             |
| <b>Total intangible assets, net</b>        | <b>\$ 1,077,611</b>  | <b>\$ 1,043,122</b> |

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. Intangible assets with definite lives, primarily capitalized computer software costs, are amortized on a straight line basis over their expected useful lives. Amortization expense for these intangible assets for the three months ended December 31, 2022 and 2021 was approximately \$46,000 and \$55,000, respectively. Amortization expense for these intangible assets for the six months ended December 31, 2022 and 2021 was approximately \$98,000 and \$107,000, respectively.

#### Asset Impairment

Long-lived assets, intangible assets, and joint ventures are reviewed for impairment whenever events or business conditions indicate the carrying amount of such assets may not be fully recoverable. Initial assessments of recoverability are based on estimates of undiscounted future net cash flows associated with an asset or group of assets. Where impairment is indicated, the carrying amount of an asset or group of assets is reduced to fair value based on future discounted net cash flows or other estimates of fair value.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

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

##### **Noncontrolling Interests**

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

##### **Net Assets**

###### *Net Assets Without Donor Restrictions*

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

###### *Net Assets With Donor Restrictions*

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

This category also includes net assets restricted by donors to be maintained in perpetuity. The income generated from these restricted investments 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.

##### **Performance Indicator**

The performance indicator is the 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.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

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

##### **Operating and Nonoperating Activities**

The System's primary mission is to meet the healthcare needs in its communities served 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 classified as operating activities, while activities resulting in gains or losses peripheral to the System's primary mission are classified as 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.

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 regularly 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.



## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

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

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 \$110,500 and \$106,096 for the six months ended December 31, 2022 and 2021, 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 three months ended December 31, 2022 and 2021, is as follows:

|                                   | <b>The three months ended December 31,</b> |                     |
|-----------------------------------|--|---------------------|
|                                   | <b>2022</b>                                | <b>2021</b>         |
| Inpatient care                    | \$ 2,987,251                               | \$ 2,987,318        |
| Ambulatory care                   | 2,686,470                                  | 2,626,950           |
| Physician practices               | 769,134                                    | 771,340             |
| Long-term care                    | 107,991                                    | 98,557              |
| Total net patient service revenue | <u>\$ 6,550,846</u>                        | <u>\$ 6,484,165</u> |

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

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

Net patient service revenue earned for the six months ended December 31, 2022 and 2021, is as follows:

|                                   | <b>The six months ended December 31,</b> |                      |
|-----------------------------------|--|----------------------|
|                                   | <b>2022</b>                              | <b>2021</b>          |
| Inpatient care                    | <b>\$ 5,844,245</b>                      | <b>\$ 6,070,817</b>  |
| Ambulatory care                   | 5,286,111                                | 5,099,146            |
| Physician practices               | 1,514,792                                | 1,499,993            |
| Long-term care                    | 213,895                                  | 198,309              |
| Total net patient service revenue | <b>\$ 12,859,043</b>                     | <b>\$ 12,868,265</b> |

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:

|                                    | <b>Net Patient Service Revenue</b> |                | <b>Accounts Receivable</b> |                 |
|------------------------------------|------------------------------------|----------------|----------------------------|-----------------|
|                                    | <b>The six months ended</b>        |                | <b>December 31,</b>        | <b>June 30,</b> |
|                                    | <b>December 31,</b>                | <b>2021</b>    | <b>2022</b>                | <b>2022</b>     |
| Medicare - traditional and managed | <b>35.7 %</b>                      | <b>35.1 %</b>  | <b>30.0 %</b>              | <b>30.0 %</b>   |
| Medicaid - traditional and managed | 15.7                               | 14.7           | 12.2                       | 11.8            |
| Other commercial and managed care  | 41.8                               | 43.3           | 44.9                       | 44.5            |
| Self-Pay and other                 | 6.8                                | 6.9            | 12.9                       | 13.7            |
|                                    | <b>100.0 %</b>                     | <b>100.0 %</b> | <b>100.0 %</b>             | <b>100.0 %</b>  |

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. Accounts are written off when all reasonable internal and external collection efforts have been performed.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) *(Dollars in Thousands)*

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

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. 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.

#### **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.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

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

Components of other operating revenue are included in the following tables for the three and six months ended December 31, 2022 and 2021, respectively:

|                               | <b>The three months ended December 31,</b> |                   |
|-------------------------------|--|-------------------|
|                               | <b>2022</b>                                | <b>2021</b>       |
| Cafeteria and vending         | \$ 19,213                                  | \$ 16,552         |
| COVID-19 funding (see Note 3) | 12,256                                     | 230,276           |
| Contracted services           | 47,550                                     | 60,871            |
| Donations and grants          | 25,418                                     | 22,305            |
| Gains on asset sales          | 3,080                                      | 1,513             |
| Insurance plans               | 56,520                                     | 21,942            |
| Joint venture income          | 58,669                                     | 49,026            |
| Lab services                  | 15,600                                     | 21,025            |
| Lease and rental income       | 24,708                                     | 23,198            |
| Retail pharmacy               | 176,506                                    | 134,891           |
| Supplemental care programs    | 49,712                                     | 80,371            |
| Other                         | 37,150                                     | 114,934           |
| <b>Total other revenue</b>    | <b>\$ 526,382</b>                          | <b>\$ 776,904</b> |

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

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

|  | <b>The six months ended December 31,</b> |                     |
|--|--|---------------------|
|  | <b>2022</b>                              | <b>2021</b>         |
| Cafeteria and vending                  | \$ 37,662                                | \$ 31,618           |
| COVID-19 funding ( <i>see Note 3</i> ) | 13,641                                   | 234,290             |
| Contracted services                    | 114,668                                  | 110,888             |
| Donations and grants                   | 52,035                                   | 42,519              |
| Gains on asset sales                   | 372,484                                  | 79,642              |
| Insurance plans                        | 98,494                                   | 44,268              |
| Joint venture income                   | 106,434                                  | 119,171             |
| Lab services                           | 36,910                                   | 41,988              |
| Lease and rental income                | 48,193                                   | 44,641              |
| Retail pharmacy                        | 346,297                                  | 272,675             |
| Supplemental care programs             | 147,556                                  | 157,986             |
| Other                                  | 79,251                                   | 150,123             |
| <b>Total other revenue</b>             | <b>\$ 1,453,625</b>                      | <b>\$ 1,329,809</b> |

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.

#### **Nonrecurring Gains (Losses), Net**

Nonrecurring gains (losses) are primarily related to natural disasters and related insurance proceeds and other recoveries.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

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

##### **Amortization**

Bond issuance costs, discounts, and premiums are amortized over the term of the bonds or the fixed interest period, if applicable, primarily using a method approximating the effective interest method.

##### **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 December 31, 2022.

##### **Contingencies**

Regulatory and legal contingencies are evaluated for risk of loss, and accruals are made when such losses are deemed probable and can be reasonably estimated. Liabilities accrued for professional liability claims include amounts covered by excess insurance, and as such, the Company records a receivable for the expected reimbursement of losses covered by excess insurance at the time liabilities are accrued.

##### **Reclassifications**

Certain reclassifications were made to the December 31, 2021 Consolidated Financial Statements to conform to the December 31, 2022 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 six months ended December 31, 2022 the System evaluated subsequent events through February 24, 2023, representing the date the Consolidated Financial Statements were issued.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### **3. COVID-19**

Other operating revenue includes amounts the System has recognized associated with U.S. Government COVID-19 legislation funding, for which management continues to monitor compliance of associated terms and conditions. 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.

Ascension was advanced approximately \$2,000,000 through the Centers for Medicare and Medicaid Services' Accelerated and Advanced Payment Program in April 2020. All funds have been recouped as of December 31, 2022. At June 30, 2022, \$522,045 was not yet recouped, and was recorded as a current liability.

#### **4. Organizational Changes**

##### **Divestitures**

During the six months ended December 31, 2022 and 2021, Ascension, including certain of its wholly owned subsidiaries, completed the sale of, or undertook actions to sell or transfer ownership of, certain assets and liabilities as follows.

##### *Assets Held for Sale / Sold*

Effective September 30, 2022, Ascension completed the sale of certain assets of its outreach laboratory business and transitioned management of hospital-based laboratories in certain markets to Laboratory Corporation of America Holdings. Assets held for sale of approximately \$62,000 were included in other current assets in the Consolidated Balance Sheet at June 30, 2022.

Effective August 1, 2021, Ministry Health Care, Inc., a wholly owned subsidiary of Ascension, completed the transition of its sole membership interest in seven hospitals and related clinical and other business representing substantially all operations in the Northern and Central Wisconsin markets to Aspirus, Inc.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 4. Organizational Changes (continued)

##### Other

Effective April 1, 2022, Ascension and Adventist Health System Sunbelt Healthcare Corporation (AdventHealth), disaffiliated from AMITA Health, the joint operating company which served the healthcare needs of the greater Chicago area from 2015 through March 31, 2022. Beginning April 1, 2022, Ascension operates and continues to consolidate its 15 hospitals and related healthcare facilities in the Chicagoland area separately from AdventHealth.

#### 5. Investment Funds

A significant portion of the System's investments are held within the Investment Funds, with additional investments held by the Ministry Markets and their consolidated foundations outside of the Investment Funds.

##### Alpha Fund

The Alpha Fund is consolidated by the System, and includes the investment interests of the System and noncontrolling Alpha Fund investors.

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 investors. AIM provides expertise in the areas of asset allocation, selection and monitoring of outside investment managers, and risk management.

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 capital contributions in accordance with the terms of the agreement.

Commitments not funded during the investment period will expire and remain unfunded. As of December 31, 2022, contractual agreements expire between February 2023 and June 2028. The remaining unfunded capital commitments total approximately \$1,686,000 for 279 individual funds as of December 31, 2022. 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.



## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### **5. Investment Funds (continued)**

In the normal course of business, the Alpha Fund enters into derivative contracts (derivatives) for trading purposes, following Alpha Fund guidelines. Advisors selected by AIM to manage the Alpha Fund's assets may actively trade futures contracts, options, swaps, forward settling mortgage-backed securities, index-based instruments, and foreign currency forward contracts.

AIM may direct these advisors 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.

At December 31, 2022 and June 30, 2022, the gross notional value of Alpha Fund derivatives outstanding was approximately \$6,684,000 and \$13,344,000, respectively. See the Fair Value Measurements note for discussion of the Alpha Fund derivatives' fair value determination.

The fair value of Alpha Fund derivatives in an asset position was \$122,007 and \$130,625 at December 31, 2022 and June 30, 2022, respectively, while the fair value of Alpha Fund derivatives in a liability position was \$82,654 and \$548,073 at December 31, 2022 and June 30, 2022, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets.

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.

#### **Venture Funds**

The Venture Funds are consolidated by the System, and include the investment interests of the System and other noncontrolling limited partners. The general partners of the Venture Funds are wholly owned subsidiaries of AV Holding Company. The Venture Funds invest primarily in equity securities of privately held domestic entities, and are reported at fair value.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (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 the net assets of Investment Funds. Other assets (liabilities), net of the Investment Funds are primarily amounts due from and to brokers. System unrestricted cash and investments, net, represent the System's cash and investments excluding assets limited as to use and the noncontrolling interests of Investment Funds.

|   | <b>December 31,<br/>2022</b> | <b>June 30,<br/>2022</b> |
|---|------------------------------|--------------------------|
| Cash and cash equivalents                                       | \$ 715,516                   | \$ 747,084               |
| Short-term investments  | 56,571                       | 70,284                   |
| Long-term investments   | 19,403,850                   | 22,058,171               |
| Subtotal  | 20,175,937                   | 22,875,539               |
| Investment Funds' other assets (liabilities), net               | (62,998)                     | 86,150                   |
| Total cash and investments, net                                 | 20,112,939                   | 22,961,689               |
| Less noncontrolling interest of Investment Funds                | 1,889,941                    | 2,012,636                |
| System cash and investments, including assets limited as to use | 18,222,998                   | 20,949,053               |
| Less assets limited as to use:                                  |                              |                          |
| Under bond agreement  | 113                          | 157                      |
| Self-insurance trust funds                                      | 867,569                      | 795,202                  |
| With donor restrictions   | 716,999                      | 697,415                  |
| Total assets limited as to use                                  | 1,584,681                    | 1,492,774                |
| System unrestricted cash and investments, net                   | \$ 16,638,317                | \$ 19,456,279            |

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 6. Cash and Investments (continued)

The System's 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.

|   | December 31,<br>2022 | June 30,<br>2022 |
|---|----------------------|------------------|
| Cash and cash equivalents and short-term investments                                  | \$ 866,479           | \$ 911,686       |
| Pooled short-term investment funds  | 552,806              | 917,281          |
| U.S. government, state, municipal and agency obligations                              | 3,364,587            | 4,358,500        |
| Corporate and foreign fixed income securities   | 1,448,597            | 1,909,257        |
| Asset-backed securities   | 2,268,518            | 3,129,401        |
| Equity securities   | 4,723,018            | 4,328,562        |
| Alternative investments and other investments:  |                      |                  |
| Private equity and real estate funds  | 4,470,745            | 4,811,569        |
| Private credit and energy funds   | 1,572,269            | 1,600,318        |
| Hedge funds   | 753,328              | 835,556          |
| Other investments   | 155,590              | 73,409           |
| Total alternative investments and other investments                                   | 6,951,932            | 7,320,852        |
| Total cash and cash equivalents, short-term investments,<br>and long-term investments | \$ 20,175,937        | \$ 22,875,539    |

Total investment return includes the System's return on Investment Funds and on certain investments held and managed outside the Investment Funds. System investment return is net of the investment return earned by the noncontrolling interests of the Investment Funds. Investment return recognized by the System for the three months ended December 31, 2022 and 2021, is summarized in the following table.

|   | The three months ended<br>December 31, |            |
|---|--|------------|
|   | 2022                                   | 2021       |
| Interest and dividends  | \$ 106,574                             | \$ 70,954  |
| Net gains (losses) on investments reported at fair value        | (81,475)                               | 960,272    |
| Restricted investment return and unrealized gains (losses), net | 6,407                                  | 4,917      |
| Total investment return, net                                    | 31,506                                 | 1,036,143  |
| Less Investment Funds' noncontrolling interest return, net      | 45,350                                 | 84,397     |
| System investment return, net                                   | \$ (13,844)                            | \$ 951,746 |

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 6. Cash and Investments (continued)

Investment return recognized by the System for the six months ended December 31, 2022 and 2021, is summarized in the following table.

|   | <b>The six months ended</b> |                   |
|---|-----------------------------|-------------------|
|   | <b>December 31,</b>         |                   |
|   | <b>2022</b>                 | <b>2021</b>       |
| Interest and dividends  | <b>\$ 181,850</b>           | \$ 132,430        |
| Net gains (losses) on investments reported at fair value        | <b>(984,250)</b>            | 934,946           |
| Restricted investment return and unrealized gains (losses), net | <b>(3,139)</b>              | 8,498             |
| Total investment return, net                                    | <b>(805,539)</b>            | 1,075,874         |
| Less Investment Funds' noncontrolling interest return, net      | <b>(45,443)</b>             | 84,932            |
| System investment return, net                                   | <b>\$ (760,096)</b>         | <b>\$ 990,942</b> |

Total and system investment returns are net of external and direct internal investment expenses.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 7. Financial Assets and Liquidity Resources

As of December 31, 2022 and June 30, 2022, 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:

|   | <b>December 31,<br/>2022</b> | <b>June 30,<br/>2022</b> |
|---|------------------------------|--------------------------|
| <b>Financial assets:</b>  |                              |                          |
| Cash and cash equivalents   | \$ 715,516                   | \$ 747,084               |
| Short-term investments  | 56,571                       | 70,284                   |
| Accounts receivable   | 3,455,085                    | 3,435,376                |
| Due from brokers  | 113,424                      | 142,075                  |
| Other current assets  | 984,192                      | 940,169                  |
| Long-term investments   | 19,403,850                   | 22,058,171               |
| <b>Total financial assets</b>   | <b>24,728,638</b>            | <b>27,393,159</b>        |
| <b>Less:</b>  |                              |                          |
| Assets limited as to use and internally designated funds                        | (1,644,461)                  | (1,529,771)              |
| Noncontrolling interests of Investment Funds                                    | (1,889,941)                  | (2,012,636)              |
| Investments with liquidity more than one year                                   | (5,211,612)                  | (5,511,336)              |
| <b>Total financial assets available within one year</b>                         | <b>15,982,624</b>            | <b>18,339,416</b>        |
| <b>Liquidity resources:</b>   |                              |                          |
| Unused line(s) of credit  | 1,000,000                    | 1,000,000                |
| <b>Total financial assets and liquidity resources available within one year</b> | <b>\$ 16,982,624</b>         | <b>\$ 19,339,416</b>     |

As part of the System's investment policy, highly liquid investments are held to enhance the System's ability to satisfy liquidity requirements.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 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.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### **8. Fair Value Measurements (continued)**

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

As of December 31, 2022, and June 30, 2022, 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 Funds*

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.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### **8. Fair Value Measurements (continued)**

##### *Corporate and Foreign Fixed Income Securities*

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

##### *Asset-backed Securities*

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

##### *Equity Securities*

The fair value of investments in U.S. and international equity securities is primarily determined using techniques that are consistent with the market and income approaches. The values for underlying investments are based on readily available quoted market prices or represent fair value estimates 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 and other investments. 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. Other investments include primarily exchange traded commodities and derivative assets and derivative liabilities of the Alpha Fund. Fair values of derivatives are 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,



## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### **8. Fair Value Measurements (continued)**

maturity date, recovery rates, and the current market and contractual prices of the underlying financial instruments.

The fair value of hedge funds, private equity funds, private credit and energy 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.

#### *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.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 8. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at December 31, 2022, 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                |
|---|------------|-----------|-----------|----------------------|
| <b>December 31, 2022</b>  |            |           |           |                      |
| Cash equivalents  | \$ 7,838   | \$ 8,906  | \$ -      | \$ 16,744            |
| Short-term investments  | 42,673     | 18,366    | -         | 61,039               |
| Pooled short-term investment funds                                      | 552,806    | -         | -         | 552,806              |
| U.S. government, state, municipal<br>and agency obligations             | -          | 3,364,587 | -         | 3,364,587            |
| Corporate and foreign fixed income securities                           | -          | 1,445,452 | 3,145     | 1,448,597            |
| Asset-backed securities   | -          | 2,069,527 | 198,991   | 2,268,518            |
| Equity securities   | 3,820,341  | 16,856    | 10,036    | 3,847,233            |
| Alternative investments and other investments:                          |            |           |           |                      |
| Private equity  | -          | -         | 490,279   | 490,279              |
| Other investments, including derivatives, net                           | 22,403     | 33,883    | 3,173     | 59,459               |
| Assets at net asset value:  |            |           |           |                      |
| Equity securities   |            |           |           | 875,785              |
| Private equity funds and real estate funds                              |            |           |           | 3,980,466            |
| Private credit and energy funds   |            |           |           | 1,572,269            |
| Hedge funds   |            |           |           | 753,328              |
| Other investments   |            |           |           | 6,061                |
| Cash and other investments not at fair value                            |            |           |           | 878,766              |
|   |            |           |           | <u>\$ 20,175,937</u> |
| Cash and investments  |            |           |           | <u>\$ 20,175,937</u> |
| Benefit plan assets, in other noncurrent assets                         | \$ 573,147 | \$ -      | \$ 59,150 | \$ 632,297           |
| Investments sold, not yet purchased, in other<br>noncurrent liabilities | 44         | -         | -         | 44                   |
| Interest rate swaps, included in<br>other noncurrent liabilities        | -          | 33,269    | -         | 33,269               |

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 8. Fair Value Measurements (continued)

For the three months ended December 31, 2022, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following:

|   | Corporate and<br>Foreign Fixed<br>Income Securities | Asset-<br>Backed<br>Securities | Equity<br>Securities | Private<br>Equity | Other<br>Investments | Benefit Plan<br>Assets |
|---|---|--------------------------------|----------------------|-------------------|----------------------|------------------------|
| <b>The three months ended</b>           |   |                                |                      |                   |                      |                        |
| <b>December 31, 2022</b>                |   |                                |                      |                   |                      |                        |
| Beginning balance                       | \$ 1,210  | \$ 206,310                     | \$ 37,276            | \$ 524,347        | \$ 3,164             | \$ 59,305              |
| Realized and unrealized gains (losses): |   |                                |                      |                   |                      |                        |
| Included in nonoperating gains (losses) | 27  | (7,319)                        | (9,682)              | (38,077)          | 19                   | -                      |
| Included in changes in net assets       | -   | -                              | -                    | -                 | (12)                 | -                      |
| Purchases                               | 1,908   | -                              | 1,471                | 4,001             | 29                   | 50,679                 |
| Issuances                               | -   | -                              | -                    | 8                 | -                    | -                      |
| Sales                                   | -   | -                              | (19,030)             | -                 | (27)                 | (48,467)               |
| Transfers into Level 3                  | -   | -                              | 1                    | -                 | -                    | 32,040                 |
| Transfers out of Level 3                | -   | -                              | -                    | -                 | -                    | (34,407)               |
| Ending balance                          | <u>\$ 3,145</u>                                     | <u>\$ 198,991</u>              | <u>\$ 10,036</u>     | <u>\$ 490,279</u> | <u>\$ 3,173</u>      | <u>\$ 59,150</u>       |

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 December 31, 2022

|  |              |                   |              |             |               |             |
|--|--------------|-------------------|--------------|-------------|---------------|-------------|
|  | <u>\$ 27</u> | <u>\$ (7,319)</u> | <u>\$ 38</u> | <u>\$ -</u> | <u>\$ (6)</u> | <u>\$ -</u> |
|--|--------------|-------------------|--------------|-------------|---------------|-------------|

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 8. Fair Value Measurements (continued)

For the six months ended December 31, 2022, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following:

|   | Corporate and<br>Foreign Fixed<br>Income Securities | Asset-<br>Backed<br>Securities | Equity<br>Securities | Private<br>Equity | Other<br>Investments | Benefit Plan<br>Assets |
|---|---|--------------------------------|----------------------|-------------------|----------------------|------------------------|
| <b>The six months ended<br/>December 31, 2022</b> |   |                                |                      |                   |                      |                        |
| Beginning balance                                 | \$ 1,156  | \$ 210,942                     | \$ 37,171            | \$ 574,873        | \$ 3,887             | \$ 58,439              |
| Realized and unrealized gains (losses):           |   |                                |                      |                   |                      |                        |
| Included in nonoperating gains (losses)           | 82  | (3,712)                        | (9,629)              | (90,137)          | 25                   | -                      |
| Included in changes in net assets                 | -   | -                              | -                    | -                 | (740)                | -                      |
| Purchases   | 1,907   | 4,625                          | 1,471                | 5,621             | 55                   | 5,859                  |
| Issuances   | -   | -                              | -                    | 8                 | -                    | -                      |
| Sales   | -   | (8,077)                        | (18,978)             | (86)              | (54)                 | (6,365)                |
| Transfers into Level 3                            | -   | -                              | 1                    | -                 | -                    | 4,463                  |
| Transfers out of Level 3                          | -   | (4,787)                        | -                    | -                 | -                    | (3,246)                |
| Ending balance                                    | <u>\$ 3,145</u>                                     | <u>\$ 198,991</u>              | <u>\$ 10,036</u>     | <u>\$ 490,279</u> | <u>\$ 3,173</u>      | <u>\$ 59,150</u>       |

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 December 31, 2022

|              |                   |              |             |                |             |
|--------------|-------------------|--------------|-------------|----------------|-------------|
| <u>\$ 82</u> | <u>\$ (3,521)</u> | <u>\$ 97</u> | <u>\$ -</u> | <u>\$ (27)</u> | <u>\$ -</u> |
|--------------|-------------------|--------------|-------------|----------------|-------------|

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.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 8. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2022, 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                |
|---|------------|-----------|-----------|----------------------|
| <b>June 30, 2022</b>  |            |           |           |                      |
| Cash equivalents  | \$ 24,997  | \$ 14,975 | \$ -      | \$ 39,972            |
| Short-term investments  | 56,426     | 9,845     | -         | 66,271               |
| Pooled short-term investment funds                                      | 917,281    | -         | -         | 917,281              |
| U.S. government, state, municipal<br>and agency obligations             | -          | 4,358,500 | -         | 4,358,500            |
| Corporate and foreign fixed income securities                           | -          | 1,908,101 | 1,156     | 1,909,257            |
| Asset-backed securities   | -          | 2,918,459 | 210,942   | 3,129,401            |
| Equity securities   | 2,486,729  | 16,551    | 37,171    | 2,540,451            |
| Alternative investments and other investments:                          |            |           |           |                      |
| Private equity  | -          | -         | 574,873   | 574,873              |
| Other investments, including derivatives, net                           | 340,594    | (344,325) | 3,887     | 156                  |
| Assets at net asset value:  |            |           |           |                      |
| Equity securities   |            |           |           | 1,788,111            |
| Private equity funds and real estate funds                              |            |           |           | 4,236,200            |
| Private credit and energy funds   |            |           |           | 1,600,318            |
| Hedge funds   |            |           |           | 835,556              |
| Other investments   |            |           |           | 5,811                |
| Cash and other investments not at fair value                            |            |           |           | 873,381              |
| Cash and investments  |            |           |           | <u>\$ 22,875,539</u> |
| Benefit plan assets, in other noncurrent assets                         | \$ 541,191 | \$ -      | \$ 58,439 | \$ 599,630           |
| Investments sold, not yet purchased, in other<br>noncurrent liabilities | 4          | 830       | -         | 834                  |
| Interest rate swaps, included in<br>other noncurrent liabilities        | -          | 57,911    | -         | 57,911               |

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 8. Fair Value Measurements (continued)

For the three months ended December 31, 2021, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following:

|   | Corporate and<br>Foreign Fixed<br>Income Securities | Asset-<br>Backed<br>Securities | Equity<br>Securities | Private<br>Equity | Other<br>Investments | Benefit Plan<br>Assets |
|---|---|--------------------------------|----------------------|-------------------|----------------------|------------------------|
| <b>The three months ended</b>           |   |                                |                      |                   |                      |                        |
| <b>December 31, 2021</b>                |   |                                |                      |                   |                      |                        |
| Beginning balance                       | \$ 15,373   | \$ 443,465                     | \$ 34,879            | \$ 663,249        | \$ 3,486             | \$ 58,946              |
| Realized and unrealized gains (losses): |   |                                |                      |                   |                      |                        |
| Included in nonoperating gains (losses) | (812)   | (4,937)                        | 48                   | (10,084)          | 192                  | -                      |
| Included in changes in net assets       | -   | -                              | -                    | -                 | (13)                 | -                      |
| Purchases                               | 373   | 68,902                         | 1                    | 33,019            | -                    | 683                    |
| Sales                                   | (2,613)   | (35,500)                       | (370)                | -                 | -                    | (3,655)                |
| Transfers into Level 3                  | -   | -                              | -                    | -                 | -                    | 572                    |
| Transfers out of Level 3                | -   | (2,465)                        | -                    | (5,476)           | -                    | (1,264)                |
| Ending balance                          | <u>\$ 12,321</u>                                    | <u>\$ 469,465</u>              | <u>\$ 34,558</u>     | <u>\$ 680,708</u> | <u>\$ 3,665</u>      | <u>\$ 55,282</u>       |

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 December 31, 2021

|          |            |        |      |        |      |
|----------|------------|--------|------|--------|------|
| \$ (820) | \$ (5,015) | \$ (7) | \$ - | \$ 197 | \$ - |
|----------|------------|--------|------|--------|------|

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 8. Fair Value Measurements (continued)

For the six months ended December 31, 2021, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following:

|   | <b>Corporate and<br/>Foreign Fixed<br/>Income Securities</b> | <b>Asset-<br/>Backed<br/>Securities</b> | <b>Equity<br/>Securities</b> | <b>Private<br/>Equity</b> | <b>Other<br/>Investments</b> | <b>Benefit Plan<br/>Assets</b> |
|---|--|---|------------------------------|---------------------------|------------------------------|--------------------------------|
| <b>The six months ended</b>                   |  |   |                              |                           |                              |                                |
| <b>December 31, 2021</b>                      |  |   |                              |                           |                              |                                |
| Beginning balance                             | \$ 8,009   | \$ 479,273                              | \$ 33,151                    | \$ 733,753                | \$ 3,711                     | \$ 58,504                      |
| Realized and unrealized gains (losses):       |  |   |                              |                           |                              |                                |
| Included in nonoperating gains (losses)       | 297  | (4,787)                                 | 1,894                        | 911                       | (31)                         | -                              |
| Included in changes in net assets             | -  | -                                       | -                            | -                         | (6)                          | -                              |
| Purchases                                     | 9,555  | 110,005                                 | 20                           | 41,626                    | 54                           | 1,288                          |
| Issuances                                     | -  | -                                       | -                            | -                         | -                            | -                              |
| Sales   | (4,260)  | (100,619)                               | (507)                        | (90,106)                  | (63)                         | (4,413)                        |
| Transfers into Level 3                        | -  | 3,603                                   | -                            | -                         | -                            | 1,425                          |
| Transfers out of Level 3                      | (1,280)  | (18,010)                                | -                            | (5,476)                   | -                            | (1,522)                        |
| Ending balance                                | <u>\$ 12,321</u>   | <u>\$ 469,465</u>                       | <u>\$ 34,558</u>             | <u>\$ 680,708</u>         | <u>\$ 3,665</u>              | <u>\$ 55,282</u>               |
| 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 December 31, 2021               |  |   |                              |                           |                              |                                |
|   | <u>\$ 101</u>  | <u>\$ (4,966)</u>                       | <u>\$ 1,752</u>              | <u>\$ -</u>               | <u>\$ (85)</u>               | <u>\$ -</u>                    |

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.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### **9. Derivative Instruments**

As provided for in the System's Master Trust Indenture, the System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. 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 December 31, 2022 and June 30, 2022, the notional values of outstanding interest rate swaps were \$755,040 and \$826,215, respectively.

The System recognizes the fair value of its interest rate swaps in the Consolidated Balance Sheets as assets, recorded in other noncurrent assets, or liabilities, recorded in other noncurrent liabilities, as appropriate. The System does not offset fair value amounts recognized for derivative instruments. The fair value of interest rate swaps in a liability position was \$33,269 and \$57,911 at December 31, 2022 and June 30, 2022, respectively.

The System's interest rate swap agreements include collateral requirements based on specified criteria. No collateral was posted as of December 31, 2022 and June 30, 2022.

The System does not designate 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.

#### **10. Leases**

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. Rental escalation clauses or renewal options are factored into the determination of lease payments when appropriate. To determine the present value of lease payments, the System utilizes its incremental borrowing rate at lease commencement when an implicit rate is not available for operating leases. In addition, the System does not separate lease and non-lease components.



## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 10. 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. The following table provides the total lease cost included in the Consolidated Statement of Operations and Changes in Net Assets:

|                                    | The three months ended December 31, |                   | The six months ended December 31, |                   |
|------------------------------------|-------------------------------------|-------------------|-----------------------------------|-------------------|
|                                    | 2022                                | 2021              | 2022                              | 2021              |
| Operating lease cost               | \$ 87,735                           | \$ 84,075         | \$ 173,392                        | \$ 174,959        |
| Finance lease cost:                |                                     |                   |                                   |                   |
| Interest on lease liabilities      | 716                                 | 724               | 1,433                             | 1,450             |
| Amortization of right-of-use-asset | 710                                 | 710               | 1,420                             | 1,420             |
| Variable lease cost                | 13,840                              | 15,565            | 31,503                            | 31,353            |
| Total lease cost                   | <u>\$ 103,001</u>                   | <u>\$ 101,074</u> | <u>\$ 207,748</u>                 | <u>\$ 209,182</u> |

The weighted average remaining lease terms and the weighted average discount rates at December 31, 2022 and 2021 were as follows:

|                                       | December 31, 2022   |                   | December 31, 2021   |                   |
|---------------------------------------|---------------------|-------------------|---------------------|-------------------|
|                                       | Operating<br>Leases | Finance<br>Leases | Operating<br>Leases | Finance<br>Leases |
| Weighted-average remaining lease term | 8.1 years           | 27 years          | 8.2 years           | 28 years          |
| Weighted-average discount rate        | 2.5%                | 3.3%              | 2.4%                | 3.3%              |

The following table provides the cash paid for amounts included in the measurement of lease obligations:

|                  | The three months ended December 31, |                  | The six months ended December 31, |                   |
|------------------|-------------------------------------|------------------|-----------------------------------|-------------------|
|                  | 2022                                | 2021             | 2022                              | 2021              |
| Operating leases | \$ 83,922                           | \$ 85,202        | \$ 165,833                        | \$ 173,360        |
| Finance leases   | 1,020                               | 1,003            | 2,039                             | 2,006             |
| Total cash paid  | <u>\$ 84,942</u>                    | <u>\$ 86,205</u> | <u>\$ 167,872</u>                 | <u>\$ 175,366</u> |

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 10. Leases (continued)

The following table reconciles undiscounted future operating and finance lease obligations for each of the next five years and thereafter, as of December 31, 2022, to lease obligations recorded on the Consolidated Balance Sheets at December 31, 2022.

| <b>Twelve months ending December 31:</b>                    | <b>Operating<br/>Leases</b> | <b>Finance<br/>Leases</b> | <b>Total</b>        |
|---|-----------------------------|---------------------------|---------------------|
| 2023  | \$ 283,530                  | \$ 4,171                  | \$ 287,701          |
| 2024  | 230,235                     | 4,021                     | 234,256             |
| 2025  | 186,751                     | 4,018                     | 190,769             |
| 2026  | 148,621                     | 4,090                     | 152,711             |
| 2027  | 112,882                     | 4,163                     | 117,045             |
| Thereafter  | 390,611                     | 109,030                   | 499,641             |
| <b>Total future undiscounted lease obligations</b>          | <b>1,352,630</b>            | <b>129,493</b>            | <b>1,482,123</b>    |
| <b>Less: amount of lease payments representing interest</b> | <b>(77,372)</b>             | <b>(47,514)</b>           | <b>(124,886)</b>    |
| <b>Present value of future lease obligations</b>            | <b>1,275,258</b>            | <b>81,979</b>             | <b>1,357,237</b>    |
| <b>Less: current portion of lease obligations</b>           | <b>(266,463)</b>            | <b>(1,319)</b>            | <b>(267,782)</b>    |
| <b>Long-term lease obligations</b>                          | <b>\$ 1,008,795</b>         | <b>\$ 80,660</b>          | <b>\$ 1,089,455</b> |

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 December 31, 2022, are as follows:

| <b>Twelve months ending December 31:</b> | <b>Operating<br/>Leases</b> |
|--|-----------------------------|
| 2023                                     | \$ 68,173                   |
| 2024                                     | 54,638                      |
| 2025                                     | 41,809                      |
| 2026                                     | 31,673                      |
| 2027                                     | 25,456                      |
| Thereafter                               | 365,552                     |
| <b>Total</b>                             | <b>\$ 587,301</b>           |

For both the three months ended December 31, 2022 and 2021, lease income was approximately \$22,000. For the six months ended December 31, 2022 and 2021, lease income was approximately \$43,000 and \$41,000, respectively.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 11. Retirement Plans

Certain System entities participate in defined-benefit pension plans (the System Plans), which are noncontributory, defined-benefit pension plans. Certain of these plans are cash balance 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).

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 were frozen.

The assets of the System Plans are available to pay the benefits of eligible employees and retirees of all participating entities, and consist primarily of short term investments, U.S. government, state, municipal and agency obligations, corporate and foreign fixed income securities, asset-backed securities, equity securities, and alternative investments including private equity funds, real estate funds and hedge funds. In the event entities participating in the System Plans are unable to fulfill their financial obligations under the System Plans, the other participating entities are obligated to do so.

The following table provides the components of net periodic benefit gain for the System included in Other non-operating gains (losses) in the Consolidated Statements of Operations and Changes in Net Assets.

|  | The three months ended |                  | The six months ended |                   |
|--|------------------------|------------------|----------------------|-------------------|
|  | December 31,           |                  | December 31,         |                   |
|  | 2022                   | 2021             | 2022                 | 2021              |
| Components of net periodic benefit gain: |                        |                  |                      |                   |
| Expected return on plan assets           | 159,789                | 171,432          | 319,579              | 342,863           |
| Interest cost                            | \$ (100,072)           | \$ (73,863)      | \$ (200,161)         | \$ (147,737)      |
| Amortization of actuarial loss           | (23,010)               | (37,833)         | (46,008)             | (75,667)          |
| Amortization of prior service credit     | (2)                    | (73)             | (5)                  | (146)             |
| Net periodic benefit gain                | <u>\$ 36,705</u>       | <u>\$ 59,663</u> | <u>\$ 73,405</u>     | <u>\$ 119,313</u> |

#### 12. Self Insurance Program

Ascension entities are self-insured through a grantor trust and Ascension Health Insurance, LTD. (AHIL), which provides professional liability coverage on a claims-made basis. AHIL provides coverage in excess of a self-insured retention per medical incident/occurrence with no aggregate limit. The grantor trust provides funding for claims within the self-insured retention. The excess coverage provided by AHIL is reinsured by commercial carriers.

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 13. Contingencies and Commitments

Ascension, like other healthcare organizations, periodically undergoes investigations or audits by federal, state and local agencies involving compliance with a variety of laws and regulations arising in the ordinary course of business. These investigations generally seek to determine compliance with, among other things, laws and regulations relating to Medicare and Medicaid reimbursement, including billing practice for certain services. To support compliance with these laws and regulations, Ascension maintains a compliance program designed to prevent, proactively detect, and correct potential violations of laws and regulations. Also, the System is periodically involved in litigation arising in the ordinary course of business. In the opinion of management, these investigations and litigation matters are expected to be resolved without a material adverse effect to Ascension's financial position or liquidity.

The System enters into agreements with non-employed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The maximum amount of future payments that the System could be required to make under these guarantees is approximately \$7,600.

The System has entered into Master Service Agreements for information technology services provided by third parties, under which future committed payments of approximately \$575,300 will be made over the next 2 to 5 years.

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 16 years.

The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Groups at December 31, 2022:

|  |    |        |
|--|----|--------|
| St. Vincent de Paul Series 2000 A debt guarantee | \$ | 28,300 |
| Other guarantees and commitments                 |    | 82,242 |

## Ascension

### Notes to Consolidated Financial Statements (unaudited) (continued) (Dollars in Thousands)

#### 14. 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 three months ended December 31, 2022 consist of the following:

|  | <b>Health care<br/>services</b> | <b>Management<br/>support<br/>services</b> | <b>Total</b>        |
|--|---------------------------------|--|---------------------|
| Salaries, wages, and employee benefits   | \$ 3,328,708                    | \$ 270,041                                 | \$ 3,598,749        |
| Purchased services and professional fees | 1,010,131                       | 334,265                                    | 1,344,396           |
| Supplies                                 | 1,006,484                       | 2,242                                      | 1,008,726           |
| Other                                    | 1,334,964                       | 112,432                                    | 1,447,396           |
| <b>Total operating expenses</b>          | <b>\$ 6,680,287</b>             | <b>\$ 718,980</b>                          | <b>\$ 7,399,267</b> |

Expenses by functional classification for the three months ended December 31, 2021 consist of the following:

|  | <b>Health care<br/>services</b> | <b>Management<br/>support<br/>services</b> | <b>Total</b>        |
|--|---------------------------------|--|---------------------|
| Salaries, wages, and employee benefits   | \$ 3,416,627                    | \$ 249,300                                 | \$ 3,665,927        |
| Purchased services and professional fees | 855,630                         | 322,079                                    | 1,177,709           |
| Supplies                                 | 1,067,643                       | 1,894                                      | 1,069,537           |
| Other                                    | 1,255,874                       | 100,811                                    | 1,356,685           |
| <b>Total operating expenses</b>          | <b>\$ 6,595,774</b>             | <b>\$ 674,084</b>                          | <b>\$ 7,269,858</b> |

Ascension

Notes to Consolidated Financial Statements (unaudited) (continued)  
*(Dollars in Thousands)*

**14. Functional Expenses (continued)**

Expenses by functional classification for the six months ended December 31, 2022 consist of the following:

|  | <b>Health care<br/>services</b> | <b>Management<br/>support<br/>services</b> | <b>Total</b>         |
|--|---------------------------------|--|----------------------|
| Salaries, wages, and employee benefits   | \$ 6,675,396                    | \$ 535,647                                 | \$ 7,211,043         |
| Purchased services and professional fees | 1,896,619                       | 660,803                                    | 2,557,422            |
| Supplies                                 | 2,029,247                       | 3,736                                      | 2,032,983            |
| Other                                    | 2,691,127                       | 225,658                                    | 2,916,785            |
| <b>Total operating expenses</b>          | <b>\$ 13,292,389</b>            | <b>\$ 1,425,844</b>                        | <b>\$ 14,718,233</b> |

Expenses by functional classification for the six months ended December 31, 2021 consist of the following:

|  | <b>Health care<br/>services</b> | <b>Management<br/>support<br/>services</b> | <b>Total</b>         |
|--|---------------------------------|--|----------------------|
| Salaries, wages, and employee benefits   | \$ 6,582,662                    | \$ 501,116                                 | \$ 7,083,778         |
| Purchased services and professional fees | 1,670,603                       | 639,145                                    | 2,309,748            |
| Supplies                                 | 2,120,077                       | 3,489                                      | 2,123,566            |
| Other                                    | 2,475,291                       | 201,444                                    | 2,676,735            |
| <b>Total operating expenses</b>          | <b>\$ 12,848,633</b>            | <b>\$ 1,345,194</b>                        | <b>\$ 14,193,827</b> |

## Supplementary Information

Ascension

Schedule of Net Cost of Providing Care of Persons  
Living in Poverty and Other Community Benefit Programs  
*(Dollars in Thousands)*

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

|  | <b>The six months ended</b> |                     |
|--|-----------------------------|---------------------|
|  | <b>December 31,</b>         |                     |
|  | <b>2022</b>                 | <b>2021</b>         |
|  | <hr/>                       | <hr/>               |
| Traditional charity care provided  | \$ 273,350                  | \$ 251,328          |
| Unpaid cost of public programs for persons<br>living in poverty                      | 534,822                     | 600,095             |
| Other programs for persons living in poverty<br>and other persons who are vulnerable | 34,027                      | 36,786              |
| Community benefit programs   | 204,185                     | 181,855             |
|  | <hr/>                       | <hr/>               |
| Care of persons living in poverty and other community<br>benefit programs            | <b>\$ 1,046,384</b>         | <b>\$ 1,070,064</b> |
|  | <hr/>                       | <hr/>               |