ASCENSION

Consolidated Interim Financial Statements and Supplementary Information (Unaudited)

For the Three Months Ended September 30, 2023 and 2022

Ascension

Consolidated Financial Statements
and Supplementary Information

For the Three Months Ended September 30, 2023 and 2022

Contents

Ascension

Consolidated Balance Sheets (unaudited)

(Dollars in Thousands)

	September 30, 2023	June 30, 2023
Assets		
Current assets:		
Cash and cash equivalents	**$ 650,169**	$ 1,013,225
Short-term investments	**55,567**	60,793
Accounts receivable	**3,394,758**	3,270,862
Inventories	**487,303**	487,104
Due from brokers *(see Notes 5 and 6)*	**143,184**	136,646
Estimated third-party payor settlements	**311,771**	195,549
Other	**1,508,810**	1,306,215
Total current assets	**6,551,562**	6,470,394
Long-term investments *(see Notes 5 and 6)*	**18,805,897**	19,417,590
Property and equipment, net	**9,903,502**	9,942,027
Other assets:		
Right-of-use assets - leases	**1,264,355**	1,277,833
Investment in unconsolidated entities	**1,354,102**	1,325,565
Capitalized software costs, net	**600,378**	576,829
Other	**1,532,433**	1,447,951
Total other assets	**4,751,268**	4,628,178
Total assets	**$ 40,012,229**	$ 40,458,189

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Ascension

Consolidated Balance Sheets (unaudited)

(Dollars in Thousands)

	September 30, 2023	June 30, 2023
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 99,273**	$ 121,541
Long-term debt subject to short-term remarketing arrangements*	**603,695**	471,425
Current portion of lease obligations	**272,502**	269,663
Accounts payable and accrued liabilities	**3,041,252**	3,031,199
Estimated third-party payor settlements	**528,851**	552,459
Due to brokers *(see Notes 5 and 6)*	**384,801**	108,443
Current portion of self-insurance liabilities	**537,763**	537,763
Other	**570,127**	441,731
Total current liabilities	**6,038,264**	5,534,224
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	**6,189,935**	6,322,992
Lease obligations, less current portion	**1,032,667**	1,047,358
Self-insurance liabilities	**755,732**	934,516
Pension and other postretirement liabilities	**393,410**	436,952
Other	**1,364,466**	1,362,107
Total noncurrent liabilities	**9,736,210**	10,103,925
Total liabilities	**15,774,474**	15,638,149
Net assets:		
Without donor restrictions:		
Controlling interest	**20,841,626**	21,391,080
Noncontrolling interests	**2,615,717**	2,656,133
Total net assets without donor restrictions	**23,457,343**	24,047,213
Net assets with donor restrictions	**780,412**	772,827
Total net assets	**24,237,755**	24,820,040
Total liabilities and net assets	**$ 40,012,229**	$ 40,458,189

*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 September 30, 2024. 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 September 30, 2023	2022
Operating revenue:		
Net patient service revenue	$ 6,541,540	$ 6,308,197
Other revenue	733,680	927,242
Total operating revenue	7,275,220	7,235,439
Operating expenses:		
Salaries and wages	2,934,001	2,997,327
Employee benefits	576,526	614,966
Purchased services	936,485	856,802
Professional fees	407,628	356,223
Supplies	1,034,658	1,024,257
Insurance	100,131	88,350
Interest	58,017	55,689
Provider tax	239,567	188,568
Depreciation and amortization	295,479	330,209
Other	863,624	806,574
Total operating expenses	7,446,116	7,318,965
Income (loss) from operations before self-insurance trust fund investment return, impairment and nonrecurring gains (losses), net	(170,896)	(83,526)
Self-insurance trust fund investment return	(19,599)	(35,097)
Income (loss) from recurring operations	(190,495)	(118,623)
Impairment and nonrecurring gains (losses), net	(3,218)	54
Income (loss) from operations	(193,713)	(118,569)
Nonoperating gains (losses):		
Investment return, net	(434,059)	(792,403)
Other	13,210	31,626
Total nonoperating gains (losses), net	(420,849)	(760,777)
Excess (deficit) of revenues and gains over expenses and losses	(614,562)	(879,346)
Less noncontrolling interests	(16,999)	(67,514)
Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest	(597,563)	(811,832)

Continued on next page.

Ascension

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

(Dollars in Thousands)

	The three months ended September 30, 2023	2022
Net assets without donor restrictions, controlling interest:		
Excess (deficit) of revenues and gains over expenses and losses	$ (597,563)	$ (811,832)
Transfers (to) from sponsors and other affiliates, net	(403)	1,182
Net assets released from restrictions for property acquisitions	6,194	3,447
Change in pension liability	23,063	22,912
Change in unconsolidated entities' net assets	5,619	(45,354)
Other	13,636	(3,237)
Increase (decrease) in net assets without donor restrictions, controlling interest	(549,454)	(832,882)
Net assets without donor restrictions, noncontrolling interest:		
Excess (deficit) of revenues and gains over expenses and losses	(16,999)	(67,514)
Net contributions (distributions) of capital	(22,970)	(27,737)
Other	(447)	3,882
Increase (decrease) in net assets without donor restrictions, noncontrolling interest	(40,416)	(91,369)
Net assets with donor restrictions:		
Contributions and grants	20,656	23,740
Investment return	6,271	(9,547)
Net assets released from restrictions	(21,346)	(13,540)
Other	2,004	(6,340)
Increase (decrease) in net assets with donor restrictions	7,585	(5,687)
Increase (decrease) in net assets	(582,285)	(929,938)
Net assets, beginning of period	24,820,040	27,125,546
Net assets, end of period	$ 24,237,755	$ 26,195,608

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

Ascension

Consolidated Statements of Cash Flows (unaudited)

(Dollars in Thousands)

	The three months ended September 30, 2023	2022
Operating activities		
Increase (decrease) in net assets	$ **(582,285)**	$ (929,938)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	**295,479**	330,209
Amortization of bond premiums, discounts, and debt issuance costs	**(6,926)**	(7,910)
Change in pension liability	**(23,063)**	(22,472)
Unrealized losses (gains) on unrestricted investments, net	**618,275**	613,294
Change in fair value of interest rate swaps	**(10,335)**	(22,783)
Change in equity of unconsolidated entities	**(68,072)**	(2,469)
Gain on sale of assets, net	**(11,730)**	(366,570)
Impairment and nonrecurring expenses	**3,085**	-
Transfers to (from) sponsor and other affiliates, net	**403**	(1,182)
Donor restricted contributions, investment return and other	**(11,775)**	(4,100)
Distributions (contributions) of noncontrolling interest, net	**22,970**	27,737
Other	**(17,246)**	176
(Increase) decrease in:		
Short-term investments	**5,226**	12,505
Accounts receivable	**(121,850)**	41,577
Inventories and other current assets	**(190,192)**	(53,508)
Due from brokers	**(6,538)**	6,130
Long-term investments	**(4,760)**	933,641
Other assets	**(80,280)**	(8,767)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**33,151**	(421,331)
Estimated third-party payor settlements, net	**(139,830)**	(51,695)
Due to brokers	**276,358**	23,044
Medicare advanced payments	-	(391,503)
Other current liabilities	**120,063**	63,603
Self-insurance liabilities	**(178,784)**	6,619
Other noncurrent liabilities	**(8,608)**	(836)
Net cash provided by (used in) operating activities	**(87,264)**	(226,529)

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Ascension

Consolidated Statements of Cash Flows (unaudited)

(Dollars in Thousands)

	The three months ended September 30, 2023	2022
Investing activities		
Property, equipment, and capitalized software additions, net	$ **(316,456)**	$ (365,593)
Proceeds from sale of property and equipment	**7,310**	5,284
Distributions from unconsolidated entities, net	**40,867**	46,725
Net proceeds from sale/acquisition of other assets	**1,024**	431,432
Net cash provided by (used in) investing activities	**(267,255)**	117,848
Financing activities		
Issuance of debt	**9,500**	258
Repayment of debt, including financing lease obligations	**(5,670)**	(1,821)
Decrease (increase) in assets under bond agreements	**(36)**	46
Transfers (to) from sponsors and other affiliates, net	**(403)**	1,182
Donor restricted contributions, investment return, and other	**11,775**	4,100
(Distributions) contributions of noncontrolling interest, net	**(22,970)**	(27,737)
Net cash provided by (used in) financing activities	**(7,804)**	(23,972)
Net increase (decrease) in cash, cash equivalents, and restricted cash	**(362,323)**	(132,653)
Cash, cash equivalents, and restricted cash at beginning of period	**1,060,864**	813,452
Cash, cash equivalents, and restricted cash at end of period	$ **698,541**	$ 680,799
Cash and cash equivalents	$ **650,169**	$ 618,280
Restricted cash, included in long-term investments	**48,372**	62,519
Cash, cash equivalents, and restricted cash at end of period	$ **698,541**	$ 680,799

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

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

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.

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 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. Traditional charity care and the unpaid cost of public programs are calculated based on a cost to charge ratio methodology.

The amount of traditional charity care provided, determined on the basis of cost, was $108,962 and $141,121 for the three months ended September 30, 2023 and 2022, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost is reported in the accompanying supplementary information.

2. Significant Accounting Policies

Principles of Consolidation

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.

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 $1,700,520 and $1,647,986 at September 30, 2023 and June 30, 2023, 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, primarily 2 to 40 years; and equipment, primarily 2 to 15 years. Depreciation expense for the three months ended September 30, 2023 and 2022 was approximately $254,000 and $278,000, respectively.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

A summary of property and equipment is as follows:

	September 30, 2023	June 30, 2023
Land and improvements	$ 1,485,673	$ 1,491,219
Buildings and equipment	21,125,076	20,950,390
	22,610,749	22,441,609
Less accumulated depreciation	13,290,923	13,057,675
	9,319,826	9,383,934
Construction in progress	583,676	558,093
Total property and equipment, net	$ 9,903,502	$ 9,942,027

Several capital projects have remaining construction and related equipment purchase commitments of approximately $933,000 as of September 30, 2023.

Intangible Assets

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

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

	September 30, 2023	June 30, 2023
Capitalized software costs	$ 2,634,679	$ 2,595,944
Software in progress	217,045	191,912
Less accumulated amortization	2,251,346	2,211,027
Capitalized software costs, net	600,378	576,829
Goodwill	602,589	525,220
Other, net	42,488	42,883
Intangible assets included in other assets	645,077	568,103
Total intangible assets, net	$ 1,245,455	$ 1,144,932

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 was approximately $42,000 and $52,000 for the three months ended September 30, 2023 and 2022 respectively.

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 controlled and consolidated entities in which the System's ownership interest is less than 100%.

2. Significant Accounting Policies (continued)

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

Operating and Nonoperating Activities

The System's primary mission is to meet the healthcare needs in its 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.

2. Significant Accounting Policies (continued)

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue relates to contracts with patients, and in most cases involve a third-party payor (Medicare, Medicaid, commercial and other managed care insurance companies) in which the System's performance obligations are to provide healthcare services. Net patient service revenues are recorded at expected collectible amounts over the time in which obligations to provide healthcare 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 healthcare 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.

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 $26,708 and $53,921 for the three months ended September 30, 2023 and 2022, respectively.

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

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and 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 September 30, 2023 and 2022, is as follows:

	The three months ended September 30, 2023	2022
Inpatient care	$ **3,026,703**	$ 2,856,994
Ambulatory care	**2,657,458**	2,597,123
Physician practices	**744,050**	748,175
Long-term care	**113,329**	105,905
Total net patient service revenue	$ **6,541,540**	$ 6,308,197

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

	Net Patient Service Revenue The three months ended September 30, 2023	2022	Accounts Receivable September 30, 2023	June 30, 2023
Medicare - traditional and managed	**35.7 %**	35.7 %	**29.7 %**	29.4 %
Medicaid - traditional and managed	**14.4**	15.3	**10.2**	11.2
Other commercial and managed care	**42.4**	41.6	**45.4**	44.6
Self-Pay and other	**7.5**	7.4	**14.7**	14.8
	100.0 %	100.0 %	**100.0 %**	100.0 %

2. Significant Accounting Policies (continued)

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.

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 healthcare 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.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Components of other operating revenue are included in the following tables for the three months ended September 30, 2023 and 2022, respectively:

	The three months ended September 30, 2023	2022
Cafeteria and vending	$ 19,609	$ 18,449
COVID-19 funding (*see Note 3*)	7,408	1,384
Contracted services	68,139	82,044
Donations and grants	26,555	26,617
Gains on asset sales	11,764	369,404
Insurance plans	97,214	41,973
Joint venture income	62,471	47,765
Lab services	2,174	21,311
Lease and rental income	23,448	23,485
Retail pharmacy	208,499	169,791
Value based programs	84,478	68,182
Other	121,921	56,837
Total other revenue	$ 733,680	$ 927,242

Impairment and Nonrecurring Gains (Losses), Net

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

Nonrecurring gains (losses) are related to natural disaster losses and related insurance proceeds and costs associated with entities held for sale.

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 System's tax-exempt organizations are described under Internal Revenue Code Section 501(c)(3), 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 September 30, 2023.

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 prior periods' Consolidated Financial Statements to conform to the September 30, 2023 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 three months ended September 30, 2023, the System evaluated subsequent events through November 17, 2023, representing the date the Consolidated Financial Statements were issued.

2. Significant Accounting Policies (continued)

In October 2023, Ascension Healthcare, Ascension Michigan, a wholly owned subsidiary of Ascension Healthcare, and Henry Ford Health System (HFHS) signed an integration and affiliation agreement whereby Ascension will contribute the membership interest in its southeast and mid Michigan hospitals and related ancillary entities into HFHS, and in exchange Ascension Healthcare will hold an interest in HFHS. This transaction is expected to be finalized after all necessary approvals are obtained.

On October 1, 2023, Gulf Coast Health System (GCHS), a wholly owned subsidiary of Ascension Healthcare, completed the sale of substantially all assets, operations and related clinical and other business of Providence Hospital in Mobile, Alabama, to the University of South Alabama Health Care Authority (Mobile, Alabama transaction).

On November 1, 2023, Ministry Health Care, Inc., a wholly owned subsidiary of Ascension Healthcare, finalized the sale of its membership interest in Network Health Inc., a holding company that operates insurance companies and other non insurance operations in the state of Wisconsin, to Froedtert Health, Inc.

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, and FEMA funding. If unable to attest to or comply with terms and conditions, the System's ability to retain some or all of the distributions received may be impacted.

4. Organizational Changes

Assets Held for Sale / Sold

Ascension had assets and liabilities held for sale associated with anticipated future sales at September 30, 2023 and at June 30, 2023. Amounts held for sale are primarily associated with the aforementioned Mobile, Alabama transaction and the anticipated transition of Ascension Healthcare's membership interest in Our Lady of Lourdes Memorial Hospital, Inc. in New York, along with related clinical and other business, to The Guthrie Clinic.

4. Organizational Changes (continued)

At September 30, 2023, Ascension had assets and liabilities held for sale of approximately $316,000 and $49,000, respectively, while at June 30, 2023, Ascension had assets and liabilities held for sale of approximately $305,000 and $41,000, respectively. Assets and liabilities held for sale are included in other current assets and other current liabilities in the Consolidated Balance Sheet.

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.

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 September 30, 2023, contractual agreements expire between October 2023 and May 2029. The remaining unfunded capital commitments total approximately $1,540,000 for 280 individual funds as of September 30, 2023. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to

5. Investment Funds (continued)

meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments in the Alpha Fund.

In the normal course of business, the 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 September 30, 2023 and June 30, 2023, the gross notional value of Alpha Fund derivatives outstanding was approximately $4,918,000 and $5,669,000, 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 $107,965 and $95,080 at September 30, 2023 and June 30, 2023, respectively, while the fair value of Alpha Fund derivatives in a liability position was $62,386 and $54,798 at September 30, 2023 and June 30, 2023, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets.

Effective July 1, 2023, the Alpha Fund resumed its participation in a securities lending program, whereby a portion of the Alpha Fund's investments are loaned to selected brokerage firms in return for cash and/or securities from the brokers as collateral for the investments loaned, usually on a short-term basis. Collateral provided by brokers is maintained at levels approximating 102% of the fair value of the securities on loan, and is adjusted daily for market fluctuations. Cash collateral of approximately $27,800 at September 30, 2023 is recorded as an asset, in other current assets, and corresponding liability, in other current liabilities, in the Consolidated Balance Sheet. The fair value of non-cash collateral held by the Alpha Fund associated with lending agreements is $106,605 at September 30, 2023. In the event of nonperformance by the counterparties to the securities lending agreements, the Alpha Fund could be exposed to some loss.

(Dollars in Thousands)

5. Investment Funds (continued)

Due from brokers and due to brokers included in 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 and convertible debt securities of privately held domestic entities, and are reported at fair value.

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.

	September 30, 2023	June 30, 2023
Cash and cash equivalents	$ **650,169**	$ 1,013,225
Short-term investments	**55,567**	60,793
Long-term investments	**18,805,897**	19,417,590
Subtotal	**19,511,633**	20,491,608
Investment Funds' other assets (liabilities), net	**(211,220)**	61,564
Total cash and investments, net	**19,300,413**	20,553,172
Less noncontrolling interest of Investment Funds	**2,238,792**	2,321,790
System cash and investments, including assets limited as to use	**17,061,621**	18,231,382
Less assets limited as to use:		
Under bond agreement	**155**	119
Self-insurance trust funds	**957,788**	914,776
With donor restrictions	**742,577**	733,091
Total assets limited as to use	**1,700,520**	1,647,986
System unrestricted cash and investments, net	$ **15,361,101**	$ 16,583,396

(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.

	September 30, 2023	June 30, 2023
Cash and cash equivalents and short-term investments	$ 784,033	$ 1,148,934
Pooled short-term investment funds	880,562	502,177
U.S. government, state, municipal and agency obligations	2,212,802	2,949,110
Corporate and foreign fixed income securities	959,872	1,032,959
Asset-backed securities	1,897,037	1,952,581
Equity securities	6,153,233	6,106,192
Alternative investments and other investments:		
Private equity and real estate funds	4,396,496	4,450,670
Private credit and energy funds	1,413,389	1,489,455
Hedge funds	610,382	623,242
Other investments	203,827	236,288
Total alternative investments and other investments	6,624,094	6,799,655
Total cash and cash equivalents, short-term investments, and long-term investments	$ 19,511,633	$ 20,491,608

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 September 30, 2023 and 2022, is summarized in the following table.

	The three months ended September 30, 2023	2022
Interest and dividends	$ 86,239	$ 75,276
Net gains (losses) on investments reported at fair value	(539,897)	(902,776)
Restricted investment return and unrealized gains (losses), net	6,271	(9,547)
Total investment return, net	(447,387)	(837,047)
Less Investment Funds' noncontrolling interest return, net	(43,183)	(90,793)
System investment return, net	$ (404,204)	$ (746,254)

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

(Dollars in Thousands)

7. Financial Assets and Liquidity Resources

As of September 30, 2023 and June 30, 2023, respectively, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, principal payments on debt, and capital expenditures not financed with debt, are as follows:

Financial assets:	September 30, 2023	June 30, 2023
Cash and cash equivalents	$ 650,169	$ 1,013,225
Short-term investments	55,567	60,793
Accounts receivable	3,394,758	3,270,862
Due from brokers	143,184	136,646
Other current assets	1,508,810	1,306,215
Long-term investments	18,805,897	19,417,590
Total financial assets	24,558,385	25,205,331
Less:		
Assets limited as to use and internally designated funds	(1,788,743)	(1,744,513)
Noncontrolling interests of Investment Funds	(2,238,792)	(2,321,790)
Investments with liquidity more than one year	(5,040,803)	(5,133,522)
Total financial assets available within one year	15,490,047	16,005,506
Liquidity resources:		
Unused line(s) of credit	1,000,000	1,000,000
Total financial assets and liquidity resources available within one year	$ 16,490,047	$ 17,005,506

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

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

8. Fair Value Measurements (continued)

liabilities reported at fair value are classified and disclosed in one of the following four categories:

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

Level 2 – Pricing inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar assets and liabilities in active markets/exchanges or prices quoted for identical or similar assets and liabilities in markets that are not active. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Significant pricing inputs that are unobservable for the asset or liability, including assets or liabilities for which there is little, if any, market activity for such asset or liability. Inputs to determine the fair value of Level 3 assets and liabilities require management judgment and estimation.

Net Asset Value – Values are based on the calculated net asset value. The calculated net asset values for underlying investments are fair value estimates determined by an external fund manager and other sources based on quoted market prices, operating results, balance sheet stability, growth, and other business and market sector factors.

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

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

8. Fair Value Measurements (continued)

As of September 30, 2023 June 30, 2023, 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.

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

8. Fair Value Measurements (continued)

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, 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

8. Fair Value Measurements (continued)

guaranteed rate include the fair value and average duration of the portfolio of investments underlying annuity contract, the contract value, and the annualized weighted-average yield to maturity of the underlying investment portfolio.

Interest Rate Swap Assets and Liabilities

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

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

Investments Sold, Not Yet Purchased

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

(Dollars in Thousands)

8. Fair Value Measurements (continued)

The following tables summarize fair value measurements, by level, at September 30, 2023 and June 30 2023, 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
September 30, 2023				
Cash equivalents	$ 10,782	$ -	$ -	$ 10,782
Short-term investments	40,764	8,482	-	49,246
Pooled short-term investment funds	880,562	-	-	880,562
U.S. government, state, municipal and agency obligations	-	2,212,802	-	2,212,802
Corporate and foreign fixed income securities	-	958,591	1,281	959,872
Asset-backed securities	-	1,669,564	227,473	1,897,037
Equity securities	4,959,421	8,141	10,370	4,977,932
Alternative investments and other investments:				
Private equity	-	-	333,291	333,291
Other investments, including derivatives, net	21,054	43,326	2,762	67,142
Assets at net asset value:				
Equity securities				1,175,301
Private equity funds and real estate funds				4,063,205
Private credit and energy funds				1,413,389
Hedge funds				610,382
Other investments				6,360
Cash and other investments not at fair value				854,330
Cash and investments				$ 19,511,633
Benefit plan assets, in other noncurrent assets	$ 612,970	$ -	$ 56,320	$ 669,290
Investments sold, not yet purchased, in other noncurrent liabilities	120	-	-	120
Interest rate swaps, included in other noncurrent liabilities	-	16,966	-	16,966

(Dollars in Thousands)

8. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
June 30, 2023				
Cash equivalents	$ 9,827	$ -	$ -	$ 9,827
Short-term investments	35,563	8,382	-	43,945
Pooled short-term investment funds	502,177	-	-	502,177
U.S. government, state, municipal and agency obligations	-	2,949,110	-	2,949,110
Corporate and foreign fixed income securities	-	1,031,687	1,272	1,032,959
Asset-backed securities	-	1,739,069	213,512	1,952,581
Equity securities	4,676,177	8,315	10,215	4,694,707
Alternative investments and other investments:				
Private equity	-	-	334,891	334,891
Other investments, including derivatives, net	96,860	39,514	2,759	139,133
Assets at net asset value:				
Equity securities				1,411,485
Private equity funds and real estate funds				4,115,779
Private credit and energy funds				1,489,455
Hedge funds				623,242
Other investments				6,205
Cash and other investments not at fair value				1,186,112
Cash and investments				$ 20,491,608
Benefit plan assets, in other noncurrent assets	$ 606,445	$ -	$ 57,308	$ 663,753
Investments sold, not yet purchased, in other noncurrent liabilities	34	202	-	236
Interest rate swaps, included in other noncurrent liabilities	-	27,301	-	27,301

(Dollars in Thousands)

8. Fair Value Measurements (continued)

For the three months ended September 30, 2023 and 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 Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity	Other Investments	Benefit Plan Assets
The three months ended September 30, 2023						
Beginning balance	$ 1,272	$ 213,512	$ 10,215	$ 334,891	$ 2,759	$ 57,308
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	9	9,040	99	(14,613)	6	-
Included in changes in net assets	-	-	-	-	(2)	-
Purchases	-	5,501	74	14,080	-	249
Sales	-	(580)	(181)	(1,067)	(1)	(583)
Transfers into Level 3	-	-	163	-	-	6
Transfers out of Level 3	-	-	-	-	-	(660)
Ending balance	$ 1,281	$ 227,473	$ 10,370	$ 333,291	$ 2,762	$ 56,320
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 September 30, 2023	$ 9	$ 9,034	$ 23	$ -	$ (11)	$ -

(Dollars in Thousands)

8. Fair Value Measurements (continued)

	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity	Other Investments	Benefit Plan Assets
The three months ended September 30, 2022						
Beginning balance	$ 1,156	$ 210,942	$ 37,171	$ 574,873	$ 3,887	$ 58,439
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	54	3,607	59	(52,147)	6	-
Included in changes in net assets	-	-	-	-	(729)	-
Purchases	-	4,625	3	1,621	27	818
Sales	-	(8,077)	-	-	(27)	(807)
Transfers into Level 3	-	-	43	-	-	902
Transfers out of Level 3	-	(4,787)	-	-	-	(47)
Ending balance	$ 1,210	$ 206,310	$ 37,276	$ 524,347	$ 3,164	$ 59,305
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 September 30, 2022	$ 54	$ 3,798	$ 59	$ -	$ (21)	$ -

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

(Dollars in Thousands)

9. Long-Term Debt

Long-term debt at September 30, 2023 and June 30, 2023 is comprised of the following:

	September 30, 2023	June 30, 2023
Total hospital revenue bonds - all Master Trust Indentures	**$ 6,614,920**	$ 6,614,920
Other	**65,146**	81,275
	6,680,066	6,696,195
Unamortized premium, net	**243,908**	251,327
Less debt issuance cost, net	**(31,071)**	(31,564)
Less current portion	**(99,273)**	(121,541)
Less long-term debt subject to short-term remarketing arrangements	**(603,695)**	(471,425)
Long-term debt, less current portion and long-term debt subject to short-term remarketing arrangements	**$ 6,189,935**	$ 6,322,992

Certain members of the System comprise the Ascension Health Alliance Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as either a senior obligated group member, a senior designated affiliate, or a senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (Senior MTI) to make all payments required with respect to obligations under the Senior MTI.

Senior designated affiliates and senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI. The System may cause each senior designated affiliate to transfer such amounts as are necessary to enable the obligated group to comply with the terms of the Senior MTI, including payment of the outstanding obligations.

Additionally, each senior limited designated affiliate has an independent limited designated affiliate agreement and promissory note with the System with stipulated repayment terms and conditions, each subject to the governing law of the senior limited designated affiliate’s state of incorporation.

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

9. Long-Term Debt (continued)

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

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

As of September 30, 2023, the Senior Credit Group has a line of credit totaling $1,000,000, which may be used for general corporate purposes. The line is committed through November 18, 2024, and as of September 30, 2023 and June 30, 2023 there were no outstanding borrowings under the line of credit.

As of September 30, 2023, the Senior Credit Group had a $115,000 revolving line of credit related to its letters of credit program toward which a bank commitment of $115,000 extends to November 8, 2024. The revolving line of credit may be accessed solely in the form of Letters of Credit issued by the bank for the benefit of the members of the Credit Groups. Of this $115,000 revolving line of credit, letters of credit totaling $90,199 have been issued as of September 30, 2023. No borrowings were outstanding under the letters of credit as of September 30, 2023 and June 30, 2023.

10. 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 September 30, 2023 and June 30, 2023, the notional values of outstanding interest rate swaps were $753,390 and $755,040, respectively, with maturity dates ranging from November 2026 through November 2036.

(Dollars in Thousands)

10. Derivative Instruments (continued)

The System recognizes the fair value of its interest rate swaps in the Consolidated Balance Sheets as either assets, recorded in other noncurrent assets, or liabilities, recorded in other noncurrent liabilities, as appropriate, and are not netted. All interest rate swaps were in a liability position at September 30, 2023 and June 30, 2023, and amounted to $16,966 and $27,301, respectively.

The System's interest rate swap agreements include collateral requirements based on specified criteria. No collateral was posted as of September 30, 2023 and June 30, 2023.

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.

11. 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.

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 September 30, 2023	2022
Operating lease cost	**$ 87,966**	$ 85,657
Finance lease cost:		
Interest on lease liabilities	**708**	718
Amortization of right-of-use-asset	**710**	710
Variable lease cost	**16,267**	17,663
Total lease cost	**$ 105,651**	$ 104,748

(Dollars in Thousands)

11. Leases (continued)

The weighted average remaining lease terms and the weighted average discount rates at September 30, 2023 and 2022 were as follows:

	September 30, 2023		September 30, 2022	
	Operating Leases	Finance Leases	Operating Leases	Finance Leases
Weighted-average remaining lease term	8.3 years	26.3 years	8.2 years	27.3 years
Weighted-average discount rate	2.8%	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 September 30,	
	2023	2022
Operating leases	$ **80,496**	$ 81,911
Finance leases	**1,040**	1,019
Total cash paid	$ **81,536**	$ 82,930

The following table reconciles undiscounted future operating and finance lease obligations for each of the next five years and thereafter, as of September 30, 2023, to lease obligations recorded on the Consolidated Balance Sheets at September 30, 2023.

(Dollars in Thousands)

11. Leases (continued)

Twelve months ending September 30:	Operating Leases	Finance Leases	Total
2024	$ 273,160	$ 4,088	$ 277,248
2025	219,785	4,000	223,785
2026	184,164	4,072	188,236
2027	144,403	4,145	148,548
2028	101,784	4,219	106,003
Thereafter	388,356	105,852	494,208
Total future undiscounted lease obligations	1,311,652	126,376	1,438,028
Less: amount of lease payments representing interest	(87,479)	(45,380)	(132,859)
Present value of future lease obligations	1,224,173	80,996	1,305,169
Less: current portion of lease obligations	(271,221)	(1,281)	(272,502)
Long-term lease obligations	$ 952,952	$ 79,715	$ 1,032,667

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 September 30, 2023, are as follows:

Twelve months ending September 30:	Operating Leases
2024	$ 69,686
2025	54,740
2026	40,669
2027	33,290
2028	28,127
Thereafter	373,607
Total	$ 600,119

For both the three months ended September 30, 2023 and 2022, lease income was approximately $21,000.

(Dollars in Thousands)

12. 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 September 30,	
	2023	**2022**
Components of net periodic benefit gain:		
Expected return on plan assets	**$ 153,269**	$ 159,790
Interest cost	**(105,197)**	(100,089)
Amortization of actuarial loss	**(26,559)**	(22,998)
Amortization of prior service credit	**9**	(3)
Net periodic benefit gain	**$ 21,522**	$ 36,700

13. Self Insurance Program

Ascension entities are self-insured for professional and general liability claims on a claims-made basis, as well as workers compensation claims on an occurrence basis, through grantor trusts and Ascension Health Insurance, LTD. (AHIL), a captive insurance company and direct subsidiary of Ascension Risk Services LLC. The grantor trusts provide funding for claims within the self-insured retentions. Actuarially determined amounts are contributed to the trust funds to provide for the estimated cost of claims. The associated loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Employed physicians and certain entities in the states of Indiana and Kansas are provided coverage by ProAssurance Corporation (ProAssurance) on a fronted basis and are reinsured through AHIL. These entities and physicians are provided professional liability coverage with limits in compliance with participation in the state-specific Patient Compensation Fund programs.

Sunflower Assurance, Ltd. (Sunflower), a captive insurance company and wholly owned subsidiary of Ascension Risk Services LLC, offers physician professional liability coverage through insurance or reinsurance arrangements to non-employed physicians practicing at various facilities of the System.

14. Related Parties

The System has agreements with related parties for revenue cycle management services and clinical engineering services. The System expensed approximately $328,000 and $324,000 for these services during the three months ended September 30, 2023 and 2022.

15. 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 practices 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

15. Contingencies and Commitments (continued)

management, investigations and litigation matters are expected to be resolved without a material adverse effect to Ascension's financial position or liquidity.

The System has entered into Master Service Agreements for information technology services provided by third parties, under which future committed payments of approximately $772,700 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, including guarantees of performance of an affiliate under third party financing arrangements, financing of unaffiliated entities, non-employed physician minimum revenue guarantees, 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 September 30, 2023:

St. Vincent de Paul Series 2000 A debt guarantee	$	28,300
Other guarantees and commitments		92,430

16. Functional Expenses

Ascension provides healthcare services, including inpatient, outpatient, ambulatory, long-term care and community-based services. Management support services include information technology, finance and accounting, revenue cycle, public relations, human resources, legal, supply chain, risk management, compliance, administration and other related functions. Expenses are classified as 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.

(Dollars in Thousands)

16. Functional Expenses (continued)

Expenses by functional classification for the three months ended September 30, 2023 consist of the following:

	Healthcare services	Management support services	Total
Salaries, wages, and employee benefits	$ 3,253,267	$ 257,260	$ 3,510,527
Purchased services and professional fees	1,008,012	336,101	1,344,113
Supplies	1,033,349	1,309	1,034,658
Other	1,450,483	106,335	1,556,818
Total operating expenses	**$ 6,745,111**	**$ 701,005**	**$ 7,446,116**

Expenses by functional classification for the three months ended September 30, 2022 consist of the following:

	Healthcare services	Management support services	Total
Salaries, wages, and employee benefits	$ 3,349,121	$ 263,172	$ 3,612,293
Purchased services and professional fees	886,531	326,494	1,213,025
Supplies	1,022,766	1,491	1,024,257
Other	1,359,649	109,741	1,469,390
Total operating expenses	$ 6,618,067	$ 700,898	$ 7,318,965

Supplementary Information

Ascension

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

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

	The three months ended September 30,	
	2023	**2022**
Traditional charity care provided	**$ 108,962**	$ 141,121
Unpaid cost of public programs for persons living in poverty	**372,076**	295,072
Other programs for persons living in poverty and other persons who are vulnerable	**21,612**	13,349
Community benefit programs	**105,256**	99,427
Care of persons living in poverty and other community benefit programs	**$ 607,906**	$ 548,969

Ascension

Credit Group Financial Statements
Balance Sheet (unaudited)
(Dollars in Thousands)

	September 30, 2023
Assets	
Current assets:	
Cash and cash equivalents	$ 332,666
Short-term investments	45,747
Accounts receivable	2,486,255
Inventories	355,178
Estimated third-party payor settlements	241,816
Due from affiliates *(See Note 2)*	778,275
Other	852,322
Total current assets	5,092,259
Long-term investments	15,243,065
Property and equipment, net	7,712,029
Other assets:	
Right-of-use assets - leases	892,845
Investment in unconsolidated entities	1,222,565
Capitalized software costs, net	546,958
Due from affiliates *(See Note 2)*	2,776,632
Other	1,338,167
Total other assets	6,777,167
Total assets	$ 34,824,520

Continued on next page.

Ascension

Credit Group Financial Statements
Balance Sheet (unaudited)
(Dollars in Thousands)

		September 30, 2023
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	$	98,975
Long-term debt subject to short-term remarketing arrangements*		603,695
Current portion of lease obligations		271,892
Accounts payable and accrued liabilities		2,299,688
Estimated third-party payor settlements		197,745
Due to affiliates *(See Note 2)*		52,695
Other		411,273
Total current liabilities		3,935,963
Noncurrent liabilities:		
Long-term debt (senior and subordinated)		6,187,483
Lease obligations, less current portion		652,911
Pension and other postretirement liabilities		386,316
Other		1,303,102
Total noncurrent liabilities		8,529,812
Total liabilities		12,465,775
Net assets:		
Without donor restrictions:		
Controlling interest		21,197,951
Noncontrolling interests		460,921
Total net assets without donor restrictions		21,658,872
Net assets with donor restrictions		699,873
Total net assets		22,358,745
Total liabilities and net assets	$	34,824,520

*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 September 30, 2024. 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.

Ascension

Credit Group Financial Statements
Statements of Operations and Changes in Net Assets (unaudited)
(Dollars in Thousands)

	The three months ended September 30, 2023
Operating revenue:	
Net patient service revenue	$ 4,438,153
Other revenue *(See note 2)*	841,166
Total operating revenue	5,279,319
Operating expenses *(See note 2)* :	
Salaries and wages	1,963,190
Employee benefits	496,282
Purchased services	632,998
Professional fees	272,318
Supplies	712,974
Insurance	46,968
Interest	58,971
Provider tax	153,615
Depreciation and amortization	232,796
Other	621,754
Total operating expenses	5,191,866
Income (loss) from recurring operations	87,453
Impairment and nonrecurring gains (losses), net	(140)
Income (loss) from operations	87,313
Nonoperating gains (losses):	
Investment return, net	(427,528)
Other	16,037
Total nonoperating gains (losses), net	(411,491)
Excess (deficit) of revenues and gains over expenses and losses	(324,178)
Less noncontrolling interests	(30,993)
Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest	(293,185)

Continued on next page.

Ascension

Credit Group Financial Statements
Statements of Operations and Changes in Net Assets (unaudited)
(Dollars in Thousands)

		The three months ended September 30, 2023
Net assets without donor restrictions, controlling interest:		
Excess (deficit) of revenues and gains over expenses and losses	$	(293,185)
Transfers (to) from affiliates, net *(See Note 2)*		(577,344)
Net assets released from restrictions for property acquisitions		2,695
Pension and other postretirement liability adjustments		22,140
Change in unconsolidated entities' net assets		5,963
Other		(19,869)
Increase (decrease) in net assets without donor restrictions, controlling interest		(859,600)
Net assets without donor restrictions, noncontrolling interest:		
Excess (deficit) of revenues and gains over expenses and losses		(30,993)
Net contributions (distributions) of capital		22,488
Other		(407)
Increase (decrease) in net assets without donor restrictions, noncontrolling interest		(8,912)
Net assets with donor restrictions:		
Contributions and grants		17,651
Investment return		5,892
Net assets released from restrictions		(17,599)
Other		268
Increase (decrease) in net assets with donor restrictions		6,212
Increase (decrease) in net assets		(862,300)
Net assets, beginning of period		23,221,045
Net assets, end of period	$	22,358,745

Ascension
Notes to Credit Group Financial Statements (unaudited)
(Dollars in Thousands)

1. Credit Group Financial Statements

Ascension's Credit Group Financial Statements (CGFS), presented above as of and for the three months ended September 30, 2023, were prepared in accordance with Section 3.10(b)(2)(c) of the Master Trust Indenture (MTI), which provides that the CGFS (1) shall include all Material Credit Group Members, which represent obligated group members and designated affiliates whose total net assets were equal to or greater than 90% of the consolidated net assets of the Credit Group; (2) at the option of Ascension, as Group Representative, may include one or more Immaterial Affiliates, which are entities whose total net assets were less than 10% of the consolidated net assets of the Credit Group as shown on the CGFS; (3) at the option of Ascension, as Credit Group Representative, may exclude one or more Credit Group Members that are not Material Credit Group Members, as defined above; and (4) shall exclude all entities that are neither Credit Group Members nor Immaterial Affiliates. Consistent with these terms, the CGFS as of and for the three months ended September 30, 2023 include the results of all Material Credit Group Members and certain Immaterial Affiliates, and exclude the results of certain entities which are not Material Credit Group members as well as entities that are not Credit Group Members, such as Ascension risk entities which oversee Ascension's self-insurance programs, or Immaterial Affiliates.

Ascension's CGFS are not representative of the consolidated results of Ascension.

2. Affiliate Transactions

Amounts due to and from affiliates as presented in the Balance Sheet of the CGFS represent intercompany transactions between 1) Material Credit Group Members and Immaterial Affiliates (CGFS Entities) and 2) other entities that are included within the Ascension Consolidated Financial Statements whose results have been excluded from the CGFS (Non CGFS Entities), in accordance with Section 3.10(b)(2)(c) of the MTI as described in Note 1. These transactions are primarily related to centralized cash and debt functions within Ascension. Current Due from and to affiliates on the CGFS Balance Sheet and Transfers (to) from affiliates, net in the CGFS Statement of Operations and Changes in Net Assets primarily relate to payments made by or received from CGFS Entities on behalf of Non CGFS Entities, as well as transfers of certain restricted assets to Non CGFS Entities. Non-current Due from affiliates primarily represents the Non CGFS Entities' portion of Ascension's long-term debt, based on internal centralized debt agreements.

2. Affiliate Transactions (continued)

These transactions are eliminated in consolidation within the Ascension Consolidated Financial Statements, but separately presented within the CGFS.

Revenue and expense activities, not transacted at arms length, between CGFS Entities and Non CGFS Entities were both approximately $485,000 for the three months ended September 30, 2023. These transactions include services provided between CGFS Entities and Non CGFS Entities, including, but not limited to, shared service functions, participation in employee and dependent health insurance programs, participation in other risk management programs, participation in a centralized debt management program and other insurance services, and are included in Other Operating Revenue and various expense categories within the Statement of Operations of the CGFS.