

CONSOLIDATED FINANCIAL  
STATEMENTS AND SUPPLEMENTARY  
INFORMATION

Ascension Health Alliance  
d/b/a Ascension  
Years Ended June 30, 2017 and 2016  
With Reports of Independent Auditors



Ascension

Consolidated Financial Statements  
and Supplementary Information

Years Ended June 30, 2017 and 2016

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Ernst & Young LLP  
The Plaza in Clayton  
Suite 1300  
190 Carondelet Plaza  
St. Louis, MO 63105-3434

Tel: +1 314 290 1000  
Fax: +1 314 290 1882  
ey.com

## Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Ascension Health Alliance d/b/a Ascension, which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations and changes in nets assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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



## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ascension Health Alliance d/b/a Ascension at June 30, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

September 22, 2017

## Ascension

### Consolidated Balance Sheets (Dollars in Thousands)

	June 30,	
	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 857,605	\$ 696,237
Short-term investments	103,857	122,545
Accounts receivable, less allowance for doubtful accounts (\$1,316,163 and \$1,362,060 at June 30, 2017 and June 30, 2016, respectively)	2,758,554	2,746,506
Inventories	354,041	349,077
Due from brokers (see Notes 4 and 5)	197,195	313,717
Estimated third-party payor settlements	133,715	186,354
Other (see Notes 4 and 5)	762,900	978,744
Total current assets	5,167,867	5,393,180
Long-term investments (see Notes 4 and 5)	16,999,371	15,069,123
Property and equipment, net	9,182,978	9,020,005
Other assets:		
Investment in unconsolidated entities	1,196,651	1,115,871
Capitalized software costs, net	880,819	926,710
Other (see Notes 4 and 5)	892,739	908,580
Total other assets	2,970,209	2,951,161
Total assets	\$ 34,320,425	\$ 32,433,469

	June 30,	
	2017	2016
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 298,270	\$ 96,193
Long-term debt subject to short-term remarketing arrangements*	999,785	1,666,245
Accounts payable and accrued liabilities (see Notes 4 and 5)	2,742,377	2,500,748
Estimated third-party payor settlements	480,694	513,677
Due to brokers (see Notes 4 and 5)	115,783	105,660
Current portion of self-insurance liabilities	206,787	219,638
Other	340,756	292,044
Total current liabilities	<b>5,184,452</b>	5,394,205
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	5,699,440	5,391,908
Self-insurance liabilities	513,010	513,985
Pension and other postretirement liabilities	1,318,331	1,298,653
Other (see Notes 4 and 5)	1,191,068	1,241,678
Total noncurrent liabilities	<b>8,721,849</b>	8,446,224
Total liabilities	<b>13,906,301</b>	13,840,429
Net assets:		
Unrestricted		
Controlling interest	17,933,923	16,498,086
Noncontrolling interests	1,798,361	1,429,444
Unrestricted net assets	<b>19,732,284</b>	17,927,530
Temporarily restricted		
Temporarily restricted	468,938	467,994
Permanently restricted	212,902	197,516
Total net assets	<b>20,414,124</b>	18,593,040
Total liabilities and net assets	<b>\$ 34,320,425</b>	<b>\$ 32,433,469</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 June 30, 2018. In the event that bonds are not remarketed upon the exercise of put options or the scheduled mandatory tenders, management would utilize other sources to access the necessary liquidity. Potential sources include liquidating investments, a draw on the line of credit totaling \$1 billion, and issuing commercial paper. The commercial paper program is supported by \$500 million of the \$1 billion line of credit.

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

# Ascension

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

	<b>Year Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
Operating revenue:		
Net patient service revenue	\$ 22,023,848	\$ 21,301,133
Less provision for doubtful accounts	1,083,661	1,142,289
Net patient service revenue, less provision for doubtful accounts	20,940,187	20,158,844
Other revenue	1,693,038	1,739,490
Total operating revenue	22,633,225	21,898,334
Operating expenses:		
Salaries and wages	9,301,057	9,043,625
Employee benefits	1,829,642	1,748,110
Purchased services	1,931,021	1,500,887
Professional fees	1,299,517	1,369,103
Supplies	3,267,278	3,114,261
Insurance	177,352	160,232
Interest	223,356	194,962
Depreciation and amortization	1,083,684	1,032,541
Other	2,780,838	2,737,244
Total operating expenses before impairment, restructuring and nonrecurring losses, net	21,893,745	20,900,965
Income from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring losses, net	739,480	997,369
Self-insurance trust fund investment return	43,621	(16,334)
Impairment, restructuring and nonrecurring losses, net	(230,407)	(227,832)
Income from operations	552,694	753,203
Nonoperating gains (losses):		
Investment return	1,420,160	(358,297)
Gain (loss) on extinguishment of debt	10,907	(13,594)
Gains (losses) on interest rate swaps	45,015	(86,536)
Income (loss) from unconsolidated entities	2,601	(40,649)
Contributions from business combinations	-	304,961
Other	(170,194)	(81,339)
Total nonoperating gains (losses), net	1,308,489	(275,454)
Excess of revenues and gains over expenses and losses	1,861,183	477,749
Less noncontrolling interests	222,266	16,365
Excess of revenues and gains over expenses and losses attributable to controlling interest	1,638,917	461,384

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## Ascension

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

	<b>Year Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
Unrestricted net assets, controlling interest:		
Excess of revenues and gains over expenses and losses	\$ 1,638,917	\$ 461,384
Transfers to sponsors and other affiliates, net	(5,062)	(8,654)
Net assets released from restrictions for property acquisitions	92,104	45,058
Pension and other postretirement liability adjustments	(301,182)	(729,197)
Change in unconsolidated entities' net assets	8,039	(6,976)
Other	2,795	3,344
Increase (decrease) in unrestricted net assets, controlling interest, before gain (loss) from discontinued operations	1,435,611	(235,041)
Gain (loss) from discontinued operations	226	(16,230)
Increase (decrease) in unrestricted net assets, controlling interest	1,435,837	(251,271)
Unrestricted net assets, noncontrolling interests:		
Excess of revenues and gains over expenses and losses	222,266	16,365
Distributions of capital	(139,477)	(254,788)
Contributions of capital	285,894	96,150
Membership interest changes, net	210	-
Other	24	(891)
Increase (decrease) in unrestricted net assets, noncontrolling interests	368,917	(143,164)
Temporarily restricted net assets, controlling interest:		
Contributions and grants	123,594	140,210
Investment return	29,410	(4,643)
Net assets released from restrictions	(153,648)	(97,392)
Contributions from business combinations	-	16,091
Other	1,588	(4,181)
Increase in temporarily restricted net assets, controlling interest	944	50,085
Permanently restricted net assets, controlling interest:		
Contributions	8,046	5,298
Investment return	7,263	(1,706)
Contributions from business combinations	-	2,363
Other	77	(1,227)
Increase in permanently restricted net assets, controlling interest	15,386	4,728
Increase (decrease) in net assets	1,821,084	(339,622)
Net assets, beginning of year	18,593,040	18,932,662
Net assets, end of year	\$20,414,124	\$ 18,593,040

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

# Ascension

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

	<b>Year Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ 1,821,084	\$ (339,622)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,083,684	1,032,541
Amortization of bond premiums and debt issuance costs	(19,241)	(20,714)
(Gain) loss on extinguishment of debt	(10,907)	13,594
Provision for doubtful accounts	1,086,621	1,148,342
Pension and other postretirement liability adjustments	301,182	729,197
Contributions from business combinations	-	(323,415)
Unrealized (gains) losses on investments, net	(624,047)	493,528
Change in fair value of interest rate swaps	(70,119)	84,433
Gain on sale of assets, net	(250,594)	(192,042)
Impairment and nonrecurring expenses	40,482	21,271
Transfers to sponsor and other affiliates, net	5,062	8,654
Restricted contributions, investment return, and other	(144,085)	(165,212)
Other restricted activity	18,976	(57,923)
(Contributions) distributions of noncontrolling interest, net	(146,417)	158,638
Other	(234)	(222)
Decrease (increase) in:		
Short-term investments	11,268	71,832
Accounts receivable	(1,114,753)	(1,190,839)
Inventories and other current assets	(57,727)	(65,000)
Due from brokers	116,522	(164,852)
Investments classified as trading	(1,282,576)	(523,002)
Other assets	(79,142)	126,227
Increase (decrease) in:		
Accounts payable and accrued liabilities	206,615	29,531
Estimated third-party payor settlements, net	19,880	128,440
Due to brokers	10,123	(25,401)
Other current liabilities	55,323	(119,736)
Self-insurance liabilities	(13,751)	(53,004)
Other noncurrent liabilities	(180,709)	(201,315)
Net cash provided by continuing operating activities	782,520	603,929
Net cash provided (used) by discontinued operations	7,513	(4,833)
Net cash provided by operating activities	790,033	599,096

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## Ascension

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

	<b>Year Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Investing activities</b>		
Property, equipment, and capitalized software additions, net	\$ (1,272,212)	\$ (1,139,060)
Proceeds from sale of property and equipment	3,830	13,643
Issuance of note receivable for business combination	-	(637,109)
Net proceeds from sale/acquisition of other assets	<b>354,933</b>	296,071
Net cash used by continuing investing activities	<b>(913,449)</b>	(1,466,455)
Net cash provided by discontinued operations - investing	<b>112,238</b>	151,344
Net cash used by investing activities	<b>(801,211)</b>	(1,315,111)
 <b>Financing activities</b>		
Issuance of debt	<b>1,308,307</b>	5,154,869
Repayment of debt	<b>(1,407,063)</b>	(4,403,407)
Debt issuance costs paid	<b>(5,989)</b>	(16,462)
Decrease in assets under bond indenture agreements	<b>498</b>	18,303
Transfers to sponsors and other affiliates, net	<b>(10,062)</b>	(13,654)
Restricted contributions, investment return, and other	<b>140,438</b>	143,013
Contributions (distributions) of noncontrolling interest, net	<b>146,417</b>	(158,638)
Net cash provided by financing activities	<b>172,546</b>	724,024
 Net increase in cash and cash equivalents	<b>161,368</b>	8,009
Cash and cash equivalents at beginning of year	<b>696,237</b>	688,228
Cash and cash equivalents at end of year	<b>\$ 857,605</b>	\$ 696,237

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

# Ascension

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

June 30, 2017

### **1. Organization and Mission**

#### **Organizational Structure**

Ascension Health Alliance, d/b/a Ascension (Ascension), is a Missouri nonprofit corporation formed on September 13, 2011. Ascension is the sole corporate member and parent organization of Ascension Health (d/b/a Ascension Healthcare), a Catholic national health system consisting primarily of nonprofit corporations that own and operate local healthcare facilities, or Ministry Markets, located in 23 states and the District of Columbia.

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

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

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

# Ascension

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

### 1. Organization and Mission (continued)

#### Sponsorship

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

#### Mission

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

- Traditional charity care includes the cost of services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.
- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.
- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.
- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

# Ascension

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

### 1. Organization and Mission (continued)

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

The amount of traditional charity care provided, determined on the basis of cost, was \$537,672 and \$452,246 for the years ended June 30, 2017 and 2016, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost is reported in the accompanying supplementary information.

### 2. Significant Accounting Policies

#### Principles of Consolidation

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

	Year Ended June 30,	
	2017	2016
Other revenue	\$ 105,473	\$ 114,085
Nonoperating gains (losses)	2,601	(40,649)

## Ascension

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

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

##### **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 (continued) (Dollars in Thousands)

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

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

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

Long-term investments include assets limited as to use of approximately \$1,342,000 and \$1,284,000, at June 30, 2017 and 2016, respectively, comprised primarily of investments placed in trust and held by captive insurance companies for the payment of self-insured claims and investments which are limited as to use, as designated by donors.

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

##### **Property and Equipment**

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives used in computing depreciation is as follows: buildings and leasehold improvements, 2 to 40 years; and equipment, 2 to 20 years. Depreciation expense in 2017 and 2016 was \$851,540 and \$825,681, respectively.

## Ascension

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

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

A summary of property and equipment at June 30, 2017 and 2016 is as follows:

	June 30,	
	2017	2016
Land and improvements	\$ 950,074	\$ 935,542
Buildings and equipment	17,069,585	16,505,068
	<u>18,019,659</u>	<u>17,440,610</u>
Less accumulated depreciation	9,447,994	8,981,575
	<u>8,571,665</u>	<u>8,459,035</u>
Construction in progress	611,313	560,970
Total property and equipment, net	<u>\$ 9,182,978</u>	<u>\$ 9,020,005</u>

Several capital projects have remaining construction and related equipment purchase commitments of approximately \$545,000 as of June 30, 2017.

#### Intangible Assets

Intangible assets primarily consist of goodwill and capitalized computer software costs, including internally developed software. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage, and the nature of the costs. Intangible assets are included in the Consolidated Balance Sheets as presented in the table that follows. Capitalized software costs in the table below include software in progress of \$228,499 and \$244,552 at June 30, 2017 and 2016, respectively:

## Ascension

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

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

	June 30,	
	2017	2016
Capitalized software costs	\$ 2,213,989	\$ 2,050,184
Less accumulated amortization	1,333,170	1,123,474
Capitalized software costs, net	880,819	926,710
Goodwill	211,278	210,320
Other, net	27,781	31,731
Intangible assets included in other assets	239,059	242,051
Total intangible assets, net	\$ 1,119,878	\$ 1,168,761

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist, while intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets in 2017 and 2016 was \$232,144 and \$206,860, respectively.

Estimated future amortization of intangible assets with definite lives, excluding software in progress, as of June 30, 2017 is as follows:

Year ending June 30:	
2018	\$ 190,154
2019	151,630
2020	124,447
2021	98,228
2022	72,052
Thereafter	34,437
Total	\$ 670,948

## Ascension

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

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

The System is in the final phases of a significant multi-year, System-wide enterprise resource planning project, including information technology and process standardization (Symphony), which is expected to continue through fiscal year 2018. The project is facilitating a transition to a common software product for various finance, information technology, procurement, and human resources management processes, including standardization of those processes throughout the System. Capitalized costs of Symphony, net of amortization, were approximately \$351,000 and \$329,000 at June 30, 2017 and 2016, respectively, and are being amortized on a straight-line basis over the expected useful life of the software. Certain costs of this project were also expensed. Accumulated amortization of Symphony was approximately \$160,000 and \$120,000 at June 30, 2017 and 2016, respectively. See the Impairment, Restructuring, and Nonrecurring Losses discussion below for additional information about costs associated with Symphony.

#### **Noncontrolling Interests**

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

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those assets whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, which include endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donors' wishes, primarily to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted.

Temporarily and permanently restricted net assets consist solely of controlling interests of the System.

## Ascension

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

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

##### **Performance Indicator**

The performance indicator is the excess of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from the performance indicator primarily include pension and other postretirement liability adjustments, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, and change in unconsolidated entities' net assets.

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

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

##### **Net Patient Service Revenue, Accounts Receivable, and Allowance for Doubtful Accounts**

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. The System recognizes patient service revenue at the time services are rendered, even though the patient's ability to pay may not be completely assessed at that time. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by \$128,100 and \$102,217 for the years ended June 30, 2017 and 2016, respectively.

## Ascension

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

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

The percentage of net patient service revenue, less provision for doubtful accounts earned by payor for the years ended June 30, 2017 and 2016, is as follows:

	<b>Year Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
Medicare - traditional and managed	<b>36 %</b>	35 %
Medicaid - traditional and managed	<b>13</b>	12
Commercial and other managed care	<b>46</b>	47
Self-Pay and other	<b>5</b>	6
	<b>100 %</b>	100 %

The System grants credit without collateral to its patients, who are primarily local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable, less allowance for doubtful accounts, at June 30, 2017 and 2016, are as follows:

	<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>
Medicare - traditional and managed	<b>27 %</b>	27 %
Medicaid - traditional and managed	<b>11</b>	9
Commercial and other managed care	<b>42</b>	42
Self-Pay and other	<b>20</b>	22
	<b>100 %</b>	100 %

## Ascension

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

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

The provision for doubtful accounts is based upon management's assessment of expected net collections considering historical experience, economic conditions, trends in healthcare coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for doubtful accounts to establish an appropriate allowance for doubtful accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the System follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the System. Accounts receivable are written off after collection efforts have been followed in accordance with the System's policies. The methodology for determining the allowance for doubtful accounts and related write-offs on uninsured patient accounts has remained consistent with the prior year.

#### **Other Operating Revenue**

Other operating revenue includes net gains on sales of assets, clinical engineering services, retail pharmacy revenue, income from unconsolidated entities, premium revenue, net assets released from restrictions for operating purposes, and other nonpatient service revenue. Net gains on sales of assets were \$258,631 and \$201,330 for the years ended June 30, 2017 and 2016, respectively. Assets sold during the years ended June 30, 2017 and 2016 include certain hospital and nonhospital operating entities and patient care equipment.

#### **Impairment, Restructuring, and Nonrecurring Losses**

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

## Ascension

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

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

Nonrecurring expenses associated with Symphony primarily include deployment costs to implement Symphony in certain Health Ministries. Costs associated with product deployment are recorded as nonrecurring losses, and costs associated with product support are recorded as recurring operating expenses.

During the year ended June 30, 2017, the System recorded total impairment, restructuring, and nonrecurring losses, net of \$230,407. This amount was comprised primarily of \$110,390 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of \$86,669, impairment expenses of \$34,689, and other nonrecurring expenses of \$38,659 partially offset by a pension curtailment gain of \$40,000.

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

#### **Amortization**

Bond issuance costs, discounts, and premiums are amortized over the term of the bonds using a method approximating the effective interest method.

Capitalized software, including internally developed software, is amortized on a straight-line basis over the expected useful life of the software.

#### **Income Taxes**

The member healthcare entities of the System are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or Section 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). The System accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The System has determined that no material unrecognized tax benefits or liabilities exist as of June 30, 2017.

## Ascension

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

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

The System had deferred tax assets of approximately \$461,000 and \$378,000 for federal and state income tax purposes primarily related to net operating loss carryforwards for the years ended June 30, 2017 and 2016, respectively, with expiration dates through 2037. A valuation allowance of approximately \$459,000 and \$377,000 was recorded due to the uncertainty regarding use of the deferred tax assets for the years ended June 30, 2017 and 2016, respectively.

#### **Regulatory Compliance**

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

#### **Reclassifications**

Certain reclassifications were made to the accompanying 2016 consolidated financial statements to conform to the 2017 presentation.

#### **Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). In August 2015, the FASB amended the guidance to defer the effective date by one year. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance in ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

## Ascension

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

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

The requirements of ASU 2014-09 will result in changes to the presentation and disclosure of revenue from services to patients. Currently, a significant portion of the System's provision for doubtful accounts relates to uninsured patients as well as deductibles and co-pays due from patients with insurance. Under ASU 2014-09, the uncollectible amounts due from patients will generally be reported as a direct reduction to net patient service revenue and will result in a significant reduction in the amounts presented separately as provision for doubtful accounts. Although the adoption of ASU 2014-09 will have a significant impact on the amounts presented in certain categories of the System's Consolidated Statements of Operations and Changes in Net Assets, it is not expected to materially impact the System's financial position, results of operations or cash flows. The System is currently evaluating the requirements of the new standard to ensure that the processes and systems are in place to implement the new standard and to collect the related information required. The new guidance will be effective for Ascension beginning July 1, 2018, and interim periods within that year. Early adoption is permitted, but the System does not plan to early adopt the new standard.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842) (ASU 2016-02)*, which affects any entity that enters into a lease (as that term is defined in ASU 2016-02), with some specified scope exceptions. The main difference between the guidance in ASU 2016-02 and current guidance is the recognition of lease assets and liabilities by lessees for those leases classified as operating leases under current guidance. Recognition of these assets and liabilities will have a significant impact on the System's Consolidated Balance Sheet upon adoption. This guidance will be effective for Ascension on July 1, 2019. Ascension is in the process of evaluating the potential impact on its consolidated financial statements.

#### **Subsequent Events**

The System evaluates the impact of subsequent events, which are events that occur after the Consolidated Balance Sheet date but before the consolidated financial statements are issued, for potential recognition or disclosure in the consolidated financial statements as of the Consolidated Balance Sheet date. For the year ended June 30, 2017, the System evaluated subsequent events through September 22, 2017, representing the date on which the accompanying audited consolidated financial statements were issued.

## Ascension

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

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

Subsequent to June 30, 2017, certain debt obligations which had a total outstanding balance of \$188,705 as of June 30, 2017 were defeased or redeemed. Specifically, the Series 2012 Oklahoma Development Finance Authority St. John Health System Revenue & Refunding Bonds were legally defeased, and a commercial bank loan was repaid in full.

#### **3. Organizational Changes**

##### **Business Combinations**

###### *Crittenton Hospital Medical Center – Michigan*

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

###### *Wheaton Franciscan Healthcare – Southeast Wisconsin, Inc.*

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

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

## Ascension

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

#### 3. Organizational Changes (continued)

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

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

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

The following unaudited pro forma financial information presents the combined results of operations of Ascension, Crittenton and Wheaton for the year ended June 30, 2016 as though the business combination transactions had occurred on July 1, 2015. This pro forma financial information is not necessarily indicative of the results of operations that would occur if these entities were consolidated into the System during that period, nor is it necessarily indicative of future operating results.

## Ascension

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

#### 3. Organizational Changes (continued)

	<b>Year Ended June 30, 2016</b>
Total operating revenue	\$ 22,838,814
Deficit of revenues and gains over expenses and losses attributable to controlling interest	118,977
Decrease in unrestricted net assets - controlling interest	(532,879)
Decrease in unrestricted net assets - noncontrolling interests	(143,164)
Decrease in temporarily restricted net assets	36,226
Decrease in permanently restricted net assets	2,636

#### Divestitures

##### *Discontinued Operations*

During the years ended June 30, 2017 and 2016, Ascension, including certain of its wholly owned subsidiaries, closed on the sale of, or undertook actions to sell or transfer ownership of, certain assets and liabilities, as follows:

- On July 1, 2015, Catholic Health, Inc. (Catholic Health) became the sole corporate member of Mount St. Mary's Hospital in Lewiston, New York under the terms of an affiliation agreement between Ascension Health and Catholic Health.
- On September 1, 2015, Carondelet Health Network, a subsidiary of Ascension Health, sold certain assets, liabilities and related operations, excluding certain non-acute entities, in Tucson, Arizona to CHN Holdings, LLC, a joint venture in which Ascension holds a noncontrolling interest.

## Ascension

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

#### 3. Organizational Changes (continued)

- On September 28, 2016, St. Joseph Regional Medical Center, Inc. in Lewiston, Idaho (St. Joseph Regional), a wholly owned subsidiary of Ascension Healthcare, and RCCH entered into an asset purchase agreement, whereby RCCH purchased substantially all assets and assumed certain liabilities associated with the operations of St. Joseph Regional. Assets and liabilities of St. Joseph Regional's foundation remain with Ascension Healthcare. The sale was completed on May 1, 2017.
- On September 28, 2016, Our Lady of Lourdes Hospital at Pasco in Pasco, Washington, d/b/a Lourdes Health Network (Lourdes Health), a wholly owned subsidiary of Ascension Healthcare, and Capella Healthcare, Inc. (a predecessor corporation of RCCH HealthCare Partners) (RCCH) entered into an asset purchase agreement, whereby RCCH will purchase substantially all assets and assume certain liabilities associated with the operations of Lourdes Health. Assets and liabilities of Lourdes Health's foundation will remain with Ascension Healthcare. The sale is expected to close in fiscal year 2018, after obtaining all necessary regulatory approvals.

Assets and liabilities associated with the aforementioned transactions were held for sale and qualified for discontinued operations as of June 30, 2017 and 2016, and are included in other current assets and other current liabilities, respectively, in the System's Consolidated Balance Sheets. Assets held for sale were \$44,935 and \$144,490 at June 30, 2017 and 2016, respectively, while liabilities held for sale were \$22,531 and \$30,552 at June 30, 2017 and 2016, respectively. Net losses of the entities, which include excess of revenues over expenses of St. Joseph Regional through the May 1, 2017 sale date and a deficit of revenues over expenses of Carondelet Health Network through the September 1, 2015 sale date and a \$14,520 loss on sale, are included in the loss from discontinued operations in the Consolidated Statements of Operations and Changes in Net Assets and were \$1,292 and \$15,790 for the years ended June 30, 2017 and 2016, respectively. Total operating revenues of the entities were \$260,219 and \$355,516 for the years ended June 30, 2017 and 2016, respectively, which includes total operating revenues of St. Joseph Regional and Carondelet Health through the sale dates.

## Ascension

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

#### **3. Organizational Changes (continued)**

##### *Assets Held for Sale*

On March 31, 2017, St. Joseph's Hospital of Marshfield, Inc. in Marshfield, Wisconsin (SJHM), a subsidiary of Ministry Health Care (Ministry), entered into an asset sale agreement with MCHS Hospitals Inc. (Marshfield Clinic) whereby Marshfield Clinic purchased substantially all the assets and assumed certain liabilities associated with SJHM. Ministry is a subsidiary of Ascension Healthcare. The sale was completed on June 30, 2017.

Assets and liabilities associated with the aforementioned transaction were designated as assets and liabilities held for sale, and included in other current assets and other current liabilities, respectively, in the System's Consolidated Balance Sheets at June 30, 2016. Assets and liabilities held for sale were \$161,058 and \$11,760 at June 30, 2016, respectively. Net income of SJHM is included in the excess of revenues and gains over expenses and losses in the Consolidated Statements of Operations and Changes in Net Assets and is \$32,766 and \$35,499 for the years ended June 30, 2017 and 2016, respectively. Revenues of SJHM total \$300,364 and \$319,959 for the years ended June 30, 2017 and 2016, respectively.

##### **Other**

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

## Ascension

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

#### **4. Pooled Investment Fund**

At June 30, 2017 and 2016, a significant portion of the System's investments consists of the System's interest in the Alpha Fund, a limited liability company organized in the state of Delaware. Certain System investments, including some held by the Health Ministries and their consolidated foundations, are managed outside of the Alpha Fund.

The Alpha Fund includes the investment interests of the System and other Alpha Fund members. AIM, a wholly owned subsidiary of the System, serves as the manager and primary investment advisor of the Alpha Fund, overseeing the investment strategies offered to the Alpha Fund's members. AIM provides expertise in the areas of asset allocation, selection and monitoring of outside investment managers, and risk management. The Alpha Fund is consolidated in the System's financial statements. The portion of the Alpha Fund's net assets representing interests held by entities other than the System are reflected in noncontrolling interests in the Consolidated Balance Sheets, which amount to \$1,598,399 and \$1,256,666 at June 30, 2017 and 2016, respectively.

The Alpha Fund invests in a diversified portfolio of investments including alternative investments, such as real asset funds, hedge funds, private equity funds, commodity funds, and private credit funds. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods ranging from 1 to 120 days. Due to redemption restrictions, investments in certain of these funds, whose fair value was approximately \$2,528,129 at June 30, 2017, cannot currently be redeemed for periods ranging from one to twelve years. However, the potential for the Alpha Fund to sell its interest in these funds in a secondary market prior to the end of the fund term does exist.

The Alpha Fund's investments in certain alternative investment funds also include contractual commitments to provide capital contributions during the investment period, which is typically five years and can extend to the end of the fund term. During these contractual periods, investment managers may require the Alpha Fund to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2017, contractual agreements of the Alpha Fund expire between August 2017 and February 2023. The remaining unfunded capital commitments of the Alpha Fund total approximately \$1,863,000 for 169 individual funds as of June 30, 2017. 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 (continued) *(Dollars in Thousands)*

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

In the normal course of operations and within established Alpha Fund guidelines, the Alpha Fund may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options, and forward contracts as well as warrants and swaps. These instruments are used primarily to adjust the portfolio duration, restructure term structure exposure, change sector exposure, and arbitrage market inefficiencies. See the Fair Value Measurements note for a discussion of how fair value for the Alpha Fund's derivatives is determined.

At June 30, 2017 and 2016, the notional value of Alpha Fund derivatives outstanding was approximately \$5,533,000 and \$4,540,000, respectively. The fair value of Alpha Fund derivatives in an asset position was \$30,032 and \$34,713 at June 30, 2017 and 2016, respectively, while the fair value of Alpha Fund derivatives in a liability position was \$28,809 and \$31,677 at June 30, 2017 and 2016, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets at June 30, 2017 and 2016.

Due from brokers and due to brokers on the Consolidated Balance Sheets at June 30, 2017 and 2016, represent the Alpha Fund's positions and amounts due from or to various brokers, primarily for security transactions not yet settled, and cash held by brokers for securities sold, not yet purchased.

## Ascension

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

#### 5. Cash and Investments

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

	June 30,	
	2017	2016
Cash and cash equivalents	\$ 857,605	\$ 696,237
Short-term investments	103,857	122,545
Long-term investments	16,999,371	15,069,123
Subtotal	17,960,833	15,887,905
Other Alpha Fund assets and liabilities:		
In other current assets	34,314	27,768
In other long-term assets	2,174	2,335
In accounts payable and other accrued liabilities	(14,698)	(9,312)
In other current liabilities	(330)	-
In other noncurrent liabilities	(2,342)	(4,569)
Due from brokers, net	81,412	208,057
Total cash and investments, net	18,061,363	16,112,184
Less noncontrolling interests of Alpha Fund	1,598,399	1,256,666
System cash and investments, including assets limited as to use	16,462,964	14,855,518
Less assets limited as to use:		
Under bond indenture agreement	19,504	20,002
Self-insurance trust funds	689,197	676,375
Temporarily or permanently restricted	649,891	595,761
Total assets limited as to use	1,358,592	1,292,138
System unrestricted cash and investments, net	\$ 15,104,372	\$ 13,563,380

## Ascension

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

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

At June 30, 2017 and 2016, the composition of cash and cash equivalents, short-term investments and long-term investments, which include certain assets limited as to use, is summarized as follows.

	June 30,	
	2017	2016
Cash and cash equivalents and short-term investments	\$ 1,200,191	\$ 935,026
Pooled short-term investment funds	515,516	471,099
U.S. government, state, municipal and agency obligations	2,534,968	3,064,411
Corporate and foreign fixed income securities	2,501,060	1,728,149
Asset-backed securities	1,190,364	771,971
Equity securities	4,282,517	2,996,662
Alternative investments and other investments:		
Private equity and real estate funds	2,002,292	1,648,545
Hedge funds	2,068,742	2,677,275
Commodities funds and other investments	1,665,183	1,594,767
Total alternative investments and other investments	5,736,217	5,920,587
Total cash and cash equivalents, short-term investments, and long-term investments	\$ 17,960,833	\$ 15,887,905

As of June 30, 2017 and 2016, the System's membership interest in the Alpha Fund totaled \$13,634,600 and \$11,861,266, respectively. As of June 30, 2017 and 2016, the noncontrolling interest (see Note 4) in the Alpha Fund, representing interests held by entities other than the System, totaled \$1,598,399 and \$1,256,666, respectively.

Investment return recognized by the System for the years ended June 30, 2017 and 2016, is summarized in the following table. Total investment return includes the System's return on certain investments held and managed outside the Alpha Fund and the investment return of the Alpha Fund. System investment return represents the System's total investment return, net of the investment return earned by the noncontrolling interests of other Alpha Fund members.

## Ascension

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

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

	<b>Year Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
Interest and dividends	\$ 256,949	\$ 234,677
Net gains (losses) on investments reported at fair value	1,206,832	(609,308)
Restricted investment return and unrealized gains (losses), net	36,673	(6,349)
Total investment return	1,500,454	(380,980)
Less return earned by noncontrolling interests of Alpha Fund	140,511	(42,756)
System investment return	\$ 1,359,943	\$ (338,224)

#### 6. Fair Value Measurements

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

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

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

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

## Ascension

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

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

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

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

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

There were no significant transfers between Levels 1 and 2 during the years ended June 30, 2017 and 2016.

As of June 30, 2017 and 2016, 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.

## Ascension

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

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

##### *Pooled Short-term Investment Fund*

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

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

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

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

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

##### *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 fair value estimates determined by an external fund manager based on quoted market prices, operating results, balance sheet stability, growth, dividend, dividend yield, and other business and market sector fundamentals.

## Ascension

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

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

##### *Alternative Investments and Other Investments*

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

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

Other investments include derivative assets and derivative liabilities of the Alpha Fund, whose fair value is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

##### *Benefit Plan Assets*

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

## Ascension

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

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

##### *Interest Rate Swap Assets and Liabilities*

The fair value of interest rate swaps is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields, volatilities, credit spreads, maturity, and recovery rates.

##### *Investments Sold, Not Yet Purchased*

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

## Ascension

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

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

The following table summarizes fair value measurements, by level, at June 30, 2017, 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, 2017</b>				
Cash equivalents	\$ 61,317	\$ 579	\$ -	\$ 61,896
Short-term investments	109,387	103,344	345	213,076
Pooled short-term investment funds	515,516	-	-	515,516
U.S. government, state, municipal and agency obligations	-	2,534,968	-	2,534,968
Corporate and foreign fixed income securities	-	2,371,296	28,119	2,399,415
Asset-backed securities	-	997,153	193,211	1,190,364
Equity securities	3,775,634	224,584	4,738	4,004,956
Alternative investments and other investments:				
Private equity and real estate funds	1,873	2,400	241,420	245,693
Commodities funds and other investments	12,537	5,339	7,493	25,369
Assets at net asset value:				
Corporate and foreign fixed income securities				101,645
Equity securities				277,561
Private equity and real estate funds				1,756,599
Hedge funds				2,068,742
Commodities funds and other investments				1,553,370
Cash and other investments not at fair value				<u>1,011,663</u>
Cash and investments				<u>\$ 17,960,833</u>
Benefit plan assets, in other noncurrent assets	\$ 312,120	\$ 47,163	\$ 54,698	\$ 413,981
Interest rate swaps, in other noncurrent assets	-	1,648	-	1,648
Investments sold, not yet purchased, in other noncurrent liabilities	-	2,342	-	2,342
Interest rate swaps, included in other noncurrent liabilities	-	157,518	-	157,518

## Ascension

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

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

For the year ended June 30, 2017, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following.

Year Ended	Short-term investments	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
<b>June 30, 2017</b>							
Beginning balance	\$ 287	\$ 29,545	\$ 142,831	\$ 3,759	\$ 197,886	\$ 4,464	\$ 56,070
Total realized and unrealized gains (losses):							
Included in nonoperating gains (losses)	58	3,428	14,434	663	28,731	19	-
Included in changes in net assets	-	-	-	-	-	(35)	-
Purchases	-	6,357	154,039	1,158	57,900	2,880	127,432
Sales	-	(5,033)	(84,813)	(584)	(43,141)	-	(127,097)
Transfers into Level 3	-	2,379	-	121	44	320	54,003
Transfers out of Level 3	-	(8,557)	(33,280)	(379)	-	(155)	(55,710)
Ending balance	<u>\$ 345</u>	<u>\$ 28,119</u>	<u>\$ 193,211</u>	<u>\$ 4,738</u>	<u>\$ 241,420</u>	<u>\$ 7,493</u>	<u>\$ 54,698</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 June 30, 2017	<u>\$ -</u>	<u>\$ 3,377</u>	<u>\$ 8,404</u>	<u>\$ 705</u>	<u>\$ 800</u>	<u>\$ 3,339</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 (continued) (Dollars in Thousands)

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

The following table summarizes fair value measurements, by level, at June 30, 2016, for all financial assets and liabilities measured at fair value on a recurring basis in the System's consolidated financial statements:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>June 30, 2016</b>				
Cash equivalents	\$ 497,847	\$ 12,173	\$ -	\$ 510,020
Short-term investments	46,750	20,291	287	67,328
Pooled short-term investment funds	471,099	-	-	471,099
U.S. government, state, municipal and agency obligations	-	3,064,411	-	3,064,411
Corporate and foreign fixed income securities	-	1,604,725	29,545	1,634,270
Asset-backed securities	-	629,140	142,831	771,971
Equity securities	2,671,500	130,930	3,759	2,806,189
Alternative investments and other investments:				
Private equity and real estate funds	1,409	2,400	197,886	201,695
Commodities funds and other investments	13,420	5,183	4,464	23,067
Assets at net asset value:				
Corporate and foreign fixed income securities				93,879
Equity securities				190,473
Private equity and real estate funds				1,446,850
Hedge funds				2,677,275
Commodities funds and other investments				1,454,136
Cash and other investments not at fair value				<u>475,242</u>
Cash and investments				<u>\$ 15,887,905</u>
Benefit plan assets, in other noncurrent assets	\$ 300,726	\$ 33,055	\$ 56,070	\$ 389,851
Interest rate swaps, in other noncurrent assets	-	10,713	-	10,713
Investments sold, not yet purchased, in other noncurrent liabilities	-	4,569	-	4,569
Interest rate swaps, included in other noncurrent liabilities	-	236,702	-	236,702

## Ascension

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

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

For the year ended June 30, 2016, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following.

Year Ended	Short-term investments	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Commodities Funds and Other Investments	Benefit Plan Assets
<b>June 30, 2016</b>							
Beginning balance	\$ 301	\$ 26,599	\$ 89,364	\$ 2,198	\$ 187,338	\$ (4,245)	\$ 35,256
Total realized and unrealized gains (losses):							
Included in nonoperating gains (losses)	(14)	(2,661)	(3,472)	(61)	17,014	(6,445)	(3)
Included in changes in net assets	-	-	-	-	-	(47)	-
Purchases	-	19,410	82,958	611	50,400	8,701	31,245
Sales	-	(10,790)	(40,064)	(2,222)	(55,697)	-	(19,892)
Transfers into Level 3	-	3,512	16,075	3,233	1	6,500	25,508
Transfers out of Level 3	-	(6,525)	(2,030)	-	(1,170)	-	(16,044)
Ending balance	<u>\$ 287</u>	<u>\$ 29,545</u>	<u>\$ 142,831</u>	<u>\$ 3,759</u>	<u>\$ 197,886</u>	<u>\$ 4,464</u>	<u>\$ 56,070</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 June 30, 2016	<u>\$ -</u>	<u>\$ (1,625)</u>	<u>\$ (5,621)</u>	<u>\$ 494</u>	<u>\$ 4,153</u>	<u>\$ -</u>	<u>\$ -</u>
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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 (continued) (Dollars in Thousands)

#### 7. Long-Term Debt

Long-term debt at June 30, 2017 and 2016 is comprised of the following and is presented in accordance with the specific master trust indenture to which the debt relates. As further discussed below, certain portions of long-term debt are secured under the Alexian Brothers Health System Master Trust Indenture; the Mercy Regional Health Center, Inc. Master Trust Indenture; and the St. John Health System Master Trust Indenture.

	2017	June 30, 2016
Tax-exempt hospital revenue bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture:		
Variable rate demand bonds, subject to a put provision that provides for a cumulative 7-month notice and remarketing period, payable through November 2047; interest (0.68% at June 30, 2016) tied to a market index plus a spread	\$ -	\$ 350,890
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2047; interest (0.87% to 0.92% at June 30, 2017) set at prevailing market rates	<b>533,935</b>	553,820
Indexed put bonds subject to weekly rate resets based on a taxable index, payable through November 2046; interest (1.264% at June 30, 2016)	-	153,800
Fixed rate put bonds (converted from an indexed put bond mode based on a taxable index in May 2009) payable through November 2046; interest (4.10% at June 30, 2016)	-	153,690
Fixed rate serial, term and mode bonds fixed to maturity payable in installments through November 2051; interest at 3.00% to 5.00%	<b>2,723,220</b>	2,392,360
Fixed rate serial mode bonds payable through 2047 with purchase dates ranging from February 2018 through March 2023; interest at 0.95% to 5.00% through the purchase dates	<b>1,386,245</b>	1,120,680
Tax-exempt hospital revenue bonds – unsecured under Ascension Health Alliance Subordinate Master Trust Indenture:		
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2025; interest (0.90% at June 30, 2017) set at prevailing market rates	<b>39,085</b>	42,985
Fixed rate serial mode bonds payable through 2027 with purchase dates through May 2020; interest at 1.15% to 4.00%	<b>387,260</b>	419,055

## Ascension

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

#### 7. Long-Term Debt (continued)

	June 30,	
	2017	2016
Taxable bonds – secured under Ascension Health Alliance Senior Credit Group Master Trust Indenture:		
Taxable fixed rate term bonds payable in installments through November 2053; interest at 4.847%	\$ 425,000	\$ 425,000
Taxable fixed rate term bonds payable as of November 2046; interest at 3.945%	925,000	700,000
Total hospital revenue bonds under Senior Master Trust Indenture and Subordinate Master Trust Indenture	6,419,745	6,312,280
Tax-exempt hospital revenue bonds – secured under Alexian Brothers Health System Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through February 2038; interest at 4.25% to 5.50%	49,090	61,935
Total hospital revenue bonds under the Alexian Brothers Health System Master Trust Indenture	49,090	61,935
Tax-exempt hospital revenue bonds – secured under Mercy Regional Health Center, Inc. Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through November 2029; interest at 4.00% to 5.00%	20,790	21,915
Total hospital revenue bonds under the Mercy Regional Health Center, Inc. Master Trust Indenture	20,790	21,915
Tax-exempt hospital revenue bonds – secured under St. John Health System Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through February 2042; interest at 4.00% to 5.00%	165,110	385,240
Total hospital revenue bonds under the St. John Health System Master Trust Indenture	165,110	385,240
Total hospital revenue bonds – all Master Trust Indentures	6,654,735	6,781,370

## Ascension

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

#### 7. Long-Term Debt (continued)

	June 30,	
	2017	2016
Other debt:		
Obligations under capital leases	22,134	24,987
Other	84,783	111,923
	6,761,652	6,918,280
Unamortized premium, net	274,438	271,774
Less debt issuance cost, net	(38,595)	(35,708)
Less current portion	(298,270)	(96,193)
Less long-term debt subject to short-term remarketing arrangements	(999,785)	(1,666,245)
Long-term debt, less current portion and long-term debt subject to short-term remarketing arrangements	\$ 5,699,440	\$ 5,391,908

	June 30,	
	2017	2016
Ascension Health Alliance Senior Master Trust Indenture long-term debt obligations, including unamortized premium and cost of issuance, net	\$ 5,332,260	\$ 4,477,894
Ascension Health Alliance Subordinate Master Trust Indenture long-term debt obligations, including unamortized premium and cost of issuance, net	239,406	309,316
Alexian Brothers Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net	34,498	50,296
Mercy Regional Health Center, Inc. Master Trust Indenture long-term debt obligations, including unamortized premium, net	21,158	22,627
St. John Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net	-	403,132
Other	72,118	128,643
Long-term debt, less current portion, and long-term debt subject to short-term remarketing arrangements	\$ 5,699,440	\$ 5,391,908

## Ascension

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

#### 7. Long-Term Debt (continued)

Scheduled principal repayments of long-term debt, considering obligations subject to short-term remarketing as due according to their long-term amortization schedule, as of June 30, 2017, are as follows:

	Ascension Health Alliance MTIs	Alexian Brothers Health System MTI	Mercy Regional Health Center, Inc. MTI	St. John Health System MTI	Other Debt	Total
Year Ending June 30:						
2018	\$ 68,530	\$ 15,355	\$ 1,175	\$ 165,110	\$ 48,100	\$ 298,270
2019	88,780	2,080	1,230	-	7,000	99,090
2020	91,880	2,495	1,285	-	19,355	115,015
2021	95,345	1,700	1,350	-	7,022	105,417
2022	101,685	2,260	1,420	-	6,525	111,890
Thereafter	5,973,525	25,200	14,330	-	18,915	6,031,970
<b>Total</b>	<b>\$ 6,419,745</b>	<b>\$ 49,090</b>	<b>\$ 20,790</b>	<b>\$ 165,110</b>	<b>\$ 106,917</b>	<b>\$ 6,761,652</b>

Refer to subsequent events disclosure in Note 2 regarding defeasance, or redemption, of certain debt obligations.

The carrying values of fixed rate bonds were \$6,081,715 and \$5,679,875 at June 30, 2017 and 2016, respectively. The fair values of these fixed rate bonds were \$6,446,481 and \$6,350,071 at June 30, 2017 and 2016, respectively, representing Level 2 measurements obtained from an independent third party valuation service. The carrying amounts of variable rate bonds and other notes payable approximate fair value.

During the years ended June 30, 2017 and 2016, interest paid was approximately \$236,000 and \$203,000, respectively. Capitalized interest was approximately \$5,700 and \$3,700 for the years ended June 30, 2017 and 2016, respectively.

## Ascension

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

#### **7. Long-Term Debt (continued)**

Certain members of the System formed the Ascension Health Alliance Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as either a senior obligated group member, a senior designated affiliate, or a senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (Senior MTI) to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by the System.

Senior designated affiliates and senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI. The System may cause each senior designated affiliate to transfer such amounts as are necessary to enable the obligated group to comply with the terms of the Senior MTI, including payment of the outstanding obligations. Additionally, each senior limited designated affiliate has an independent limited designated affiliate agreement and promissory note with the System with stipulated repayment terms and conditions, each subject to the governing law of the senior limited designated affiliate's state of incorporation.

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

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

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

## Ascension

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

#### **7. Long-Term Debt (continued)**

The unsecured variable rate demand bonds of both the Senior and Subordinate Credit Groups, while subject to long-term amortization periods, may be put to the System at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2017, the principal amount of such bonds has been classified as a current liability in the accompanying Consolidated Balance Sheets. Management believes the likelihood of a material amount of bonds being put to the System to be remote. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including the line of credit, commercial paper program, and maintaining unrestricted assets as a source of self-liquidity.

On January 1, 2012, Alexian Brothers became part of the System. Subsequently, the System redeemed or refinanced a portion of Alexian Brothers' debt; however, a portion of the bonds previously issued for the benefit of Alexian Brothers remains outstanding (the Alexian Brothers' Bonds). The Alexian Brothers' Bonds continue to be secured by the Alexian Brothers Health System Master Trust Indenture (As Amended and Restated), dated October 1, 1992, between the Members of the Alexian Brothers Health System Obligated Group established under this document and the Alexian Brothers Health System Master Trustee.

On April 1, 2013, Marian Health System joined Ascension Health. Subsequently, the System redeemed or refinanced a portion of the debt of the Marian Systems; however, a portion of the bonds previously issued for the benefit of the Marian Systems remains outstanding. These bonds continue to be secured by the respective Master Trust Indentures, including the Amended and Restated Master Trust Indenture dated October 1, 1999, by and between St. John Health System and the St. John Health Master Trustee; and the Master Trust Indenture dated January 15, 2013, between Mercy Regional Health Center, Inc. and the Mercy Regional Health Center, Inc. Master Trustee.

In order to terminate the respective Master Trust Indentures of Crittenton and Wheaton, and the redemption or defeasance of all associated outstanding debt, Ascension issued and redeemed taxable commercial paper of approximately \$161,000 and \$637,000, respectively, during the year ended June 30, 2016. Following the discharge of these Master Trust Indentures, certain Crittenton and Wheaton entities were added to the Senior and Subordinate Credit Groups.

## Ascension

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

#### **7. Long-Term Debt (continued)**

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

In June 2017, Ascension issued \$225 million of taxable bonds through a reopening of the Series 2016A taxable bond offering, a Senior Credit Group Obligation. The debt was issued primarily to refund certain Series 2007 St. John Health System bonds. The St. John Health System has not joined the Senior or Subordinate Credit Groups.

Due to aggregate financing activity during the fiscal years ended June 30, 2017 and 2016, gains (losses) on extinguishment of debt of \$10,907 and (\$13,594), respectively, were recorded, which are included in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

As of June 30, 2017, the Senior Credit Group has two lines of credit totaling \$1,000,000. The first line of credit totals \$500,000 which may be used as a source of funding for unremarketed variable debt (including commercial paper) or for general corporate purposes. The second line of credit totals \$500,000 which may be used for general corporate purposes. Both lines are committed to November 3, 2017 and as of June 30, 2017 and 2016, there were no borrowings under either line of credit.

As of June 30, 2017, the Senior Credit Group has a \$100,000 revolving line of credit related to its letters of credit program toward which a bank commitment of \$100,000 extends to November 22, 2017. The revolving line of credit may be accessed solely in the form of Letters of Credit issued by the bank for the benefit of the members of the Credit Groups. Of this \$100,000 revolving line of credit, letters of credit totaling \$85,925 have been issued as of June 30, 2017. No borrowings were outstanding under the letters of credit as of June 30, 2017 and 2016.

## Ascension

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

#### 8. Derivative Instruments

The System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. Interest rate swaps with varying characteristics are outstanding under the Master Trust Indentures of the System and St. John Health. These swaps have historically been used to effectively convert interest rates on variable rate bonds to fixed rates and rates on fixed rate bonds to variable rates. At June 30, 2017 and 2016, the notional values of outstanding interest rate swaps were as follows:

	June 30,	
	2017	2016
Ascension Health Alliance MTI	\$ 1,146,600	\$ 2,146,107
St. John Health System MTI	100,000	100,000
Total	\$ 1,246,600	\$ 2,246,107

The System recognizes the fair value of its interest rate swaps in the Consolidated Balance Sheets as assets, recorded in other noncurrent assets, or liabilities, recorded in other noncurrent liabilities, as appropriate. The respective fair values of interest rate swaps in an asset and liability position for the System and St. John Health were as follows:

	June 30, 2017		June 30, 2016	
	Asset	Liability	Asset	Liability
Ascension Health Alliance MTI	\$ 1,648	\$ 157,394	\$ 10,713	\$ 236,367
St. John Health System MTI	-	124	-	335
Total	\$ 1,648	\$ 157,518	\$ 10,713	\$ 236,702

## Ascension

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

#### **8. Derivative Instruments (continued)**

The System's interest rate swap agreements include collateral requirements for each counterparty under such agreements, based upon specific contractual criteria, subject to master netting arrangements. Collateral requirements are separately calculated for the System and St. John Health based on the credit ratings of each. In the case of the System, the applicable credit rating is the Senior Credit Group long-term debt credit ratings (Senior Debt Credit Ratings), as obtained from each of two major credit rating agencies. Credit rating and the net liability position of total interest rate swap agreements outstanding with each counterparty determine the amount of collateral to be posted. No collateral was posted at June 30, 2017 and 2016.

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

#### **9. Retirement Plans**

##### **Defined-Benefit Plans**

Certain System entities participate in defined-benefit pension plans (the System Plans), which are noncontributory, defined-benefit pension plans. Benefits are based on each participant's years of service and compensation. All of the System Plans' assets are invested in Trusts, which include the Master Pension Trust (the Trust) and other trusts (the Other Trusts). The System Plans' assets primarily consist of short-term investments, equity, fixed income, and alternative investments, consisting of various hedge funds, real estate funds, private equity funds, commodity funds, private credit funds, and certain other private funds. Contributions to the System Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to participants.

Most System defined benefit plans were frozen effective December 31, 2012. Four of the System Plans remain ongoing with \$28,174 of service cost recognized during the year ended June 30, 2017. During the year ended June 30, 2017, the System froze a defined benefit plan which resulted in the recognition of a curtailment gain of \$40,000 which was recognized in total impairment, restructuring, and nonrecurring losses as discussed in Note 2.

## Ascension

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

#### 9. Retirement Plans (continued)

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

The following table sets forth the combined benefit obligations and assets of the System Plans at June 30, 2017 and 2016, components of net periodic benefit costs for the years then ended, and a reconciliation of the amounts recognized in the accompanying consolidated financial statements.

	<b>Year Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 9,435,964	\$ 7,786,840
Service cost	28,174	25,467
Interest cost	341,998	352,212
Actuarial (gain) loss	(18,943)	624,503
Acquisitions	-	1,069,401
Curtailment	(58,351)	(12,206)
Benefits paid	(555,192)	(410,253)
Projected benefit obligation at end of year	<u>9,173,650</u>	<u>9,435,964</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	8,199,379	7,305,030
Actual return on plan assets	269,419	482,083
Employer contributions	6,161	24,381
Acquisitions	-	798,138
Benefits paid	(555,192)	(410,253)
Fair value of plan assets at end of year	<u>7,919,767</u>	<u>8,199,379</u>
Net amount recognized at end of year and funded status	<u>\$ (1,253,883)</u>	<u>\$ (1,236,585)</u>
Accumulated benefit obligation at end of year	\$ 9,169,399	\$ 9,386,710

## Ascension

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

#### 9. Retirement Plans (continued)

The System Plans' funded status as a percentage of the projected benefit obligation at June 30, 2017 and 2016, was 86.3% and 86.9%, respectively. The System Plans' funded status as a percentage of the accumulated benefit obligation at June 30, 2017 and 2016, was 86.4% and 87.4%, respectively.

Included in unrestricted net assets at June 30, 2017 and 2016, are the following amounts that have not yet been recognized in net periodic pension cost for the System Plans:

	2017	2016
Unrecognized prior service credit	\$ (5,285)	\$ (8,293)
Unrecognized actuarial loss	1,857,547	1,546,707
	\$ 1,852,262	\$ 1,538,414

Changes in plan assets and benefit obligations recognized in unrestricted net assets for System Plans during 2017 and 2016 include:

	2017	2016
Current year actuarial gain	\$ 334,981	\$ 749,175
Amortization of actuarial loss	(24,141)	(35,534)
Amortization of prior service credit	3,008	3,778
	\$ 313,848	\$ 717,419

## Ascension

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

#### 9. Retirement Plans (continued)

	2017	2016
<b>Components of net periodic benefit cost</b>		
Service cost	\$ 28,174	\$ 25,467
Interest cost	341,998	352,212
Expected return on plan assets	(681,695)	(618,961)
Amortization of prior service credit	(2,842)	(3,140)
Amortization of actuarial loss	60,827	34,985
Curtailment gain	(40,000)	(638)
Settlement loss	3,148	549
Net periodic benefit	\$ (290,390)	\$ (209,526)

The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending June 30, 2018, are \$2,700 and \$72,435, respectively.

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

	June 30,	
	2017	2016
To determine benefit obligations:		
Weighted-average discount rate	3.87%	3.80%
To determine net periodic benefit cost:		
Weighted-average discount rate	3.80%	4.48%
Weighted-average expected long-term rate of return on plan assets	8.50%	8.36%

## Ascension

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

#### **9. Retirement Plans (continued)**

The expected long-term rate of return on the System Plans' assets is based on historical and projected rates of return for current and planned asset categories in the investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

The System Plans' assets invested in the Trust are invested in a portfolio designed to protect principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, with a reasonable and prudent level of risk. Diversification is achieved by allocating to funds and managers that correlate to one of three economic strategies: growth, deflation, and inflation. Growth strategies include U.S. equity, emerging market equity, global equity, international equity, directional hedge funds, private equity, high yield, and private credit. Deflation strategies include core fixed income, absolute return hedge funds, and cash. Inflation strategies include inflation-linked bonds, commodity-related investments, and real assets. The System Plans use multiple investment managers with complementary styles, philosophies, and approaches. In accordance with the System Plans' objectives, derivatives may also be used to gain market exposure in an efficient and timely manner.

In accordance with the System Plans' asset diversification targets, as presented in the table that follows, the Trust holds certain alternative investments, consisting of various hedge funds, real asset funds, private equity funds, commodity funds, private credit funds, and certain other private funds. These investments do not have observable market values. As such, each of these investments is valued at net asset value (NAV) as determined by each fund's investment manager, which approximates fair value. Management elected to use the NAV per share, or equivalent, for fair value. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods ranging from 1 to 120 days. Due to redemption restrictions, investments of certain private funds, whose fair value was approximately \$893,000 at June 30, 2017, cannot currently be redeemed. However, the potential for the System Plans to sell their interest in real asset funds and private equity funds in a secondary market prior to the end of the fund term does exist.

## Ascension

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

#### 9. Retirement Plans (continued)

The investments in these alternative investment funds may also include contractual commitments to provide capital contributions during the investment period, which is typically five years, and may extend to the end of the fund term. During these contractual periods, investment managers may require the System Plans to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2017, investment periods expire between January 2018 and February 2023. The remaining unfunded capital commitments of the Trust total approximately \$587,000 for 86 individual contracts as of June 30, 2017.

The weighted-average asset allocation for the System Plans in the Trust at the end of fiscal 2017 and 2016 and the target allocation for fiscal 2018, by asset category, are as follows:

Asset Category	Target Allocation 2018	Percentage of Plan Assets At Year-End	
	2017	2016	
Growth	57 %	<b>57 %</b>	46 %
Deflation	28	<b>27</b>	38
Inflation	15	<b>16</b>	16
Total	100 %	<b>100 %</b>	100 %

## Ascension

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

#### 9. Retirement Plans (continued)

The following tables summarize fair value measurements at June 30, 2017 and 2016, by asset class and by level, for the System Plans' assets and liabilities. As also discussed in the Fair Value Measurements note, the System follows the three-level fair value hierarchy to categorize plan assets and liabilities recognized at fair value, which prioritizes the inputs used to measure such fair values. The inputs and valuation techniques discussed in the Fair Value Measurements note also apply to the System Plans' assets and liabilities as presented in the following tables.

	Level 1	Level 2	Level 3	Total
<b>June 30, 2017</b>				
Short-term investments	\$459,619	\$21,466	\$ -	\$481,085
Derivatives receivable	73	21,900	19,144	41,117
U.S. government, state, municipal and agency obligations	-	1,389,683	-	1,389,683
Corporate and foreign fixed income securities	-	876,984	931	877,915
Asset-backed securities	-	467,600	4,523	472,123
Equity securities	2,092,749	323	12,481	2,105,553
Assets at net asset value:				
Corporate and foreign fixed income securities				10,723
Equity securities				259,556
Private equity and real estate funds				965,209
Hedge funds				1,033,739
Commodities funds and other investments				303,244
Other receivables				229,757
Total				<u>8,169,704</u>
Derivatives payable	1,267	187,443	19,347	208,057
Other payables				41,880
Total				<u>249,937</u>
Fair value of plan assets				<u>\$ 7,919,767</u>

## Ascension

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

#### 9. Retirement Plans (continued)

	Level 1	Level 2	Level 3	Total
<b>June 30, 2016</b>				
Short-term investments	\$ 1,235,230	\$ -	\$ -	\$ 1,235,230
Derivatives receivable	31,674	280,634	55,187	367,495
U.S. government, state, municipal and agency obligations	1,840	1,567,670	-	1,569,510
Corporate and foreign fixed income securities	-	617,395	7,870	625,265
Asset-backed securities	-	154,113	41,220	195,333
Equity securities	1,555,564	12,226	12,321	1,580,111
Assets at net asset value:				
Corporate and foreign fixed income securities				8,929
Equity securities				97,760
Private equity and real estate funds				908,403
Hedge funds				1,406,679
Commodities funds and other investments				349,516
Other receivables				241,603
Total				<u>8,585,834</u>
Derivatives payable	30,917	11,291	4,819	47,027
Other payables				339,428
Total				<u>386,455</u>
Fair value of plan assets				<u>\$ 8,199,379</u>

## Ascension

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

#### 9. Retirement Plans (continued)

For the years ended June 30, 2017 and 2016, the changes in the fair value of the System Plans' assets measured using significant unobservable inputs (Level 3) consisted of the following:

	Net Derivatives	Corporate and Foreign Fixed Income Securities	Asset- Backed Securities	Equity Securities
<b>June 30, 2017</b>				
Beginning balance	\$ 50,368	\$ 7,870	\$ 41,220	\$ 12,321
Total actual return on assets	-	1,282	3,013	(1,758)
Purchases (sales), net	(203)	(9,319)	(33,183)	(1,529)
Transfers (out of) into Level 3	(50,368)	1,098	(6,527)	3,447
Ending balance	<u>\$ (203)</u>	<u>\$ 931</u>	<u>\$ 4,523</u>	<u>\$ 12,481</u>
Actual return on plan assets relating to plan assets still held at June 30, 2017	<u>\$ -</u>	<u>\$ 450</u>	<u>\$ 177</u>	<u>\$ (33)</u>
	Net Derivatives	Corporate and Foreign Fixed Income Securities	Asset- Backed Securities	Equity Securities
<b>June 30, 2016</b>				
Beginning balance	\$ (8,737)	\$ 3,372	\$ 19,610	\$ 1,345
Total actual return on assets	(3,649)	(1,200)	(73)	10,198
Purchases (sales), net	62,754	6,184	26,325	738
Transfers (out of) into Level 3	-	(486)	(4,642)	40
Ending balance	<u>\$ 50,368</u>	<u>\$ 7,870</u>	<u>\$ 41,220</u>	<u>\$ 12,321</u>
Actual return on plan assets relating to plan assets still held at June 30, 2016	<u>\$ 50,368</u>	<u>\$ (1,642)</u>	<u>\$ (446)</u>	<u>\$ (58)</u>

## Ascension

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

#### 9. Retirement Plans (continued)

The Trust has entered into a series of swap agreements with a net notional amount of approximately \$1,927,000. The combined targeted duration of these swaps and the Trust's fixed income investments approximates the duration of the liabilities of the Trust. Currently, 50% of the dollar duration of the liability is subject to this economic hedge. The purpose of this strategy is to economically hedge the change in the net funded status for a significant portion of the liability that can occur due to changes in interest rates.

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

Expected employer contributions 2018	\$ 5,970
Expected benefit payments:	
2018	617,125
2019	598,955
2020	610,970
2021	608,655
2022	608,820
2023-2027	2,854,281

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

#### Other Postretirement Benefit Plans

In addition to the retirement plan described above, certain Health Ministries sponsor postretirement benefit plans that provide healthcare benefits to qualified retirees who meet certain eligibility requirements. The total benefit obligation of these plans at June 30, 2017 and 2016 is \$28,987 and \$36,044, respectively. The net asset included in pension and other postretirement liabilities in the accompanying Consolidated Balance Sheets at June 30, 2017 and 2016 is \$17,972 and \$7,954, respectively. The change in the plans' assets and benefit obligations recognized in unrestricted net assets during the year ended June 30, 2017 and 2016, was an increase (decrease) of \$4,468 and \$(3,731), respectively.

## Ascension

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

#### **9. Retirement Plans (continued)**

##### **Defined-Contribution Plans**

System entities participate in contributory and noncontributory defined-contribution plans covering all eligible associates. There are three primary types of contributions to these plans: employer automatic contributions, employee contributions, and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary and, for certain entities, increases over specified periods of employee service. These benefits are funded annually, and participants become fully vested over a period of time. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period, and participants become fully vested in these employer contributions immediately. Expenses for the defined-contribution plans were \$349,514 and \$326,881 during 2017 and 2016, respectively, and are included in employee benefits in the Consolidated Statements of Operations and Changes in Net Assets.

#### **10. Self-Insurance Programs**

Certain System hospitals and other entities participate in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various insurance policies have been purchased to provide coverage in excess of the self-insured limits. The System provides its self-insurance through various trust funds and captive insurance companies. Actuarially determined amounts, discounted at 5.5%, are contributed to the trust funds and the captive insurance companies to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported, which were discounted at 5.5% and 6.0% in 2017 and 2016, respectively. Those entities not participating in the self-insured programs are insured under separate policies.

##### **Professional and General Liability Programs**

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

## Ascension

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

#### **10. Self-Insurance Programs (continued)**

The wholly owned onshore revocable trust has a self-insured retention up to \$10,000 per occurrence with no aggregate. Excess coverage is provided through AHIL with limits up to \$225,000. AHIL retains \$5,000 per incident and in the aggregate for professional liability. The excess coverage is reinsured by commercial carriers.

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

Sunflower Assurance, Ltd. (Sunflower) was acquired when Via Christi Health joined the System. As of October 1, 2013, Via Christi Health's primary and excess medical professional and general liability and employed physician programs were integrated into the System trust and AHIL. After January 1, 2014, the employer stop loss and employee life insurance coverage provided by Sunflower to Via Christi Health were not renewed and are in run off.

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

Beginning July 1, 2014, Sunflower offered physician professional liability coverage through insurance or reinsurance arrangements to nonemployed physicians practicing at the System's various facilities, primarily in Michigan, Indiana, Texas, Florida, Illinois and Alabama. Coverage is offered to physicians with limits ranging from \$100 per claim to \$1,000 per claim with various aggregate limits. Beginning July 1, 2014, AHIL offered similar coverage to employed physicians in the states of Indiana, Kansas, Pennsylvania and Wisconsin.

## Ascension

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

#### **10. Self-Insurance Programs (continued)**

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is professional and general liability expense of \$167,393 and \$139,778 for the years ended June 30, 2017 and 2016, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are professional and general liability loss reserves of \$541,177 and \$552,656 at June 30, 2017 and 2016, respectively.

#### **Workers' Compensation**

Workers' compensation coverage is provided on an occurrence basis through a grantor trust. The self-insured trust provides coverage up to \$1,500 per occurrence with no aggregate. The trust provides a mechanism for funding the workers' compensation obligations of its members. Prior to October 1, 2013, workers' compensation coverage for Via Christi Health, Ministry, and St. John Health System, a subsidiary of Ascension Health, (collectively the former Marian Health System) was self-insured or commercially insured up to various limits and excess insurance against catastrophic loss was obtained through commercial insurers.

Included in employee benefits in the accompanying Consolidated Statements of Operations and Changes in Net Assets is workers' compensation expense of \$49,767 and \$41,777 for the years ended June 30, 2017 and 2016, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are workers' compensation loss reserves of \$131,566 and \$138,221 at June 30, 2017 and 2016, respectively.

#### **11. Lease Commitments**

Certain System entities are lessees under operating lease agreements for the use of space in buildings owned by third parties, including medical office buildings (MOBs) and medical and information technology equipment. In addition, certain System entities have subleased space within buildings where the entity has a current operating lease commitment. Certain System entities are also lessors under operating lease agreements, primarily ground leases related to third-party-owned MOBs on land owned by the System entity.

## Ascension

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

#### 11. Lease Commitments (continued)

The System's future minimum noncancelable payments associated with operating leases with terms of one year or more where a System entity is the lessee, as well as future minimum noncancelable receipts associated with operating leases where a System entity is the sublessor or lessor, are presented in the table that follows. Future minimum payments and receipts relate to noncancelable leases with terms of one year or more.

	<b>Future Payments Where the System is Lessee</b>	<b>Future Receipts Where the System is Sublessor/ Lessor</b>	<b>Net Future Payments</b>
Year ending June 30:			
2018	\$ 167,069	\$ 35,541	\$ 131,528
2019	153,590	30,175	123,415
2020	119,148	23,006	96,142
2021	89,713	19,053	70,660
2022	70,859	18,133	52,726
Thereafter	274,815	274,733	82
Total	\$ 875,194	\$ 400,641	\$ 474,553

Rental expense under operating leases amounted to \$396,656 and \$391,054 in 2017 and 2016, respectively.

#### 12. Related Parties

The System has agreements with related parties for revenue cycle management services and clinical engineering services. The System expensed approximately \$585,000 for these services during the year ended June 30, 2017.

## Ascension

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

#### 13. Contingencies and Commitments

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

The System enters into agreements with non-employed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The carrying amounts of the liability for the System's obligation under these guarantees were \$16,686 and \$21,152 at June 30, 2017 and 2016, respectively, and are included in other current and noncurrent liabilities in the accompanying Consolidated Balance Sheets. The maximum amount of future payments that the System could be required to make under these guarantees is approximately \$44,300.

The System entered into Master Service Agreements for information technology services provided by third parties. The maximum amount of future payments that the System could be required to make under these agreements is approximately \$148,600.

Guarantees and other commitments represent contingent commitments issued by Ascension Health Alliance Senior and Subordinate Credit Groups, generally to guarantee the performance of an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and other transactions. The terms of guarantees are equal to the terms of the related debt, which can be as long as 25 years. The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Groups at June 30, 2017:

Hospital de la Concepción 2017 Series A debt guarantee	\$	25,700
St. Vincent de Paul Series 2000 A debt guarantee		28,300
Other guarantees and commitments		22,700

## Supplementary Information





Ernst & Young LLP  
The Plaza in Clayton  
Suite 1300  
190 Carondelet Plaza  
St. Louis, MO 63105-3434

Tel: +1 314 290 1000  
Fax: +1 314 290 1882  
ey.com

## Report of Independent Auditors on Supplementary Information

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Details of Consolidated Balance Sheet, and Details of Consolidated Statement of Operations and Changes in Net Assets for Consolidated Via Christi Hospital Manhattan is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Ernst + Young LLP*

September 22, 2017



Ascension

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

Years Ended June 30, 2017 and 2016

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

	<b>Year Ended June 30,</b>	
	<b>2017</b>	<b>2016 *</b>
Traditional charity care provided	\$ 537,672	\$ 452,246
Unpaid cost of public programs for persons living in poverty	793,905	717,164
Other programs for persons living in poverty and other vulnerable persons	149,271	151,177
Community benefit programs	362,455	367,579
Care of persons living in poverty and other community benefit programs	<u>\$ 1,843,303</u>	<u>\$ 1,688,166</u>

\* Restated

# Ascension

## Details of Consolidated Balance Sheet (Dollars in Thousands)

June 30, 2017

	<b>Consolidated Ascension</b>	<b>Consolidated Ascension less Health Ministries Presented</b>	<b>Reclassification</b>	<b>Consolidated Via Christi Health, Inc.</b>	<b>Consolidated Via Christi Health, Inc. less Consolidated Via Christi Hospital Manhattan</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 857,605	\$ 836,151	\$ -	\$ 21,454	\$ 14,530
Short-term investments	103,857	96,235	-	7,622	7,622
Accounts receivable, less allowance for doubtful accounts	2,758,554	2,611,149	-	147,405	132,122
Inventories	354,041	330,355	-	23,686	21,180
Due from brokers	197,195	197,195	-	-	-
Estimated third-party payor settlements	133,715	120,354	-	13,361	11,473
Other	762,900	734,384	-	28,516	25,539
Total current assets	<u>5,167,867</u>	<u>4,925,823</u>	-	<u>242,044</u>	<u>212,466</u>
Long-term investments	16,999,371	16,855,169	136,357	7,845	2,851
Interest in investments held by Ascension	-	-	(136,357)	136,357	28,382
Property and equipment, net	9,182,978	8,678,591	-	504,387	454,114
Other assets:					
Investment in unconsolidated entities	1,196,651	1,087,563	-	109,088	109,088
Capitalized software costs, net	880,819	843,514	-	37,305	37,211
Other	892,739	787,300	-	105,439	104,083
Total other assets	<u>2,970,209</u>	<u>2,718,377</u>	-	<u>251,832</u>	<u>250,382</u>
Total assets	<u>\$ 34,320,425</u>	<u>\$ 33,177,960</u>	<u>\$ -</u>	<u>\$ 1,142,465</u>	<u>\$ 948,195</u>

<b>Consolidated Via Christi Hospital Manhattan</b>	<b>Via Christi Hospital Manhattan</b>	<b>Wamego Health Center</b>	<b>Via Christi Imaging LLC</b>	<b>Eliminations and Adjustments</b>
\$ 6,924	\$ 6,727	\$ 191	\$ 7	\$ (1)
-	-	-	-	-
15,283	13,038	1,755	490	-
2,506	2,492	14	-	-
-	-	-	-	-
1,888	1,888	-	-	-
2,977	2,717	331	82	(153)
<u>29,578</u>	<u>26,862</u>	<u>2,291</u>	<u>579</u>	<u>(154)</u>
4,994	4,368	-	-	626
107,975	100,298	7,365	311	1
50,273	48,277	1,906	91	(1)
-	-	-	-	-
94	94	-	-	-
1,356	1,342	13	-	1
<u>1,450</u>	<u>1,436</u>	<u>13</u>	<u>-</u>	<u>1</u>
<u>\$ 194,270</u>	<u>\$ 181,241</u>	<u>\$ 11,575</u>	<u>\$ 981</u>	<u>\$ 473</u>

Ascension

Details of Consolidated Balance Sheet (continued)  
(Dollars in Thousands)

June 30, 2017

	<b>Consolidated Ascension</b>	<b>Consolidated Ascension less Health Ministries Presented</b>	<b>Consolidated Via Christi Health, Inc.</b>	<b>Consolidated Via Christi Health, Inc. less Consolidated Via Christi Hospital Manhattan</b>
<b>Liabilities and net assets</b>				
Current liabilities:				
Current portion of long-term debt	\$ 298,270	\$ 290,882	\$ 7,388	\$ 6,183
Long-term debt subject to short-term remarketing arrangements	999,785	999,785	-	-
Accounts payable and accrued liabilities	2,742,377	2,651,663	90,714	82,149
Estimated third-party payor settlements	480,694	475,105	5,589	4,648
Due to brokers	115,783	115,783	-	-
Current portion of self-insurance liabilities	206,787	206,787	-	-
Other	340,756	237,460	103,296	92,815
Total current liabilities	<u>5,184,452</u>	<u>4,977,465</u>	<u>206,987</u>	<u>185,795</u>
Noncurrent liabilities:				
Long-term debt (senior and subordinated)	5,699,440	5,294,082	405,358	384,134
Self-insurance liabilities	513,010	510,119	2,891	2,891
Pension and other postretirement liabilities	1,318,331	1,318,331	-	-
Other	1,191,068	1,131,527	59,541	55,585
Total noncurrent liabilities	<u>8,721,849</u>	<u>8,254,059</u>	<u>467,790</u>	<u>442,610</u>
Total liabilities	<u>13,906,301</u>	<u>13,231,524</u>	<u>674,777</u>	<u>628,405</u>
Net assets:				
Unrestricted				
Controlling interest	17,933,923	17,496,630	437,293	298,393
Noncontrolling interests	1,798,361	1,789,441	8,920	4,290
Unrestricted net assets	<u>19,732,284</u>	<u>19,286,071</u>	<u>446,213</u>	<u>302,683</u>
Temporarily restricted	468,938	453,388	15,550	11,182
Permanently restricted	212,902	206,977	5,925	5,925
Total net assets	<u>20,414,124</u>	<u>19,946,436</u>	<u>467,688</u>	<u>319,790</u>
Total liabilities and net assets	<u>\$ 34,320,425</u>	<u>\$ 33,177,960</u>	<u>\$ 1,142,465</u>	<u>\$ 948,195</u>

<b>Consolidated</b>	<b>Via Christi</b>	<b>Via Christi</b>	<b>Wamego</b>	<b>Via Christi</b>	<b>Eliminations</b>
<b>Via Christi</b>	<b>Hospital</b>	<b>Hospital</b>	<b>Health Center</b>	<b>Imaging LLC</b>	<b>and</b>
<b>Manhattan</b>	<b>Manhattan</b>	<b>Manhattan</b>	<b>Health Center</b>	<b>Imaging LLC</b>	<b>Adjustments</b>
\$ 1,205	\$ 1,175	\$ -	\$ -	\$ 30	\$ -
-	-	-	-	-	-
8,565	7,331	1,172	63	(1)	(1)
941	486	456	-	-	(1)
-	-	-	-	-	-
-	-	-	-	-	-
10,481	9,291	1,226	115	(151)	(151)
<u>21,192</u>	<u>18,283</u>	<u>2,854</u>	<u>208</u>	<u>(153)</u>	<u>(153)</u>
21,224	21,158	-	67	(1)	(1)
-	-	-	-	-	-
-	-	-	-	-	-
3,956	3,955	-	-	-	1
<u>25,180</u>	<u>25,113</u>	<u>-</u>	<u>67</u>	<u>-</u>	<u>-</u>
<u>46,372</u>	<u>43,396</u>	<u>2,854</u>	<u>275</u>	<u>(153)</u>	<u>(153)</u>
138,900	133,477	8,721	706	(4,004)	(4,004)
4,630	-	-	-	4,630	4,630
<u>143,530</u>	<u>133,477</u>	<u>8,721</u>	<u>706</u>	<u>626</u>	<u>626</u>
4,368	4,368	-	-	-	-
-	-	-	-	-	-
<u>147,898</u>	<u>137,845</u>	<u>8,721</u>	<u>706</u>	<u>626</u>	<u>626</u>
<u>\$ 194,270</u>	<u>\$ 181,241</u>	<u>\$ 11,575</u>	<u>\$ 981</u>	<u>\$ 473</u>	<u>\$ 473</u>

Ascension

Details of Consolidated Statement of Operations and Changes in Net Assets  
(Dollars in Thousands)

Year Ended June 30, 2017

	<b>Consolidated Ascension</b>	<b>Consolidated Ascension less Health Ministries Presented</b>	<b>Consolidated Via Christi Health, Inc.</b>	<b>Consolidated Via Christi Health, Inc. less Consolidated Via Christi Hospital Manhattan</b>
Operating revenue:				
Net patient service revenue	\$ 22,023,848	\$ 20,971,378	\$ 1,052,470	\$ 941,884
Less provision for doubtful accounts	1,083,661	1,018,530	65,131	62,660
Net patient service revenue, less provision for doubtful accounts	20,940,187	19,952,848	987,339	879,224
Other revenue	1,693,038	1,639,285	53,753	50,316
Total operating revenue	22,633,225	21,592,133	1,041,092	929,540
Operating expenses:				
Salaries and wages	9,301,057	8,911,815	389,242	352,018
Employee benefits	1,829,642	1,745,115	84,527	75,652
Purchased services	1,931,021	1,748,829	182,192	172,822
Professional fees	1,299,517	1,253,456	46,061	25,707
Supplies	3,267,278	3,085,549	181,729	164,957
Insurance	177,352	171,375	5,977	5,301
Interest	223,356	208,985	14,371	13,659
Depreciation and amortization	1,083,684	1,014,477	69,207	64,291
Other	2,780,838	2,701,032	79,806	74,616
Total operating expenses before impairment, restructuring and nonrecurring losses, net	21,893,745	20,840,633	1,053,112	949,023
Income (loss) from operations before self-insurance trust fund investment return and impairment, restructuring and nonrecurring losses, net	739,480	751,500	(12,020)	(19,483)
Self-insurance trust fund investment return	43,621	43,621	-	-
Impairment, restructuring and nonrecurring losses, net	(230,407)	(225,571)	(4,836)	(4,639)
Income (loss) from operations	552,694	569,550	(16,856)	(24,122)
Nonoperating gains (losses):				
Investment return	1,420,160	1,410,293	9,867	1,953
Gain on extinguishment of debt	10,907	10,907	-	-
Gains on interest rate swaps	45,015	45,015	-	-
Income from unconsolidated entities	2,601	2,601	-	-
Other	(170,194)	(170,213)	19	(545)
Total nonoperating gains, net	1,308,489	1,298,603	9,886	1,408
Excess (deficit) of revenues and gains over expenses and losses	1,861,183	1,868,153	(6,970)	(22,714)
Less noncontrolling interests	222,266	216,842	5,424	4,852
Excess (deficit) of revenues and gains over expenses and losses attributable to controlling interest	1,638,917	1,651,311	(12,394)	(27,566)

	<b>Consolidated Via Christi Hospital Manhattan</b>	<b>Via Christi Hospital Manhattan</b>	<b>Wamego Health Center</b>	<b>Via Christi Imaging LLC</b>	<b>Eliminations and Adjustments</b>
\$	110,586	\$ 96,389	\$ 12,474	\$ 1,789	\$ (66)
	2,471	2,034	353	84	-
	108,115	94,355	12,121	1,705	(66)
	3,437	3,590	37	-	(190)
	111,552	97,945	12,158	1,705	(256)
	37,224	31,024	6,001	199	-
	8,875	7,429	1,387	59	-
	9,370	7,968	1,092	310	-
	20,354	18,811	1,695	79	(231)
	16,772	15,763	892	116	1
	676	585	90	1	-
	712	706	-	6	-
	4,916	4,651	235	30	-
	5,190	4,542	541	133	(26)
	104,089	91,479	11,933	933	(256)
	7,463	6,466	225	772	-
	-	-	-	-	-
	(197)	(196)	-	-	(1)
	7,266	6,270	225	772	(1)
	7,914	7,342	549	23	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	564	564	-	-	-
	8,478	7,906	549	23	-
	15,744	14,176	774	795	(1)
	572	-	-	-	572
	15,172	14,176	774	795	(573)

Ascension

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)  
(Dollars in Thousands)

Year Ended June 30, 2017

	<b>Consolidated Ascension</b>	<b>Consolidated Ascension less Health Ministries Presented</b>	<b>Consolidated Via Christi Health, Inc.</b>	<b>Consolidated Via Christi Health, Inc. less Consolidated Via Christi Hospital Manhattan</b>
Unrestricted net assets, controlling interest:				
Excess (deficit) of revenues and gains over expenses and losses	\$ 1,638,917	\$ 1,651,311	\$ (12,394)	\$ (27,566)
Transfer (to) from sponsors and other affiliates, net	(5,062)	486,527	(491,589)	(492,087)
Net assets released from restrictions for property acquisitions	92,104	91,424	680	680
Pension and other postretirement liability adjustments	(301,182)	(294,332)	(6,850)	(6,639)
Change in unconsolidated entities' net assets	8,039	2,697	5,342	5,342
Other	2,795	3,064	(269)	(269)
Increase (decrease) in unrestricted net assets, controlling interest, before gain from discontinued operations	1,435,611	1,940,691	(505,080)	(520,539)
Gain from discontinued operations	226	226	-	-
Increase (decrease) in unrestricted net assets, controlling interest	1,435,837	1,940,917	(505,080)	(520,539)
Unrestricted net assets, noncontrolling interest:				
Excess of revenues and gains over expenses and losses	222,266	216,842	5,424	4,852
Distributions of capital	(139,477)	(134,683)	(4,794)	(4,523)
Contributions of capital	285,894	285,894	-	-
Membership interest changes, net	210	210	-	-
Other	24	(198)	222	223
Increase in unrestricted net assets, noncontrolling interest	368,917	368,065	852	552
Temporarily restricted net assets, controlling interest:				
Contributions and grants	123,594	119,672	3,922	3,922
Investment return	29,410	28,616	794	794
Net assets released from restrictions	(153,648)	(150,326)	(3,322)	(3,322)
Other	1,588	1,338	250	57
Increase (decrease) in temporarily restricted net assets, controlling interest	944	(700)	1,644	1,451
Permanently restricted net assets, controlling interest:				
Contributions	8,046	8,046	-	-
Investment return	7,263	7,263	-	-
Other	77	77	-	-
Increase in permanently restricted net assets, controlling interest	15,386	15,386	-	-
Increase (decrease) in net assets	1,821,084	2,323,668	(502,584)	(518,536)
Net assets, beginning of year	18,593,040	17,622,768	970,272	838,326
Net assets, end of year	<u>\$ 20,414,124</u>	<u>\$ 19,946,436</u>	<u>\$ 467,688</u>	<u>\$ 319,790</u>

<b>Consolidated</b>	<b>Via Christi</b>	<b>Via Christi</b>	<b>Wamego</b>	<b>Via Christi</b>	<b>Eliminations</b>
<b>Via Christi</b>	<b>Hospital</b>	<b>Hospital</b>	<b>Health Center</b>	<b>Imaging LLC</b>	<b>and</b>
<b>Manhattan</b>	<b>Manhattan</b>	<b>Manhattan</b>	<b>Health Center</b>	<b>Imaging LLC</b>	<b>Adjustments</b>
\$ 15,172	\$ 14,176	\$ 774	\$ 795	\$ (573)	
498	498	-	-	-	-
-	-	-	-	-	-
(211)	(211)	-	-	-	-
-	-	-	-	-	-
-	-	-	(898)	898	-
15,459	14,463	774	(103)	325	-
-	-	-	-	-	-
15,459	14,463	774	(103)	325	-
572	-	-	-	-	572
(271)	-	-	-	-	(271)
-	-	-	-	-	-
-	-	-	-	-	-
(1)	-	-	-	-	(1)
300	-	-	-	-	300
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
193	193	-	-	-	-
193	193	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
15,952	14,656	774	(103)	625	
131,946	123,189	7,947	809	1	
\$ 147,898	\$ 137,845	\$ 8,721	\$ 706	\$ 626	