ASCENSION

Consolidated Interim Financial Statements and Supplementary Information (Unaudited)

For the Three Months Ended September 30, 2021 and 2020

Ascension

Consolidated Financial Statements
and Supplementary Information

For the Three Months Ended September 30, 2021 and 2020

Contents

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Consolidated Balance Sheets (unaudited)
(Dollars in Thousands)

	September 30, 2021	**June 30, 2021**
Assets		
Current assets:		
Cash and cash equivalents	**$ 684,177**	$ 670,022
Short-term investments	**96,464**	97,222
Accounts receivable	**3,386,587**	3,253,061
Inventories	**530,564**	534,263
Due from brokers *(see Notes 5 and 6)*	**117,059**	97,225
Estimated third-party payor settlements	**277,528**	208,630
Other *(see Notes 5 and 6)*	**858,867**	1,120,666
Total current assets	**5,951,246**	5,981,089
Long-term investments *(see Notes 5 and 6)*	**26,587,908**	26,768,323
Property and equipment, net	**11,017,038**	11,066,802
Other assets:		
Right-of-use assets - leases	**1,309,420**	1,313,370
Investment in unconsolidated entities	**1,327,024**	1,363,777
Capitalized software costs, net	**517,131**	525,824
Other *(see Notes 5 and 6)*	**1,409,540**	1,380,054
Total other assets	**4,563,115**	4,583,025
Total assets	**$48,119,307**	$ 48,399,239

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Ascension

Consolidated Balance Sheets (unaudited)

(Dollars in Thousands)

	September 30, 2021	June 30, 2021
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 92,681**	$ 92,406
Long-term debt subject to short-term remarketing arrangements*	**627,390**	627,390
Current portion of lease obligations	**248,390**	245,535
Accounts payable and accrued liabilities *(see Notes 5 and 6)*	**2,777,632**	3,028,487
Estimated third-party payor settlements	**773,933**	756,700
Due to brokers *(see Notes 5 and 6)*	**640,348**	219,503
Current portion of self-insurance liabilities	**314,960**	314,960
Current portion of Medicare advanced payments	**1,277,017**	1,271,737
Other	**743,116**	686,804
Total current liabilities	**7,495,467**	7,243,522
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	**6,795,008**	6,805,332
Lease obligations, less current portion	**1,091,856**	1,097,255
Self-insurance liabilities	**793,254**	760,043
Pension and other postretirement liabilities	**873,348**	965,579
Medicare advanced payments	**244,432**	512,380
Other *(see Notes 5 and 6)*	**1,738,629**	1,738,913
Total noncurrent liabilities	**11,536,527**	11,879,502
Total liabilities	**19,031,994**	19,123,024
Net assets:		
Without donor restrictions:		
Controlling interest	**25,846,020**	25,705,637
Noncontrolling interests	**2,486,213**	2,726,836
Total net assets without donor restrictions	**28,332,233**	28,432,473
Net assets with donor restrictions	**755,080**	843,742
Total net assets	**29,087,313**	29,276,215
Total liabilities and net assets	**$48,119,307**	$ 48,399,239

*Consists of variable rate demand bonds with put options that may be exercised at the option of the bondholders, with stated repayment installments through 2047, as well as certain serial mode bonds with scheduled remarketing/mandatory tender dates occurring prior to September 30, 2022. In the event that bonds are not remarketed upon the exercise of put options for the variable bonds or scheduled mandatory tender bonds, management would utilize other sources to access the necessary liquidity. Potential sources include a drawdown on the $600 million lines of credit, issuing commercial paper, and liquidating investments.

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

Ascension

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

(Dollars in Thousands)

	The three months ended September 30, 2021	2020
Operating revenue:		
Net patient service revenue	$ **6,384,101**	$ 5,977,323
Other revenue	**552,904**	649,523
Total operating revenue	**6,937,005**	6,626,846
Operating expenses:		
Salaries and wages	**2,828,716**	2,648,420
Employee benefits	**589,135**	579,149
Purchased services	**795,098**	706,232
Professional fees	**336,941**	320,485
Supplies	**1,054,029**	984,196
Insurance	**84,092**	74,107
Interest	**56,965**	58,394
Provider tax	**166,928**	166,002
Depreciation and amortization	**328,563**	325,407
Other	**683,502**	642,449
Total operating expenses before nonrecurring gains (losses), net	**6,923,969**	6,504,841
Income from operations before self-insurance trust fund investment return and nonrecurring gains (losses), net	**13,036**	122,005
Self-insurance trust fund investment return	**2,786**	30,701
Income from recurring operations	**15,822**	152,706
Nonrecurring gains (losses), net	**9,085**	(9,221)
Income from operations	**24,907**	143,485
Nonoperating gains (losses):		
Investment return, net	**33,365**	1,316,733
Other	**46,347**	(149,514)
Total nonoperating gains, net	**79,712**	1,167,219
Excess of revenues and gains over expenses and losses	**104,619**	1,310,704
Less noncontrolling interests	**24,217**	132,021
Excess of revenues and gains over expenses and losses attributable to controlling interest	**80,402**	1,178,683

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Ascension

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

(Dollars in Thousands)

	The three months ended September 30, 2021	The three months ended September 30, 2020
Net assets without donor restrictions, controlling interest:		
Excess of revenues and gains over expenses and losses	**$ 80,402**	$ 1,178,683
Transfers (to) from sponsors and other affiliates, net	**(624)**	1,030
Net assets released from restrictions for property acquisitions	**13,666**	9,613
Pension and other postretirement liability adjustments	**37,654**	40,222
Change in unconsolidated entities' net assets	**9,724**	17,013
Other	**(439)**	(980)
Increase in net assets without donor restrictions, controlling interest	**140,383**	1,245,581
Net assets without donor restrictions, noncontrolling interest:		
Excess of revenues and gains over expenses and losses	**24,217**	132,021
Net (distributions) contributions of capital	**(264,840)**	60,597
Membership interest changes, net	**-**	1
(Decrease) increase in net assets without donor restrictions, noncontrolling interests	**(240,623)**	192,619
Net assets with donor restrictions:		
Contributions and grants	**20,469**	22,349
Investment return	**3,581**	27,265
Net assets released from restrictions	**(21,902)**	(17,727)
Other	**(90,810)**	(14,781)
(Decrease) increase in net assets with donor restrictions	**(88,662)**	17,106
(Decrease) increase in net assets	**(188,902)**	1,455,306
Net assets, beginning of period	**29,276,215**	21,587,248
Net assets, end of period	**$ 29,087,313**	$ 23,042,554

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

Ascension

Consolidated Statements of Cash Flows (unaudited)

(Dollars in Thousands)

	The three months ended September 30, 2021	The three months ended September 30, 2020
Operating activities		
(Decrease) increase in net assets	**$ (188,902)**	$ 1,455,306
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	**328,563**	325,407
Amortization of bond premiums, discounts, and debt issuance costs	**(8,878)**	(9,240)
Pension and other postretirement liability adjustments	**(37,654)**	(40,222)
Unrealized losses (gains) on unrestricted investments, net	**770,831**	(1,107,060)
Change in fair value of interest rate swaps	**(8,210)**	(8,267)
Change in equity of unconsolidated entities	**(79,918)**	(65,867)
Gain on sale of assets, net	**(75,772)**	(36,558)
Impairment and nonrecurring expenses	**1,357**	282
Transfers to sponsor and other affiliates, net	**624**	(1,030)
Donor restricted distributions (contributions), investment return and other	**74,997**	(26,952)
Distributions (contributions) of noncontrolling interest, net	**264,840**	(60,597)
Other	**1,133**	56,892
(Increase) decrease in:		
Short-term investments	**758**	19,344
Accounts receivable	**(138,613)**	(243,951)
Inventories and other current assets	**(77,987)**	(56,194)
Due from brokers	**(19,834)**	(40,280)
Investments classified as trading	**(517,826)**	(173,658)
Other assets	**(29,482)**	(31,872)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(219,117)**	(278,851)
Estimated third-party payor settlements, net	**(51,665)**	6,931
Due to brokers	**420,845**	191,298
Medicare advanced payments	**(262,668)**	-
Other current liabilities	**87,776**	250,068
Self-insurance liabilities	**33,211**	(13,267)
Other noncurrent liabilities	**(46,366)**	114,594
Net cash provided by operating activities	**222,043**	226,256

Continued on next page.

Ascension

Consolidated Statements of Cash Flows (unaudited)

(Dollars in Thousands)

	The three months ended September 30, 2021	The three months ended September 30, 2020
Investing activities		
Property, equipment, and capitalized software additions, net	**$ (302,677)**	$ (396,326)
Proceeds from sale of property and equipment	**7,599**	1,035
Distributions from unconsolidated entities, net	**115,888**	8,187
Net proceeds from sale/acquisition of other assets	**299,442**	141,537
Net cash provided by (used in) investing activities	**120,252**	(245,567)
Financing activities		
Repayment of debt, including financing lease obligations	**(1,575)**	(50,038)
Increase in assets under bond indenture agreements	**(31)**	(15)
Transfers (to) from sponsors and other affiliates, net	**(624)**	1,030
Donor restricted (distributions) contributions, investment return, and other	**(74,997)**	26,952
(Distributions) contributions of noncontrolling interest, net	**(264,840)**	60,597
Net cash (used in) provided by financing activities	**(342,067)**	38,526
Net increase in cash, cash equivalents, and restricted cash	**228**	19,215
Cash, cash equivalents, and restricted cash at beginning of period	**727,913**	717,216
Cash, cash equivalents, and restricted cash at end of period	**$ 728,141**	$ 736,431
Cash and cash equivalents	**$ 684,177**	$ 649,123
Restricted cash, included in long-term investments	**43,964**	87,308
Cash, cash equivalents, and restricted cash at end of period	**$ 728,141**	$ 736,431

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

Notes to Consolidated Financial Statements (unaudited)

(Dollars in Thousands)

1. Organization and Mission

Organizational Structure

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

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

Ascension is also the majority investor in Ascension Alpha Fund, LLC (Alpha Fund), a limited liability company organized in the state of Delaware, as discussed in the Pooled Investment Fund note. Ascension and its member organizations are hereafter referred to collectively as the System.

Sponsorship

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

1. Organization and Mission (continued)

Mission

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

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

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

- Cost of other programs for persons living in poverty and other persons who are vulnerable.

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

Discounts are provided to all uninsured and underinsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for financial assistance are not included in the cost of providing care 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 $106,136 and $137,878 for the three months ended September 30, 2021 and 2020, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost is reported in the accompanying supplementary information.

2. Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Short-Term Investments

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

Inventories

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

2. Significant Accounting Policies (continued)

Long-Term Investments and Investment Return

Investments, excluding investments in unconsolidated entities accounted for under the equity method of accounting, 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. As discussed in the Pooled Investment Fund note, the Alpha Fund also holds derivative investments, which are measured at fair value.

Long-term investments include assets limited as to use of $1,627,493 and $1,560,296 at September 30, 2021 and June 30, 2021, respectively, and are comprised primarily of investments placed in trust, donor restricted cash and cash equivalents, and investments held by captive insurance companies for the payment of self-insured claims.

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

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives used in computing depreciation is as follows: buildings and leasehold improvements, 2 to 40 years; and equipment, 2 to 20 years. Depreciation expense for the three months ended September 30, 2021 and 2020 was approximately $276,000 and $269,000, respectively.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

A summary of property and equipment is as follows:

	September 30, 2021	June 30, 2021
Land and improvements	$ 1,392,096	$ 1,372,957
Buildings and equipment	21,523,706	21,327,952
	22,915,802	22,700,909
Less accumulated depreciation	12,404,930	12,138,572
	10,510,872	10,562,337
Construction in progress	506,166	504,465
Total property and equipment, net	$ 11,017,038	$ 11,066,802

Several capital projects have remaining construction and related equipment purchase commitments of approximately $656,000 as of September 30, 2021.

Intangible Assets

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

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Capitalized software costs in the following table include software in progress of $107,722 and $103,977 at September 30, 2021 and June 30, 2021, respectively:

	September 30, 2021	June 30, 2021
Capitalized software costs	**$ 2,496,546**	$ 2,473,145
Less accumulated amortization	**1,979,415**	1,947,321
Capitalized software costs, net	**517,131**	525,824
Goodwill	**356,834**	356,726
Other, net	**36,716**	37,308
Intangible assets included in other assets	**393,550**	394,034
Total intangible assets, net	**$ 910,681**	$ 919,858

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually or when circumstances indicate a possible impairment may exist. Intangible assets with definite lives, primarily capitalized computer software costs, are amortized over their expected useful lives. Amortization expense for these intangible assets for the three months ended September 30, 2021 and 2020 was approximately $53,000 and $56,000, respectively.

Asset Impairment

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

Noncontrolling Interests

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

2. Significant Accounting Policies (continued)

Net Assets

Net Assets Without Donor Restrictions

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

Net Assets With Donor Restrictions

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

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

Performance Indicator

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

Operating and Nonoperating Activities

The System's primary mission is to meet the healthcare needs in its communities served through a broad range of general and specialized healthcare services, including inpatient acute care, outpatient services, long-term care, and other healthcare services. Activities directly associated with the furtherance of this purpose are 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.

2. Significant Accounting Policies (continued)

Net Patient Service Revenue and Accounts Receivable

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

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

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by $20,648 and $10,218 for the three months ended September 30, 2021 and 2020, respectively.

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

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

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

Net patient service revenue earned for the three months ended September 30, 2021 and 2020, is as follows:

	The three months ended September 30, 2021	2020
Inpatient care	**$ 3,083,497**	$ 2,853,946
Ambulatory care	**2,472,198**	2,310,533
Physician practices	**728,653**	695,249
Long-term care	**99,753**	117,595
Total net patient service revenue	**$ 6,384,101**	$ 5,977,323

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

	Net Patient Service Revenue The three months ended September 30, 2021	2020	Accounts Receivable September 30, 2021	June 30, 2021
Medicare - traditional and managed	**34.8 %**	36.6 %	**28.5 %**	30.3 %
Medicaid - traditional and managed	**13.7**	12.9	**10.0**	9.8
Other commercial and managed care	**44.4**	42.6	**47.4**	46.0
Self-Pay and other	**7.1**	7.9	**14.1**	13.9
	100.0 %	100.0 %	**100.0 %**	100.0 %

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

2. Significant Accounting Policies (continued)

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

Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed. The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators.

Management relies on the results of detailed reviews of historical write-offs and collections of revenues and accounts receivable as a primary source of information in estimating the collectability of accounts receivable. Management updates the hindsight analysis at least quarterly, using primarily a rolling twelve-month collection history and write-off data. These routine, quarterly changes in estimates have not resulted in material adjustments to the valuations of accounts receivable or period-to-period comparisons of results of operations.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Other Operating Revenue

Other operating revenues are recorded at amounts the System expects to collect in exchange for providing goods or services not directly associated with patient care and recorded over the time in which obligations to provide goods or services are satisfied. The amounts recognized reflect consideration due from customers, third party payors, and others. Components of other operating revenue are included in the following table for the three months ended September 30, 2021 and 2020:

	The three months ended September 30,	
	2021	**2020**
Cafeteria and vending	**$ 15,066**	$ 13,053
Provider Relief Funds (*see Note 3*)	**4,014**	184,849
Contracted services	**50,017**	52,378
Donations and grants	**20,214**	20,081
Gains on asset sales	**78,130**	36,928
Insurance plans	**22,326**	17,985
Joint venture income	**70,145**	57,789
Lab services	**20,964**	20,832
Lease and rental income	**21,443**	21,162
Retail pharmacy	**137,784**	116,223
Supplemental care programs	**77,615**	68,233
Other	**35,186**	40,010
Total other revenue	**$ 552,904**	$ 649,523

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

Nonrecurring Gains (Losses), Net

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

2. Significant Accounting Policies (continued)

Amortization

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

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 September 30, 2021.

Regulatory Compliance

Ascension periodically undergoes investigations or audits by federal, state and local agencies involving compliance with a variety of laws and regulations. These investigations seek to determine compliance with, among other things, laws and regulations relating to Medicare and Medicaid reimbursement, including billing practice for certain services.

While no assurance can be given concerning the outcome of any current investigation, management believes that adequate reserves have been established, when available information indicates that a loss is probable and the range of loss can be reasonably estimated, and the outcome of any current investigations will not have a material effect on the Consolidated Financial Statements of the System.

Reclassifications

Certain reclassifications were made to the September 30, 2020 Consolidated Financial Statements to conform to the September 30, 2021 presentation.

2. Significant Accounting Policies (continued)

Subsequent Events

The System evaluates the impact of subsequent events, which are events that occur after the Consolidated Balance Sheet date, but before the Consolidated Financial Statements are issued, for potential recognition or disclosure in the Consolidated Financial Statements as of the Consolidated Balance Sheet date. For the three months ended September 30, 2021, the System evaluated subsequent events through November 19, 2021, representing the date on which the Consolidated Financial Statements were issued.

In October 2021, Ascension and Adventist Health System Sunbelt Healthcare Corporation, d/b/a AdventHealth, decided to unwind their AMITA Health partnership, the joint operating company serving patients in the greater Chicago, Illinois area. After the partnership dissolution is completed, Ascension will operate its Illinois facilities separately from AdventHealth and continue to serve healthcare needs in the greater Chicago area.

3. COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the COVID-19 outbreak as a global pandemic. In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act authorizes funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Provider Relief Fund).

Payments from the Provider Relief Fund are to be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the recipient for health care related expenses and lost revenues attributable to coronavirus. Additionally, funds are available to reimburse providers for COVID-19 related treatment of uninsured patients.

For the three months ended September 30, 2021 and 2020, the System recognized revenue associated with Provider Relief Fund payments of $4,014 and $184,849, respectively, which is included in other operating revenue in the Consolidated Statement of Operations and Changes in Net Assets. Management continues to monitor compliance with the terms and conditions of the Provider Relief Fund. If unable to attest to or comply with current or future terms and conditions, the System's ability to retain some or all of the distributions received may be impacted.

In April 2020, the System requested Medicare advanced payments under the Centers for Medicare and Medicaid Services' Accelerated and Advanced Payment Program (Program) designed to increase cash flow to Medicare providers and suppliers impacted by COVID-19. The Program allowed eligible health care facilities to request up to six months of advance Medicare

3. COVID-19 Pandemic and CARES Act Funding (continued)

payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. The System received approximately $2,000,000 of advanced payments in April 2020. In accordance with the terms and conditions of the Medicare Advance Payment program, recoupments of approximately $263 million occurred during the three months ended September 30, 2021 with a total of approximately $462 million recouped to date.

4. Organizational Changes

Divestitures

During the three months ended September 30, 2021 and 2020, Ascension, including certain of its wholly owned subsidiaries, completed the sale of, or undertook actions to sell or transfer ownership of, certain assets and liabilities as follows.

Assets Held for Sale / Sold

Effective August 1, 2021, Ministry Health Care, Inc., a wholly owned subsidiary of Ascension, completed the transition of its sole membership interest in seven hospitals and related clinical and other business representing substantially all operations in the Northern and Central Wisconsin markets to Aspirus, Inc. Assets and liabilities held for sale at June 30, 2021 are $355,312 and $30,930, respectively, and are included in other current assets and other current liabilities in the Consolidated Balance Sheet at that date.

Effective August 1, 2020, Ascension St. Clare's Hospital, Inc., an Ascension Wisconsin subsidiary, completed the sale of certain of its assets and liabilities and substantially all related operations, as well as interests in two related joint ventures, to MCHS Hospitals, Inc., a subsidiary of Marshfield Clinic, Inc.

Membership Donation

Effective September 1, 2020, Ascension completed the separation of St. Mary's Healthcare, a wholly owned subsidiary of Ascension located in Amsterdam, New York. The separation was accounted for as a donation of unrestricted net assets of approximately $135,000 included in other nonoperating gains (losses) and restricted net assets of approximately $13,000 included in other net assets with donor restrictions in the Consolidated Statements of Operations and Changes in Net Assets.

5. Pooled Investment Fund

At September 30, 2021 and June 30, 2021, respectively, a significant portion of long term investments consists of the Alpha Fund. The Alpha Fund, which is consolidated in the System's Consolidated Financial Statements, includes the investment interests of the System and other Alpha Fund members. Long term investments also include investments held by the Ministry Markets and their consolidated foundations, which are managed outside of the Alpha Fund.

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.

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

Commitments not funded during the investment period will expire and remain unfunded. As of September 30, 2021, contractual agreements expire between November 2021 and May 2027.

The remaining unfunded capital commitments total approximately $1,699,000 for 251 individual funds as of September 30, 2021. Due to the uncertainty surrounding whether the contractual commitments will require funding during the contractual period, future minimum payments to meet these commitments cannot be reasonably estimated. These committed amounts are expected to be primarily satisfied by the liquidation of existing investments in the Alpha Fund.

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

5. Pooled Investment Fund (continued)

See the Fair Value Measurements note for a discussion of how fair value for the Alpha Fund's derivatives is determined. At September 30, 2021 and June 30, 2021, the gross notional value of Alpha Fund derivatives outstanding was approximately $13,561,000 and $11,879,000, respectively.

The fair value of Alpha Fund derivatives in an asset position was $115,723 and $167,757 at September 30, 2021 and June 30, 2021, respectively, while the fair value of Alpha Fund derivatives in a liability position was $38,545 and $40,360 at September 30, 2021 and June 30, 2021, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets.

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

(Dollars in Thousands)

6. Cash and Investments

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

	September 30, 2021	June 30, 2021
Cash and cash equivalents	**$ 684,177**	$ 670,022
Short-term investments	**96,464**	97,222
Long-term investments	**26,587,908**	26,768,323
Subtotal	**27,368,549**	27,535,567
Other Alpha Fund assets and liabilities:		
In other current assets	**32,005**	32,969
In accounts payable and other accrued liabilities	**(9,591)**	(11,071)
In other noncurrent liabilities	**(1,205)**	(643)
Due (to) from brokers, net	**(523,289)**	(122,278)
Total cash and investments, net	**26,866,469**	27,434,544
Less noncontrolling interests of Alpha Fund	**1,950,676**	2,155,382
System cash and investments, including assets limited as to use	**24,915,793**	25,279,162
Less assets limited as to use:		
Under bond indenture agreement	**1,208**	1,177
Self-insurance trust funds	**911,720**	844,013
With donor restrictions	**714,565**	715,106
Total assets limited as to use	**1,627,493**	1,560,296
System unrestricted cash and investments, net	**$ 23,288,300**	$ 23,718,866

(Dollars in Thousands)

6. Cash and Investments (continued)

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

	September 30, 2021	June 30, 2021
Cash and cash equivalents and short-term investments	$ **836,033**	$ 837,416
Pooled short-term investment funds	**1,701,480**	1,502,891
U.S. government, state, municipal and agency obligations	**4,404,838**	4,056,443
Corporate and foreign fixed income securities	**3,044,382**	2,798,810
Asset-backed securities	**2,807,721**	2,814,692
Equity securities	**7,670,213**	8,507,145
Alternative investments and other investments:		
Private equity and real estate funds	**4,141,229**	4,193,658
Private credit and energy funds	**1,470,464**	1,450,386
Hedge funds	**959,318**	989,114
Other investments	**332,871**	385,012
Total alternative investments and other investments	**6,903,882**	7,018,170
Total cash and cash equivalents, short-term investments, and long-term investments	$ **27,368,549**	$ 27,535,567

Investment return recognized by the System for the three months ended September 30, 2021 and 2020, is summarized in the following table. Total investment return includes the System's return on certain investments held and managed outside the Alpha Fund and the investment return of the Alpha Fund. System investment return represents the System's total investment return, net of the investment return earned by the noncontrolling interests of other Alpha Fund members.

	The three months ended September 30, 2021	2020
Interest and dividends	$ **61,476**	$ 49,275
Net gains (losses) on investments reported at fair value	**(25,325)**	1,298,159
Restricted investment return and unrealized gains (losses), net	**3,581**	27,265
Total investment return	**39,732**	1,374,699
Less return earned by noncontrolling interests of Alpha Fund	**7,438**	75,455
System investment return	$ **32,294**	$ 1,299,244

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

(Dollars in Thousands)

7. Financial Assets and Liquidity Resources

As of September 30, 2021 and June 30, 2021, respectively, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, principal payments on debt, and capital expenditures not financed with debt, are as follows:

Financial assets:	September 30, 2021	June 30, 2021
Cash and cash equivalents	$ 684,177	$ 670,022
Short-term investments	96,464	97,222
Accounts receivable	3,386,587	3,253,061
Due from brokers	117,059	97,225
Other current assets	858,867	1,120,666
Long-term investments	26,587,908	26,768,323
Total financial assets	31,731,062	32,006,519
Less:		
Assets limited as to use and other restricted funds	(1,693,951)	(1,653,166)
Noncontrolling interests of Alpha Fund	(1,950,676)	(2,155,382)
Investments with liquidity more than one year	(5,062,253)	(4,897,829)
Total financial assets available within one year	23,024,182	23,300,142
Liquidity resources:		
Unused lines of credit	600,000	600,000
Total financial assets and liquidity resources available within one year	$ 23,624,182	$ 23,900,142

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

8. Fair Value Measurements

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

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

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

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

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

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

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

8. Fair Value Measurements (continued)

As of September 30, 2021, and June 30, 2021, the assets and liabilities listed in the fair value hierarchy tables below use the following valuation techniques and inputs:

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents and certain short-term investments include certificates of deposit, whose fair value is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates.

Other short-term investments designated as Level 2 investments primarily consist of commercial paper, whose fair value is based on the income approach. Significant observable inputs include security cost, maturity, credit rating, interest rate, and par value.

Pooled Short-Term Investment Fund

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

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

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

Corporate and Foreign Fixed Income Securities

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

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.

8. Fair Value Measurements (continued)

Equity Securities

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

Alternative Investments and Other Investments

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

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

Benefit Plan Assets

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

8. 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 income method. Under the income method, fair values are calculated based on present value of expected future cash flows using discount rates appropriate with risks involved.

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

Investments Sold, Not Yet Purchased

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

(Dollars in Thousands)

8. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at September 30, 2021, for all financial assets and liabilities measured at fair value on a recurring basis in the System's Consolidated Financial Statements:

	Level 1	Level 2	Level 3	Total
September 30, 2021				
Cash equivalents	$ 19,343	$ 2,375	$ -	$ 21,718
Short-term investments	64,115	10,087	-	74,202
Pooled short-term investment funds	1,701,480	-	-	1,701,480
U.S. government, state, municipal and agency obligations	-	4,404,838	-	4,404,838
Corporate and foreign fixed income securities	-	3,029,009	15,373	3,044,382
Asset-backed securities	-	2,364,256	443,465	2,807,721
Equity securities	5,765,652	17,083	34,879	5,817,614
Alternative investments and other investments:				
Private equity and real estate funds	-	-	663,249	663,249
Other investments	45,321	209,051	3,486	257,858
Assets at net asset value:				
Equity securities				1,852,599
Private equity and real estate funds				3,477,482
Private credit and energy funds				1,470,464
Hedge funds				959,318
Other investments				5,683
Cash and other investments not at fair value				809,941
Cash and investments				$ 27,368,549
Benefit plan assets, in other noncurrent assets	$ 679,247	$ 17,776	$ 58,946	$ 755,969
Interest rate swaps, in other noncurrent assets	-	2,210	-	2,210
Investments sold, not yet purchased, in other noncurrent liabilities	740	465	-	1,205
Interest rate swaps, included in other noncurrent liabilities	-	118,057	-	118,057

Notes to Consolidated Financial Statements (unaudited) (continued)

(Dollars in Thousands)

8. Fair Value Measurements (continued)

For the three months ended September 30, 2021, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following:

	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Other Investments	Benefit Plan Assets
The three months ended September 30, 2021						
Beginning balance	$ 8,009	$ 479,273	$ 33,151	$ 733,753	$ 3,711	$ 58,504
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	1,103	168	1,846	8,602	(223)	-
Included in changes in net assets	-	-	-	-	7	-
Purchases	11,413	42,512	20	8,607	54	1,265
Issuances	-	-	-	2,337	-	-
Sales	(3,722)	(70,099)	(138)	(90,050)	(63)	(1,897)
Transfers into Level 3	-	7,151	-	-	-	1,730
Transfers out of Level 3	(1,430)	(15,540)	-	-	-	(656)
Ending balance	$ 15,373	$ 443,465	$ 34,879	$ 663,249	$ 3,486	$ 58,946
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, 2021	$ 920	$ 148	$ 1,759	$ -	$ (276)	$ -

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

(Dollars in Thousands)

8. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2021, for all financial assets and liabilities measured at fair value on a recurring basis in the System's Consolidated Financial Statements:

	Level 1	Level 2	Level 3	Total
June 30, 2021				
Cash equivalents	$ 19,508	$ 3,826	$ -	$ 23,334
Short-term investments	78,134	9,962	-	88,096
Pooled short-term investment funds	1,502,891	-	-	1,502,891
U.S. government, state, municipal and agency obligations	-	4,056,443	-	4,056,443
Corporate and foreign fixed income securities	-	2,790,801	8,009	2,798,810
Asset-backed securities	-	2,335,419	479,273	2,814,692
Equity securities	6,570,042	13,912	33,151	6,617,105
Alternative investments and other investments:				
Private equity and real estate funds	-	2,500	733,753	736,253
Other investments	215,024	96,079	3,711	314,814
Assets at net asset value:				
Equity securities				1,890,040
Private equity and real estate funds				3,456,906
Private credit and energy funds				1,450,386
Hedge funds				989,114
Other investments				5,343
Cash and other investments not at fair value				791,340
Cash and investments				$ 27,535,567
Benefit plan assets, in other noncurrent assets	$ 657,870	$ 17,381	$ 58,504	$ 733,755
Interest rate swaps, in other noncurrent assets	-	2,497	-	2,497
Investments sold, not yet purchased, in other noncurrent liabilities	175	469	-	644
Interest rate swaps, included in other noncurrent liabilities	-	126,554	-	126,554

(Dollars in Thousands)

8. Fair Value Measurements (continued)

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

	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Other Investments	Benefit Plan Assets
The three months ended September 30, 2020						
Beginning balance	$ 7,489	$ 734,511	$ 20,921	$ 351,731	$ 3,817	$ 59,435
Realized and unrealized gains (losses):						
Included in nonoperating gains (losses)	(119)	27,295	(373)	86,424	(117)	-
Included in changes in net assets	-	-	-	(25)	7	-
Purchases	-	14,128	1,551	15,000	1	1,532
Sales	(1,828)	(47,911)	(571)	(2,673)	-	(3,359)
Transfers into Level 3	4,551	3,720	1,399	-	-	9,862
Transfers out of Level 3	-	(105,672)	-	-	(1,310)	(184)
Ending balance	$ 10,093	$ 626,071	$ 22,927	$ 450,457	$ 2,398	$ 67,286
The amount of total gains or losses for the period included in nonoperating gains (losses) attributable to the changes in unrealized gains or losses relating to assets still held at June 30, 2020	$ (132)	$ 26,854	$ (177)	$ -	$ 84	$ -

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.

9. Derivative Instruments

As provided for in the System's Master Trust Indenture, the System uses interest rate swap agreements to manage interest rate risk associated with its outstanding debt. These swaps have historically been used to effectively convert interest rates on variable rate bonds to fixed rates and rates on fixed rate bonds to variable rates. At September 30, 2021 and June 30, 2021, the notional values of outstanding interest rate swaps were $892,920 and $894,445, respectively.

The System recognizes the fair value of its interest rate swaps in the Consolidated Balance Sheets as assets, recorded in other noncurrent assets, or liabilities, recorded in other noncurrent liabilities, as appropriate. The System does not offset fair value amounts recognized for derivative instruments. The fair value of interest rate swaps in an asset position was $2,210 and $2,497 at September 30, 2021 and June 30, 2021, respectively. The fair value of interest rate swaps in a liability position was $118,057 and $126,554 at September 30, 2021 and June 30, 2021, respectively.

The System's interest rate swap agreements include collateral requirements for each counterparty under such agreements, based upon specific contractual criteria, subject to master netting arrangements. Collateral requirements are calculated based on the System's credit ratings. The applicable credit rating is the Senior Credit Group long-term debt credit ratings (Senior Debt Credit Ratings), as obtained from each of two major credit rating agencies. Credit rating and the net liability position of total interest rate swap agreements outstanding with each counterparty determine the amount of collateral to be posted. No collateral was posted as of September 30, 2021 and June 30, 2021.

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

10. Leases

The System is a party to primarily real estate and medical and information technology equipment leases as a lessee and real estate leases as a lessor. Many leases include rental escalation clauses or renewal options which are factored into the determination of lease payments when appropriate. As most of the System's operating leases do not provide an implicit rate, the System uses its incremental borrowing rate based upon information available at the lease commencement date in determining the present value of lease payments. In addition, the System does not separate lease and non-lease components.

(Dollars in Thousands)

10. Leases (continued)

All components of total lease cost are recognized in other operating expenses, excluding interest on finance lease liabilities, which is recognized in interest. The following table provides the total lease cost included in the Consolidated Statement of Operations and Changes in Net Assets:

	The three months ended September 30,	
	2021	**2020**
Operating lease cost	**$ 90,884**	$ 81,944
Finance lease cost:		
Interest on lease liabilities	**726**	769
Amortization of right-of-use-asset	**710**	943
Variable lease cost	**15,788**	18,011
Total lease cost	**$ 108,108**	$ 101,667

The weighted average remaining lease terms and the weighted average discount rates at September 30, 2021 and September 30, 2020 were as follows:

	September 30, 2021		September 30, 2020	
	Operating Leases	**Finance Leases**	**Operating Leases**	**Finance Leases**
Weighted-average remaining lease term	8.4 years	28.3 years	8.6 years	29.3 years
Weighted-average discount rate	2.5%	3.3%	2.8%	3.3%

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

	The three months ended September 30,	
	2021	**2020**
Operating leases	**$ 88,158**	$ 85,383
Finance leases	**1,003**	1,468
Total cash paid	**$ 89,161**	$ 86,851

(Dollars in Thousands)

10. Leases (continued)

The following table reconciles undiscounted future operating and finance lease obligations for each of the next five years and thereafter, as of September 30, 2021, to lease obligations recorded on the Consolidated Balance Sheets at September 30, 2021.

Three months ended September 30:	Operating Leases	Finance Leases	Total
2022	$ 274,100	$ 3,863	$ 277,963
2023	236,609	3,930	240,539
2024	191,648	3,999	195,647
2025	145,844	4,069	149,913
2026	117,637	4,141	121,778
Thereafter	443,174	114,302	557,476
Total future undiscounted lease obligations	1,409,012	134,304	1,543,316
Less: amount of lease payments representing interest	(151,960)	(51,110)	(203,070)
Present value of future lease obligations	1,257,052	83,194	1,340,246
Less: current portion of lease obligations	(247,481)	(909)	(248,390)
Long-term lease obligations	$ 1,009,571	$ 82,285	$ 1,091,856

For leases where the System is a lessor, future minimum noncancelable receipts on operating leases for each of the next five years and thereafter, as of September 30, 2021, are as follows:

Three months ended September 30:	Operating Leases
2022	$ 64,623
2023	50,242
2024	39,271
2025	29,933
2026	21,973
Thereafter	330,319
Total	$ 536,361

For both three month periods ended September 30, 2021 and 2020, lease income was approximately $19,000.

(Dollars in Thousands)

11. Retirement Plans

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

The System Plans' assets primarily consist of equity securities, U.S. government, state, municipal and agency obligations, asset-backed securities, and alternative investments including primarily private equity and real estate funds.

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

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

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

	Three months ended September 30,	
	2021	**2020**
Components of net periodic benefit gain		
Interest cost	**(73,874)**	(75,476)
Expected return on plan assets	**171,431**	165,117
Amortization of prior service credit	**(73)**	(64)
Amortization of actuarial loss	**(37,834)**	(40,727)
Net periodic benefit gain	**$ 59,650**	$ 48,850

12. Contingencies and Commitments

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

(Dollars in Thousands)

12. Contingencies and Commitments (continued)

The System enters into agreements with non-employed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The maximum amount of future payments that the System could be required to make under these guarantees is approximately $6,300.

The System has entered into Master Service Agreements for information technology services provided by third parties, under which future committed payments of approximately $764,000 will be made over the upcoming 3 to 5 years.

Guarantees and other commitments represent contingent commitments issued by Ascension Health Alliance Senior and Subordinate Credit Groups, generally to guarantee the performance of an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and other transactions. The terms of guarantees are equal to the terms of the related debt, which can be as long as 18 years.

The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Groups at September 30, 2021:

Hospital de la Concepción 2017 Series A debt guarantee	$	20,085
St. Vincent de Paul Series 2000 A debt guarantee		28,300
Other guarantees and commitments		53,087

13. Functional Expenses

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

(Dollars in Thousands)

13. Functional Expenses (continued)

Expenses by functional classification for the three months ended September 30, 2021 consist of the following:

	Three months ended September 30, 2021		
	Health care services	Management support services	Total
Salaries, wages, and employee benefits	$ 3,141,885	$ 275,966	$ 3,417,851
Purchased services and professional fees	816,105	315,934	1,132,039
Supplies	1,053,583	446	1,054,029
Other	1,206,685	113,365	1,320,050
Total operating expenses	**$ 6,218,258**	**$ 705,711**	**$ 6,923,969**

Expenses by functional classification for the three months ended September 30, 2020 consist of the following:

	Three months ended September 30, 2020		
	Health care services	Management support services	Total
Salaries, wages, and employee benefits	$2,987,886	$ 239,683	$ 3,227,569
Purchased services and professional fees	768,640	258,077	1,026,717
Supplies	975,126	9,070	984,196
Other	1,157,204	109,155	1,266,359
Total operating expenses	$5,888,856	$ 615,985	$ 6,504,841

Supplementary Information

Ascension

Schedule of Net Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs

(Dollars in Thousands)

Three Months Ended September 30, 2021 and 2020

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

	The three months ended September 30, 2021	2020
Traditional charity care provided	**$ 106,136**	$ 137,878
Unpaid cost of public programs for persons living in poverty	**350,516**	292,648
Other programs for persons living in poverty and other persons who are vulnerable	**19,284**	19,009
Community benefit programs	**86,230**	91,371
Care of persons living in poverty and other community benefit programs	**$ 562,166**	$ 540,906