CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Ascension Health Alliance
d/b/a Ascension
Years Ended June 30, 2014 and 2013
With Reports of Independent Auditors

Ascension

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2014 and 2013

Contents

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

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

We have audited the accompanying consolidated financial statements of Ascension Health Alliance d/b/a Ascension, which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ascension Health d/b/a Ascension at June 30, 2014 and 2013, 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 11, 2014

Ascension

Consolidated Balance Sheets

(Dollars in Thousands)

	June 30, 2014	June 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	**$ 618,418**	$ 753,555
Short-term investments	**109,081**	113,825
Accounts receivable, less allowance for doubtful accounts ($1,260,407 and $1,297,609 at June 30, 2014 and 2013, respectively)	**2,419,616**	2,292,521
Inventories	**332,739**	297,233
Due from brokers *(see Notes 4 and 5)*	**343,757**	178,380
Estimated third-party payor settlements	**236,559**	119,379
Other *(see Notes 4 and 5)*	**562,367**	1,026,397
Total current assets	**4,622,537**	4,781,290
Long-term investments *(see Notes 4 and 5)*	**15,327,255**	14,156,447
Property and equipment, net	**8,410,629**	8,274,854
Other assets:		
Investment in unconsolidated entities	**649,888**	628,772
Capitalized software costs, net	**778,705**	718,122
Other	**1,509,849**	1,487,886
Total other assets	**2,938,442**	2,834,780
Total assets	**$ 31,298,863**	$ 30,047,371

	June 30,	
	2014	2013
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 91,532**	$ 89,869
Long-term debt subject to short-term remarketing arrangements*	**1,345,530**	1,187,125
Accounts payable and accrued liabilities	**2,293,663**	2,278,242
Estimated third-party payor settlements	**450,054**	455,432
Due to brokers *(see Notes 4 and 5)*	**332,169**	493,420
Current portion of self-insurance liabilities	**226,856**	210,115
Other *(see Notes 4 and 5)*	**274,645**	639,566
Total current liabilities	**5,014,449**	5,353,769
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	**4,994,913**	5,278,304
Self-insurance liabilities	**541,859**	553,706
Pension and other postretirement liabilities	**428,679**	554,368
Other *(see Notes 4 and 5)*	**1,343,826**	1,178,597
Total noncurrent liabilities	**7,309,277**	7,564,975
Total liabilities	**12,323,726**	12,918,744
Net assets:		
Unrestricted		
Controlling interest	**16,736,190**	14,986,302
Noncontrolling interests	**1,656,106**	1,592,356
Unrestricted net assets	**18,392,296**	16,578,658
Temporarily restricted	**391,226**	375,054
Permanently restricted	**191,615**	174,915
Total net assets	**18,975,137**	17,128,627
Total liabilities and net assets	**$ 31,298,863**	$ 30,047,371

*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, 2015. 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, drawing upon the $1 billion line of credit, and issuing commercial paper. The commercial paper program is supported by 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)

	Year Ended June 30, 2014	2013
Operating revenue:		
Net patient service revenue	**$ 19,193,307**	$ 16,326,684
Less provision for doubtful accounts	**1,273,354**	1,124,409
Net patient service revenue, less provision for doubtful accounts	**17,919,953**	15,202,275
Other revenue	**2,229,767**	1,334,623
Total operating revenue	**20,149,720**	16,536,898
Operating expenses:		
Salaries and wages	**8,202,294**	6,974,951
Employee benefits	**1,747,739**	1,528,119
Purchased services	**1,210,276**	955,440
Professional fees	**1,279,459**	1,093,446
Supplies	**2,822,102**	2,334,427
Insurance	**128,535**	109,178
Interest	**194,616**	150,877
Depreciation and amortization	**899,389**	730,757
Other	**2,901,859**	2,140,182
Total operating expenses before impairment, restructuring and nonrecurring losses, net	**19,386,269**	16,017,377
Income from operations before self-insurance trust fund investment return and impairment, restructuring, and nonrecurring losses, net	**763,451**	519,521
Self-insurance trust fund investment return	**66,174**	34,985
Impairment, restructuring and nonrecurring losses, net	**(223,834)**	(103,344)
Income from operations	**605,791**	451,162
Nonoperating gains (losses):		
Investment return	**1,515,819**	736,300
Loss on extinguishment of debt	**(1,605)**	(4,079)
(Loss) gain on interest rate swaps	**(6,020)**	53,746
Income from unconsolidated entities	**5,539**	8,544
Contributions from business combinations, net	**–**	2,021,963
Other	**(63,119)**	(69,524)
Total nonoperating gains, net	**1,450,614**	2,746,950
Excess of revenues and gains over expenses and losses	**2,056,405**	3,198,112
Less noncontrolling interests	**245,893**	131,184
Excess of revenues and gains over expenses and losses attributable to controlling interest	**1,810,512**	3,066,928

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Ascension

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

(Dollars in Thousands)

	Year Ended June 30, 2014	2013
Unrestricted net assets, controlling interest:		
Excess of revenues and gains over expenses and losses	**$ 1,810,512**	$ 3,066,928
Transfers to sponsors and other affiliates, net	**(6,566)**	(9,152)
Contributed net assets	**(1,534)**	(1,050)
Membership interest changes, net	**45,255**	–
Net assets released from restrictions for property acquisitions	**62,537**	65,706
Pension and other postretirement liability adjustments	**23,990**	76,483
Change in unconsolidated entities' net assets	**4,571**	23,295
Other	**(24,514)**	4,507
Increase in unrestricted net assets, controlling interest, before loss from discontinued operations	**1,914,251**	3,226,717
Loss from discontinued operations	**(164,363)**	(76,829)
Increase in unrestricted net assets, controlling interest	**1,749,888**	3,149,888
Unrestricted net assets, noncontrolling interests:		
Excess of revenues and gains over expenses and losses	**245,893**	131,184
Distributions of capital	**(531,159)**	(829,989)
Contributions of capital	**401,546**	1,579,187
Membership interest changes, net	**(52,530)**	–
Contributions from business combinations	**–**	64,738
Increase in unrestricted net assets, noncontrolling interests	**63,750**	945,120
Temporarily restricted net assets, controlling interest:		
Contributions and grants	**99,885**	88,841
Investment return	**31,292**	17,232
Net assets released from restrictions	**(115,353)**	(108,193)
Contributions from business combinations	**–**	44,201
Other	**348**	1,088
Increase in temporarily restricted net assets, controlling interest	**16,172**	43,169
Permanently restricted net assets, controlling interest:		
Contributions	**10,405**	2,664
Investment return	**7,942**	1,598
Contributions from business combinations	**–**	67,846
Other	**(1,647)**	(368)
Increase in permanently restricted net assets, controlling interest	**16,700**	71,740
Increase in net assets	**1,846,510**	4,209,917
Net assets, beginning of year	**17,128,627**	12,918,710
Net assets, end of year	**$ 18,975,137**	$ 17,128,627

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

Ascension

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended June 30, 2014	2013
Operating activities		
Increase in net assets	**$ 1,846,510**	$ 4,209,917
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**899,389**	730,757
Amortization of bond premiums	**(22,497)**	(13,948)
Loss on extinguishment of debt	**1,605**	4,079
Provision for doubtful accounts	**1,275,961**	1,128,717
Pension and other postretirement liability adjustments	**(23,990)**	(76,483)
Contributed net assets	**1,534**	1,050
Contributions from business combinations	**–**	(1,742,900)
Interest, dividends, and net (gains) losses on investments	**(1,621,227)**	(790,115)
Change in market value of interest rate swaps	**1,880**	(61,349)
Deferred gain on interest rate swaps	**(303)**	(303)
Gain on sale of assets, net	**(25,556)**	(4,008)
Impairment and nonrecurring expenses	**30,353**	17,259
Transfers to sponsor and other affiliates, net	**6,566**	9,152
Restricted contributions, investment return, and other	**(122,232)**	(98,755)
Other restricted activity	**6,362**	15,965
Nonoperating depreciation expense	**234**	317
(Increase) decrease in:		
Short-term investments	**4,744**	212,624
Accounts receivable	**(1,393,667)**	(1,134,828)
Inventories and other current assets	**437,913**	(213,753)
Due from brokers	**(165,377)**	610,891
Investments classified as trading	**466,353**	(959,888)
Other assets	**(186,983)**	(182,693)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(685)**	(2,009)
Estimated third-party payor settlements, net	**(124,475)**	30,604
Due to brokers	**(161,251)**	(387,193)
Other current liabilities	**(357,167)**	91,435
Self-insurance liabilities	**4,894**	(15,342)
Other noncurrent liabilities	**60,731**	(153,420)
Net cash provided by continuing operating activities	**839,619**	1,225,780
Net cash provided by (used in) and adjustments to reconcile change in net assets for discontinued operations, including write-down of assets	**126,554**	(19,386)
Net cash provided by operating activities	**966,173**	1,206,394

Continued on next page.

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

	Year Ended June 30, 2014	2013
Investing activities		
Property, equipment, and capitalized software additions, net	**$ (1,102,680)**	$ (871,203)
Proceeds from sale of property and equipment	**15,594**	26,321
Net cash used in investing activities	**(1,087,086)**	(844,882)
Financing activities		
Issuance of long-term debt	**512,231**	1,228,995
Repayment of long-term debt	**(606,502)**	(1,235,850)
(Increase) decrease in assets under bond indenture agreements	**(17,506)**	20,577
Transfers to sponsors and other affiliates, net	**(24,679)**	(26,112)
Restricted contributions, investment return, and other	**122,232**	98,755
Net cash (used in) provided by financing activities	**(14,224)**	86,365
Net (decrease) increase in cash and cash equivalents	**(135,137)**	447,877
Cash and cash equivalents at beginning of year	**753,555**	305,678
Cash and cash equivalents at end of year	**$ 618,418**	$ 753,555

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

1. Organization and Mission

Organizational Structure

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

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

- AH Holdings, LLC, d/b/a Ascension Holdings, LLC
- AHV Holding Company, LLC, d/b/a AV Holding Company
- Ascension Health
- Ascension Health Clinical Holdings, d/b/a Ascension Clinical Holdings
- Ascension Health Global Mission, d/b/a Ascension Global Mission
- Ascension Health Insurance, Ltd. (AHIL)
- Ascension Health – IS. Inc., d/b/a Ascension Information Services
- Ascension Health Resource and Supply Management Group, LLC d/b/a The Resource Group
- Ascension Health Leadership Academy, d/b/a Ascension Leadership Academy
- Ascension Health Ventures, d/b/a Ascension Ventures
- Ascension Investment Management, LLC (AIM)
- Ascension Alpha Fund, LLC, f/k/a CHIMCO Alpha Fund, LLC (Alpha Fund)
- Ascension Risk Services, LLC

Ascension and its member organizations are hereafter referred to collectively as the System.

Effective July 15, 2013, Ascension Health Leadership Academy, LLC, Ascension Health Global Mission and Ascension Health Clinical Holdings began doing business as Ascension Leadership Academy, Ascension Global Mission and Ascension Clinical Holdings, respectively. On July 17, 2013, AH Holdings, LLC began doing business as Ascension Holdings. Effective October 14, 2013, CHIMCO Alpha Fund, LLC was renamed Ascension Alpha Fund, LLC.

1. Organization and Mission (continued)

Effective November 4, 2013, Ascension Health Ventures, LLC was renamed Ascension Ventures, LLC and AHV Holding Company, LLC began doing business as AV Holding Company. Effective December 12, 2013, Ascension Health – IS, Inc. began doing business as Ascension Information Services. Effective January 1, 2014, Catholic Healthcare Investment Management Company (CHIMCO) transferred all of its business and assets to AIM, a limited liability company wholly owned by Ascension and CHIMCO's successor in interest.

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. As more fully described in the Organizational Changes note, Marian Health System, which was previously sponsored by the Sisters of the Sorrowful Mother of the Third Order of St. Francis of Assisi – US/Caribbean Province, became part of Ascension Health on April 1, 2013.

Mission

The System directs its governance and management activities toward strong, vibrant, Catholic Health 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 Health Ministry 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.

1. Organization and Mission (continued)

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

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

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

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines 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 $580,606 and $524,605 for the years ended June 30, 2014 and 2013, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost is reported in the accompanying supplementary information.

2. Significant Accounting Policies

Principles of Consolidation

All corporations and other entities for which operating control is exercised by the System or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. Investments in entities where the System does not have operating control are recorded under the equity or cost method of accounting. Income from unconsolidated entities is included in consolidated 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,	
	2014	**2013**
Other revenue	**$ 83,317**	$ 105,173
Nonoperating gains, net	**5,539**	8,544

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 other financial instruments 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.

2. Significant Accounting Policies (continued)

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.

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 $1,431,000 and $1,311,000, at June 30, 2014 and 2013, 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 average cost method. Investment returns on investments, 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.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. A summary of property and equipment at June 30, 2014 and 2013, is as follows:

	June 30,	
	2014	**2013**
Land and improvements	**$ 880,352**	$ 822,885
Buildings and equipment	**14,933,470**	14,427,322
	15,813,822	15,250,207
Less accumulated depreciation	**7,987,988**	7,436,307
	7,825,834	7,813,900
Construction in progress	**584,795**	460,954
Total property and equipment, net	**$ 8,410,629**	$ 8,274,854

Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2014 and 2013 was $739,853 and $620,177, respectively.

Several capital projects have remaining construction and related equipment purchase commitments of approximately $301,000.

(Dollars in Thousands)

2. Significant Accounting Policies (continued)

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.

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 $125,451 and $99,048 at June 30, 2014 and 2013, respectively:

	June 30,	
	2014	**2013**
Capitalized software costs	**$ 1,557,302**	$ 1,388,880
Less accumulated amortization	**778,597**	670,758
Capitalized software costs, net	**778,705**	718,122
Goodwill	**181,490**	130,306
Other, net	**62,573**	71,440
Intangible assets included in other long-term assets	**244,063**	201,746
Total intangible assets, net	**$ 1,022,768**	$ 919,868

Intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, 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 2014 and 2013 was $157,150 and $108,633, respectively.

2. Significant Accounting Policies (continued)

The System is in the midst 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 2016. The project is anticipated to result in 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 were approximately $320,000 and $301,000 at June 30, 2014 and 2013, respectively, and are included in capitalized software costs in the preceding table. Certain costs of this project were also expensed. Beginning September 1, 2012, the software associated with Symphony was considered substantially complete and ready for its intended use and is amortized on a straight-line basis over its expected useful life. Accumulated amortization of Symphony was approximately $55,000 and $25,000 at June 30, 2014 and 2013, respectively. See the Impairment, Restructuring, and Nonrecurring Gains (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.

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, change in unconsolidated entities' net assets, discontinued operations, and contributions received of property and equipment.

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. Additionally, contributions recognized in conjunction with business combination transactions are also classified as 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 $95,591 and $55,340 for the years ended June 30, 2014 and 2013, respectively.

(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, 2014 and 2013, is as follows:

	June 30,	
	2014	**2013**
Medicare – traditional and managed	**36 %**	36 %
Medicaid – traditional and managed	**11**	11
Commercial and other managed care	**45**	45
Self-Pay and other	**8**	8
	100 %	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, 2014 and 2013, are as follows:

	June 30,	
	2014	**2013**
Medicare – traditional and managed	**22 %**	22 %
Medicaid – traditional and managed	**9**	8
Commercial and other managed care	**45**	43
Self-Pay and other	**24**	27
	100 %	100 %

2. Significant Accounting Policies (continued)

The provision for doubtful accounts is based upon management's assessment of expected net collections considering economic conditions, historical experience, 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. The System has not experienced material changes in write-off trends and has not materially changed its charity care policy in the current fiscal year.

Impairment, Restructuring, and Nonrecurring Gains (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.

Nonrecurring expenses associated with Symphony include project management and process re-engineering costs, amortization expense for those Health Ministries not yet on Symphony, as well as costs to establish a shared service center and develop a business intelligence data warehouse. Costs associated with product deployment are recorded as nonrecurring gains (losses), and costs associated with product support are recorded as recurring operating expenses.

2. Significant Accounting Policies (continued)

During the year ended June 30, 2014, the System recorded total impairment, restructuring, and nonrecurring losses, net of $223,834. This amount was comprised primarily of $163,293 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of $26,012, impairment expenses of $23,120, and other nonrecurring expenses of $11,409.

During the year ended June 30, 2013, the System recorded total impairment, restructuring, and nonrecurring losses, net of $103,344. This amount was comprised primarily of $113,193 of nonrecurring expenses associated with Symphony, one-time termination benefits and other restructuring expenses of $57,470, and impairment and other nonrecurring expenses of $4,998, partially offset by pension curtailment gains of $72,317, as discussed in the Retirement Plans note.

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, 2014.

At June 30, 2014, the System has deferred tax assets of approximately $326,000 for federal and state income tax purposes primarily related to net operating loss carryforwards. A valuation allowance of approximately $322,000 was recorded due to the uncertainty regarding use of the deferred tax assets.

2. Significant Accounting Policies (continued)

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 2013 accompanying consolidated financial statements to conform to the 2014 presentation.

Adoption of New Accounting Standards

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, an amendment to the accounting guidance for disclosures about offsetting assets and liabilities. In January 2013, the FASB issued ASU No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.* These ASUs expand the disclosure requirements in that entities will be required to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet. Ascension adopted this collective guidance on July 1, 2013, which did not have a material impact on Ascension's consolidated financial statements for the year ended June 30, 2014. See the Derivative Instruments note for disclosures about offsetting assets and liabilities for the year ended June 30, 2014.

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 in the consolidated financial statements as of the Consolidated Balance Sheet date. For the year ended June 30, 2014, the System evaluated subsequent events through September 11, 2014, representing the date on which the accompanying audited consolidated financial statements were issued.

2. Significant Accounting Policies (continued)

In July 2014, the System signed two separate non-binding letters of intent to sell primarily all assets and liabilities and related operations of Ascension's operations in Kansas City, Missouri and Tucson, Arizona, as discussed in the Organizational Changes note.

In August 2014, Ascension Health signed an affiliation agreement to sell primarily all of the assets, liabilities and operations associated with Ascension's operations in Niagara Falls, New York to Catholic Health System, Inc. This transaction is intended to close during calendar year 2015, after obtaining all necessary approvals.

3. Organizational Changes

Business Combinations

Marian Health System

Effective April 1, 2013, Ascension Health, a subsidiary of the System, became the sole corporate member, through a non-cash business combination transaction, of three regional health systems that formerly comprised Marian Health System, Inc. (Marian Health System): Via Christi Health, Inc. (Via Christi Health), based in Wichita, Kansas; Ministry Health Care, Inc. (Ministry Health Care), based in Milwaukee, Wisconsin; and St. John Health System, Inc. (St. John Health), based in Tulsa, Oklahoma (collectively, the Marian Systems). Prior to this transaction, Marian Health System was the sole corporate member of Ministry Health Care and St. John Health, while Ascension Health and Marian Health System were the two corporate members of Via Christi Health.

Prior to April 1, 2013, the System accounted for its 50% interest in Via Christi Health under the equity method of accounting. The System's investment in Via Christi Health at March 31, 2013, was $545,018, which was reported in the Consolidated Balance Sheet at that date in investment in unconsolidated entities. For the year ended June 30, 2013, the System's excess of revenues and gains over expenses and losses included $34,141, representing the System's share of Via Christi Health's excess of revenues over expenses prior to the business combination transaction on April 1, 2013. The System's investment in Via Christi Health of $545,018 at March 31, 2013, was derecognized on April 1, 2013, in conjunction with the accounting for the business combination transaction.

(Dollars in Thousands)

3. Organizational Changes (continued)

The fair values of the Marian Systems' net assets, by major type, that were recognized in the System's Consolidated Balance Sheet on April 1, 2013, were as follows. The valuation of these net assets was finalized during the year ended June 30, 2014, resulting in no material adjustments.

Net working capital	$ 557,274
Intangible assets, including capitalized software	135,819
Property and equipment	1,950,739
Assets limited as to use	1,126,259
Investments and other long-term assets	1,125,652
Noncurrent liabilities assumed	(2,144,948)
Subtotal	2,750,795
Less: March 31, 2013 Investment in Via Christi Health	(545,018)
Fair value of net assets	$ 2,205,777

The fair value of net assets of $2,205,777 in the preceding table was recognized in the Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2013, as a nonoperating contribution from business combinations of $2,028,992; contributions of temporarily and permanently restricted net assets of $44,201 and $67,846, respectively; and contributions of noncontrolling interests of $64,738.

For the three months ended June 30, 2013, the System recognized revenues of the Marian Systems of $1,049,259, and an excess of revenues and gains over expenses and losses of the Marian Systems of $56,670, of which $55,542 was attributable to controlling interest, with the remaining attributable to noncontrolling interests. Additionally, for the three months ended June 30, 2013, the System recognized an increase in unrestricted net assets – controlling interests, excluding the excess of revenues and gains over expenses and losses of $56,670 above, of $53,801; an increase in unrestricted net assets – noncontrolling interests of $823; an increase in temporarily restricted net assets of $915; and a decrease in permanently restricted net assets of $56.

(Dollars in Thousands)

3. Organizational Changes (continued)

The following unaudited pro forma financial information presents the combined results of operations of the System and the Marian Systems for the year ended June 30, 2013, as though the April 1, 2013 business combination transaction had occurred on July 1, 2011. This pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the System and the Marian Systems constituted a single entity during this period, nor is it necessarily indicative of future operating results.

	Year Ended June 30, 2013
Total operating revenue	$ 20,005,943
Excess of revenues and gains over expenses and losses	1,230,777
Increase in unrestricted net assets – controlling interest	1,307,542
Increase in unrestricted net assets – noncontrolling interests	879,585
Increase in temporarily restricted net assets	7,497
Increase in permanently restricted net assets	7,945

The excess of revenues and gains over expenses and losses and the increase in unrestricted net assets – controlling interest in the table above exclude the nonoperating contribution from the Marian Health System business combination of $2,028,992 included in the Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2013. The pro forma excess of revenues and gains over expenses and losses above includes certain adjustments attributable to the April 1, 2013, business combination transaction.

In addition, the increases in unrestricted net assets – controlling interest, temporarily restricted net assets, and permanently restricted net assets in the table above exclude the contributions from business combinations reflected in the contributions of noncontrolling interests, and temporarily and permanently restricted net assets of $64,738, $44,201, and $67,846, respectively.

3. Organizational Changes (continued)

Mercy Regional Health Center, Inc.

On February 27, 2014 (transaction date), Via Christi Health, a subsidiary of Ascension Health, became the sole corporate member of Mercy Regional Health Center, Inc. (MRHC) through a membership transfer agreement with Memorial Hospital Association (MHA). Prior to the transaction date, Via Christi Health held a 50% controlling interest in MRHC, which it consolidated, with a noncontrolling interest recognized for the portion of MRHC held by MHA. On the transaction date, Via Christi Health paid cash of approximately $7,300 to MHA in exchange for MHA's 50% interest valued at approximately $52,530, along with contingent consideration, paid in the event of a sale or future change in control of either MRHC or Via Christi Health, or the dissolution of MRHC. As such, this contingent liability had a value of zero at June 30, 2014 and through September 11, 2014, the date of issuance of Ascension's consolidated financial statements. This transaction was accounted for as a $45,255 increase in controlling interest and a corresponding $52,530 decrease in noncontrolling interest in Ascension's Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2014.

Divestitures and Discontinued Operations

As of June 30, 2014, and through September 11, 2014, the date of issuance of Ascension's consolidated financial statements, the System is in discussions, and has signed related non-binding letters of intent, with certain third parties for the sale of primarily all assets, liabilities and operations, excluding certain non-acute care entities, associated with Ascension's operations in Kansas City, Missouri; Tucson, Arizona; and Niagara Falls, New York (entities held for sale). A noncontrolling interest in the operations in Tucson, Arizona, subsequent to the sale is expected to be retained. Completion of these proposed transactions is subject to due diligence and execution of final definitive agreements, including obtaining all necessary approvals.

3. Organizational Changes (continued)

Assets and liabilities intended to be sold are designated as assets and liabilities held for sale, and included within other assets and other liabilities, respectively, in the System's Consolidated Balance Sheets. Assets held for sale were $431,404 and $571,350 at June 30, 2014 and 2013, respectively, while liabilities held for sale were $130,722 and $142,707 at June 30, 2014 and 2013, respectively. Revenues of the entities held for sale were $870,862 and $862,838 for the years ended June 30, 2014 and 2013, respectively. Losses of the entities held for sale included in the Loss from discontinued operations in the Consolidated Statement of Operations and Changes in Net Assets were $31,579 and $74,892 for the years ended June 30, 2014 and 2013, respectively. Primarily all of the remaining loss from discontinued operations for the year ended June 30, 2014, was comprised of the write-down of assets in Tucson, Arizona, and Niagara Falls, New York, in conjunction with being classified as held for sale.

Other

In June 2014, Alexian Brothers Health System, a subsidiary of Ascension Health, signed a non-binding letter of intent to form a joint operating company with Adventist Midwest Health. Completion of this proposed transaction is subject to due diligence and execution of final definitive agreements, including obtaining all necessary approvals.

4. Pooled Investment Fund

At June 30, 2014 and 2013, 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 assets continue to be held through the Ascension Legacy Portfolio, and subsequent to April 2012, the Ascension Legacy Portfolio no longer holds assets for unrelated entities. Additional System investments include those held and managed by the Health Ministries' and their consolidated foundations.

The Alpha Fund includes the investment interests of the System and other Alpha Fund members. AIM, a wholly owned subsidiary of the System, manages and 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.

4. Pooled Investment Fund (continued)

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 $1,490,082 and $1,450,580 at June 30, 2014 and 2013, 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 180 days. Due to redemption restrictions, investments in certain of these funds, whose fair value was $1,312,677 at June 30, 2014, cannot currently be redeemed. 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, 2014, contractual agreements of the Alpha Fund expire between July 2014 and December 2019. The remaining unfunded capital commitments of the Alpha Fund total approximately $1,459,000 for 95 individual funds as of June 30, 2014. 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 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, option, 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.

4. Pooled Investment Fund (continued)

At June 30, 2014 and 2013, the notional value of Alpha Fund derivatives outstanding was approximately $2,377,000 and $2,126,000, respectively. The fair value of Alpha Fund derivatives in an asset position was $61,234 and $35,404 at June 30, 2014 and 2013, respectively, while the fair value of Alpha Fund derivatives in a liability position was $3,478 and $84,249 at June 30, 2014 and 2013, respectively. These derivatives are included in long-term investments in the Consolidated Balance Sheets at June 30, 2014 and 2013.

The Alpha Fund also participates in a securities lending program, whereby a portion of the Alpha Fund's investments are loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned, usually on a short-term basis. The fair value of collateral held by the Alpha Fund associated with such lending agreements amounts to approximately $3,000 and $394,000 at June 30, 2014 and 2013, respectively, and is included in other current assets in the Consolidated Balance Sheets, while the liability associated with the obligation to repay such collateral is also approximately $3,000 and $394,000 at June 30, 2014 and 2013, respectively, and is included in other current liabilities in the Consolidated Balance Sheets. In addition, the Alpha Fund has liabilities for investments sold, not yet purchased, representing obligations of the Alpha Fund to purchase investments in the market at prevailing prices. The fair value of this Alpha Fund liability is approximately $179,000 and $7,000 at June 30, 2014 and 2013, respectively, and is included in other noncurrent liabilities in the Consolidated Balance Sheets.

Due from brokers and due to brokers on the Consolidated Balance Sheets at June 30, 2014 and 2013, represent the Alpha Fund's positions and amounts due from or to various brokers, primarily amounts for security transactions not yet settled, and cash held by brokers for securities sold, not yet purchased.

(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,	
	2014	**2013**
Cash and cash equivalents	**$ 618,418**	$ 753,555
Short-term investments	**109,081**	113,825
Long-term investments	**15,327,255**	14,156,447
Subtotal	**16,054,754**	15,023,827
Other Alpha Fund assets and liabilities:		
In other current assets	**30,671**	459,050
In other long-term assets	**2,641**	2,785
In accounts payable and other accrued liabilities	**(7,013)**	(5,680)
In other current liabilities	**(3,341)**	(394,763)
In other noncurrent liabilities	**(178,732)**	(6,622)
Due to brokers, net	**11,588**	(315,040)
Total cash and investments, net	**15,910,568**	14,763,557
Less noncontrolling interests of Alpha Fund	**1,490,082**	1,450,580
System cash and investments, including assets limited as to use	**14,420,486**	13,312,977
Less assets limited as to use:		
Under bond indenture agreement	**43,869**	33,955
Self-insurance trust funds	**759,388**	728,621
Temporarily or permanently restricted	**652,244**	561,802
Total assets limited as to use	**1,455,501**	1,324,378
System unrestricted cash and investments, net	**$ 12,964,985**	$ 11,988,599

(Dollars in Thousands)

5. Cash and Investments (continued)

At June 30, 2014 and 2013, 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, 2014	June 30, 2013
Cash and cash equivalents and short-term investments	**$ 828,020**	$ 1,113,823
Pooled short-term investment funds	**302,436**	311,027
U.S. government, state, municipal and agency obligations	**3,301,360**	3,447,500
Corporate and foreign fixed income securities	**1,660,267**	1,664,001
Asset-backed securities	**978,429**	1,196,168
Equity securities	**3,318,063**	2,695,483
Alternative investments and other investments:		
Private equity and real estate funds	**1,039,704**	809,341
Hedge funds	**3,303,800**	2,860,776
Commodities funds and other investments	**1,322,675**	925,708
Total alternative investments and other investments	**5,666,179**	4,595,825
Total cash and cash equivalents, short-term investments, and long-term investments	**$ 16,054,754**	$ 15,023,827

As of June 30, 2014 and 2013, the System's membership interest in the Alpha Fund totaled $12,500,448 and $11,251,590, respectively. As of June 30, 2014 and 2013, the noncontrolling interest (see Note 2) in the Alpha Fund, representing interests held by entities other than the System, totaled $1,490,082 and $1,450,580, respectively.

Investment return recognized by the System for the years ended June 30, 2014 and 2013, is summarized in the following table. Total investment return includes the System's return in the Ascension Legacy Portfolio 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.

(Dollars in Thousands)

5. Cash and Investments (continued)

	Year Ended June 30, 2014	2013
Interest and dividends	**$ 203,975**	$ 169,797
Net gains on investments reported at fair value	**1,378,018**	601,488
Restricted investment return and unrealized gains, net	**39,234**	18,830
Total investment return	**1,621,227**	790,115
Less return earned by noncontrolling interests of Alpha Fund	**193,400**	106,039
System investment return	**$ 1,427,827**	$ 684,076

6. Fair Value Measurements

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.

6. Fair Value Measurements (continued)

The System follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

> Level 1 – Quoted prices (unadjusted) that are readily available in active markets or exchanges for identical assets or liabilities on the reporting date.
>
> Level 2 – Inputs other than quoted market 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 or 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 the determination of fair value for Level 3 assets and liabilities require management judgment and estimation.

There were no significant transfers between Levels 1 and 2 during the years ended June 30, 2014 and 2013.

As of June 30, 2014 and 2013, 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.

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 to the income approach include data points for benchmark constant maturity curves and spreads.

Corporate and Foreign Fixed Income Securities

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such 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, such as early redemption options.

Asset-backed Securities

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

Equity Securities

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

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.

Securities Lending Collateral

The fair value of collateral received under the Alpha Fund's securities lending program is valued using the calculated net asset value for the commingled fund in which the collateral is invested. The underlying investments in the commingled fund are valued using techniques consistent with the market approach, which uses significant observable market inputs such as available trade, quotes, benchmark curves, sector groupings, and matrix pricing.

6. Fair Value Measurements (continued)

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.

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.

(Dollars in Thousands)

6. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2014, 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, 2014				
Cash and cash equivalents	$ 351,934	$ 3,398	$ –	$ 355,332
Short-term investments	44,193	23,804	293	68,290
Pooled short-term investment funds	302,436	–	–	302,436
U.S. government, state, municipal and agency obligations	–	3,301,360	–	3,301,360
Corporate and foreign fixed income securities	–	1,429,694	230,573	1,660,267
Asset-backed securities	–	878,508	99,921	978,429
Equity securities	3,079,815	186,670	51,578	3,318,063
Alternative investments and other investments:				
Private equity and real estate funds	388	5,901	1,030,536	1,036,825
Hedge funds	–	–	3,303,800	3,303,800
Commodities funds and other investments	134	1,352	1,212,420	1,213,906
Assets not at fair value				516,046
Cash and investments				$ 16,054,754
Securities lending collateral, in other current assets	$ –	$ 3,341	$ –	$ 3,341
Benefit plan assets, in other noncurrent assets	235,991	–	40,749	276,740
Interest rate swaps, in other noncurrent assets	–	69,883	–	69,883
Investments sold, not yet purchased, in other noncurrent liabilities	–	178,732	–	178,732
Interest rate swaps, included in other noncurrent liabilities	–	189,659	–	189,659

(Dollars in Thousands)

6. Fair Value Measurements (continued)

For the year ended June 30, 2014, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following.

	Short-term investments	U.S. Government, State, Municipal and Agency Obligations	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Hedge Funds	Commodities Funds and Other Investments	Benefit Plan Assets
Year Ended June 30, 2014									
Beginning balance	**$ 238**	**$ 5,829**	**$ 391,287**	**$117,033**	**$ 2,163**	**$ 799,414**	**$2,857,114**	**$ 831,182**	**$ 35,662**
Total realized and unrealized gains (losses):									
Included in income from operations	**–**	**3**	**178**	**1**	**8,287**	**–**	**(11)**	**8**	**–**
Included in nonoperating gains (losses)	**55**	**(27)**	**19,138**	**35**	**(97)**	**103,975**	**267,740**	**413,774**	**–**
Included in changes in net assets	**–**	**–**	**–**	**–**	**–**	**44**	**577**	**17**	**–**
Purchases	**–**	**–**	**104,381**	**94,926**	**52,839**	**337,742**	**543,162**	**267,890**	**202,600**
Settlements	**–**	**–**	**–**	**–**	**–**	**(391)**	**–**	**–**	**–**
Sales	**–**	**(5,805)**	**(273,882)**	**(2,227)**	**(10,899)**	**(210,248)**	**(376,420)**	**(299,570)**	**(216,349)**
Transfers into Level 3	**–**	**–**	**–**	**–**	**–**	**–**	**11,640**	**–**	**77,763**
Transfers out of Level 3	**–**	**–**	**(10,529)**	**(109,847)**	**(715)**	**–**	**(2)**	**(881)**	**(58,927)**
Ending balance	**$ 293**	**$ –**	**$ 230,573**	**$ 99,921**	**$ 51,578**	**$1,030,536**	**$3,303,800**	**$ 1,212,420**	**$ 40,749**
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, 2014	**$ 56**	**$ –**	**$ 7,605**	**$ (239)**	**$ 7,394**	**$ 70,701**	**$ 241,386**	**$ 128,351**	**$ –**

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)

6. Fair Value Measurements (continued)

The following table summarizes fair value measurements, by level, at June 30, 2013, 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, 2013				
Cash and cash equivalents	$ 618,129	$ 14,277	$ –	$ 632,406
Short-term investments	21,821	45,258	238	67,317
Pooled short-term investment funds	311,027	–	–	311,027
U.S. government, state, municipal and agency obligations	–	3,441,671	5,829	3,447,500
Corporate and foreign fixed income securities	–	1,272,714	391,287	1,664,001
Asset-backed securities	–	1,079,135	117,033	1,196,168
Equity securities	2,656,950	36,370	2,163	2,695,483
Alternative investments and other investments:				
Private equity and real estate funds	529	3,752	799,414	803,695
Hedge funds	–	–	2,857,114	2,857,114
Commodities funds and other investments	5,762	(6,061)	831,182	830,883
Assets not at fair value				518,233
Cash and investments				$ 15,023,827
Securities lending collateral, in other current assets	$ –	$ 394,310	$ –	$ 394,310
Benefit plan assets, in other noncurrent assets	210,767	–	35,662	246,429
Interest rate swaps, in other noncurrent assets	–	76,650	–	76,650
Investments sold, not yet purchased, in other noncurrent liabilities	–	6,622	–	6,622
Interest rate swaps, included in other noncurrent liabilities	–	194,546	–	194,546

(Dollars in Thousands)

6. Fair Value Measurements (continued)

For the year ended June 30, 2013, the changes in the fair value of the assets and liabilities measured using significant unobservable inputs (Level 3) consisted of the following. Level 3 investments of the Alpha Fund are included in transfers in the table below.

	Short-term investments	U.S. Government, State, Municipal and Agency Obligations	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Hedge Funds	Commodities Funds and Other Investments	Benefit Plan Assets
Year Ended June 30, 2013									
Beginning balance	$ –	$ 7,437	$ 120,418	$ 15,297	$ 13,118	$ 593,753	$1,887,407	$ 615,813	$ 35,373
Total realized and unrealized gains (losses):									
Included in income from operations	–	16	242	10	1,489	–	123	(45)	–
Included in nonoperating gains (losses)	3	445	1,059	(227)	170	83,975	220,887	80,222	–
Included in changes in net assets	–	–	–	–	–	–	293	27	–
Purchases	–	169	328,980	122,703	718	188,085	981,414	401,957	44,150
Settlements	–	–	–	–	–	(25)	–	–	(279)
Sales	–	(2,238)	(58,928)	(17,883)	(13,372)	(66,836)	(232,198)	(266,889)	(41,668)
Transfers into Level 3	235	–	2,962	–	40	927	3,271	139	12,485
Transfers out of Level 3	–	–	(3,446)	(2,867)	–	(465)	(4,083)	(42)	(14,399)
Ending balance	$ 238	$ 5,829	$ 391,287	$117,033	$ 2,163	$ 799,414	$2,857,114	$ 831,182	$ 35,662
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, 2013	$ 46	$ 342	$ (1,682)	$ (751)	$ 149	$ 39,300	$ 234,426	$ (28,407)	$ –

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)

7. Long-Term Debt

Long-term debt at June 30, 2014 and 2013, 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; The Howard Young Medical Center, Inc. Master Trust Indenture; the St. John Health System Master Trust Indenture; and the Ministry Health Care Master Trust Indenture.

	June 30, 2014	June 30, 2013
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 (0.12% at June 30, 2014) tied to a market index plus a spread	**$ 393,425**	$ 408,605
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2039; interest (0.06% June 30, 2014) set at prevailing market rates	**224,225**	225,665
Variable rate demand bonds, subject to a 7-day put provision, payable through November 2033; interest (0.06% at June 30, 2014) set at prevailing market rates, swapped to fixed rates of 5.454% and 5.544%, respectively, through maturity	**307,300**	307,300
Indexed put bonds subject to weekly rate resets based on a taxable index, payable through November 2046; interest (2.036% at June 30, 2014) swapped to a variable rate tied to a tax-exempt market index plus a spread through November 2016	**153,800**	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, 2014) swapped to a variable rate tied to a market index plus a spread through November 2016	**153,690**	153,690
Fixed rate serial and term bonds payable in installments through November 2051; interest at 3.00% to 5.25%	**1,154,320**	1,207,490
Fixed rate serial and term bonds payable in installments through November 2039; interest at 5.00% swapped to variable rates over the life of the bonds	**585,290**	587,360
Fixed rate serial mode bonds payable through 2047 with purchase dates ranging from August 2014 through June 2021; interest at 0.90% to 5.00% through the purchase dates	**1,221,920**	1,224,750

(Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30, 2014	June 30, 2013
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 2027; interest (0.06% at June 30, 2014) set at prevailing market rates	**$ 55,100**	$ 56,060
Fixed rate serial mode bonds payable through 2027 with purchase dates through November 2019; interest at 0.32% to 5.00%	**445,435**	446,515
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
Total hospital revenue bonds under Senior Master Trust Indenture and Subordinate Master Trust Indenture	**5,119,505**	5,196,235
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 3.50% to 5.50%	**153,710**	157,000
Total hospital revenue bonds under the Alexian Brothers Health System Master Trust Indenture	**153,710**	157,000
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 3.00% to 5.00%	**24,040**	25,060
Total hospital revenue bonds under the Mercy Regional Health Center, Inc. Master Trust Indenture	**24,040**	25,060
Tax-exempt hospital revenue bonds – secured under The Howard Young Medical Center, Inc. Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through August 2030; interest at 3.00% to 5.00%	**19,185**	20,040
Total hospital revenue bonds under The Howard Young Medical Center, Inc. Master Trust Indenture	**19,185**	20,040

(Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30, 2014	2013
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%	**$ 407,550**	$ 414,500
Total hospital revenue bonds under the St. John Health System Master Trust Indenture	**407,550**	414,500
Tax-exempt hospital revenue bonds – secured under Ministry Health Care Master Trust Indenture:		
Fixed rate serial and term bonds payable in installments through August 2035; interest at 3.00% to 5.50%	**358,415**	368,260
Total hospital revenue bonds under the Ministry Health Care Master Trust Indenture	**358,415**	368,260
Total hospital revenue bonds under the Ascension Health Alliance Senior Master Trust Indenture; Ascension Health Alliance Subordinate Master Trust Indenture; the Alexian Brothers Health System Master Trust Indenture; the Mercy Regional Health Center, Inc. Master Trust Indenture; The Howard Young Medical Center, Inc. Master Trust Indenture; St. John Health System Master Trust Indenture; and Ministry Health Care Master Trust Indenture	**6,082,405**	6,181,095
Other debt:		
Obligations under capital leases	**30,623**	41,957
Other	**123,368**	113,710
	6,236,396	6,336,762
Unamortized premium, net	**195,579**	218,536
Less current portion	**(91,532)**	(89,869)
Less long-term debt subject to short-term remarketing arrangements	**(1,345,530)**	(1,187,125)
Long-term debt, less current portion and long-term debt subject to short-term remarketing arrangements	**$ 4,994,913**	$ 5,278,304

(Dollars in Thousands)

7. Long-Term Debt (continued)

	June 30, 2014	June 30, 2013
Ascension Health Alliance Senior Master Trust Indenture long-term debt obligations, including unamortized premium, net	**$ 3,329,323**	$ 3,579,334
Ascension Health Alliance Subordinate Master Trust Indenture long-term debt obligations, including unamortized premium, net	**505,843**	511,009
Alexian Brothers Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net	**160,965**	162,594
Mercy Regional Health Center, Inc. Master Trust Indenture long-term debt obligations, including unamortized premium, net	**25,498**	27,258
The Howard Young Medical Center, Inc. Master Trust Indenture long-term debt obligations, including unamortized premium, net	**19,942**	20,933
St. John Health System Master Trust Indenture long-term debt obligations, including unamortized premium, net	**429,154**	437,503
Ministry Health Care Master Trust Indenture long-term debt obligations, including unamortized premium, net	**381,144**	394,781
Other	**143,044**	144,892
Long-term debt, less current portion, and long-term debt subject to short-term remarketing arrangements	**$ 4,994,913**	$ 5,278,304

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, 2014, are as follows:

	Ascension Health Alliance MTIs	Alexian Brothers Health System MTI	Mercy Regional Health Center, Inc. MTI	The Howard Young Medical Center, Inc. MTI	St. John Health System MTI	Ministry Health Care MTI	Other Debt	Total
Year ending June 30:								
2015	$ 59,835	$ 340	$ 1,045	$ 875	$ 7,305	$ 11,185	$ 10,947	$ 91,532
2016	50,130	7,485	1,080	910	7,680	11,665	22,513	101,463
2017	65,945	13,130	1,125	945	8,070	12,185	9,200	110,600
2018	69,045	15,655	1,175	975	6,890	12,890	35,710	142,340
2019	85,230	5,735	1,230	1,000	7,230	12,265	8,908	121,598
Thereafter	4,789,320	111,365	18,385	14,480	370,375	298,225	66,713	5,668,863
Total	$ 5,119,505	$ 153,710	$ 24,040	$ 19,185	$ 407,550	$ 358,415	$ 153,991	$ 6,236,396

7. Long-Term Debt (continued)

The carrying amounts of variable rate bonds and other notes payable approximate fair value. The fair values of the unsecured fixed rate serial and term bonds are obtained from independent public valuation services. The fair value of fixed rate serial and term bonds, including the component of variable rate demand bonds subject to long-term fixed interest rates, approximates carrying value at June 30, 2014 and 2013. During the years ended June 30, 2014 and 2013, interest paid was approximately $223,000 and $170,000, respectively. Capitalized interest was approximately $5,500 and $5,400 for the years ended June 30, 2014 and 2013, respectively.

Certain members of the System formed the Ascension Health Alliance Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as either a senior obligated group member, a senior designated affiliate, or a senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (Senior MTI) to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by the System. Senior designated affiliates and senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI. The System may cause each senior designated affiliate to transfer such amounts as are necessary to enable the obligated group to comply with the terms of the Senior MTI, including payment of the outstanding obligations. 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

7. Long-Term Debt (continued)

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.

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, 2014, 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; the Master Trust Indenture dated October 1, 1984, by and between Ministry Health Care and the Ministry Health Care Master Trustee; the Master Trust Indenture dated August 15, 1993, between The Howard Young Medical Center, Inc., a subsidiary of Ministry Health Care, and The Howard Young Medical Center, Inc. Master

7. Long-Term Debt (continued)

Trustee; and the Master Trust Indenture dated January 15, 2013, between Mercy Regional Health Center, Inc. (a subsidiary of Via Christi Health) and the Mercy Regional Health Center, Inc. Master Trustee.

In June 2013, the System issued a total of $521,865 of tax-exempt bonds, Series 2013A and 2013B, through the Wisconsin issuing authority. In June 2013, the System also issued a total of $425,000 of taxable bonds, Series 2013A. The proceeds of the bonds, including original issue premium, were used to refinance debt and general corporate purposes.

Due to aggregate financing activity during the fiscal years ended June 30, 2014 and 2013, losses on extinguishment of debt of $1,605 and $4,079, respectively, were recorded, which are included in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

The System is a party to multiple interest rate swap agreements that convert the variable or fixed rates of certain debt issues to fixed or variable rates, respectively. See the Derivative Instruments note for a discussion of these derivatives.

As of June 30, 2014, the Senior Credit Group has a line of credit of $1,000,000 which may be used as a source of funding for unremarketed variable debt (including commercial paper) or for general corporate purposes, towards which bank commitments totaling $1,000,000 extend to November 9, 2014. As of June 30, 2014 and 2013, there were no borrowings under the line of credit.

As of June 30, 2014, the Senior Credit Group has a $75,000 revolving line of credit related to its letters of credit program toward which a bank commitment of $75,000 extends to November 26, 2014. 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 $75,000 revolving line of credit, letters of credit totaling $57,455 have been issued as of June 30, 2014. No borrowings were outstanding under the letters of credit as of June 30, 2014 and 2013.

(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, Alexian Brothers, Ministry Health Care, 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, 2014 and 2013, the notional values of outstanding interest rate swaps were as follows:

	June 30, 2014	June 30, 2013
Ascension Health Alliance MTI	**$ 2,128,757**	$ 2,128,757
Alexian Brothers Health System MTI	**39,220**	47,220
Ministry Health Care MTI	**192,950**	270,880
St. John Health System MTI	**100,000**	125,000
Total	**$ 2,460,927**	$ 2,571,857

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, Alexian Brothers, Ministry Health Care and St. John Health were as follows:

	June 30, 2014		June 30, 2013	
	Asset	Liability	Asset	Liability
Ascension Health Alliance MTI	**$ 66,981**	**$ 169,031**	$ 73,846	$ 174,413
Alexian Brothers Health System MTI	**–**	**1,934**	–	2,685
Ministry Health Care MTI	**2,902**	**17,938**	2,804	16,492
St. John Health System MTI	**–**	**756**	–	956
Total	**$ 69,883**	**$ 189,659**	$ 76,650	$ 194,546

(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, Alexian Brothers, Ministry Health Care, 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. Collateral and net fair value of interest rate swap agreements with credit-risk-related contingent features at June 30, 2014 and 2013, based upon the respective net liability positions and applicable credit ratings were as follows:

	June 30, 2014		**June 30, 2013**	
	Net Fair Value	**Collateral Posted**	**Net Fair Value**	**Collateral Posted**
Ascension Health Alliance MTI	**$ (102,050)**	**$ –**	$ (100,567)	$ –
Alexian Brothers Health System MTI	**(1,934)**	**–**	(2,685)	–
Ministry Health Care MTI	**(15,036)**	**16,218**	(13,688)	23,024
St. John Health System MTI	**(756)**	**–**	(956)	–
Total	**$ (119,776)**	**$ 16,218**	$ (117,896)	$ 23,024

Prior to July 1, 2006, the System designated certain of its interest rate swaps as cash flow hedges, for accounting purposes, and accordingly deferred gains or losses associated with those swaps in net assets. As of June 30, 2014, the deferred net gain associated with these interest rate swaps was $4,054. The portion of this gain that will be reclassified into nonoperating gains (losses) over the next 12 months is immaterial.

Beginning July 1, 2006, the System's previously designated cash flow hedging relationships were de-designated for accounting purposes. Accordingly, all changes in the fair value of interest rate swaps have been recognized in nonoperating gains (losses) in the accompanying Consolidated Statements of Operations and Changes in Net Assets. A net nonoperating gain of $1,752 was recognized for the year ended June 30, 2014, while a net nonoperating loss of $61,651 was recognized for the year ended June 30, 2013.

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 covering substantially all eligible employees of certain System entities. 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 cash and cash equivalents, equity, fixed income funds, 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.

During previous fiscal years, the System approved and communicated to employees a redesign of associate retirement benefits, which affects certain System Plans, as well as provides an enhanced comprehensive defined contribution plan. This redesign resulted in the recognition of a curtailment gain of $73,198, for the year ended June 30, 2013, which was recognized in total impairment, restructuring, and nonrecurring losses, net for the year ended June 30, 2013. This redesign resulted in a decrease to the projected benefit obligation and is included in pension and other postretirement liabilities in the Consolidated Balance Sheets.

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.

(Dollars in Thousands)

9. Retirement Plans (continued)

The following table sets forth the combined benefit obligations and assets of the System Plans at June 30, 2014 and 2013, components of net periodic benefit costs for the years then ended, and a reconciliation of the amounts recognized in the accompanying consolidated financial statements.

	Year Ended June 30,	
	2014	**2013**
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	**$ 7,201,780**	$ 6,437,246
Service Cost	**51,176**	119,018
Interest Cost	**343,781**	289,634
Amendments	**290**	(12,792)
Assumption change	**408,908**	(363,778)
Actuarial (gain) loss	**55,623**	(28,641)
Business combinations	**–**	1,137,270
Curtailment	**(4,193)**	(74,962)
Benefits paid	**(365,406)**	(301,215)
Projected benefit obligation at end of year	**7,691,959**	7,201,780
Accumulated benefit obligation at end of year	**7,649,965**	7,155,166
Change in plan assets:		
Fair value of plan assets at beginning of year	**6,742,384**	5,992,677
Actual return on plan assets	**1,046,540**	121,715
Employer contributions	**41,597**	54,541
Business combinations	**–**	874,666
Benefits paid	**(365,406)**	(301,215)
Fair value of plan assets at end of year	**7,465,115**	6,742,384
Net amount recognized at end of year and funded status	**$ (226,844)**	$ (459,396)

The System Plans' funded status as a percentage of the projected benefit obligation at June 30, 2014 and 2013, was 97.1% and 93.6%, respectively. The System Plans' funded status as a percentage of the accumulated benefit obligation at June 30, 2014 and 2013, was 97.6% and 94.2%, respectively.

(Dollars in Thousands)

9. Retirement Plans (continued)

Included in unrestricted net assets at June 30, 2014 and 2013, are the following amounts that have not yet been recognized in net periodic pension cost for the System Plans:

	Year Ended June 30, 2014	2013
Unrecognized prior service credit	**$ (17,348)**	$ (23,080)
Unrecognized actuarial loss	**330,938**	364,739
	$ 313,590	$ 341,659

Changes in plan assets and benefit obligations recognized in unrestricted net assets for System Plans during 2014 and 2013 include:

	Year Ended June 30, 2014	2013
Current year actuarial gain	**$ (27,867)**	$ (87,934)
Amortization of actuarial (gain) loss	**(5,934)**	19,725
Current year prior service cost (credit)	**290**	(12,792)
Amortization of prior service credit	**5,442**	5,944
	$ (28,069)	$ (75,057)

	Year Ended June 30, 2014	2013
Components of net periodic benefit cost		
Service cost	**$ 51,176**	$ 119,018
Interest cost	**343,781**	289,634
Expected return on plan assets	**(558,335)**	(500,497)
Amortization of prior service credit	**(4,017)**	(6,242)
Amortization of actuarial loss	**7,709**	53,783
Curtailment gain	**(1,426)**	(73,198)
Settlement gain	**(1,774)**	(12)
Net periodic benefit cost	**$ (162,886)**	$ (117,514)

(Dollars in Thousands)

9. Retirement Plans (continued)

The prior service credit and actuarial gain included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending June 30, 2015, are $4,000 and $24,955, respectively.

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

	June 30,	
	2014	**2013**
Weighted-average discount rate	**4.35%**	4.88%
Weighted-average rate of compensation increase	**3.81%**	3.81%
Weighted-average expected long-term rate of return on plan assets	**8.30%**	8.30%

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

(Dollars in Thousands)

9. Retirement Plans (continued)

In accordance with the System Plans' asset diversification targets, as presented in the table that follows, the Trust holds certain alternative investments, consisting of various hedge funds, real asset funds, private equity funds, commodity funds, private credit funds, and certain other private funds. These investments do not have observable market values. As such, each of these investments is valued at net asset value as determined by each fund's investment manager, which approximates fair value. The fair value of the System Plans' alternative investments in the Trust as of June 30, 2014, is reported in the fair value measurement table that follows. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods ranging from 1 to 180 days. Due to redemption restrictions, investments of certain private funds, whose fair value was approximately $1,313,000 at June 30, 2014, cannot be redeemed. However, the potential for the System Plans to sell their interest in real asset funds and private equity funds in a secondary market prior to the end of the fund term does exist.

The investments in these alternative investment funds may also include contractual commitments to provide capital contributions during the investment period, which is typically five years, and may extend to the end of the fund term. During these contractual periods, investment managers may require the System Plans to invest in accordance with the terms of the agreement. Commitments not funded during the investment period will expire and remain unfunded. As of June 30, 2014, investment periods expire between July 2014 and March 2018. The remaining unfunded capital commitments of the Trust total approximately $416,000 for 62 individual contracts as of June 30, 2014.

The weighted-average asset allocation for the System Plans in the Trust at the end of fiscal 2014 and 2013 and the target allocation for fiscal 2015, by asset category, are as follows:

Asset Category	Target Allocation 2015	Percentage of Plan Assets At Year-End 2014	2013
Growth	50%	**53%**	52%
Deflation	30	**29**	29
Inflation	20	**18**	19
Total	100%	**100%**	100%

(Dollars in Thousands)

9. Retirement Plans (continued)

The System Plans' assets in the Other Trusts are invested in portfolios designed to best serve the participants of the System Plans' through a long-term investment strategy designed to ensure that funds are available to pay benefits as they become due and to maximize the total return at a prudent level of investment risk. The System Plans' assets invested in the Other Trusts are diversified among various assets classes based upon established investment guidelines.

Asset Category	Target Allocation 2015	Percentage of Plan Assets At Year-End 2014	2013
Cash	1%	**1%**	6%
Growth	62	**67**	61
Income	32	**28**	25
Other	5	**4**	8
Total	100%	**100%**	100%

(Dollars in Thousands)

9. Retirement Plans (continued)

The following tables summarize fair value measurements at June 30, 2014 and 2013, 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
June 30, 2014				
Short-term investments	$ 191,495	$ 399	$ –	$ 191,894
Derivatives receivable	7	15,245	19,404	34,656
U.S. government, state, municipal and agency obligations	–	1,704,131	–	1,704,131
Corporate and foreign fixed income securities	–	673,696	47,850	721,546
Asset-backed securities	–	232,484	24,080	256,564
Equity securities	1,649,136	395,372	3,045	2,047,553
Alternative investments and other investments:				
Private equity and real estate funds	–	–	909,980	909,980
Hedge funds	–	–	1,448,274	1,448,274
Commodities funds and other investments	–	–	295,563	295,563
Assets not at fair value				154,023
Total				7,764,184
Derivatives payable	26	160,907	2,980	163,913
Investments sold, not yet purchased	1,555	–	–	1,555
Liabilities not at fair value				133,601
Total				299,069
Fair value of plan assets				$ 7,465,115

(Dollars in Thousands)

9. Retirement Plans (continued)

	Level 1	Level 2	Level 3	Total
June 30, 2013				
Short-term investments	$ 324,803	$ 20,331	$ –	$ 345,134
Derivatives receivable	1,078	337	21,059	22,474
U.S. government, state, municipal and agency obligations	–	1,671,493	1,266	1,672,759
Corporate and foreign fixed income securities	25,843	566,812	53,729	646,384
Asset-backed securities	–	226,920	22,838	249,758
Equity securities	1,317,933	18,741	2,936	1,339,610
Alternative investments and other investments:				
Private equity and real estate funds	–	–	747,864	747,864
Hedge funds	34,708	–	1,452,190	1,486,898
Commodities funds and other investments	–	316,971	271,282	588,253
Assets not at fair value				334,875
Total				7,434,009
Derivatives payable	68	300	248,988	249,356
Investments sold, not yet purchased	3,794	(71)	–	3,723
Liabilities not at fair value				438,546
Total				691,625
Fair value of plan assets				$ 6,742,384

(Dollars in Thousands)

9. Retirement Plans (continued)

For the years ended June 30, 2014 and 2013, the changes in the fair value of the System Plans' assets measured using significant unobservable inputs (Level 3) consisted of the following:

	Net Derivatives	U.S. Government, State, Municipal and Agency Obligations	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Hedge Funds	Commodities Funds and Other Investments
June 30, 2014								
Beginning balance	**$ (227,929)**	**$ 1,266**	**$ 53,729**	**$ 22,838**	**$ 2,936**	**$ 747,864**	**$1,452,190**	**$ 271,282**
Total actual return on assets	**123,117**	**23**	**5,784**	**1,182**	**353**	**70,779**	**105,507**	**21,672**
Purchases, issuances, and settlements	**(108,811)**	**(1,289)**	**(9,038)**	**16,599**	**(351)**	**91,337**	**(109,423)**	**2,609**
Transfers into (out of) Level 3	**230,047**	**–**	**(2,625)**	**(16,539)**	**107**	**–**	**–**	**–**
Ending balance	**$ 16,424**	**$ –**	**$ 47,850**	**$ 24,080**	**$ 3,045**	**$ 909,980**	**$1,448,274**	**$ 295,563**
Actual return on plan assets relating to plan assets still held at June 30, 2014	**$ 16,515**	**$ –**	**$ 2,823**	**$ 869**	**$ 555**	**$ 56,528**	**$ 146,882**	**$ (20,343)**

	Net Derivatives	U.S. Government, State, Municipal and Agency Obligations	Corporate and Foreign Fixed Income Securities	Asset-Backed Securities	Equity Securities	Private Equity and Real Estate Funds	Hedge Funds	Commodities Funds and Other Investments
June 30, 2013								
Beginning balance	$ 8,174	$ 1,903	$ 28,308	$ 14,243	$ 1,514	$ 546,165	$1,187,124	$ 282,320
Acquisitions	–	–	–	–	–	37,048	–	9,994
Total actual return on assets	(154,133)	130	(171)	(89)	5	54,153	147,977	(21,032)
Purchases, issuances, and settlements	(122,486)	(767)	31,994	20,384	1,417	98,174	156,513	–
Transfers into (out of) Level 3	40,516	–	(6,402)	(11,700)	–	12,324	(39,424)	–
Ending balance	$ (227,929)	$ 1,266	$ 53,729	$ 22,838	$ 2,936	$ 747,864	$1,452,190	$ 271,282
Actual return on plan assets relating to plan assets still held at June 30, 2013	$ (280,606)	$ 59	$ (2,202)	$ (115)	$ 227	$ 54,968	$ 147,248	$ (21,024)

(Dollars in Thousands)

9. Retirement Plans (continued)

The Trust has entered into a series of interest rate swap agreements with a net notional amount of $2,958,450. The combined targeted duration of these swaps and the Trust's fixed income investments approximates the duration of the liabilities of the Trust. Currently, 75% 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.

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.

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

Expected employer contributions 2015	$ 41,714
Expected benefit payments:	
2015	502,046
2016	478,701
2017	494,566
2018	502,342
2019	506,546
2020-2024	2,499,041

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

9. Retirement Plans (continued)

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, 2014 and 2013, is $44,473 and $45,308, respectively. The net asset included in pension and other postretirement liabilities in the accompanying Consolidated Balance Sheets at June 30, 2014, is $756, while the net obligation included in pension and other postretirement liabilities in the accompanying Consolidated Balance Sheets at June 30, 2013, is $6,624. The change in the plans' assets and benefit obligations recognized in unrestricted net assets during the year ended June 30, 2014, was a decrease of $1,471.

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 $280,223 and $193,856 during 2014 and 2013, respectively.

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 umbrella 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 6% for the System, 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 are discounted at 6% in 2014 and 2013 for the System. 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 AHIL.

The wholly owned onshore trust has a self-insured retention of $10,000 per occurrence with no aggregate. Excess coverage is provided through AHIL with limits up to $205,000. AHIL retains $5,000 per occurrence and $5,000 annual aggregate for professional liability. AHIL also retains a 20% quota share of the first $25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers.

Sunflower Assurance, Inc. (Sunflower) was acquired when Marian Health System joined the System. Sunflower provided excess coverage with limits up to $75,000 above the primary coverage for Via Christi Health and retained 10% of the first reinsurance layer of $10,000 on a quota share basis. The remaining excess coverage was reinsured by commercial carriers. As of October 1, 2013, Via Christi'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 were not renewed and are in run off.

10. Self-Insurance Programs (continued)

Self-insured entities in the states of Indiana, Kansas, Pennsylvania, and Wisconsin 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.

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is professional and general liability expense of $99,568 and $68,437 for the years ended June 30, 2014 and 2013, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are professional and general liability loss reserves of $604,846 and $614,913 at June 30, 2014 and 2013, respectively.

AHIL also offers 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 and Illinois. Coverage is offered to physicians with limits ranging from $100 per claim to $1,000 per claim with various aggregate limits. Beginning October 1, 2013, AHIL offered similar coverage to employed physicians from Marian Health System in Kansas and Wisconsin.

Edessa Insurance Company Ltd. (Edessa) was acquired as part of the Alexian Brothers business combination effective January 1, 2012. Effective July 1, 2012, the self-insurance programs of Edessa were consolidated into AHIL, and Edessa ceased operations.

10. Self-Insurance Programs (continued)

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 Marian Health System was self-insured or commercially insured up to various limits and excess insurance against catastrophic loss was obtained through commercial insurers. As of October 1, 2013, the Marian Systems are provided coverage under the self-insured trust. Premium payments made to the trust are expensed and represent claims reported and claims incurred but not reported.

Included in operating expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets is workers' compensation expense of $42,052 and $41,699 for the years ended June 30, 2014 and 2013, respectively. Included in current and long-term self-insurance liabilities on the accompanying Consolidated Balance Sheets are workers' compensation loss reserves of $114,237 and $137,825 at June 30, 2014 and 2013, respectively.

(Dollars in Thousands)

11. Lease Commitments

Future minimum payments under noncancelable operating leases with terms of one year or more are as follows:

Year ending June 30:		
2015	$	188,138
2016		172,635
2017		138,931
2018		104,991
2019		75,410
Thereafter		209,295
Total	$	889,400

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.

(Dollars in Thousands)

11. Lease Commitments (continued)

The System's future minimum noncancelable payments associated with operating leases 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.

	Future Payments Where the System is Lessee	Future Receipts Where the System is Sublessor/ Lessor	Net Future Payments (Receipts)
Year ending June 30:			
2015	$ 188,138	$ 50,118	$ 138,020
2016	172,635	41,175	131,460
2017	138,931	32,104	106,827
2018	104,991	26,333	78,658
2019	75,410	20,626	54,784
Thereafter	209,295	300,833	(91,538)
Total	$ 889,400	$ 471,189	$ 418,211

Rental expense under operating leases amounted to $391,928 and $347,087 in 2014 and 2013, respectively.

12. 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.

In March 2013, the System and some of its subsidiaries were named as defendants to litigation surrounding the Church Plan status of its System Plans. On May 9, 2014, the United States District Court, Eastern District of Michigan, Southern Division, issued its Decision and Order Granting Defendants' Motion to Dismiss, which effectively dismissed the case against the System. On June 11, 2014, the plaintiff in the case filed a Notice of Appeal, and the appeal is pending. Regardless of the outcome of such appeal, the System does not believe that this matter will have a material adverse effect on the System's financial position or results of operations.

(Dollars in Thousands)

12. Contingencies and Commitments (continued)

In September 2010, Ascension Health received a letter from the U.S. Department of Justice (the DOJ) in connection with its nationwide review to determine whether, in certain cases, implantable cardioverter defibrillators (ICD) were provided to certain Medicare beneficiaries in accordance with national coverage criteria. In connection with this nationwide review, identified System hospitals are reviewing applicable medical records and responding to the DOJ. The DOJ's investigation spans a time frame beginning in 2003 and extending through the present time. To date, four System hospitals have entered into settlements with the DOJ and the System is having settlement discussions with the DOJ regarding two other System hospitals subject to the ICD investigation.

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 $37,623 and $44,553 at June 30, 2014 and 2013, 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 $95,700.

The System entered into agreements with sponsors for support through January 2017. The System's obligation under these agreements totals $31,000 at June 30, 2014, and is included in other current and noncurrent liabilities in the accompanying Consolidated Balance Sheet.

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 $190,700.

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 26 years. The following represents the remaining guarantees and other commitments of the Senior and Subordinate Credit Groups at June 30, 2014:

Hospital de la Concepción 2000 Series A debt guarantee	**$ 29,240**
St. Vincent de Paul Series 2000A debt guarantee	**28,300**
Other guarantees and commitments	**36,200**

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 Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs, the Details of Consolidated Balance Sheet – St. Vincent Health, Inc., and the Details of Consolidated Statement of Operations and Changes in Net Assets – St. Vincent Health Inc. are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

September 11, 2014

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, 2014 and 2013

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

	Year Ended June 30, 2014	2013
Traditional charity care provided	**$ 580,606**	$ 524,605
Unpaid cost of public programs for persons living in poverty	**641,981**	488,959
Other programs for persons living in poverty and other vulnerable persons	**117,990**	89,923
Community benefit programs	**480,866**	383,583
Care of persons living in poverty and other community benefit programs	**$ 1,821,443**	$ 1,487,070

Ascension

Details of Consolidated Balance Sheet – St. Vincent Health, Inc.

(Dollars in Thousands)

June 30, 2014

	Consolidated Ascension	Consolidated Ascension less Health Ministries Presented	Reclassification
Assets			
Current assets:			
Cash and cash equivalents	$ 618,418	$ 540,430	$ –
Short-term investments	109,081	84,993	–
Interest in investments held by Ascension	–	–	–
Accounts receivable, less allowances for uncollectible accounts	2,419,616	2,048,270	–
Inventories	332,739	286,021	–
Due from brokers	343,757	343,757	–
Estimated third-party payor settlements	236,559	218,126	–
Other	562,367	497,462	–
Total current assets	4,622,537	4,019,059	–
Long-term investments	15,327,255	12,480,132	2,743,942
Interest in investments held by Ascension	–	–	(2,743,942)
Property and equipment, net	8,410,629	7,781,689	–
Other assets:			
Investment in unconsolidated entities	649,888	567,659	–
Capitalized software costs, net	778,705	706,168	–
Other	1,509,849	1,267,949	–
Total other assets	2,938,442	2,541,776	–
Total assets	$ 31,298,863	$ 26,822,656	$ –

St. Vincent Health, Inc. Consolidated	Consolidated St. Vincent Health, Inc. less Other Entities Presented	St. Joseph Hospital and Health Center, Inc.	St. Vincent Heart Center of Indiana, LLC	St. Vincent Anderson Regional Hospital, Inc.
$ 77,988	$ 53,190	$ 1,576	$ 23,145	$ 77
24,088	3,510	6,463	14,115	–
–	–	–	–	–
371,346	314,278	20,206	13,860	23,002
46,718	38,728	2,337	2,139	3,514
–	–	–	–	–
18,433	15,997	1,026	178	1,232
64,905	38,857	6,407	12,784	6,857
603,478	464,560	38,015	66,221	34,682
103,181	96,749	1,254	25	5,153
2,743,942	2,536,533	150,443	–	56,966
628,940	532,048	29,202	22,255	45,435
82,229	82,229	–	–	–
72,537	72,306	90	140	1
241,900	241,080	356	68	396
396,666	395,615	446	208	397
$ 4,476,207	$ 4,025,505	$ 219,360	$ 88,709	$ 142,633

Details of Consolidated Balance Sheet – St. Vincent Health, Inc. (continued)
(Dollars in Thousands)

June 30, 2014

	Consolidated Ascension	Consolidated Ascension less Health Ministries Presented
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	$ 91,532	$ 84,877
Long-term debt subject to short-term remarketing arrangements	1,345,530	1,345,530
Accounts payable and accrued liabilities	2,293,663	2,094,288
Estimated third-party payor settlements	450,054	378,323
Due to brokers	332,169	332,169
Current portion of self-insurance liabilities	226,856	217,963
Other	274,645	210,298
Total current liabilities	5,014,449	4,663,448
Noncurrent liabilities:		
Long-term debt (senior and subordinated)	4,994,913	4,536,411
Self-insurance liabilities	541,859	541,859
Pension and other postretirement liabilities	428,679	346,973
Other	1,343,826	1,263,923
Total noncurrent liabilities	7,309,277	6,689,166
Total liabilities	12,323,726	11,352,614
Net assets:		
Unrestricted		
Controlling interest	16,736,190	13,355,265
Noncontrolling interests	1,656,106	1,608,390
Unrestricted net assets	18,392,296	14,963,655
Temporarily restricted	391,226	333,811
Permanently restricted	191,615	172,576
Total net assets	18,975,137	15,470,042
Total liabilities and net assets	$ 31,298,863	$ 26,822,656

St. Vincent Health, Inc. Consolidated	Consolidated St. Vincent Health, Inc. less Other Entities Presented	St. Joseph Hospital and Health Center, Inc.	St. Vincent Heart Center of Indiana, LLC	St. Vincent Anderson Regional Hospital, Inc.
$ 6,655	$ 2,636	$ 237	$ 3,561	$ 221
–	–	–	–	–
199,375	173,203	7,445	7,411	11,316
71,731	59,616	4,982	4,453	2,680
–	–	–	–	–
8,893	8,561	79	127	126
64,347	31,832	6,708	18,746	7,061
351,001	275,848	19,451	34,298	21,404
458,502	398,474	16,327	28,489	15,212
–	–	–	–	–
81,706	81,706	–	–	–
79,903	77,264	2,018	–	621
620,111	557,444	18,345	28,489	15,833
971,112	833,292	37,796	62,787	37,237
3,380,925	3,082,690	180,288	18,048	99,899
47,716	39,867	–	7,849	–
3,428,641	3,122,557	180,288	25,897	99,899
57,415	51,530	876	25	4,984
19,039	18,126	400	–	513
3,505,095	3,192,213	181,564	25,922	105,396
$ 4,476,207	$ 4,025,505	$ 219,360	$ 88,709	$ 142,633

Ascension

Details of Consolidated Statement of Operations and Changes in Net Assets – St. Vincent Health, Inc.
(Dollars in Thousands)

Year Ended June 30, 2014

	Consolidated Ascension	Consolidated Ascension less Health Ministries Presented
Operating revenue:		
Net patient service revenue	$ 19,193,307	$ 16,404,174
Less provision for doubtful accounts	1,273,354	1,137,989
Net patient service revenue, less provision for doubtful accounts	17,919,953	15,266,185
Other revenue	2,229,767	2,095,714
Total operating revenue	20,149,720	17,361,899
Operating expenses:		
Salaries and wages	8,202,294	7,196,707
Employee benefits	1,747,739	1,509,490
Purchased services	1,210,276	910,644
Professional fees	1,279,459	1,141,653
Supplies	2,822,102	2,464,116
Insurance	128,535	116,682
Interest	194,616	180,007
Depreciation and amortization	899,389	795,592
Other	2,901,859	2,570,778
Total operating expenses before impairment, restructuring, and nonrecurring gains (losses), net	19,386,269	16,885,669
Income (loss) from operations before self-insurance trust fund investment, investment return and impairment restructuring and non recurring gains (losses), net	763,451	476,230
Self-insurance trust fund investment return	66,174	66,174
Impairment, restructuring, and nonrecurring expenses	(223,834)	(208,091)
Income (loss) from operations	605,791	334,313
Nonoperating gains (losses):		
Investment return	1,515,819	1,214,029
Loss on extinguishment of debt	(1,605)	(1,657)
Gain (loss) on interest rate swaps	(6,020)	(6,001)
Income from unconsolidated entities	5,539	4,951
Contributions from business combinations	–	–
Other	(63,119)	(71,013)
Total nonoperating gains, net	1,450,614	1,140,309
Excess (deficit) of revenues and gains over expenses and losses	2,056,405	1,474,622
Less noncontrolling interests	245,893	222,054
Excess of revenues and gains over expenses and losses attributable to controlling interest	1,810,512	1,252,568

St. Vincent Health, Inc. Consolidated	Consolidated St. Vincent Health, Inc. less Other Entities Presented	St. Joseph Hospital and Health Center, Inc.	St. Vincent Heart Center of Indiana, LLC	St. Vincent Anderson Regional Hospital, Inc.
$ 2,789,133	$ 2,318,903	$ 140,650	$ 131,225	$ 198,355
135,365	107,722	11,025	2,945	13,673
2,653,768	2,211,181	129,625	128,280	184,682
134,053	118,308	2,932	547	12,266
2,787,821	2,329,489	132,557	128,827	196,948
1,005,587	873,596	41,090	28,292	62,609
238,249	201,864	10,793	8,304	17,288
299,632	265,939	12,557	5,801	15,335
137,806	110,093	9,647	6,885	11,181
357,986	282,199	14,171	30,068	31,548
11,853	11,124	233	141	355
14,609	11,980	533	1,794	302
103,797	90,967	4,964	3,658	4,208
331,081	254,234	21,293	18,540	37,014
2,500,600	2,101,996	115,281	103,483	179,840
287,221	227,493	17,276	25,344	17,108
–	–	–	–	–
(15,743)	(15,696)	160	35	(242)
271,478	211,797	17,436	25,379	16,866
301,790	275,170	17,467	936	8,217
52	36	–	–	16
(19)	(17)	(1)	–	(1)
588	617	(29)	–	–
–	–	–	–	–
7,894	8,163	(51)	–	(218)
310,305	283,969	17,386	936	8,014
581,783	495,766	34,822	26,315	24,880
23,839	17,018	–	6,821	–
557,944	478,748	34,822	19,494	24,880

Ascension

Details of Consolidated Statement of Operations and Changes in Net Assets – St. Vincent Health, Inc. (continued)

(Dollars in Thousands)

Year Ended June 30, 2014

	Consolidated Ascension	Consolidated Ascension less Health Ministries Presented
Unrestricted net assets, controlling interest:		
Excess (deficit) of revenues and gains over expenses and losses	$ 1,810,512	$ 1,252,568
Transfer (to) from sponsors and other affiliates, net	(6,566)	127,513
Contributed net assets	(1,534)	(1,534)
Membership interest changes, net	45,255	45,255
Net assets released from restrictions for property acquisitions	62,537	57,290
Pension and other postretirement liability adjustments	23,990	26,752
Change in unconsolidated entities' net assets	4,571	4,571
Other	(24,514)	(24,287)
Increase in unrestricted net assets, controlling interest, before (loss) gain from discontinued operations and cumulative effect of change in accounting principle	1,914,251	1,488,128
(Loss) gain from discontinued operations	(164,363)	(164,363)
Increase (decrease) in unrestricted net assets, controlling interest	1,749,888	1,323,765
Unrestricted net assets, noncontrolling interest:		
Excess of revenues and gains over expenses and losses	245,893	222,054
Distributions of capital	(531,159)	(513,789)
Contributions of capital	401,546	376,065
Membership interest changes, net	(52,530)	(52,530)
Increase (decrease) in unrestricted net assets, noncontrolling interest	63,750	31,800
Temporarily restricted net assets, controlling interest:		
Contributions and grants	99,885	90,056
Investment return	31,292	27,147
Net assets released from restrictions	(115,353)	(106,864)
Other	348	775
Increase (decrease) in temporarily restricted net assets, controlling interest	16,172	11,114
Permanently restricted net assets, controlling interest:		
Contributions	10,405	8,726
Investment return	7,942	7,513
Other	(1,647)	(1,389)
Increase in permanently restricted net assets, controlling interest	16,700	14,850
Increase in net assets	1,846,510	1,381,529
Net assets, beginning of period	17,128,627	14,088,513
Net assets, end of period	$ 18,975,137	$ 15,470,042

St. Vincent Health, Inc. Consolidated	Consolidated St. Vincent Health, Inc. less Other Entities Presented	St. Joseph Hospital and Health Center, Inc.	St. Vincent Heart Center of Indiana, LLC	St. Vincent Anderson Regional Hospital, Inc.
$ 557,944	$ 478,748	$ 34,822	$ 19,494	$ 24,880
(134,079)	(52,347)	(24,052)	(25,170)	(32,510)
–	–	–	–	–
–	–	–		
5,247	4,618	368	7	254
(2,762)	(2,762)	–	–	–
–	–	–	–	–
(227)	29,264	(2)	(29,548)	59
426,123	457,521	11,136	(35,217)	(7,317)
–	–	–	–	–
426,123	457,521	11,136	(35,217)	(7,317)
23,839	17,018	–	6,821	–
(17,370)	(8,557)	–	(8,813)	–
25,481	(4,052)	–	29,533	–
–	–	–	–	–
31,950	4,409	–	27,541	–
9,829	9,004	370	20	435
4,145	3,611	60	–	474
(8,489)	(7,474)	(442)	(26)	(547)
(427)	(361)	(22)	15	(59)
5,058	4,780	(34)	9	303
1,679	1,676	3	–	–
429	427	–	–	2
(258)	(258)	–	–	–
1,850	1,845	3	–	2
464,981	468,555	11,105	(7,667)	(7,012)
3,040,114	2,723,658	170,459	33,589	112,408
$ 3,505,095	$ 3,192,213	$ 181,564	$ 25,922	$ 105,396