

BON SECOURS MERCY HEALTH

Financial Disclosure

For the Third Quarter Ended

September 30, 2021

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Interim Financial Statement Disclaimer

This interim financial reporting for Bon Secours Mercy Health, Inc., a Maryland nonprofit corporation and its affiliates, includes unaudited consolidated financial statements, management's discussion and analysis, utilization statistics and financial ratio analyses. These financial statements have been prepared pursuant to the generally accepted accounting principles in the United States (GAAP).

Management recommends that you read the management discussion and analyses together with the unaudited consolidated financial statements and related notes. Certain statements included in the management discussion and analysis may be considered forward-looking. Actual results may differ significantly from the results discussed in any forward-looking statement as a result of known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Management does not assume any obligation to provide any updates or revisions to such forward-looking statements if or when the expectation, or event, conditions or circumstances on which such statements are based.

BON SECOURS MERCY HEALTH

Management's Discussion & Analysis of Recent Financial Performance

For the Three Months

and

Nine Months Ended

September 30, 2021

BON SECOURS MERCY HEALTH

Management's Discussion and Analysis of Recent Financial Performance

Three and Nine Months Ended September 30, 2021

ABOUT BON SECOURS MERCY HEALTH

OUR MISSION

Bon Secours Mercy Health (BSMH, the Company or the Ministry) is one of the nation's largest Catholic nonprofit healthcare systems, providing healthcare services across seven states and five cities in Ireland. Through hospitals, physician clinics, a variety of care delivery sites and social services programs, we improve the health of entire communities. Bon Secours Mercy Health is sponsored by Bon Secours Mercy Ministries, a public juridic person of the Roman Catholic Church.

BSMH's Mission is "to extend the compassionate ministry of Jesus by improving the health and well-being of our communities and bring good help to those in need, with emphasis on people who are poor, dying and underserved."

OUR ORGANIZATION

Bon Secours Mercy Health has a deep commitment to corporate and financial responsibility. Our senior leaders set the tone for the entire organization, reinforcing our commitment to "doing the right thing," which is rooted in our religious heritage and core values. Almost two centuries ago, the historical founders of BSMH established congregations dedicated to providing care to those in need. BSMH continues their legacy, providing high-quality, compassionate and affordable health care services. That commitment is fulfilled by more than 60,000 employees serving communities throughout Florida, Kentucky, Maryland, New York, Ohio, South Carolina, Virginia, and Ireland.

Bon Secours Mercy Health, together with certain of its affiliated entities, owns, leases, invests in or manages acute care hospitals, behavioral health facilities, long-term care and rehabilitation facilities, home health agencies, nursing registries, physician clinics, hospice facilities, nursing homes, clinical laboratories, ambulatory surgery centers, home medical equipment supply services, foundations, revenue cycle management, a captive insurance company, and an accountable care organization that participates in the Medicare Shared Savings Program.

OUR STRATEGY

To support the Mission, the Ministry's Strategic Plan is built on four pillars: Improve Community Health and Well-Being, Deliver Clinical and Operational Excellence, Strengthen Culture and Capabilities, and Innovate and Grow. These pillars are described below and serve as the foundation for programs, investments and innovation across BSMH.

Improve Community Health and Well Being. Under this strategic pillar, BSMH strives to "bring good help to those in need" reaffirming its Mission and Values by engaging its patients and the communities it serves. BSMH has a range of initiatives focused on social determinants of health, education and training opportunities, as well as wellness and prevention services. BSMH, in partnership with local and state governments and nonprofits, is focusing on education, prevention and treatment efforts to reduce the societal and economic impact of addiction. In addition to these efforts, the Ministry addresses the behavioral health needs in communities it serves. BSMH promotes advocacy priorities related to environmental stewardship, non-violence, immigration reform and health care for all.

Deliver Clinical and Operational Excellence. BSMH has a range of initiatives to enhance timely and convenient patient access, deliver a differentiated patient experience, focus on patient safety, ensure continuity of care, improve clinical outcomes and drive value-based reimbursement.

BSMH has a physician alignment strategy through integration models covering the full spectrum of relationships: employment, clinically integrated network affiliation, joint venture opportunities, electronic medical record (EMR) connectivity and general medical staff appointments. In addition, BSMH conducts medical staff workforce planning to ensure it has the necessary physician complement and bench strength to support clinical service development and to ensure network adequacy of its clinically integrated network and accountable care organizations.

Our Values

Human dignity
Integrity
Compassion
Stewardship
Service

Our Vision

Inspired by God's hope for the world, we will be a ministry where associates want to work, clinicians want to practice, people seek wellness and communities thrive.

BSMH's initiatives leverage the Ministry's scale to improve efficiency and effectiveness. Specific areas of focus include information technology, revenue cycle, supply chain, labor productivity and the continued development of shared services.

Strengthen Culture and Capabilities.

This pillar supports BSMH's dedication to achieving its integration goals and related synergies when joining organizations through mergers or acquisitions. The pillar's initiatives center on leadership formation, talent acquisition and retention, and engaging all who serve the Ministry. BSMH will continue to build a culture of diversity and inclusion based on its Mission and Values.

Innovate and Grow. Under this strategic pillar, the portfolio of initiatives focuses on top-line growth across five broad categories: service line development, access strategies, consumer outreach, inorganic growth and innovation.



Service lines are a key means of differentiation among BSMH and its competitors. Managing by service lines aligns resources, expertise, capital investment and marketing spend to target specific growth opportunities within each market. Service lines allow for optimal clinical alignment with physicians and serve as a rallying point for improvement efforts in patient experience, quality improvement, payor strategies and margin expansion.

BSMH views access strategies as both brick and mortar and digital entry points for patients and consumers. A robust ambulatory access strategy is critical to providing convenience for consumers, to meeting changes in clinical practice and to responding to payor expectations for providing care in the most clinically appropriate, high-value settings. BSMH is prioritizing its capital investment toward ambulatory surgery, urgent care, diagnostic centers, primary care sites and virtual care services.

Inorganic growth through acquisitions and mergers is also a significant part of BSMH's growth agenda. BSMH evaluates opportunities within and adjacent to its current footprint, as well as within new markets. Acquisitions and mergers are evaluated on a stringent set of criteria: aligning with BSMH's Mission and Values, sharing a common strategic vision, being financially accretive within a defined window of time, and providing for organizational synergies for scale and efficiency.

BSMH's innovation goals include accelerating the adoption of new capabilities to create value for patients, families, consumers and caregivers. BSMH views its innovation strategy as a means of connecting to external innovation advisors and investment opportunities. The Ministry seeks opportunities to foster internal innovation and to develop new revenue streams by monetizing its capabilities.

Through the successful execution of the initiatives outlined in BSMH's Strategic Plan, the organization will provide its patients with the same compassionate, quality health care they expect from BSMH, while operating as a nimble, high-performing Ministry that adds value at every level.

GOVERNANCE AND MANAGEMENT

Ministry Leadership Council

The Ministry Leadership Council (MLC) at Bon Secours Mercy Health embodies our Mission of improving the health of the communities we serve. MLC members are listed below:

Individual	Title
John M. Starcher, Jr.	Chief Executive Officer
Donna Abbondandolo	Chief Compliance Officer
Michael A. Bezney, JD	Chief Legal Officer
Deborah S. Bloomfield, PhD, CPA	Chief Financial Officer
David Cannady	Chief Strategy Officer
Rev. Joseph P. Cardone, PhD	Chief Mission Officer
Joe L. Gage, JD	Chief Human Resources Officer
Wael Haidar, MD, MBA	Chief Clinical Officer
Sr. Anne Lutz, CBS	Chief Sponsorship Officer
Sandra Mackey	Chief Marketing Officer
Andre Maksimow	Chief Diversified Growth Officer
Andrea Mazzoccoli, PhD, RN	Chief Nursing and Quality Officer
Jason Siegert	Chief Transformation Officer
Brian Smith	President & Chief Operating Officer
Odesa Stapleton, JD	Chief Diversity and Inclusion Officer
Jason Szczuka	Chief Digital Officer

Board of Directors

The Bon Secours Mercy Health Board of Directors provides overall system direction, approves appointments to market boards and appoints and evaluates the system CEO. The members of the Board of Directors are listed below:

Board of Directors
Katherine W. Vestal, PhD, Chair
Peter Maddox, Vice Chair
Katherine A. Arbuckle, CPA
Sr. Pat Eck, CBS (PJP)
Stephanie L. Ferguson, PhD
Sr. Fran Gorsuch, CBS
Sr. Doris Gottemoeller, RSM (PJP) ex-officio
Gerard Kells
Jennifer O'Brien, JD
Joseph D. O'Shea
Raja Rajamannar
Janet B. Reid, PhD
Myles N. Sheehan, SJ, MD
Sr. Carol Anne Smith, MH (PJP)
John M. Starcher, Jr. ex-officio

Bon Secours Mercy Health by the numbers

ONE OF THE 5 LARGEST
Catholic health care systems in the US,
the LARGEST private provider in Ireland



MORE THAN **1,200** SITES OF CARE  IN THE US
AND IRELAND



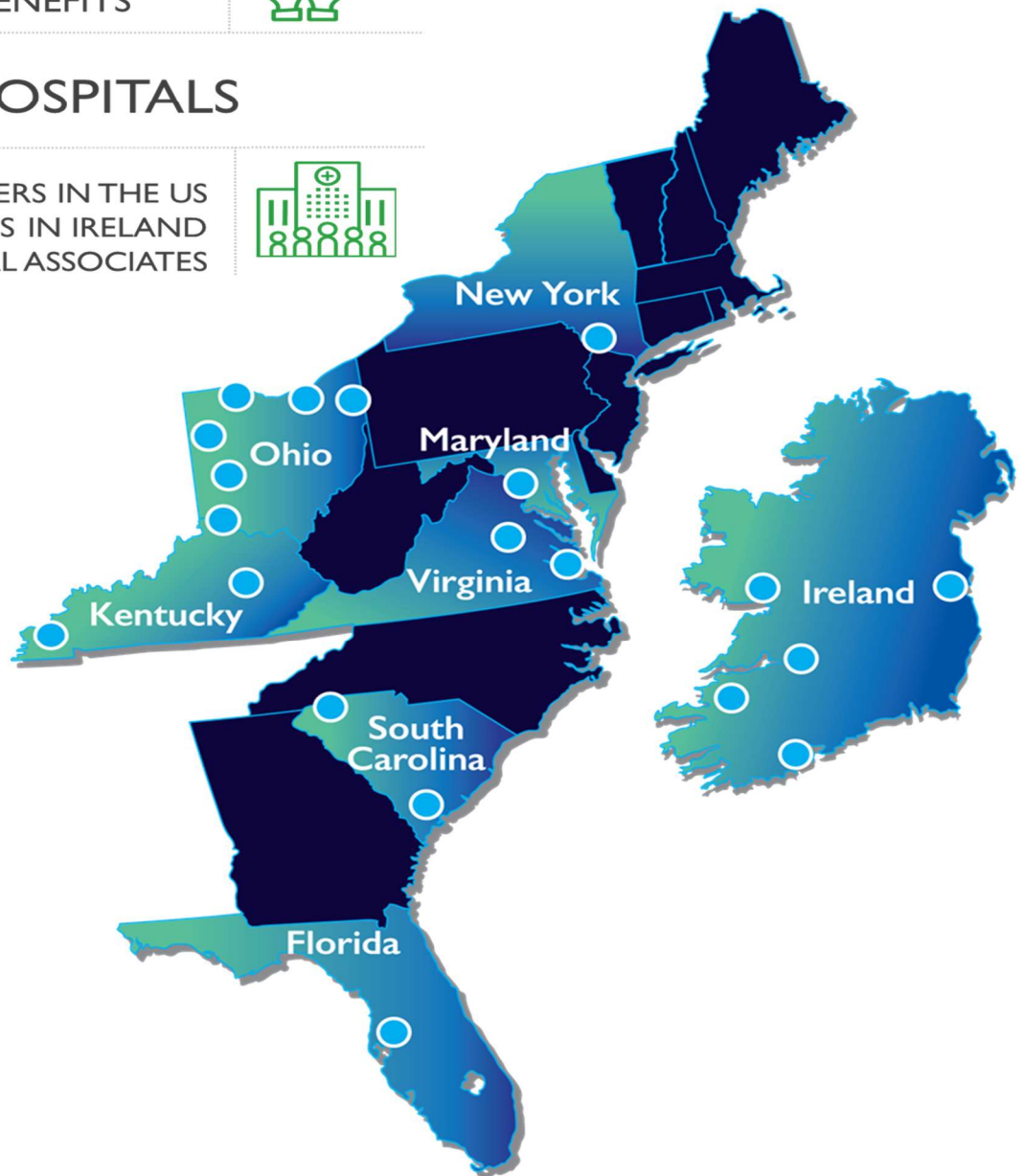
Approximately **\$10 BILLION**
in pro forma net operating revenue

NEARLY **\$2 MILLION** A DAY
IN COMMUNITY BENEFITS



50 HOSPITALS

3,000* PROVIDERS IN THE US
450 CONSULTANTS IN IRELAND
60,000 TOTAL ASSOCIATES



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") provides additional explanation of the financial condition, operational results and cash flows of BSMH to assist in increased understanding of the consolidated financial statements. The financial information as of and for the three and nine months ended September 30, 2021 and 2020, presented below, has been derived from BSMH's internal financial information. This document is incorporated herein by reference and is available for review on the Electronic Municipal Market Access ("EMMA") website operated by the Municipal Securities Rulemaking Board ("MSRB"). In conformity with U.S. generally accepted accounting principles, the consolidated financial statements and this Management's Discussion and Analysis include the financial position, results of operations, changes in net assets and cash flows of Bon Secours Mercy Health, HealthSpan Partners and subsidiaries. Information as of and for the three and nine months ended September 30, 2021 and 2020, is consistent with the presentation of BSMH's unaudited financial statements.

BSMH has entered into Definitive Agreements to sell the assets associated with its Ohio, Florida and Virginia skilled nursing and assisted living facilities, which are subject to satisfactory completion of legal due diligence, as well as regulatory and Catholic Church approval. The Virginia and Ohio facilities are expected to be sold during the fourth quarter of 2021 and the Florida facilities during the first quarter of 2022.

SUMMARY

During the three months ended September 30, 2021 the Ministry experienced an intense surge in COVID-19 cases due to the Delta variant. This surge drove increases in employment, pharmaceuticals and supplies expenses for the three-month period ended September 30, 2021 compared to same period of prior year. This increase in operating expenses lead to a decline in operating EBITDA and recurring operating income for the three and nine months ended September 30, 2021 compared to the same periods of prior year. For the nine-month period ended September 30, 2021, the balance sheet continued to remain strong with all key financial ratios improving compared to the same period of the prior year. Management continues to take several actions to ensure that the health system can deliver services to our communities and to those suffering from COVID-19. These actions have led to a safe and steady return of patient volumes and strong operational performance, resulting in the continued strengthening of the Ministry's balance sheet and improvement of key financial ratios.

KEY FINANCIAL RATIOS

⁽¹⁾ Three Months Ended September 30,				(\$s in thousands)	⁽¹⁾ Nine Months Ended September 30,			
2021		2020			2021		2020	
Amount	Margin	Amount	Margin		Amount	Margin	Amount	Margin
\$2,706,400		\$2,656,485		Net operating revenue	\$8,042,043		\$7,379,305	
\$208,304	7.7%	\$373,844	14.1%	Operating EBITDA	\$668,721	8.3%	\$718,376	9.7%
\$74,792	2.8%	\$211,755	8.0%	Recurring operating income	\$225,297	2.8%	\$241,793	3.3%
\$115,418	4.2%	\$440,225	15.2%	Excess of revenue over expenses	\$824,735	9.5%	\$183,868	2.5%

¹ The financial ratios include stimulus revenue of \$82.1 million and \$465.0 million recognized in 2021 and 2020.

Net operating revenue grew by \$49.9 million, or 1.9%, for the three months ended September 30, 2021, when compared to the same period of the prior year; and grew by \$662.7 million, or 9.0%, for the nine months ended September 30, 2021 compared to the same period of the prior year. The growth in net operating revenue is attributable to growth in net patient revenue from reactivation of patient volumes, as well as one-time state program reimbursements of \$131.7 million. Partly offsetting the increases in net patient revenue, stimulus revenue (recorded as other operating revenue) was \$82.1 million for the nine months ended September 30, 2021, down from \$465.0 million for the comparable period in 2020. Operating EBITDA decreased \$49.7 million (6.9%) for the nine months ended September 30, 2021 compared to the prior year due to the increase in operating expenses. Recurring operating income decreased to \$225.3 million (margin of 2.8%) for the nine months ended September 30, 2021 from \$241.8 million (margin of 3.3%) in the same period of the prior year. Excess revenue over expenses for the nine months ended September 30, 2021 was \$824.7 million (margin 9.5%) compared to the same period in the prior year of \$183.9 million (margin 2.5%). The increase was driven by investment income and unrealized gains due to the recovery in the equity markets during 2021.

Three Months Ended September 30,				(\$s in thousands)	Nine Months Ended September 30,			
2021		2020			2021		2020	
Amount	% of Exp	Amount	% of Exp		Amount	% of Exp	Amount	% of Exp
\$151,395	5.8%	\$207,986	8.5%	Community Benefit	\$463,266	5.9%	\$485,279	6.8%

Community benefit investments fulfill unmet needs of the communities in which we serve through programs and donations, health education, free care, medical research and more. Unsponsored community benefit as measured by the cost to provide services net of one-time Medicaid reimbursements received. For the nine months ended September 30, 2021, community benefit decreased \$22.0 million for the nine months ended September 30, 2021 when compared to prior year. One-time reimbursement items of \$131.7 million, including \$106.3 million related to Medicaid reimbursement, Ohio Enhanced UPL, and HCAP programs have directly reduced unsponsored community benefits. Without these one-time reimbursements, community benefit exceeded the prior year amount.

LIQUIDITY AND KEY PERFORMANCE INDICATORS

	September 30, 2021	December 31, 2020
Days cash on hand	347	346
Adjusted days cash on hand¹	322	311
Unrestricted cash to debt	213.3%	194.1%
Adjusted unrestricted cash to debt¹	197.9%	174.7%
Total debt to capitalization	34.9%	37.3%
Pension funding	97.1%	87.6%

¹ Adjusted to exclude Accelerated Medicare funding and payroll tax deferral under the US CARES Act.

The Company's balance sheet saw an increase in liquidity and a decrease in leverage from December 31, 2020 to September 30, 2021. The increase in liquidity was driven by strong investment returns, a one-time cash dividend of \$357.3 million (14 days) from a recapitalization of the Ensemble joint venture and provider relief fund receipts under the U.S. CARES Act. This increase was partially offset by Accelerated Medicare repayments of \$186.7 million. Capital expenditures for the nine months ended September 30, 2021 were \$470.7 compared to \$357.4 for the same period in the prior year. Adjusted Days cash on hand excludes the cash benefits resulting from the remaining Accelerated Medicare funding balance of \$547.6 million (20 days) and payroll tax deferral of \$140.0 million (5 days). Pension funding increased to 97.1% as of September 30, 2021, up from 87.6% at December 31, 2020, due to an increase in the discount rate and favorable investment returns.

VOLUME TRENDS

Three Months Ended September 30,				Nine Months Ended September 30,		
2021	2020	Change %		2021	2020	Change %
86,456	83,236	3.9%	Admissions	254,113	236,571	7.4%
15,692	16,959	(7.5%)	Observations	47,825	47,818	0.0%
7,481	7,443	0.5%	Deliveries	20,894	21,179	(1.4%)
20,530	22,325	(8.0%)	Inpatient Surgeries	63,213	59,331	6.5%
72,420	71,969	0.6%	Outpatient Surgeries	218,678	175,584	24.5%
398,948	340,402	17.2%	ER Visits	1,069,823	1,002,664	6.7%
1,755,169	1,745,538	0.6%	Physician Visits	5,114,742	4,836,791	5.8%

Volumes for the nine months ended September 30, 2021 improved substantially when compared to the same period of the prior year. Volumes for the three months ended September 30, 2021 compared to the same period of the prior year also showed growth but were impacted by the recent Delta variant COVID-19 surge. Outpatient surgeries showed the largest improvement from prior year with an increase of approximately 43.1 thousand, or 24.5%, for the nine months ended September 30, 2021 compared to the same period in the prior year. Physician visits increased by 10 thousand and 278 thousand, respectively, for the three and nine month periods ended September 30, 2021, compared to the same periods in the prior year. Virtual visits totaled 414.7 thousand and 645.3 thousand during the first nine months of 2021 and 2020, respectively. This represents a significant increase from 5.3 thousand virtual visits during the first nine months of

2019. Virtual visits are conducted by the medical group and reflected within total physician visits. The decline in virtual visits from 2020 to 2021 is a result of the lifting of certain pandemic-related restrictions that were in place in 2020.

RESULTS OF OPERATIONS

Three Months Ended September 30,		(\$s in thousands)	Nine Months Ended September 30,	
2021	2020		2021	2020
\$2,527,118	2,386,619	Net Patient Service Revenue	\$7,547,956	\$6,513,514
179,282	269,866	Other Operating Revenue ⁽¹⁾	494,087	865,791
2,706,400	2,656,485	Net Operating Revenue	8,042,043	7,379,305
1,334,153	1,183,759	Employee Compensation	3,921,794	3,529,274
618,897	591,896	Purchased Services and Other	1,878,649	1,739,850
545,904	507,735	Pharmaceuticals & Supplies	1,578,858	1,395,363
100,302	127,490	Depreciation and Amortization	338,703	376,931
32,352	33,850	Interest Expense	98,742	96,094
74,792	211,755	Recurring Operating Income	225,297	241,793
(846)	(3,014)	Nonrecurring Losses, Net	(15,439)	(19,151)
3,327	5,872	Interest Rate Swap Agreements Gains/(Losses)	17,374	(48,696)
53,705	244,288	Investment Gains (Losses)	636,274	102,107
(15,560)	(18,676)	Other Nonoperating Activities, Net	(38,771)	(92,185)
\$115,418	\$440,225	Excess of Revenue Over Expenses	\$824,735	\$183,868

¹ The financial ratios include stimulus revenue of \$82.1 million and \$465.0 million recognized in 2021 and 2020.

NET OPERATING REVENUE

Net operating revenue was \$8.0 billion for the nine months ended September 30, 2021, an increase of 9.0% from the comparable period of 2020. Net patient service revenue increased by \$1.0 billion, or 15.9%, for the nine months ended September 30, 2021 when compared to the same period for the prior year. Net patient service revenue growth was primarily due to patient reactivation and increased acuity for the nine-month period ended September 30, 2021, reflecting a partial recovery from the significant negative impact of the COVID-19 pandemic on operations for the nine-month period ended September 30, 2020. Net patient service revenue for the nine months ended September 30, 2021 also includes the benefit of one-time state program reimbursements totaling \$131.7 million.

OPERATING EXPENSES

Total operating expenses were \$7.8 billion for the nine months ended September 30, 2021, an increase of 9.5% from the same period of the prior year. Total operating expenses for the three months ended September 30, 2021 increased by 7.6%, or \$186.9 million, from the same period for the prior year. This increase in operating expenses was due primarily to the increase in employee compensation of 11.1% from the prior year. Lower employment expenses in 2020 were a result of management actions such as implementing a furlough program. Additionally, the ongoing national labor shortage has driven higher wages in 2021 when compared to 2020, particularly related to contract and agency labor. Self-insured employee benefits claims were also lower in 2020 due to the impact of COVID-19 and lower employee medical claims. Employment expense as a percentage of net patient revenue for the nine-month period ended September 30, 2021 was 52.0%, down from 54.2% from the same period of the prior year, due to increases in net patient revenue. For the nine-month period ended September 30, 2021, pharmaceuticals and supplies expense as a percentage of net patient revenue was 20.9% compared to 21.4% for the same period of the prior year. COVID-19 incremental pharmaceutical and supply expense was \$76.3 million compared to \$99.8 million in the same period of the prior year. In addition to direct patient care expenses, the Ministry incurred incremental costs to protect against the spread of the infection and to care for those suffering with COVID-19. Total incremental COVID-19 expenses for the period ended September 30, 2021 were \$126.7 million compared to \$228.4 million in 2020 as the Ministry continues to respond to the COVID-19 pandemic.

NONRECURRING LOSSES, NET

Nonrecurring losses, net were \$15.4 million for the nine months ended September 30, 2021, compared to \$19.2 million for the nine months ended September 30, 2020. These amounts include certain nonrecurring activities such as restructuring, asset impairments and gains/losses on operating asset sales/disposals.

NONOPERATING GAINS AND LOSSES, NET

Investment gains, including unrealized gains and losses, were \$636.3 million for the nine months ended September 30, 2021, compared to \$102.1 million for the nine months ended September 30, 2020 due to the recovery in the equity markets during 2021. The gain on interest rate swap agreements was \$17.3 million for the nine months ended September 30, 2021, due to an increase in interest rates over the period, compared to a loss of \$48.7 million for the same period of 2020 due to a decline in interest rates.

SUBSEQUENT EVENT

On October 1, 2021, the Company defeased \$40.7 million in Series 2013B tax exempt bonds held under a direct purchase agreement with a financial institution. The Company recorded a loss from early extinguishment of debt of \$152 thousand.

BON SECOURS MERCY HEALTH

Consolidated Financial Statements (Unaudited)

For the Nine Months

Ended

September 30, 2021

BON SECOURS MERCY HEALTH

Consolidated Financial Statements (Unaudited)

Nine Months ended September 30, 2021 and 2020

BON SECOURS MERCY HEALTH
Consolidated Balance Sheets
September 30, 2021 (Unaudited) and December 31, 2020
(In thousands)

Assets	September 30, 2021	December 31, 2020
	2021	2020
Current assets:		
Cash and cash equivalents	\$ 544,780	721,837
Investments	181,664	159,169
Self-insurance and trustee held funds	78,512	73,846
Donor restricted funds	3,682	4,411
Total cash and investments	808,638	959,263
Net patient receivables	1,173,763	1,072,483
Other receivables	138,975	168,706
Inventories	252,990	251,699
Prepaid expenses and other current assets	228,878	206,390
Total current assets	2,603,244	2,658,541
Assets whose use is limited:		
Board designated funds	8,740,747	7,850,710
Self-insurance and trustee held funds	282,992	240,333
Donor restricted funds	92,512	113,286
Total assets whose use is limited	9,116,251	8,204,329
Property and equipment, net	4,476,834	4,352,024
Investments in unconsolidated organizations	632,340	976,545
Operating lease right-of-use assets	334,545	333,629
Retirement assets	131,701	133,678
Other long-term assets	614,931	637,540
Total assets	\$ 17,909,846	17,296,286
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 709,373	765,718
Current portion of long-term debt	339,678	255,926
Accrued salaries, wages and benefits	747,688	595,264
Current portion of operating lease liabilities	78,786	80,372
Other accrued expenses	447,822	681,353
Total current liabilities	2,323,347	2,378,633
Long-term debt, less current portion	4,097,919	4,241,545
Retirement liabilities	521,672	560,638
Self-insurance liabilities	313,996	273,090
Operating lease liabilities	268,914	262,113
Other long-term liabilities	1,001,260	1,026,412
Total liabilities	8,527,108	8,742,431
Net assets without donor restrictions:		
Controlling interest	8,281,044	7,547,543
Noncontrolling interest	823,471	754,964
Total net assets without donor restrictions	9,104,515	8,302,507
Net assets with donor restrictions	278,223	251,348
Total net assets	9,382,738	8,553,855
Total liabilities and net assets	\$ 17,909,846	17,296,286

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Unaudited Consolidated Statements of Operations

(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues:				
Net patient service revenue	\$ 2,527,118	2,386,619	\$ 7,547,956	6,513,514
Other revenue, net	<u>179,282</u>	<u>269,866</u>	<u>494,087</u>	<u>865,791</u>
Total operating revenues	<u>2,706,400</u>	<u>2,656,485</u>	<u>8,042,043</u>	<u>7,379,305</u>
Expenses:				
Employee compensation	1,334,153	1,183,759	3,921,794	3,529,274
Purchased services and other	618,897	591,896	1,878,649	1,739,850
Supplies	545,904	507,735	1,578,858	1,395,363
Depreciation and amortization	100,302	127,490	338,703	376,931
Interest expense	<u>32,352</u>	<u>33,850</u>	<u>98,742</u>	<u>96,094</u>
Total operating expenses	<u>2,631,608</u>	<u>2,444,730</u>	<u>7,816,746</u>	<u>7,137,512</u>
Recurring operating income	74,792	211,755	225,297	241,793
Nonrecurring operating losses, net	<u>(846)</u>	<u>(3,014)</u>	<u>(15,439)</u>	<u>(19,151)</u>
Operating income	73,946	208,741	209,858	222,642
Nonoperating gains (losses), net:				
Investment gains	53,705	244,288	636,274	102,107
Realized and unrealized interest rate swap agreements (losses) gains	3,327	5,872	17,374	(48,696)
Loss on defeasance of debt	—	—	—	(22,486)
Other nonoperating activities, net	<u>(15,560)</u>	<u>(18,676)</u>	<u>(38,771)</u>	<u>(69,699)</u>
Excess of revenue over expenses	<u>\$ 115,418</u>	<u>440,225</u>	<u>\$ 824,735</u>	<u>183,868</u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH
Unaudited Consolidated Statements of Changes in Net Assets
(In thousands)

	Controlling interest	Noncontrolling interest	Net assets without donor restrictions	Net assets with donor restrictions	Total net assets
Balance at December 31, 2019	\$ 7,078,276	322,927	7,401,203	195,454	7,596,657
Excess of revenues over expenses	474,425	134,694	609,119	—	609,119
Gain from discontinued operations	39,492	—	39,492	—	39,492
Grants and contributions	—	17,500	17,500	36,067	53,567
Investment gains	—	—	—	15,532	15,532
Net assets released from restrictions	7,455	—	7,455	(27,493)	(20,038)
Distributions to noncontrolling interest owner	—	(51,137)	(51,137)	—	(51,137)
Pension and other postemployment changes	(59,701)	—	(59,701)	—	(59,701)
Acquisition of Roper St Francis	57,256	290,918	348,174	37,094	385,268
Additional capital contribution for Roper St Francis	(41,650)	41,650	—	—	—
Other changes, net	(8,010)	(1,588)	(9,598)	(5,306)	(14,904)
Increase in net assets	<u>469,267</u>	<u>432,037</u>	<u>901,304</u>	<u>55,894</u>	<u>957,198</u>
Balance at December 31, 2020	\$ 7,547,543	754,964	8,302,507	251,348	8,553,855
Excess of revenues over expenses	743,351	81,384	824,735	—	824,735
Loss from discontinued operations	(18,396)	—	(18,396)	—	(18,396)
Grants and contributions	—	—	—	22,589	22,589
Investment gains	—	—	—	15,680	15,680
Net assets released from restrictions	8,328	—	8,328	(15,286)	(6,958)
Distributions to noncontrolling interest owner	—	(14,435)	(14,435)	—	(14,435)
Other changes, net	218	1,558	1,776	3,892	5,668
Increase in net assets	<u>733,501</u>	<u>68,507</u>	<u>802,008</u>	<u>26,875</u>	<u>828,883</u>
Balance at September 30, 2021	\$ <u>8,281,044</u>	<u>823,471</u>	<u>9,104,515</u>	<u>278,223</u>	<u>9,382,738</u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Unaudited Consolidated Statements of Cash Flows

(In thousands)

Nine months ended September 30,

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Increase in net assets	\$ 828,883	556,222
Depreciation and amortization	338,703	376,931
Amortization of premium on issued debt securities	(11,085)	(11,376)
Loss on defeasance of debt	—	22,486
Acquisition of Roper St Francis	—	(401,776)
Gain on step acquisition of Roper St Francis	—	(4,831)
Other changes in net assets, net	(39,919)	8,246
Contributions restricted by donor	(22,589)	(3,947)
Net unrealized (gains) losses on certain investments	(385,343)	23,580
Current assets	(100,613)	(106,535)
Long-term assets	38,824	99,308
Accelerated Medicare Payments Program	(186,742)	734,246
Other current liabilities	95,318	125,289
Long-term liabilities	(13,328)	75,079
Net cash provided by operating activities	<u>542,109</u>	<u>1,492,922</u>
Cash flows from investing activities:		
Acquisitions, net of cash received	—	62,684
Property and equipment additions, net of disposals	(470,733)	(357,430)
Purchase of alternative investments and other securities	(470,143)	(563,524)
Sales of alternative investments and other securities	205,378	201,162
Investments and assets whose use is limited, net	(288,246)	(1,772,165)
Dividend from equity method investments	357,315	—
Purchase of equity method investments	(6,340)	—
Sale of equity method investments	—	13,138
Net cash used in investing activities	<u>(672,769)</u>	<u>(2,416,135)</u>
Cash flows from financing activities:		
Restricted contributions	22,589	3,947
Contribution from noncontrolling interest	—	18,547
Distributions to noncontrolling interest	(14,435)	(40,362)
Proceed from debt issuance	5,773	2,444,695
Repayment of long-term debt	(46,711)	(1,329,988)
Repayment of finance lease	(13,200)	(7,799)
Cost of long-term debt issuance	—	(8,132)
Net cash (used in) provided by financing activities	<u>(45,984)</u>	<u>1,080,908</u>
Effect of exchange rates on cash and cash equivalents	<u>(413)</u>	<u>749</u>
Net decrease in cash and cash equivalents	<u>(177,057)</u>	<u>158,444</u>
Cash and cash equivalents, beginning of the year	<u>721,837</u>	<u>453,258</u>
Cash and cash equivalents, end of the year	<u>\$ 544,780</u>	<u>611,702</u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

(1) Basis of Presentation

(a) Organizational Structure and Mission

Bon Secours Mercy Health (BSMH or the Company) is a nonprofit, nonstock membership Catholic health organization, supervising market delivery consisting of hospitals, physician clinics, and other organizations providing health-related services. BSMH is sponsored by partners in Bon Secours Mercy Ministries (BSMM). BSMM is a public juridic person of the Roman Catholic Church. BSMH provides management direction to these separately organized market delivery systems (the Groups) to carry out the mission, vision, and values of BSMH. The Groups operate as Providence, Samaritan, and European groups. The Providence group encompasses operations within Virginia, Ohio, and Kentucky. The Samaritan group encompasses operations within Ohio and South Carolina and the European group encompasses the Ireland market within the Republic of Ireland. The Roper St. Francis Healthcare acquisition (RSFH) is not included in the groups and operates as the Charleston market within Charleston, South Carolina. See Note (1)(b), - Acquisitions and Disposals for further details on the RSFH acquisition.

The mission of the Company is to extend the compassionate ministry of Jesus by improving the health and well-being of our communities and bring good help to those in need, especially people who are poor, dying and underserved.

The consolidated financial statements include the accounts of all members of the corporate group controlled by BSMH. As required, in conformity with U.S. generally accepted accounting principles (GAAP), the consolidated financial statements include the balance sheets, results of operations and changes in net assets, and cash flows of BSMH, the Groups, HealthSpan Partners (HSP), Shared Services Organization, Self-Funding Programs, and BSMH Health Insurance Company, Ltd. (the Captive)(collectively, the Company). Investments in entities where the Company holds a noncontrolling interest are recorded under the equity or cost method of accounting. The Company has included its equity share of income or losses and changes in net assets from investments in unconsolidated affiliates in other revenue, net in the accompanying consolidated statement of operations. All material intercompany transactions and account balances have been eliminated in consolidation.

On April 30, 2020, the Company ceased operations of Our Lady of Bellefonte Hospital and related Bellefonte Physician Services with the exit from the Ashland market. The consolidated financial statements for all periods presented have been adjusted to present the operating results of the Ashland market as discontinued operations. See Note (1)(c), - Discontinued Operations for further details.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

(b) Acquisitions and Disposals

(i) Acquisition of Roper St. Francis Healthcare (RSFH)

On January 2, 2020, Bon Secours Mercy Health completed an agreement with the Medical Society of South Carolina to restructure the RSFH joint venture, a charitable healthcare delivery system based in Charleston, South Carolina. The restructuring increased BSMH's ownership interest in the joint venture from a noncontrolling 27% to a controlling 51%. As the controlling interest in the joint venture was obtained in the transaction, BSMH accounted for this as a business combination under the acquisition method, consistent with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 954-805 *Health Care Entities Business Combinations*.

The goodwill of \$99,171 arising from the acquisition relates to the synergies and cost reductions expected to be achieved. The goodwill is included in other long-term assets in the consolidated balance sheet. The following table summarizes the consideration paid for the acquisition and the estimated fair value of the assets acquired and liabilities assumed, the fair value of previously held equity interest, as well as the fair value of the noncontrolling interest at the acquisition date.

Cash consideration	\$	185,000
Fair value of BSMH's equity interest in RSFH before the business combination		<u>122,613</u>
Fair value of consideration	\$	<u>307,613</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Current assets	\$	252,707
Property and equipment		573,773
Other long-term assets		379,172
Current liabilities		(216,434)
Other long-term liabilities		<u>(580,508)</u>
Total identifiable net assets assumed		408,710
Fair value of noncontrolling interest in RSFH		(200,268)
Goodwill		<u>99,171</u>
Total	\$	<u>307,613</u>

Included in the acquired other long-term assets are financing right-of-use (ROU) assets of \$128,339 and operating ROU assets of \$45,352. Current financing lease liabilities of \$2,949 and operating lease liabilities of \$10,435 are included in current liabilities. Other long-term liabilities include financing lease liabilities and operating lease liabilities of \$105,451 and \$36,895, respectively.

The fair value of the noncontrolling interest and the previously held equity interest in RSFH was estimated by applying the income approach and the market approach.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

BSMH recognized a gain of \$4,831 as a result of remeasuring to fair value its 27% equity interest in RSFH held before the business combination. The gain is included within other nonoperating activities, net on the consolidated statement of operations for the nine months ended September 30, 2020. Purchase accounting was finalized by year end, resulting in gain increasing to \$7,997 recognized in the period ended December 31, 2020.

The following are the results of RSFH's operations that have been included in the consolidated statement of operations and statement of changes in net assets from the acquisition date for:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Total operating revenues	\$ 314,654	264,471	870,767	726,916
Total operating expenses	278,792	257,891	833,128	746,865
Recurring operating income (loss)	35,862	6,580	37,639	(19,949)
Nonrecurring operating gains (losses), net	1,104	—	(10,060)	—
Operating income (loss)	36,966	6,580	27,579	(19,949)
Nonoperating (losses) gains, net	(168)	11,136	17,202	38,045
Excess of revenue over expenses	\$ 36,798	17,716	44,781	18,096

(c) *Discontinued Operations*

On April 30, 2020, the Company ceased operations of Our Lady of Bellefonte Hospital and related Bellefonte Physician Services located in Ashland, Kentucky representing the Company's exit from the Ashland market. Based on the criteria in ASC 205, *Discontinued Operations*, it was determined that the abandonment met the criteria for discontinued operations treatment. The results of the Ashland market are presented as discontinued operation in the Company's consolidated financial statements. The loss on discontinued operations excluded general corporate overhead allocations.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

The following financial information presents the results of the Ashland market:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Total operating revenues	\$ 172	(2,031)	1,997	41,579
Total operating expenses	684	5,440	1,811	50,793
Recurring operating (loss) income	(512)	(7,471)	186	(9,214)
Nonrecurring operating gains (losses), net	—	1,013	—	(6,176)
Operating (loss) income	(512)	(6,458)	186	(15,390)
Nonoperating losses, net	(558)	(1,469)	(1,664)	(1,213)
Deficit of revenue over expenses	\$ (1,070)	(7,927)	(1,478)	(16,603)

(2) Significant Accounting Policies

(a) Cash and Cash Equivalents

The Company considers highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents held by outside investment managers are considered investments and classified as board-designated funds. Cash, cash equivalents, and investments that are restricted per contractual or regulatory requirements are classified as donor-restricted or trustee held funds.

(b) Assets Whose Use is Limited

Assets whose use is limited include assets held by trustees under indentures, self-insurance trust arrangements, assets related to donor-restricted net assets, and assets designated by the board of directors over which it retains control and may, at its discretion, use for other purposes. Investments consist of marketable equity securities, corporate bonds, U.S. government and government related marketable debt securities, alternative investments, and money market funds.

Unrealized gains or losses on trading securities are included in investment gains. As of September 30, 2021, and December 31, 2020, all investments and assets whose use is limited are designated as trading securities, except for certain foundation investments and trustee held funds, which are designated as other than trading securities.

(c) Fair Value Measurement

The carrying values of financial instruments classified as current assets and current liabilities approximate fair values. The fair values of assets limited or restricted as to use, with the exception of alternative investments, are based on quoted market prices or other observable inputs. Alternative investments are recorded under the equity method, but approximate fair value. The Company elected

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

to record its investments in equity and fixed income commingled funds at fair value. See note 5 for additional disclosures of assets limited or restricted as to use. ASC Topic 820 *Fair Value*, emphasizes that fair value is a market-based measurement, not an entity specific measurement.

ASC Topic 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The three levels are defined as follows:

Level 1 – inputs utilize quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

Level 3 – inputs are unobservable inputs for the asset or liability, which is typically based on an entity's assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company'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.

In order to meet the requirements of ASC Topic 820, the Company utilizes three basic valuation approaches to determine the fair value of its assets and liabilities required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability.

The second approach is the market approach. The market approach looks at what a market participant would consider an exact or similar asset or liability to that of the Company, including those traded on exchanges, to determine value.

The third approach is the income approach. The income approach uses estimation techniques to determine the estimated future cash flows of the Company's respective asset or liability expected by a market participant and discounts those cash flows back to present value (more typically referred to as a discounted cash flow approach).

The Company's nonfinancial assets and liabilities not permitted or required to be measured at fair value on a recurring basis typically relate to assets and liabilities acquired in a business combination and long-lived assets and liabilities held for sale. The Company is required to provide additional disclosures about fair value measurements as part of the consolidated financial statements for each major category of assets and liabilities measured at fair value on a nonrecurring basis. In general, nonrecurring fair

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities, which generally are not applicable to nonfinancial assets and liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as definitive sales agreements, appraisals or established market values of comparable assets, and historical cash payment trends. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability and include situations where there is little, if any, market activity for the asset or liability, such as internal estimates of future cash flows.

(d) Net Patient Service Revenue and Net Patient Receivables

In accordance with ASC Topic 606, *Revenue from Contracts with Customers*, the Company records patient service revenue at the transaction price estimated by the Company to reflect the total consideration due from patients and third party payors (including commercial payors and government programs) and others, and they include variable consideration for retroactive revenue adjustments. Revenue is recognized as performance obligations are satisfied in exchange for providing goods and services in patient care. Revenue is recorded as these goods and services are provided. The transaction price, which involves significant estimates, is determined based on the Company's standard charges for the goods and services provided, with a reduction recorded for price concessions related to third party contractual arrangements as well as patient discounts and other patient price concessions. Patient service revenue for services provided to patients who have third party payor coverage is recognized based on contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Company recognizes revenue when services are provided. Based on historical experience, a significant portion of the Company's uninsured patients (self-pay) will be unable or unwilling to pay for the services provided.

The Company's concentration of credit risk related to net patient receivables is limited due to the diversity of patients and payors. Net patient receivables consist of amounts due from government programs (primarily Medicare and Medicaid), private insurance companies, managed care programs and patients themselves. The Medicare program represented 18% and 20% of net patient accounts receivable as of September 30, 2021, and December 31, 2020, respectively while the Medicaid program represented 11% as of September 30, 2021 and 8% as of December 31, 2020. Excluding the Medicare and Medicaid programs, no one other payor represents more than 10% of the Company's net patient accounts receivable as of September 30, 2021, or December 31, 2020.

Patient receivables are recorded at net realizable value based on certain assumptions determined by payor class. For third party payors including Medicare, Medicaid, and commercial insurance, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay receivables, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries and any anticipated changes in trends.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

Patient receivables can be impacted by the effectiveness of the Company's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect the net realizable value of patient receivables. The Company also continually reviews the net realizable value of patient receivables by monitoring historical cash collections as a percentage of trailing net operating revenue, as well as by analyzing current period net revenue and admissions by payor classification, aged receivables by payor and the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third party insured receivables.

The Company's net patient service revenues during the three and nine months ended September 30, 2021 and 2020 has been presented in the following table based on an allocation of the estimated transaction price with the patient between the primary patient classification of insurance coverage:

	Three months ended September 30,			
	2021		2020	
Medicare	\$ 923,030	36.5 %	\$ 868,781	36.4%
Medicaid	356,591	14.1	335,967	14.1%
Other governmental	43,528	1.7	43,106	1.8%
Commercial and other third party	1,187,130	47.0	1,128,063	47.3%
Self-pay	16,839	0.7	10,702	0.4%
Total	<u>\$ 2,527,118</u>	<u>100.0 %</u>	<u>\$ 2,386,619</u>	<u>100.0 %</u>

	Nine months ended September 30,			
	2021		2020	
Medicare	\$ 2,782,515	36.8 %	\$ 2,388,140	36.7 %
Medicaid	1,115,276	14.9	910,432	14.0 %
Other governmental	127,138	1.7	125,279	1.9 %
Commercial and other third party	3,485,728	46.1	3,040,813	46.7 %
Self-pay	37,299	0.5	48,850	0.7 %
Total	<u>\$ 7,547,956</u>	<u>100.0 %</u>	<u>\$ 6,513,514</u>	<u>100.0 %</u>

(e) Inventories

Inventories, consisting primarily of pharmacy drugs and medical and surgical supplies are stated at the lower of cost or net realizable value and are valued principally by the weighted average method.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

(f) Property and Equipment, Net

Property and equipment, net is recorded at cost or, if donated, at fair value on the date of receipt. Depreciation is calculated over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives of the assets are as follows:

Buildings	20 to 60 years
Fixed equipment	5 to 20 years
Movable equipment	5 to 10 years
Software	3 to 7 years

Gifts of long-lived assets, such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit donor restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Interest cost is capitalized as part of the cost of constructing capital assets, net of any interest income earned on unexpended bond proceeds borrowed for a specific project, during the construction period. Costs incurred in the development and installation of internal use software are expensed if they are incurred in the preliminary project stage or post implementation stage, while certain costs are capitalized if incurred during the application development stage. Internal use software is amortized over its expected useful life, generally between 3 and 7 years, with amortization beginning when the project is completed, and the software is placed in service.

The cost and related accumulated depreciation of property and equipment that is sold or retired is removed from the respective accounts and the resulting gain or loss is recorded in other loss related to long lived assets.

(g) Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, current portion of operating lease liabilities and operating lease liabilities on the consolidated balance sheet. Finance leases are included in other long-term assets (Note 2(k)), other accrued expenses, and other long-term liabilities (Note 2(n)).

Lease liabilities are recognized based on the present value, net of the future minimum lease payments over the lease term using the Company's incremental borrowing rate based on the information available at commencement. The ROU asset is derived from the lease liability and also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Certain lease agreements for real estate include payments based on actual common area maintenance expenses and others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in other operating expenses, net, but are not included in the right-of-use asset or liability

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

balances. Lease agreements may include one or more renewal options which are at the Company's sole discretion. The Company does not consider the renewal options to be reasonably likely to be exercised, therefore they are not included in ROU assets and lease liabilities. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term for operating leases.

In accordance with ASC 842, the Company has elected to not recognize ROU assets and lease liabilities for short-term leases with a lease term of 12 months or less. The Company recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as all other leases.

(h) Asset Impairment

The Company regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. In accordance with the provisions of the ASC Topic 360-10, *Impairment or Disposal of Long-Lived Assets*, if events or changes in circumstances indicate that the carrying value of an asset is not recoverable, the Company's management estimates the projected undiscounted cash flows, excluding interest and taxes, of the related individual facilities to determine if an impairment loss should be recognized. The amount of impairment loss is based on the excess of a reporting unit's carrying amount over its fair value. Fair value is determined through an evaluation of recent and projected financial performance of facilities using standard industry valuation techniques.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are changed, the carrying value of affected assets is allocated over the remaining lives. In estimating the future cash flows for determining whether an asset is impaired and if expected future cash flows used in measuring assets are impaired, the Company groups their assets at the lowest level for which there are identifiable cash flows independent of other groups of assets.

On March 25, 2021, RSFH resolved to replace the electronic medical records systems. The planned abandonment and replacement is expected to occur in the second half of 2022. The abandonment decision is an impairment indicator and a resulting impairment charge of \$9,686 was recorded in nonrecurring operating losses, net within the consolidated statement of operations of BSMH.

(i) Investments in Unconsolidated Organizations

The Company maintains noncontrolling interests in various joint ventures and other companies that do not require consolidation. The majority of these investments are accounted for using the equity method of accounting, as the Company has significant influence, but does not have control, over the operating and financial policies of the investee. Investments in unconsolidated organizations are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the investment might not be recoverable. No impairment was recognized for the three and nine months ended September 30, 2021 and 2020.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

(j) Retirement Assets and Liabilities

The Company has several defined benefit pension plans covering the majority of employees who qualify as to age and length of service. The Company funds actuarially determined pension amounts in accordance with a long-term funding policy to ensure the defined benefit pension plans maintain adequate funding over time. In addition, the Company has several defined contribution plans.

The Company recognizes in the consolidated balance sheet the funded status of its defined benefit pension and other postemployment plans (collectively, referred to as the Plans), measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for defined benefit pension plans and accumulated benefit obligation for other postemployment benefit plans).

(k) Other Long-Term Assets

Other long-term assets, net consists of the following as of:

	September 30, 2021	December 31, 2020
Goodwill, net	\$ 268,058	268,713
Notes and other long term receivables	59,873	56,637
Other intangibles	28,704	31,944
Right-of-use assets – finance	209,172	225,963
Other	49,124	54,283
Total other long-term assets	\$ 614,931	637,540

Other long-term assets include goodwill and other identifiable intangible assets. Goodwill is an asset representing the excess of the aggregate purchase price over the fair value of the net assets acquired in a business combination. Goodwill is evaluated for impairment annually using qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

The following is the carrying amount and changes in the carrying amount of goodwill included in other assets in the consolidated balance sheets as of:

	September 30, 2021	December 31, 2020
Goodwill at the beginning of the period	\$ 268,713	197,695
Goodwill related to acquisitions	—	99,171
Measurement period adjustments	—	(19,367)
Impairment	—	(8,542)
Other	(655)	(244)
Goodwill at the end of the period	\$ 268,058	268,713

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

(I) *Accrued Claims Expense and Related Liabilities*

Accrued claims expense and related liabilities consist of unpaid healthcare expenses. The estimate for incurred but not reported claims is based on actuarial projections of costs using historical paid claims and other relevant data. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate number of paid claims is dependent on future developments, management is of the opinion that the reserves for claims are adequate to cover such claims.

(i) Self-Insurance

Under the Company's self-insurance programs (professional/general liability, workers' compensation, and employee health benefits), claims are reflected based upon actuarial estimation, including both reported and incurred but not reported claims, taking into consideration the severity of incidents and the expected timing of claim payments. The Company shares certain insurance risks it has underwritten through the use of reinsurance contracts. Amounts that can be claimed from the Company's reinsurers are valued by an independent actuary and are included in other long-term assets. Should the Company's reinsurers be unable to reimburse the Company for recoverable claims, the Company would still be liable to pay the claims; however, the Company contracts with various highly rated insurance carriers to mitigate this risk.

(ii) Professional Liability and General Insurance

The Company's hospital professional liability (HPL) and hospital general liability (HGL) exposures are covered primarily through the Captive. The Captive is an offshore insurance company domiciled in the Cayman Islands and 100% owned by the Company. In addition to providing HPL and HGL coverage to its insureds, the Captive provides policies for certain employed physician, commercial insurance deductibles, and the Company's fleet property damage coverage, with excess layers reinsured through commercial carriers under policies written on a claims-made basis.

(iii) Workers Compensation Insurance

The Company's workers' compensation program primarily consists of self-insurance programs in various states with excess coverage through a commercial insurer.

(iv) Employee Health Insurance

Employee health benefits of the Company are principally provided through the Company's self-insurance program. Accrued claims associated with this program are reported as other accrued expenses in the accompanying consolidated balance sheet.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

(m) Net Assets Including Noncontrolling Interest

The Company classifies net assets based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions represent contributions, gifts, and grants that have no donor-imposed restrictions or that arise as a result of operations. Net assets with donor restrictions are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose, passage of time and/or to be maintained by the Company in perpetuity. Net assets with donor restrictions primarily consist of pledges and funds received for capital projects, various healthcare programs, and community outreach programs.

Unconditional promises to give cash and other assets to the Company are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as donor-restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, these restricted net assets are reclassified as assets without donor restrictions and reported in the accompanying consolidated statement of operations and statement of changes in net assets as net assets released from restrictions. Such amounts are classified as other revenue or transfers for additions to property and equipment. Donor-restricted contributions whose restrictions are satisfied within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

The consolidated financial statements include all assets, liabilities, revenue, and expenses of less than 100% owned entities that the Company controls in accordance with applicable accounting guidance. Accordingly, the Company has reflected a noncontrolling interest for the portion of the Company's revenue and expenses not controlled by the Company, separately in the consolidated balance sheets and the consolidated statement of operations.

(n) Other Long-Term Liabilities

Other long-term liabilities consist of the following as of:

	September 30, 2021	December 31, 2020
Derivative instruments (note 9)	\$ 89,908	118,251
SERP liability	88,252	75,568
Lease liabilities – finance	342,109	344,266
Accelerated Medicare Payments Program	404,192	397,566
Deferred social security tax liabilities	69,858	69,858
Other	6,941	20,903
Total other long-term liabilities	\$ 1,001,260	1,026,412

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(o) Other Revenue

Other operating revenues includes income from equity investments in joint ventures (note 15), grant revenues including stimulus funding provided by the CARES Act (note 3), reimbursements, assisted living, revenues from corporate services, earnings on funds held by bond trustees and cafeteria and meal sales.

(p) Charity Care

The Company exists to benefit the people in the communities it serves. In pursuing its mission, the Company advocates for and provides services to help meet healthcare and related socio-economic needs of poor and disadvantaged individuals and the broader community. The Company provides services in the communities served by holistically ministering to its patients with respect and without regard to their ability to pay.

Programs and services for the uninsured and underinsured represent the financial commitment of the Company to everyone in the community. The Company's financial assistance policy ensures that all members of the community receive this basic human right to access healthcare.

Charity care costs are estimated based on multiplying the ratio of costs to gross charges for all payments not attributable to other community benefits programs by the revenue recognized and written-off for health services provided to persons who cannot afford to pay. Charity care amounts are not recorded as net patient service revenue.

The categories included as programs and services for the poor and disadvantaged are as follows:

(i) Charitable Services – Financially Disadvantaged Persons

The Company provides care to patients regardless of their ability to pay for all or a portion of the charges incurred. This care is classified as charity care based upon the Company's established policies. In accordance with the Catholic Health Association (CHA) guidelines, charity care represents the unpaid costs of free or discounted health services provided to persons who cannot afford to pay and who meet the Company's criteria for financial assistance.

In assessing a patient's ability to pay, the Company utilizes generally recognized poverty income levels, financially supporting 100% of the healthcare services provided to patients with annual family income at or below 200% of the federal poverty guidelines. Patients with annual family income above 200% and below 400% are eligible for a prorated reduction in charges for medically necessary services through a sliding scale applicable to the respective market area.

Charitable Services – State Programs

The Company provides services to indigent patients under various state programs, including state Medicaid, that generally pay healthcare providers amounts that are less than the cost of the services provided to the recipients. Estimated unreimbursed costs of the care provided to these disadvantaged patients are also reported as charitable services.

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(ii) Other Community Benefits

Other community benefits include community services for the poor and disadvantaged as well as the broader community. The programs cover a broad spectrum of services and are financially supported by the Company:

- Primary care access – providing free community-based preventive and primary care services through free-standing clinics and mobile health vehicles;
- Health screenings and immunizations – provision of free health screenings and immunizations for a variety of health conditions for women, children, and senior residents;
- Child programs – providing oral healthcare, asthma and childhood obesity interventions;
- Caregiver and senior programs – focused on support, health screenings, and services to assist older adult populations;
- Education – providing medical and other health professional programs;
- Leadership activities – a full-time community health leader is provided in each community served who works to expand community capacity, identify community health needs, and address social health conditions.

(q) Recurring Operating Income

Recurring operating income includes financial results of operating entities, but excludes certain nonrecurring activities such as restructuring, asset impairments and gains/losses on operating asset sales/disposals.

(r) Performance Indicator

The consolidated statement of operations includes the caption excess of revenues over expenses, which represents the operating (performance) indicator for the Company. Consistent with industry practice, changes in net assets which are excluded from the excess of revenue over expenses may include impact of acquisitions, discontinued operations, change in net unrealized gains on restricted investments, restricted contributions, distributions to noncontrolling interests, certain pension and other postemployment benefit adjustments, and other miscellaneous items as defined under U.S. Generally Accepted Accounting Principles (GAAP).

(s) Income Taxes

The Company and most of its subsidiaries (including certain joint venture entities) are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Their related income is exempt from federal income tax under Section 501(A). Some of the subsidiaries are taxable entities, and some of the income of the tax-exempt entities is subject to taxation as unrelated business taxable income. The Company and its subsidiaries file U.S. federal income tax returns, and they also file in various state and foreign jurisdictions.

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The Company accounts for uncertain tax positions in accordance with ASC Topic 740, *Income Taxes*. The Company 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 Company has determined that no significant unrecognized tax benefits or liabilities exist as of September 30, 2021.

Accounting for uncertainty in income taxes, ASC Topic 740-10 prescribes a comprehensive model for how an organization should measure, recognize, present and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. The Company is subject to routine audits by taxing jurisdictions. There are no current audits in progress. As of September 30, 2021, the Company has no uncertain tax positions.

The Company's taxable subsidiaries had \$186,454 and \$199,705 net operating loss carryforwards as of September 30, 2021 and December 31, 2020, respectively, which expire in varying periods through 2037 and are available to offset future taxable income. The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be in effect during the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Interest and penalties related to income taxes are accounted for as income tax expense. The Company has placed a full valuation allowance on the deferred tax assets as of September 30, 2021 and December 31, 2020 as the Company considers it more likely than not that these amounts will not be utilized in future periods.

(t) Medicare and Medicaid Programs

The Company renders services to patients under contractual arrangements with the Medicare and Medicaid programs. Payment for the majority of Medicare and Medicaid services is based on a prospectively determined fixed price, according to a patient classification, based on clinical and other diagnostic factors.

Amounts earned under these contractual arrangements are subject to review and final determination by Medicare and Medicaid intermediaries and other appropriate governmental authorities or their agents and may be adjusted in future periods as settlements are determined.

In the opinion of management, adequate provision has been made in the consolidated financial statements for any adjustments resulting from the respective intermediary reviews. The Company received settlements related to prior years' cost reports and other third-party contracts, which resulted in an increase in net patient service revenue of \$11,771 and \$6,705 for the three months ended September 30, 2021 and 2020, respectively, and an increase of \$17,334 and \$20,813 for the nine months ended September 30, 2021 and 2020, respectively.

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In the healthcare industry, laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Failure to comply with such laws and regulations can result in significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. The Company also has certain portions of Medicare payments, which are outside of the Progressive Payment Systems and fee for service payment rates and are based on historical costs.

(u) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The impact of the Novel Coronavirus (COVID-19) pandemic has increased the uncertainty of assumptions underlying management's estimates. The Company will be impacted by the severity and duration of the COVID-19 pandemic. Those primary drivers are uncertain and beyond management's control and may adversely impact revenue growth, patient volumes, supply chain, investments, and workforce. The impact of COVID-19 on the Company's consolidated financial statements may differ from the judgments and estimates determined as of the three and nine months ended September 30, 2021.

(v) Contingencies

During the normal course of business, the Company may become involved in litigation. Management assesses the probable outcome of unresolved litigation and records estimated settlements, if applicable. It is not possible to determine the eventual outcome of any presently unresolved litigation. However, after consultation with legal counsel, management believes that these matters will be resolved without material adverse impact to the consolidated financial position or results of operations of the Company.

(w) Reclassifications

The Company has reclassified certain amounts relating to its prior period results to conform to the current period presentation. These reclassifications have not changed the results of operations or changes in net assets of prior periods.

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(In thousands)

(3) Novel Coronavirus (COVID-19)

On March 11, 2020, the World Health Organization designated the Novel Coronavirus (COVID-19) as a pandemic. The pandemic negatively impacted the global economy, the communities we serve, our employees, our suppliers, and has created significant volatility and disruption of the financial markets. Patient volumes and the related revenue for the Company's health care services were significantly impacted during the first half of 2020 due to state and local policies implemented to contain the spread of COVID-19 and preserve personal protective equipment. However, the Company saw a gradual and steady recovery beginning in May 2020 as states began to re-open and allow for non-emergent procedures.

In response to COVID-19, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on March 27, 2020. Subsequent to the CARES Act enactment, the Consolidated Appropriations Act, 2021 (CAA) was signed into law on December 27, 2020. The CAA extended certain provisions of the CARES Act and provided additional COVID-19 relief.

Through the CARES Act and state grant programs, the Company received approximately \$213 and \$154,466 for the three months ended September 30, 2021 and 2020 and \$74,514 and \$447,769 for the nine months ended September 30, 2021 and 2020, respectively. The funds were accounted for as government grants and recognized in operating revenue as the Company substantially met the terms and conditions required to retain the funds. Approximately \$23,592 and \$103,148 was recognized in other revenue, net within the consolidated statement of operations, for the three months ended September 30, 2021 and 2020 and \$78,554 and \$382,795 for the nine months ended September 30, 2021 and 2020, respectively. \$46,438 and \$50,477 was reserved and included in other accrued expenses within the consolidated balance sheet as of September 30, 2021 and December 31, 2020.

The Company received \$734,246 in Accelerated Medicare Payments and recognized the funds as a refund liability with repayment to occur based upon the terms and conditions of the Program. The CAA through the Centers for Medicare and Medicaid Services ("CMS") extended the repayments term through 2022. The Company accounted for \$143,415 (net of refunds made in 2021) within other accrued expenses for the amounts due in 2021, and \$404,192 was recorded within other long-term liabilities for the amounts due in 2022, on the consolidated balance sheet.

The CARES Act also provided for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Company began deferring the employer portion of social security taxes in April 2020. As of September 30, 2021, and December 31, 2020 a deferral of \$139,716 was recorded, of which \$69,858 was recorded in other salaries, wages, and benefits and \$69,858 was recorded in other long-term liabilities within the consolidated balance sheet. Lastly, the CARES Act provided an employee retention tax credit. The Company recognized \$21,000 tax credit as a reduction to employee compensation within the consolidated statement of operations for the period ended September 30, 2020.

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(4) Community Benefits (Unaudited)

The following is a summary of the Company's community service as measured by services to the poor and benefits provided to the broader community. The summary has been prepared in accordance with the Catholic Health Association (CHA) of the United States document, A Guide for Planning and Reporting Community Benefit, 2020 Edition.

The following represents unsponsored community benefit expense at cost for:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Charitable services and other community benefits:				
Traditional charity care	\$ 16,677	28,318	\$ 71,704	86,659
Unpaid costs of public programs	90,809	138,408	295,067	313,049
Community health services	6,836	5,422	18,262	18,162
Health professional education and research	23,372	25,755	53,560	45,458
Subsidized health services	6,825	3,683	12,534	10,127
Financial and in-kind donations	4,203	1,882	6,570	3,660
Community building activities	1,266	2,710	3,281	4,696
Community benefit operations	1,029	1,800	1,910	3,460
Research	378	8	378	8
Total quantifiable community benefits	\$ 151,395	207,986	\$ 463,266	485,279
Percent of total recurring expenses	5.8 %	8.5 %	5.9 %	6.8 %

Community benefits include the provision of health services to uninsured persons who cannot afford to pay for their care, participation in government programs for low income persons that reimburse services at less than cost, education of healthcare professionals, community health education, activities to identify and manage chronic health conditions and other healthcare and community supportive services.

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(In thousands)

(5) Investments and Assets Whose Use is Limited

The composition of assets whose use is limited consists of the following as of:

	September 30, 2021	December 31, 2020
	<u> </u>	<u> </u>
Board-designated funds:		
Cash and cash equivalents	\$ 173,761	901,776
Equity mutual funds	1,197,505	1,137,602
Equity commingled funds	947,018	702,717
Common and preferred stocks	943,310	665,746
Fixed income commingled funds	337,845	275,629
Government and agency securities	1,514,439	1,364,425
Corporate obligations	1,738,541	1,424,040
Alternative investments	1,888,328	1,378,775
	<u>\$ 8,740,747</u>	<u>7,850,710</u>
Self-insurance and trustee held funds:		
Cash and cash equivalents	\$ 95,471	107,442
Equity mutual funds	189,520	150,638
Government and agency securities	42,818	28,823
Corporate obligations	33,695	27,276
	<u>\$ 361,504</u>	<u>314,179</u>
Donor-restricted funds:		
Cash and cash equivalents	\$ 49,480	73,385
Equity mutual funds	16,534	14,564
Common and preferred stocks	4,425	3,634
Fixed income commingled funds	16,894	17,978
Government and agency securities	151	136
Alternative investments	8,710	8,000
	<u>\$ 96,194</u>	<u>117,697</u>

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	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Investments:		
Cash and cash equivalents	\$ 137,967	94,245
Government and agency securities	8,306	24,594
Corporate obligations	35,391	40,330
	<u>\$ 181,664</u>	<u>159,169</u>
Investments and assets whose use is limited	\$ 9,380,109	8,441,755
Available for current liabilities	<u>(263,858)</u>	<u>(237,426)</u>
Long-term assets limited or restricted as to use	\$ <u>9,116,251</u>	<u>8,204,329</u>

Interest and dividend earnings (net of expenses), net realized gains and losses on investments and the net change in unrealized gains and losses on investments are considered investment income and are included and primarily recorded in investment gains on the consolidated statement of operations.

The following is a summary of nonoperating investment gains, for:

	Three months ended September 30,		Nine months ended September 30,	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Dividends and interest	\$ 13,568	27,612	40,876	36,226
Net realized gains on securities	46,459	44,920	210,055	78,289
Net change in unrealized (losses) gains on securities	<u>(6,322)</u>	<u>171,756</u>	<u>385,343</u>	<u>(12,408)</u>
	\$ <u>53,705</u>	<u>244,288</u>	<u>636,274</u>	<u>102,107</u>

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The Company's ability to generate investment income is dependent in large measure on market conditions. The market value of the Company's investment portfolio, as well as the Company's investment income, have fluctuated significantly in the past and are likely to continue to fluctuate in the future. The Company's investment portfolio assets are designated as trading securities as discussed in ASC Topic 320, *Investments – Debt and Equity Securities*. The Company's entire portfolio is actively managed by third-party investment managers. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. As required by U.S. GAAP, realized and unrealized gains and losses on an investment portfolio, designated as a trading portfolio, are accounted for as nonoperating investment (losses) income and are included in (deficit) excess of revenues over expenses. Because of this designation as a trading portfolio, management anticipates fluctuations in excess of revenues over expenses. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit as of September 30, 2021 and December 31, 2020.

The Company, through its professional investment managers, enters into derivative transactions (primarily in the form of money market, equity index and government futures), which are used in conjunction with the Company's portfolio of marketable debt securities to economically hedge various investment risks.

(6) Fair Value of Financial Instruments

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the Company's business, its value or consolidated financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Fair values for the Company's fixed maturity securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations and designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. The Company's fixed maturity securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair values of equity securities have been determined by the Company from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

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Fair values for the Company's interest rate swaps have been determined using pricing models developed based on the LIBOR swap rate and other observable market data. The values were determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and the Company.

Nonrecurring Fair Value Measurements

The Company is required to provide additional disclosures about fair value measurements as part of the consolidated financial statements for each major category of assets and liabilities measured at fair value on a nonrecurring basis. In general, nonrecurring fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities, which generally are not applicable to nonfinancial assets and liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as definitive sales agreements, appraisals or established market values of comparable assets, and historical cash payment trends. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability and include situations where there is little, if any, market activity for the asset or liability, such as internal estimates of future cash flows.

Nonfinancial assets and liabilities	Input	Valuation methodology
Current assets	Estimate of replacement cost	Cost
Inventories	Estimate of replacement cost	Cost
Property and equipment, net	Estimate of replacement cost	Cost
Other long term assets	Estimate of replacement cost	Cost
Identifiable intangible assets	Discounted cash flows	Income
Current liabilities	Estimate of replacement cost	Cost
Long-term liabilities	Estimate of replacement cost	Cost
Contingent consideration	Discounted cash flows	Income

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The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of:

	Fair value	Fair value measurements at September 30, 2021 using		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 544,780	544,780	—	—
Investments:				
Cash and cash equivalents	137,967	137,967	—	—
Government and agency securities	43,697	8,306	35,391	—
Corporate obligations	—	—	—	—
	<u>181,664</u>	<u>146,273</u>	<u>35,391</u>	<u>—</u>
Assets limited or restricted as to use:				
Cash and cash equivalents	318,711	318,711	—	—
Equity mutual funds	1,403,559	788,665	614,894	—
Equity commingled funds	934,256	779,857	110,295	44,104
Common and preferred stocks	947,735	923,355	24,380	—
Fixed income commingled funds	294,237	232,201	62,036	—
Government and agency securities	1,557,408	889,314	668,094	—
Corporate obligations	1,772,237	—	1,772,237	—
	<u>7,954,587</u>	<u>4,623,156</u>	<u>3,287,327</u>	<u>44,104</u>
Cash and assets limited or restricted as to use				
Assets whose use is limited under securities lending arrangements	<u>12,763</u>	<u>12,763</u>	<u>—</u>	<u>—</u>
Total cash and assets limited or restricted as to use	<u>\$ 7,967,350</u>	<u>4,635,919</u>	<u>3,287,327</u>	<u>44,104</u>
Liabilities:				
Interest rate swaps	\$ <u>89,908</u>	<u>—</u>	<u>—</u>	<u>89,908</u>
Total liabilities	\$ <u>89,908</u>	<u>—</u>	<u>—</u>	<u>89,908</u>

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		Fair value measurements at December 31, 2020 using		
	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 721,837	721,837	—	—
Investments:				
Cash and cash equivalents	94,245	94,245	—	—
Government and agency securities	24,594	24,594	—	—
Corporate obligations	40,330	—	40,330	—
	<u>159,169</u>	<u>118,839</u>	<u>40,330</u>	<u>—</u>
Assets limited or restricted as to use:				
Cash and cash equivalents	1,082,603	1,082,603	—	—
Equity mutual funds	1,302,804	737,514	565,290	—
Equity commingled funds	694,619	580,825	72,278	41,516
Common and preferred stocks	669,380	648,956	20,424	—
Fixed income commingled funds	237,893	194,584	43,309	—
Government and agency securities	1,393,384	812,436	580,948	—
Corporate obligations	1,451,316	—	1,451,316	—
Cash and assets limited or restricted as to use	<u>7,713,005</u>	<u>4,897,594</u>	<u>2,773,895</u>	<u>41,516</u>
Assets whose use is limited under securities lending arrangements	<u>8,098</u>	<u>8,098</u>	<u>—</u>	<u>—</u>
Total cash and assets limited or restricted as to use	<u>\$ 7,721,103</u>	<u>4,905,692</u>	<u>2,773,895</u>	<u>41,516</u>
Liabilities:				
Interest rate swaps	\$ 118,251	—	—	118,251
Total liabilities	<u>\$ 118,251</u>	<u>—</u>	<u>—</u>	<u>118,251</u>

There were no significant transfers between Levels 1 and 2 during the nine months ended September 30, 2021 and year ended December 31, 2020.

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Following is the summary of the inputs and valuation techniques utilized to value Level 2 financial instruments as of September 30, 2021 and December 31, 2020:

<u>Financial instrument</u>	<u>Input</u>	<u>Valuation</u>
Government and agency bonds	Matrix	Market/income
Corporate obligations	Broker/dealer	Market
Commingled and mutual funds	Matrix	Market/income

The changes in the fair value of the assets measured using significant unobservable inputs (Level 3) consisted of the following for the period ended:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
Beginning balance	\$ 41,516	—
Purchases	2,755	41,082
Sales	—	(2,342)
Realized and unrealized (losses) gains	(167)	2,776
Ending balance	<u>\$ 44,104</u>	<u>41,516</u>

Investments for which fair value is measured using the Net Asset Value (NAV) as a practical expedient are excluded from the fair value hierarchy in accordance with ASU No. 2015-07. As of September 30, 2021, and December 31, 2020, investments measured at NAV consist of fixed income commingled funds and alternative investments. The fixed income commingled investment funds are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of the fair value of the commingled investments funds as of September 30, 2021 and December 31, 2020, since the commingled investment funds are audited and accounted for at fair value by the administrators of the respective commingled investment funds.

Alternative investments are not necessarily readily marketable and may include short sales on securities and trading in future contracts, options, foreign currency contracts, other derivative instruments, and private equity investments. Alternative investments can be divested only at specified times in accordance with terms of the partnership agreements. Hedge fund redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated. These redemptions are subject to lock-up provisions that are generally imposed upon initial investment in the fund. Private equity funds are generally closed-end funds and have significant redemption restrictions that prohibit redemptions during the fund's life.

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The following table summarizes the investments measured at NAV, committed capital and associated redemptions as of September 30, 2021:

	<u>Investments measured at NAV</u>	<u>Committed capital</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Fixed income commingled funds	\$ 60,502	—	Monthly	10 days
Alternative investments:				
Private Investments	1,076,906	654,246	N/A	N/A
Hedge funds	<u>825,647</u>	<u>—</u>	Monthly, Quarterly, Annually	2 to 90 days ⁽¹⁾
	<u>\$ 1,963,055</u>	<u>654,246</u>		

Investments that are not redeemable as of September 30, 2021 are \$234,680⁽¹⁾.

The following table summarizes the investments measured at NAV, committed capital and associated redemptions as of December 31, 2020:

	<u>Investments measured at NAV</u>	<u>Committed capital</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Fixed income commingled funds	\$ 55,714	—	Monthly	10 days
Alternative investments:				
Private Investments	739,719	555,138	N/A	N/A
Hedge funds	<u>647,056</u>	<u>—</u>	Monthly, Quarterly, Annually	2 to 90 days ⁽¹⁾
	<u>\$ 1,442,489</u>	<u>555,138</u>		

Investments that are not redeemable as of December 31, 2020 are \$121,679⁽¹⁾.

Categorization of alternative investments with respect to investee strategies and redemptions for those funds whose fair value is estimated based up NAVs are as follows:

- (a) **Private investments** – Includes Private Equity, Real Estate and Private Debt. This category includes investments in funds with multiple opportunistic strategies that are primarily private in nature. These investments cannot be redeemed by the Company; rather, the Company has committed to an amount to invest in the private funds over the respective periods. After the commitment period has ended, distributions are received through the liquidation of the underlying assets in the private fund. Based on the expiration dates of the funds, it is estimated that underlying assets will be liquidated over the next 1 to 15 years.

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(b) Hedge funds – This category included investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. Distributions will be received as the underlying investments are liquidated.

(7) Property and Equipment, Net

Property and equipment, net consists of the following as of:

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Land	\$ 412,788	321,021
Land improvements	112,840	118,917
Buildings and fixed equipment	4,676,974	4,599,743
Movable equipment	5,046,921	5,312,983
Leasehold improvements	<u>226,891</u>	<u>197,317</u>
	10,476,414	10,549,981
Less accumulated depreciation	<u>(6,440,550)</u>	<u>(6,561,206)</u>
	4,035,864	3,988,775
Construction in progress	<u>440,970</u>	<u>363,249</u>
	<u>\$ 4,476,834</u>	<u>4,352,024</u>

As of September 30, 2021 and December 31, 2020, the Company is contractually obligated for construction projects totaling \$145,838 and \$112,325 at current construction cost levels. It is expected that these costs will be incurred in the next twelve months. The Company will finance these construction projects through the use of tax-exempt bond obligations proceeds, assets whose use is limited and operating cash flow. Depreciation expense for the Company was \$93,516 and \$127,490 for the three months ended September 30, 2021 and 2020, respectively, and \$319,288 and \$376,931 for the nine months ended September 30, 2021 and 2020, respectively.

BON SECOURS MERCY HEALTH

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For the nine months ended September 30, 2021 and 2020

(In thousands)

(8) Long-Term Debt

The following is a summary of the Company's long-term debt:

Long-term debt	Coupon rates	Maturity through	September 30, 2021	December 31, 2020
Master trust indenture obligations:				
Fixed rate Hospital Facilities Revenue and Revenue Refunding and Improvement Bonds:				
Mercy Health Series 2012A serial and term bonds	2.50-5.00%	2042	7,010	13,530
Mercy Health Series 2015A term bonds	4.00-5.00	2045	159,205	159,205
Mercy Health Series 2015C taxable bonds	3.38	2025	150,000	150,000
Mercy Health Series 2017A serial and term bonds	3.00-5.00	2047	442,955	472,335
Mercy Health Series 2017C taxable bonds	3.56	2027	143,150	143,150
Mercy Health Series 2018A taxable bonds	4.30	2028	305,684	305,684
BSMH Series 2020A serial and term bonds	4.00-5.00	2049	675,630	675,630
BSMH Series 2020 taxable bonds	3.46	2030	389,680	389,680
BSMH Series 2020-2 taxable bonds	1.35-3.21	2050	650,000	650,000
Adjustable rate Hospital Facilities Revenue and Revenue Refunding and Improvement Bonds:				
Mercy Health Series 2008 direct placement bonds		2031	118,600	118,600
Mercy Health Series 2010C/D demand and direct placement		2034	160,900	166,500
Mercy Health Series 2012B demand bonds		2036	100,000	100,000
Bon Secours Series 2013B (VSBFA) direct placement bonds		2042	40,740	40,740
Mercy Health Series 2017B bonds payable		2047	89,425	89,425
Bon Secours Series 2017 (SC) direct placement bonds		2042	69,925	69,925
Mercy Health Series 2018AB commercial paper notes			100,000	100,000
BSMH Series 2020B bonds payable		2048	87,380	87,380
2018 TD Bank variable rate taxable term loan		2029	150,000	150,000
2018 US Bank variable rate taxable term loan		2023	160,000	160,000
2020 JPMorgan fixed rate taxable term loan		2023	250,000	250,000
Total master trust indenture obligations			4,250,284	4,291,784
Ireland variable rate taxable term loan payable in August 2025			102,077	101,916
Other debt			14,677	22,193
			4,367,038	4,415,893
Original issue net premium			92,838	105,290
Cost of issuance			(22,279)	(23,712)
			4,437,597	4,497,471
Less current portion of long-term debt			(339,678)	(255,926)
Long-term debt, less current portion			<u>\$ 4,097,919</u>	<u>4,241,545</u>

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The Company's master trust indenture (the MTI) provides that Bon Secours Mercy Health is the sole obligor on all outstanding indebtedness incurred under the MTI. All bond obligations of the Company have been evidenced by obligations issued under the MTI. In addition, the Company has issued a master obligation guaranty under the MTI for a bank term loan of its contractual affiliate, Bon Secours Health System Limited by Guarantee, the principal amount of which is \$102,077.

On January 2, 2020, as part of the restructure of the RSFH joint venture described in note (1)(b), the Company entered into taxable term loans with financial institutions in the amount of \$460,000 to fund the defeasance of tax-exempt debt and swaps held by RSFH. The Company recorded a net loss on extinguishment of debt of \$21,332.

On April 15, 2020, the Company issued \$1,073,575 obligations through Series 2020A (\$683,895 tax exempt fixed rate and \$389,680 of taxable fixed rate bond obligations) and \$87,380 of tax-exempt adjustable rate bond obligations through its Series 2020B bonds. The proceeds of these bond obligation issues were used to defease and pay off debt of \$845,000 (\$175,000 Series 2008 bonds, \$100,000 Series 2015B floating rate notes, and \$570,000 of taxable term loans). The taxable fixed rate bond obligations proceeds were used for general corporate purposes and to pay for associated costs of issuance. The Company recorded a loss from early extinguishment of debt of \$1,153.

The Company incurred additional indebtedness in the second quarter of 2020 to maintain liquidity despite the operational impacts of COVID-19. On April 3, 2020, the Company amended its revolving credit agreement from \$150,000 to \$250,000. There was no amount drawn on the increased line at December 31, 2020 and 2019. In addition, on April 23, 2020, the company entered into a taxable term loan with a financial institution in the amount of \$250,000. On May 11, 2020, the Company entered into an additional revolving credit agreement in the amount of \$250,000, drawing a total of \$250,000 on that line.

On October 15, 2020, the Company issued \$650,000 of taxable fixed rate bond obligations through its Series 2020-2 bonds, the proceeds of which were used to defease \$242,830 of the Series 2012A bonds, pay off the \$250,000 additional revolving credit agreement entered into in May of 2020, pay off a \$130,000 term loan, and pay for associated costs of issuance. The Company recorded a loss from early extinguishment of debt of \$7,439.

The Company's MTI obligations mature at various dates through 2050 and are subject to optional and mandatory redemption features. While only Bon Secours Mercy Health, Inc. (as successor to Mercy Health) is obligated under the terms of the MTI, the Company has covenanted to cause its controlled affiliates and certain contractual affiliates to transfer such funds to as necessary to pay amounts due under the MTI. Certain controlled affiliates of the Company have entered into agreements obligating them to make these transfers at the request of the Company.

The Company is subject to certain restrictive covenants under the MTI, revolving credit agreements, reimbursement agreements and irrevocable letters of credit as of September 30, 2021 and December 31, 2020. The Company was in compliance with all restrictive covenants as of September 30, 2021 and December 31, 2020.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

The following is a schedule of future minimum payments based on scheduled maturities as of September 30, 2021:

Period	Master trust indenture obligations	European group and other debt
2021	\$ 8,660	\$ 6
2022	53,150	33
2023	458,945	21
2024	55,205	14,535
2025	254,450	101,964
Thereafter	3,419,874	40
Total minimum payments	<u>\$ 4,250,284</u>	<u>\$ 116,599</u>

Interest payments for the three months ended September 30, 2021 and 2020 were \$25,895 and \$26,327, respectively, and \$95,560 and \$78,529 for the nine months ended September 30, 2021 and 2020, respectively.

Unamortized debt issuance costs of \$22,279 and \$23,712 as of September 30, 2021 and December 31, 2020, respectively, represents costs related to the issuance of bond obligations and is being amortized over the terms of the related bond obligations at amounts approximating the effective interest method.

As of September 30, 2021, current portion of long-term debt includes \$89,925 of adjustable rate bonds with a mandatory purchase date within the next year, \$100,000 adjustable rate demand bonds supported by the Company's own liquidity and \$100,000 commercial paper notes supported by the Company's own liquidity.

The Company has \$82,950 of variable rate bond obligations with letter of credit support, a total of \$307,215 adjustable rate bonds held under direct purchase agreements with financial institutions and \$412,077 of variable rate taxable term loan agreements with financial institutions. The Company's dedicated liquidity facilities and direct placement agreements have expiration dates that extend from May 2023 to November 2027, and their respective term-out repayment provisions extend beyond the subsequent fiscal year.

The Company maintains a revolving credit agreement for purposes of working capital support or capital asset acquisition. This revolving credit agreement has a commitment amount of \$250,000 and is secured by the MTI. The agreement expires on December 11, 2021, with an intention to extend the agreement beyond this period. No amounts were outstanding under the revolving credit agreement as of September 30, 2021 or December 31, 2020.

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Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

(9) Derivatives and Interest Rate Swap Agreements

The following table includes the notional and valuation amounts (parenthetical amounts represent liabilities) of the Company's interest rate swap agreements:

Interest rate swap agreement	Transaction type	Payment rate/basis	Termination date	Notional amount		Valuation amount	
				September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
December 2006 JPM	Pay fixed	3.63 %	2033	\$ 254,421	269,200	(33,874)	(44,802)
December 2018 Barclays	Pay fixed	3.98	2042	50,000	50,000	(19,020)	(24,973)
December 2018 Citi	Pay fixed	3.84	2032	25,000	25,000	(6,190)	(8,319)
December 2018 JPM	Pay fixed	3.72	2047	80,000	80,000	(19,416)	(26,160)
December 2018 PNC	Pay fixed	3.45	2042	69,925	69,925	(21,479)	(26,744)
December 2007 JPM	Constant maturity	N/A	2027	250,000	250,000	8,720	9,589
August 2018 JPM	Constant maturity	N/A	2037	150,000	150,000	(29)	988
Credit valuation adjustment						1,380	2,170
						\$ (89,908)	(118,251)

All changes in the fair value of the Company's interest rate swap agreements are recognized in realized and unrealized interest rate swap agreements gains/(losses) in the consolidated statement of operations. The differences between settlement payments made and settlement payments received on all interest rate swap agreements are included in realized and unrealized interest rate swap agreements gains/(losses) on the consolidated statement of operations. The net payments were \$4,240 and \$4,296 for the three months ended September 30, 2021 and 2020, respectively and \$11,755 and \$11,233 for the nine months ended September 30, 2021 and 2020, respectively.

The Company's interest rate swap agreements include certain collateralization requirements based on the market value of these transactions. The amount required for collateral is determined daily based on the current market value of the interest rate swap agreements.

The Company has posted collateral with designated custodians of \$35,321 as of September 30, 2021 (\$62,227 as of December 31, 2020) commensurate with the valuation of the interest rate swap agreements. All collateral posted is in the form of cash and cash equivalents and is included within donor restricted on the consolidated balance sheet. Interest earned while collateralized funds are held by the custodian is shown in nonoperating gains, net on the consolidated statement of operations.

(10) Pension Plans

The Company recognizes in the consolidated balance sheets the funded status of its defined benefit pension and other postemployment plans (collectively, referred to as the Plans), measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for defined benefit pension plans and accumulated benefit obligation for other postemployment benefit plans). Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets.

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For the nine months ended September 30, 2021 and 2020

(In thousands)

The following amounts are a summary of the components of net periodic benefit cost for the Plans for:

	Three months ended September 30,			
	Pension benefits		Postemployment benefits	
	2021	2020	2021	2020
Service cost	\$ 1,069	915	128	118
Interest cost	18,124	22,961	93	127
Expected return on plan assets	(30,509)	(33,606)	—	—
Curtailment/settlement cost	2,806	—	—	—
Amortization of:				
Actuarial loss/(gain)	8,184	6,354	10	(18)
Prior service cost	456	(289)	—	—
Net periodic benefit cost	\$ 130	(3,665)	231	227

	Nine months ended September 30,			
	Pension benefits		Postemployment benefits	
	2021	2020	2021	2020
Service cost	\$ 3,206	2,746	383	354
Interest cost	54,372	68,883	280	381
Expected return on plan assets	(91,526)	(100,817)	—	—
Curtailment/settlement cost	8,417	—	—	—
Amortization of:				
Actuarial loss/(gain)	24,553	19,062	31	(53)
Prior service cost	1,368	(866)	—	—
Net periodic benefit cost	\$ 390	(10,992)	694	682

In selecting the expected long-term return on plan assets, the Company considered the average rate of earnings on the assets invested or to be invested to provide the benefits for the defined benefit pension plans. This included considering the target asset allocation and the expected returns likely to be earned over the life of the defined benefit pension plans.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

The Company's defined benefit pension plans targeted asset allocations, by asset category, are as follows as of:

	September 30, 2021	December 31, 2020
Asset category:		
Equity mutual and commingled funds and securities	35 %	35 %
Fixed income mutual funds and securities	44	46
Alternative investments	17	16
Cash	4	3
Total	100 %	100 %

The Company maintains diversification in its plan assets by allocating assets to various asset classes and market segments and retaining multiple professional investment firms with different philosophies, styles, and approaches. Accordingly, based on this diversification, management does not believe there are any concentrations of credit at the measurement date. The marketable debt securities within plan assets, including mortgage-backed and asset-backed obligations, are actively traded and the fair value reflects current market conditions.

The following is a summary of the plan assets measured at fair value on a recurring basis based on the fair value hierarchy as of September 30, 2021:

	Fair value	Fair value measurements		
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 131,193	131,193	—	—
Equity mutual funds	548,510	409,832	138,678	—
Equity commingled funds	240,317	214,475	25,842	—
Common and preferred stocks	245,337	245,337	—	—
Fixed income commingled funds	22,257	22,257	—	—
Government and agency bonds	180,202	155,371	24,831	—
Corporate obligations	1,085,543	—	1,085,543	—
Total investments	2,453,359	1,178,465	1,274,894	—
Due to broker/custodian for investment activity, net	(11,929)	—	(11,929)	—
Total plan assets	\$ 2,441,430	1,178,465	1,262,965	—

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Notes to Consolidated Financial Statements

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(In thousands)

The following is a summary of the plan assets measured at fair value on a recurring basis based on the fair value hierarchy as of December 31, 2020:

	Fair value	Fair value measurements		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 80,616	80,616	—	—
Equity mutual funds	342,267	201,871	140,396	—
Equity commingled funds	442,900	416,238	26,662	—
Common and preferred stocks	232,449	232,449	—	—
Fixed income commingled funds	23,866	23,866	—	—
Government and agency bonds	330,513	295,597	34,916	—
Corporate obligations	975,274	—	975,274	—
Total investments	2,427,885	1,250,637	1,177,248	—
Due from broker/custodian for investment activity, net	3,369	—	3,369	—
Total plan assets	\$ 2,431,254	1,250,637	1,180,617	—

The following table summarizes the alternative investments, committed capital and associated redemptions as of September 30, 2021:

	Alternative investments	Committed capital	Redemption frequency	Redemption notice period
Private Investments	\$ 309,148	89,911	N/A	N/A
Hedge funds	196,605	—	Monthly, Quarterly, Annually	2 to 90 days ⁽¹⁾
	\$ 505,753	89,911		

Investments that are not redeemable as of September 30, 2021 are \$78,802⁽¹⁾.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

The following table summarizes the alternative investments, committed capital and associated redemptions as of December 31, 2020:

	<u>Alternative investments</u>	<u>Committed capital</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Private investments	\$ 245,159	114,267	N/A Monthly, Quarterly,	N/A
Hedge funds	<u>212,158</u>	<u>—</u>	Annually	2 to 90 days ⁽¹⁾
	<u>\$ 457,317</u>	<u>114,267</u>		

Investments that are not redeemable as of December 31, 2020 are \$52,881⁽¹⁾.

Categorization of alternative investments with respect to investee strategies and redemptions for those funds whose fair value is estimated based up NAVs are as follows:

- (a) Private investments** – Includes Private Equity, Real Estate and Private Debt. This category includes investments in funds with multiple opportunistic strategies that are primarily private in nature. These investments cannot be redeemed by the Company; rather, the Company has committed to an amount to invest in the private funds over the respective periods. After the commitment period has ended, distributions are received through the liquidation of the underlying assets in the private fund. Based on the expiration dates of the funds, it is estimated that underlying assets will be liquidated over the next 1 to 15 years.
- (b) Hedge funds** – This category included investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. Distributions will be received as the underlying investments are liquidated.

The Company expects to contribute \$50,000 to the defined benefit pension plans and \$1,798 to the post-employment benefit plans in 2021. The Company has several defined contribution benefit plans to assist eligible employees in providing for retirement. Under such plans, the Company recognized expense of \$60,577 and \$70,044 for the three months ended September 30, 2021 and 2020, respectively, and \$170,915 and \$124,679 for the nine months ended September 30, 2021 and 2020, respectively, related to employer contributions, which is included in employee benefits expense in the consolidated statements of operations.

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Notes to Consolidated Financial Statements

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(In thousands)

(11) Other Commitments and Contingent Liabilities

(a) General and Professional Liability Insurance

The provision for claims and related funding levels for the HPL/GL Program is established annually based upon the recommendations of consulting actuaries. The Company has accrued claims including liabilities for incidents incurred but not reported of approximately \$324,165 and \$289,102 as of September 30, 2021 and December 31, 2020, respectively. The current portion of such accruals, \$72,987 and \$75,616 as of September 30, 2021 and December 31, 2020, respectively, is included in other accrued expenses, and the remainder, \$251,178 and \$213,486 as of September 30, 2021 and December 31, 2020, respectively, is included within self-insurance liabilities in the accompanying consolidated balance sheets. Amounts recorded for unpaid claims are based upon the estimated present value of future claim payments and such amounts are undiscounted and based upon an actuarial estimate.

(b) Workers' Compensation Insurance

Accrued workers' compensation claims of \$64,920 and \$61,049, as of September 30, 2021 and December 31, 2020, respectively. The current portion of such accruals, \$2,102 and \$1,445 as of September 30, 2021 and December 31, 2020, respectively, is reported as other accrued expenses. The remainder, \$62,818 and \$59,604, is reported within self-insurance liabilities in the accompanying consolidated balance sheets, include estimates for incidents incurred but not reported as of September 30, 2021 and December 31, 2020, respectively. Amounts recorded for unpaid claims are based upon the estimated present value of future claim payments and such amounts are undiscounted and based upon an actuarial central estimate.

(c) Employee Health Insurance

Accrued claims associated with this program, which are reported as other accrued expenses in the accompanying consolidated balance sheets, of approximately \$51,931 and \$44,543, include estimates for claims incurred but not reported as of September 30, 2021 and December 31, 2020, respectively.

(d) Litigation

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. The Company's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business but cannot reasonably predict any particular outcomes or operational or financial effects from these matters at this time.

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(e) Leases

The Company's leases primarily consist of real estate leases for medical and administrative office buildings. The leases have remaining lease terms of 1 year to 100 years, some of which include options to extend the leases for up to 30 years, and some of which include options to terminate the leases within 1 year. The following is the lease expense for:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Finance lease expense:				
Amortization of ROU assets	\$ 5,309	5,607	14,921	10,686
Interest on lease liabilities	3,549	2,153	10,366	8,167
Operating lease expense	25,429	18,322	77,877	72,356
Short-term lease expense	8,496	6,666	23,881	21,326
Variable lease expense	6,742	7,762	22,776	21,371
Total lease cost	\$ <u>49,525</u>	<u>40,510</u>	<u>149,821</u>	<u>133,906</u>

Commitments related to non-cancellable operating and finance leases for each of the next five years and thereafter as of September 30, 2021 are as follows:

	Operating	Finance
2021	\$ 24,503	8,072
2022	87,476	28,436
2023	70,592	35,633
2024	57,179	23,106
2025	44,851	21,949
Thereafter	109,942	605,921
Total	394,543	723,117
Less present value discount	(46,843)	(364,284)
Lease liabilities	\$ <u>347,700</u>	<u>358,833</u>

BON SECOURS MERCY HEALTH

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For the nine months ended September 30, 2021 and 2020

(In thousands)

Other information is as follows:

	<u>2021</u>	<u>2020</u>
Weighted average remaining lease terms (in years):		
Finance leases	50.38	65.42
Operating leases	6.24	6.41
Weighted average discount rate:		
Finance leases	3.78 %	3.55 %
Operating leases	4.03	4.35

(12) Net Assets with Donor Restrictions

The Company's endowments consist of 347 and 333 individual funds established for a variety of purposes as of September 30, 2021 and December 31, 2020, respectively. Net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor or board-imposed restrictions and the nature of the restrictions, if any.

The Company's endowment net assets were \$104,710 and \$98,941 as of September 30, 2021 and December 31, 2020, respectively. The Company does not hold any board-designated endowment funds within assets without donor restrictions or temporarily restricted net assets (assets with donor restrictions).

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Uniform Prudent Management of Institutional Funds Act requires the Company to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets without donor restrictions. There were no deficiencies as of September 30, 2021 and December 31, 2020.

The Company has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Company must hold in perpetuity or for a donor-specified period as well as board-designated funds. The practice allows the endowment assets to be invested in a manner that is intended to produce investment returns that exceed the price and yield the results of the allocation index while assuming a moderate level of investment risk. The Company expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

To satisfy its long-term rate-of-return objectives, the Company relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. The Company uses diversified asset allocation to achieve its long-term return objectives within prudent risk constraints to preserve capital.

The Company has a practice of distributing the major portion of current year earnings on the endowment funds if the restrictions have been met. This is consistent with the Company's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

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(In thousands)

(13) Functional Expenses

The functional breakdown of expenses incurred by the Company in fulfilling its mission is as follows for:

	For the three months ended September 30, 2021				
	Program activities			Supporting activities	
	Healthcare services	Ancillary services and other	Total	General and administrative	Total
Employee compensation	\$ 1,013,973	267,696	1,281,669	52,484	1,334,153
Purchased services and other	457,063	32,199	489,262	129,635	618,897
Supplies	498,942	17,271	516,213	29,691	545,904
Depreciation and amortization	64,339	16,128	80,467	19,835	100,302
Interest	2,582	29,071	31,653	699	32,352
Total recurring expenses	\$ <u>2,036,899</u>	<u>362,365</u>	<u>2,399,264</u>	<u>232,344</u>	<u>2,631,608</u>

	For the nine months ended September 30, 2021				
	Program activities			Supporting activities	
	Healthcare services	Ancillary services and other	Total	General and administrative	Total
Employee compensation	\$ 2,967,015	763,253	3,730,268	191,526	3,921,794
Purchased services and other	1,415,441	84,143	1,499,584	379,065	1,878,649
Supplies	1,440,124	54,768	1,494,892	83,966	1,578,858
Depreciation and amortization	238,514	37,055	275,569	63,134	338,703
Interest	8,955	87,693	96,648	2,094	98,742
Total recurring expenses	\$ <u>6,070,049</u>	<u>1,026,912</u>	<u>7,096,961</u>	<u>719,785</u>	<u>7,816,746</u>

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(In thousands)

The functional breakdown of expenses incurred by the Company in fulfilling its mission is as follows for:

	For the three months ended September 30, 2020				
	Program activities			Supporting activities	
	Healthcare services	Ancillary services and other	Total	General and administrative	Total
Employee compensation	\$ 851,880	324,305	1,176,185	7,574	1,183,759
Purchased services and other	191,632	393,120	584,752	7,144	591,896
Supplies	454,367	44,178	498,545	9,190	507,735
Depreciation and amortization	94,310	31,555	125,865	1,625	127,490
Interest	2,770	30,296	33,066	784	33,850
Total recurring expenses	\$ 1,594,959	823,454	2,418,413	26,317	2,444,730

	For the nine months ended September 30, 2020				
	Program activities			Supporting activities	
	Healthcare services	Ancillary services and other	Total	General and administrative	Total
Employee compensation	\$ 2,507,981	960,179	3,468,160	61,114	3,529,274
Purchased services and other	996,308	704,866	1,701,174	38,676	1,739,850
Supplies	1,255,822	128,449	1,384,271	11,092	1,395,363
Depreciation and amortization	275,556	96,417	371,973	4,958	376,931
Interest	9,804	84,048	93,852	2,242	96,094
Total recurring expenses	\$ 5,045,471	1,973,959	7,019,430	118,082	7,137,512

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

(14) Liquidity and Capital Resources

Financial assets available for general expenditure within one year of the balance sheet date consist of the following as of:

	September 30, 2021	December 31, 2020
Cash, cash equivalents and investments	\$ 726,444	881,006
Net patient receivables	1,173,763	1,072,483
Assets whose use is limited:		
Board-designated funds	6,747,813	6,416,222
Self-insurance and trustee held funds	78,512	73,846
Restricted funds	3,682	4,411
	<u>\$ 8,730,214</u>	<u>8,447,968</u>

The Company has certain board-designated and donor-restricted assets whose use is limited, which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. The Company has other assets whose use is limited for donor-restricted purposes, debt service, and for the professional and general liability captive insurance program which have been excluded. Additionally, certain other board-designated assets are designated for future capital expenditures and an operating reserve. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above. However, the board-designated amounts could be made available, if necessary.

As part of the Company's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds. Occasionally, the Board designates a portion of any operating surplus to an operating reserve, which was \$6,747,813 and \$6,416,222 as of September 30, 2021 and December 31, 2020, respectively. The fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

(15) Investments in Unconsolidated Organizations

The Company has invested in a number of joint ventures, limited liability corporations and other entities to provide specialty healthcare services or engage in other activities. The most significant of these investments are presented below. The Company accounts for its interest in these entities under the equity method of accounting and includes its interest in the excess of revenues over expenses of these entities in its consolidated statement of operations and changes in net assets as other revenue. None of these entities are otherwise affiliated with BSMH.

(a) *Ensemble*

Ensemble is a Delaware limited liability company providing revenue cycle management and consulting services to hospitals and health systems. As of September 30, 2021, BSMH ownership interest in Ensemble was approximately 46%. In February 2021, BSMH received a one-time cash dividend of \$357,315 from Ensemble due to a dividend recapitalization financing of Ensemble.

(b) *Sentara Princess Anne*

BSMH and Sentara Healthcare (Sentara) are members in a Virginia not-for-profit, nonstock, corporation that owns and operates Sentara Princess Anne Hospital located in Virginia Beach, Virginia. Sentara holds a 70% membership interest and DePaul Medical Center holds a 30% membership interest in the corporation. The joint venture is managed by Sentara and the agreements provide the members with rights to “put” and “call” the BSMH’s membership interest at fair market value terms upon the occurrence of certain events and dates.

(c) *Bon Secours Charity Health System, Inc*

BSMH and Westchester Medical Center (Westchester) are members of Bon Secours Charity Health System (Charity). Westchester holds a 60% controlling interest and BSMH holds the remaining 40% interest in Charity.

The following is a summary of the investments in unconsolidated organizations as of:

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Ensemble	\$ 504,708	839,267
Sentara Princess Anne	43,731	51,754
Charity	23,916	36,425
Other	59,985	49,099
	<u>\$ 632,340</u>	<u>976,545</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2021 and 2020

(In thousands)

The following is a summary of the income(loss) from unconsolidated organizations, which is included in other revenue, net for:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Ensemble	\$ 18,088	19,175	60,901	46,780
Sentara Princess Anne	8,526	3,891	13,137	8,659
Charity	(1,777)	19,396	(12,509)	(9,393)
Other	1,260	2,243	3,584	5,397
	<u>\$ 26,097</u>	<u>44,705</u>	<u>65,113</u>	<u>51,443</u>

(16) Subsequent Events

The Company has evaluated and disclosed any subsequent events through November 24, 2021, which is the date the consolidated financial statements were issued and made publicly available.

BSMH has entered into Definitive Agreements to sell the assets associated with its Ohio, Florida and Virginia skilled nursing and assisted living facilities, which are subject to satisfactory completion of legal due diligence, as well as regulatory and Catholic Church approval. The Virginia and Ohio facilities are expected to be sold during the fourth quarter of 2021 and the Florida facilities during the first quarter of 2022.

On October 1, 2021, the company defeased \$40,740 Series 2013B tax exempt bonds held under a direct purchase agreement with a financial institution. The Company recorded a loss from early extinguishment of debt of \$152.

No other recognized or nonrecognized subsequent events were identified for recognition or disclosure in the consolidated financial statements.

BON SECOURS MERCY HEALTH

Utilization Statistics

For the Nine Months Ended

September 30, 2021 and 2020

and

For the Twelve Months Ended

December 31, 2020, 2019 and 2018

BON SECOURS MERCY HEALTH

Consolidated Utilization Statistics (Unaudited)

Utilization Statistics	Nine Months Ended September 30,		Twelve Months Ended December 31,		
	2021	2020	2020	2019	2018
Staffed beds - Acute ⁽¹⁾	7,487	7,487	7,487	6,883	5,791
Staffed beds - Post-acute ⁽¹⁾	1,890	1,890	1,890	1,790	1,790
Admissions - Acute ⁽²⁾	251,032	233,795	316,952	299,468	284,791
Admissions - Post-acute ⁽³⁾	3,081	2,776	3,904	5,061	5,029
Total Admissions	254,113	236,571	320,856	304,530	289,821
Observations	47,825	47,818	62,784	66,055	62,392
Equivalent Inpatient Admissions	597,748	543,159	737,329	708,726	655,189
Newborn Deliveries	20,894	21,179	28,035	25,414	25,265
Patient days - Acute	1,158,683	1,041,527	1,435,967	1,247,740	1,187,285
Patient days - Post-acute	309,806	372,356	477,453	329,871	340,866
Occupancy on staffed beds - Acute	56.7%	51.0%	52.4%	49.7%	56.2%
Total Patient Days	1,468,490	1,413,883	1,913,420	1,577,611	1,528,151
Average length of stay - Acute	4.62	4.45	4.53	4.17	4.17
Emergency Room Visits	1,069,823	1,002,664	1,331,825	1,399,327	1,329,630
Physician Visits	5,114,742	4,836,791	6,570,832	6,205,141	5,983,911
Inpatient surgeries and medical procedures	63,213	59,331	80,942	74,726	62,781
Outpatient surgeries	218,678	175,584	245,504	202,760	148,138
Full Time Equivalent Employees	51,372	50,771	50,976	45,380	46,317
Institutional case mix index	1.705	1.682	1.691	1.597	1.585
Medicare case mix index	1.819	n/a ⁽⁴⁾	n/a ⁽⁴⁾	n/a ⁽⁴⁾	n/a ⁽⁴⁾

Note: The combination of Mercy Health and Bon Secours Health System Inc. in FY 2018 involved the combination of different fiscal year ends.

As a result, not all measures are available for all historic periods on a comparable basis. Some information shown here is based on pro forma compilation and does not constitute audited financial information. Certain historical information shown below has been adjusted for Discontinued Operations.

- (1) Staffed beds represents operational beds as of the last day of each respective period. Certain periods have been revised due to updated analysis.
- (2) Acute services include all hospital inpatient volumes excluding long-term care hospital or skilled nursing facility volumes.
- (3) Post-acute services include all long-term care hospital and skilled nursing facility volumes.
- (4) Medicare case mix data is currently being reviewed for consistency with prior periods.

BON SECOURS MERCY HEALTH

Financial Ratios & Analyses

For the Nine Months Ended

September 30, 2021 and 2020

and

For the Twelve Months Ended

December 31, 2020, 2019 and 2018

BON SECOURS MERCY HEALTH

Consolidated Financial Analyses (Unaudited)

(Dollars in Thousands)

	Nine Months Ended September 30,		Twelve Months Ended December 31,		
	2021	2020	2020	2019	2018
Operating Margin	2.8%	3.3%	2.4%	2.8%	3.4%
Excess Margin	9.5%	2.5%	5.9%	7.3% ⁽¹⁾	(0.9%)
Debt Service Coverage - Rolling 12-month Basis ⁽²⁾	3.70	3.47	3.31	4.75 ⁽¹⁾	4.02
Debt Service Coverage - YTD Basis ⁽³⁾	4.12	4.06	3.31	4.75 ⁽¹⁾	4.02
based on Maximum Annual Debt Service ⁽⁴⁾ of:	\$279,044	\$245,253	\$276,352	\$199,464	188,925
adjusted to remove unrealized investments gains (losses) of:	\$385,343	(\$24,632)	\$420,055	\$258,049	(\$224,974)
adjusted to remove unrealized swap gains (losses) of:	\$28,343	(\$38,337)	(\$24,038)	(\$28,383)	\$11,628
adjusted to remove (impairment) charges of:	\$11,619	\$4,918	\$43,434	\$0	\$63,368
adjusted to remove disposed assets not in ordinary course of:	(\$201)	\$2,045	\$189	\$0	\$0
adjusted to remove (loss) on early extinguishment of debt of:	(\$339)	(\$22,486)	(\$29,924)	\$0	(\$25,851)
Operating EBITDA	\$668,721	\$718,375	\$869,275	\$774,905	\$802,178
Operating EBITDA Margin	8.3%	9.7%	8.7%	9.1%	9.9%
Total Unrestricted Cash ⁽⁵⁾	\$9,467,192	\$8,022,067	\$8,731,716	\$5,579,618	\$3,732,948
Days Cash on Hand - Rolling 12-month Basis ⁽⁵⁾	347	333	346	259 ⁽⁶⁾	188 ⁽⁶⁾
Debt to Capitalization	34.9%	40.0%	37.3%	31.2%	40.8%
Debt to Capitalization (per MTI definition) ⁽⁷⁾	36.7%	41.3%	39.2%	32.6%	41.0%
Net Patient Revenue per EIPA-CMI Adj	\$7,404	\$7,129	\$7,195	\$7,025	\$7,194
Total Community Benefit (TCB) Cost ⁽⁸⁾	463,266	485,279	687,517	697,394	677,543
TCB Cost as a percent of Total Expense ⁽⁸⁾	5.9%	6.8%	7.1%	8.4%	8.8%
Net Patient Revenue by Payor Type					
Medicare - Traditional	20.6%	21.4%	21.6%	22.2%	24.5%
Medicare - Managed	16.3%	15.5%	15.1%	14.0%	13.5%
Medicaid - Traditional	5.6%	4.3%	4.6%	4.2%	2.2%
Medicaid - Managed	9.2%	9.8%	9.4%	8.7%	8.4%
Other Governmental	1.7%	1.9%	1.8%	2.0%	1.9%
Commercial	46.1%	46.3%	46.7%	48.3%	47.8%
Self Pay & Other	0.5%	0.8%	0.8%	0.6%	1.7%
Total Net Patient Revenue by Payor Type	100.0%	100.0%	100.0%	100.0%	100.0%

Note: The combination of Mercy Health and Bon Secours Health System Inc. in FY 2018 involved the combination of different fiscal year ends.

As a result, some information shown here is based on pro forma compilation and does not constitute audited financial information.

Further, certain historical information shown below has been adjusted for Discontinued Operations.

- (1) FY 2019 Excess Margin has been adjusted to exclude the \$1.897 B gain on sale of the Ensemble enterprise and \$77.7 M for the Ireland acquisition. Debt Service Coverage calculations have also been adjusted to exclude these amounts.
- (2) Debt Service Coverage - Rolling 12-month Basis uses the Master Trust Indenture (Amended and Restated) dated as of December 1, 2017 definition. Interim periods are calculated using a rolling 12-month basis factors in this calculation.
- (3) Debt Service Coverage - YTD Basis uses the Master Trust Indenture (Amended and Restated) dated as of December 1, 2017 definition. Interim periods are calculated using year-to-date factors in this calculation.
- (4) Maximum Annual Debt Service ("MADS") represents the greatest annual period of debt service (principal repayment plus interest payment). MADS is determined on the debt service on Indebtedness as defined in the Bon Secours Mercy Health Master Trust Indenture.
- (5) Cash excludes trustee held funds and donor restricted funds.
- (6) DCOH calculation has been adjusted for Discontinued Operations. FY 2019 and FY 2018 were previously reported at 254 and 183, respectively.
- (7) Indebtedness per the MTI includes financing leases, installment purchase contracts and guarantees of indebtedness in addition to borrowed money.
- (8) Includes the unpaid cost of public programs for the treatment of Medicaid and indigent beneficiaries, as well as other costs provided to the broader community. This does not include the unpaid cost for the treatment of Medicare beneficiaries nor does it include bad debts. See Note 4 of the consolidated audited and unaudited financial statements for a thorough discussion of Un-sponsored Community Benefit cost.