BON SECOURS MERCY HEALTH

Annual Disclosure Information

Fiscal Year Ended
December 31, 2021

In compliance with
Certificates to Provide Continuing Disclosure
And SEC Rule 15c2-12

BON SECOURS MERCY HEALTH

Bon Secours Mercy Health, Inc., as successor to Mercy Health, formerly known as Catholic Health Partners ("BSMH" or the "Corporation"), provides annual disclosure of specified financial information (the "annual disclosure undertaking") in compliance with the Continuing Disclosure Certificates related to certain bonds issued for the benefit of the Corporation, as required by Rule 15c2-12 under the Securities Exchange Act of 1934, as amended. The annual disclosure undertaking is filed with the Municipal Securities Rulemaking Board ("MSRB") on its Electronic Municipal Market Access ("EMMA") website as well on the Corporation's website under "Financial Information."

On September 1, 2018, Mercy Health combined with Bon Secours Health System, Inc. ("BSHSI") and simultaneously BSHSI changed its name to Bon Secours Mercy Health, Inc. and became the sole corporate member of Mercy Health. In January 2020, Mercy Health was merged into BSMH. BSMH assumed all obligations of Mercy Health, including all obligations under the Master Trust Indenture (Amended and Restated) dated as of December 1, 2017 (the "MTI") and the disclosure obligations of Mercy Health under its Continuing Disclosure Certificates.

The attached annual disclosure is based on the consolidated financial statements of Bon Secours Mercy Health, Inc. This annual disclosure includes the following materials:

- Operating Beds by Region and Facility
- System Historical Utilization Data
- Debt Service Coverage
- Debt to Capitalization Ratio
- Consolidated Condensed Balance Sheet Information and Ratios
- Management's Discussion and Analysis of Recent Financial Performance
- Consolidated Audited Financial Statements
- Providers of Liquidity and Credit Support
- Recent Developments
- Leadership & Governance: Executive Leadership Team
- Leadership & Governance: Organizational Structure and Board of Directors

Throughout this disclosure, reference to "Ireland" refers to five hospitals located in the Republic of Ireland which were consolidated into the BSMH financial statements beginning July 1, 2019; reference to "HealthSpan" refers to an Affiliate corporation that is not a subsidiary of BSMH but is included in the consolidated financial statements of BSMH; reference to "Ensemble" refers to Ensemble Health Partners, a revenue cycle company in which BSMH sold its majority interest in 2019 but still retains a minority interest.

BON SECOURS MERCY HEALTH

Operating Beds by Region and Facility

As of December 31, 2021

Group	Market	Facility	Affiliate/Market Entity	Number of Operating Acute Beds	Number of Operating Long-Term Care Beds
Samaritan Group	Toledo, OH	Mercy Health – St. Vincent Medical Center	Mercy Health – St. Vincent Medical Center LLC	376	0
		Mercy Health – St. Charles Hospital	Mercy Health – St. Charles Hospital LLC	238	0
		Mercy Health – Anne Hospital	Mercy Health – St. Anne Hospital LLC	92	0
		Mercy Health – Tiffin Hospital	Mercy Health – Tiffin Hospital LLC	45	0
		Mercy Health – Willard Hospital	Mercy Health – Willard Hospital LLC	20	0
		Mercy Health – Defiance Hospital	Mercy Health – Defiance Hospital LLC	23	0
	Lorain, OH	Mercy Regional Medical Center	Mercy Health – Regional Medical Center LLC	262	0
		Mercy Allen Hospital	Mercy Health – Allen Hospital LLC	25	0
	Youngstown, OH	Mercy Health – St. Elizabeth Youngstown Hospital	Mercy Health Youngstown LLC (d/b/a St. Elizabeth Youngstown Hospital, St. Elizabeth Boardman Hospital and St. Joseph Warren Hospital)	390	0
		Mercy Health – St. Elizabeth Boardman Hospital		253	0
		Mercy Health – St. Joseph Warren Hospital		156	0
		Mercy Health – The Assumption Village Skilled Nursing and Rehabilitation (g)	The Assumption Village	0	198
		Mercy Health – Humility House Senior Living (g)	Humility House	0	102
		Hospice of the Valley, Inc.	Hospice of the Valley, Inc.	0	16
	Lima, OH	Mercy Health – St. Rita's Medical Center	Mercy Health – St. Rita's Medical Center LLC	362	18
		Institute of Orthopedic Surgery		12	0
	Springfield, OH	Mercy Health – Springfield Regional Medical Center (b)	Community Mercy Health Partners (d/b/a Springfield Regional Medical Center, Urbana Hospital, Mercy McAuley Center and Oakwood Village)	254	0
		Mercy Health – Urbana Hospital (b)		35	0
		Mercy McAuley Center (b)		0	115
		Mercy Health – Oakwood Village Senior Living (b) (g)		0	294
	Greenville, South Carolina	St. Francis Hospital – Downtown	St. Francis Hospital, Inc.	245	0
		St. Francis Hospital, Inc. – Eastside		93	0
	Total Samaritan Group			**2,881**	**743**
Providence Group	Cincinnati, OH	Mercy Health- Fairfield Hospital	Mercy Health – Fairfield Hospital LLC	226	0
		Mercy Health – Anderson Hospital	Mercy Health – Anderson Hospital LLC	247	0
		Mercy Health – Clermont Hospital	Mercy Health – Clermont Hospital LLC	178	0
		Mercy Health – West Hospital	Mercy Health – West Hospital LLC	248	0
		The Jewish Hospital – Mercy Health	Jewish Hospital, LLC	209	0
		Mercy Health – West Park (g)	Mercy Franciscan Senior Health and Housing Services, Inc. (d/b/a Mercy Franciscan at West Park)	0	225
	Paducah, KY	Mercy Health – Lourdes Hospital	Mercy Health – Lourdes Hospital LLC	226	0
	Irvine, KY	Mercy Health – Marcum and Wallace Memorial Hospital	Mercy Health – Marcum & Wallace Hospital LLC	25	0
	Richmond, Virginia	Southside Regional Medical Center	Bon Secours Mercy Health Petersburg LLC (d/b/a Southside Regional Medical Center)	300	0
		Southern Virginia Regional Medical Center	Bon Secours Mercy Health Emporia LLC (d/b/a Southern Virginia Regional Medical Center)	80	0
		St. Mary's Hospital (b) (h)	Bon Secours – St. Mary's Hospital of Richmond, LLC	391	0
		Richmond Community Hospital (b) (h)	Bon Secours – Richmond Community Hospital, LLC	104	0
		Memorial Regional Medical Center (b) (h)	Bon Secours – Memorial Regional Medical Center LLC	225	0
		Rappahannock General Hospital (b) (h)	Chesapeake Hospital LLC (d/b/a Rappahannock General Hospital)	35	0
		St. Francis Medical Center (b) (h)	Bon Secours – St. Francis Medical Center LLC	130	0

BON SECOURS MERCY HEALTH

Operating Beds by Region and Facility

As of December 31, 2021

Region	Market	Facility	Affiliate/Market Entity	Number of Operating Acute Beds	Number of Operating Long-Term Care Beds
Providence Group (cont.)	Hampton Roads, Virginia	Maryview Medical Center	Maryview Hospital LLC (d/b/a Maryview Medical Center and Bon Secours Martview Behavioral Medical Center)	479	0
		Bon Secours Maryview Behavioral Medical Center		0	54
		Southampton Memorial Hospital	Bon Secours Mercy Health Franklin LLC (d/b/a Southampton Memorial Hospital)	90	0
		Province Place of Maryview (f)	Province Place of Maryview LLC	0	0
		Maryview Nursing Care Center (f)	Bon Secours-Maryview Nursing Care Center LLC	0	0
		Mary Immaculate Hospital	Mary Immaculate Hospital LLC	123	0
		St. Francis Nursing Care Center (f)	Mary Immaculate Nursing Care Center LLC (d/b/a St. Francis Nursing Care Center)	0	0
		DePaul Medical Center (e)	Bon Secours – DePaul Medical Center LLC	0	0
		Province Place of DePaul (f)	Province Place of DePaul, LLC	0	0
		Sentara Princess Ann Hospital (a)	Sentara Princess Ann Hospital	174	0
	Total Providence Group			**3,490**	**279**
European Group	Cork	Bon Secours Hospital Cork	Bon Secours Health System CLG	256	0
		Mount Desert Care Village		0	100
	Dublin	Bon Secours Hospital Dublin	Bon Secours Health System CLG	130	0
	Galway	Bon Secours Hospital Galway	Bon Secours Health System CLG	101	0
	Limerick	Bon Secours Hospital Limerick	Bon Secours Health System CLG	19	0
	Tralee	Bon Secours Hospital Tralee	Bon Secours Health System CLG	116	0
	Total European Group			**622**	**100**
Charleston	Charleston, South Carolina	Bon Secours - St. Francis Xavier Hospital (d)	Bon Secours St. Francis Xavier Hospital, Inc.	201	0
		Roper Hospital (d)	Roper Hospital, Inc.	332	0
		Roper St. Francis Berkeley Hospital (d)	Roper St. Francis Berkeley Hospital, Inc.	50	0
		Roper St. Francis Mt. Pleasant Hospital (d)	Roper St. Francis Mt. Pleasant Hospital, Inc.	85	0
	Total Roper St. Francis Healthcare / Charleston			**668**	**0**
New York	New York	Good Samaritan Hospital (a)	Bon Secours Charity Health System, Inc. (d/b/a Good Samaritan Hospital, Bon Secours Community Hospital and St. Anthony Community Hospital)	286	0
		Bon Secours Community Hospital (a)		122	0
		St. Anthony Community Hospital (a)		60	0
		Schervier Pavilion (a)	Villa Frances at the Knolls, Inc. (d/b/a Schervier Pavilion)	0	120
		Mount Alverno Center (a)	St. Francis Center at the Knolls, Inc. (d/b/a Mount Alverno Center)	0	85 (c)
	Total New York			**468**	**205**
Florida	Florida	Bon Secours St. Petersburg (g)	Bon Secours Maria Manor Nursing Care Center LLC	0	274
		Bon Secours Place at St. Petersburg (g)	Bon Secours Place at St. Petersburg, LLP	0	105 (c)
	Total St. Petersburg / Florida			**0**	**379**
	Total Bon Secours Mercy Health			**8,129**	**1,706**

(a) Minority interest joint venture. Utilization and financial data is not consolidated into BSMH.
(b) Majority interest joint venture.
(c) Assisted living beds.
(d) Minority interest joint venture through 12/31/2019. Majority interest joint venture beginning 1/1/2020.
(e) DePaul Medical Center Inpatient services were moved to Maryview Medical Center in April 2021.
(f) BSMH sold four free standing senior living facilities located in Virginia. See "Recent Developments - Sale of Senior Living Care Facilities".

BON SECOURS MERCY HEALTH

System Historical Utilization Data

	Years Ended December 31,		
	2019	2020	2021
Staffed beds - acute [(1)]	6,883	7,487	7,487
Staffed beds - post-acute [(1)]	1,790	1,890	1,501
Admissions - acute [(2)]	299,468	316,952	334,295
Admissions - post-acute [(3)]	5,061	3,904	4,119
Total Admissions	304,529	320,856	338,414
Observations	66,055	62,784	62,664
Equivalent inpatient admissions (EIPA)	708,726	737,329	794,283
Newborn deliveries	25,414	28,035	27,849
Patient days - acute	1,247,740	1,435,967	1,583,629
Patient days - non-acute	329,871	477,453	395,949
Total Patient Days	1,577,611	1,913,420	1,979,578
Occupancy on staffed beds - acute	49.7%	52.4%	57.9%
Average length of stay - acute	4.17	4.53	4.74
Emergency room visits	1,399,327	1,331,825	1,452,343
Physician visits	6,205,141	6,570,832	6,878,752
Inpatient surgeries and medical procedures	74,726	80,942	83,307
Outpatient surgeries	202,760	249,013	293,249
Full time equivalent employees	45,830	51,019	51,621
Institution case mix index	1.597	1.691	1.716
Medicare case mix index	n/a [(4)]	n/a [(4)]	1.825

Note: Certain historical information shown above 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

Debt Service Coverage

(Dollars in thousands)

	Years Ended December 31,		
	2019	2020	2021
Excess revenue over expenses (expenses over revenue)	$2,623,901	$609,119	$997,698
Plus (minus):			
Interest expense	97,048	129,975	131,210
Depreciation & amortization	424,261	499,631	465,307
Early extinguishment loss (gain)	0	29,924	152
Disposition of capital assets not made in the ordinary course	(1,890,636)	(189)	45
Inherent contribution not made in the ordinary course	(77,667)	0	0
Impairment of property plant & equipment	0	43,434	12,819
Discontinued operations	0	0	0
Adjustments resulting from a change in GAAP	0	0	0
Unrealized (gains) losses on marketable securities	(258,049)	(420,056)	(475,957)
Unrealized (gains) losses on derivative instruments	28,383	24,038	(28,544)
Funds available for debt service coverage	947,241	915,876	1,102,730
Maximum Annual Debt Service	199,464	276,352	280,724
Number of times maximum annual debt service covered	4.75	3.31	3.93

Note: calculation of debt service coverage is performed in accordance with the terms of the MTI.

Note: Gain on the FY 2019 sale of 51% equity interest in Ensemble Health Partners is treated in the above calculation as a disposition of capital assets not made in the ordinary course of business. If this gain of $1.890 billion were included in Income Available for Debt Service, the Long Term Debt Service Coverage ratio for FY 2019 would be 14.22.

Note: BSMH adopted ASC Topic 842 effective January 1, 2019 which required the recognition of right-of-use assets and lease liabilities on the consolidated balance sheet. See Footnote (2)(g) in Consolidated Audited Financial Statements for further information.

BON SECOURS MERCY HEALTH

Debt to Capitalization Ratio

(Dollars in thousands)

	Years Ended December 31,		
	2019	2020	2021
Master Obligations revenue bonds payable	$3,134,944	$4,393,700	$4,300,172
Other debt, unamortized original issue (discount) premium and unamortized cost of issuance	67,941	103,771	81,343
subtotal	3,202,885	4,497,471	4,381,515
Right of Use Liability - Finance Leases	202,785	348,103	344,801
Capitalized leases	21,747	11,590	9,534
Financial Guarantees	3,336	634	493
Long Term Indebtedness	3,430,753	4,857,798	4,736,343
Unrestricted net assets	7,078,276	7,547,543	8,726,705
Total capitalization	$10,509,029	$12,405,341	$13,463,048
Total debt to capitalization	32.6%	39.2%	35.2%

Note: BSMH adopted ASC Topic 842 effective January 1, 2019 which required the recognition of right-of-use assets and lease liabilities on the consolidated balance sheet. See Footnote (2)(g) in Consolidated Audited Financial Statements for further information.

BON SECOURS MERCY HEALTH

Consolidated
Condensed Balance Sheet Information and Ratios

(Dollars in thousands)

	Years Ended December 31,		
	2019	2020	2021
Cash and cash equivalents	$453,258	$721,837	$402,402
Investments	50,513	159,169	155,412
Board designated funds	5,075,847	7,850,710	8,816,184
Total unrestricted cash and investments (1)	$5,579,618	$8,731,716	$9,373,998
Cash expense per day	$21,560	$25,232	$28,035
Days Cash on Hand	259	346	334
Total Long Term Debt	$3,202,885	$4,497,471	$4,381,515
Composition of system long-term debt excluding derivative agreements:			
Fixed rate	51%	77%	78%
Variable rate	49%	23%	22%

(1) Excludes trustee held funds and funds restricted for specific purposes by donor

BON SECOURS MERCY HEALTH

Management's Discussion and Analysis of Recent Financial Performance

Year Ended December 31, 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, 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 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.

OUR STRATEGY

BSMH is committed to leading the way in health care by establishing a best-in-class core health care delivery system and dedicating resources to fuel growth efforts. To support the Mission, the Ministry's Strategic Plan is built on four pillars of growth: Strengthen the Core, Pivot the Ministry, Expand the Ministry, Transform the Ministry. These pillars are described below.

Strengthen the core

BSMH strives to protect and grow the existing core operations and capabilities to fulfil the Ministry's Mission and provide the highest level of care to the patients and communities the Ministry serves.

Pivot the ministry

BSMH aims to invest in businesses adjacent to core acute offerings such as ambulatory services and scale in order to serve the communities while driving meaningful diversified revenue beyond core markets.

Expand the ministry

BSMH strives to leverage scale to develop and commercialize the Ministry's service offerings.

Transform the ministry

BSMH strives to harness innovative and bold growth opportunities that sit outside of the ministry's traditional operations.

BSMH is structured under three distinct, yet complementary business units, aligned to enable agility and empowerment to advance BSMH's strategy. Each business unit has its own leadership team focused on driving the operations. Collectively, these businesses will continue to support growth of the BSMH balance sheet, allowing the Ministry to compassionately serve patients with dignity and respect while continuing to grow, innovate and evolve.

BSMH Core Business Unit. The business unit is focused on clinical care and many of the shared services that support the unit.

BSMH Digital Business Unit. The unit is focused on research, innovation and digital strategy, all of which is grounded in data and analytics.

Diversified Growth Business Unit. Focused on ambulatory ventures, M&A transactions, B2B services and other non-core businesses.

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 and includes participation from leaders from each of our three business units. 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)
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 not-for-profit private provider in Ireland

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

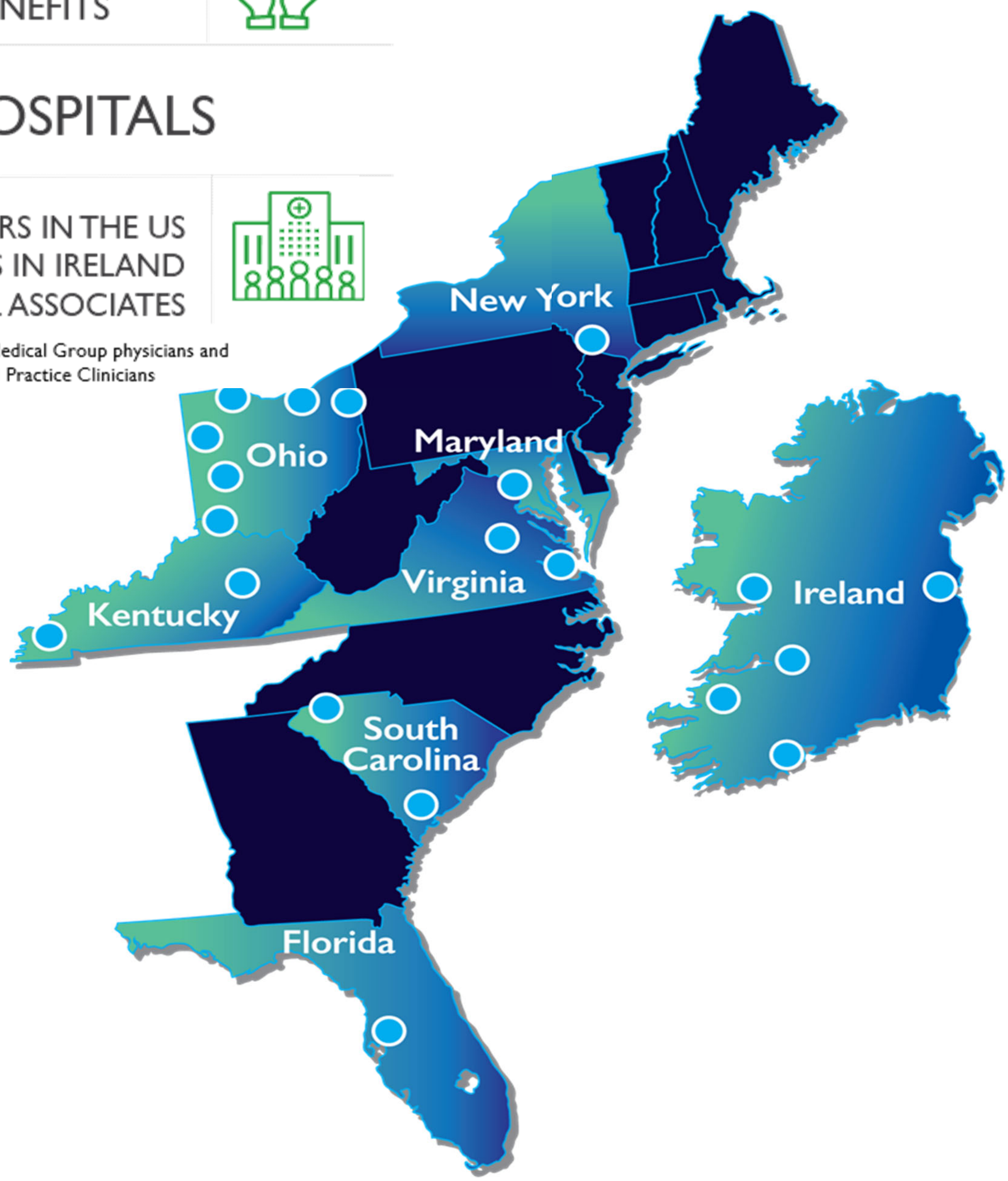
Approximately **$11 BILLION**
in pro forma net operating revenue

MORE THAN **$1.5 MILLION** A DAY IN COMMUNITY BENEFITS

50 HOSPITALS

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

*BSMH Medical Group physicians and Advanced Practice Clinicians



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 year ended December 31, 2021, presented below, has been derived from BSMH's audited 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 year ended December 31, 2021, is consistent with the presentation in BSMH's audited financial statements.

During 2021, BSMH entered into Definitive Agreements to sell the assets associated with its Ohio, Florida and Virginia skilled nursing and assisted living facilities. The Virginia facilities were sold on December 1, 2021. The sale did not qualify for treatment as discontinued operations, and as a result, the operations of these facilities continue to be included in the reported amounts for all periods presented. The Ohio facilities are expected to be sold during the first quarter of 2022 and the Florida facilities during the second quarter of 2022.

SUMMARY

The COVID-19 pandemic continues to impact the Ministry's operations. During 2021, the Ministry experienced intense surges in COVID-19 cases due to the Delta and Omicron variants. These surges drove increases in employment, pharmaceuticals and supplies expenses for the year ended December 31, 2021 when compared to the prior year. This increase in operating expenses led to a decline in operating EBITDA and recurring operating income for the year ended December 31, 2021 compared to the prior year. Throughout 2021, the Ministry continued to maintain a strong balance sheet with most key financial ratios improving compared to the prior year. Management continues to take proactive 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

($s in thousands)	[(1)] Year Ended December 31,			
	2021		2020	
	Amount	*Margin*	Amount	*Margin*
Net operating revenue	**$10,877,000**		**$9,969,660**	
Operating EBITDA	**$780,859**	*7.2%*	**$869,275**	*8.7%*
Recurring operating income	**$179,091**	*1.7%*	**$235,199**	*2.4%*
Excess of revenue over expenses	**$997,697**	*8.5%*	**$609,119**	*5.9%*

[1] The financial ratios include stimulus revenue of $121.8 million and $458.0 million recognized from the U.S. CARES Act and Ireland HSE in 2021 and 2020, respectively.

Net operating revenue grew by $907.3 million, or 9.1%, for the year ended December 31, 2021 compared to the prior year. The growth in net operating revenue was attributable to growth in net patient revenue from the reactivation of patient volumes, as well as one-time state program reimbursements of $214.3 million. Stimulus revenue of $121.8 million for the year ended December 31, 2021 was recorded as other operating revenue, down from $458.0 million in the prior year. Operating EBITDA of $780.9 million (margin 7.2%) was lower for the year ended December 31, 2021 when compared to the prior year due to less stimulus being received in 2021 versus the prior year and an increase in operating expenses to meet service demands. Recurring operating income of $179.1 million (margin 1.7%) was also lower than the prior year due to the lower EBITDA. Excess revenue over expenses of $997.7 million (margin 8.5%) for the year ended December 31, 2021 increased over the prior year due to higher investment income and unrealized gains due to the recovery in the equity markets during 2021.

($s in thousands)	Year Ended December 31,			
	2021		2020	
	Amount	% of Exp	Amount	% of Exp
Community Benefit	**$605,293**	*5.7%*	**$687,517**	*7.1%*

Community benefit investments fulfill unmet needs of the communities in which the Ministry serves through programs and donations, health education, free care, medical research and more. Unsponsored community benefit is measured by the cost to provide services net of one-time reimbursements received. For the year ended December 31, 2021, community benefit was $605 million and was 5.7% of total operating expenses. One-time reimbursement items of $214.3 million, including $182.4 million related to Medicaid reimbursement, Ohio Enhanced UPL, and HCAP programs have directly reduced unsponsored community benefits for 2021 and are not expected to continue. Excluding these one-time reimbursements, community benefit exceeded the prior year amount.

LIQUIDITY AND KEY PERFORMANCE INDICATORS

	December 31, 2021	December 31, 2020
Days cash on hand	**334**	346
Adjusted days cash on hand[1]	**316**	311
Unrestricted cash to debt	**213.9%**	194.1%
Adjusted unrestricted cash to debt[1]	**202.1%**	174.7%
Total debt to capitalization	**33.4%**	37.3%
Pension funding	**97.2%**	87.6%

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

The Company’s balance sheet saw stable liquidity and a decrease in leverage from December 31, 2020 to December 31, 2021. Unrestricted liquidity grew by $638.0 million during the year to $9.4 billion, but days cash on hand declined due to the growth in a day of cash expenses. Significant cash outflows were repayments for Accelerated Medicare of $296.7 million (11 days) and deferred payroll taxes payments of $69.9 million (3 days). Capital expenditures for the year ended December 31, 2021 were $681.6 million (24 days) compared to $432.0 million (17 days) for the same period in the prior year. These outflows were offset by net investment gains of $881.9 million, a one-time cash dividend of $357.3 million (13 days) from a recapitalization of the Ensemble joint venture and provider relief fund receipts under the U.S. CARES Act. Adjusted days cash on hand excludes the cash benefits resulting from the remaining Accelerated Medicare funding balance of $437.7 million (15 days) and payroll tax deferral of $69.9 million (3 days). The debt to capitalization ratio declined to 33.4% from 37.3% in the prior year due to net debt repayments of $98.0 million and growth in net assets. Pension funding increased to 97.2% as of December 31, 2021, up from 87.6% at December 31, 2020, due to an increase in the discount rate and favorable investment returns.

VOLUME TRENDS

As Reported	Year Ended December 31,		
	2021	2020	Change %
Admissions	**338,414**	320,856	5.5%
Observations	**62,664**	62,784	(0.2%)
Deliveries	**27,849**	28,035	(0.7%)
Inpatient Surgeries	**83,307**	80,942	2.9%
Outpatient Surgeries	**293,249**	249,013	17.8%
ER Visits	**1,452,343**	1,331,825	9.0%
Physician Visits	**6,878,752**	6,570,832	4.7%

Volumes for year ended December 31, 2021 improved substantially when compared to the same period of the prior year, largely due to reactivation of non-emergent procedures. Outpatient surgeries showed the largest improvement from prior year with an increase of approximately 17.8%, for the year ended December 31, 2021 compared to the prior year. Physician visits increased 4.7% for the year ended December 31, 2021, compared to the prior year. Virtual visits totaled 509 thousand and 850 thousand for the year ended December 31, 2021 and 2020, respectively. 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 and patients returning to seek care in more traditional ways. Virtual visits are conducted by the medical group and reflected within total physician visits.

RESULTS OF OPERATIONS

($s in thousands)	Year Ended December 31,	
	2021	**2020**
Net Patient Service Revenue	**$10,202,509**	$8,970,458
Other Operating Revenue [(1)]	**674,491**	999,202
Net Operating Revenue	**10,877,000**	9,969,660
Employee Compensation	**5,409,691**	4,782,547
Purchased Services and Other	**2,535,711**	2,376,389
Pharmaceuticals & Supplies	**2,155,990**	1,945,919
Depreciation and Amortization	**465,307**	499,631
Interest Expense	**131,210**	129,975
Recurring Operating Income	**179,091**	235,199
Nonrecurring Losses, Net	**(53,221)**	(74,942)
Investment Gains, Net	**881,941**	599,824
Interest Rate Swap Agreements Gains/(Losses)	**13,912**	(38,531)
Other Nonoperating Losses, Net	**(24,026)**	(112,431)
Excess of Revenue Over Expenses	**$997,697**	**$609,119**

[1] Other operating revenue includes stimulus revenue of $121.8 million and $458.0 million recognized from the U.S. CARES Act and Ireland HSE in 2021 and 2020, respectively.

NET OPERATING REVENUE

Net operating revenue increased by $907.3 million or 9.1% for the year ended December 31, 2021 from the comparable prior year. Net patient service revenue increased by $1.2 billion or 13.7% for the year ended December 31, 2021 when compared to the same period for the prior year. Net patient service revenue growth was primarily due to patient reactivation, higher acuity and stable payor mix for the year ended December 31, 2021, reflecting a partial recovery from the significant negative impact of the COVID-19 pandemic on operations in the prior year. Net patient service revenue for the year ended December 31, 2021 also included the benefit of one-time state program reimbursements totaling $214.3 million. Stimulus revenue (recorded as other operating revenue) was $121.8 million for the year ended December 31, 2021, down from $458.0 million in the prior year.

OPERATING EXPENSES

Total operating expenses were $10.7 billion for the year ended December 31, 2021, an increase of $963.4, million or 9.9% from the same period of the prior year. This increase in operating expenses was primarily due to increases in employee compensation. Employee compensation increased $627.1 million or 13.1% from the prior year, due to nationwide wage pressures, greater use of agency and contract labor and increased overtime and retention programs to adequately staff patient demands. Additionally, employment expenses in 2020 were lower to match lower patient demands as a result of COVID-19 and included management actions such as implementing a furlough program and lower employee self-insurance medical claims. For the year ended December 31, 2021, pharmaceuticals and supplies expense increased by $210.1 million or 10.8% compared to the prior year. The increase is primarily due to higher acuity, general inflation and higher COVID-19 supply expense. COVID-19 incremental pharmaceutical and supply expense was $102.9 million compared to $99.8 million in 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 year ended December 31, 2021 were $164.5 million compared to $222.8 million in 2020 as the Ministry continues to respond to the COVID-19 pandemic.

NONRECURRING LOSSES, NET

Nonrecurring losses, net, were $53.2 million for the year ended December 31, 2021, compared to $74.9 million for the year ended December 31, 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 $881.9 million for the year ended December 31, 2021, compared to $599.8 million for the year ended December 31, 2020 due to continued strong returns in the equity markets during 2021. The gain on interest rate swap agreements was $13.9 million for the year ended December 31, 2021, due to an increase in interest rates over the period, compared to a loss of $38.5 million for the same period of 2020 due to a decline in interest rates. Included in other nonoperating losses, net is a gain of $31.7 million for the sale of Virginia skilled nursing and assisted living facilities.

SUBSEQUENT EVENTS

On February 28, 2022, Bon Secours Mercy Health acquired for $40.0 million the 17% noncontrolling interest of Bon Secours – Richmond Health System from Richmond Memorial Health Foundation. The purchase increases the ownership interest of the Bon Secours – Richmond Health System from 83% to 100%.

On March 1, 2022, Bon Secours Mercy Health sold for approximately $89.0 million of net proceeds four senior living and care operations operating in Ohio. This sale is part of the full divestiture plan of all operations and facilities that involve skilled nursing, assisted living and independent living.

BON SECOURS MERCY HEALTH

Consolidated Audited Financial Statements

Fiscal Years Ended
December 31, 2021 and 2020

BON SECOURS MERCY HEALTH

Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

BON SECOURS MERCY HEALTH

Statement of Management Responsibility

The accompanying consolidated financial statements of Bon Secours Mercy Health (the Company) for the twelve months ended December 31, 2021 were prepared by the Company's management in conformity with U.S. generally accepted accounting principles appropriate in the circumstances.

Management of the Company is responsible for the integrity and objectivity of the consolidated financial statements, which are presented using the accrual basis of accounting and, accordingly, include some amounts based on judgments and estimates. The accounting procedures and related system of internal control are designed to ensure the books and records reflect the transactions of the Company in accordance with established policies and procedures as implemented by qualified personnel. The system of internal control over financial reporting is designed to provide reasonable assurance to the Company's Management and Board of Trustees regarding the safeguarding of assets against unauthorized acquisition, the use of or disposition of the Company's assets and the preparation of reliable published consolidated financial statements. Even effective internal control, no matter how well designed, have inherent limitations – including the possibility of the circumvention or overriding of controls – and, therefore, can provide only reasonable assurance with respect to consolidated financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

The Board of Directors of the Company, through its Finance Committee, reviews the financial and accounting operations of the Company, including the review and discussion of periodic consolidated financial statements and the evaluation and adoption of budgets. The Board of Directors of the Company, through its Audit & Compliance Committee reviews the accuracy and integrity of financial reporting processes, oversees compliance and auditing functions and reviews the basis of the audit engagement and reports of independent auditors.

KPMG LLP, the independent auditors, have audited the consolidated financial statements of the Company for the twelve months ended December 31, 2021 and their report thereon is included herein. The independent auditors meet with members of the Audit & Compliance Committee of the Board of Trustees of the Company, in the absence of Management personnel, to discuss the results of their audit and are afforded the opportunity to present their comments with respect to the conduct of the audit engagement.

John Starcher
President & CEO

Deborah Bloomfield
Chief Financial Officer

Travis L. Crum
System SVP, Finance

March 25, 2022

KPMG LLP
Suite 3400
312 Walnut Street
Cincinnati, OH 45202

Independent Auditors' Report

The Board of Directors
Bon Secours Mercy Health:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bon Secours Mercy Health (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating balance sheet and operating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Cincinnati, Ohio
March 25, 2022

BON SECOURS MERCY HEALTH

Consolidated Balance Sheets

December 31, 2021 and 2020

(In thousands)

Assets	2021	2020
Current assets:		
Cash and cash equivalents	$ 402,402	721,837
Investments	155,412	159,169
Self-insurance and trustee held funds	76,151	73,846
Donor restricted funds	5,911	4,411
Total cash and investments	639,876	959,263
Net patient receivables	1,126,277	1,072,483
Other receivables	144,011	168,706
Inventories	275,393	251,699
Prepaid expenses and other current assets	210,032	206,390
Total current assets	2,395,589	2,658,541
Assets whose use is limited:		
Board designated funds	8,816,184	7,850,710
Self-insurance and trustee held funds	300,992	240,333
Donor restricted funds	90,966	113,286
Total assets whose use is limited	9,208,142	8,204,329
Property and equipment, net	4,559,248	4,352,024
Investments in unconsolidated organizations	642,289	976,545
Operating lease right-of-use assets	325,142	333,629
Retirement assets	214,890	133,678
Other long-term assets	613,980	637,540
Total assets	$ 17,959,280	17,296,286
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 759,108	765,718
Current portion of long-term debt	342,603	255,926
Accrued salaries, wages and benefits	705,154	595,264
Current portion of operating lease liabilities	78,791	80,372
Other accrued expenses	697,919	681,353
Total current liabilities	2,583,575	2,378,633
Long-term debt, less current portion	4,038,912	4,241,545
Retirement liabilities	311,778	560,638
Self-insurance liabilities	323,818	273,090
Operating lease liabilities	260,282	262,113
Other long-term liabilities	589,908	1,026,412
Total liabilities	8,108,273	8,742,431
Net assets without donor restrictions:		
Controlling interest	8,726,705	7,547,543
Noncontrolling interest	840,784	754,964
Total net assets without donor restrictions	9,567,489	8,302,507
Net assets with donor restrictions	283,518	251,348
Total net assets	9,851,007	8,553,855
Total liabilities and net assets	$ 17,959,280	17,296,286

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statements of Operations

Years ended December 31, 2021 and 2020

(In thousands)

		2021	2020
Revenues:			
Net patient service revenue	$	10,202,509	8,970,458
Other revenue, net		674,491	999,202
Total operating revenues		10,877,000	9,969,660
Expenses:			
Employee compensation		5,409,691	4,782,547
Purchased services and other		2,535,710	2,376,389
Supplies		2,155,990	1,945,919
Depreciation and amortization		465,307	499,631
Interest expense		131,210	129,975
Total operating expenses		10,697,908	9,734,461
Recurring operating income		179,092	235,199
Nonrecurring operating losses, net		(53,221)	(74,942)
Operating income		125,871	160,257
Nonoperating gains (losses), net:			
Investment gains		881,941	599,824
Realized and unrealized interest rate swap agreements gains (losses)		13,912	(38,531)
Loss on defeasance of debt		(152)	(29,924)
Inherent contribution on Ireland acquisition		—	337
Other nonoperating activities, net		(23,874)	(82,844)
Excess of revenue over expenses	$	997,698	609,119

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2021 and 2020

(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	469,267	432,037	901,304	55,894	957,198
Balance at December 31, 2020	7,547,543	754,964	8,302,507	251,348	8,553,855
Excess of revenues over expenses	893,688	104,010	997,698	—	997,698
Gain from discontinued operations	9,243	—	9,243	—	9,243
Grants and contributions	7,548	—	7,548	46,813	54,361
Investment gains	—	—	—	20,438	20,438
Net assets released from restrictions	13,930	—	13,930	(38,670)	(24,740)
Distributions to noncontrolling interest owner	—	(20,008)	(20,008)	—	(20,008)
Pension and other postemployment changes	287,770	—	287,770	—	287,770
Other changes, net	(33,017)	1,818	(31,199)	3,589	(27,610)
Increase in net assets	1,179,162	85,820	1,264,982	32,170	1,297,152
Balance at December 31, 2021	$ 8,726,705	840,784	9,567,489	283,518	9,851,007

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statements of Cash Flows

Years ended December 31, 2021 and 2020

(In thousands)

	2021	2020
Cash flows from operating activities:		
Increase in net assets	$ 1,297,152	957,198
Depreciation and amortization	465,307	499,631
Amortization of premium on issued debt securities	(14,586)	(14,004)
Loss on defeasance of debt	152	29,924
Ireland inherent contribution	—	(337)
Acquisition of Roper St Francis	—	(393,265)
Other changes in net assets, net	(91,944)	40,150
Pension and other post employment adjustments	(287,770)	59,701
Contributions restricted by donor	(46,813)	(36,067)
Net gains on investments	(801,895)	(420,056)
Current assets	(63,042)	(41,740)
Long-term assets	59,645	104,822
Accelerated Medicare Payments Program	(296,697)	734,246
Other current liabilities	103,247	299,240
Long-term liabilities	(16,770)	3,365
Net cash provided by operating activities	305,986	1,822,808
Cash flows from investing activities:		
Acquisitions, net of cash received	—	62,684
Property and equipment additions, net of disposals	(681,598)	(431,952)
Purchase of alternative investments and other securities	(547,349)	(263,567)
Sales of alternative investments and other securities	283,712	125,798
Investments and assets whose use is limited, net	61,671	(2,122,630)
Dividend received from equity method investment	357,315	—
Purchase of equity method investments	(12,087)	—
Sale of equity method investments	—	253,138
Net cash used in investing activities	(538,336)	(2,376,529)
Cash flows from financing activities:		
Restricted contributions	46,813	36,067
Contribution from noncontrolling interest	—	17,500
Distributions to noncontrolling interest	(20,008)	(51,137)
Proceed from debt issuance	5,547	3,094,695
Repayment of long-term debt	(97,955)	(2,252,792)
Repayment of finance lease	(20,592)	(11,945)
Cost of long-term debt issuance	—	(12,046)
Net cash (used in) provided by financing activities	(86,195)	820,342
Effect of exchange rates on cash and cash equivalents	(890)	1,958
Net (decrease) increase in cash and cash equivalents	(319,435)	268,579
Cash and cash equivalents, beginning of the year	721,837	453,258
Cash and cash equivalents, end of the year	$ 402,402	721,837

See accompanying notes to consolidated financial statements.

(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 its three business groups to carry out the mission, vision, and values of BSMH. The three distinct business groups are Core, Digital and Diversified Growth. Core is focused on the delivery of patient care and encompasses clinical operations within Virginia, Ohio, South Carolina, Kentucky and Ireland. The Digital business group is focused on research, innovation and digital strategy, while the Diversified Growth business group focuses on ambulatory ventures, business combination transactions, as well as business-to-business services and other non-core services. 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 the business units and shared services. 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.

(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 sheets. The consideration paid for the acquisition was $185,000, the estimated fair value of the assets acquired and liabilities assumed was $408,710, the fair value of previously held equity interest was $122,613 and the fair value of the noncontrolling interest at the acquisition date was $200,268.

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.

BSMH recognized a gain of $7,997 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 year ended December 31, 2020.

(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 operations in the Company's consolidated financial statements.

(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 self-insurance and 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, money market funds and non-government related marketable debt securities.

Unrealized gains or losses on trading securities are included in investment gains. As of December 31, 2021 and 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 to record its investments in equity and fixed income commingled funds at fair value. See note 5 for additional disclosures of investments and assets whose use is limited. ASC Topic 820 *Fair Value*, emphasizes that fair value is a market-based measurement, not an entity specific measurement.

(Continued)

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 (cost, market, and income) to determine the fair value of its assets and liabilities required to be recorded at fair value. The cost approach is generally the value a market participant would expect to replace the respective asset or liability.

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 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 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 December 31, 2021 and 2020, respectively while the Medicaid program represented 12% as of December 31, 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 December 31, 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.

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.

(In thousands)

The Company's net patient service revenues during the years ended December 31, 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:

	2021		2020	
Medicare	$ 3,722,496	36 %	3,291,141	36 %
Medicaid	1,533,756	15	1,259,709	14
Other governmental	178,376	2	165,575	2
Commercial and other third party	4,714,925	46	4,187,776	47
Self-pay	52,956	1	66,257	1
Total	$ 10,202,509	100 %	8,970,458	100 %

(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.

(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 sheets. 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 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 purchased services and other.

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 in purchased services and other. 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 January 26, 2021, BSMH announced the decision to close Bon Secours DePaul Medical Center and consolidate acute and emergency services from the hospital to Bon Secours Maryview Medical Center. The anticipated closure is an impairment indicator and a resulting impairment charge of $34,653 was recorded in nonrecurring operating losses, net within the consolidated statement of operations of BSMH for the year ended December 31, 2020.

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 for the year ended December 31, 2021.

(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. The Company classifies distributions from an investee on the cashflow statement by evaluating the facts, circumstances and nature of each distribution. 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 years ended December 31, 2021 and 2020.

(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 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).

(In thousands)

(k) Other Long-Term Assets

Other long-term assets, net consists of the following as of December 31:

		2021	2020
Goodwill, net	$	267,904	268,713
Notes and other long term receivables		51,222	56,637
Other intangibles		30,048	31,944
Right-of-use assets – finance		208,372	225,963
Other		56,434	54,283
Total other long-term assets	$	613,980	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 long-term assets in the consolidated balance sheets as of December 31:

		2021	2020
Goodwill at the beginning of the period	$	268,713	197,695
Goodwill related to acquisitions		80	99,171
Measurement period adjustments		—	(19,367)
Impairment		—	(8,542)
Other		(889)	(244)
Goodwill at the end of the period	$	267,904	268,713

(l) 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 sheets.

(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, net 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.

(In thousands)

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 statements of operations.

(n) Other Long-Term Liabilities

Other long-term liabilities consist of the following as of December 31:

		2021	2020
Derivative instruments (note 9)	$	89,707	118,251
Supplemental executive retirement plan liability		93,947	75,568
Lease liabilities – finance		337,881	344,266
Accelerated Medicare Payments Program		—	397,566
Deferred payroll tax liabilities		—	69,858
Other		68,373	20,903
Total other long-term liabilities	$	589,908	1,026,412

(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 the communities they serve.

(Continued)

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.

(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 revenues 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 US-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.

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 December 31, 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 December 31, 2021, the Company has no uncertain tax positions.

The Company’s taxable subsidiaries had $155,184 and $199,705 net operating loss carryforwards as of December 31, 2021 and 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

(Continued)

a full valuation allowance on the deferred tax assets as of December 31, 2021 and 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 $23,534 and $7,788 for the years ended December 31, 2021 and 2020, respectively.

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 US-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 year ended December 31, 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.

(Continued)

(w) New Accounting Pronouncements

In June 2016, FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The provisions of ASU No. 2016-13 are effective for fiscal years beginning after December 15, 2022. The Company did not early adopt and is currently evaluating the impact of this ASU.

In August 2017 and October 2018, FASB issued ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities (Topic 815)* and ASU No. 2018-16, *Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (Topic 815)*. This ASU adjusts hedge accounting recognition and presentation requirements. In addition, it allows for the use of the OIS Rate as a benchmark interest rate for hedge accounting. The Company adopted these pronouncements in 2021 and these pronouncements did not have a material impact on the consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, which adds, clarifies, and removes certain disclosure requirements related to defined benefit and other postretirement plans. The Company adopted ASU No. 2018-14 in 2021 and this ASU did not have a material impact on the consolidated financial statements.

In January 2020, FASB issued ASU No. 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the interactions between Topic 321, Topic 323, and Topic 815*. This ASU clarifies accounting for certain equity securities when transitioning into or out of the equity method of accounting and clarifies scope considerations related to forward contracts and purchased options on certain securities. The provisions of ASU No. 2020-01 are effective for fiscal years beginning after December 15, 2021. The Company did not early adopt and is currently evaluating the impact of this ASU.

In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* This ASU requires contributed nonfinancial assets to be separately stated in the statement of changes in net assets and for the contributions to be disaggregated by type in the footnotes. The provisions of ASU No. 2020-07 are effective for fiscal years beginning after June 15, 2021. The Company did not early adopt and is currently evaluating the impact of this ASU.

In 2021, the Company adopted ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*: *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software. The adoption of this ASU did not have a material impact on the consolidated financial statements.

(3) Coronavirus (COVID-19)

On March 11, 2020, the World Health Organization designated COVID-19 as a pandemic. The pandemic negatively affected the Company's results of operations during 2020 and continued to affect the Company's results of operations during the year ended December 31, 2021. However, the Company saw a gradual and steady recovery in volumes in 2021 compared to 2020 despite the surges caused by the Delta and Omicron variants.

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. On March 11, 2021 the government also enacted the American Rescue Plan Act of 2021 ("ARPA"). Together, these stimulus laws authorize over $178,000,000 in funding to be distributed to hospitals and other healthcare providers through the Public Health and Social Services Emergency Fund, (PHSSEF or Provider Relief Fund).

Through the CARES Act and state grant programs, the Company received $115,380 and $426,510 for the years ended December 31, 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 $118,352 and $376,033 was recognized in other revenue, net within the consolidated statement of operations, for the years ended December 31, 2021 and 2020, respectively.

Through the CARES Act, the Company also received $734,349 in Medicare Accelerated and Advance Payments for the year ended December 31, 2020 and recognized the funds as a refund liability with repayment to occur based upon the terms and conditions of the Program. No additional payments were received by the Company for the year ended December 31, 2021. Under the terms of the current program, payments are advances that must be repaid through 2022. The Company repaid $296,697 during the year ended December 31, 2021. There were no repayments made in 2020. The Company accounted for $437,652 and $336,783 as of December 31, 2021 and 2020, respectively, within other accrued expenses on the consolidated balance sheets. As the remaining amounts are expected to be repaid in 2022, there was no long-term liability recorded as of December 31, 2021. $397,566 was recorded as of December 31, 2020, within other long-term liabilities, on the consolidated balance sheets.

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. A deferral of $139,716 was recorded as of December 31, 2020, of which $69,858 and $69,858 was recorded in accrued salaries, wages, and benefits for the years ended December 31, 2021 and 2020, respectively. Recorded in other long-term liabilities within the consolidated balance sheets, was $0 and $69,858 as of December 31, 2021 and 2020, respectively. Lastly, the CARES Act provided an employee retention tax credit of which the Company recognized $20,942 as a reduction to

(Continued)

(In thousands)

employee compensation within the consolidated statement of operations for the year ended December 31, 2020.

(4) Community Benefits (Unaudited)

The following is a summary of the Company's community service as measured by services provided to the poor, medically underserved, and 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, 2021 Edition.

The following represents unsponsored community benefit expense at cost for the years ended December 31:

		2021	2020
Charitable services and other community benefits:			
Traditional charity care	$	94,835	123,402
Unpaid costs of public programs		371,582	447,003
Community health services		36,205	27,449
Health professional education and research		68,113	64,947
Subsidized health services		18,002	7,339
Financial and in-kind donations		7,191	6,042
Community building activities		5,782	6,103
Community benefit operations		3,034	5,051
Research		549	181
Total quantifiable community benefits	$	605,293	687,517
Percent of total recurring expenses		5.7 %	7.1 %

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.

(In thousands)

(5) Investments and Assets Whose Use is Limited

The composition of assets whose use is limited consists of the following as of the years ended December 31:

	2021	2020
Board designated funds:		
Cash and cash equivalents	$ 339,363	901,776
Equity mutual funds	1,154,013	1,137,602
Equity commingled funds	1,009,817	702,717
Common and preferred stocks	1,127,962	665,746
Fixed income commingled funds	319,467	275,629
Government and agency securities	1,316,102	1,364,425
Corporate obligations	1,481,930	1,424,040
Alternative investments	2,067,530	1,378,775
	$ 8,816,184	7,850,710
Self-insurance and trustee held funds:		
Cash and cash equivalents	$ 96,022	107,442
Equity mutual funds	202,254	150,638
Government and agency securities	45,346	28,823
Corporate obligations	33,521	27,276
	$ 377,143	314,179
Donor restricted funds:		
Cash and cash equivalents	$ 50,335	73,385
Equity mutual funds	15,255	14,564
Common and preferred stocks	4,625	3,634
Fixed income commingled funds	9,641	17,978
Government and agency securities	147	136
Alternative investments	16,874	8,000
	$ 96,877	117,697

(In thousands)

		2021	2020
Investments:			
Cash and cash equivalents	$	129,264	94,245
Government and agency securities		5,040	24,594
Corporate obligations		21,108	40,330
	$	155,412	159,169
Investments and assets whose use is limited	$	9,445,616	8,441,755
Available for current liabilities		(237,474)	(237,426)
Long-term assets limited or restricted as to use	$	9,208,142	8,204,329

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 the years ended December 31:

		2021	2020
Dividends and interest	$	80,046	63,172
Net realized gains on securities		325,938	116,596
Net change in unrealized (losses) gains on securities		475,957	420,056
	$	881,941	599,824

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 gains (losses), net 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 December 31, 2021 and 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.

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

(Continued)

(In thousands)

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 measurements at December 31, 2021 using		
	Fair value	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 402,402	402,402	—	—
Investments:				
Cash and cash equivalents	129,263	129,263	—	—
Government and agency securities	5,040	5,040	—	—
Corporate obligations	21,109	—	21,109	—
	155,412	134,303	21,109	—
Assets limited or restricted as to use:				
Cash and cash equivalents	485,721	485,721	—	—
Equity mutual funds	1,371,522	715,130	656,392	—
Equity commingled funds	986,266	799,497	127,665	59,104
Common and preferred stocks	1,132,587	1,132,587	—	—
Fixed income commingled funds	329,108	242,121	86,987	—
Government and agency securities	1,361,595	740,006	621,589	—
Corporate obligations	1,515,450	—	1,515,450	—
Cash and assets limited or restricted as to use	7,740,063	4,651,767	3,029,192	59,104
Assets whose use is limited under securities lending arrangements	23,551	23,551	—	—
Total cash and assets limited or restricted as to use	$ 7,763,614	4,675,318	3,029,192	59,104
Liabilities:				
Interest rate swaps	$ 89,707	—	—	89,707
Total liabilities	$ 89,707	—	—	89,707

(In thousands)

		Fair value measurements at December 31, 2020 using		
	Fair value	**Level 1**	**Level 2**	**Level 3**
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	—
	159,169	118,839	40,330	—
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	7,713,005	4,897,594	2,773,895	41,516
Assets whose use is limited under securities lending arrangements	8,098	8,098	—	—
Total cash and assets limited or restricted as to use	$ 7,721,103	4,905,692	2,773,895	41,516
Liabilities:				
Interest rate swaps	$ 118,251	—	—	118,251
Total liabilities	$ 118,251	—	—	118,251

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

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

(Continued)

(In thousands)

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

	December 31	
	2021	**2020**
Beginning balance	$ 41,516	—
Purchases	17,755	41,082
Sales	—	(2,342)
Realized and unrealized (losses) gains	(167)	2,776
Ending balance	$ 59,104	41,516

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, *Fair Value Measurement (Topic 820)*. As of December 31, 2021 and 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 December 31, 2021 and 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.

(In thousands)

The following table summarizes the investments measured at NAV, committed capital and associated redemptions as of December 31, 2021:

	Investments measured at NAV	Committed capital	Redemption frequency	Redemption notice period
Fixed income commingled funds	$ 60,563	—	Monthly	10 days
Alternative investments:				
Private Investments	1,194,651	599,785	N/A	N/A
Hedge funds	829,190	—	Monthly, Quarterly, Annually	2 to 180 days
	$ 2,084,404	599,785		

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

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

Investments that are not redeemable as of December 31, 2021 and 2020 are $0 and $121,679, respectively.

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.

(In thousands)

(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 December 31:

		2021	2020
Land	$	444,102	321,021
Land improvements		113,838	118,917
Buildings and fixed equipment		4,729,536	4,599,743
Movable equipment		4,456,743	5,312,983
Leasehold improvements		231,293	197,317
		9,975,512	10,549,981
Less accumulated depreciation		(5,838,995)	(6,561,206)
		4,136,517	3,988,775
Construction in progress		422,731	363,249
	$	4,559,248	4,352,024

As of December 31, 2021 and 2020, the Company is contractually obligated for construction projects totaling $184,633 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 $439,747 and $478,312 for the years ended December 31, 2021 and 2020, respectively.

(In thousands)

(8) Long-Term Debt

The following is a summary of the Company's long-term debt as of December 31:

Long-term debt	Coupon rates	Maturity through	2021	2020
Master trust indenture obligations:				
Fixed rate Hospital Facilities Revenue and				
Revenue Refunding and Improvement Bonds:				
Mercy Health (MH) Series 2012A serial/term bonds	2.50-5.00%	2042	$ 7,010	13,530
MH Series 2015A term bonds	4.00-5.00	2045	159,205	159,205
MH Series 2015C taxable bonds	3.38	2025	150,000	150,000
MH Series 2017A serial and term bonds	3.00-5.00	2047	442,955	472,335
MH Series 2017C taxable bonds	3.56	2027	143,150	143,150
MH Series 2018A taxable bonds	4.30	2028	305,684	305,684
BSMH Series 2020A serial and term bonds	4.00-5.00	2049	670,970	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:				
MH Series 2008 direct placement (DP) bonds	0.79-0.87	2031	114,600	118,600
MH Series 2010C/D demand and DP bonds	0.37-0.64	2034	160,900	166,500
MH Series 2012B demand bonds	0.02-0.13	2036	100,000	100,000
Bon Secours Series 2013B (VSBFA) DP bonds	0.82-0.87	2042	—	40,740
MH Series 2017B bonds payable	5.00	2047	89,425	89,425
Bon Secours Series 2017 (SC) DP bonds	0.93-0.99	2042	69,925	69,925
MH Series 2018AB commercial paper notes	0.10-0.20		100,000	100,000
BSMH Series 2020B bonds payable	5.00	2048	87,380	87,380
2018 TD Bank variable rate taxable term loan	0.68-0.87	2029	150,000	150,000
2018 US Bank variable rate taxable term loan	0.65-0.72	2023	160,000	160,000
2020 JPMorgan fixed rate taxable term loan	1.73-2.65	2023	250,000	250,000
Total master trust indenture obligations			4,200,884	4,291,784
Ireland variable rate taxable term loan	1.45-1.90	2025	99,288	101,916
Other debt			14,110	22,193
			4,314,282	4,415,893
Original issue net premium			88,881	105,290
Cost of issuance			(21,648)	(23,712)
			4,381,515	4,497,471
Less current portion of long-term debt			(342,603)	(255,926)
Long-term debt, less current portion			$ 4,038,912	4,241,545

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 $99,288.

On October 1, 2021, the Company paid off its Series 2013B debt in the amount of $40,740. The Company recorded a loss from early extinguishment of debt of $152.

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 $242,590 of tax exempt fixed rate bond obligations through its Series 2020A OH bonds, $234,855 of tax exempt fixed rate bond obligations through its Series 2020A SC bonds, $206,450 of tax exempt fixed rate bond obligations through its Series 2020A VA bonds and $87,380 of tax exempt adjustable rate bond obligations through its Series 2020B SC bonds. The proceeds of these bond obligation issues were used to defease $175,000 of the Series 2008 bonds, $100,000 of the Series 2015B floating rate notes, and pay off $570,000 of taxable term loans. The Company also issued $389,680 of taxable fixed rate bond obligations through its Series 2020 bonds, the proceeds of which 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, 2021 and 2020. 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 $0 and $250,000 on that line as of December 31, 2021 and 2020.

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.

(In thousands)

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

The following is a schedule of future minimum payments based on scheduled maturities as of December 31, 2021:

Period		Master trust indenture obligations	European group and other debt
2022	$	53,150	33
2023		458,945	21
2024		55,205	21
2025		254,450	113,293
2026		57,530	10
Thereafter		3,321,604	20
Total minimum payments	$	4,200,884	113,398

Interest payments for the years ended December 31, 2021 and 2020 were $136,810 and $122,620, respectively.

Unamortized debt issuance costs of $21,648 and $23,712 as of December 31, 2021 and 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 December 31, 2021, current portion of long-term debt includes $89,425 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 Series 2010C variable rate bond obligations with letter of credit support, Series 2008A, 2010D and 2017 adjustable rate bonds in the total amount of $262,475 held under direct purchase agreements with financial institutions and $409,288 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. Due to the supporting agreements noted above, the Company has recorded the obligations as long term.

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, 2022, with an intention to extend the agreement beyond this period. No amounts were outstanding under the revolving credit agreement as of December 31, 2021 or December 31, 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 December 31 2021	Notional amount December 31 2020	Valuation amount December 31 2021	Valuation amount December 31 2020
December 2006 JPM	Pay fixed	3.63 %	2033	$ 250,177	269,200	(30,424)	(44,802)
December 2018 Barclays	Pay fixed	3.98	2042	50,000	50,000	(19,475)	(24,973)
December 2018 Citi	Pay fixed	3.84	2032	25,000	25,000	(6,055)	(8,319)
December 2018 JPM	Pay fixed	3.72	2047	80,000	80,000	(20,000)	(26,160)
December 2018 PNC	Pay fixed	3.45	2042	69,925	69,925	(21,499)	(26,744)
December 2007 JPM	Constant maturity	N/A	2027	250,000	250,000	5,457	9,589
August 2018 JPM	Constant maturity	N/A	2037	150,000	150,000	839	988
Credit valuation adjustment						1,450	2,170
						$ (89,707)	(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 $14,813 and $15,062 for the years ended December 31, 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 $33,918 as of December 31, 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 funds on the consolidated balance sheets. Interest earned while collateralized funds are held by the custodian is shown in nonoperating gains (losses), 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.

(In thousands)

The following is a summary of the components of the change in benefit obligation and plan assets for the Plans as of December 31:

	Pension Plans		Postemployment Plans	
	2021	2020	2021	2020
Change in benefit obligation:				
Projected benefit obligation at beginning of year	$ 3,298,352	2,986,659	17,698	17,688
Service cost	4,274	3,661	511	472
Interest cost	72,496	91,844	373	508
Actuarial (gain)/loss	(150,666)	333,322	(284)	724
Plan amendments	—	44,585	—	—
Settlement	(156,929)	(45,625)	—	—
Gross benefits paid and expenses	(107,362)	(116,094)	(1,797)	(1,694)
Projected benefit obligation at end of year	2,960,165	3,298,352	16,501	17,698
Change in plan assets:				
Fair value of plan assets at beginning of year	2,888,571	2,627,406	—	—
Actual return on plan assets	204,150	419,392	—	—
Employer contributions	50,000	3,492	1,798	1,694
Gross benefits paid	(107,362)	(116,094)	(1,798)	(1,694)
Settlement	(156,929)	(45,625)	—	—
Fair value of plan assets at end of year	2,878,430	2,888,571	—	—
Under funded status	$ (81,735)	(409,781)	(16,501)	(17,698)

Settlements of $156,929 and $45,625 were recognized during the years ended December 31, 2021 and 2020. During 2021 and 2020, the Company updated the mortality projection assumptions used to determine the Plans’ projected benefit obligation. The change to the MP-2021 mortality improvement scales in 2021 resulted in increase in the Plans’ projected benefit obligation and decrease in the funded status of $9,824 at December 31, 2021. The change to the MP-2020 mortality improvement scales in 2020 resulted in decrease in the Plans’ projected benefit obligation and increase in the funded status of $19,432 at December 31, 2020. The actuarial gain on the benefit obligation for the year ended December 31, 2021 was due to significant increase in discount rate and partially offset by the change to the MP-2021 mortality improvement scales. The actuarial loss on the benefit obligation for the year ended December 31, 2020 was due to significant decrease in discount rate and partially offset by the change to the MP-2020 mortality improvement scales.

(In thousands)

Amounts recognized in the consolidated financial statements consist of the following as of December 31:

		Pension Plans		Postemployment Plans	
		2021	2020	2021	2020
Retirement assets	$	214,890	133,678	—	—
Current liabilities		—	—	(1,847)	(1,798)
Retirement liabilities		(296,625)	(543,459)	(14,654)	(15,900)
Net amount recognized	$	(81,735)	(409,781)	(16,501)	(17,698)

In addition to amounts recognized in the consolidated financial statements related to the Plans, retirement liabilities on the consolidated balance sheets includes other retirement liabilities, consisting primarily of accrued contributions to defined contribution plans, of $499 and $1,279 at December 31, 2021 and 2020, respectively.

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic benefit cost (income) for the year ended December 31:

		Pension Plans		Postemployment Plans	
		2021	2020	2021	2020
Net prior service cost	$	(27,527)	(29,299)	—	—
Net actuarial (loss) gain		(399,179)	(684,852)	1,700	1,375
Net amount unrecognized		(426,706)	(714,151)	1,700	1,375
Cumulative excess (shortfall) of employer contributions over net periodic benefit cost		344,971	304,370	(18,201)	(19,073)
	$	(81,735)	(409,781)	(16,501)	(17,698)

Net actuarial (loss) gain is amortized as a component of net periodic benefit cost (income), only if the losses exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. Net prior service credit (cost) is amortized on a straight-line basis over the estimated life of the Plans' participants. The net prior service credit (cost) included in unrestricted net assets expected to be recognized as a (loss) gain in net periodic benefit cost (income) during the year ended December 31, 2021 and 2020 is $27,527 and $29,299, respectively. The net actuarial (loss) gain included in unrestricted net assets expected to be recognized as a (loss) gain in net periodic benefit cost (income) during the year ended December 31, 2021 and 2020 is $397,479 and $683,477, respectively.

(In thousands)

The following amounts related to pension and other postemployment benefit activity has been recognized as the change in unrestricted net assets for the year ended December 31:

	Pension Plans		Postemployment Plans	
	2021	**2020**	**2021**	**2020**
Amortization of prior service (credit)/cost	$ (1,824)	1,155	—	—
Net actuarial gain/(loss)	(232,781)	47,732	—	—
Amortization of net actuarial loss	(52,840)	(34,567)	—	—
Unrecognized prior service cost	—	44,586	—	—
Other postemployment benefit changes	—	—	(325)	795
	$ (287,445)	58,906	(325)	795

The following amounts are a summary of the components of net periodic benefit cost for the Plans for the year ended December 31:

	Pension Benefits		Postemployment Benefits	
	2021	**2020**	**2021**	**2020**
Service cost	$ 4,274	3,661	511	472
Interest cost	72,496	91,844	373	508
Expected return on plan assets	(122,035)	(134,422)	—	—
Curtailment/settlement cost	20,102	9,151	—	—
Amortization of:				
Actuarial loss	32,737	25,416	—	—
Prior service credit/(cost)	1,824	(1,155)	41	(71)
Net periodic benefit cost (income)	$ 9,398	(5,505)	925	909

(In thousands)

The following weighted average assumptions were used to determine the benefit obligation as of December 31:

	Pension Plans		Postemployment Plans	
	2021	2020	2021	2020
Discount rate – ERISA	2.51%	2.24%	N/A	N/A
Discount rate – Church pension and postretirement benefit plans	2.70% – 2.73%	2.23% – 2.31%	2.73%	2.31%
Rate of compensation increase	2.50%	2.50% – 3.60%	N/A	N/A
Expected long-term rates of return on plan assets	3.60% – 5.80%	5.75%	N/A	N/A
Mortality table	Pri-2012	Pri-2012	Pri-2012	Pri-2012
Generational scale	MP-2021	MP-2020	MP-2021	MP-2020

The following weighted average assumptions were used to determine the net periodic benefit cost as of December 31:

	Pension Plans		Postemployment Plans	
	2021	2020	2021	2020
Discount rate	2.23% – 2.31%	3.07% – 3.17%	2.31%	3.17%
Rate of compensation increase	2.50% – 2.59%	2.50% – 2.59%	N/A	N/A
Expected long-term rates of return on plan assets	3.60% – 5.80%	5.75%	N/A	N/A

The following healthcare cost trend rate assumptions were used in determining the benefit obligation of the post-employment healthcare benefits as of December 31:

	2021	2020
Healthcare cost trend rate assumed for next year	5.2% – 7.0%	5.2% – 7.4%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.5%	4.5%
Year the rate reaches the ultimate trend rate	2031	2030

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.

(In thousands)

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

	2021	2020
Asset category:		
Equity mutual and commingled funds and securities	34 %	35 %
Fixed income mutual funds and securities	46	46
Alternative investments	17	16
Cash	3	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 December 31, 2021:

		Fair value measurements		
	Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 98,114	98,114	—	—
Equity mutual funds	528,889	380,219	148,670	—
Equity commingled funds	220,626	195,392	25,234	—
Common and preferred stocks	231,112	231,112	—	—
Fixed income commingled funds	22,414	22,414	—	—
Government and agency bonds	161,004	136,991	24,013	—
Corporate obligations	1,122,623	—	1,122,623	—
Total investments	2,384,782	1,064,242	1,320,540	—
Due from broker/custodian for investment activity, net	31,543	—	31,543	—
Total plan assets	$ 2,416,325	1,064,242	1,352,083	—

(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 measurements		
	Fair value	**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 December 31, 2021:

	Alternative investments	**Committed capital**	**Redemption frequency**	**Redemption notice period**
Private Investments	$ 296,879	86,318	N/A	N/A
Hedge funds	165,226	—	Monthly, Quarterly, Annually	2 to 180 days
	$ 462,105	86,318		

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

	Alternative investments	**Committed capital**	**Redemption frequency**	**Redemption notice period**
Private Investments	$ 245,159	114,267	N/A	N/A
Hedge funds	212,158	—	Monthly, Quarterly, Annually	2 to 90 days
	$ 457,317	114,267		

The non-redeemable investments were $0 and $52,881, respectively, as of December 31, 2021 and 2020.

(In thousands)

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 projected benefit payments for the Plans are as follows:

		Pension Plans	Post employment Plans
2022	$	203,584	1,847
2023		164,580	1,896
2024		163,594	1,339
2025		164,579	1,328
2026		163,710	1,256
2027–2031		793,006	5,417

The Company expects to contribute $30,000 to the defined benefit pension plans and $1,847 to the post-employment benefit plans in 2022. The Company has several defined contribution benefit plans to assist eligible employees in providing for retirement. Under such plans, the Company recognized expense of $227,587 and $148,868 for the years ended December 31, 2021 and 2020, respectively, related to employer contributions, which is included in employee benefits expense in the consolidated statements of operations.

(11) Other Commitments and Contingent Liabilities

(a) General and Professional Liability Insurance

The provision for claims and related funding levels for the HPL/HGL 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 $323,566 and $289,102 as of December 31, 2021 and 2020, respectively. The current portion of such accruals, $58,496 and $75,616 as of December 31, 2021 and 2020, respectively, is included in other accrued expenses, and the remainder, $265,070 and $213,486 as of December 31, 2021 and 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.

(In thousands)

(b) Workers' Compensation Insurance

Accrued workers' compensation claims were $61,270 and $61,049, as of December 31, 2021 and 2020, respectively. The current portion of such accruals, $2,522 and $1,445 as of December 31, 2021 and 2020, respectively, is reported as other accrued expenses. The remainder, $58,748 and $59,604, is reported within self-insurance liabilities in the accompanying consolidated balance sheets, which includes estimates for incidents incurred but not reported, as of December 31, 2021 and 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 $52,483 and $44,543, include estimates for claims incurred but not reported as of December 31, 2021 and 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.

(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 the years ended December 31:

	2021	2020
Finance lease expense:		
Amortization of ROU assets	$ 20,352	18,602
Interest on lease liabilities	14,495	14,406
Operating lease expense	102,962	108,056
Short-term lease expense	32,857	30,459
Variable lease expense	32,087	31,353
Total lease cost	$ 202,753	202,876

(Continued)

(In thousands)

Commitments related to non-cancellable operating and finance leases for each of the next five years and thereafter as of December 31, 2021 are as follows:

		Operating	Finance
2022	$	88,673	30,071
2023		73,455	37,404
2024		59,928	24,893
2025		47,121	23,690
2026		30,341	21,931
Thereafter		79,795	607,593
Total		379,313	745,582
Less present value discount		(40,240)	(391,202)
Lease liabilities	$	339,073	354,380

Other information is as follows:

	2021	2020
Weighted average remaining lease terms (in years):		
Finance leases	61.06	68.85
Operating leases	6.01	6.15
Weighted average discount rate:		
Finance leases	3.74 %	3.79 %
Operating leases	3.98	4.23

(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 December 31, 2021 and 2020, respectively. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions and the nature of the restrictions, if any. The Company’s endowment net assets were $107,004 and $98,941 as of December 31, 2021 and 2020, respectively.

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 December 31, 2021 and 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.

(In thousands)

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.

(13) Functional Expenses

The functional breakdown of expenses incurred by the Company in fulfilling its mission is as follows for the year ended December 31, 2021:

	Program activities			Supporting activities	
	Healthcare services	**Ancillary services and other**	**Total**	**General and administrative**	**Total**
Employee compensation	$ 4,122,804	1,041,387	5,164,191	245,500	5,409,691
Purchased services and other	1,908,295	131,028	2,039,323	496,387	2,535,710
Supplies	1,967,096	76,019	2,043,115	112,875	2,155,990
Depreciation and amortization	323,916	57,755	381,671	83,636	465,307
Interest	11,738	116,694	128,432	2,778	131,210
Total recurring expenses	$ 8,333,849	1,422,883	9,756,732	941,176	10,697,908

(In thousands)

The functional breakdown of expenses incurred by the Company in fulfilling its mission is as follows for the year ended December 31, 2020:

	Program activities			Supporting activities	
	Healthcare services	**Ancillary services and other**	**Total**	**General and administrative**	**Total**
Employee compensation	$ 3,672,182	880,468	4,552,650	229,897	4,782,547
Purchased services and other	1,815,990	93,482	1,909,472	466,917	2,376,389
Supplies	1,779,647	61,295	1,840,942	104,977	1,945,919
Depreciation and amortization	366,629	35,824	402,453	97,178	499,631
Interest	13,021	114,000	127,021	2,954	129,975
Total recurring expenses	$ 7,647,469	1,185,069	8,832,538	901,923	9,734,461

(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 December 31:

	2021	2020
Cash, cash equivalents and investments	$ 557,814	881,006
Net patient receivables	1,126,277	1,072,483
Assets whose use is limited:		
Board-designated funds	6,689,550	6,416,222
Self-insurance and trustee held funds	—	73,846
Restricted funds	—	4,411
	$ 8,373,641	8,447,968

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 $6,689,550 and $6,416,222 as of December 31, 2021

(Continued)

(In thousands)

and 2020, respectively. The fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

(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 as other revenue.

(a) Ensemble

Ensemble is a Delaware limited liability company providing revenue cycle management and consulting services to hospitals and health systems. As of December 31, 2021 and December 31, 2020, BSMH ownership interest in Ensemble was approximately 48% and 47%, respectively. In February 2021, BSMH received a one-time cash dividend of $357,315 from Ensemble due to a dividend recapitalization financing of Ensemble.

During the years ended December 31, 2021 and 2020, BSMH and Ensemble engaged in various transactions. These transactions were not eliminated because Ensemble is not consolidated. The following is a summary of the significant related party transactions and balances for the year ended December 31:

		2021	2020
Revenue cycle management and consulting services provided by Ensemble to BSMH	$	497,243	443,675
Leased employees, purchased and other services provided to Ensemble by BSMH		(88,723)	(88,304)
Due to Ensemble		42,832	36,203

(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.

(In thousands)

The following is a summary of the investments in unconsolidated organizations as of December 31:

		2021	2020
Ensemble	$	509,989	839,267
Sentara Princess Anne		50,788	51,754
Charity		22,659	36,425
Other		58,853	49,099
	$	642,289	976,545

The following is a summary of the income(loss) from unconsolidated organizations, which is included in other revenue, net for the years ended December 31:

		2021	2020
Ensemble	$	77,822	68,593
Sentara Princess Anne		20,284	12,209
Charity		(13,767)	(11,872)
Other		4,189	5,869
	$	88,528	74,799

(16) Subsequent Events

The Company has evaluated and disclosed any subsequent events through March 25, 2022, which is the date the consolidated financial statements were issued and made publicly available.

On February 28, 2022, Bon Secours Mercy Health acquired for $40,000 the 17% noncontrolling interest of Bon Secours – Richmond Health System from Richmond Memorial Health Foundation. The purchase increases the ownership interest of the Bon Secours – Richmond Health System from 83% to 100%.

On March 1, 2022, Bon Secours Mercy Health sold for approximately $89 million of net proceeds four senior living and care operations operating in Ohio. This sale is part of the full divestiture plan of all operations and facilities that involve skilled nursing, assisted living and independent living.

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

BON SECOURS MERCY HEALTH

Consolidating Schedule – Balance Sheet Information

December 31, 2021

(In thousands)

	Core Business								Non-Core					
Assets	**Providence Group**	**Samaritan Group**	**Charleston Market**	**European Group**	**Core Other**	**Core Shared Services**	**Core Eliminations**	**Core Total**	**Digital Business**	**Diversified Growth Business**	**Shared Services & Other**	**Discontinued Operations**	**Consolidating Eliminations**	**Bon Secours Mercy Health**
Current assets:														
Cash and cash equivalents	$ 1,577,538	915,828	60,255	304	124,288	239,652	—	2,917,865	—	19,946	(2,540,040)	4,631	—	402,402
Investments	—	1,187	150,182	—	2,775	—	—	154,144	—	—	1,268	—	—	155,412
Self-insurance and trustee held funds	—	—	—	—	—	—	—	—	—	—	76,151	—	—	76,151
Donor restricted funds	2,151	514	—	—	—	—	—	2,665	—	—	3,246	—	—	5,911
Total cash and investments	1,579,689	917,529	210,437	304	127,063	239,652	—	3,074,674	—	19,946	(2,459,375)	4,631	—	639,876
Net patient receivables	446,130	539,666	134,966	67,494	—	10,784	—	1,199,040	—	—	(68,095)	(4,668)	—	1,126,277
Other receivables	33,482	42,853	12,187	299	11,098	15,476	(9,308)	106,087	27,317	11,396	43,479	627	(44,895)	144,011
Inventories	141,012	97,013	19,781	11,025	—	6,370	—	275,201	—	—	192	—	—	275,393
Prepaid expenses and other current assets	14,997	12,240	25,580	6,336	179	59,032	—	118,364	45,906	104	53,927	(13)	(8,256)	210,032
Total current assets	2,215,310	1,609,301	402,951	85,458	138,340	331,314	(9,308)	4,773,366	73,223	31,446	(2,429,872)	577	(53,151)	2,395,589
Assets whose use is limited:														
Board designated funds	1,088,587	1,573,055	341,986	—	15,682	—	—	3,019,310	—	—	5,776,853	20,021	—	8,816,184
Self-insurance and trustee held funds	53	6,031	1,569	—	—	—	—	7,653	—	—	293,339	—	—	300,992
Donor restricted funds	6,020	—	49,593	—	—	—	—	55,613	—	—	35,278	75	—	90,966
Total assets whose use is limited	1,094,660	1,579,086	393,148	—	15,682	—	—	3,082,576	—	—	6,105,470	20,096	—	9,208,142
Property and equipment, net	1,613,113	1,606,657	602,939	283,825	92	34,670	—	4,141,296	294,325	11,268	107,971	4,388	—	4,559,248
Investments in unconsolidated organizations	68,124	4,667	(36)	10,279	22,659	—	—	105,693	—	509,989	26,607	—	—	642,289
Operating lease right-of-use assets	130,029	114,575	48,653	8,293	—	12,641	—	314,191	2,244	—	8,511	—	196	325,142
Retirement assets	—	—	—	—	—	—	—	—	—	—	214,890	—	—	214,890
Other long-term assets	106,020	169,298	212,890	9,990	377,231	966	(377,232)	499,163	23,663	—	1,992,402	178	(1,901,426)	613,980
Total assets	$ 5,227,256	5,083,584	1,660,545	397,845	554,004	379,591	(386,540)	12,916,285	393,455	552,703	6,025,979	25,239	(1,954,381)	17,959,280
Liabilities and Net Assets														
Current liabilities:														
Accounts payable	$ 467,393	492,301	97,541	42,290	78,943	(302,901)	(9,307)	866,260	16,760	(382,212)	126,349	121,055	10,896	759,108
Current portion of long-term debt	—	—	35	—	8,256	—	—	8,291	—	—	342,568	—	(8,256)	342,603
Accrued salaries, wages and benefits	83,307	97,899	72,669	13,450	353	4,701	—	272,379	2,274	7,804	422,735	(38)	—	705,154
Current portion of operating lease liabilities	37,241	23,984	10,921	374	—	2,649	—	75,169	878	—	2,608	62	74	78,791
Other accrued expenses	193,405	211,204	78,762	718	350	40	(4)	484,475	2,106	(1)	204,309	7,290	(260)	697,919
Total current liabilities	781,346	825,388	259,928	56,832	87,902	(295,511)	(9,311)	1,706,574	22,018	(374,409)	1,098,569	128,369	2,454	2,583,575
Long-term debt, less current portion	882,392	627,801	377,025	112,937	391,210	—	(377,229)	2,014,136	—	—	3,926,202	—	(1,901,426)	4,038,912
Retirement liabilities	192,529	12,788	—	151	—	—	—	205,468	—	—	106,310	—	—	311,778
Self-insurance liabilities	—	—	—	—	—	—	—	—	—	—	323,818	—	—	323,818
Operating lease liabilities	98,563	95,079	40,510	7,919	—	10,515	—	252,586	1,338	—	6,202	63	93	260,282
Other long-term liabilities	56,343	39,285	113,614	129,090	—	388	—	338,720	6,118	—	238,262	6,808	—	589,908
Total liabilities	2,011,173	1,600,341	791,077	306,929	479,112	(284,608)	(386,540)	4,517,484	29,474	(374,409)	5,699,363	135,240	(1,898,879)	8,108,273
Net assets without donor restrictions:														
Controlling interest	2,843,070	3,462,292	815,614	90,916	(285,153)	664,199	—	7,590,938	363,981	927,112	10,252	(110,076)	(55,502)	8,726,705
Noncontrolling interest	365,611	5,848	2,005	—	360,045	—	—	733,509	—	—	107,275	—	—	840,784
Total net assets without donor restrictions	3,208,681	3,468,140	817,619	90,916	74,892	664,199	—	8,324,447	363,981	927,112	117,527	(110,076)	(55,502)	9,567,489
Net assets with donor restrictions	7,402	15,103	51,849	—	—	—	—	74,354	—	—	209,089	75	—	283,518
Total net assets	3,216,083	3,483,243	869,468	90,916	74,892	664,199	—	8,398,801	363,981	927,112	326,616	(110,001)	(55,502)	9,851,007
Total liabilities and net assets	$ 5,227,256	5,083,584	1,660,545	397,845	554,004	379,591	(386,540)	12,916,285	393,455	552,703	6,025,979	25,239	(1,954,381)	17,959,280

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Schedule – Operating Information

Year Ended December 31, 2021

(In thousands)

	Core Business								Non-Core				
	Providence Group	**Samaritan Group**	**Charleston Market**	**European Group**	**Core Other**	**Core Shared Services**	**Core Eliminations**	**Core Total**	**Digital Business**	**Diversified Growth Business**	**Shared Services & Other**	**Consolidating Eliminations**	**Bon Secours Mercy Health**
Revenues:													
Net patient service revenue	$ 4,470,101	4,331,796	1,122,668	406,058	—	(4)	—	10,330,619	—	—	(128,110)	—	10,202,509
Other revenue, net	157,997	178,170	52,361	21,878	38,548	1,047,776	(905,219)	591,511	492,757	123,516	805,154	(1,338,447)	674,491
Total operating revenues	4,628,098	4,509,966	1,175,029	427,936	38,548	1,047,772	(905,219)	10,922,130	492,757	123,516	677,044	(1,338,447)	10,877,000
Expenses:													
Employee compensation	1,957,138	2,122,143	611,140	205,896	33,577	313,592	(162)	5,243,324	165,462	23,599	530,665	(553,359)	5,409,691
Purchased services and other	1,514,639	1,356,629	265,897	63,746	17,417	560,860	(891,369)	2,887,819	194,932	24,346	196,871	(768,258)	2,535,710
Supplies	877,759	829,833	204,398	127,588	78	138,178	—	2,177,834	1,544	326	(23,714)	—	2,155,990
Depreciation and amortization	151,347	150,660	53,026	17,377	174	3,827	—	376,411	78,109	—	10,787	—	465,307
Interest expense	858	320	17,827	6,032	16,859	—	(13,688)	28,208	—	—	119,861	(16,859)	131,210
Total operating expenses	4,501,741	4,459,585	1,152,288	420,639	68,105	1,016,457	(905,219)	10,713,596	440,047	48,271	834,470	(1,338,476)	10,697,908
Recurring operating income	126,357	50,381	22,741	7,297	(29,557)	31,315	—	208,534	52,710	75,245	(157,426)	29	179,092
Nonrecurring operating losses, net	(4,285)	(809)	(9,220)	(84)	—	(1,430)	—	(15,828)	(11)	—	(37,382)	—	(53,221)
Operating income	122,072	49,572	13,521	7,213	(29,557)	29,885	—	192,706	52,699	75,245	(194,808)	29	125,871
Nonoperating gains (losses) , net:													
Investment gains	151,800	219,201	29,980	(15)	1,757	—	—	402,723	—	—	479,218	—	881,941
Realized and unrealized interest rate swap agreements loss	—	—	—	—	—	—	—	—	—	—	13,912	—	13,912
Loss on defeasance of debt	—	—	—	—	—	—	—	—	—	—	(152)	—	(152)
Other nonoperating activities, net	13,280	1,038	371	(220)	1	(15)	—	14,455	—	(23,195)	(15,134)	—	(23,874)
Excess of revenue over expenses	$ 287,152	269,811	43,872	6,978	(27,799)	29,870	—	609,884	52,699	52,050	283,036	29	997,698

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Providers of Liquidity and Credit Support
As of December 31, 2021

At this time, the following bond obligation(s) are secured by a commercial bank liquidity and credit support provider. In addition, Bon Secours Mercy Health provides self-liquidity on certain of its variable rate debt obligations.

Letter of Credit and Reimbursement Agreement securing
County of Allen, Ohio Adjustable Rate Hospital Facilities Revenue Bonds
Series 2010C (Catholic Healthcare Partners)

Contact:

BMO Harris Bank
320 S. Canal St., 16th Floor
Chicago, Illinois 60606
Attention: Deborah Ellis, Senior Vice President, Institutional Markets
Phone: (312) 502-6524

Note: also see Footnote (8) in the Consolidated Audited Financial Statements

Recent Developments

COVID-19 Pandemic

The coronavirus (COVID-19) pandemic and the ensuing Delta and Omicron variants and subvariants have had a significant and unprecedented impact on our world, the communities that we serve, our caregivers and our patients. BSMH has taken a multitude of necessary efforts to avoid further spread of the infection and to care for those suffering from COVID-19. Due to the pandemic, there have been significant impacts to the operating and investment performance of BSMH. Management has taken a number of actions to ensure that BSMH is ready to deliver services to our communities and to those suffering from COVID-19 and to ensure resources are aligned as communities re-open. These actions have included, but are not limited to:

- Updating and refreshing clinical protocols to include the response for caring for COVID-19 patients;
- Ensuring access to personal protection equipment and other supplies through our supply chain infrastructure;
- Managing expenses, while ensuring adequate resource availability to allow the health system to effectively recover after the pandemic;
- Obtaining additional liquidity by entering into additional lines of credit and banking arrangements;
- Participation in the Medicare Accelerated Payment Program to ensure adequate operating cash;
- Community vaccination efforts are extending the Ministry's COVID-19 focus beyond our facilities. BSMH collaborates with other local community health leaders to support vaccine rollouts by focusing on equitable distribution, improved access to vaccine distribution and community partnerships and taskforces;
- The Ministry's clinical leaders and market-based clinical teams strategically and promptly implemented plans, procedures and processes to provide safe, high-quality care for COVID-19 patients, and in support of communities across seven states and in the Republic of Ireland; and
- Shared services functions, such as Supply Chain, Information and Technology and Human Resources, helped safeguard front-line caregivers' health while providing programs and technologies to support associates during this uncertain time.

With respect to financial and liquidity support from governmental entities, Bon Secours Mercy Health received the following relief through March 31, 2022 to help mitigate the financial effects of COVID-19:

- $622.4 million in stimulus was received from the Coronavirus Aid, Relief and Economic Security (CARES) Act of which $573.0 million has been recognized in the statement of operations
- $139.7 million of payroll taxes were deferred as part of the CARES Act
- $734.3 million Accelerated Medicare Payments from the Centers for Medicare & Medicaid Services (CMS) of which $404.3 million has been recouped by CMS
- $92.6 million was received and recognized from the Irish government through the Health Service Executive (HSE)

Bon Secours – Richmond Health System

Subsequent to year end December 31, 2021, Bon Secours Mercy Health acquired the 17% noncontrolling interest of Bon Secours – Richmond Health System from Richmond Memorial Health Foundation for $40.0 million in February 2022. The purchase increased the ownership interest of the Bon Secours – Richmond Health System from 83% to 100% and resulted in a $321.3 million reclassification within net assets from noncontrolling interest to controlling interest.

Sale of Senior Living Care Facilities

On December 1, 2021, Bon Secours sold four free standing senior living facilities located in Virginia. Subsequent to year end December 31, 2021, Bon Secours Mercy Health sold four free standing senior living facilities located in Ohio effective March 1, 2022 and two free standing senior living facilities located in Florida, the operations of these two effective April 1, 2022 and the real estate of these effective April 25, 2022. These sales are part of the full divestiture plan of all operations and facilities that involve skilled nursing, assisted living and independent living.

Dividend Payment by Ensemble Health Care

Ensemble RCM LLC, d/b/a Ensemble Health Partners ("Ensemble"), is an Ohio limited liability company in which Bon Secours Mercy Health previously held a 99.9% controlling interest. In 2019, Bon Secours Mercy Health sold its controlling interest in Ensemble but maintained a minority ownership investment. Subsequent to the March 31, 2022 financial statements close, Ensemble paid a dividend of $200.0 million to Bon Secours Mercy Health.

Series 2017B Mandatory Purchase

Mercy Health (predecessor to Bon Secours Mercy Health) issued the Series 2017B County of Allen, Ohio Adjustable Rate Hospital Facilities Revenue Bonds with an initial long-term rate period that ended May 4, 2022. BSMH drew on its Revolving Credit Agreement and on May 5, 2022 repaid holders of the $89.425 million principal amount. BSMH management will use this taxable bridge financing as it evaluates various alternatives for the placement of this debt in the public market.

BON SECOURS MERCY HEALTH

Leadership & Governance:

Executive Leadership Team

Leadership & Governance: Executive Leadership Team

Executive Leadership

Brief biographical information for the principal members of the leadership for Bon Secours Mercy Health is set forth below.

John M. Starcher, Jr.
Chief Executive Officer

John Starcher is President and CEO of Bon Secours Mercy Health, one of the largest health care systems in the U.S. and the largest private health system in Ireland. He oversees the development of System strategies and operations for all Bon Secours Mercy Health hospitals and more than 1,000 sites of care in seven states in the U.S. and five cities in Ireland. Previously, Starcher served as President and CEO of Mercy Health, the largest provider of health care in the state of Ohio. Starcher was the former president and chief executive officer of Health Management Associates (HMA), an integrated acute care delivery system with 71 hospitals across 15 states. He guided HMA through its successful sale to Community Health Systems. Before joining HMA, Starcher served as CEO of three of Mercy Health's four divisions – overseeing more than 20 acute care hospitals, five long term care facilities, six home health agencies and dozens of affiliated clinical practices with more than $3 billion in net revenue. He also served as CEO of its Northeastern Pennsylvania Region, the senior vice president of human resources and corporate associate counsel. Starcher began his health care career in academic medicine, serving six years in leadership roles at the Medical College of Ohio, now the University of Toledo Medical Center. He has a bachelor's degree in business administration from Bowling Green State University and a Doctorate in Jurisprudence from the University of Toledo. Starcher is licensed to practice law in the State of Ohio and has actively served as a director on more than 16 boards.

Donna Abbondandolo
Chief Compliance Officer

As chief compliance officer, Donna Abbondandolo is responsible for the planning, administration and maintenance of Bon Secours Mercy Health's compliance program, including corporate social responsibility, ethics and risk mitigation. Beginning in 2018, Abbondandolo served as chief revenue cycle compliance officer for the ministry. Before joining BSMH, she served in compliance leadership positions for several large health care networks in New York and as the Health Information Program Director for Long Island University where she was also an adjunct faculty member. Abbondandolo's role in health care compliance and revenue cycle has encompassed all aspects of health care operations and implementation of regulatory requirements. She has participated in national and state initiatives focused on health care compliance, privacy, reimbursement and setting certification standards. Abbondandolo received her bachelor's degree at Long Island University and earned a master's degree in finance from Hofstra University in New York. Serving on the Editorial Board for the Health Care Compliance Association, Abbondandolo has been a featured speaker at events held by the organization on multiple occasions. She also serves as an expert interview source and published columnist for Compliance Today.

Michael A. Bezney, Esq.
Chief Legal Officer and General Counsel

Michael A. Bezney leads all ministry-wide legal operations, as well as governance, foundation, and advocacy functions. He joined Mercy Health in 2002 as senior vice president and general counsel, and most recently served as chief legal officer for the ministry. Previously, Bezney served as vice president and associate general counsel for Advocate Health Care, the largest nonprofit system in metropolitan Chicago. Before joining Advocate in 1996, he was a partner in the health care law department of McDermott, Will & Emery, a Chicago-based law firm. He also served as an associate in corporate law with the Dallas, Texas-based firm of Johnson & Gibbs. Bezney earned his Doctorate in Jurisprudence from the University of Pennsylvania Law School and a bachelor's degree in finance from the University of Texas. He was named "2019 Chief Legal Officer of the Year" by the Cincinnati Business Courier.

Deborah Bloomfield, PhD, CPA
Chief Financial Officer

Debbie Bloomfield manages Bon Secours Mercy Health's financial operations, including treasury and investment, supply chain, real estate and development, and managed care. Before joining Mercy Health, Bloomfield was employed by Ernst and Young, LLP, where she specialized in the health care and financial service sectors. She has more than 25 years of experience in health care finance. In 2013, Bloomfield was named Chief Financial Officer of the Year by the Cincinnati Business Courier. Bloomfield holds a Ph.D. in business administration from Touro University International (now Trident University). She holds a Master of Business Administration in finance and management information systems from Xavier University in Cincinnati and an undergraduate degree, magna cum laude, in accounting from Xavier University. She is a certified public accountant in Ohio (active) and a member of the Healthcare Financial Management Association.

David Cannady
Chief Strategy Officer

David Cannady leads Bon Secours Mercy Health's marketing, innovation and strategic planning teams. Cannady came to Mercy Health in May 2017 from Hospital Corporation of America (HCA) in Nashville, where he served as vice president of the Strategic Resource Group. During his tenure at HCA, Cannady led a team that provided strategic planning and consulting for growth initiatives and hospital operations, managed reporting and progress on the strategic agenda, and helped develop strategies on service lines, clinically integrated networks, and clinical comanagement programs. Before joining HCA in 2002, Cannady was a senior manager in the health care consulting group at Cap Gemini Ernst & Young in Charlotte, North Carolina. He began his career at Richmond Memorial Hospital, now known as Memorial Regional Medical Center. He holds a bachelor's degree in public health from the University of North Carolina and a master's degree in health administration from Duke University. Cannady serves on the board of Cintrifuse, an innovation technology company based in Cincinnati, Ohio.

Rev. Joseph Cardone, PhD
Chief Mission Officer

Fr. Joseph Cardone leads the ministry's initiatives to extend understanding about the organization's Catholic heritage and identity among employees, leaders, and board members. Previously, Fr. Cardone served as the chief mission officer and senior vice president of mission and values for Mercy Health, as well as vice president of mission and value integration for Mercy Health – St. Vincent Medical Center and Mercy Health – Children's Hospital. While in Toledo, he served as pastor of Our Lady of Lourdes Parish. He holds a doctor of philosophy in moral theology from St. Louis University and a master's degree from the Athenaeum of Ohio, Cincinnati. He graduated from Bowling Green State University with a bachelor's degree in secondary education and teaching. He was ordained a priest in the Diocese of Toledo in 1987.

Joseph Gage
Chief Human Resources Officer

Joseph Gage is responsible for diversity and inclusion, talent acquisition, rewards and wellbeing, and learning for the more than 52,000-employee ministry. Gage previously served as chief human resources officer for Mercy Health. Prior to joining the health care ministry, he was a vice president at Tenet and led human resources, talent, recruiting and HR metrics for the 56 hospitals and employees in hospital operations. Earlier in his career, he negotiated national and local labor agreements for Levi Strauss & Co. At Delta Air Lines, Gage was the human resources division leader for 10,000 pilots and led the startup of Delta's new low-cost carrier, Song Airlines. He began his career as in-house counsel for BNSF Railway handling labor and employment cases. Gage has a Bachelor of Business Administration from Baylor University and a Doctorate in Jurisprudence from Baylor School of Law. He is licensed to practice law in Texas.

Wael Haidar, MD
Chief Clinical Officer

Wael Haidar, MD is responsible for the strategic leadership of the organization's clinical enterprise, including service lines, physician and ambulatory services, medical informatics, and population health. He previously served as senior vice president, Provider Networks, for Bon Secours Health System, a role he assumed in January 2017. Prior to joining Bon Secours Health System, Dr. Haidar worked at Mercy Clinics in Des Moines, Iowa, for 10 years where he served as a staff physician, medical director of the Adult Hospitalist Program, vice president of hospital-based physicians and ultimately as chief physician executive and president of Mercy Clinics. Dr. Haidar earned his medical degree from American University of Beirut in Beirut, Lebanon, and his master's degree in business administration from Northwestern University, Kellogg School of Management. He completed fellowships with the Mayo Clinic in behavioral neurology and geriatrics.

Sr. Anne Lutz, CBS
Chief Sponsorship Officer

Sr. Anne Lutz serves as chief sponsorship officer for Bon Secours Mercy Health. As chief sponsorship officer, Sr. Anne is responsible for sponsorship, ministry formation and Bon Secours Mercy Health's global ministries. She also serves as the chief sponsorship and mission officer for the ministry's Ireland market, which serves Cork, Dublin, Galway, Limerick and Tralee. A health care administrator with more than 30 years of experience in acute and geriatric care, Sr. Anne previously served as executive vice president of sponsorship for Bon Secours Health System. Prior to joining Bon Secours Health System in 1987, Sr. Anne served as an administrator for St. Francis Country House, a 313-bed skilled nursing facility for the Archdiocese of Philadelphia. She also held several nursing management and staff positions at three Bon Secours hospitals in Michigan and Maryland. Sr. Anne received her nursing education from the Bon Secours School of Nursing, Baltimore, Maryland. She later obtained a Bachelor of Arts degree from the University of Detroit and a gerontology certificate from St. Louis University. Prior to the merger of Bon Secours and Mercy Health, she served on the Bon Secours Health System Board and the Bon Secours Ministry (PJP) Board, as well as various local market boards. Currently, she is treasurer for the Sisters of Bon Secours, USA and assistant treasurer, Congregation of Bon Secours Paris.

Sandra Mackey
Chief Marketing Officer

Sandra Mackey is responsible for all marketing, communications, digital, brand, and creative strategy to support health care delivery across the ministry. Before joining Mercy Health in 2017 as chief marketing officer, Mackey served as senior vice president of marketing and communications for the Arthritis Foundation, where she was responsible for national strategic marketing initiatives. Previously, Mackey was the executive director of market strategy for Emory Healthcare in Atlanta, where she led a team to support service line and strategic growth initiatives, established a digital marketing platform and launched a comprehensive brand strategy. Mackey was named “2018 Chief Marketing Officer of the Year” by the Cincinnati Business Courier. She is a graduate of the Woodruff Leadership Academy and holds a bachelor's degree in nursing from Birmingham University in England. She is on the board of directors for Conduit Health Partners and serves as board chair for FC Cincinnati Foundation. She is a member of the national Women Business Leaders organization.

Andre Maksimow
Chief Diversified Growth Officer

As chief diversified growth officer for Bon Secours Mercy Health, Andre Maksimow oversees strategies that extend the ministry’s ability to serve more people and communities, as well as advance health care value and innovation beyond our organization. He is accountable for the ministry’s ambulatory ventures, transactions and inorganic growth, acquired non-core businesses and providing oversight for the ministry’s growing lineup of B2B services. Prior to his role with Bon Secours Mercy Health, Maksimow was senior vice president for Kaufman Hall & Associates, focused on advising health care leaders nationwide. He provided strategic financial advisory services related to mergers, acquisitions, divestitures, joint ventures, minority interest transactions, valuations, strategic options assessments and other services. He holds an M.B.A. from Boston University and is a Certified Public Accountant.

Andrea Mazzoccoli, PhD
Chief Nurse and Quality Officer

Andrea Mazzoccoli represents thousands of nurses working across the continuum of care to ensure the highest standard for professional nursing practice and quality outcomes. Mazzoccoli previously served as corporate chief nurse executive for Bon Secours Health System and as vice president, patient care services and chief nursing officer at the University of Pittsburgh Medical Center. Mazzoccoli earned a nursing diploma from the Shadyside School of Nursing; a Bachelor of Science in nursing from Carlow College, a Master of Science in nursing and business administration from Duquesne University and a Ph.D. in nursing from the University of Pittsburgh. She completed a Robert Wood Johnson Fellowship and is a Johnson & Johnson Wharton fellow and a Fellow of the

American Academy of Nursing. She serves as a magnet appraiser for the American Nurses Credentialing Center.

Jason Siegert
Chief Transformation Officer

As Bon Secours Mercy Health's chief transformation officer, Jason Siegert is responsible for driving enhanced performance across shared services, clinical operations, care delivery innovation and growth, while helping build a more agile, innovative culture that allows Bon Secours Mercy Health to better serve its patients and communities. He joined the ministry in 2018 as its first chief analytics officer, working to harness and evaluate data with the goal of providing greater transparency and helping to ensure that focused, data-driven decisions directly improve results. Prior to Bon Secours Mercy Health, Siegert was the CEO for Angel MedFlight Worldwide Air Ambulance Services in Scottsdale, Ariz. and served as director, Operations Finance, for Health Management Associates (HMA), where he helped to facilitate the system's sale to Community Health Systems (CHS). Siegert holds a Bachelor of Business Administration from the University of Florida – Warrington College of Business and a Master of Business Administration from Florida Gulf Coast University.

Brian Smith
President and Chief Operating Officer

Brian Smith oversees Bon Secours Mercy Health operations throughout the ministry and is responsible for the operational management of the ministry's four groups and also oversees key functions including nursing, pharmacy, lab, enterprise-wide analytics, quality and clinical effectiveness, and post-acute services. He was previously CEO of Mercy Health's north division. He also held the position of executive vice president/chief operating officer with St. Rita's Health Partners in Lima, which included two hospitals, four physician joint ventures, and a wholly owned physician enterprise. He received his bachelor's degree from Ohio Northern University in Ada, Ohio. He received a master's degree in business administration from Ashland University. Smith is a member of the Ohio Hospital Association Board of Directors and the Advisory Board for the James Dicke College of Business Administration at Ohio Northern University. He is past chairman of the board of the Lima/Allen County Chamber of Commerce. Smith has been recognized by Modern Healthcare with its "Up and Comers" award, and the Cincinnati Business Courier named him "2017 Chief Operating Officer of the Year." He previously served on the Ohio Chamber of Commerce Board of Directors, the Summa Health System Board of Directors and the Mercy College of Ohio Board of Trustees.

Odesa Stapleton, JD
Chief Diversity and Inclusion Officer

As chief diversity and inclusion officer, Odesa Stapleton leads Bon Secours Mercy Health's effort to promote a unified, diverse culture and ensure alignment of the ministry's mission, vision and values across a multinational footprint. She is responsible for executive talent acquisition, language services, associate relations and human resources compliance/audits. She is also accountable for BSMH initiatives related to the Health Anchor Network (HAN) — a coalition of 60+ health systems dedicated to mitigating the social determinants health. In 2019, Stapleton joined Bon Secours Mercy Health from Neighborhood Health Services Corporation in Plainfield, New Jersey, where she was director of human resources and operations for nearly five years. Before that, she served two years as executive director of HR for the Manatee County School District in Bradenton, Florida. Stapleton's previous experience includes three years as director of talent management for Verizon Communications, five years as director of staffing, recruitment and employment for Delta Air Lines and eight years as a labor and employment attorney for the Burlington Northern & Santa Fe Railway Company. Stapleton is a graduate of the University of Texas at Austin and earned her law degree from the Benjamin N. Cardozo School of Law at Yeshiva University. She is a member of the Society for Human Resource Management, State Bar of Texas, American Bar Association and Alpha Phi Omega, and she is a certified secondary teacher. Early in her career, Stapleton researched and wrote labor and employment law books for businesses at Summers Press.

Jason Szczuka
Chief Digital Officer

Jason Szczuka is the chief digital officer for Bon Secours Mercy Health. He leads the ministry's focus on strategic technological opportunities and oversees the areas of analytics, I&T, innovation and digital strategy. Szczuka is driving a patient-first strategy that advances the promise of digital health by extending quality care into a more convenient, connected and consistent experience. Prior to joining Bon Secours Mercy Health, Szczuka served as chief digital officer with Cigna, where he led a digital team that supported the transformation of the organization from a traditional health plan administrator to a global health services company. Szczuka co-founded Brighter in 2010, which was later acquired by Cigna, where he developed products that supported patient, provider and/or payer interactions, enhancing health care engagement and transactions. Szczuka earned his Juris Doctor degree from Southwestern University School of Law and is a member of the State Bar of California. He holds bachelor's degrees in business administration and political science from Southern Methodist University.

BON SECOURS MERCY HEALTH

Leadership & Governance:

Organizational Structure and
Board of Directors

BON SECOURS MERCY HEALTH

Leadership & Governance: Organizational Structure and Board of Directors

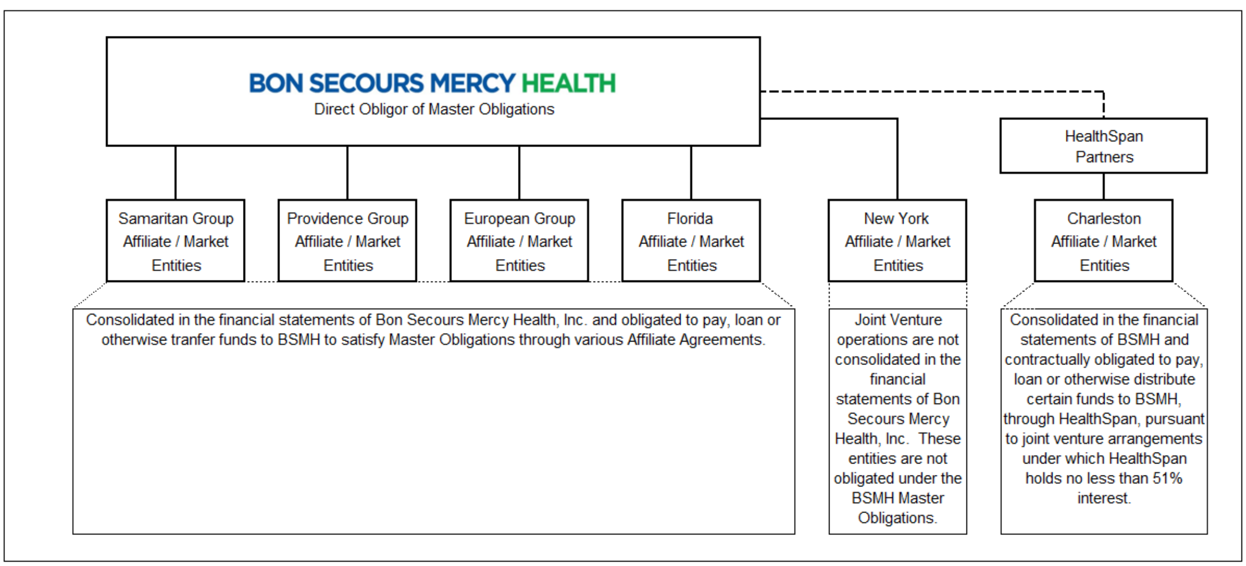
SYSTEM ORGANIZATION

Bon Secours Mercy Health, Inc. (*"BSMH"*) is the result of the combination in 2018 of two separate health care organizations, Mercy Health and Bon Secours Health System, Inc. ("*BSHSI*"). BSHSI then changed its name to Bon Secours Mercy Health Inc. In January 2020, Mercy Health merged with and into BSMH. As the surviving entity, BSMH assumed all legal obligations of Mercy Health, including all obligations issued under the Mercy Health Master Indenture.

BSMH is a Catholic non-profit health organization which operates regional delivery systems in Ohio, Kentucky, Maryland, Virginia, South Carolina, New York, Florida and the Republic of Ireland. These regional delivery systems consist of hospitals, physician clinics, home health agencies, hospice agencies, skilled nursing and assisted living facilities, and other organizations providing health-related services to their respective communities. BSMH is the fifth largest Catholic health care ministry and one of the twenty largest non-profit health care systems in the United States.

BSMH ORGANIZATIONAL STRUCTURE

BSMH manages its core business operations through two Groups in the United States markets and a separate Group for European operations. Florida operations were operated separately, as well as the New York markets which report separately to BSMH executive management.



PUBLIC JURIDIC PERSON

The sponsoring organization of BSMH is Bon Secours Mercy Ministries ("*BSMM*"), a public juridic person (*"PJP"*) established by the Congregation for Institutes of Consecrated Life and Societies of Apostolic Life. The historical founders of BSMM have been providing care to those in need for more than 280 years.

BSMM IS NOT LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON ANY OBLIGATION ISSUED UNDER THE MASTER INDENTURE OR ANY INDEBTEDNESS EVIDENCED AND SECURED THEREBY.

BSMH GOVERNANCE

BSMH is a ministry of the Catholic Church which provides health care services. BSMH traces its roots back through over 280 years of service by congregations of women religious. Today, the ministry is under the canonical sponsorship of BSMM, a PJP established by a December 14, 2018 decree by the Congregation for Institutes of Consecrated Life and Societies of Apostolic Life. BSMM is solely a canonical entity. It was not created under, nor does it have, a counterpart under civil law.

BSMM carries out its apostolic work through three congregations of religious women: the Sisters of Bon Secours; the Sisters of the Humility of Mary; and the Sisters of Mercy of the Americas. Each congregation is a Participating Entity of BSMM which as such has accepted canonical responsibility for the activities of BSMM. Each Participating Entity has designated one member of its congregation to exercise that Participating Entity's vote as to BSMM matters. Reserved powers at the Participating Entities level include amendment to PJP bylaws and governing documents, and addition of any other congregations in the future as Participating Entities. Neither the Sisters of Bon Secours, the Sisters of the Humility of Mary, the Sisters of Mercy of the Americas nor any other their ministries or affiliates are liable for the payment of the principal of or redemption premium, if any, or interest on bonds or any obligation under the Master Indenture. BSMM acts though its members, who are seven individuals appointed by the Participating Entities, the majority of whom are currently women religious.

BON SECOURS MERCY HEALTH

BSMH BOARD OF DIRECTORS

The corporate Bylaws of BSMH permit not fewer than nine and not more than nineteen board members. The following are the board members of BSMH as of May 2022:

- Katherine W. Vestal, PhD *Chair*
- Peter Maddox *Vice Chair*
- Katherine A. Arbuckle, CPA
- Sr. Pat Eck, CBS *
- Sr. Fran Gorsuch, CBS
- Sr. Doris Gottemoeller, RSM Ex-Officio *
- Gerard Kells
- Jennifer O'Brien, JD
- Joseph O'Shea
- Raja Rajamannar
- Janet B. Reid, PhD
- Myles N. Sheehan, SJ, MD *
- Sr. Carol Anne Smith, HM *
- John M. Starcher, Jr. Ex-Officio

** denotes representative of PJP*

HEALTHSPAN PARTNERS

HealthSpan Partners is an Ohio nonprofit corporation, which supports the mission of BSMH. There is no corporate member of HealthSpan Partners. Rather, in accord with provisions of Ohio law, the members of the Board of Directors of HealthSpan Partners exercise the rights and privileges of members. The members on the HealthSpan Partners Board of Directors are the same as BSMH's Board of Directors, with the exception of PJP members of the BSMH Board of Directors and BSMH's President and CEO. HealthSpan Partners is an Affiliate of BSMH and is consolidated in BSMH's financials. HealthSpan holds a 51% interest in Roper St. Francis Healthcare.