

BON SECOURS MERCY HEALTH

Financial Disclosure

For the First Quarter

Period Ended March 31, 2022

Contents:

Interim Financial Statement Disclaimer

Bon Secours Mercy Health

- Management's Discussion and Analysis
- Consolidated Financial Statements (Unaudited)
- Utilization Statistics
- Financial Ratios & Analyses

Interim Financial Statement Disclaimer

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

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

BON SECOURS MERCY HEALTH

**Management's Discussion and Analysis
of Recent Financial Performance**

For the Three-Month

Period Ended

March 31, 2022

BON SECOURS MERCY HEALTH

Management's Discussion and Analysis of Recent Financial Performance

Three Months Ended March 31, 2022

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, New York 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

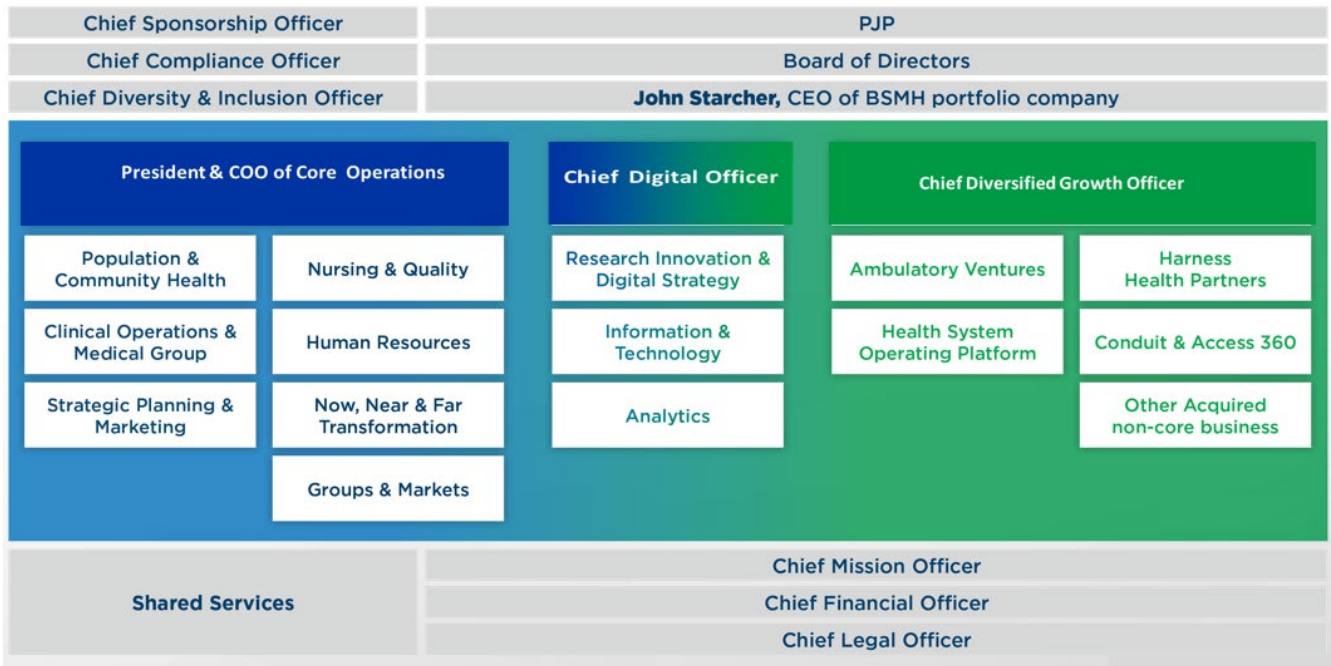
BSMH strives to harness innovative and bold growth opportunities that sit outside of the ministry's traditional operations.

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

John M. Starcher, Jr.
Donna Abbondandolo
Michael A. Bezney, JD
Deborah S. Bloomfield, PhD, CPA
David Cannady
Rev. Joseph P. Cardone, PhD
Joe L. Gage, JD
Wael Haidar, MD, MBA
Sr. Anne Lutz, CBS
Sandra Mackey
Andre Maksimow
Andrea Mazzoccoli, PhD, RN
Jason Siegert
Brian Smith
Odesa Stapleton, JD
Jason Szczuka

Title

Chief Executive Officer
Chief Compliance Officer
Chief Legal Officer
Chief Financial Officer
Chief Strategy Officer
Chief Mission Officer
Chief Human Resources Officer
Chief Clinical Officer
Chief Sponsorship Officer
Chief Marketing Officer
Chief Diversified Growth Officer
Chief Nursing and Quality Officer
Chief Transformation Officer
President & Chief Operating Officer
Chief Diversity and Inclusion Officer
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 (PJP)
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

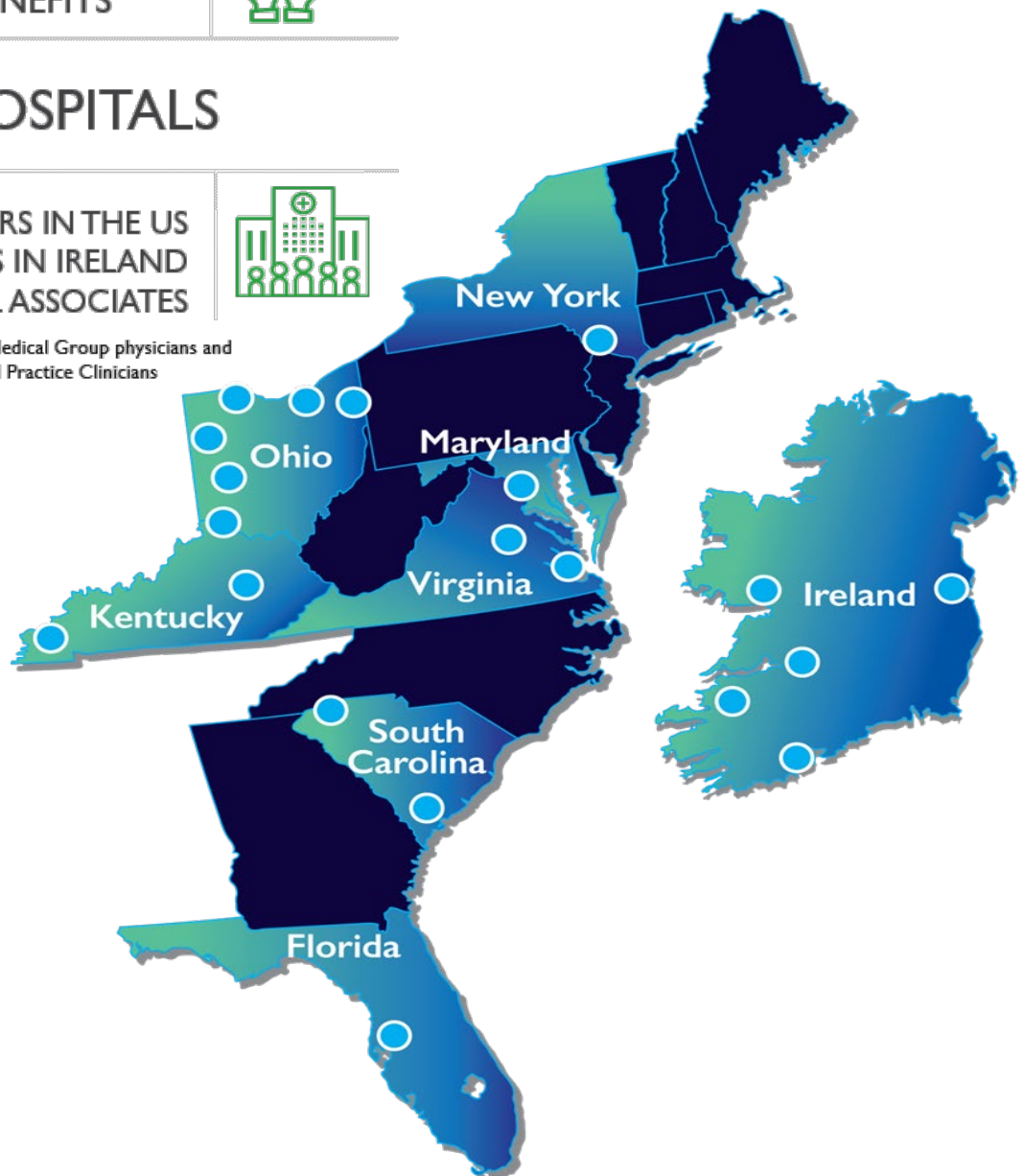


50 HOSPITALS

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 three months ended March 31, 2022 and 2021, presented below, has been derived from BSMH's internal financial information. This document is incorporated herein by reference and is available for review on the Electronic Municipal Market Access ("EMMA") website operated by the Municipal Securities Rulemaking Board ("MSRB"). In conformity with U.S. generally accepted accounting principles, the consolidated financial statements and this Management's Discussion and Analysis include the financial position, results of operations, changes in net assets and cash flows of Bon Secours Mercy Health, HealthSpan Partners and subsidiaries. Information as of and for the three months ended March 31, 2022 and 2021, is consistent with the presentation of BSMH's unaudited financial statements.

On February 28, 2022, Bon Secours Mercy Health acquired the 17% noncontrolling interest of Bon Secours – Richmond Health System from Richmond Memorial Health Foundation for \$40.0 million. 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.

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

SUMMARY

The COVID-19 pandemic continues to impact the Ministry's operations with the most recent surge (Omicron) impacting January and February 2022 volumes. The surge, together with the labor shortage and inflationary environment drove increases in employment, pharmaceutical, supply and utility expenses for the three months ended March 31, 2022 when compared to the prior year. The increase in operating expenses led to a decline in operating EBITDA and recurring operating income for the three months ended March 31, 2022 compared to the prior year. Despite some deterioration in certain key financial ratios compared to the prior year, the Ministry continues to maintain a strong balance sheet. Liquidity declined in the first quarter primarily due to investment losses in a challenging market environment. Management continues to take proactive actions to ensure that the health system can deliver services to our communities.

KEY FINANCIAL RATIOS

(\$s in thousands)	⁽¹⁾ Three Months Ended March 31,			
	2022		2021	
	Amount	Margin	Amount	Margin
Net operating revenue	\$2,777,251		\$2,666,192	
Operating EBITDA	\$123,244	4.4%	\$230,517	8.6%
Recurring operating (loss) income	(\$28,050)	(1.0%)	\$74,974	2.8%
(Deficit) Excess of revenue over expenses	(\$332,587)	(13.5%)	\$265,480	9.3%

¹ The financial ratios include stimulus revenue of \$78.6 million and \$50.2 million recognized from the U.S. CARES Act in 2022 and 2021, respectively.

Net operating revenue grew by \$111.1 million, or 4.2%, for the three months March 31, 2022 compared to the prior year. The growth in net operating revenue was attributable to growth in net patient revenue from the increase in patient volumes, as well as one-time state program reimbursements of \$38.7 million. Stimulus revenue of \$78.6 million for the three months ended March 31, 2022 was recorded as other operating revenue, up from \$50.2 million in the prior year. Operating EBITDA of \$123.2 million (margin 4.4%) was lower for the three months ended March 31, 2022 when compared to the prior year due to an increase in operating expenses to meet service demands. Recurring operating loss of \$28.1 million (margin -1.0%) was also lower than the prior year due to the lower EBITDA. Deficit of revenue over expenses of \$332.6 million (margin 13.5%) for the three months ended March 31, 2022 decreased over the prior year due to investment losses.

(\$s in thousands)	Three Months Ended March 31,			
	2022		2021	
	Amount	% of Exp	Amount	% of Exp
Community Benefit	\$144,569	5.2%	\$167,271	6.5%

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. Un-sponsored community benefit is measured by the cost to provide services net of one-time reimbursements received. For the three months ended March 31, 2022, community benefit was \$144.6 million or 5.2% of total operating expenses. One-time reimbursement items of \$38.7 million, mainly related to Medicaid reimbursement and the Ohio HCAP program have directly reduced un-sponsored community benefits for 2022. Excluding these one-time reimbursements, community benefit would be 6.2%.

LIQUIDITY AND KEY PERFORMANCE INDICATORS

	March 31, 2022	December 31, 2021
Days cash on hand	300	334
Adjusted days cash on hand¹	285	316
Unrestricted cash to debt	195.7%	213.9%
Adjusted unrestricted cash to debt¹	186.4%	202.1%
Total debt to capitalization	33.4%	33.4%
Pension funding	98.7%	97.2%

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

The Company's balance sheet remains strong with stable leverage from December 31, 2021 to March 31, 2022. Days cash on hand decreased as a result of investment losses and growth in a day of cash expenses. Significant cash outflows were repayments for Accelerated Medicare of \$107.6 million (4 days). Capital expenditures for the three months ended March 31, 2022 were \$116.5 million (4 days). These outflows were offset by 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 \$330.1 million (13 days) and payroll tax deferral of \$69.9 million (2 days). The debt to capitalization ratio remained consistent at 33.4% with the net loss for the quarter being largely offset by the \$321.3 million reclassification from noncontrolling interest to controlling interest for BSMH's increased ownership interest in the Bon Secours – Richmond Health System. Pension funding increased to 98.7% as of March 31, 2022, up from 97.2% at December 31, 2021, due to an increase in the discount rate, partially offset by asset losses.

VOLUME TRENDS

	Three Months Ended March 31,		
	2022	2021	Change %
Admissions	80,815	82,549	(2.1%)
Observations	15,708	15,299	2.7%
Deliveries	6,719	6,543	2.7%
Inpatient Surgeries	19,687	20,579	(4.3%)
Outpatient Surgeries	72,689	70,244	3.5%
ER Visits	342,647	313,456	9.3%
Physician Visits	1,754,990	1,681,027	4.4%

Outpatient volumes for the three months ended March 31, 2022 improved when compared to the same period of the prior year, largely due to reactivation of non-emergent procedures. Emergency room visits showed the largest improvement from prior year with an increase of approximately 9.3%, for the three months ended March 31, 2022 compared to the prior year. Admissions and inpatient surgeries were impacted as the health system responded to the latest COVID-19 surge (Omicron) and adjusted inpatient services to ensure patient safety and meet demand. Physician visits increased 4.4% for the three months March 31, 2022, compared to the prior year. Virtual visits totaled 107 thousand and 203 thousand for the three months ended March 31, 2022 and 2021, respectively. The decline in virtual visits from 2021 to 2022 is a result of patients returning to seek care in more traditional settings. Virtual visits are conducted by the medical group and are reflected within total physician visits.

RESULTS OF OPERATIONS

(\$s in thousands)	Three Months Ended March 31,	
	2022	2021
Net Patient Service Revenue	\$2,564,281	\$2,482,723
Other Operating Revenue ⁽¹⁾	212,970	183,469
Net Operating Revenue	2,777,251	2,666,192
Employee Compensation	1,476,011	1,299,678
Purchased Services and Other	651,833	619,072
Pharmaceuticals & Supplies	528,146	518,530
Depreciation and Amortization	117,578	120,647
Interest Expense	31,733	33,291
Recurring Operating (Loss) Income	(28,050)	74,974
Nonrecurring Losses (Gains), Net	581	(1,431)
Investment (Losses) Gains, Net	(366,668)	169,713
Interest Rate Swap Agreements Gains	21,888	32,178
Other Nonoperating Gains (Losses), Net	39,662	(9,954)
(Deficit) Excess of Revenue Over Expenses	(\$332,587)	\$265,480

¹ Other Operating Revenue includes stimulus revenue of \$78.6 million and \$50.2 million recognized from the U.S. CARES Act in 2022 and 2021, respectively.

NET OPERATING REVENUE

Net operating revenue increased by \$111.1 million or 4.2% for the three months ended March 31, 2022 from the comparable prior year. Net patient service revenue increased by \$81.6 million or 3.3% for the three months ended March 31, 2022 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 three months ended March 31, 2022, 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 three months ended March 31, 2022 also included the benefit of one-time state program reimbursements totaling \$38.7 million compared to \$21.9 million in prior year. Stimulus revenue (recorded as other operating revenue) was \$78.6 million for the three months ended March 31, 2022, up from \$50.2 million in the prior year.

OPERATING EXPENSES

Total operating expenses were \$2.8 billion for the three months ended March 31, 2022, an increase of \$214.1 million or 8.3% from the same period of the prior year. This increase in operating expenses was primarily due to increases in employee compensation. Employee compensation increased \$176.3 million or 13.6% 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 for patient needs. For the three-month period ended March 31, 2022 pharmaceuticals and supplies expense as a percentage of net patient revenue was 20.6% compared to 20.9% for the same period of the prior year. For the three-month period ended March 31, 2022 and 2021 purchased services as a percentage of net patient revenue remained consistent at 25%. 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 three months ended March 31, 2022 were \$29.2 million compared to \$57.0 million in 2021 as the Ministry continues to respond to the COVID-19 pandemic.

NONOPERATING GAINS AND LOSSES, NET

Investment losses, including unrealized gains and losses, were \$366.7 million for the three months ended March 31, 2022, compared to gains of \$169.7 million for the three months ended March 31, 2021 due to weak market performance in the first quarter of 2022. The gain on interest rate swap agreements was \$21.9 million for the three months ended March 31, 2022 compared to a gain of \$32.2 million for the same period of 2021. Included in other nonoperating losses, net is a gain of \$57.7 million for the sale of Ohio senior living and care facilities, as well as pension settlement loss of \$11.0 million, associated with BSMH's ongoing pension derisking strategy.

SUBSEQUENT EVENTS

Effective April 15, 2022, Ensemble Health Partners underwent an ownership restructuring that resulted in a reduction to BSMH's ownership interest from 48.2% to 41.8%. The ownership restructuring triggered a one-time cash distribution to BSMH of \$200.0 million. This distribution provides an additional 7 days cash on hand to BSMH unrestricted investments. For accounting purposes, BSMH will adjust its equity investment in Ensemble and recognize a one-time nonoperating gain on the transaction.

On May 4, 2022 BSMH drew \$89.4 million on the Fifth Third Bank Revolving Credit Agreement. The proceeds were used to pay for the outstanding principal amount of the MH Series 2017B Bonds.

BON SECOURS MERCY HEALTH

Consolidated Financial Statements **(Unaudited)**

For the Three-Month
Period Ended
March 31, 2022 and 2021

BON SECOURS MERCY HEALTH

Consolidated Financial Statements (Unaudited)

Three Months ended March 31, 2022 and 2021

BON SECOURS MERCY HEALTH
Consolidated Balance Sheets
March 31, 2022 (Unaudited) and December 31, 2021
(In thousands)

Assets	March 31, 2022	December 31, 2021
Current assets:		
Cash and cash equivalents	\$ 354,525	402,402
Investments	129,878	155,412
Self-insurance and trustee held funds	89,374	76,151
Donor restricted funds	6,384	5,911
Total cash and investments	<u>580,161</u>	<u>639,876</u>
Net patient receivables	1,196,602	1,126,277
Other receivables	150,257	144,011
Inventories	275,631	275,393
Prepaid expenses and other current assets	224,596	210,032
Total current assets	<u>2,427,247</u>	<u>2,395,589</u>
Assets whose use is limited:		
Board designated funds	8,090,510	8,816,184
Self-insurance and trustee held funds	333,257	300,992
Donor restricted funds	72,142	90,966
Total assets whose use is limited	<u>8,495,909</u>	<u>9,208,142</u>
Property and equipment, net	4,561,222	4,559,248
Investments in unconsolidated organizations	660,167	642,289
Operating lease right-of-use assets	316,639	325,142
Retirement assets	206,153	214,890
Other long-term assets	616,232	613,980
Total assets	<u>\$ 17,283,569</u>	<u>17,959,280</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 752,821	759,108
Current portion of long-term debt	342,590	342,603
Accrued salaries, wages and benefits	564,999	705,154
Current portion of operating lease liabilities	78,949	78,791
Other accrued expenses	591,477	697,919
Total current liabilities	<u>2,330,836</u>	<u>2,583,575</u>
Long-term debt, less current portion	4,039,116	4,038,912
Retirement liabilities	305,012	311,778
Self-insurance liabilities	335,838	323,818
Operating lease liabilities	251,750	260,282
Other long-term liabilities	554,585	589,908
Total liabilities	<u>7,817,137</u>	<u>8,108,273</u>
Net assets without donor restrictions:		
Controlling interest	8,717,712	8,726,705
Noncontrolling interest	467,190	840,784
Total net assets without donor restrictions	<u>9,184,902</u>	<u>9,567,489</u>
Net assets with donor restrictions	281,530	283,518
Total net assets	<u>9,466,432</u>	<u>9,851,007</u>
Total liabilities and net assets	<u>\$ 17,283,569</u>	<u>17,959,280</u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH
Consolidated Statements of Operations
(In thousands)

Three months ended March 31,

	2022	2021
Revenues:		
Net patient service revenue	\$ 2,564,281	2,482,723
Other revenue, net	212,970	183,469
Total operating revenues	2,777,251	2,666,192
Expenses:		
Employee compensation	1,476,011	1,299,678
Purchased services and other	651,833	619,072
Supplies	528,146	518,530
Depreciation and amortization	117,578	120,647
Interest expense	31,733	33,291
Total operating expenses	2,805,301	2,591,218
Recurring operating (loss) income	(28,050)	74,974
Nonrecurring operating gains (losses), net	581	(1,431)
Operating (loss) income	(27,469)	73,543
Nonoperating gains (losses), net:		
Investment (losses) gains	(366,668)	169,713
Realized and unrealized interest rate swap agreements gains	21,888	32,178
Other nonoperating activities, net	39,662	(9,954)
(Deficit) excess of revenue over expenses	\$ (332,587)	265,480

See accompanying notes to consolidated financial statements.

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

	Controlling interest	Noncontrolling interest	Net assets without donor restrictions	Net assets with donor restrictions	Total net assets
Balance at December 31, 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	<u>1,179,162</u>	<u>85,820</u>	<u>1,264,982</u>	<u>32,170</u>	<u>1,297,152</u>
Balance at December 31, 2021	\$ 8,726,705	840,784	9,567,489	283,518	9,851,007
Deficit of revenues over expenses	(324,445)	(8,142)	(332,587)	—	(332,587)
Loss from discontinued operations	(2,964)	—	(2,964)	—	(2,964)
Grants and contributions	520	—	520	12,097	12,617
Investment losses	—	—	—	(6,405)	(6,405)
Net assets released from restrictions	1,151	—	1,151	(6,939)	(5,788)
Transfer of interest from noncontrolling interest owners	321,311	(361,311)	(40,000)	—	(40,000)
Distributions to noncontrolling interest owner	—	(4,256)	(4,256)	—	(4,256)
Other changes, net	(4,566)	115	(4,451)	(741)	(5,192)
Decrease in net assets	<u>(8,993)</u>	<u>(373,594)</u>	<u>(382,587)</u>	<u>(1,988)</u>	<u>(384,575)</u>
Balance at March 31, 2022	\$ <u>8,717,712</u>	<u>467,190</u>	<u>9,184,902</u>	<u>281,530</u>	<u>9,466,432</u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH
Consolidated Statements of Cash Flows
(In thousands)

Three months ended March 31,

	2022	2021
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (384,575)	269,687
Depreciation and amortization	117,578	120,647
Amortization of premium on issued debt securities	(3,478)	(3,760)
Other changes in net assets, net	(264)	(23,581)
Contributions restricted by donor	(12,097)	(8,968)
Net losses (gains) on investments	383,296	(98,922)
Current assets	(92,863)	(35,733)
Long-term assets	5,827	(2,172)
Accelerated Medicare Payments Program	(107,562)	—
Other current liabilities	(145,883)	(51,212)
Long-term liabilities	2,738	(15,577)
Net cash (used in) provided by operating activities	(237,283)	150,409
Cash flows from investing activities:		
Property and equipment additions, net of disposals	(121,303)	(152,708)
Purchase of alternative investments and other securities	(123,683)	(73,778)
Sales of alternative investments and other securities	60,717	47,407
Investments and assets whose use is limited, net	403,741	(339,012)
Dividend received from equity method investment	—	357,315
Net cash provided by (used in) investing activities	219,472	(160,776)
Cash flows from financing activities:		
Restricted contributions	12,097	8,968
Purchase of interest in Bon Secours – Richmond Health System	(40,000)	—
Distributions to noncontrolling interest	(4,256)	(3,667)
Proceeds from debt issuance	5,582	—
Repayment of long-term debt	(7)	(1,033)
Repayment of finance lease	(3,451)	(13,577)
Net cash used in financing activities	(30,035)	(9,309)
Effect of exchange rates on cash and cash equivalents	(31)	(400)
Net decrease in cash and cash equivalents	(47,877)	(20,076)
Cash and cash equivalents, beginning of the year	402,402	721,837
Cash and cash equivalents, end of the year	\$ 354,525	701,761

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

(1) Basis of Presentation

(a) Organizational Structure and Mission

Bon Secours Mercy Health (BSMH or the Company) is a nonprofit, nonstock membership Catholic health organization, supervising market delivery consisting of hospitals, physician clinics, and other organizations providing health related services. BSMH is sponsored by partners in Bon Secours Mercy Ministries (BSMM). BSMM is a public juridic person of the Roman Catholic Church. BSMH provides management direction to 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.

(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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

Unrealized gains or losses on trading securities are included in investment gains. As of March 31, 2022 and 2021, 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.

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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

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 19% and 18% of net patient accounts receivable as of March 31, 2022 and December 31, 2021, respectively while the Medicaid program represented 10% as of March 31, 2022 and 12% as of December 31, 2021. Excluding the Medicare and Medicaid programs, no one other payor represents more than 10% of the Company's net patient accounts receivable as of March 31, 2022, or December 31, 2021.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

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.

The Company's net patient service revenues during the three months ended March 31, 2022 and 2021 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:

	2022		2021	
Medicare	\$ 964,844	38 %	928,322	37 %
Medicaid	425,554	16	365,260	15
Other governmental	45,937	2	43,188	2
Commercial and other third party	1,113,220	43	1,130,730	45
Self-pay	14,726	1	15,223	1
Total	\$ 2,564,281	100 %	2,482,723	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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

(f) Property and Equipment, Net

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

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

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

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

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

(g) Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, current portion of operating lease liabilities and operating lease liabilities on the consolidated balance 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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

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

(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 three months ended March 31, 2022 and 2021.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

(j) Retirement Assets and Liabilities

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

The Company recognizes in the consolidated balance 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).

(k) Other Long-Term Assets

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

	March 31, 2022	December 31, 2021
Goodwill, net	\$ 267,710	267,904
Notes and other long term receivables	52,119	51,222
Other intangibles	28,959	30,048
Right-of-use assets – finance	209,963	208,372
Other	57,481	56,434
	<hr/>	<hr/>
Total other long-term assets	\$ <u>616,232</u>	<u>613,980</u>

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:

	March 31, 2022	December 31, 2021
Goodwill at the beginning of the period	\$ 267,904	268,713
Goodwill related to acquisitions	—	80
Other	(194)	(889)
	<hr/>	<hr/>
Goodwill at the end of the period	\$ <u>267,710</u>	<u>267,904</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

(I) *Accrued Claims Expense and Related Liabilities*

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

(i) *Self-Insurance*

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

(ii) *Professional Liability and General Insurance*

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

(iii) *Workers Compensation Insurance*

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

(iv) *Employee Health Insurance*

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

(m) Net Assets Including Noncontrolling Interest

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

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

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:

	March 31, 2022	December 31, 2021
Derivative instruments (note 9)	\$ 61,199	89,707
Supplemental executive retirement plan liability	94,206	93,947
Lease liabilities – finance	333,666	337,881
Other	65,514	68,373
Total other long-term liabilities	<u>\$ 554,585</u>	<u>589,908</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

(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.

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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

(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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements
For the three months ended March 31, 2022
(In thousands)

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 three months ended March 31, 2022 and 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 three months ended March 31, 2022 and 2021, the Company has no uncertain tax positions.

The Company's taxable subsidiaries had \$159,523 and \$155,184 net operating loss carryforwards as of March 31, 2022 and December 31, 2021, respectively, which expire in varying periods through 2037 and are available to offset future taxable income. The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be in effect during the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Interest and penalties related to income taxes are accounted for as income tax expense. The Company has placed a full valuation allowance on the deferred tax assets as of March 31, 2022 and December 31, 2021, respectively, 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 \$1,157 and \$1,698 for the three months ended March 31, 2022 and 2021, respectively.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

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 March 31, 2022.

(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.

(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 three months ended March 31, 2022. However, the Company saw a gradual and steady recovery in volumes in 2022 compared to 2021 and 2020 despite the surges caused by the Omicron variant.

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).

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

Through the CARES Act and state grant programs, the Company received \$80,464 and \$69,411 for the three months ended March 31, 2022 and 2021, 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 \$78,563 and \$50,198 was recognized in other revenue, net within the consolidated statement of operations, for the three months ended March 31, 2022 and 2021, respectively.

(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 three months ended:

	<u>March 31,</u> <u>2022</u>	<u>March 31,</u> <u>2021</u>
Charitable services and other community benefits:		
Traditional charity care	\$ 24,896	31,220
Unpaid costs of public programs	90,647	111,542
Community health services	4,588	5,462
Health professional education and research	15,215	12,988
Subsidized health services	6,708	3,283
Financial and in-kind donations	903	1,426
Community building activities	952	1,020
Community benefit operations	559	330
Research	101	—
Total quantifiable community benefits	\$ <u>144,569</u>	<u>167,271</u>
Percent of total recurring expenses	5.2 %	6.5 %

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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

(5) Investments and Assets Whose Use is Limited

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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Board designated funds:		
Cash and cash equivalents	\$ 239,524	339,363
Equity mutual funds	1,084,354	1,154,013
Equity commingled funds	777,684	1,009,817
Common and preferred stocks	1,167,918	1,127,962
Fixed income commingled funds	302,496	319,467
Government and agency securities	1,094,551	1,316,102
Corporate obligations	1,285,474	1,481,930
Alternative investments	2,138,509	2,067,530
	<u>\$ 8,090,510</u>	<u>8,816,184</u>
Self-insurance and trustee held funds:		
Cash and cash equivalents	\$ 111,091	96,022
Equity mutual funds	223,899	202,254
Government and agency securities	49,819	45,346
Corporate obligations	37,822	33,521
	<u>\$ 422,631</u>	<u>377,143</u>
Donor restricted funds:		
Cash and cash equivalents	\$ 38,329	50,335
Equity mutual funds	15,807	15,255
Common and preferred stocks	3,123	4,625
Fixed income commingled funds	4,999	9,641
Government and agency securities	335	147
Alternative investments	15,933	16,874
	<u>\$ 78,526</u>	<u>96,877</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Investments:		
Cash and cash equivalents	\$ 117,863	129,264
Government and agency securities	5,042	5,040
Corporate obligations	<u>6,973</u>	<u>21,108</u>
	\$ <u>129,878</u>	<u>155,412</u>
Investments and assets whose use is limited	\$ 8,721,545	9,445,616
Available for current liabilities	<u>(225,636)</u>	<u>(237,474)</u>
Long-term assets limited or restricted as to use	\$ <u>8,495,909</u>	<u>9,208,142</u>

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

The following is a summary of nonoperating investment gains, for the three months ended March 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Dividends and interest	\$ 16,628	14,291
Net realized gains on securities	59,661	56,500
Net change in unrealized (losses) gains on securities	<u>(442,957)</u>	<u>98,922</u>
	\$ <u>(366,668)</u>	<u>169,713</u>

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 US-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 March 31, 2022 and December 31, 2021.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

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.

<u>Nonfinancial assets and liabilities</u>	<u>Input</u>	<u>Valuation methodology</u>
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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(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	Fair value measurements at March 31, 2022 using		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 354,525	354,525	—	—
Investments:				
Cash and cash equivalents	117,863	117,863	—	—
Government and agency securities	5,042	5,042	—	—
Corporate obligations	6,973	—	6,973	—
	129,878	122,905	6,973	—
Assets limited or restricted as to use:				
Cash and cash equivalents	388,944	388,944	—	—
Equity mutual funds	1,324,060	704,284	619,776	—
Equity commingled funds	740,910	566,722	110,334	63,854
Common and preferred stocks	1,171,041	1,171,041	—	—
Fixed income commingled funds	307,495	229,883	77,612	—
Government and agency securities	1,144,705	551,672	593,033	—
Corporate obligations	1,323,296	—	1,323,296	—
Cash and assets limited or restricted as to use	6,884,854	4,089,976	2,731,024	63,854
Assets whose use is limited under securities lending arrangements	36,774	36,774	—	—
Total cash and assets limited or restricted as to use	\$ 6,921,628	4,126,750	2,731,024	63,854
Liabilities:				
Interest rate swaps	\$ 61,199	—	—	61,199
Total liabilities	\$ 61,199	—	—	61,199

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

	Fair value	Fair value measurements at December 31, 2021 using		
		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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

Following is the summary of the inputs and valuation techniques utilized to value Level 2 financial instruments as of March 31, 2022 and December 31, 2021:

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

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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Beginning balance	\$ 59,104	41,516
Purchases	4,750	17,755
Sales	—	—
Realized and unrealized losses	—	(167)
Ending balance	\$ <u>63,854</u>	<u>59,104</u>

Investments for which fair value is measured using the Net Asset Value (NAV) as a practical expedient are excluded from the fair value hierarchy in accordance with ASU No. 2015-07, *Fair Value Measurement (Topic 820)*. For the three months ended March 31, 2022 and year ended December 31, 2021, 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 March 31, 2022 and December 31, 2021, 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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

The following table summarizes the investments measured at NAV, committed capital and associated redemptions as of March 31, 2022:

	<u>Investments measured at NAV</u>	<u>Committed capital</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Fixed income commingled funds	\$ 54,271	—	Monthly	10 days
Alternative investments:				
Private Investments	1,244,693	661,394	N/A	N/A
Hedge funds	<u>855,478</u>	<u>—</u>	Monthly, Quarterly, Annually	2 to 180 days
	<u>\$ 2,154,442</u>	<u>661,394</u>		

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

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

There were no non-redeemable investments as of March 31, 2022 and December 31, 2021.

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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(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:

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Land	\$ 460,448	444,102
Land improvements	113,831	113,838
Buildings and fixed equipment	4,720,814	4,729,536
Movable equipment	4,483,805	4,456,743
Leasehold improvements	<u>232,393</u>	<u>231,293</u>
	10,011,291	9,975,512
Less accumulated depreciation	<u>(5,900,761)</u>	<u>(5,838,995)</u>
	4,110,530	4,136,517
Construction in progress	<u>450,692</u>	<u>422,731</u>
	<u>\$ 4,561,222</u>	<u>4,559,248</u>

As of March 31, 2022 and December 31, 2021, the Company is contractually obligated for construction projects totaling \$274,832 and \$184,633 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 \$114,539 and \$113,887 for the three months ended March 31, 2022 and 2021, respectively.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

(8) Long-Term Debt

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

Long-term debt	Coupon rates	Maturity through	March 31, 2022	December 31, 2021
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	7,010
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	442,955
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	670,970
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	114,600
MH Series 2010C/D demand and DP bonds	0.37-1.04	2034	160,900	160,900
MH Series 2012B demand bonds	0.02-0.53	2036	100,000	100,000
MH Series 2017B bonds payable	5.00	2047	89,425	89,425
Bon Secours Series 2017 (SC) DP bonds	0.93-1.06	2042	69,925	69,925
MH Series 2018AB commercial paper notes	0.10-0.50		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	0.65-0.80	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	4,200,884
Ireland variable rate taxable term loan	1.45-1.90	2025	103,176	99,288
Other debt			13,868	14,110
			4,317,928	4,314,282
Original issue net premium			84,951	88,881
Cost of issuance			(21,173)	(21,648)
			4,381,706	4,381,515
Less current portion of long-term debt			(342,590)	(342,603)
Long-term debt, less current portion			\$ 4,039,116	4,038,912

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

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 Master 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 \$103,176.

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.

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

The Company is subject to certain restrictive covenants under the MTI, revolving credit agreements, reimbursement agreements and irrevocable letters of credit as of March 31, 2022 and December 31, 2021. The Company was in compliance with all restrictive covenants as of March 31, 2022 and December 31, 2021.

The following is a schedule of future minimum payments based on scheduled maturities as of March 31, 2022:

Period	Master trust indenture obligations	European group and other debt
2022	\$ 53,150	\$ 27
2023	458,945	21
2024	55,205	21
2025	254,450	116,945
2026	57,530	10
Thereafter	<u>3,321,604</u>	<u>20</u>
Total minimum payments	<u>\$ 4,200,884</u>	<u>\$ 117,044</u>

Interest payments for the three months ended March 31, 2022 and 2021 were \$24,263 and \$25,873, respectively.

Unamortized debt issuance costs of \$21,173 and \$21,648 as of March 31, 2022 and December 31, 2021, 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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

As of March 31, 2022, 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 \$413,176 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 general corporate purposes. 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 management's intention to extend the agreement beyond this period. No amounts were outstanding under the revolving credit agreement as of March 31, 2022 or December 31, 2021.

(9) Derivatives and Interest Rate Swap Agreements

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

Interest rate swap agreement	Transaction type	Payment rate/basis	Termination date	Notional amount		Valuation amount	
				March 31, 2022	December 31, 2021	March 31, 2022	December 31, 2021
December 2006 JPM	Pay fixed	3.63 %	2033	\$ 195,205	250,177	(17,076)	(30,424)
December 2018 Barclays	Pay fixed	3.98	2042	50,000	50,000	(13,136)	(19,475)
December 2018 Citi	Pay fixed	3.84	2032	25,000	25,000	(3,791)	(6,055)
December 2018 JPM	Pay fixed	3.72	2047	80,000	80,000	(13,234)	(20,000)
December 2018 PNC	Pay fixed	3.45	2042	69,925	69,925	(16,024)	(21,499)
December 2007 JPM	Constant maturity	N/A	2027	250,000	250,000	(78)	5,457
August 2018 JPM	Constant maturity	N/A	2037	150,000	150,000	320	839
Credit valuation adjustment						1,820	1,450
						\$ (61,199)	(89,707)

All changes in the fair value of the Company's interest rate swap agreements are recognized in realized and unrealized interest rate swap agreements gains/(losses) in the consolidated statement of operations. The differences between settlement payments made and settlement payments received on all interest rate swap agreements are included in realized and unrealized interest rate swap agreements gains/(losses) on the consolidated statement of operations. The net payments were \$4,158 and \$4,311 for the three months ended March 31, 2022 and 2021, respectively.

The Company, as part of a systematic reduction of its fixed payer interest rates swap agreement exposure, canceled \$39,997 notional fixed payer swap agreements in March 2022. A settlement loss of \$3,443 was recognized in other (loss) income in the consolidated statements of operations and changes in net assets.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

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 \$14,064 as of March 31, 2022 (\$33,918 as of December 31, 2021) 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.

The following amounts are a summary of the components of net periodic benefit cost for the Plans for the three months ended March 31:

	Pension Benefits		Postemployment Benefits	
	2022	2021	2022	2021
Service cost	\$ 926	915	129	118
Interest cost	19,367	22,961	103	127
Expected return on plan assets	(25,840)	(33,606)	—	—
Curtailement/settlement cost	2,785	2,288	—	—
Amortization of:				
Actuarial loss	4,198	6,354	—	—
Prior service credit/(cost)	1,052	(289)	(5)	(18)
Net periodic benefit cost (income)	\$ 2,488	(1,377)	227	227

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

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

	March 31, 2022	December 31, 2021
Asset category:		
Equity mutual and commingled funds and securities	35 %	34 %
Fixed income mutual funds and securities	44	46
Alternative investments	17	17
Cash	4	3
Total	100 %	100 %

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

The following is a summary of the plan assets measured at fair value on a recurring basis based on the fair value hierarchy as of March 31, 2022:

	Fair value	Fair value measurements		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 130,889	130,889	—	—
Equity mutual funds	574,834	448,551	126,283	—
Equity commingled funds	145,641	123,777	21,864	—
Common and preferred stocks	183,431	183,431	—	—
Fixed income commingled funds	—	—	—	—
Government and agency bonds	146,709	119,016	27,693	—
Corporate obligations	987,052	—	987,052	—
Total investments	2,168,556	1,005,664	1,162,892	—
Due to broker/custodian for investment activity, net	(12,890)	—	(12,890)	—
Total plan assets	\$ 2,155,666	1,005,664	1,150,002	—

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(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, 2021:

	Fair value	Fair value measurements		
		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	—

The following table summarizes the alternative investments, committed capital and associated redemptions as of March 31, 2022:

	Alternative investments	Committed capital	Redemption frequency	Redemption notice period
Private Investments	\$ 281,073	88,784	N/A	N/A
Hedge funds	152,995	—	Monthly, Quarterly, Annually	2 to 180 days
	\$ 434,068	88,784		

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		

There were no non-redeemable investments as of March 31, 2022 and December 31, 2021.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(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 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 \$52,558 and \$50,556 for the three months ended March 31, 2022 and 2021, 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 \$336,701 and \$323,566 as of March 31, 2022 and December 31, 2021, respectively. The current portion of such accruals, \$60,743 and \$58,496 as of March 31, 2022 and December 31, 2021, respectively, is included in other accrued expenses, and the remainder, \$275,958 and \$265,070 as of March 31, 2022 and December 31, 2021, respectively, is included within self-insurance liabilities in the accompanying consolidated balance sheets. Amounts recorded for unpaid claims are based upon the estimated present value of future claim payments and such amounts are undiscounted and based upon an actuarial estimate.

(b) *Workers' Compensation Insurance*

Accrued workers' compensation claims were \$62,226 and \$61,270, as of March 31, 2022 and December 31, 2021, respectively. The current portion of such accruals, \$2,346 and \$2,522 as of March 31, 2022 and December 31, 2021, respectively, is reported as other accrued expenses. The remainder, \$59,880 and \$58,748, is reported within self-insurance liabilities in the accompanying consolidated balance sheets, which includes estimates for incidents incurred but not reported, as of March 31, 2022 and December 31, 2021, 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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

(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 \$56,628 and \$52,483, include estimates for claims incurred but not reported as of March 31, 2022 and December 31, 2021, 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 three months ended March 31:

	<u>2022</u>	<u>2021</u>
Finance lease expense:		
Amortization of ROU assets	\$ 1,903	5,041
Interest on lease liabilities	3,336	3,588
Operating lease expense	24,192	26,093
Short-term lease expense	6,571	7,913
Variable lease expense	9,489	7,813
	<u>45,491</u>	<u>50,448</u>
Total lease cost	\$	50,448

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

Commitments related to non-cancellable operating and finance leases for each of the next five years and thereafter as of March 31, 2022 are as follows:

	<u>Operating</u>	<u>Finance</u>
2022	\$ 69,732	22,569
2023	78,083	37,637
2024	63,876	25,135
2025	49,727	23,942
2026	32,445	22,193
Thereafter	<u>82,522</u>	<u>601,491</u>
Total	376,385	732,967
Less present value discount	<u>(45,686)</u>	<u>(382,916)</u>
Lease liabilities	\$ <u>330,699</u>	<u>350,051</u>

Other information is as follows:

	<u>2022</u>	<u>2021</u>
Weighted average remaining lease terms (in years):		
Finance leases	60.73	65.33
Operating leases	5.94	6.14
Weighted average discount rate:		
Finance leases	3.75 %	3.79 %
Operating leases	3.94	4.16

(12) Net Assets with Donor Restrictions

The Company's endowments consist of 351 and 347 individual funds established for a variety of purposes as of March 31, 2022 and December 31, 2021, 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 \$102,002 and \$107,004 as of March 31, 2022 and December 31, 2021, 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 March 31, 2022 and December 31, 2021.

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

funds. The practice allows the endowment assets to be invested in a manner that is intended to produce investment returns that exceed the price and yield the results of the allocation index while assuming a moderate level of investment risk. The Company expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

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

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

(13) Functional Expenses

The functional breakdown of expenses incurred by the Company in fulfilling its mission is as follows for the three months ended March 31, 2022:

	Program activities			Supporting activities	
	Healthcare services	Ancillary services and other	Total	General and administrative	Total
Employee compensation	\$ 1,143,001	286,139	1,429,140	46,871	1,476,011
Purchased services and other	484,555	88,552	573,107	78,726	651,833
Supplies	479,543	21,480	501,023	27,123	528,146
Depreciation and amortization	86,270	28,681	114,951	2,627	117,578
Interest	3,681	27,376	31,057	676	31,733
Total recurring expenses	<u>\$ 2,197,050</u>	<u>452,228</u>	<u>2,649,278</u>	<u>156,023</u>	<u>2,805,301</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

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

	Program activities			Supporting activities	
	Healthcare services	Ancillary services and other	Total	General and administrative	Total
Employee compensation	\$ 980,058	239,497	1,219,555	80,123	1,299,678
Purchased services and other	476,245	20,935	497,180	121,892	619,072
Supplies	473,351	19,481	492,832	25,698	518,530
Depreciation and amortization	87,775	9,545	97,320	23,327	120,647
Interest	3,258	29,336	32,594	697	33,291
Total recurring expenses	\$ <u>2,020,687</u>	<u>318,794</u>	<u>2,339,481</u>	<u>251,737</u>	<u>2,591,218</u>

(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:

	March 31, 2022	December 31, 2021
Cash, cash equivalents and investments	\$ 484,403	557,814
Net patient receivables	1,196,602	1,126,277
Assets whose use is limited:		
Board-designated funds	5,888,147	6,689,550
	\$ <u>7,569,152</u>	<u>8,373,641</u>

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

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 \$5,888,147 and \$6,689,550 as of March 31, 2022 and December 31, 2021, 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 March 31, 2022, BSMH ownership interest in Ensemble was approximately 48%. 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 three months ended March 31, 2022 and 2021, 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 three months ended March 31:

	<u>2022</u>	<u>2021</u>
Revenue cycle management and consulting services provided by Ensemble to BSMH	\$ 124,537	116,506
Leased employees, purchased and other services provided to Ensemble by BSMH	(23,280)	(21,387)

BSMH owed Ensemble \$35,468 as of March 31, 2022 and \$42,832 as of December 31, 2021.

(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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the three months ended March 31, 2022

(In thousands)

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

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

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

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Ensemble	\$ 523,679	509,989
Sentara Princess Anne	58,621	50,788
Charity	20,837	22,659
Other	57,030	58,853
	<u>\$ 660,167</u>	<u>642,289</u>

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

	<u>2022</u>	<u>2021</u>
Ensemble	\$ 19,313	20,838
Sentara Princess Anne	7,930	4,587
Charity	(1,822)	(3,595)
Other	681	1,267
	<u>\$ 26,102</u>	<u>23,097</u>

(16) Subsequent Events

The Company has evaluated and disclosed any subsequent events through May 27, 2022, which is the date the consolidated financial statements were issued and made publicly available.

Effective April 15, 2022, Ensemble Health Partners underwent an ownership restructuring that resulted in a reduction to BSMH's ownership interest from 48.2% to 41.8%. The ownership restructuring triggered a one-time cash distribution to BSMH of \$200,000. This distribution provides an additional 7 days cash on hand to BSMH unrestricted investments. For accounting purposes, BSMH will adjust its equity investment in Ensemble and recognize a one-time nonoperating gain on the transaction.

On May 4, 2022 BSMH drew \$89,425 on the Fifth Third Bank Revolving Credit Agreement. The proceeds were used to pay the outstanding principal amount of the MH Series 2017B Bonds.

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

BON SECOURS MERCY HEALTH

Utilization Statistics

**For the Three-Month
Periods Ended**

March 31, 2022 and 2021

and

For the Twelve-Month Periods

Ended December 31, 2021, 2020 and 2019

BON SECOURS MERCY HEALTH

Consolidated Utilization Statistics (Unaudited)

	Three Months Ended March 31,		Twelve Months Ended December 31,		
	2022	2021	2021	2020	2019
Utilization Statistics					
Staffed beds - Acute	7,487	7,487	7,487	7,487	6,883
Staffed beds - Post-acute	682	1,890	1,501	1,890	1,790
Admissions - Acute	79,907	81,484	334,295	316,952	299,468
Admissions - Post-acute	908	1,065	4,119	3,904	5,061
Total Admissions	80,815	82,549	338,414	320,856	304,530
Observations	15,708	15,299	62,664	62,784	66,055
Equivalent Inpatient Admissions	190,592	188,733	794,283	737,329	708,726
Newborn Deliveries	6,719	6,543	27,849	28,035	25,414
Patient days - Acute	434,159	400,536	1,583,629	1,435,967	1,247,740
Patient days - Post-acute	21,901	88,838	395,949	477,453	329,871
Occupancy on staffed beds - Acute	64.4%	59.4%	57.9%	52.4%	49.7%
Total Patient Days	456,060	489,374	1,979,579	1,913,420	1,577,611
Average length of stay - Acute	5.43	4.92	4.74	4.53	4.17
Emergency Room Visits	342,647	313,456	1,452,343	1,331,825	1,399,327
Physician Visits	1,754,990	1,681,027	6,878,752	6,570,832	6,205,141
Inpatient surgeries and medical procedures	19,687	20,579	83,307	80,942	74,726
Outpatient surgeries	72,689	70,244	293,249	249,013	202,760
Full Time Equivalent Employees	51,781	51,535	51,621	51,019	45,380
Institutional case mix index	1.753	1.756	1.716	1.691	1.597
Medicare case mix index	1.870	1.880	1.825	n/a	n/a

Note:

Certain historical information shown below has been adjusted for Discontinued Operations.

Medicare case mix data in 2020 and 2019 is currently being reviewed for consistency with subsequent periods.

BON SECOURS MERCY HEALTH

Financial Ratios & Analyses

**For the Three-Month
Periods Ended**

March 31, 2022 and 2021

and

For the Twelve-Month Periods

Ended December 31, 2021, 2020 and 2019

BON SECOURS MERCY HEALTH

Consolidated Financial Analyses (Unaudited)

(Dollars in Thousands)

Financial Analyses	Three Months Ended March 31,		Twelve Months Ended December 31,		
	2022	2021	2021	2020	2019
Operating Margin	(1.0%)	2.8%	1.7%	2.4%	2.7%
Excess Margin	(13.5%)	9.3%	8.5%	5.9%	7.3% ⁽¹⁾
Debt Service Coverage - Rolling 12-month Basis ⁽²⁾	3.65	3.93	3.93	3.31	4.75
Debt Service Coverage YTD ⁽¹⁾	3.18	5.09	3.93	3.31	4.74
<i>based on Maximum Annual Debt Service ⁽²⁾ of:</i>	\$286,931	\$283,364	\$280,724	\$276,352	\$199,464
<i>adjusted to remove unrealized investments gains (losses) of:</i>	(\$442,957)	\$98,922	\$475,957	\$420,055	\$258,049
<i>adjusted to remove unrealized swap gains (losses) of:</i>	\$28,507	\$35,737	\$28,544	(\$24,038)	(\$28,383)
<i>adjusted to remove (impairment) charges of:</i>	\$25	\$618	(\$12,819)	\$43,434	\$0
<i>adjusted to remove disposed assets out in ordinary course of:</i>	\$875	\$245	(\$45)	\$189	\$0
<i>adjusted to remove (loss) on early extinguishment of debt of:</i>	\$0	\$0	(\$152)	(\$29,924)	\$0
* interim periods adjusted for YTD days					
Operating EBITDA	\$123,244	\$230,517	\$780,860	\$869,275	\$768,131
Operating EBITDA Margin	4.4%	8.6%	7.2%	8.7%	8.8%
Total Unrestricted Cash ⁽³⁾	8,574,912	9,206,324	\$9,373,998	\$8,731,716	\$5,579,617
Days Cash on Hand - YTD basis	300	357	334	346 ⁽⁴⁾	259 ⁽⁶⁾
Debt to Capitalization	33.4%	36.6%	33.4%	37.3%	31.2%
Debt to Capitalization (per MTI Indebtedness definition)	35.2%	38.4%	35.2%	39.2%	32.4%
Net Patient Revenue per EIPA-CMI Adj	\$7,674	\$7,492	\$7,486	\$7,195	\$7,025
Total Community Benefit (TCB) Cost ⁽⁶⁾	144,569	167,271	605,293	687,517	697,394
TCB Cost as a percent of Total Expense ⁽⁶⁾	5.2%	6.5%	5.7%	7.1%	8.2%
Net Patient Revenue by Payor Type -					
Medicare - Traditional	20.0%	21.1%	20.2%	21.3%	22.2%
Medicare - Managed	17.6%	16.3%	16.2%	15.1%	14.0%
Medicaid - Traditional	7.4%	5.7%	5.9%	4.6%	4.2%
Medicaid - Managed	9.2%	9.0%	9.2%	9.4%	8.7%
Other Governmental	1.8%	1.7%	1.7%	1.8%	2.0%
Commercial	43.4%	45.5%	46.2%	46.7%	48.3%
Self Pay & Other	0.6%	0.7%	0.6%	1.1%	0.6%
Total Net Patient Revenue by Payor Type	100.0%	100.0%	100.0%	100.0%	100.0%

(1) FY 2019 Excess Margin has been adjusted to exclude the \$1.897 B gain on sale of the Ensemble enterprise and \$77.7 M for the Ireland acquisition.

(2) Debt Service Coverage - Rolling 12-month Basis uses the Master Trust Indenture (Amended and Restated) dated as of December 1, 2017 definition. Interim periods are calculated using a rolling 12-month basis of all factors in this calculation. FY 2019 ratio is adjusted to exclude the \$1.897 B gain on sale of the Ensemble enterprise and \$77.7 M for the Ireland acquisition.

(3) Debt Service Coverage - YTD Basis uses the Master Trust Indenture (Amended and Restated) dated as of December 1, 2017 definition. Interim periods are calculated using a year-to-date factors in this calculation. FY 2019 ratio is adjusted to exclude the \$1.897 B gain on sale of the Ensemble enterprise and \$77.7 M for the Ireland acquisition.

(4) Maximum Annual Debt Service ("MADS") represents the greatest annual period of debt service (principal repayment plus interest payment). MADS is determined on the debt service on Indebtedness as defined in the Bon Secours Mercy Health Master Trust Indenture.

(5) Cash excludes trustee held funds and donor restricted funds.

(6) DCOH calculation has been adjusted for Discontinued Operations. FY 2019 was previously reported at 254.

(7) Indebtedness per the MTI includes financing leases, installment purchase contracts and guarantees of indebtedness in addition to borrowed money.

(8) Includes the unpaid cost of public programs for the treatment of Medicaid and indigent beneficiaries, as well as other costs provided to the broader community. This does not include the unpaid cost for the treatment of Medicare beneficiaries nor does it include bad debts. See Note 4 of the consolidated audited and unaudited financial statements for a thorough discussion of Community Benefits.