

# BON SECOURS MERCY HEALTH

## Financial Disclosure

For the Third Quarter Ended

September 30, 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 Months**

**And**

**Nine Months Ended**

**September 30, 2022**

BON SECOURS MERCY HEALTH

# Management's Discussion and Analysis of Recent Financial Performance

*Three and Nine Months Ended September 30, 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, charitable foundations, a revenue cycle management company, 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 fulfill 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.

## GOVERNANCE AND MANAGEMENT

### Executive Leadership Council

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

<b>Individual</b>	<b>Title</b>
John M. Starcher, Jr.	Chief Executive Officer
Michael A. Bezney, JD	Chief Legal Officer
Deborah S. Bloomfield, PhD, CPA	Chief Financial Officer
David Cannady	Chief Strategy Officer
Rev. Joseph P. Cardone, PhD	Chief Mission Officer
Joe L. Gage, JD	Chief Human Resources Officer
Wael Haidar, MD, MBA	Chief Clinical Officer
Donald Kline	Chief Operating Officer
Sandra Mackey	Chief Marketing Officer
Brian Smith	President
Jason Szczuka	Chief Digital Officer

### Board of Directors

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

<b>Board of Directors</b>
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 net operating revenue

MORE THAN **\$600 MILLION** IN  
COMMUNITY BENEFITS ACROSS **5** STATES

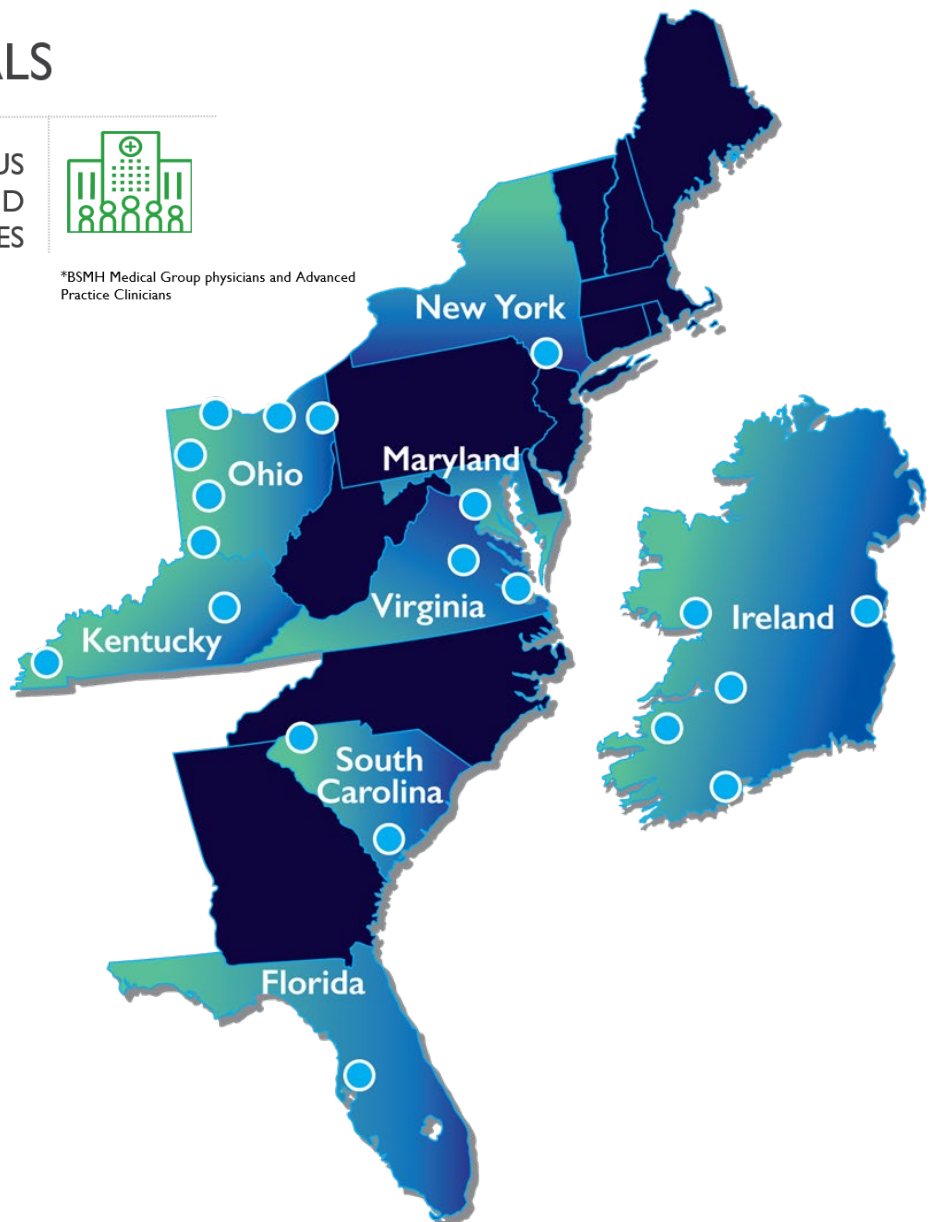


**48** HOSPITALS

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



\*BSMH Medical Group physicians and Advanced  
Practice Clinicians



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”)

At Bon Secours Mercy Health, we are purposeful about our commitment to sustainability and driving change that will improve the environment, address social determinants of health and ensure there is effective governance oversight that creates accountability while aligning with Catholic social teachings.

### Our Areas of Focus

Through three foundational pillars, Environmental, Social and Governance, we have prioritized initiatives that will have the greatest impact, while establishing a framework that will guide us well into the future.



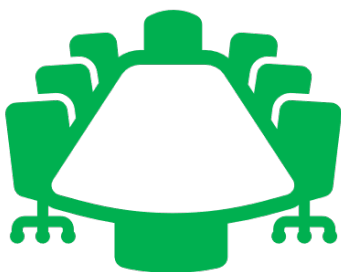
#### Environmental

BSMH is innovatively and effectively enhancing its ability to safeguard the earth and its resources through ministry-wide strategies, the commitment of associates in our facilities and strategic alignment with other health systems and organizations. Our teams deliver upon our mission and use vehicles like BSMH's Sustainability Council to identify opportunities that can be scaled across the organization to reduce waste and conserve resources. Benefiting from the insights of on-site associates, market-based green teams identify alternative supplies, new processes and initiatives to promote good stewardship within their facilities and local communities. BSMH is a member of and signatory to strategies established by organizations that are leading the way in driving ESG initiatives nationwide among health systems and providers: Practice Greenhealth, The Healthcare Anchor Network, Catholic Impact Investing Collaborative and America Is All In.



#### Social

Bon Secours Mercy Health is focused on helping people live healthier lives as we extend health care access and safety for patients and community stakeholders. BSMH is strategically focused on a range of initiatives. Providing Community Benefit of more than \$600 million is just one of the ways BSMH assists individuals and enhances health and well-being for patients and communities. In addition, BSMH's Foundation supports individuals and programs in 12 communities in five states where our markets provide comprehensive health care services.



#### Governance

The ministry has mature processes in place that promote strategic oversight of the ministry's ESG efforts, especially emerging priorities as identified by the Church, government and/or societal needs, such as pay equity and risk management, specifically cyber security. Strategies, processes and activities focused on the ministry's integrity and ethics are monitored by the BSMH's Board of Directors, executive leaders and the Integrity & Stewardship Committee (“ISC”).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") provides additional explanation of the financial condition, operational results and cash flows of BSMH to assist in increased understanding of the consolidated financial statements. The financial information as of and for the three and nine months ended September 30, 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 and nine months ended September 30, 2022 and 2021, is consistent with the presentation of BSMH's unaudited financial statements.

## OVERVIEW OF SIGNIFICANT TRANSACTIONS

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 \$89.2 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.

On April 18, 2022, Ensemble Health Partners ("Ensemble"), a BSMH joint venture investment, underwent an ownership restructuring that reduced BSMH's ownership interest from 48.3% to 41.8%. This ownership restructuring triggered a \$200.6 million cash distribution to BSMH, resulting in a reduction to BSMH's carrying value of its equity investment in Ensemble and a one-time nonoperating gain of \$119.2 million.

On June 1, 2022, Bon Secours Mercy Health acquired a 97.7% interest in Nordic Consulting Group ("Nordic"), a global health and technology consulting company that provides healthcare-focused information technology advisory and staffing consulting services to a global customer base. The transaction was structured as a stock acquisition for total cash consideration of \$404.6 million (\$394.2 million, net of cash acquired).

On September 29, 2022, BSMH issued \$404.1 million tax-exempt bond obligations through its Series 2022 financing. This financing transaction allowed the Company to repay certain debt and reimburse the Company for certain capital project expenditures and increase liquidity. For additional information related to this financing activity, refer to footnote 8 "Long-Term Debt" within the consolidated financial statements.

## FINANCIAL HIGHLIGHTS AND SUMMARY

During the third quarter of 2022, BSMH experienced improved volumes that approached historical pre-pandemic levels. While non-COVID-19 volumes were lower in January and February, these monthly volumes rebounded from March to September. Volume improvements have been offset by the unfavorable impacts from sustained labor shortages, investment market volatility, a high inflationary environment and supply chain disruptions that, together, drove unfavorable changes in payor mix, increases in employment, pharmaceutical, supply and utility expenses for the nine months ended September 30, 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 nine months ended September 30, 2022, compared to the prior year. Liquidity declined during the year primarily due to unrealized investment losses incurred because of the challenging investment market environment.

Management continues to take proactive actions to manage these cost pressures and ensure that the health system can deliver services to the communities it serves. Management has initiated actions to reduce employment and purchased services expenses. Certain actions are already underway and are expected to result in run-rate improvements of approximately \$280 million. These run-rate improvement plans are expected to be fully implemented before the end of 2023.

## KEY FINANCIAL RATIOS

Three Months Ended September 30,				(\$s in thousands)	<sup>(1)</sup> Nine Months Ended September 30,			
2022		2021			2022		2021	
Amount	Margin	Amount	Margin		Amount	Margin	Amount	Margin
\$ 2,768,072		\$ 2,706,400		Net operating revenue	\$ 8,220,338		\$ 8,042,043	
\$ 26,166	1.0%	\$ 208,304	7.7%	Operating EBITDA	\$ 187,543	2.3%	\$ 668,721	8.3%
(\$ 140,970)	(5.1%)	\$ 74,792	2.8%	Recurring operating (loss) income	(\$ 292,283)	(3.6%)	\$ 225,297	2.8%
(\$ 328,168)	(12.7%)	\$ 115,418	4.2%	(Deficit) excess of revenue over expenses	(\$ 1,298,664)	(18.0%)	\$ 824,735	9.5%

<sup>1</sup> The financial ratios include stimulus revenue of \$86.4 million and \$78.6 million from the U.S. CARES Act and \$10.3 million and \$0 from the FEMA Public Assistance program recognized for the nine months ended September 30, 2022, and 2021, respectively.

Net operating revenue grew by \$61.7 million or 2.3% for the three months ended September 30, 2022, compared to the prior year. Net operating revenue grew by \$178.3 million or 2.2% for the nine months ended September 30, 2022, compared to the prior year. The growth in net operating revenue was attributable to growth in net patient revenue from the increase in certain patient volumes, revenue from the acquired Nordic operations (\$131.0 million), stimulus funds received under U.S CARES Act and FEMA Public Assistance program funding and was partially offset by less one-time state program reimbursement as compared to 2021. For the nine months ended September 30, 2022, stimulus revenue of \$86.4 million was recorded as other operating revenue, up from \$78.6 million in the prior year. FEMA Public Assistance program funding of \$10.3 million was recognized for the nine months ended September 30, 2022, while no FEMA funding was recognized in the prior year. One-time state program reimbursements were \$63.1 million for the nine months ended September 30, 2022, compared to \$131.7 million in the prior year. Operating EBITDA of \$187.5 million (margin 2.3%) was lower for the nine months ended September 30, 2022, when compared to the prior year due to an increase in operating expenses resulting from the current inflationary environment. Recurring operating loss of \$292.3 million (margin -3.6%) for the nine months ended September 30, 2022, was also lower than the prior year due to operating expense pressures. Deficit of revenue over expenses was \$1.3 billion (margin -18.0%) for the nine months ended September 30, 2022, compared to excess of revenue of expenses of \$824.7 million in the prior year. The deficit was due to significant unrealized investment losses recognized during the first nine months of 2022 caused by the declines in the investment markets.

Three Months Ended September 30,				(\$s in thousands)	Nine Months Ended September 30,			
2022		2021			2022		2021	
Amount	% of Exp	Amount	% of Exp		Amount	% of Exp	Amount	% of Exp
\$ 168,122	5.8%	\$ 151,395	5.8%	Community Benefit	\$ 480,930	5.7%	\$ 463,266	5.9%

Community benefit investments fulfill unmet needs of the communities in which BSMH serves through programs and donations, health education, free care, medical research and more. Unsponsored community benefit is measured by the cost to provide services net of one-time reimbursements received. For the nine months ended September 30, 2022, community benefit totaled \$480.9 million or 5.6% of total operating expenses. One-time reimbursement items of \$55.7 million, mainly related to Medicaid reimbursement in Virginia and Ohio and the Ohio HCAP program, have directly reduced unsponsored community benefits for 2022. Excluding these one-time reimbursements, community benefit would be 6.3% for the nine months ended September 30, 2022.

## LIQUIDITY AND KEY PERFORMANCE INDICATORS

	September 30, 2022	December 31, 2021
Days cash on hand	237	334
Adjusted days cash on hand <sup>1</sup>	232	316
Unrestricted cash to debt	151.6%	213.9%
Adjusted unrestricted cash to debt <sup>1</sup>	148.7%	202.1%
Total debt to capitalization	37.5%	33.4%
Pension funding	97.6%	97.2%

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

Despite the investment market declines in 2022 and the resulting losses on BSMH's investment portfolio, the Company's balance sheet remains strong with stable leverage and solid liquidity at September 30, 2022. Days cash on hand decreased from 334 days at December 31, 2021 to 237 days at September 30, 2022 as a result of investment losses, capital expenditures, business acquisitions and growth in a day of cash expenses. Significant cash outflows included the acquisition of Nordic for \$394.2 million (14 days) and repayments for Accelerated Medicare funding of \$380.5 million (13 days). For the nine months ended September 30, 2022, capital expenditures were \$544.5 million (18 days). These outflows were offset by net increase in debt of \$299.3 million (10 days), a distribution from Ensemble for \$200.6 million (7 days), proceeds from the sale of senior living and care facilities for \$88.8 million (3 days), as well as support from the FEMA public assistance program and additional provider relief funds under the U.S. CARES Act. Adjusted days cash on hand excludes the cash benefits resulting from the remaining Accelerated Medicare funding balance of \$57.4 million (2 days) and payroll tax deferral of \$69.9 million (3 days). The Company's debt to capitalization ratio was 37.5% at September 30, 2022, an increase from 33.4% at December 31, 2021, largely driven by the net loss for the period as well as an increase in long-term debt resulting from the issuance of the Series 2022 bonds. These impacts to the ratio were partially 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 97.6% as of September 30, 2022, up from 97.2% as of December 31, 2021, due to an increase in the discount rate, partially offset by asset losses.

## VOLUME TRENDS

Three Months Ended September 30,				Nine Months Ended September 30,		
2022	2021	Change %		2022	2021	Change %
84,736	86,456	(2.0%)	Admissions	247,602	254,113	(2.6%)
16,935	15,692	7.9%	Observations	50,035	47,825	4.6%
7,320	7,481	(2.2%)	Deliveries	20,812	20,894	(0.4%)
17,577	16,786	4.7%	Inpatient Surgeries <sup>1</sup>	50,888	52,219	(2.5%)
51,944	49,627	4.7%	Outpatient Surgeries <sup>1</sup>	153,134	149,893	2.2%
397,225	398,948	(0.4%)	ER Visits	1,116,069	1,069,823	4.3%
1,699,391	1,755,169	(3.2%)	Physician Visits	5,159,456	5,114,742	0.9%

<sup>1</sup>The prior period volumes have been recast to reflect alignment of the statistics across BSMH entities.

For the nine months ended September 30, 2022, outpatient volumes improved when compared to the same period of the prior year, largely due to increases in patient volumes. Emergency room visits showed the largest improvement from prior year with an increase of 4.3%, for the nine months ended September 30, 2022, compared to the prior year. Admissions and inpatient surgeries remain below pre-pandemic levels but continue to steadily return to historical levels. Physician visits increased 0.9% for the nine months ended September 30, 2022, compared to the prior year. Virtual visits were 240.3 thousand and 414.7 thousand for the nine months ended September 30, 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

Three Months Ended September 30,		(\$s in thousands)	Nine Months Ended September 30,	
2022	2021		2022	2021
\$ 2,513,680	\$2,527,118	Net Patient Service Revenue	\$ 7,564,436	\$ 7,547,956
254,392	179,282	Other Operating Revenue <sup>(1)</sup>	655,902	494,087
<b>2,768,072</b>	<b>2,706,400</b>	<b>Net Operating Revenue</b>	<b>8,220,338</b>	<b>8,042,043</b>
1,527,742	1,334,153	Employee Compensation	4,447,382	3,921,794
686,861	618,897	Purchased Services and Other	2,010,314	1,878,649
530,048	545,904	Pharmaceuticals & Supplies	1,582,336	1,578,858
128,630	100,302	Depreciation and Amortization	372,610	338,703
35,761	32,352	Interest Expense	99,979	98,742
<b>(140,970)</b>	<b>74,792</b>	<b>Recurring Operating (Loss) Income</b>	<b>(292,283)</b>	<b>225,297</b>
(7,517)	(846)	Nonrecurring Losses, Net	(12,901)	(15,439)
14,368	3,327	Interest Rate Swap Agreements Gains	55,181	17,374
(175,037)	53,705	Investment (Losses) Gains	(1,181,291)	636,274
(19,340)	(15,560)	Other Nonoperating Activities, Net	132,958	(38,771)
<b>(\$ 328,168)</b>	<b>\$115,418</b>	<b>(Deficit) Excess of Revenue Over Expenses</b>	<b>(\$ 1,298,664)</b>	<b>\$ 824,735</b>

<sup>1</sup> Other Operating Revenue includes stimulus revenue of \$86.4 million and \$82.1 million from the U.S. CARES Act and funding of \$10.3 million and \$0 for the FEMA Public Assistance program recognized for the nine months ended September 30, 2022, and 2021, respectively.

## NET OPERATING REVENUE

Net operating revenue grew by \$61.7 million or 2.3% for the three months ended September 30, 2022, compared to the prior year. Net operating revenue increased by \$178.3 million or 2.2% for the nine months ended September 30, 2022, compared to the prior year. Net patient service revenue increased by \$16.5 million or 0.2% for the nine months ended September 30, 2022, when compared to the same period for the prior year. Net patient service revenue growth was primarily due to higher volumes for the nine months ended September 30, 2022, reflecting a partial recovery from the significant negative impact of the COVID-19 pandemic on operations in the prior year. For the nine months ended September 30, 2022, net patient service revenue also included the benefit of one-time state program reimbursements totaling \$63.1 million compared to \$131.7 million in the prior year. Stimulus revenue was \$86.4 million for the nine months ended September 30, 2022, up from \$78.6 million in the prior year. FEMA Assistance program funding of \$10.3 million was recognized for the nine months ended September 30, 2022, while no FEMA funding was received in the prior year. In its first four months of ownership from June 2022, Nordic contributed \$131.0 million in other operating revenue for the nine-month period ended September 30, 2022.

## OPERATING EXPENSES

Total operating expenses were \$8.5 billion for the nine months ended September 30, 2022, an increase of \$695.9 million or 8.9% from the same period of the prior year. This increase in operating expenses was primarily due to increases in employee compensation. Employee compensation increased \$525.6 million or 13.4% from the prior year, due to nationwide wage pressures, greater use of agency labor and increased overtime and retention programs to adequately staff for patient needs. For the nine months ended September 30, 2022, pharmaceuticals and supplies expense as a percentage of net patient service revenue was 20.9% compared to 20.9% for the same period of the prior year. For the nine months ended September 30, 2022, purchased services and other expenses as a percentage of net patient service revenue was increased to 26.6% compared to 24.9% in prior year due to inflation. In addition to direct patient care expenses, BSMH 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 nine months ended September 30, 2022, were \$45.4 million compared to \$126.7 million for the nine months ended September 30, 2021, as BSMH continues to respond to the COVID-19 pandemic.

## NONOPERATING GAINS AND LOSSES, NET

Investment losses, including unrealized gains and losses, were \$1.2 billion for the nine months ended September 30, 2022, compared to gains of \$636.6 million for the nine months ended September 30, 2021, due to equity and fixed income market losses in 2022. The combined operating portfolios (\$6.1 billion) returned -14.6% for the nine months ended September 30, 2022. The gain on interest rate swap agreements was \$55.2 million for the nine months ended September 30, 2022, compared to a gain of \$17.4 million for the same period of 2021. Included in other nonoperating activities is a gain of \$119.2 million for the Ensemble ownership restructuring, a gain of \$58.3 million for the sale of Ohio senior living and care facilities, as well as a pension settlement loss of \$11.1 million, associated with BSMH's ongoing pension de-risking strategy.

## SUBSEQUENT EVENTS

On October 12, 2022, the Company executed \$155.7 million (€160.0 million) of private placement notes through a private placement agreement with investors. Funding of the notes and recognition of the note obligation will occur in January 2023. The proceeds of this private placement will be used to fund the future construction of the new hospital in Limerick, Ireland.

On November 5, 2022, Roper St. Francis Healthcare (RSFH), a subsidiary of BSMH, acquired Charleston Oncology, P.A., for \$60.5 million of cash. RSFH is currently in the process of finalizing the accounting for this transaction and expects to complete the preliminary allocation of the purchase consideration to the assets acquired and liabilities assumed by the end of 2022.

# **BON SECOURS MERCY HEALTH**

## **Consolidated Financial Statements** **(Unaudited)**

**For the Nine Months**

**Ended**

**September 30, 2022**

**BON SECOURS MERCY HEALTH**

Consolidated Financial Statements (Unaudited)

Nine Months ended September 30, 2022 and 2021

**BON SECOURS MERCY HEALTH**  
Consolidated Balance Sheets  
September 30, 2022 (Unaudited) and December 31, 2021  
(In thousands)

<b>Assets</b>	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Current assets:		
Cash and cash equivalents	\$ 422,115	402,402
Investments	66,317	155,412
Self-insurance and trustee held funds	81,336	76,151
Donor restricted funds	5,755	5,911
Total cash and investments	<u>575,523</u>	<u>639,876</u>
Net patient receivables	1,198,597	1,126,277
Other receivables	258,459	144,011
Inventories	275,305	275,393
Prepaid expenses and other current assets	225,729	210,032
Total current assets	<u>2,533,613</u>	<u>2,395,589</u>
Assets whose use is limited:		
Board designated funds	6,577,318	8,816,184
Self-insurance and trustee held funds	315,692	300,992
Donor restricted funds	53,251	90,966
Total assets whose use is limited	<u>6,946,261</u>	<u>9,208,142</u>
Property and equipment, net	4,716,807	4,559,248
Investments in unconsolidated organizations	552,562	642,289
Operating lease right-of-use assets	319,765	325,142
Retirement assets	207,754	214,890
Other long-term assets	992,757	613,980
Total assets	<u>\$ 16,269,519</u>	<u>17,959,280</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 731,681	759,108
Current portion of long-term debt	396,996	342,603
Accrued salaries, wages and benefits	609,364	705,154
Current portion of operating lease liabilities	78,466	78,791
Other accrued expenses	325,942	697,919
Total current liabilities	<u>2,142,449</u>	<u>2,583,575</u>
Long-term debt, less current portion	4,265,286	4,038,912
Retirement liabilities	291,482	311,778
Self-insurance liabilities	344,649	323,818
Operating lease liabilities	260,530	260,282
Other long-term liabilities	510,001	589,908
Total liabilities	<u>7,814,397</u>	<u>8,108,273</u>
Net assets without donor restrictions:		
Controlling interest	7,774,803	8,726,705
Noncontrolling interest	429,197	840,784
Total net assets without donor restrictions	<u>8,204,000</u>	<u>9,567,489</u>
Net assets with donor restrictions	251,122	283,518
Total net assets	<u>8,455,122</u>	<u>9,851,007</u>
Total liabilities and net assets	<u>\$ 16,269,519</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 September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
<b>Revenues:</b>				
Net patient service revenue	\$ 2,513,680	2,527,118	\$ 7,564,436	7,547,956
Other revenue, net	254,392	179,282	655,902	494,087
Total operating revenues	2,768,072	2,706,400	8,220,338	8,042,043
<b>Expenses:</b>				
Employee compensation	1,527,742	1,334,153	4,447,382	3,921,794
Purchased services and other	686,861	618,897	2,010,314	1,878,649
Supplies	530,048	545,904	1,582,336	1,578,858
Depreciation and amortization	128,630	100,302	372,610	338,703
Interest expense	35,761	32,352	99,979	98,742
Total operating expenses	2,909,042	2,631,608	8,512,621	7,816,746
Recurring operating (loss) income	(140,970)	74,792	(292,283)	225,297
Nonrecurring operating losses, net	(7,517)	(846)	(12,901)	(15,439)
Operating (loss) income	(148,487)	73,946	(305,184)	209,858
<b>Nonoperating gains (losses), net:</b>				
Investment (losses) gains	(175,037)	53,705	(1,181,291)	636,274
Realized and unrealized interest rate swap agreements gains	14,368	3,327	55,181	17,374
Other nonoperating activities, net	(19,340)	(15,560)	132,958	(38,771)
(Deficit) excess of revenue over expenses	\$ (328,168)	115,418	\$ (1,298,664)	824,735

See accompanying notes to consolidated financial statements.

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

	<b>Controlling interest</b>	<b>Noncontrolling interest</b>	<b>Net assets without donor restrictions</b>	<b>Net assets with donor restrictions</b>	<b>Total net assets</b>
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	(1,249,983)	(48,681)	(1,298,664)	—	(1,298,664)
Loss from discontinued operations	(2,630)	—	(2,630)	—	(2,630)
Grants and contributions	8,985	4	8,989	35,389	44,378
Investment losses	—	—	—	(29,024)	(29,024)
Net assets released from restrictions	12,330	—	12,330	(37,067)	(24,737)
Transfer of interest from noncontrolling interest owners	321,311	(361,311)	(40,000)	—	(40,000)
Distributions to noncontrolling interest owner	—	(12,269)	(12,269)	—	(12,269)
Other changes, net	(41,915)	10,670	(31,245)	(1,694)	(32,939)
Decrease in net assets	<u>(951,902)</u>	<u>(411,587)</u>	<u>(1,363,489)</u>	<u>(32,396)</u>	<u>(1,395,885)</u>
Balance at September 30, 2022	\$ <u>7,774,803</u>	<u>429,197</u>	<u>8,204,000</u>	<u>251,122</u>	<u>8,455,122</u>

See accompanying notes to consolidated financial statements.

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

**Nine months ended September 30,**

	<b>2022</b>	<b>2021</b>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (1,395,885)	828,883
Depreciation and amortization	372,610	338,703
Amortization of premium on issued debt securities	(9,279)	(11,085)
Gain on Ensemble distribution	(119,189)	—
Gain on sale of subsidiaries	(70,161)	—
Other changes in net assets, net	(45,846)	(39,919)
Contributions restricted by donor	(35,389)	(22,589)
Net losses (gains) on investments	1,237,126	(385,343)
Cash (used in) provided by changes in operating assets and liabilities:		
Current assets	(142,243)	(100,613)
Long-term assets	30,181	38,824
Accelerated Medicare Payments Program	(380,455)	(186,742)
Other current liabilities	(138,986)	95,318
Long-term liabilities	10,961	(13,328)
Net cash (used in) provided by operating activities	(686,555)	542,109
Cash flows from investing activities:		
Sale of subsidiaries, net of cash sold	111,615	—
Acquisition of subsidiaries, net of cash received	(407,343)	—
Property and equipment additions, net of disposals	(581,391)	(470,733)
Purchase of alternative investments and other securities	(385,359)	(470,143)
Sales of alternative investments and other securities	148,688	205,378
Investments and assets whose use is limited, net	1,345,492	(288,246)
Distribution from equity method investment	200,619	357,315
Purchase of equity method investments	—	(6,340)
Net cash provided by (used in) investing activities	432,321	(672,769)
Cash flows from financing activities:		
Restricted contributions	35,389	22,589
Purchase of interest in Bon Secours – Richmond Health System	(40,000)	—
Contribution from noncontrolling interest	4	—
Distributions to noncontrolling interest	(12,269)	(14,435)
Proceeds from debt issuance	680,191	5,773
Repayment of long-term debt	(370,429)	(46,711)
Repayment of finance lease	(14,591)	(13,200)
Cost of long-term debt issuance	(3,785)	—
Net cash provided by (used in) financing activities	274,510	(45,984)
Effect of exchange rates on cash and cash equivalents	(563)	(413)
Net increase (decrease) in cash and cash equivalents	19,713	(177,057)
Cash and cash equivalents, beginning of the year	402,402	721,837
Cash and cash equivalents, end of the year	\$ 422,115	544,780

See accompanying notes to consolidated financial statements.

## **BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(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 separately organized market delivery systems which operate in Florida, Kentucky, Maryland, Ohio, South Carolina, Virginia, New York and Ireland. 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 markets and shared services. Investments in entities where the Company holds a noncontrolling interest are recorded under the equity or cost method of accounting. The Company has included its equity share of income or losses and changes in net assets from investments in unconsolidated affiliates in other revenue, net in the accompanying consolidated statement of operations. All material intercompany transactions and account balances have been eliminated in consolidation.

#### **(b) Acquisitions and Divestitures**

##### *Acquisition of Nordic Consulting Group Inc.*

On June 1, 2022, BSMH acquired Nordic Consulting Group, Inc (Nordic). Nordic provides healthcare-focused information technology advisory and staffing consulting services and outsourced managed services to its customers. The goodwill arising from the acquisition represents the estimated future economic benefits associated with the assembled workforce, as well as the synergies and strategic benefits expected to be realized from the acquisition. The fair value of identifiable net assets acquired at June 1, 2022, was estimated to be \$207,699 and is provisional pending receipt of the final valuation report for those assets from a third-party valuation specialist. The following table summarizes the consideration paid for the acquisition and the fair value of the assets acquired and liabilities assumed at the acquisition date.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

Cash consideration	\$	404,578
Acquisition related costs included in nonrecurring losses, net	\$	5,385
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Current assets	\$	85,103
Property and equipment		5,229
Intangible assets		147,900
Other long-term assets		2,984
Current liabilities		(29,764)
Other long-term liabilities		(3,753)
Total identifiable net assets assumed		<u>207,699</u>
Fair value of noncontrolling interest in Nordic		(9,631)
Goodwill		<u>206,510</u>
Total	\$	<u>404,578</u>

#### *Divestiture of Long-Term Care Facilities*

During the nine months ended September 30, 2022, as part of a full divestiture plan of all operations and facilities that involve skilled nursing, assisted living and independent living, Bon Secours Mercy Health sold six senior living and care facilities. The sales resulted in net cash proceeds of \$111,615 and a net gain of approximately \$70,161 which is reflected in the nonoperating gain/loss section of the consolidated statement of operations.

## **(2) Significant Accounting Policies**

### **(a) Cash and Cash Equivalents**

The Company considers highly liquid investments with a maturity of six 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 nine months ended September 30, 2022 and 2021

(In thousands)

Unrealized gains or losses on trading securities are included in investment gains. As of September 30, 2022 and December 31, 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 nine months ended September 30, 2022 and 2021

(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 22% and 18% of net patient accounts receivable as of September 30, 2022, and December 31, 2021, respectively while the Medicaid program represented 9% as of September 30, 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 September 30, 2022, or December 31, 2021.

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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

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 and nine months ended September 30, 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:

	<b>Three months ended</b>			
	<b>September 30,</b>			
	<b>2022</b>		<b>2021</b>	
Medicare	\$ 936,126	37.2 %	\$ 923,030	36.5 %
Medicaid	401,656	16.0	356,591	14.1
Other governmental	49,827	2.0	43,528	1.7
Commercial and other third party	1,120,740	44.6	1,187,130	47.0
Self-pay	5,331	0.2	16,839	0.7
Total	<u>\$ 2,513,680</u>	<u>100.0 %</u>	<u>\$ 2,527,118</u>	<u>100.0 %</u>
	<b>Nine months ended</b>			
	<b>September 30,</b>			
	<b>2022</b>		<b>2021</b>	
Medicare	\$ 2,836,487	37.5 %	\$ 2,782,515	36.8 %
Medicaid	1,230,392	16.3	1,115,276	14.9
Other governmental	148,578	2.0	127,138	1.7
Commercial and other third party	3,278,885	43.3	3,485,728	46.1
Self-pay	70,094	0.9	37,299	0.5
Total	<u>\$ 7,564,436</u>	<u>100.0 %</u>	<u>\$ 7,547,956</u>	<u>100.0 %</u>

#### (e) Inventories

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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(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 nine months ended September 30, 2022 and 2021

(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.

On March 25, 2021, RSFH resolved to replace the electronic medical records systems. The planned abandonment and replacement occurred in the second half of 2022. The abandonment decision was an impairment indicator and a resulting impairment charge of \$9,686 was recorded in nonrecurring operating losses, net within the consolidated statement of operations of BSMH for the period ended September 30, 2021.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

#### **(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 and nine months ended September 30, 2022 and 2021.

#### **(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:

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Goodwill, net	\$ 481,893	267,904
Notes and other long term receivables	55,690	51,222
Other intangibles	173,100	30,048
Right-of-use assets – finance	207,943	208,372
Other	74,131	56,434
Total other long-term assets	<u>\$ 992,757</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.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

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:

	<u>September 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Goodwill at the beginning of the period	\$ 267,904	268,713
Goodwill related to acquisitions	214,788	80
Other	<u>(799)</u>	<u>(889)</u>
Goodwill at the end of the period	<u>\$ 481,893</u>	<u>267,904</u>

#### **(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.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

*(iv) Employee Health Insurance*

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

***(m) Net Assets Including Noncontrolling Interest***

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

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

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:

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Derivative instruments (note 9)	\$ 22,206	89,707
Supplemental executive retirement plan liability	103,019	93,947
Lease liabilities – finance	313,233	337,881
Other	71,543	68,373
Total other long-term liabilities	<u>\$ 510,001</u>	<u>589,908</u>

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

#### **(o) Other Revenue**

Other operating revenues includes income from equity investments in joint ventures (note 15), professional services contract revenue, 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 nine months ended September 30, 2022 and 2021

(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 nine months ended September 30, 2022 and 2021

(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 September 30, 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 September 30, 2022 and 2021, the Company has no uncertain tax positions.

The Company's taxable subsidiaries had \$155,943 and \$155,184 net operating loss carryforwards as of September 30, 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.

#### **(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 \$1,177 and \$11,771 for the three months ended September 30, 2022 and 2021, respectively and an increase of \$9,077 and \$17,334 for the nine months ended September 30, 2022 and 2021, respectively.

## **BON SECOURS MERCY HEALTH**

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(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 September 30, 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 and nine months ended September 30, 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 nine months ended September 30, 2022 and 2021

(In thousands)

Through the CARES Act and state grant programs, the Company received \$699 and \$213 for the three months ended September 30, 2022 and 2021, respectively and \$88,225 and \$74,514 for the nine months ended September 30, 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 \$699 and \$23,592 was recognized in other revenue, net within the consolidated statement of operations, for the three months ended September 30, 2022 and 2021, respectively and \$86,419 and \$78,554 for the nine months ended September 30, 2022 and 2021, respectively.

Through the CARES Act, the Company also received \$734,349 in Medicare Accelerated and Advance Payments in 2020 and recognized the funds as a refund liability with repayment to occur based upon the terms and conditions of the Program. Under the terms of the current program, payments are advances that must be repaid through 2022. The Company repaid \$380,455 and \$296,697 as of September 30, 2022 and December 31, 2021, respectively. The Company accounted for \$57,159 and \$437,652 as of September 30, 2022 and December 31, 2021, respectively, within other accrued expenses on the consolidated balance sheets.

The CARES Act also provided for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Company began deferring the employer portion of social security taxes in April 2020. A deferral of \$139,716 was recorded as of December 31, 2020, of which \$69,858 was recorded in accrued salaries, wages, and benefits for the periods ended September 30, 2022 and December 31, 2021.

The CARES Act initially suspended the 2% Medicare sequestration payment adjustment effective May 1, 2020 through December 31, 2020. This suspension was subsequently extended to remain in effect through March 31, 2022. Starting April 1, 2022, sequestration was reduced to 1%.

Additionally, the Federal Emergency Management Agency ("FEMA") established an interim submission deadline of December 31, 2022 for all project applications pertaining to COVID-19 work completed from January 20, 2020 through July 1, 2022. The Company is seeking reimbursement from FEMA for certain incremental COVID-19 expenses that have not already been reimbursed through other sources. FEMA Assistance program funding of \$10,347 was recognized in other revenue, net within the consolidated statement of operations for the three and nine months ended September 30, 2022, while no FEMA funding was received in the prior year.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

#### (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, 2022 Edition.

The following represents unsponsored community benefit expense at cost for:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Charitable services and other community benefits:				
Traditional charity care	\$ 26,839	16,677	\$ 69,432	71,704
Unpaid costs of public programs	103,344	90,809	308,861	295,067
Community health services	5,545	6,836	15,682	18,262
Health professional education	15,446	23,372	47,978	53,560
Subsidized health services	12,751	6,825	27,867	12,534
Financial and in-kind donations	3,204	4,203	6,786	6,570
Community building activities	-	1,266	1,776	3,281
Community benefit operations	892	1,029	2,189	1,910
Research	101	378	359	378
Total quantifiable community benefits	<u>\$ 168,122</u>	<u>151,395</u>	<u>\$ 480,930</u>	<u>463,266</u>
Percent of total recurring expenses	6.0 %	5.8 %	5.6 %	5.9 %

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 nine months ended September 30, 2022 and 2021

(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>September 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Board designated funds:		
Cash and cash equivalents	\$ 570,596	339,363
Equity mutual funds	717,678	1,154,013
Equity commingled funds	551,551	1,009,817
Common and preferred stocks	702,974	1,127,962
Fixed income commingled funds	257,759	319,467
Government and agency securities	757,637	1,316,102
Corporate obligations	756,971	1,481,930
Alternative investments	<u>2,262,152</u>	<u>2,067,530</u>
	<u>\$ 6,577,318</u>	<u>8,816,184</u>
Self-insurance and trustee held funds:		
Cash and cash equivalents	\$ 103,475	96,022
Equity mutual funds	199,521	202,254
Government and agency securities	57,596	45,346
Corporate obligations	<u>36,436</u>	<u>33,521</u>
	<u>\$ 397,028</u>	<u>377,143</u>
Donor restricted funds:		
Cash and cash equivalents	\$ 16,809	50,335
Equity mutual funds	6,981	15,255
Equity commingled funds	8,069	—
Common and preferred stocks	2,862	4,625
Fixed income commingled funds	5,238	9,641
Government and agency securities	74	147
Commodity futures contracts	178	—
Alternative investments	<u>18,795</u>	<u>16,874</u>
	<u>\$ 59,006</u>	<u>96,877</u>

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Investments:		
Cash and cash equivalents	\$ 63,389	129,264
Government and agency securities	—	5,040
Corporate obligations	2,928	21,108
	\$ 66,317	155,412
Investments and assets whose use is limited	\$ 7,099,669	9,445,616
Available for current liabilities	(153,408)	(237,474)
Long-term assets limited or restricted as to use	\$ 6,946,261	9,208,142

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 (losses) gains on the consolidated statement of operations.

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Dividends and interest	\$ 18,572	13,568	55,835	40,876
Net realized gains on securities	52,415	46,459	49,952	210,055
Net change in unrealized (losses) gains on securities	(246,024)	(6,322)	(1,287,078)	385,343
	\$ (175,037)	53,705	(1,181,291)	636,274

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 September 30, 2022 and December 31, 2021.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(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 nine months ended September 30, 2022 and 2021

(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.

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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(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 September 30, 2022 using		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 422,115	422,115	—	—
Investments:				
Cash and cash equivalents	63,389	63,389	—	—
Corporate obligations	2,928	—	2,928	—
	66,317	63,389	2,928	—
Assets limited or restricted as to use:				
Cash and cash equivalents	690,880	688,900	1,980	—
Equity mutual funds	924,180	481,779	442,401	—
Equity commingled funds	538,576	387,673	84,493	66,410
Common and preferred stocks	705,836	705,836	—	—
Fixed income commingled funds	262,997	200,208	62,789	—
Government and agency securities	815,307	306,803	508,504	—
Corporate obligations	793,407	205	793,202	—
Commodity futures contracts	178	178	—	—
Cash and assets limited or restricted as to use	5,219,793	3,257,086	1,896,297	66,410
Assets whose use is limited under securities lending arrangements	21,044	21,044	—	—
Total cash and assets limited or restricted as to use	\$ 5,240,837	3,278,130	1,896,297	66,410
Liabilities:				
Interest rate swaps	\$ 22,206	—	—	22,206
Total liabilities	\$ 22,206	—	—	22,206

**BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(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

Following is the summary of the inputs and valuation techniques utilized to value Level 2 financial instruments as of September 30, 2022 and December 31, 2021:

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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

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

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Beginning balance	\$ 59,104	41,516
Purchases	7,306	17,755
Realized and unrealized losses	—	(167)
Ending balance	\$ 66,410	59,104

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 nine months ended September 30, 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 September 30, 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.

The following table summarizes the investments measured at NAV, committed capital and associated redemptions as of September 30, 2022:

	<b>Investments measured at NAV</b>	<b>Committed capital</b>	<b>Redemption frequency</b>	<b>Redemption notice period</b>
Fixed income commingled funds	\$ 51,169	—	Monthly	10 days
Alternative investments:				
Private Investments	1,315,911	729,319	N/A	N/A
Hedge funds	913,867	—	Monthly, Quarterly, Annually	2 to 180 days
	\$ 2,280,947	729,319		

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

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 September 30, 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.
- (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.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

#### (7) Property and Equipment, Net

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

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Land	\$ 513,684	444,102
Land improvements	117,225	113,838
Buildings and fixed equipment	4,765,305	4,729,536
Movable equipment	4,646,060	4,456,743
Leasehold improvements	<u>241,031</u>	<u>231,293</u>
	10,283,305	9,975,512
Less accumulated depreciation	<u>(6,081,911)</u>	<u>(5,838,995)</u>
	4,201,394	4,136,517
Construction in progress	<u>515,413</u>	<u>422,731</u>
	<u>\$ 4,716,807</u>	<u>4,559,248</u>

As of September 30, 2022 and December 31, 2021, the Company is contractually obligated for construction projects totaling \$211,956 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 \$121,974 and \$93,516 for the three months ended September 30, 2022 and 2021, respectively and \$353,337 and \$319,288 for the nine months ended September 30, 2022 and 2021, respectively.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

### (8) Long-Term Debt

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

Long-term debt	Coupon rates	Maturity through	September 30, 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	4.00-5.00%	2042	\$ —	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	3.13-5.00	2047	416,405	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
BSMH Series 2022A serial and term bonds	5.00	2042	190,775	—
Adjustable rate Hospital Facilities Revenue and Revenue Refunding and Improvement Bonds:				
MH Series 2008 direct placement (DP) bonds	0.79-2.25	2031	114,600	114,600
MH Series 2010C/D demand and DP bonds	0.37-2.99	2034	152,900	160,900
MH Series 2012B demand bonds	0.02-2.40	2036	100,000	100,000
MH Series 2017B bonds payable	5.00	2047	—	89,425
Bon Secours Series 2017 (SC) DP bonds	0.93-3.04	2042	69,925	69,925
MH Series 2018AB commercial paper notes	0.10-3.10		100,000	100,000
BSMH Series 2020B bonds payable	5.00	2048	87,380	87,380
BSMH Series 2022B bonds payable	5.00	2051	213,320	—
2018 TD Bank variable rate taxable term loan	0.68-3.16	2029	150,000	150,000
2018 US Bank variable rate taxable term loan	0.65-3.13	2023	160,000	160,000
2020 JPMorgan fixed rate taxable term loan	1.73-2.65	2023	250,000	250,000
Revolving Credit Agreement debt outstanding	1.04-3.39		458	—
Total master trust indenture obligations			4,474,452	4,200,884
Ireland variable rate taxable term loan	1.45-1.90	2025	91,590	99,288
Other debt			12,758	14,110
			4,578,800	4,314,282
Original issue net premium			106,989	88,881
Cost of issuance			(23,507)	(21,648)
			4,662,282	4,381,515
Less current portion of long-term debt			(396,996)	(342,603)
Long-term debt, less current portion			\$ 4,265,286	4,038,912

## **BON SECOURS MERCY HEALTH**

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(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 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 \$91,590.

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

On September 29, 2022, the Company issued \$94,420 of tax-exempt fixed rate bond obligations through its Series 2022A SC bonds, \$96,355 of tax-exempt fixed rate bond obligations through its Series 2022A VA bonds, and \$213,320 of tax-exempt adjustable-rate bond obligations through its Series 2022B OH bonds. The proceeds of these bond obligation issues were used to defease the May 2022 taxable bridge financing of \$89,425 Series 2017B bonds, reimburse the company for approximately \$332,490 of project expenditures, provide approximately \$7,522 of project funds for future construction costs, and pay for associated cost of issuance. The company recorded a loss from early extinguishment of debt of \$328 which is included in other (loss) income in the consolidated statement of operations and changes in net assets. Also on September 29, 2022, the Company expanded the capacity of its 2018AB commercial paper notes program from \$100,000 to \$400,000. \$100,000 of commercial paper notes were outstanding on September 30, 2022 and December 31, 2021.

Pursuant to the issuance of the Series 2022 bond issue, the company proposed to amend its MTI. The amended MTI will not become effective until the Company's Master Trustee receives the consents of the Company's Master Obligation debt holders of not less than a majority of the Company's aggregate debt. Until the conditions of the amendment to the MTI are met, the existing MTI remains in effect.

The Company's MTI obligations mature at various dates through 2051 and are subject to optional and mandatory redemption features. While only Bon Secours Mercy Health, Inc. (as successor to Mercy Health) is obligated under the terms of the MTI, the Company has covenanted to cause its controlled affiliates and certain contractual affiliates to transfer such funds to as necessary to pay amounts due under the MTI. Certain controlled affiliates of the Company have entered into agreements obligating them to make these transfers at the request of the Company.

The Company is subject to certain restrictive covenants under the MTI, revolving credit agreements, reimbursement agreements and irrevocable letters of credit as of September 30, 2022 and December 31, 2021. The Company was in compliance with all restrictive covenants as of September 30, 2022 and December 31, 2021.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

The following is a schedule of future minimum payments based on scheduled maturities as of September 30, 2022:

<u>Period</u>	<u>Master trust indenture obligations</u>	<u>European group and other debt</u>
2022	\$ 12,048	5
2023	458,945	11
2024	55,205	12,142
2025	254,450	91,590
2026	57,530	31
Thereafter	3,636,274	569
Total minimum payments	<u>\$ 4,474,452</u>	<u>104,348</u>

Interest payments for the three months ended September 30, 2022 and 2021 were \$26,717 and \$25,895 respectively. Interest payments for the nine months ended September 30, 2022 and 2021 were \$92,781 and \$95,560, respectively.

Unamortized debt issuance costs of \$23,507 and \$21,648 as of September 30, 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.

As of September 30, 2022, the Company has Series 2010C and 2012B variable rate bond obligations in the total amount of \$178,950 with letter of credit support, Series 2008A, 2010D and 2017 adjustable-rate bonds in the total amount of \$258,475 held under direct purchase agreements with financial institutions and \$407,181 of variable rate taxable term loan agreements with financial institutions. The Company's dedicated liquidity facilities and direct placement agreements have expiration dates that extend from May 2023 to November 2027, and their respective term-out repayment provisions extend beyond the subsequent fiscal year. Due to the supporting agreements noted above, the Company has recorded the obligations as long term.

The Company maintains a revolving credit agreement for purposes of working capital support or capital asset acquisition. This revolving credit agreement has a commitment amount of \$250,000 and is secured by the MTI. The agreement expires on December 11, 2022, with an intention to extend the agreement beyond this period. \$458 and \$0 was outstanding on this agreement as of September 30, 2022 and December 31, 2021.

As of September 30, 2022, current portion of long-term debt includes \$458 on the revolving credit agreement, \$250,000 term loan which matures within the next year and \$100,000 commercial paper notes supported by the Company's own liquidity.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

#### (9) Derivatives and Interest Rate Swap Agreements

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

Interest rate swap agreement	Transaction type	Payment rate/basis	Termination date	Notional amount		Valuation amount	
				September 30 2022	December 31, 2021	September 30 2022	December 31, 2021
December 2006 JPM	Payfixed	3.63 %	2033	\$ 192,110	250,177	(6,765)	(30,424)
December 2018 Barclays	Payfixed	3.98	2042	50,000	50,000	(2,802)	(19,475)
December 2018 Citi	Payfixed	3.84	2032	—	25,000	—	(6,055)
December 2018 JPM	Payfixed	3.72	2047	80,000	80,000	(2,683)	(20,000)
December 2018 PNC	Payfixed	3.45	2042	69,925	69,925	(7,381)	(21,499)
December 2007 JPM	Constant maturity	N/A	2027	250,000	250,000	(1,500)	5,457
August 2018 JPM	Constant maturity	N/A	2037	150,000	150,000	(2,845)	839
Credit valuation adjustment						1,770	1,450
						\$ (22,206)	(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 \$2,120 and \$4,240 for the three months ended September 30, 2022 and 2021, respectively and were \$7,945 and \$11,755 for the nine months ended September 30, 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 and \$25,000 notional fixed payer swap agreements in May 2022. Settlement losses of \$3,443 and \$2,323, respectively, were recognized in other (loss) income in the consolidated statements of operations and changes in net assets.

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 \$3,399 as of September 30, 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.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

#### (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:

	Three months ended September 30,			
	Pension Benefits		Postemployment Benefits	
	2022	2021	2022	2021
Service cost	\$ 926	1,069	129	128
Interest cost	19,367	18,124	103	93
Expected return on plan assets	(25,840)	(30,509)	—	—
Curtailment/settlement cost	2,785	2,806	—	—
Amortization of:				
Actuarial loss/(gain)	4,198	8,184	(5)	10
Prior service credit	1,052	456	—	—
Net periodic benefit cost	\$ 2,488	130	227	231

	Nine months ended September 30,			
	Pension Benefits		Postemployment Benefits	
	2022	2021	2022	2021
Service cost	\$ 2,777	3,206	386	383
Interest cost	58,100	54,372	308	280
Expected return on plan assets	(77,521)	(91,526)	—	—
Curtailment/settlement cost	8,354	8,417	—	—
Amortization of:				
Actuarial loss/(gain)	12,594	24,553	(14)	31
Prior service credit	3,157	1,368	—	—
Net periodic benefit cost	\$ 7,461	390	680	694

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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

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

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Asset category:		
Equity mutual and commingled funds and securities	25 %	34 %
Fixed income mutual funds and securities	50	46
Alternative investments	19	17
Cash	6	3
Total	100 %	100 %

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

The following is a summary of the plan assets measured at fair value on a recurring basis based on the fair value hierarchy as of September 30, 2022:

	<b>Fair value</b>	<b>Fair value measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and cash equivalents	\$ 131,843	131,843	—	—
Equity mutual funds	333,312	269,021	64,291	—
Equity commingled funds	75,993	66,150	9,843	—
Common and preferred stocks	88,296	88,296	—	—
Government and agency bonds	173,924	139,025	34,899	—
Corporate obligations	799,270	—	799,270	—
Total investments	1,602,638	694,335	908,303	—
Due to broker/custodian for investment activity, net	(26,520)	—	(26,520)	—
Total plan assets	\$ 1,576,118	694,335	881,783	—

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(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 September 30, 2022:

	Alternative investments	Committed capital	Redemption frequency	Redemption notice period
Private Investments	\$ 257,153	74,883	N/A	N/A
Hedge funds	124,033	—	Monthly, Quarterly, Annually	2 to 180 days
	\$ 381,186	74,883		

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 September 30, 2022 and December 31, 2021.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(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 postemployment 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 \$52,856 and \$60,577 for the three months ended September 30, 2022 and 2021, respectively, and \$159,781 and \$170,915 for the nine months ended September 30, 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 \$341,372 and \$323,566 as of September 30, 2022 and December 31, 2021, respectively. The current portion of such accruals, \$58,664 and \$58,496 as of September 30, 2022 and December 31, 2021, respectively, is included in other accrued expenses, and the remainder, \$282,708 and \$265,070 as of September 30, 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.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

#### **(b) Workers' Compensation Insurance**

Accrued workers' compensation claims were \$63,694 and \$61,270, as of September 30, 2022 and December 31, 2021, respectively. The current portion of such accruals, \$1,752 and \$2,522 as of September 30, 2022 and December 31, 2021, respectively, is reported as other accrued expenses. The remainder, \$61,942 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 September 30, 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.

#### **(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 \$54,533 and \$52,483, include estimates for claims incurred but not reported as of September 30, 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:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Finance lease expense:				
Amortization of ROU assets	\$ 6,437	5,309	16,808	14,921
Interest on lease liabilities	3,320	3,549	9,979	10,366
Operating lease expense	23,870	25,429	72,033	77,877
Short-term lease expense	5,764	8,496	18,413	23,881
Variable lease expense	10,032	6,742	30,130	22,776
Total lease cost	\$ 49,423	49,525	147,363	149,821

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

Commitments related to non-cancellable operating and finance leases for each of the next five years and thereafter as of September 30, 2022 are as follows:

	<b>Operating</b>	<b>Finance</b>
2022	\$ 25,333	7,517
2023	85,639	38,901
2024	70,994	26,443
2025	56,842	25,242
2026	41,149	23,451
Thereafter	106,972	559,704
Total	386,929	681,258
Less present value discount	(47,933)	(341,737)
Lease liabilities	\$ 338,996	339,521

Other information is as follows:

	<b>2022</b>	<b>2021</b>
Weighted average remaining lease terms (in years):		
Finance leases	57.29	50.38
Operating leases	6.16	6.24
Weighted average discount rate:		
Finance leases	3.77 %	3.78 %
Operating leases	3.85	4.03

#### (12) Net Assets with Donor Restrictions

The Company's endowments consist of 358 and 347 individual funds established for a variety of purposes as of September 30, 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 \$79,965 and \$107,004 as of September 30, 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 September 30, 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 nine months ended September 30, 2022 and 2021

(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:

	<b>For the three months ended September 30, 2022</b>				
	<b>Program activities</b>			<b>Supporting activities</b>	
	<b>Healthcare services</b>	<b>Ancillary services and other</b>	<b>Total</b>	<b>General and administrative</b>	<b>Total</b>
Employee compensation	\$ 1,123,709	360,582	1,484,291	43,451	1,527,742
Purchased services and other	508,440	94,659	603,099	83,762	686,861
Supplies	483,028	20,209	503,237	26,811	530,048
Depreciation and amortization	87,036	38,365	125,401	3,229	128,630
Interest	3,225	31,876	35,101	660	35,761
Total recurring expenses	<u>\$ 2,205,438</u>	<u>545,691</u>	<u>2,751,129</u>	<u>157,913</u>	<u>2,909,042</u>

	<b>For the nine months ended September 30, 2022</b>				
	<b>Program activities</b>			<b>Supporting activities</b>	
	<b>Healthcare services</b>	<b>Ancillary services and other</b>	<b>Total</b>	<b>General and administrative</b>	<b>Total</b>
Employee compensation	\$ 3,369,830	946,766	4,316,596	130,786	4,447,382
Purchased services and other	1,480,038	282,418	1,762,456	247,858	2,010,314
Supplies	1,440,005	61,460	1,501,465	80,871	1,582,336
Depreciation and amortization	259,570	104,457	364,027	8,583	372,610
Interest	10,349	87,626	97,975	2,004	99,979
Total recurring expenses	<u>\$ 6,559,792</u>	<u>1,482,727</u>	<u>8,042,519</u>	<u>470,102</u>	<u>8,512,621</u>

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

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

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

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

#### (14) Liquidity and Capital Resources

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

	September 30, 2022	December 31, 2021
Cash, cash equivalents and investments	\$ 488,432	557,814
Net patient receivables	1,198,597	1,126,277
Assets whose use is limited:		
Board-designated funds	4,248,756	6,689,550
	\$ 5,935,785	8,373,641

## **BON SECOURS MERCY HEALTH**

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

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

As part of the Company's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds. Occasionally, the Board designates a portion of any operating surplus to an operating reserve, which was \$4,248,756 and \$6,689,550 as of September 30, 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 September 30, 2022, and December 31, 2021 BSMH ownership interest in Ensemble was 41.8% and 48.3%, respectively. The reduction in ownership was attributable to Ensemble's ownership restructuring on April 18, 2022. This ownership restructuring triggered a \$200,619 cash distribution to BSMH. Of the distribution, \$81,430 was treated as a return of capital and \$119,189 was included as a gain in other nonoperating activities, net. The amounts are provisional pending the finalization of Ensemble's financial statements. In February 2021, BSMH received a one-time cash dividend of \$357,315 from Ensemble due to a dividend recapitalization financing of Ensemble.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

During the three and nine months ended September 30, 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:

	Three months ended September 30, 2022		Nine months ended September 30, 2022	
	2022	2021	2022	2021
Revenue cycle management and consulting services provided by Ensemble to BSMH	\$ 128,659	117,527	375,118	349,150
Leased employees, purchased and other services provided to Ensemble by BSMH	(23,338)	(25,347)	(68,583)	(66,406)

BSMH owed Ensemble \$40,927 as of September 30, 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.

**(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:

	September 30, 2022	December 31, 2021
Ensemble	\$ 442,520	509,989
Sentara Princess Anne	39,002	50,788
Charity	14,869	22,659
Other	56,171	58,853
	\$ 552,562	642,289

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the nine months ended September 30, 2022 and 2021

(In thousands)

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Ensemble	\$ 9,482	18,088	44,884	60,901
Sentara Princess Anne	3,695	8,526	13,623	13,137
Charity	(4,613)	(1,777)	(7,790)	(12,509)
Other	780	1,260	2,549	3,584
	<u>\$ 9,344</u>	<u>26,097</u>	<u>53,266</u>	<u>65,113</u>

#### (16) Subsequent Events

The Company has evaluated and disclosed any subsequent events through November 22, 2022, which is the date the consolidated financial statements were issued and made publicly available.

On October 12, 2022, the company executed a private placement agreement for a total of \$155,696 (€160,000) with several counterparties. Funding of the notes will occur in January 2023 and the proceeds of this private placement will be used for general corporate purposes.

On November 5, 2022, Roper St. Francis Healthcare (RSFH), a subsidiary of BSMH, acquired Charleston Oncology, P.A., for \$60,500 of cash. RSFH is currently in the process of finalizing the accounting for this transaction and expects to complete the preliminary allocation of the purchase consideration to the assets acquired and liabilities assumed by the end of 2022.

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

# **BON SECOURS MERCY HEALTH**

## **Utilization Statistics**

**For the Nine Months Ended  
September 30, 2022 and 2021**

**and**

**For the Twelve Months Ended  
December 31, 2021, 2020 and 2019**

# BON SECOURS MERCY HEALTH

## Consolidated Utilization Statistics (Unaudited)

	Nine Months Ended September 30,		Twelve Months Ended December 31,		
	2022	2021	2021	2020	2019
<b>Utilization Statistics</b>					
Staffed beds - Acute	6,636	7,487	7,487	7,487	6,883
Staffed beds - Post-acute	255	1,890	1,501	1,890	1,790
Admissions - Acute	245,464	251,032	334,295	316,952	299,468
Admissions - Post-acute	2,138	3,081	4,119	3,904	5,061
Total Admissions	247,602	254,113	338,414	320,856	304,530
Observations	50,035	47,825	62,664	62,784	66,055
Equivalent Inpatient Admissions	608,489	597,748	794,283	737,329	708,726
Newborn Deliveries	20,812	20,894	27,849	28,035	25,414
Patient days - Acute	1,170,574	1,158,683	1,583,629	1,435,967	1,247,740
Patient days - Post-acute	37,489	309,806	395,949	477,453	329,871
Occupancy on staffed beds - Acute	65.3%	56.7%	57.9%	52.4%	49.7%
Total Patient Days	1,208,063	1,468,490	1,979,579	1,913,420	1,577,611
Average length of stay - Acute	4.77	4.62	4.74	4.53	4.17
Emergency Room Visits	1,116,069	1,069,823	1,452,343	1,331,825	1,399,327
Physician Visits	5,159,456	5,114,742	6,878,752	6,570,832	6,205,141
Inpatient surgeries and medical procedures	50,888	52,219	68,834	69,921	66,714
Outpatient surgeries	153,134	149,893	202,574	184,169	165,874
Full Time Equivalent Employees	52,127	51,372	51,621	51,019	45,380
Institutional case mix index	1.678	1.705	1.716	1.691	1.597
Medicare case mix index	1.796	1.819	1.825	n/a	n/a

**Note:**

Prior period surgery and procedure volumes have been recast to reflect alignment of the statistics across BSMH entities.

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 Nine Months Ended  
September 30, 2022 and 2021**

**and**

**For the Twelve Months Ended  
December 31, 2021, 2020 and 2019**

# BON SECOURS MERCY HEALTH

## Consolidated Financial Analyses (Unaudited)

(Dollars in Thousands)

Financial Analyses	Nine Months Ended September 30,		Twelve Months Ended December 31,		
	2022	2021	2021	2020	2019
Operating Margin	(3.6%)	2.8%	1.7%	2.4%	2.7%
Excess Margin	(18.0%)	9.5%	8.5%	5.9%	7.3% <sup>(1)</sup>
Debt Service Coverage - Rolling 12-month Basis <sup>(2)</sup>	1.92	3.70	3.93	3.31	4.75
Debt Service Coverage YTD <sup>(3)</sup>	1.61	4.12	3.93	3.31	4.74
based on Maximum Annual Debt Service <sup>(4)</sup> of:	\$330,270	279,044	\$280,724	\$276,352	\$199,464
adjusted to remove unrealized investments gains (losses) of:	(\$1,287,078)	\$385,343	\$475,957	\$420,055	\$258,049
adjusted to remove unrealized swap gains (losses) of:	\$67,501	\$28,343	\$28,544	(\$24,038)	(\$28,383)
adjusted to remove (impairment) charges of:	\$100	\$11,619	(\$12,819)	\$43,434	\$0
adjusted to remove disposed assets not in ordinary course of:	\$623	(\$201)	(\$45)	\$189	\$0
adjusted to remove (loss) on early extinguishment of debt of:	(\$328)	\$0	(\$152)	(\$29,924)	\$0
* interim periods adjusted for YTD days					
Operating EBITDA	\$187,543	\$668,721	\$780,860	\$869,275	\$768,131
Operating EBITDA Margin	2.3%	8.3%	7.2%	8.7%	8.8%
Total Unrestricted Cash <sup>(5)</sup>	7,065,751	9,467,192	\$9,373,998	\$8,731,716	\$5,579,617
Days Cash on Hand - YTD basis	237	347	334	346 <sup>(4)</sup>	259 <sup>(6)</sup>
Debt to Capitalization	37.5%	34.9%	33.4%	37.3%	31.2%
Debt to Capitalization (per MTI Indebtedness definition) <sup>(7)</sup>	39.2%	36.7%	35.2%	39.2%	32.4%
Net Patient Revenue per EIPA-CMI Adj	\$7,409	\$7,404	\$7,486	\$7,195	\$7,025
Total Community Benefit (TCB) Cost <sup>(8)</sup>	\$480,930	\$463,266	\$605,293	\$687,517	\$697,394
TCB Cost as a percent of Total Expense <sup>(8)</sup>	5.6%	5.9%	5.7%	7.1%	8.2%
<b>Net Patient Revenue by Payor Type -</b>					
Medicare - Traditional	19.9%	20.6%	20.2%	21.3%	22.2%
Medicare - Managed	17.6%	16.3%	16.2%	15.1%	14.0%
Medicaid - Traditional	6.9%	5.6%	5.9%	4.6%	4.2%
Medicaid - Managed	9.4%	9.2%	9.2%	9.4%	8.7%
Other Governmental	2.0%	1.7%	1.7%	1.8%	2.0%
Commercial	43.3%	46.1%	46.2%	46.7%	48.3%
Self Pay & Other	0.9%	0.5%	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.