BON SECOURS MERCY HEALTH

Financial Disclosure

For the First Quarter Ended

March 31, 2023

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BON SECOURS MERCY HEALTH

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

Ended

March 31, 2023

BON SECOURS MERCY HEALTH

Management's Discussion and Analysis of Recent Financial Performance

Three Months Ended March 31, 2023

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, 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:

Individual	Title
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
Chris Hilton	SVP Enterprise Optimization and Integration
Donald Kline	Chief Operating Officer
Sandra Mackey	Chief Marketing Officer
Jason Siegert	Chief Ventures Officer
Jason Szczuka	Chief Digital Officer

Board of Directors

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

Board of Directors
Peter Maddox, Chair
Jennifer O'Brien, JD, Vice Chair
Katherine A. Arbuckle, CPA
Sr. Pat Eck, CBS (PJP)
Sr. Fran Gorsuch, CBS
Gerard Kells
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
Katherine W. Vestal, PhD

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

APPROXIMATELY **1,200** SITES OF CARE
in the US and Ireland

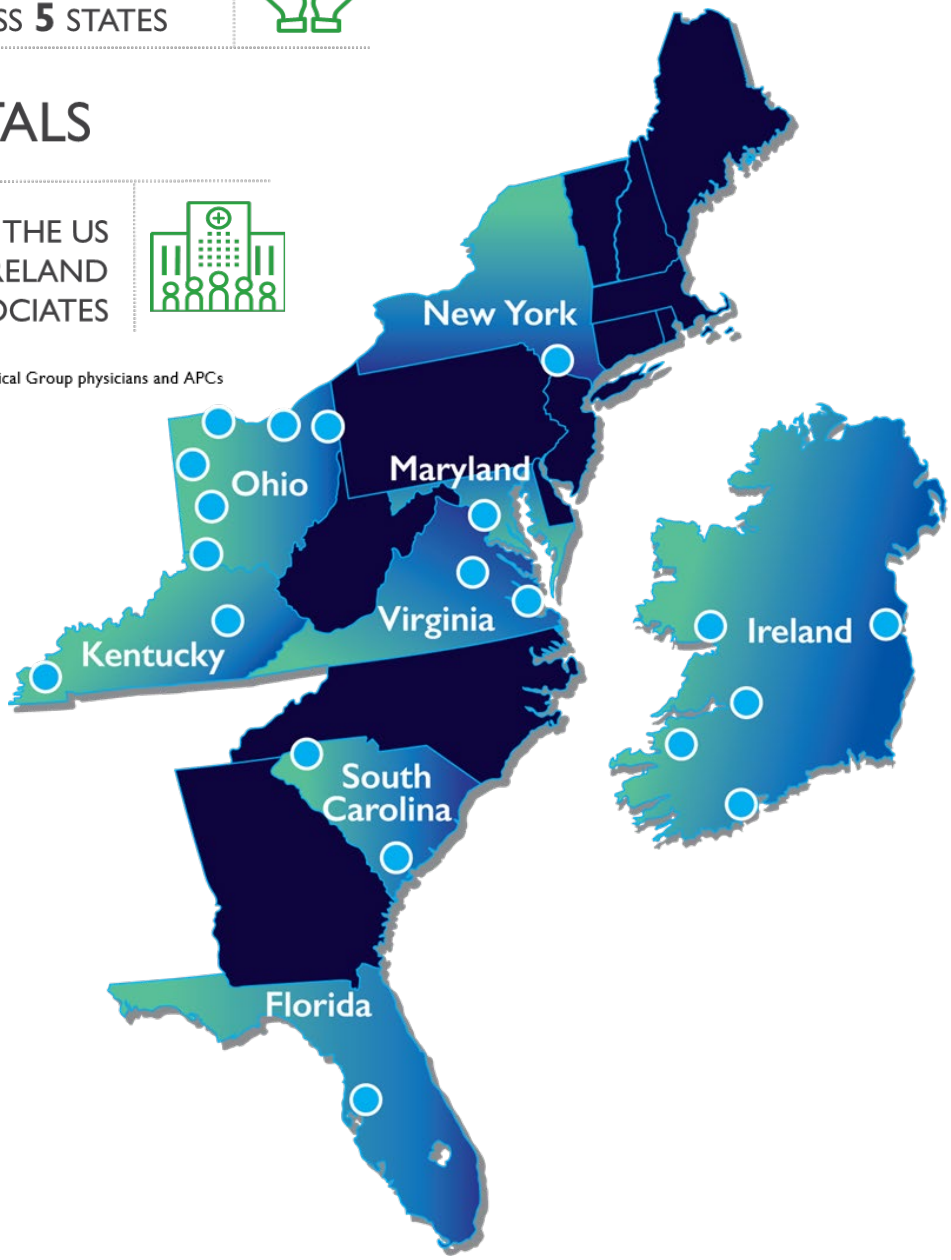
Approximately **$11 BILLION**
in net operating revenue

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

48 HOSPITALS

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

*BSMH Medical Group physicians and APCs



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.



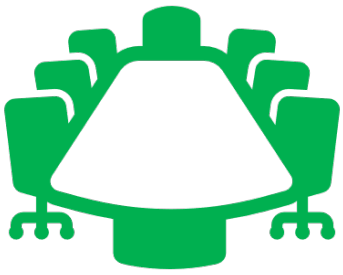
Environmental

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 months ended March 31, 2023 and 2022, presented below, has been derived from BSMH's internal financial information. This document is incorporated herein by reference and is available for review on the Electronic Municipal Market Access ("EMMA") website operated by the Municipal Securities Rulemaking Board ("MSRB"). In conformity with U.S. generally accepted accounting principles, the consolidated financial statements and this Management's Discussion and Analysis include the financial position, results of operations, changes in net assets and cash flows of Bon Secours Mercy Health, HealthSpan Partners and subsidiaries. Information as of and for the three months ended March 31, 2023 and 2022, is consistent with the presentation of BSMH's unaudited financial statements.

OVERVIEW OF SIGNIFICANT TRANSACTIONS

On January 5, 2023, the Company completed the issuance of $171.2 million (€160.0 million) of 4.24% Senior Secured Notes due October 1, 2052, to institutional private purchasers. The proceeds of these notes will be used for construction of a new hospital in Limerick, Ireland and for general corporate purposes.

On February 16, 2023, the company entered into a 10-year taxable term loan agreement with a financial institution in the amount of $100.0 million. The proceeds of this borrowing will be used for general corporate purposes.

FINANCIAL HIGHLIGHTS AND SUMMARY

During the three months ended March 31, 2023, BSMH experienced continued improvement in patient volumes compared to the same period of the prior year. Outpatient volumes saw the greater improvement and largely returned to historical pre-pandemic levels. Inpatient volumes also improved significantly compared to prior year. The positive impacts from these volume improvements during the first quarter of 2023 were partially offset by increased operating expenses, unfavorable commercial payor mix and declining acuity. Operating expense increases for the three months ended March 31, 2023 were driven by the increase in patient volumes, sustained national labor shortages and a high inflationary environment. Operating EBITDA and recurring operating income for the three months ended March 31, 2023, declined compared to the prior year, largely due to CARES Act stimulus totaling $78.6 million that was recognized during the first quarter of 2022. Excluding this prior year stimulus, operating EBITDA margin improved to 3.9% for the three months ended March 31, 2023, up from 1.7% in the same period of the prior year. BSMH saw an improvement in the investment markets in the first quarter of 2023, which resulted in an increase of investment income, compared to prior year.

Management continues to take proactive actions to manage these evolving financial and operational challenges 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

($s in thousands)	Three Months Ended March 31,					
	2023		2022			
	As reported		As reported		Excluding stimulus[1]	
	Amount	*Margin*	Amount	*Margin*	Amount	*Margin*
Net operating revenue	**$2,951,372**		**$2,777,251**		**$2,698,688**	
Operating EBITDA	**$116,283**	*3.9%*	**$123,244**	*4.4%*	**$44,680**	*1.7%*
Recurring operating (loss)	**($59,354)**	*(2.0%)*	**($28,050)**	*(1.0%)*	**($50,514)**	*(4.0%)*
Excess (Deficit) of revenue over expenses	**$85,089**	*2.7%*	**($332,587)**	*(13.5%)*	**($411,151)**	*(15.2%)*

[1] Adjusted to exclude stimulus revenue of $78.6 million from the U.S. CARES Act for the three months ended March 31, 2022. No stimulus revenue was recognized for the three months ended March 31, 2023.

Net operating revenue grew by $174.1 million or 6.3% for the three months ended March 31, 2023, compared to the prior year. The growth in net operating revenue was attributable to growth in net patient revenue from increased patient volumes and revenue from the acquired Nordic operations effective June 1, 2022 ($94.4 million for the three months ended March 31, 2023, compared to $0 for the same period in prior year). For the three months ended March 31, 2023, there was no stimulus revenue recorded, down from $78.6 million recorded in other operating revenue in the prior year. Operating EBITDA of $116.3 million (margin 3.9%) was lower for the three months ended March 31, 2023, when compared to the prior year, primarily due to the stimulus revenue in 2022. Excluding the stimulus revenue of $78.6 million in prior year, operating EBITDA margin was 3.9%, up from 1.7% during the same period of the prior year. This improvement was largely driven by improved volumes and the positive impacts from run-rate improvement efforts. Recurring operating loss of $59.4 million (margin -2.0%) was larger than the recurring operating loss recorded during the prior year, primarily due to the stimulus revenue in prior year. Excess of revenue over expenses was $85.1 million (margin 2.7%) for the three months ended March 31, 2023, improved over the prior year due to investment gains recognized during the first quarter of 2023 versus investment losses during the first quarter of 2022.

($s in thousands)	Three Months Ended March 31,			
	2023		2022	
	Amount	*% of Exp*	Amount	*% of Exp*
Community Benefit	**$167,869**	*5.6%*	**$144,569**	*5.2%*

Community benefit fulfills 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 three months ended March 31, 2023, community benefit totaled $167.9 million or 5.6% of total operating expenses, an increase over prior year.

LIQUIDITY AND KEY PERFORMANCE INDICATORS

	March 31, 2023	December 31, 2022
Days cash on hand	**235**	240
Unrestricted cash to debt	**145.2%**	154.5%
Total debt to capitalization	**38.0%**	37.0%
Pension funding	**95.7%**	96.3%

The Company's balance sheet remains strong with stable leverage and solid liquidity from December 31, 2022 to March 31, 2023. Days cash on hand decreased from 240 days at December 31, 2022 to 235 days at March 31, 2023 as a result of capital expenditures, net working capital changes and growth in a day of cash expenses. For the three months ended March 31, 2023, capital expenditures were $152.2 million (5 days) and net working capital changes decreased days cash on hand by 11 days. There was a net increase in debt of $273.9 million (9 days) which partially offset the cash outflows. The Company's debt to capitalization ratio was 38.0% at March 31, 2023, an increase from 37.0% at December 31, 2022, driven by an increase in long-term debt. Pension funding was at 95.7% as of March 31, 2023, down from 96.3% as of December 31, 2022, due to an increase in liabilities that was driven by a decrease in the discount rate.

VOLUME TRENDS

As Reported	Three months ended March 31,		
	2023	2022	Change %
Admissions	**88,819**	80,815	9.9%
Observations	**15,811**	15,708	0.7%
Deliveries	**6,533**	6,719	(2.8%)
Inpatient Surgeries[1]	**18,121**	16,447	10.2%
Outpatient Surgeries[1]	**55,168**	49,507	11.4%
ER Visits	**378,814**	342,647	10.6%
Physician Visits	**1,813,658**	1,754,990	3.3%

[1]The prior period volumes have been recast to reflect alignment of the statistics across BSMH entities.

Volumes for the three months ended March 31, 2023 improved when compared to the same period of the prior year, as volumes were negatively impacted by a COVID-19 Omicron surge in January and February 2022. Emergency room visits have shown improvement from prior year with an increase of 10.6%, for the three months ended March 31, 2023, compared to the prior year. Admissions and inpatient surgeries for 2023 have increased significantly compared to the prior year, and physician visits increased 3.3% for the three months ended March 31, 2023, compared to the prior year.

RESULTS OF OPERATIONS

($s in thousands)	Three Months Ended March 31,	
	2023	2022
Net Patient Service Revenue	$2,674,978	$2,564,281
Other Operating Revenue [(1)]	276,394	212,970
Net Operating Revenue	2,951,372	2,777,251
Employee Compensation	1,524,665	1,476,011
Purchased Services and Other	703,671	651,833
Pharmaceuticals & Supplies	608,040	528,146
Depreciation and Amortization	129,253	117,578
Interest Expense	45,097	31,733
Recurring Operating Loss	(59,353)	(28,050)
Nonrecurring (Losses) Gains, Net	(606)	581
Investment Gains (Losses), Net	163,261	(366,668)
Interest Rate Swap Agreements (Losses) Gains	(4,234)	21,888
Other Nonoperating (Losses) Gains, Net	(13,978)	39,662
Excess (Deficit) of Revenue Over Expenses	$85,089	($332,587)

[1] Other Operating Revenue includes stimulus revenue of $0 and $78.6 million from the U.S. CARES Act for the three months ended March 31, 2023 and 2022, respectively.

NET OPERATING REVENUE

Net operating revenue increased by $174.1 million or 6.3% for the three months ended March 31, 2023, compared to the prior year. Net patient service revenue increased by $110.7 million or 4.3% for the three months ended March 31, 2023, when compared to the same period of the prior year. The growth in net patient revenue was primarily due to higher outpatient and inpatient volumes for the three months ended March 31, 2023, reflecting a continued recovery from the significant negative impact of the COVID-19 pandemic on operations in the first three months of the prior year.

Other operating revenue increased $63.4 million or 29.8% for the three months ended March 31, 2023, compared to the prior year, largely driven by revenue from the acquired Nordic operations. Nordic contributed $94.4 million in other operating revenue for the three months ended March 31, 2023. There was no stimulus revenue recorded for the three months ended March 31, 2023, down from $78.6 million in the prior year.

OPERATING EXPENSES

Total operating expenses were $3.0 billion for the three months ended March 31, 2023, an increase of $205.4 million or 7.3% from the same period of the prior year. Employee compensation increased $48.7 million or 3.3% from the prior year, due to nationwide wage pressures, increased retention programs to adequately staff for patient needs as well as employment expenses related to the acquired Nordic operations. The compensation expense increase was partially offset by reductions in agency labor cost as a result of run-rate improvement efforts. For the three months ended March 31, 2023, pharmaceuticals and supplies expense as a percentage of net patient service revenue was 22.7%, compared to 20.6% for the same period of the prior year. The increase in supplies expense was due to an increase in patient volumes during the first quarter of 2023. For the three months ended March 31, 2023, purchased services and other expenses as a percentage of net patient service revenue was 26.3%, an increase from 25.4% in prior year due to inflation. In addition to direct patient care expenses, BSMH incurred incremental costs to protect against the spread of the COVID-19 infection and to care for those suffering with the virus. There was a total of $7.2 million in incremental COVID-19 expenses for the three months ended March 31, 2023, down from $29.2 million for the three months ended March 31, 2022, as BSMH continues to respond to the COVID-19 pandemic.

NONOPERATING GAINS AND LOSSES, NET

Due to the rebound of the investment markets in the first quarter of 2023, investment gains, including unrealized gains and losses, were $163.3 million for the three months ended March 31, 2023, compared to losses of $366.7 million for the three months ended March 31, 2022. The combined operating portfolios ($6.1 billion) returned 2.6% for the three months ended March 31, 2023. The loss on interest rate swap agreements was $4.2 million for the three months ended March 31, 2023, compared to a gain of $21.9 million for the same period of 2022.

BON SECOURS MERCY HEALTH

Consolidated Financial Statements

(Unaudtied)

For the Three Months

Ended

March 31, 2023 and 2022

BON SECOURS MERCY HEALTH

Consolidated Financial Statements (Unaudited)

Three Months ended March 31, 2023 and 2022

BON SECOURS MERCY HEALTH

Consolidated Balance Sheets

March 31, 2023 (Unaudited) and December 31, 2022

(In thousands)

Assets	March 31, 2023	December 31, 2022
Current assets:		
Cash and cash equivalents	$ 327,598	506,242
Investments	11,982	35,233
Self-insurance and trustee held funds	80,350	88,078
Donor restricted funds	5,951	5,605
Total cash and investments	425,881	635,158
Net patient receivables	1,172,483	1,137,675
Other receivables	241,511	229,501
Inventories	274,916	272,657
Prepaid expenses and other current assets	235,974	224,275
Total current assets	2,350,765	2,499,266
Assets whose use is limited:		
Board designated funds	6,817,974	6,653,603
Self-insurance and trustee held funds	329,194	304,497
Donor restricted funds	53,127	49,862
Total assets whose use is limited	7,200,295	7,007,962
Property and equipment, net	4,853,898	4,807,638
Investments in unconsolidated organizations	550,799	549,408
Operating lease right-of-use assets	344,227	325,813
Retirement assets	180,080	178,337
Goodwill	584,649	574,113
Other long-term assets	507,597	498,516
Total assets	$ 16,572,310	16,441,053
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 666,149	700,357
Current portion of long-term debt	559,727	559,284
Accrued salaries, wages and benefits	381,028	651,533
Current portion of operating lease liabilities	76,355	77,573
Other accrued expenses	356,960	334,148
Total current liabilities	2,040,219	2,322,895
Long-term debt, less current portion	4,370,711	4,097,970
Retirement liabilities	260,536	265,842
Self-insurance liabilities	334,229	323,829
Operating lease liabilities	290,188	269,433
Other long-term liabilities	564,394	542,890
Total liabilities	7,860,277	7,822,859
Net assets without donor restrictions:		
Controlling interest	8,022,159	7,943,628
Noncontrolling interest	422,414	416,939
Total net assets without donor restrictions	8,444,573	8,360,567
Net assets with donor restrictions	267,460	257,627
Total net assets	8,712,033	8,618,194
Total liabilities and net assets	$ 16,572,310	16,441,053

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statements of Operations

(In thousands)

	Three months ended March 31,	
	2023	**2022**
Revenues:		
Net patient service revenue	$ 2,674,978	2,564,281
Other revenue, net	276,394	212,970
Total operating revenues	2,951,372	2,777,251
Expenses:		
Employee compensation	1,524,665	1,476,011
Purchased services and other	703,671	651,833
Supplies	608,040	528,146
Depreciation and amortization	129,253	117,578
Interest expense	45,097	31,733
Total operating expenses	3,010,726	2,805,301
Recurring operating loss	(59,354)	(28,050)
Nonrecurring operating (losses) gains, net	(606)	581
Operating loss	(59,960)	(27,469)
Nonoperating gains (losses), net:		
Investment gains (losses)	163,261	(366,668)
Realized and unrealized interest rate swap agreements (losses) gains	(4,234)	21,888
Other nonoperating activities, net	(13,978)	39,662
Excess (deficit) of revenue over expenses	$ 85,089	(332,587)

See accompanying notes to consolidated financial statements.

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

	Controlling interest	Noncontrolling interest	Net assets without donor restrictions	Net assets with donor restrictions	Total net assets
Balance at December 31, 2021	$ 8,726,705	840,784	9,567,489	283,518	9,851,007
Deficit of revenues over expenses	(1,147,293)	(57,491)	(1,204,784)	—	(1,204,784)
Grants and contributions	15,020	7,005	22,025	51,558	73,583
Investment losses	—	—	—	(23,084)	(23,084)
Net assets released from restrictions	15,488	—	15,488	(52,407)	(36,919)
Transfer of interest from noncontrolling interest owners	318,174	(364,001)	(45,827)	—	(45,827)
Distributions to noncontrolling interest owner	—	(16,112)	(16,112)	—	(16,112)
Pension and other postemployment changes	40,865	—	40,865	—	40,865
Other changes, net	(25,331)	6,754	(18,577)	(1,958)	(20,535)
Decrease in net assets	(783,077)	(423,845)	(1,206,922)	(25,891)	(1,232,813)
Balance at December 31, 2022	$ 7,943,628	416,939	8,360,567	257,627	8,618,194
Excess of revenues over expenses	78,999	6,090	85,089	—	85,089
Grants and contributions	1,882	—	1,882	15,895	17,777
Investment gains	—	—	—	2,584	2,584
Net assets released from restrictions	245	—	245	(8,951)	(8,706)
Distributions to noncontrolling interest owner	—	(3,971)	(3,971)	—	(3,971)
Other changes, net	(2,595)	3,356	761	305	1,066
Increase in net assets	78,531	5,475	84,006	9,833	93,839
Balance at March 31, 2023	$ 8,022,159	422,414	8,444,573	267,460	8,712,033

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statements of Cash Flows

(In thousands)

	Three months ended March 31,	
	2023	**2022**
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 93,839	(384,575)
Depreciation and amortization	129,254	117,578
Amortization of premium on issued debt securities	(3,599)	(3,478)
Other changes in net assets, net	(7,619)	(264)
Contributions restricted by donor	(15,895)	(12,097)
Net losses (gains) on investments	(140,656)	383,296
Cash (used in) provided by changes in operating assets and liabilities:		
Current assets	(58,847)	(92,863)
Long-term assets	(10,789)	5,827
Accelerated Medicare Payments Program	—	(107,562)
Other current liabilities	(306,398)	(145,883)
Long-term liabilities	32,789	2,738
Net cash used in operating activities	(287,921)	(237,283)
Cash flows from investing activities:		
Property and equipment additions, net of disposals	(152,218)	(121,303)
Purchase of alternative investments and other securities	(50,053)	(123,683)
Sales of alternative investments and other securities	30,989	60,717
Investments and assets whose use is limited, net	(1,980)	403,741
Net cash (used in) provided by investing activities	(173,262)	219,472
Cash flows from financing activities:		
Restricted contributions	15,895	12,097
Purchase of interest from noncontrolling interest owners	—	(40,000)
Distributions to noncontrolling interest	(3,971)	(4,256)
Proceeds from debt issuance	274,016	5,582
Repayment of long-term debt	(11)	(7)
Repayment of finance lease	(3,275)	(3,451)
Cost of long-term debt issuance	(191)	—
Net cash provided by (used in) financing activities	282,463	(30,035)
Effect of exchange rates on cash and cash equivalents	76	(31)
Net decrease in cash and cash equivalents	(178,644)	(47,877)
Cash and cash equivalents, beginning of the year	506,242	402,402
Cash and cash equivalents, end of the period	$ 327,598	354,525

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation

(a) Organizational Structure and Mission

Bon Secours Mercy Health (BSMH or the Company) is a nonprofit, nonstock membership Catholic health organization, supervising market delivery consisting of hospitals, physician clinics, and other organizations providing health-related services. BSMH is sponsored by partners in Bon Secours Mercy Ministries (BSMM). BSMM is a public juridic person of the Roman Catholic Church. BSMH provides management direction to its Core and Digital business units to carry out the mission, vision, and values of BSMH. The Core business is focused on the delivery of patient care and encompasses clinical operations within Florida, Kentucky, Maryland, Ohio, South Carolina, Virginia, New York and Ireland. The Digital business is focused on research, innovation and digital strategy in the healthcare industry. The mission of the Company is to extend the compassionate ministry of Jesus by improving the health and well-being of our communities and bring good help to those in need, especially people who are poor, dying and underserved.

The consolidated financial statements include the accounts of all members of the corporate group controlled by BSMH. As required, in conformity with U.S. generally accepted accounting principles (GAAP), the consolidated financial statements include the balance sheets, results of operations and changes in net assets, and cash flows of BSMH. 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 statements of operations. All material intercompany transactions and account balances have been eliminated in consolidation.

(2) Significant Accounting Policies

(a) Cash and Cash Equivalents

The Company considers highly liquid investments with a maturity of 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, securities on loan under securities lending 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.

(Continued)

The Company participates in securities lending arrangements with its custodian whereby the Company lends a portion of its marketable securities to various brokers or financial institutions in exchange for cash or non-cash collateral for the marketable securities loaned, usually on a short-term basis. The initial collateral provided by brokers or financial institutions is maintained at levels of at least 100% of the fair value of the marketable securities on loan and is adjusted for market fluctuations. The Company maintains effective control of the loaned marketable securities through its custodian during the term of the arrangement in that they or similar securities may be recalled at any time. Under the terms of the arrangement, the borrower must return the same, or substantially the same, marketable securities that were borrowed. Cash collateral received in connection with the securities lending arrangements is invested in a short-term pooled fund (Pooled Fund) maintained by the Company's custodian (State Street Bank and Trust Company).

The fair value of cash collateral held for loaned marketable securities is reported as assets whose use is limited under securities lending arrangements under self-insurance and trustee held funds on the consolidated balance sheets. The Company is required to fund any decline in the underlying market value of invested collateral below the initial amount provided by the various brokers or financial institutions upon exit from the securities lending arrangements. A corresponding payable is reported for repayment of such collateral upon settlement of the securities lending arrangements.

Unrealized gains or losses on trading securities are included in investment (losses) gains on the consolidated statements of operations. As of March 31, 2023 and 2022, 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.

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% of net patient receivables as of March 31, 2023 and December 31, 2022, while the Medicaid program represented 9% as of March 31, 2023 and December 31, 2022. Excluding the Medicare and Medicaid programs, no one other payor represents more than 10% of the Company's net patient receivables as of March 31, 2023, or December 31, 2022.

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

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

The Company's net patient service revenues during the three months ended March 31, 2023 and 2022 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:

	2023		2022	
Commercial and other third party	$ 1,189,616	44.5 %	1,113,220	43.4 %
Medicare	999,130	37.3	964,844	37.6
Medicaid	419,277	15.7	425,554	16.6
Other governmental	53,039	2.0	45,937	1.8
Self-pay	13,916	0.5	14,726	0.6
Total	$ 2,674,978	100.0 %	2,564,281	100.0 %

(e) Inventories

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

(f) Property and Equipment, Net

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

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

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

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

The cost and related accumulated depreciation of property and equipment that is sold or retired is removed from the respective accounts and the resulting gain or loss is recorded in nonrecurring operating losses, net.

(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(o)).

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

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

(h) Asset Impairment

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

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

(i) Investments in Unconsolidated Organizations

The Company maintains noncontrolling interests in various joint ventures and other companies that do not require consolidation. The majority of these investments are accounted for using the equity method of accounting, as the Company has significant influence, but does not have control, over the operating and financial policies of the investee. The Company classifies distributions from an investee on the cashflow statement by evaluating the facts, circumstances and nature of each distribution. Investments in unconsolidated organizations are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the investment might not be recoverable.

(j) Retirement Assets and Liabilities

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

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

(k) Other Long-Term Assets

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

		March 31, 2023	December 31, 2022
Right-of-use assets – finance	$	219,558	207,597
Other intangibles, net		168,203	173,350
Other		70,968	68,684
Notes and other long term receivables		48,868	48,885
Total other long-term assets	$	507,597	498,516

(l) Goodwill

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

The following is the carrying amount and changes in the carrying amount of goodwill as of:

		March 31, 2023	December 31, 2022
Goodwill at the beginning of the period	$	574,113	267,904
Goodwill related to acquisitions		10,628	307,261
Other		(92)	(1,052)
Goodwill at the end of the period	$	584,649	574,113

(m) Accrued Claims Expense and Related Liabilities

Accrued claims expense and related liabilities consist of insurance reserves and unpaid 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. The current portion and long-term portion of accrued claims and related liabilities are recorded in other accrued expenses and self-insurance liabilities, respectively, in the accompanying consolidated balance sheets.

(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 as receivables in other long-term assets. Should the Company's reinsurers be unable to reimburse the Company for recoverable claims, the Company would still be liable to pay the claims; however, the Company contracts with various highly rated insurance carriers to mitigate this risk.

(ii) Professional Liability and General Insurance

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

(iii) Workers Compensation Insurance

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

(iv) Employee Health Insurance

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

(n) 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 be met either by satisfying a specific purpose, passage of time and/or are 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.

(o) Other Long-Term Liabilities

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

		March 31, 2023	December 31, 2022
Lease liabilities – finance	$	337,910	323,889
Supplemental executive retirement plan liability		94,671	93,590
Other		76,369	73,860
Deferred income tax liability		29,864	29,844
Derivative instrument (note 9)		25,580	21,707
Total other long-term liabilities	$	564,394	542,890

(p) Other Revenue

Other operating revenues include income from equity investments in joint ventures (note 15), professional services contract revenue from Digital business, 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.

(q) 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.

(ii) 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.

(iii) 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.

(r) Recurring Operating Loss

Recurring operating loss includes financial results of operating entities, but excludes certain nonrecurring activities such as restructuring, asset impairments, transaction costs for mergers and acquisitions and gains/losses on operating asset sales/disposals.

(s) Performance Indicator

The consolidated statement of operations includes the caption excess (deficit) 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 (deficit) 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.

(t) Income Taxes

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

The Company accounts for uncertain tax positions in accordance with ASC Topic 740, Income Taxes. The Company accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company has determined that no significant unrecognized tax benefits or liabilities exist as of three months ended March 31, 2023 and 2022.

Accounting for uncertainty in income taxes, ASC Topic 740-10 prescribes a comprehensive model for how an organization should measure, recognize, present and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. The Company is subject to routine audits by taxing jurisdictions. There are no current audits in progress. As of three months ended March 31, 2023 and 2022, the Company has no uncertain tax positions.

The Company's taxable subsidiaries had $280,562 and $282,807 federal and state net operating loss carryforwards as of March 31, 2023 and December 31, 2022, respectively, which are available to offset future taxable income subject to various limitations. The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be in effect during the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Interest and penalties related to income taxes are accounted for as income tax expense. The Company has placed a partial valuation allowance of $257,689 and $259,934 on the deferred tax assets as of March 31, 2023 and December 31, 2022, respectively. When determining the valuation allowance for deferred tax assets, the Company annually considers whether it is more likely than not the deferred tax assets will or will not be utilized in future periods. There was a decrease in the valuation allowance of $2,245 and $9,178 as of March 31, 2023 and December 31, 2022, respectively.

(u) 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 $2,774 and $1,157 for the three months ended March 31, 2023 and 2022, respectively.

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

(v) 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. Significant items subject to such estimates and assumptions include, but are not limited to: contractual revenue adjustments, fair value of acquired assets and liabilities in business combinations, fair value of investments, risk and assumptions for measurement of pension liabilities and evaluation of long-lived assets for impairment. Management relies on historical experience and other assumptions believed to be reasonable in making its judgements and estimates. Actual results could differ materially from those estimates.

(w) 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 on the consolidated financial position or results of operations of the Company.

(3) Coronavirus (COVID-19)

The Company did not receive any funds through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and related state grant programs for the three months ended March 31, 2023. For the three months ended March 31, 2022, the Company received $80,464 in funds.The funds were accounted for as government grants and recognized in operating revenue as the Company substantially met the terms and conditions required to retain the funds. Approximately $78,563 was recognized in other revenue, net within the consolidated statements of operations, for the three months ended March 31, 2022.

(4) Community Benefits

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 the three months ended March 31:

		2023	2022
Charitable services and other community benefits:			
Traditional charity care	$	19,834	24,896
Unpaid costs of public programs		117,662	90,647
Community health services		4,875	4,588
Health professional education		16,552	15,215
Subsidized health services		7,034	6,708
Financial and in-kind donations		836	903
Community building activities		155	952
Community benefit operations		820	559
Research		101	101
Total quantifiable community benefits	$	167,869	144,569
Percent of total recurring expenses		5.6 %	5.2 %

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.

(Continued)

(5) Investments and Assets Whose Use is Limited

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

	March 31, 2023	December 31, 2022
Board designated funds:		
Cash and cash equivalents	$ 252,974	421,991
Equity mutual funds	735,526	610,162
Equity commingled funds	686,160	724,992
Common and preferred stocks	723,914	735,532
Fixed income mutual funds	25,509	25,108
Fixed income commingled funds	231,189	243,457
Government and agency securities	867,357	811,487
Corporate obligations	968,004	753,959
Alternative investments	2,327,341	2,326,915
	6,817,974	6,653,603
Self-insurance and trustee held funds:		
Cash and cash equivalents	100,633	107,403
Equity mutual funds	205,326	188,611
Government and agency securities	61,278	62,890
Corporate obligations	42,307	33,671
	409,544	392,575
Donor restricted funds:		
Cash and cash equivalents	12,604	10,616
Equity mutual funds	9,065	8,398
Equity commingled funds	9,365	8,843
Common and preferred stocks	3,023	2,853
Fixed income mutual funds	4,282	4,246
Fixed income commingled funds	931	931
Alternative investments	19,808	19,580
	59,078	55,467

(Continued)

		March 31, 2023	December 31, 2022
Investments:			
Cash and cash equivalents	$	9,002	32,312
Corporate obligations		2,980	2,921
		11,982	35,233
Investments and assets whose use is limited		7,298,578	7,136,878
Available for current liabilities		(98,283)	(128,916)
Long-term assets limited or restricted as to use	$	7,200,295	7,007,962

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

The following is a summary of nonoperating investment gains (losses), for the three months ended March 31:

		2023	2022
Dividends and interest	$	22,513	16,628
Net realized gains on securities		31,644	59,661
Net change in unrealized gains (losses) on securities		109,104	(442,957)
	$	163,261	(366,668)

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 excess (deficit) of revenues over expenses. Because of this designation as a trading portfolio, management anticipates fluctuations in excess of revenues over expenses. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit as of March 31, 2023 and December 31, 2022.

(Continued)

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.

(Continued)

Nonrecurring Fair Value Measurements

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

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

(Continued)

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

		Fair value measurements at March 31, 2023 using		
	Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 327,598	327,598	—	—
Investments:				
Cash and cash equivalents	9,003	9,003	—	—
Corporate obligations	2,979	—	2,979	—
	11,982	9,003	2,979	—
Assets limited or restricted as to use:				
Cash and cash equivalents	366,210	366,210	—	—
Equity mutual funds	949,917	467,070	482,847	—
Equity commingled funds	695,525	550,718	78,311	66,496
Common and preferred stocks	709,157	709,157	—	—
Fixed income commingled funds	232,120	160,595	71,525	—
Government and agency securities	928,635	347,997	580,638	—
Corporate obligations	1,010,312	—	1,010,312	—
Fixed income mutual funds	29,791	29,791	—	—
Cash and assets limited or restricted as to use	5,261,247	2,968,139	2,226,612	66,496
Assets whose use is limited under securities lending arrangements	17,780	17,780	—	—
Total cash and assets limited or restricted as to use	$ 5,279,027	2,985,919	2,226,612	66,496
Liabilities:				
Interest rate swaps	$ 25,580	—	—	25,580
Total liabilities	$ 25,580	—	—	25,580

(Continued)

	Fair value	Fair value measurements at December 31, 2022 using Level 1	Level 2	Level 3
Cash and cash equivalents	$ 506,242	506,242	—	—
Investments:				
Cash and cash equivalents	32,312	32,312	—	—
Corporate obligations	2,921	—	2,921	—
	35,233	32,312	2,921	—
Assets limited or restricted as to use:				
Cash and cash equivalents	540,010	540,010	—	—
Equity mutual funds	807,171	354,406	452,765	—
Equity commingled funds	733,835	591,090	76,554	66,191
Common and preferred stocks	712,884	712,884	—	—
Fixed income commingled funds	244,388	174,546	69,842	—
Government and agency securities	874,377	327,284	547,093	—
Corporate obligations	787,630	—	787,630	—
Fixed income mutual funds	29,354	29,354	—	—
Cash and assets limited or restricted as to use	5,271,124	3,268,128	1,936,805	66,191
Assets whose use is limited under securities lending arrangements	25,501	25,501	—	—
Total cash and assets limited or restricted as to use	$ 5,296,625	3,293,629	1,936,805	66,191
Liabilities:				
Interest rate swaps	$ 21,707	—	—	21,707
Total liabilities	$ 21,707	—	—	21,707

Following is the summary of the inputs and valuation techniques utilized to value Level 2 financial instruments as of March 31, 2023 and December 31, 2022:

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

(Continued)

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

		March 31, 2023	December 31, 2022
Beginning balance	$	66,191	59,104
Purchases		438	12,306
Sales		(81)	—
Impairment loss		—	(5,169)
Realized and unrealized losses		(52)	(50)
Ending balance	$	66,496	66,191

Investments for which fair value is measured using the Net Asset Value (NAV) as a practical expedient are excluded from the fair value hierarchy in accordance with ASU No. 2015-07, *Fair Value Measurement (Topic 820)*. For the three months ended March 31, 2023 and year ended December 31, 2022, investments measured at NAV consist of fixed income commingled funds and alternative investments. The fixed income commingled investment funds are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of the fair value of the commingled investments funds as of March 31, 2023 and December 31, 2022, 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.

(Continued)

The following table summarizes the investments measured at NAV, committed capital and associated redemptions as of March 31, 2023:

	Investments measured at NAV	Committed capital	Redemption frequency	Redemption notice period
Fixed income commingled funds	$ 47,824	—	Monthly	10 days
Alternative investments:				
Private Investments	1,399,468	687,343	N/A	N/A
Hedge funds	899,857	—	Monthly, Quarterly, Annually	2 to 180 days
	$ 2,347,149	687,343		

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

	Investments measured at NAV	Committed capital	Redemption frequency	Redemption notice period
Fixed income commingled funds	$ 46,790	—	Monthly	10 days
Alternative investments:				
Private Investments	1,394,886	707,668	N/A	N/A
Hedge funds	904,819	—	Monthly, Quarterly, Annually	2 to 180 days
	$ 2,346,495	707,668		

There were no non-redeemable investments as of March 31, 2023 and December 31, 2022.

Categorization of alternative investments with respect to investee strategies and redemptions for those funds whose fair value is estimated based on 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.

(7) Property and Equipment, Net

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

	March 31, 2023	December 31, 2022
Land	$ 527,886	528,255
Land improvements	119,021	118,230
Buildings and fixed equipment	4,881,394	4,840,921
Movable equipment	4,558,947	4,513,926
Leasehold improvements	243,873	242,210
	10,331,121	10,243,542
Less accumulated depreciation	(6,114,361)	(5,996,702)
	4,216,760	4,246,840
Construction in progress	637,138	560,798
	$ 4,853,898	4,807,638

As of March 31, 2023 and December 31, 2022, the Company is contractually obligated for construction projects totaling $202,666 and $215,667 at current construction cost levels. It is expected that these costs will be incurred in the next twelve months. The Company will finance these construction projects through the use of tax-exempt bond obligations proceeds, assets whose use is limited and operating cash flow. Depreciation expense for the Company was $114,881 and $114,539 for the three months ended March 31, 2023 and 2022, respectively.

(8) Long-Term Debt

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

Long-term debt	Coupon rates	Maturity through	March 31, 2023	December 31, 2022
Master trust indenture obligations:				
Fixed rate Hospital Facilities Revenue and Revenue Refunding and Improvement Bonds:				
MH Series 2015A term bonds	4.00-5.00	2045	159,205	159,205
MH Series 2015C taxable bonds	3.38	2025	150,000	150,000
MH Series 2017A serial and term bonds	3.00-5.00	2047	416,405	416,405
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	664,580	664,580
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	190,775
Adjustable rate Hospital Facilities Revenue and Revenue Refunding and Improvement Bonds:				
MH Series 2008 direct placement (DP) bonds	0.79-3.94	2031	109,400	109,400
MH Series 2010C/D demand and DP bonds	0.37-4.88	2034	152,900	152,900
MH Series 2012B demand bonds	0.05-4.70	2036	100,000	100,000
Bon Secours Series 2017 (SC) DP bonds	.95-4.83		69,925	69,925
MH Series 2018AB commercial paper notes	0.11-4.90		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	213,320
2018 TD Bank variable rate taxable term loan	0.68-5.26	2029	150,000	150,000
2018 US Bank variable rate taxable term loan	0.67-5.23	2023	160,000	160,000
2020 JPMorgan fixed rate taxable term loan	1.73	2023	250,000	250,000
2022 Euro private placement	4.24	2052	174,016	—
2023 TD Bank variable rate taxable term loan	5.56-5.67	2033	100,000	—
Revolving Credit Agreement debt outstanding	1.04-5.50	2023	921	463
Total master trust indenture obligations			4,737,341	4,462,867
Ireland variable rate taxable term loan	1.45-3.65	2025	104,156	101,944
Other debt			14,189	13,892
			4,855,686	4,578,703
Original issue net premium			98,772	102,864
Cost of issuance			(24,020)	(24,313)
			4,930,438	4,657,254
Less current portion of long-term debt			(559,727)	(559,284)
Long-term debt, less current portion			$ 4,370,711	4,097,970

(Continued)

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 $104,156.

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 March 31, 2023 and December 31, 2022.

On October 12, 2022, the Company entered into a Note Purchase Agreement for $174,016 (€160,000) of Senior Secured Notes due October 1, 2052, with institutional private purchasers. As of December 31, 2022, there were no proceeds received per agreements. Funding of this Agreement was completed on January 5, 2023. The proceeds of these notes will be used for the construction of a new hospital in Limerick, Ireland and for general corporate purposes.

On February 16, 2023, the Company entered into a 10-year taxable term loan agreement with a financial institution in the amount of $100,000. The proceeds of this borrowing will be used for general corporate purposes.

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 2052 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 some controlled affiliates and certain contractual affiliates to transfer such funds to as necessary to pay amounts due under the MTI. Certain controlled affiliates of the Company have entered into agreements obligating them to make these transfers at the request of the Company.

The Company is subject to certain restrictive covenants under the MTI, revolving credit agreements, reimbursement agreements and irrevocable letters of credit as of March 31, 2023 and December 31, 2022. The Company was in compliance with all restrictive covenants as of March 31, 2023 and December 31, 2022.

The following is a schedule of future minimum payments based on scheduled maturities as of March 31, 2023:

Period		Master trust indenture obligations	European group and other debt
2023	$	459,866	8
2024		55,205	11
2025		254,450	13,570
2026		57,530	104,187
2027		203,810	35
Thereafter		3,706,480	534
Total minimum payments	$	4,737,341	118,345

Interest payments for the three months ended March 31, 2023 and 2022 were $28,786 and $24,263, respectively.

Unamortized debt issuance costs of $24,020 and $24,313 as of March 31, 2023 and December 31, 2022, respectively, represents costs related to the issuance of bond obligations and are being amortized over the terms of the related bond obligations at amounts approximating the effective interest method.

As of March 31, 2023, 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 $253,275 held under direct purchase agreements with financial institutions and $514,156 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 June 2024 to November 2027, and their respective term-out repayment provisions extend beyond the subsequent fiscal year. The Company has recorded variable obligations supported by agreements that expire in 2024 or later 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, 2023. $921 and $463 was outstanding on this agreement as of March 31, 2023 and December 31, 2022.

As of March 31, 2023, current portion of long-term debt consists of $48,945 of principal payments, $410,000 for two term loans which mature within the next year, $100,000 commercial paper notes, $921 on the revolving credit agreement, $(149) of discount on Commercial Paper and $10 of non-master obligation current portion of long-term debt.

(Continued)

(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 March 31, 2023	Notional amount December 31, 2022	Valuation amount March 31, 2023	Valuation amount December 31, 2022
December 2006 JPM	Pay fixed	3.63 %	2033	$ 175,910	188,310	(7,544)	(6,586)
December 2018 Barclays	Pay fixed	3.98	2042	50,000	50,000	(4,411)	(2,744)
December 2018 JPM	Pay fixed	3.72	2047	40,900	40,900	(3,719)	(2,124)
December 2018 PNC	Pay fixed	3.45	2042	69,925	69,925	(8,717)	(7,323)
December 2007 JPM	Constant maturity	N/A	2027	250,000	250,000	(1,632)	(2,365)
August 2018 JPM	Constant maturity	N/A	2037	150,000	150,000	(1,087)	(1,755)
Credit valuation adjustment						1,530	1,190
						$ (25,580)	(21,707)

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 $237 and $4,158 for the three months ended March 31, 2023 and 2022, 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 nonoperating activities, net in the consolidated statements of operations.

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 $4,071 as of March 31, 2023 ($2,450 as of December 31, 2022) 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.

(Continued)

(10) Pension and Postemployment Plans

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

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

	2023	2022	2023	2022
Service cost	$ 535	926	69	129
Interest cost	25,604	19,367	163	103
Expected return on plan assets	(29,224)	(25,840)	—	—
Curtailment/settlement cost	—	2,785	—	—
Amortization of:				
Actuarial loss	331	4,198	—	—
Prior service credit/(cost)	688	1,052	(85)	(5)
Net periodic benefit (income) cost	$ (2,066)	2,488	147	227

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

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

	March 31, 2023	December 31, 2022
Asset category:		
Equity mutual and commingled funds and securities	30 %	24 %
Fixed income mutual funds and securities	49	51
Alternative investments	18	19
Cash	3	6
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

(Continued)

concentrations of credit at the measurement date. The marketable debt securities within plan assets, including mortgage-backed and asset-backed obligations, are actively traded and the fair value reflects current market conditions.

The following is a summary of the plan assets measured at fair value on a recurring basis based on the fair value hierarchy as of March 31, 2023:

			Fair value measurements		
		Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	$	63,751	63,751	—	—
Equity mutual funds		433,463	370,860	62,603	—
Equity commingled funds		71,990	61,000	10,990	—
Common and preferred stocks		99,096	99,096	—	—
Government and agency bonds		256,231	220,181	36,050	—
Corporate obligations		716,647	—	716,647	—
Total investments		1,641,178	814,888	826,290	—
Due from broker/custodian for investment activity, net		17,402	—	17,402	—
Total plan assets	$	1,658,580	814,888	843,692	—

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, 2022:

			Fair value measurements		
		Fair value	Level 1	Level 2	Level 3
Cash and cash equivalents	$	125,418	125,418	—	—
Equity mutual funds		314,102	252,784	61,318	—
Equity commingled funds		67,120	56,408	10,712	—
Common and preferred stocks		95,016	95,016	—	—
Government and agency bonds		272,826	240,543	32,283	—
Corporate obligations		725,113	—	725,113	—
Total investments		1,599,595	770,169	829,426	—
Due from broker/custodian for investment activity, net		9,655	—	9,655	—
Total plan assets	$	1,609,250	770,169	839,081	—

(Continued)

The following table summarizes the alternative investments, committed capital and associated redemptions as of March 31, 2023:

	Investments measured at NAV	Committed capital	Redemption frequency	Redemption notice period
Private Investments	$ 257,279	62,086	N/A	N/A
Hedge funds	97,937	—	Monthly, Quarterly, Annually	2 to 180 days
	$ 355,216	62,086		

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

	Investments measured at NAV	Committed capital	Redemption frequency	Redemption notice period
Private Investments	$ 262,294	66,009	N/A	N/A
Hedge funds	103,737	—	Monthly, Quarterly, Annually	2 to 180 days
	$ 366,031	66,009		

There were no non-redeemable investments as of March 31, 2023 and December 31, 2022.

Categorization of alternative investments with respect to investee strategies and redemptions for those funds whose fair value is estimated based on 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 $20,000 to the defined benefit pension plans and $1,653 to the post-employment benefit plans in 2023. The Company has several defined contribution benefit plans to assist eligible employees in providing for retirement. Under such plans, the Company recognized expense of $52,013 and $52,558 for the three months ended March 31, 2023 and 2022, 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 $349,208 and $354,072 as of March 31, 2023 and December 31, 2022, respectively. The current portion of such accruals, $68,689 and $82,998 as of March 31, 2023 and December 31, 2022, respectively, is included in other accrued expenses, and the remainder, $280,519 and $271,074 as of March 31, 2023 and December 31, 2022, respectively, is included within self-insurance liabilities in the accompanying consolidated balance sheets. Amounts recorded for unpaid claims are based upon the estimated present value of future claim payments and such amounts are undiscounted and based upon an actuarial estimate.

(b) Workers' Compensation Insurance

Accrued workers' compensation claims were $55,178 and $54,423, as of March 31, 2023 and December 31, 2022, respectively. The current portion of such accruals, $1,468 and $1,668 as of March 31, 2023 and December 31, 2022, respectively, is reported as other accrued expenses. The remainder, $53,710 and $52,755, is reported within self-insurance liabilities in the accompanying consolidated balance sheets, which includes estimates for incidents incurred but not reported, as of March 31, 2023 and December 31, 2022, 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 $49,384 and $49,384, include estimates for claims incurred but not reported as of March 31, 2023 and December 31, 2022, 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.

(Continued)

(e) Leases

The Company's leases primarily consist of real estate leases for medical and administrative office buildings. The leases have remaining lease terms of 1 year to 100 years, some of which include options to extend the leases for up to 30 years, and some of which include options to terminate the leases within 1 year. The following is the lease expense for the three months ended March 31:

		2023	2022
Finance lease expense:			
Amortization of ROU assets	$	5,563	1,903
Interest on lease liabilities		3,452	3,336
Operating lease expense		23,759	24,192
Short-term lease expense		7,194	6,571
Variable lease expense		8,327	9,489
Total lease cost	$	48,295	45,491

Commitments related to non-cancellable operating and finance leases for each of the next five years and thereafter as of March 31, 2023 are as follows:

		Operating	Finance
2023	$	68,202	33,288
2024		80,532	29,159
2025		66,283	28,498
2026		50,467	26,652
2027		38,022	26,626
Thereafter		114,087	589,725
Total		417,593	733,948
Less present value discount		(51,050)	(369,188)
Lease liabilities	$	366,543	364,760

(Continued)

Other information is as follows:

	2023	2022
Weighted average remaining lease terms (in years):		
Finance leases	56.17	60.73
Operating leases	6.69	5.94
Weighted average discount rate:		
Finance leases	3.73 %	3.75 %
Operating leases	3.80	3.94

(12) Net Assets with Donor Restrictions

The Company's endowments consist of 357 and 355 individual funds established for a variety of purposes as of March 31, 2023 and December 31, 2022, 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 $88,220 and $85,441 as of March 31, 2023 and December 31, 2022, 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 with donor restrictions. There were deficiencies of $9,219 and $11,060 as of March 31, 2023 and December 31, 2022, respectively. The endowment funds with deficiencies had an original gift value of $75,058 and $75,354 as of March 31, 2023 and December 31, 2022 and a fair value of $65,839 and $64,294 as of March 31,2023 and December 31, 2022. These deficiencies resulted from unfavorable market fluctuations.

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. 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.

(Continued)

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

(13) Functional Expenses

The functional breakdown of expenses incurred by the Company in fulfilling its mission is as follows for the three months ended March 31, 2023:

	Program activities			Supporting activities	
	Healthcare services	Ancillary services and other	Total	General and administrative	Total
Employee compensation	$ 1,136,245	342,213	1,478,458	46,207	1,524,665
Purchased services and other	487,695	97,833	585,528	118,143	703,671
Supplies	523,040	47,275	570,315	37,725	608,040
Depreciation and amortization	88,952	20,509	109,461	19,792	129,253
Interest	4,035	40,418	44,453	644	45,097
Total recurring expenses	$ 2,239,967	548,248	2,788,215	222,511	3,010,726

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

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

(Continued)

(14) Liquidity and Capital Resources

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

	March 31, 2023	December 31, 2022
Cash, cash equivalents and investments	$ 339,580	541,475
Net patient receivables	1,172,483	1,137,675
Assets whose use is limited:		
Board-designated funds	4,424,137	4,260,497
	$ 5,936,200	5,939,647

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 $4,424,137 and $4,260,497 as of March 31, 2023 and December 31, 2022, 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 and Related Party Transactions

The Company has invested in a number of joint ventures, limited liability corporations and other entities to provide specialty healthcare services or engage in other activities. The most significant of these investments are presented below. The Company accounts for its interest in these entities under the equity method of accounting and includes its interest in the excess of revenues over expenses of these entities in its consolidated statement of operations as other revenue.

(a) Ensemble

Ensemble is a Delaware limited liability company providing revenue cycle management and consulting services to hospitals and health systems. As of March 31, 2023, BSMH ownership interest in Ensemble was 41.4%.

During the three months ended March 31, 2023 and 2022, BSMH and Ensemble engaged in various transactions. These transactions were not eliminated because Ensemble is not consolidated. The following is a summary of the related party transactions and balances for the three months ended March 31:

	2023	2022
Revenue cycle management and consulting services provided by Ensemble to BSMH	$ 139,450	124,537
Leased employees, purchased and other services provided to Ensemble by BSMH	(20,987)	(23,280)

BSMH owed Ensemble $49,097 and $57,186 as of March 31, 2023 and December 31, 2022, respectively. BSMH did not have any outstanding receivables from Ensemble as of March 31, 2023 and December 31, 2022, respectively.

(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 the Company 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 Company’s membership interest at fair market value terms upon the occurrence of certain events and dates.

There were no related party transactions between BSMH and Sentara Princess Anne as of March 31, 2023 and December 31, 2022.

(Continued)

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

		March 31, 2023	December 31, 2022
Ensemble	$	442,208	439,587
Sentara Princess Anne		48,240	44,898
Other		60,351	64,923
	$	550,799	549,408

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

		2023	2022
Ensemble	$	15,813	19,313
Sentara Princess Anne		3,342	7,930
Other		(2,070)	(1,141)
	$	17,085	26,102

(16) Subsequent Events

The Company has evaluated and disclosed any subsequent events through May 22, 2023, which is the date the consolidated financial statements were issued and made publicly available.

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 Three Months Ended
March 31, 2023 and 2022
and
For the Twelve Months Ended
December 31, 2022, 2021 and 2020

BON SECOURS MERCY HEALTH

Consolidated Utilization Statistics (Unaudited)

	Three Months Ended March 31,		Twelve Months Ended December 31,		
	2023	2022	2022	2021	2020
Utilization Statistics					
Staffed beds - Acute	6,737	7,487	6,636	7,487	7,487
Staffed beds - Post-acute	940	682	255	1,501	1,890
Admissions - Acute	88,183	79,907	332,668	334,295	316,952
Admissions - Post-acute	636	908	2,726	4,119	3,904
Total Admissions	88,819	80,815	335,394	338,414	320,856
Observations	15,811	15,708	65,734	62,664	62,784
Equivalent Inpatient Admissions	219,808	190,592	826,014	794,283	737,329
Newborn Deliveries	6,533	6,719	27,850	27,849	28,035
Patient days - Acute	397,321	434,159	1,568,813	1,583,629	1,435,967
Patient days - Post-acute	3,136	21,901	38,193	395,949	477,453
Occupancy on staffed beds - Acute	65.5%	64.4%	64.8%	57.9%	52.4%
Total Patient Days	400,457	456,060	1,607,006	1,979,579	1,913,420
Average length of stay - Acute	4.57	5.43	4.72	4.74	4.53
Emergency Room Visits	378,814	342,647	1,529,142	1,452,343	1,331,825
Physician Visits	1,813,658	1,754,990	6,912,128	6,878,752	6,570,832
Inpatient surgeries and medical procedures	18,121	16,447	68,372	68,834	69,921
Outpatient surgeries	55,168	49,507	206,108	202,574	184,169
Full Time Equivalent Employees	54,420	51,781	52,413	51,621	51,019
Institutional case mix index	1.651	1.753	1.667	1.716	1.691
Medicare case mix index	1.756	1.870	1.778	1.825	n/a

Note:
The prior period volumes have been recast to reflect alignment of the statistics across BSMH entities.
Medicare case mix data in 2020 is currently being reviewed for consistency with subsequent periods.

BON SECOURS MERCY HEALTH

Financial Ratios & Analyses

For the Three Months Ended
March 31, 2023 and 2022
and
For the Twelve Months Ended
December 31, 2022, 2021 and 2020

BON SECOURS MERCY HEALTH

Consolidated Financial Analyses (Unaudited)

(Dollars in Thousands)

	Three Months Ended March 31,		Twelve Months Ended December 31,		
	2023	2022	2022	2021	2020
Financial Analyses					
Operating Margin	(2.0%)	(1.0%)	(2.9%)	1.6%	2.4%
Excess Margin	2.7%	(13.5%)	(11.7%)	8.5%	5.9%
Debt Service Coverage - Rolling 12-month Basis [1]	1.09	3.65	1.36	3.93	3.31
Debt Service Coverage YTD [2]	1.70	3.18	1.36	3.93	3.31
based on Maximum Annual Debt Service [3] of:	*$349,544*	*286,931*	*$342,939*	*$280,724*	*$276,352*
adjusted to remove unrealized investments gains (losses) of:	*$109,099*	*($442,957)*	*($1,060,296)*	*$475,957*	*$420,055*
adjusted to remove unrealized swap gains (losses) of:	*($3,873)*	*$28,507*	*$68,000*	*$28,544*	*($24,038)*
adjusted to remove (impairment) charges of:	*($3,852)*	*$25*	*($37,596)*	*($12,819)*	*$43,434*
adjusted to remove disposed assets not in ordinary course of:	*$3,627*	*$875*	*$1,567*	*($45)*	*$189*
adjusted to remove (loss) on early extinguishment of debt of:	*$0*	*$0*	*($328)*	*($152)*	*($29,924)*
** interim periods adjusted for YTD days*					
Operating EBITDA	$116,283	$123,244	$331,411	$780,859	$869,275
Operating EBITDA Margin	3.9%	4.4%	3.0%	7.2%	8.7%
Total Unrestricted Cash [4]	7,157,554	8,574,912	$7,195,078	$9,373,998	$8,731,716
Days Cash on Hand - YTD basis	235	300	240	334	346
Debt to Capitalization	38.1%	33.4%	37.0%	33.4%	37.3%
Debt to Capitalization (per MTI Indebtedness definition) [5]	39.8%	35.2%	38.7%	35.2%	39.2%
Net Patient Revenue per EIPA-CMI Adj	$7,373	$7,674	$7,394	$7,486	$7,195
Total Community Benefit (TCB) Cost [6]	$167,869	$144,569	$644,695	$605,293	$687,517
TCB Cost as a percent of Total Expense [6]	5.6%	5.2%	5.6%	5.7%	7.1%
Net Patient Revenue by Payor Type -					
Medicare - Traditional	19.2%	20.0%	19.6%	20.2%	21.3%
Medicare - Managed	18.1%	17.6%	17.2%	16.2%	15.1%
Medicaid - Traditional	7.2%	7.4%	6.9%	5.9%	4.6%
Medicaid - Managed	8.5%	9.2%	9.0%	9.2%	9.4%
Other Governmental	2.0%	1.8%	1.9%	1.7%	1.8%
Commercial	44.5%	43.4%	44.4%	46.2%	46.7%
Self Pay & Other	0.5%	0.6%	1.0%	0.6%	1.1%
Total Net Patient Revenue by Payor Type	100.0%	100.0%	100.0%	100.0%	100.0%

(1) 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.
MTI covenant compliance is measured on an annual basis based on the Company's fiscal year-end of December 31.

(2) Debt Service Coverage - YTD Basis uses the Master Trust Indenture (Amended and Restated) dated as of December 1, 2017 definition.
Interim periods are calculated using year-to-date factors in this calculation.

(3) 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.

(4) Cash excludes trustee held funds and donor restricted funds.
For interim period reporting, cash expense per day is based on a 12-month rolling average.

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

(6) 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.

Note:
The combination of Mercy Health and Bon Secours Health System Inc. involved the combination of different fiscal year ends. As a result, not all financial measures are available for all historic periods on a comparable basis. Some information shown here is based on pro forma compilation and does not constitute audited financial information. Certain historical information shown below has been adjusted for Discontinued Operations.