

BON SECOURS MERCY HEALTH

Annual Disclosure Information

**Fiscal Year Ended
December 31, 2023**

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

BON SECOURS MERCY HEALTH

Bon Secours Mercy Health, Inc., provides annual disclosure of specified financial information (the “annual disclosure”) in compliance with the Continuing Disclosure Certificates as required by Rule 15c2-12 of the Securities Exchange Act of 1934, as amended. The annual disclosure is related to certain bonds issued for the benefit of the Corporation and secured by the organization’s Master Trust Indenture (Amended and Restated) dated as of December 1, 2017 (the “MTI”). The annual disclosure undertaking is filed with the Municipal Securities Rulemaking Board (“MSRB”) on its Electronic Municipal Market Access (“EMMA”) website.

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

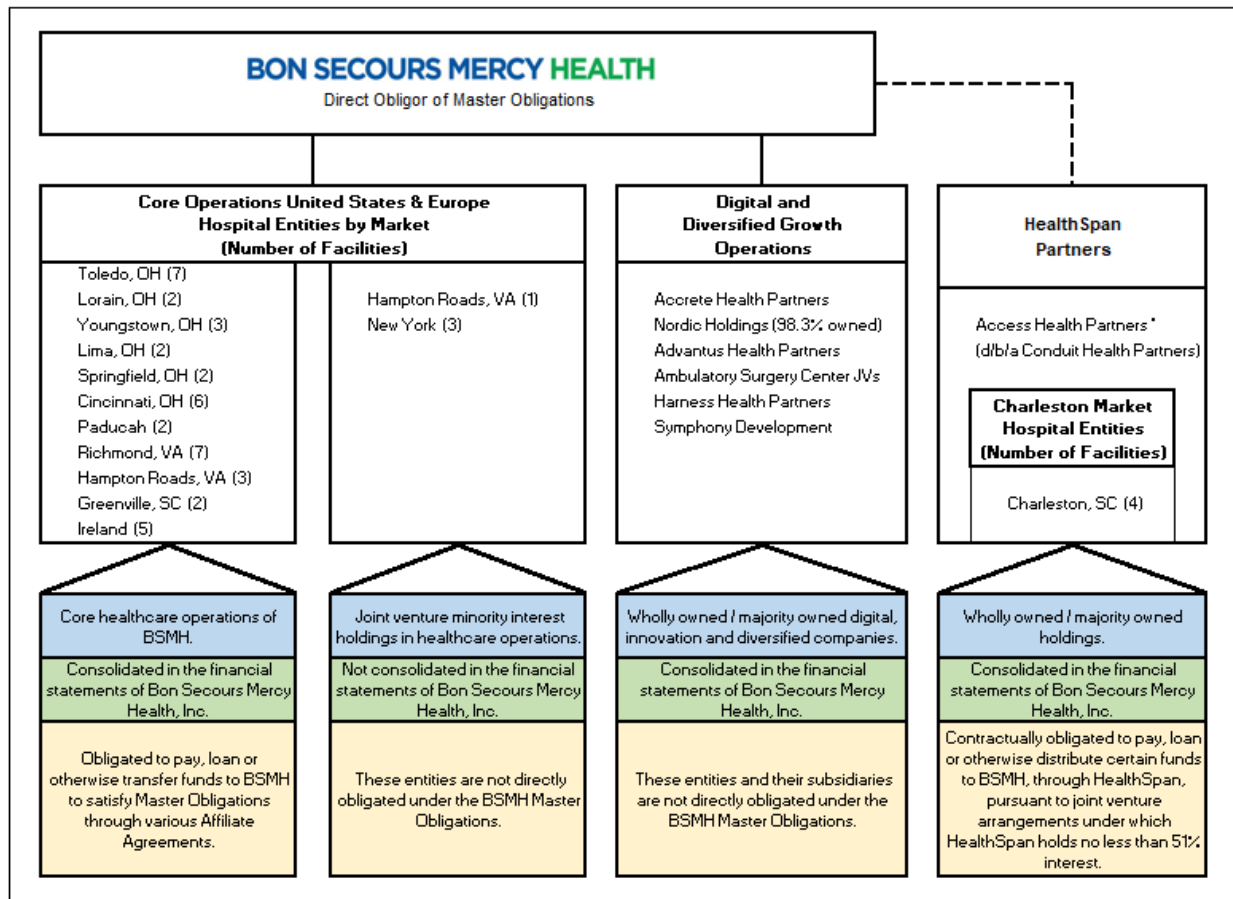
- System Organization and Governance
- System Historical Utilization Data
- System Payer Mix
- Debt Service Coverage
- Debt to Capitalization Ratio
- Consolidated Condensed Balance Sheet Information and Ratios
- Management’s Discussion and Analysis of Recent Financial Performance
- Consolidated Audited Financial Statements
- Providers of Liquidity and Credit Support
- Recent Developments

Throughout this disclosure, reference to “Ireland” refers to five hospitals located in the Republic of Ireland which are consolidated into the BSMH financial statements. Reference to “HealthSpan” refers to an Affiliate corporation that is not a subsidiary of BSMH but is included in the consolidated financial statements of BSMH. Reference to “Ensemble” refers to Ensemble Health Partners, a revenue cycle company in which BSMH sold its majority interest in 2019 but still retains a minority interest of 41.4%. Reference to “Nordic” refers to Nordic Consulting Group, Inc, a global health and technology consulting company in which BSMH owns 98.3%.

System Organization and Governance

SYSTEM ORGANIZATION

Bon Secours Mercy Health, Inc. (“BSMH”) is a Catholic non-profit health organization which operates hospitals, rehabilitation facilities, home health agencies, physician clinics ambulatory surgery centers and other health-related and mission-related services through its regional delivery systems in Florida, Kentucky, Maryland, Ohio, South Carolina, Virginia, New York and the Republic of Ireland. BSMH is the fifth largest Catholic health care ministry and one of the twenty largest non-profit health care systems in the United States. BSMH is the result of the 2018 combination of Mercy Health and Bon Secours Health System, Inc. (“BSHS”). As the surviving entity, BSMH assumed all legal obligations of Mercy Health, including all obligations issued under the Mercy Health Master Indenture.

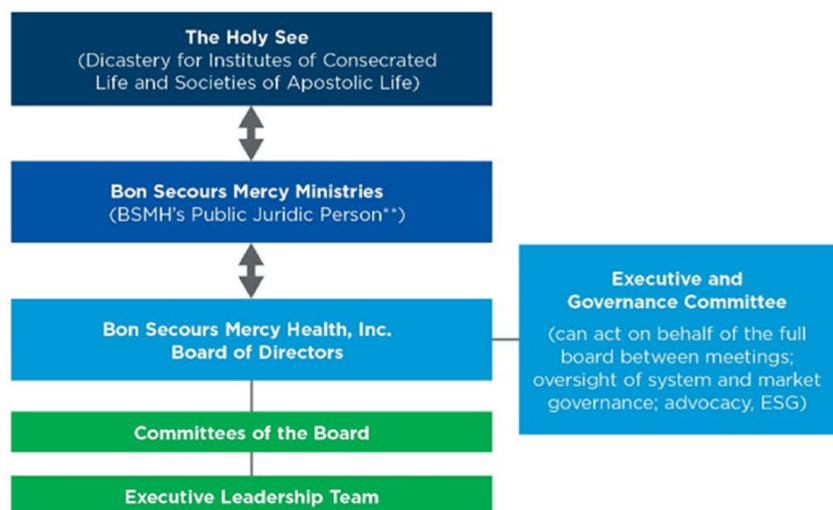


Note: Ensemble Health Partners is not included on the graph above. BSMH holds a joint venture minority interest investment on its balance sheet for Ensemble, accounted for using the equity method. BSMH's share of Ensemble's earnings are classified within the Diversified Growth Business segment of Bon Secours Mercy Health. Ensemble operations are not consolidated in the financial statements of BSMH nor is Ensemble obligated under BSMH Master Obligations.

* Access Health Partners is a wholly-owned diversified growth subsidiary that was moved under HealthSpan Partners effective January 1, 2023.

BON SECOURS MERCY HEALTH

GOVERNANCE



The BSMH ministry is directed by the canonical sponsorship of Bon Secours Mercy Ministries (“BSMM”), a public juridic person (“PJP”); “Public Juridic Person” below. BSMM traces its roots back through over 280 years of service by congregations of women religious, is a ministry of the Catholic Church that provides health care services.

BSMM carries out its apostolic work through three congregations of religious women: the Sisters of Bon Secours USA; the Sisters of the Humility of Mary; and the Sisters of Mercy of the Americas, South Central Community. Each congregation is a Participating Entity of BSMM which as such has accepted canonical responsibility for the activities of BSMM. Each Participating Entity has designated one member of its congregation to exercise that Participating Entity’s vote as to BSMM matters. Reserved powers at the Participating Entities level include amendment to PJP bylaws and governing documents, and addition of any other congregations in the future as Participating Entities.

PUBLIC JURIDIC PERSON

Bon Secours Mercy Ministries is a public juridic person established by a December 14, 2018 decree by the Congregation for Institutes of Consecrated Life and Societies of Apostolic Life. BSMM is solely a canonical entity. BSMM was not created under, nor does it have, a counterpart under civil law.

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

BON SECOURS MERCY HEALTH

Likewise, neither the Sisters of Bon Secours USA, the Sisters of the Humility of Mary, the Sisters of Mercy of the Americas, South Central Community nor any other their ministries or affiliates are liable for the payment of the principal of or redemption premium, if any, or interest on bonds or any obligation under the Master Indenture. BSMM acts through its members, who are seven individuals appointed by the Participating Entities, the majority of whom are currently women religious.

BSMH BOARD OF DIRECTORS

The corporate Bylaws of BSMH permit not fewer than nine and not more than nineteen board members. A listing of the members of the Board of Directors can be found in Management's Discussion and Analysis along with a listing of the members of the Executive Leadership Team.

HEALTHSPAN PARTNERS

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

BON SECOURS MERCY HEALTH

Consolidated Utilization Statistics (Unaudited)

	Twelve Months Ended December 31,		
	2023	2022	2021
Utilization Statistics			
Staffed beds - Acute	7,193	6,636	7,487
Staffed beds - Long-Term Care	229	255	1,501
Admissions - Acute	355,641	332,668	334,295
Admissions - Post-acute	2,512	2,726	4,119
Total Admissions	358,153	335,394	338,414
Observations	63,666	65,734	62,664
Equivalent Inpatient Admissions	892,716	826,014	794,283
Newborn Deliveries	26,647	27,850	27,849
Patient days - Acute	1,562,279	1,568,813	1,583,629
Patient days - Post-acute	14,909	38,193	395,949
Occupancy on staffed beds - Acute	59.5%	64.8%	57.9%
Total Patient Days	1,577,188	1,607,006	1,979,579
Average length of stay - Acute	4.39	4.72	4.74
Emergency Room Visits	1,589,935	1,529,142	1,452,343
Physician Visits	7,230,233	6,912,128	6,878,752
Inpatient surgeries and medical procedures	72,919	68,372	68,834
Outpatient surgeries	218,324	206,108	202,574
Full Time Equivalent Employees	54,107	52,413	51,621
Institutional case mix index	1.637	1.667	1.716
Medicare case mix index	1.743	1.778	1.825

Note: The prior period volumes have been recast to reflect the alignment of the statistics across BSMH entities

BON SECOURS MERCY HEALTH

System Payer Mix Based on Net Patient Service Revenue

Payer	Year ended December 31		
	2023	2022	2021
Medicare - Traditional	19.3%	19.6%	20.2%
Medicare - Managed	18.1%	17.2%	16.2%
Medicaid - Traditional	7.4%	6.9%	5.9%
Medicaid - Managed	8.4%	9.0%	9.2%
Other governmental	1.9%	1.9%	1.7%
Commercial and other third party	44.3%	44.4%	46.2%
Private pay and other	0.6%	1.0%	0.6%
Total Bon Secours Mercy Health	100.0%	100.0%	100.0%

Note: Payer mix is based on net patient service revenue excluding the elimination for employee charges paid by Bon Secours Mercy Health's self-insurance plans.

BON SECOURS MERCY HEALTH

Debt Service Coverage Ratio (*\$ in thousands*)

Years Ended December 31,

	2023	2022	2021
Income Available for Debt Service			
Excess of revenue over expenses (expenses over revenue)	222,398	(1,204,784)	997,698
Plus :			
Interest Expense	191,286	141,702	131,210
Total Deprec and Amortization	516,052	500,607	465,307
Impairments of PP&E and Goodwill	21,014	37,596	12,819
Exclude:			
Loss on early extinguishment of debt	-	328	152
(Gain)/Loss on disposition of assets not made in the ordinary course of business	(3,371)	(1,567)	45
Unrealized (gains) and losses on marketable securities	(329,746)	1,060,296	(475,957)
Unrealized swap (gain) / loss	(9,243)	(68,000)	(28,544)
Available for Debt Service	608,390	466,178	1,102,730
Maximum Annual Debt Service (MADS)	\$317,662	\$342,939	\$280,724
Debt Service Coverage Ratio	1.92x	1.36x	3.93x

Note: Calculation of the Debt Service Coverage Ratio is performed in accordance with the terms of the Master Trust Indenture

BON SECOURS MERCY HEALTH

Debt to Capitalization Ratio (*\$ in thousands*)

	Years Ended December 31,		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Master obligation debt	\$4,743,634	\$4,200,884	\$4,291,784
Other debt, unamortized original issue (discount) premium and unamortized cost of issuance	91,083	456,370	89,731
Total Debt (a)	<u>\$4,834,717</u>	<u>\$4,657,254</u>	<u>\$4,381,515</u>
Unrestricted Net Assets	<u>8,103,569</u>	<u>7,943,628</u>	<u>8,726,705</u>
Total Capitalization (b)	<u>\$12,938,286</u>	<u>\$12,600,882</u>	<u>\$13,108,220</u>
Debt to Capitalization (a / b)	<u>37.4%</u>	<u>37.0%</u>	<u>33.4%</u>

BON SECOURS MERCY HEALTH

Condensed Balance Sheet Information and Ratios

(\$ in thousands)

	Years Ended December 31,		
	2023	2022	2021
Unrestricted Cash and Cash Equivalents	\$498,569	\$506,242	\$402,402
Unrestricted Investments	\$6,368	\$35,233	\$155,412
Unrestricted Board Designated Funds	\$6,647,063	\$6,653,603	\$8,816,184
Unrestricted Cash	\$7,151,999	\$7,195,078	\$9,373,998
Cash Expense per Day	\$32,410	\$29,936	\$28,035
Days Cash on Hand	221	240	334
Total debt	\$4,834,717	\$4,657,254	\$4,381,515
Cash to debt	148%	154%	214%
Composition of system long term debt excluding derivative agreements:			
Fixed rate	74%	79%	78%
Variable rate	26%	21%	22%

BON SECOURS MERCY HEALTH

Management's Discussion and Analysis of Recent Financial Performance

Year Ended December 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.

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

BSMH Core and Diversified Business Unit. The business unit is focused on clinical care including acute care, urgent care and ambulatory ventures. BSMH, through this unit also seeks to diversify its offerings and services to create new sources of revenue and earnings to reinvest into its core acute care markets through investments in areas such as revenue cycle management. The highlight of the diversification strategy in this business unit is Ensemble, a company providing revenue cycle management and consulting services to hospitals and health systems. BSMH has 41.4% ownership in Ensemble.

BSMH Digital Business Unit. The unit is focused on health system information and technology services, personalized data and analytics services, digital product development and strategic investments, to provide digital solutions and services to other organizations, and continue to increase internal capabilities. This strategy is driven mainly through Nordic Consulting Group, a global health and technology consulting company that provides healthcare-focused information technology advisory and staffing consulting services to a global customer base. BSMH has 98% ownership in Nordic Consulting Group Inc., a fully consolidated subsidiary.

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.	President & 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
Veronica Scott-Fulton, DNP, MBA-c, MPH, BSN, BA, NEA-BC	Chief Nurse Executive
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 F. Maddox, Chair
 Jennifer O’Brien, JD, Vice Chair
 Katherine A. Arbuckle, CPA
 Sr. Patricia Eck, CBS (PJP)
 Sr. Fran Gorsuch, CBS
 Gerard Kells
 Joseph D. O’Shea
 Raja Rajamannar
 Janet B. Reid, PhD
 Colleen Scanlon, RN, JD (PJP) ex-officio
 Myles N. Sheehan, SJ, MD (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



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



Over **\$12 BILLION** in net operating revenue

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

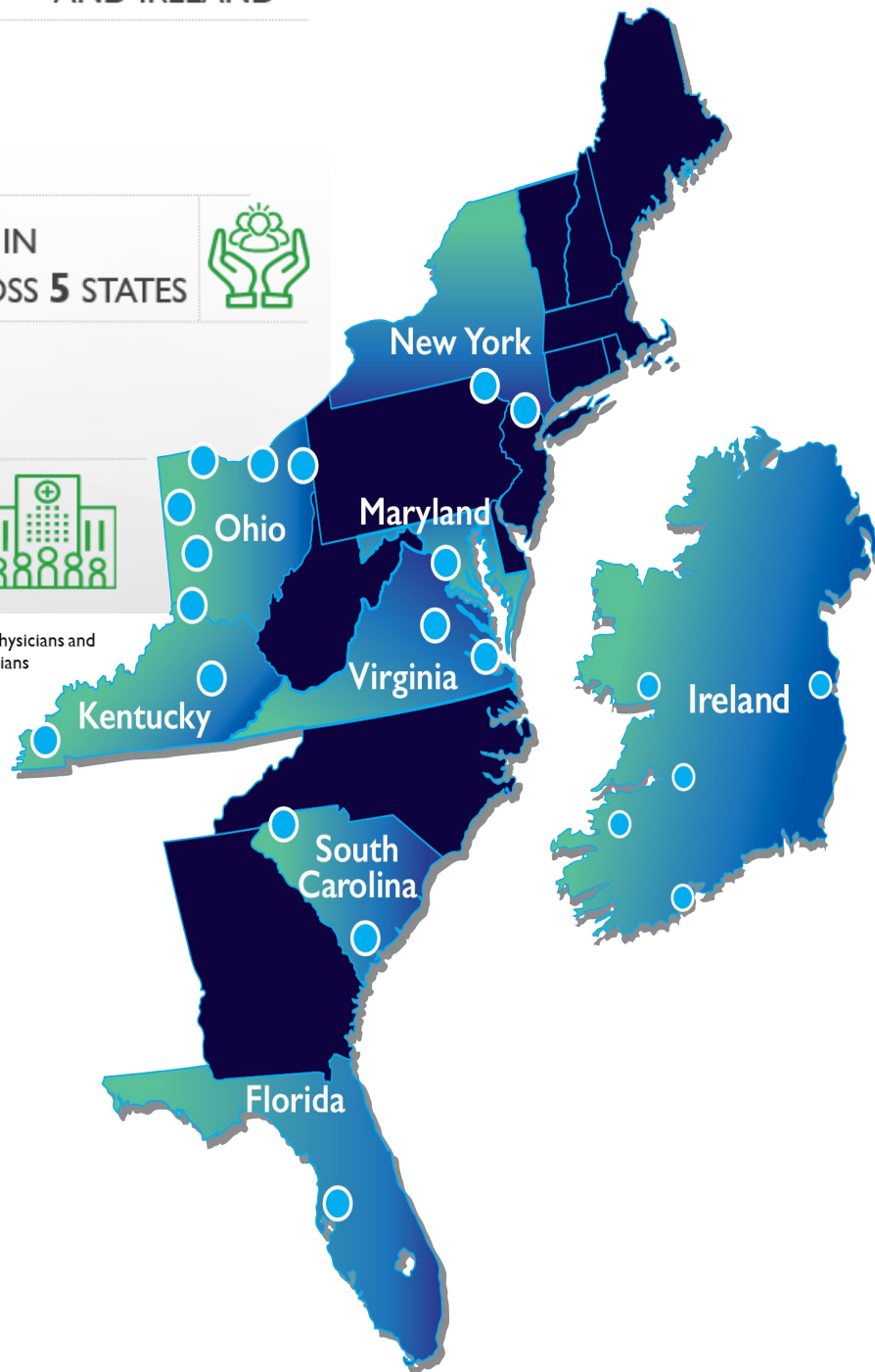


49 HOSPITALS

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



*BSMH Medical Group physicians and Advanced Practice Clinicians



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”)

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

Our Areas of Focus

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



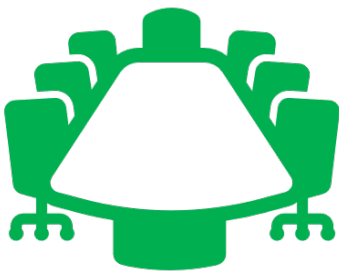
Environmental

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



Social

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



Governance

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") provides additional explanation of the financial condition, operational results and cash flows of BSMH to assist in increased understanding of the consolidated financial statements. The financial information as of and for the years ended December 31, 2023 and 2022, presented below, has been derived from BSMH's audited financial information. This document is incorporated herein by reference and is available for review on the Electronic Municipal Market Access ("EMMA") website operated by the Municipal Securities Rulemaking Board ("MSRB"). In conformity with U.S. generally accepted accounting principles, the consolidated financial statements and this Management's Discussion and Analysis include the financial position, results of operations, changes in net assets and cash flows of Bon Secours Mercy Health, HealthSpan Partners and subsidiaries. Information as of and for the years ended December 31, 2023 and 2022, is consistent with the presentation of BSMH's audited financial statements.

FINANCIAL HIGHLIGHTS AND SUMMARY

Financial performance improved during the year ended December 31, 2023 compared to the prior year. Patient volumes continued to improve compared to the prior year, resulting in increased Operating EBITDA for 2023 compared to 2022. The positive impacts from these volume improvements during 2023 were partially offset by increased operating expenses, unfavorable commercial payor mix and lower acuity. Operating expense increases for the year ended December 31, 2023 were primarily driven by the increased patient volumes, continued impacts of inflation, and acquisitions that occurred in the later part of 2022. Operating EBITDA for the year ended December 31, 2023, increased year-over-year and resulted in a higher margin compared to the prior year. BSMH also benefited from a positive rebound in the investment markets during the year ended 2023, resulting in an increase in investment income compared to prior year.

Management continues to take proactive actions to manage financial and operational challenges and ensure that the health system can deliver services to the communities it serves. Management continues to execute on actions to reduce employment and purchased services expenses. These actions have resulted in run-rate improvements of approximately \$420.0 million in 2023 and are expected to result in improvements of approximately \$425.0 million in 2024.

OVERVIEW OF SIGNIFICANT TRANSACTIONS

On January 5, 2023, the Company completed the issuance of \$169.3 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.

On November 2, 2023, the Department of Health and Human Services issued a final rule outlining the agency's remedy for the invalidated payment cuts to certain hospitals that participate in the Centers for Medicare and Medicaid Services (CMS) 340B Drug Pricing Program for the period from 2018 to 2022. As a result, BSMH recorded net patient revenue of \$82.5 million (\$78.0 million net benefit after related expenses) in the year ended December 31, 2023.

KEY FINANCIAL RATIOS

(\$s in thousands)	Year Ended December 31,							
	2023				2022			
	Reported		Adjusted ⁽¹⁾		Reported		Adjusted ⁽¹⁾	
	Amount	Margin	Amount	Margin	Amount	Margin	Amount	Margin
Net operating revenue	12,221,752		12,127,251		11,103,676		10,998,924	
Operating EBITDA	569,454	4.7%	479,513	4.0%	331,411	3.0%	226,659	2.1%
Recurring operating loss	(123,855)	(1.0%)	(213,795)	(1.8%)	(323,493)	(2.9%)	(428,245)	(3.9%)
Excess (deficit) of revenue over expenses	222,398	1.8%	132,458	1.1%	(1,204,784)	(11.7%)	(1,309,536)	(12.8%)

¹ The financial results have been adjusted to exclude CMS settlements for prior year Federal 340B activity, U.S. CARES Act stimulus and FEMA Public Assistance program.

Net operating revenue grew by \$1.1 billion or 10.1% for the year ended December 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. Growth in net operating revenue was also driven by the operations of Nordic which was acquired on June 1, 2022. Other net revenue from Nordic was \$354.5 million for the year ended December 31, 2023, compared to \$227.2 million in the prior year. The one-time Federal 340B settlement also increased net operating revenue by \$82.5 million for the year ended December 31, 2023. For the year ended December 31, 2023, stimulus revenue recorded in other operating revenue was \$11.5 million, down from \$90.4 million in the prior year. FEMA Public Assistance program funding of \$0.5 million for the year ended December 31, 2023 was recognized in other operating revenue, compared to \$12.5 million recognized in the prior year.

Operating EBITDA of \$569.5 million (margin 4.7%) was higher for the year ended December 31, 2023, when compared to the prior year. The improvement can be attributed to improved volumes and the positive impacts from run-rate improvement efforts. Consistent with the improvement in operating EBITDA, recurring operating loss margin (-1.0%) also improved from the prior year (-2.9%). Excess of revenue over expenses was \$222.4 million (margin 1.8%) for the year ended December 31, 2023, improved over the prior year due to investment gains recognized in 2023 versus investment losses incurred during the prior year.

(\$s in thousands)	Year Ended December 31,			
	2023		2022	
	Amount	% of Exp	Amount	% of Exp
Community Benefit	\$606,928	4.9%	\$644,695	5.6%

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 year ended December 31, 2023, community benefit totaled \$606.9 million or 4.9% of total operating expenses, a decrease from prior year, largely due to increased reimbursement from supplemental state Medicaid programs in the current year. Excluding this reimbursement, community benefits would be \$1.3 billion or 10.8% of total expenses for the year ended December 31, 2023 compared to \$1.2 billion or 10.8% of total operating expenses in the prior year.

LIQUIDITY AND KEY PERFORMANCE INDICATORS

	December 31, 2023	December 31, 2022
Days cash on hand	221	240
Unrestricted cash to debt	147.9%	154.5%
Total debt to capitalization	37.4%	37.0%
Pension funding	91.2%	96.3%

The Company's balance sheet remains strong with solid liquidity and stable leverage from December 31, 2022 to December 31, 2023. Days cash on hand decreased from 240 days at December 31, 2022 to 221 days at December 31, 2023, primarily as a result of capital expenditures and growth in cash expenses (18 days) offsetting positive cash flows from operating results. For the year ended December 31, 2023, capital expenditures were \$703.4 million (21 days), and included \$268.9 million related to the construction of new hospitals and hospital expansions. Net debt increased \$170.9 million (5 days) which partially offset the cash outflows. Refer to overview of significant transactions section above for further disclosure on additional debt incurred in 2023. The Company's debt to capitalization ratio was 37.4% at December 31, 2023, an increase from 37.0% at December 31, 2022, driven by an increase in long-term debt.

Pension funding was 91.2% as of December 31, 2023, down 5.1% over prior year, due to benefit payments, termination cost and a decrease in the discount rate, partially offset by asset gains. BSMH continues to execute on its de-risking strategy related to its defined benefit pension obligations. Actions related to this strategy triggered the recognition of pension settlement losses during 2023 and 2022 totaling \$61.8 million and \$64.4 million, respectively, as well as a reduction to the 2023 BSMH pension obligation of \$329.5 million. The December 31, 2023, obligation also included a \$38.6 million reduction associated with the \$469.1 million annuity purchase completed in February 2024. Refer to subsequent event footnote for more details on the annuity purchase.

VOLUME TRENDS

As Reported	Year Ended December 31,		
	2023	2022	Change %
Admissions	358,153	335,394	6.8%
Observations	63,666	65,734	(3.1%)
Deliveries	26,647	27,850	(4.3%)
Inpatient Surgeries	72,919	68,372	6.7%
Outpatient Surgeries	218,324	206,108	5.9%
ER Visits	1,589,935	1,529,142	4.0%
Physician Visits	7,230,233	6,912,128	4.6%

Volumes for the year ended December 31, 2023, improved when compared to the prior year. Admissions and inpatient surgeries for 2023 have increased significantly compared to the prior year at 6.8% and 6.7% respectively, and physician visits increased 4.6% for the year ended December 31, 2023, compared to the prior year. Outpatient surgeries for the year ended 2023 have also improved 5.9% compared to the prior year. Emergency room visits and physician visits in 2023 also improved from prior year with increases of 4.0% and 4.6%, respectively. Observations were 3.1% lower compared to prior year, primarily due to declining COVID-19 observations. While deliveries declined compared to the prior year, deliveries remain above pre-pandemic levels.

RESULTS OF OPERATIONS

(\$s in thousands)	Year Ended December 31,	
	2023	2022
Net Patient Service Revenue ⁽¹⁾	\$10,988,422	\$10,181,221
Other Operating Revenue ⁽²⁾	1,233,330	922,455
Net Operating Revenue	12,221,752	11,103,676
Employee Compensation	6,175,213	5,929,609
Purchased Services	1,659,619	1,513,576
Pharmaceuticals & Supplies	2,502,404	2,152,506
Depreciation and Amortization	516,052	500,607
Interest Expense	191,286	141,702
Other Operating Expenses	1,301,033	1,189,169
Recurring Operating Loss	(123,855)	(323,493)
Nonrecurring Losses, Net	(48,518)	(79,412)
Investment Gains (Losses), Net	531,339	(925,329)
Interest Rate Swap Agreements Gains	13,205	55,336
Gain on recapitalization of Ensemble	0	119,189
Other Nonoperating Losses, Net	(149,773)	(51,075)
Excess (deficit) of Revenue Over Expenses	\$222,398	\$(1,204,784)

¹ Net Patient Service Revenue for 2023 includes a benefit of \$82.5 million resulting from CMS settlements related to prior year Federal 340B activity. No such settlement was recorded in 2022.

² Other Operating Revenue includes stimulus revenue of \$11.5 million and \$90.4 million from the U.S. CARES Act and funding of \$0.5 million and \$12.5 million for the FEMA Public Assistance program recognized for the years ended December 31, 2023, and 2022, respectively.

NET OPERATING REVENUE

Net operating revenue increased by \$1.1 billion or 10.1% for the year ended December 31, 2023, compared to the prior year. Net patient service revenue increased by \$807.2 million or 7.9% for the year ended December 31, 2023, when compared to the prior year. The growth in net patient revenue was primarily due to higher inpatient and outpatient volumes for the year ended December 31, 2023, reflecting continued recovery in patient volumes. Net patient revenue for the year ended December 31, 2023 also benefited from a one-time CMS settlement related to prior years Federal 340B activity of \$82.5 million. While several key volumes were significantly ahead of prior year, net patient revenue growth was partially offset by lower acuity.

Other operating revenue increased \$310.9 million or 33.7% for the year ended December 31, 2023, compared to the prior year. Nordic, acquired on June 1, 2022, contributed \$354.5 million in other operating revenue for the year ended December 31, 2023 compared to \$227.2 million for the seven months of ownership during the year ended December 31, 2022. Stimulus revenue of \$11.5 million was recorded for the year ended December 31, 2023, down from \$90.4 million in the prior year. FEMA Public Assistance program funding of \$0.5 million for the year ended December 31, 2023 was recognized in other operating revenue, compared to \$12.5 million recognized in the prior year.

OPERATING EXPENSES

Total operating expenses were \$12.3 billion for the year ended December 31, 2023, an increase of \$918.4 million or 8.0% from the prior year. Employee compensation increased \$245.6 million or 4.14% from the prior year, driven by the increased patient volumes in 2023 as well as increased employment expenses related to the acquisition of Nordic. These increases were partially offset by significant reductions in agency labor expense for 2023 compared to 2022, as a result of successful efforts to transition contract labor roles to full time employees. Agency costs declined from \$504.1 million in 2022 to \$256.2 million in 2023. This reduction in contract labor has helped drive down total employee compensation as a percentage of net operating revenue from 58.2% for the year ended 2022 to 56.2% for the year ended 2023. For the year ended December 31, 2023, pharmaceuticals and supplies expense as a percentage of net patient service revenue was 22.8%, compared to 21.1% for the prior year. Supplies expense grew by \$133.1 million for the year ended December 31, 2023, largely due to operations acquired in November 2022. The increase in supplies expense was also due to an increase in patient volumes during 2023. For the year ended December 31, 2023, other operating expenses as a percentage of net patient service revenue was 11.8%, a slight increase from 11.7% in prior year due to inflation.

NONOPERATING GAINS AND LOSSES, NET

Investment results improved in 2023 due to a rebound in public equity and fixed income returns. Net investment gains (realized and unrealized) were \$531.3 million for the year ended December 31, 2023, compared to losses of \$925.3 million for the year ended December 31, 2022. The combined operating portfolios (\$5.9 billion) returned 8.2% for the year ended December 31, 2023. The gain on interest rate swap agreements was \$13.2 million for the year ended December 31, 2023, compared to a gain of \$55.3 million for the year ended 2022. Other nonoperating activities from 2022 that did not recur in 2023, included a gain of \$119.2 million for an Ensemble ownership restructuring, and a gain of \$58.3 million for the sale of Ohio senior living and care facilities.

BSMH continues to execute on its pension de-risking strategy related to its defined benefit pension obligations. Actions related to this strategy triggered the recognition of pension settlement losses during 2023 and 2022 totaling \$61.8 million and \$64.4 million, respectively.

SUBSEQUENT EVENTS

As part of its defined benefit pension de-risking strategy, BSMH completed an annuity purchase of \$469.1 million on February 14, 2024. As a result of this annuity purchase, the insurer will assume responsibility for the retirement benefit payments on May 1, 2024, the insurer benefit commencement date. Monthly benefit payments will be distributed from the pension trust to the participants until the commencement date. The impact of this transaction to the 2024 financial statements is still being evaluated.

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

BON SECOURS MERCY HEALTH

Consolidated Audited Financial Statements

**Fiscal Years Ended
December 31, 2023 and 2022**



BON SECOURS MERCY HEALTH

Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

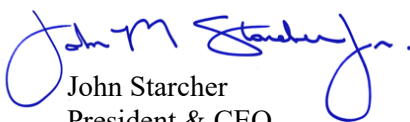
Statement of Management Responsibility

The accompanying consolidated financial statements of Bon Secours Mercy Health (the Company) for the twelve months ended December 31, 2023 were prepared by the Company's management in conformity with U.S. generally accepted accounting principles appropriate in the circumstances.


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

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

KPMG LLP, the independent auditors, have audited the consolidated financial statements of the Company for the twelve months ended December 31, 2023 and their report thereon is included herein. The independent auditors meet with members of the Integrity and Stewardship Committee of the Board of Trustees of the Company, in the absence of Management personnel, to discuss the results of their audit and are afforded the opportunity to present their comments with respect to the conduct of the audit engagement.


John Starcher
President & CEO


Deborah Bloomfield
Chief Financial Officer


Travis L. Crum
System SVP, Finance

March 13, 2024



KPMG LLP
Suite 3400
312 Walnut Street
Cincinnati, OH 45202

Independent Auditors' Report

The Board of Directors
Bon Secours Mercy Health:

Opinion

We have audited the consolidated financial statements of Bon Secours Mercy Health (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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



In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

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

KPMG LLP

Cincinnati, Ohio
March 13, 2024

BON SECOURS MERCY HEALTH

Consolidated Balance Sheets

December 31, 2023 and 2022

(In thousands)

Assets	2023	2022
Current assets:		
Cash and cash equivalents	\$ 498,569	506,242
Investments	6,368	35,233
Self-insurance and trustee held funds	95,982	88,078
Donor restricted funds	5,299	5,605
Total cash and investments	606,218	635,158
Net patient receivables	1,151,496	1,137,675
Other receivables	385,345	229,501
Inventories	289,107	272,657
Prepaid expenses and other current assets	266,565	224,275
Total current assets	2,698,731	2,499,266
Assets whose use is limited:		
Board designated funds	6,647,063	6,653,603
Self-insurance and trustee held funds	349,234	304,497
Donor restricted funds	51,493	49,862
Total assets whose use is limited	7,047,790	7,007,962
Property and equipment, net	5,043,041	4,807,638
Investments in unconsolidated organizations	539,666	549,408
Operating lease right-of-use assets	328,552	325,813
Retirement assets	131,071	178,337
Goodwill	595,845	574,113
Other long-term assets	503,342	498,516
Total assets	\$ 16,888,038	16,441,053
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 666,712	700,357
Current portion of long-term debt	585,966	559,284
Accrued salaries, wages and benefits	684,545	651,533
Current portion of operating lease liabilities	78,177	77,573
Other accrued expenses	332,546	334,148
Total current liabilities	2,347,946	2,322,895
Long-term debt, less current portion	4,248,751	4,097,970
Retirement liabilities	300,985	265,842
Self-insurance liabilities	343,190	323,829
Operating lease liabilities	273,208	269,433
Other long-term liabilities	562,737	542,890
Total liabilities	8,076,817	7,822,859
Net assets without donor restrictions:		
Controlling interest	8,103,569	7,943,628
Noncontrolling interest	432,204	416,939
Total net assets without donor restrictions	8,535,773	8,360,567
Net assets with donor restrictions	275,448	257,627
Total net assets	8,811,221	8,618,194
Total liabilities and net assets	\$ 16,888,038	16,441,053

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH
Consolidated Statements of Operations
Years Ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Revenues:		
Net patient service revenue	\$ 10,988,422	10,181,221
Other revenue, net	1,233,330	922,455
Total operating revenues	12,221,752	11,103,676
Expenses:		
Employee compensation	6,175,213	5,929,609
Purchased services	1,659,619	1,513,576
Supplies	2,502,404	2,152,506
Depreciation and amortization	516,052	500,607
Interest expense	191,286	141,702
Other operating expenses	1,301,033	1,189,169
Total operating expenses	12,345,607	11,427,169
Recurring operating loss	(123,855)	(323,493)
Nonrecurring operating losses, net	(48,518)	(79,412)
Operating loss	(172,373)	(402,905)
Nonoperating gains (losses), net:		
Investment gains (losses)	531,339	(925,329)
Realized and unrealized interest rate swap agreements gains	13,205	55,336
Gain on recapitalization of Ensemble	—	119,189
Other nonoperating activities, net	(149,773)	(51,075)
Excess (deficit) of revenue over expenses	\$ 222,398	(1,204,784)

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2023 and 2022

(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	<u>(783,077)</u>	<u>(423,845)</u>	<u>(1,206,922)</u>	<u>(25,891)</u>	<u>(1,232,813)</u>
Balance at December 31, 2022	7,943,628	416,939	8,360,567	257,627	8,618,194
Excess of revenues over expenses	191,119	31,279	222,398	—	222,398
Grants and contributions	6,726	705	7,431	59,408	66,839
Investment gains	—	—	—	10,966	10,966
Net assets released from restrictions	9,873	—	9,873	(50,018)	(40,145)
Distributions to noncontrolling interest owner	—	(16,406)	(16,406)	—	(16,406)
Pension and other postemployment changes	(50,067)	—	(50,067)	—	(50,067)
Other changes, net	2,290	(313)	1,977	(2,535)	(558)
Increase in net assets	<u>159,941</u>	<u>15,265</u>	<u>175,206</u>	<u>17,821</u>	<u>193,027</u>
Balance at December 31, 2023	\$ <u>8,103,569</u>	<u>432,204</u>	<u>8,535,773</u>	<u>275,448</u>	<u>8,811,221</u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022
(In thousands)

	2023	2022
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 193,027	(1,232,813)
Depreciation and amortization	516,052	500,607
Amortization of premium on issued debt securities	(14,061)	(12,912)
Gain on recapitalization of Ensemble	—	(119,189)
Gain on sale of subsidiaries	—	(70,161)
Other changes in net assets, net	25,484	2,459
Pension and other post employment adjustments	50,067	(40,865)
Contributions restricted by donor	(59,408)	(51,558)
Net (gains) losses on investments	(426,544)	1,030,488
Cash (used in) provided by changes in operating assets and liabilities:		
Current assets	(224,674)	(51,622)
Long-term assets	30,160	45,997
Accelerated Medicare Payments Program	—	(436,479)
Other current liabilities	(12,931)	(132,331)
Long-term liabilities	36,753	49,832
Net cash provided by (used in) operating activities	113,925	(518,547)
Cash flows from investing activities:		
Sale of subsidiaries, net of cash sold	—	111,615
Acquisition of subsidiaries, net of cash received	(21,774)	(467,843)
Property and equipment additions, net of disposals	(703,353)	(765,265)
Purchase of alternative investments and other securities	(274,795)	(477,803)
Sales of alternative investments and other securities	173,421	198,275
Investments and assets whose use is limited, net	509,357	1,557,778
Distribution from equity method investment	—	200,619
Purchase of investments in unconsolidated organizations	(2,837)	(8,000)
Net cash (used in) provided by investing activities	(319,981)	349,376
Cash flows from financing activities:		
Restricted contributions	59,408	51,558
Purchase of interest from noncontrolling interest owners	—	(45,827)
Contribution from noncontrolling interest	705	7,005
Distributions to noncontrolling interest	(16,406)	(16,112)
Proceeds from debt issuance	738,545	682,388
Repayment of long-term debt	(567,681)	(382,023)
Repayment of finance lease	(16,196)	(19,738)
Cost of long-term debt issuance	(256)	(4,090)
Net cash provided by financing activities	198,119	273,161
Effect of exchange rates on cash and cash equivalents	264	(150)
Net (decrease) increase in cash and cash equivalents	(7,673)	103,840
Cash and cash equivalents, beginning of the year	506,242	402,402
Cash and cash equivalents, end of the year	\$ 498,569	506,242

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

(1) Basis of Presentation

(a) Organizational Structure and Mission

Bon Secours Mercy Health (BSMH or the Company) is a nonprofit, nonstock membership Catholic health organization, supervising market delivery consisting of hospitals, physician clinics, and other organizations providing health-related services. BSMH is sponsored by partners in Bon Secours Mercy Ministries (BSMM). BSMM is a public juridic person of the Roman Catholic Church. BSMH provides management direction to its Core and Diversified and Digital business units to carry out the mission, vision, and values of BSMH. The Core and Diversified business is focused on the delivery of patient care and encompasses clinical care including acute care, urgent care and ambulatory ventures within Florida, Kentucky, Ohio, South Carolina, Virginia 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 bringing 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.

(b) Acquisitions and Divestitures

(i) Acquisition of Nordic Consulting Group Inc.

On June 1, 2022, BSMH acquired 98%, a controlling interest, of Nordic Consulting Group, Inc (Nordic). Nordic provides healthcare-focused information technology advisory and staffing consulting services and outsourced managed services to its customers. The fair value of the net assets acquired and of the noncontrolling interest in Nordic was derived by applying the income approach valuation method. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement as defined in ASC Topic 820-10-35.

The goodwill of \$244,964 arising from the acquisition represents the estimated future economic benefits associated with the assembled workforce, as well as the synergies and strategic benefits expected to be realized from the acquisition. The consideration paid for the acquisition was \$404,578, the acquisition related costs included in nonrecurring losses, net as of December 31, 2022 were \$5,385, the estimated fair value of the assets acquired and liabilities assumed was \$169,245 and the fair value of the noncontrolling interest at the acquisition date was \$9,631. The acquired intangible assets include trademarks of \$94,700 (20-year useful life), customer relationships \$17,600 (5-year useful life) and backlog of \$23,100 (3-year useful life), and noncompete agreements of \$12,500 (2-year useful life). During the year ended December 31,

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

2023, measurement-period adjustments were recorded to account for changes to the useful lives assigned to intangible assets, resulting in an increase in amortization expenses of \$1,797.

Nordic operating revenues and excess revenues over expenses included in the consolidated statements of operations from the acquisition date for the year ended December 31, 2022 were \$227,170 and \$1,610, respectively.

(ii) Other Acquisitions

In 2023, as a part of BSMH's diversified growth strategy, the Company acquired ten urgent care centers for \$21,774. In April 2022, BSMH acquired Agile Health, Inc., a digital health company focused on improving healthcare outcomes for its patient population, for \$13,094. In November 2022, Roper St. Francis Healthcare, a subsidiary of BSMH, acquired an oncology practice for \$60,500. As a result of these acquisitions, the Company recognized \$18,467 and \$59,906 of goodwill for the years ended December 31, 2023 and 2022, respectively.

(iii) Divestiture of Long-Term Care Facilities

During the year ended December 31, 2022, as part of a full divestiture plan of all operations and facilities that involve skilled nursing, assisted living and independent living, Bon Secours Mercy Health sold six senior living and care facilities. The sales resulted in net cash proceeds from investing activities of \$111,615 and a net gain of \$70,161 which is reflected in the other nonoperating activities, net section of the consolidated statement of operations.

(2) Significant Accounting Policies

(a) Cash and Cash Equivalents

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

(b) Assets Whose Use is Limited

Assets whose use is limited include assets held by trustees under indentures, self-insurance trust arrangements, 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.

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

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 December 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 4 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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

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 that 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 who do not qualify for charity care, the Company recognizes revenue when services are provided. Based on

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(In thousands)

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 24% and 22% of net patient account receivables as of December 31, 2023 and 2022, respectively while the Medicaid program represented 8% and 9% as of December 31, 2023 and 2022, respectively. Excluding the Medicare and Medicaid programs, no one other payor represents more than 10% of the Company's net patient receivables as of December 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 the 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 the 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 years ended December 31, 2023 and 2022 have 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	\$ 4,867,334	44.3 %	4,517,049	44.4 %
Medicare	4,110,250	37.4	3,749,105	36.8
Medicaid	1,738,641	15.8	1,619,753	15.9
Other governmental	207,569	1.9	195,367	1.9
Self-pay	64,628	0.6	99,947	1.0
Total	\$ 10,988,422	100.0 %	10,181,221	100.0 %

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(In thousands)

(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. The 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(l)), 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

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(In thousands)

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 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 other operating expenses.

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 other operating expenses. 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 the 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.

During 2023, BSMH determined that estimated future net cash flows for certain Company long lived assets were below net book value and recorded an impairment charge of \$34,553, included in nonrecurring operating losses, net on the consolidated statements of operations.

BSMH and Westchester Medical Center (Westchester) are members of Bon Secours Charity Health System (Charity). Westchester holds a 60% controlling interest and BSMH holds the remaining 40% interest in Charity. In December 2022, BSMH determined that its investment in Charity and its accounts receivables from Charity for the services provided were impaired due to the presence of several impairment indicators including multiple consecutive years of operating losses and significant liquidity challenges. As a result, BSMH fully impaired its equity investment and the accounts receivable from Charity, resulting in an impairment charge of \$29,625 during the year ended December 31, 2022. The

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impairment charge was recognized in nonrecurring operating losses, net on the consolidated statements of operations. No future earnings (losses) or associated receivables to Charity will be recognized in the consolidated financial statements.

(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 according 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) 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.

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(In thousands)

The following is the carrying amount and changes in the carrying amount of goodwill as of December 31:

	<u>2023</u>	<u>2022</u>
Goodwill at the beginning of the period	\$ 574,113	267,904
Goodwill related to acquisitions	22,212	307,261
Other	<u>(480)</u>	<u>(1,052)</u>
Goodwill at the end of the period	<u>\$ 595,845</u>	<u>574,113</u>

(l) Other Long-Term Assets

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

	<u>2023</u>	<u>2022</u>
Right-of-use assets – finance	\$ 215,083	207,597
Other intangibles, net	140,502	173,350
Other	102,684	68,684
Notes and other long term receivables	<u>45,073</u>	<u>48,885</u>
Total other long-term assets	<u>\$ 503,342</u>	<u>498,516</u>

(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

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(In thousands)

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 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

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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 December 31:

	<u>2023</u>	<u>2022</u>
Lease liabilities – finance	\$ 339,512	323,889
Supplemental executive retirement plan liability	114,415	93,590
Other	72,219	73,860
Deferred income tax liability	24,127	29,844
Derivative instrument (note 8)	<u>12,464</u>	<u>21,707</u>
Total other long-term liabilities	<u>\$ 562,737</u>	<u>542,890</u>

(p) Other Revenue

Other revenue, net, within operating revenue includes income from equity investments in joint ventures (note 14), professional services contract revenue from Digital business, grant revenues including stimulus funding provided by the CARES Act, 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 on 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.

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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 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 the 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.

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(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 December 31, 2023.

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

As of December 31, 2023 and 2022, the Company's taxable subsidiaries had net operating loss carryforwards for Federal income tax purposes of \$182,444 and \$169,279, respectively, which are available to offset future Federal taxable income subject to various limitations. The Company had net operating loss carryforwards for state income tax purposes of \$119,717 and \$113,528 as of December 31, 2023 and 2022, respectively, which are available to offset future state 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. As of December 31, 2023, the Company has placed a partial valuation allowance of \$83,168 and \$18,945 on the gross deferred Federal and state tax assets, respectively. As of December 31, 2022, the Company has placed a partial valuation allowance of \$156,538 and \$103,396 on the gross Federal and state deferred tax assets, respectively. When determining the valuation allowance for deferred tax assets, the Company annually considers whether it is more likely than not that these amounts will not be utilized in future periods. There was a decrease in the valuation allowance for gross deferred Federal and state tax assets of \$73,370 and \$84,451, respectively, as of December 31, 2023. There was an increase in the valuation allowance for gross deferred federal tax assets of \$1,354 and a decrease in the valuation allowance for gross deferred state tax assets of \$10,532 as of December 31, 2022.

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(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 \$30,638 and \$7,233 for the years ended December 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 and self-insurance liabilities and evaluation of long-lived assets for impairment. Management relies on historical experience and other assumptions believed to be reasonable in making its judgments 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.

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(x) New Accounting Pronouncements

In August 2023, FASB issued ASU No. 2023-05, *Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*. This ASU addresses the accounting for contributions made to a joint venture upon formation in a joint venture's separate financial statements. The provisions of ASU No. 2023-05 are effective prospectively for all joint venture formations formed on or after January 1, 2025. Additionally, a joint venture that was formed before January 1, 2025, may elect to apply the amendments retrospectively. The Company did not early adopt and is currently evaluating the impact of this ASU.

(3) Community Benefits (Unaudited)

The following is a summary of the Company's community service as measured by services provided to the poor, medically underserved, and broader community. The summary has been prepared in accordance with the Catholic Health Association (CHA) of the United States document, *A Guide for Planning and Reporting Community Benefit, 2022 Edition*.

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

	<u>2023</u>	<u>2022</u>
Charitable services and other community benefits:		
Traditional charity care	\$ 110,323	92,902
Unpaid costs of public programs	318,563	404,301
Other community benefit programs	<u>178,042</u>	<u>147,492</u>
Total quantifiable community benefits	<u>\$ 606,928</u>	<u>644,695</u>
Percent of total recurring expenses	4.9 %	5.6 %

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

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(4) Investments and Assets Whose Use is Limited

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

	<u>2023</u>	<u>2022</u>
Board designated funds:		
Cash and cash equivalents	\$ 106,501	421,991
Equity mutual funds	774,435	610,162
Equity commingled funds	665,703	724,992
Common and preferred stocks	717,939	735,532
Fixed income mutual funds	26,341	25,108
Fixed income commingled funds	70,622	243,457
Government and agency securities	941,986	811,487
Corporate obligations	878,176	753,959
Alternative investments	2,465,360	2,326,915
	<u>6,647,063</u>	<u>6,653,603</u>
Self-insurance and trustee held funds:		
Cash and cash equivalents	114,729	107,403
Equity mutual funds	218,622	188,611
Government and agency securities	70,340	62,890
Corporate obligations	41,525	33,671
	<u>445,216</u>	<u>392,575</u>
Donor restricted funds:		
Cash and cash equivalents	8,073	10,616
Equity mutual funds	9,363	8,398
Equity commingled funds	9,653	8,843
Common and preferred stocks	3,167	2,853
Fixed income mutual funds	4,673	4,246
Fixed income commingled funds	963	931
Alternative investments	20,900	19,580
	<u>56,792</u>	<u>55,467</u>

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	2023	2022
Investments:		
Cash and cash equivalents	\$ 3,307	32,312
Corporate obligations	3,061	2,921
	6,368	35,233
Investments and assets whose use is limited	7,155,439	7,136,878
Available for current liabilities	(107,649)	(128,916)
Long-term assets limited or restricted as to use	\$ 7,047,790	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 years ended December 31:

	2023	2022
Dividends and interest	\$ 115,761	82,075
Net realized gains on securities	85,832	52,892
Net change in unrealized gains (losses) on securities	329,746	(1,060,296)
	\$ 531,339	(925,329)

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 (deficit) of revenues over expenses. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit as of December 31, 2023 and 2022.

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.

BON SECOURS MERCY HEALTH

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(In thousands)

(5) 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 SOFR swap rates and other observable market data for the year ended December 31, 2023. For the year ended December 31, 2022, fair values for the Company's interest rate swaps were determined using pricing models developed based on the LIBOR swap rates 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.

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Nonrecurring Fair Value Measurements

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

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

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(In thousands)

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

	Fair value	Fair value measurements at December 31, 2023 using		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 498,569	498,569	—	—
Investments:				
Cash and cash equivalents	3,307	3,307	—	—
Corporate obligations	3,061	—	3,061	—
	6,368	3,307	3,061	—
Assets limited or restricted as to use:				
Cash and cash equivalents	229,303	229,303	—	—
Equity mutual funds	1,002,420	576,005	426,415	—
Equity commingled funds	675,356	513,465	82,069	79,822
Common and preferred stocks	697,215	697,215	—	—
Fixed income commingled funds	71,585	2,348	69,237	—
Government and agency securities	1,012,326	343,442	668,884	—
Corporate obligations	919,701	—	919,701	—
Fixed income mutual funds	31,014	31,014	—	—
Cash and assets limited or restricted as to use	5,143,857	2,894,668	2,169,367	79,822
Assets whose use is limited under securities lending arrangements	23,891	23,891	—	—
Total cash and assets limited or restricted as to use	\$ 5,167,748	2,918,559	2,169,367	79,822
Liabilities:				
Interest rate swaps	\$ 12,464	—	—	12,464
Total liabilities	\$ 12,464	—	—	12,464

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(In thousands)

	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 December 31, 2023 and 2022:

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

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

	December 31	
	2023	2022
Beginning balance	\$ 66,191	59,104
Purchases	17,513	12,306
Sales	(2,474)	—
Impairment loss	(1,281)	(5,169)
Realized and unrealized gains (losses)	(127)	(50)
Ending balance	\$ <u>79,822</u>	<u>66,191</u>

Investments for which fair value is measured using the Net Asset Value (NAV) as a practical expedient are excluded from the fair value hierarchy in accordance with ASU No. 2015-07, *Fair Value Measurement (Topic 820)*. For the years ended December 31, 2023 and 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 investment funds as of December 31, 2023 and 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 futures contracts, options, foreign currency contracts, other derivative instruments, and private equity investments. Alternative investments can be divested only at specified times in accordance with the terms of the partnership agreements. Hedge fund redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated. These redemptions are subject to lock-up provisions that are generally imposed upon initial investment in the fund. Private equity funds are generally closed-end funds and have significant redemption restrictions that prohibit redemptions during the fund's life.

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

	<u>Investments measured at NAV</u>	<u>Committed capital</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Fixed income commingled funds	\$ 51,181	—	Monthly	10 days
Alternative investments:				
Private Investments	1,489,370	653,119	N/A	N/A
Hedge funds	<u>945,709</u>	<u>—</u>	Monthly, Quarterly, Annually	2 to 180 days
	<u>\$ 2,486,260</u>	<u>653,119</u>		

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

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

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

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(In thousands)

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

(6) Property and Equipment, Net

Property and equipment, net consists of the following as of December 31:

	<u>2023</u>	<u>2022</u>
Land	\$ 525,768	528,255
Land improvements	126,949	118,230
Buildings and fixed equipment	5,024,394	4,840,921
Movable equipment	4,609,626	4,513,926
Leasehold improvements	252,486	242,210
	<u>10,539,223</u>	<u>10,243,542</u>
Less accumulated depreciation	<u>(6,291,370)</u>	<u>(5,996,702)</u>
	4,247,853	4,246,840
Construction in progress	795,188	560,798
	<u>\$ 5,043,041</u>	<u>4,807,638</u>

As of December 31, 2023 and 2022, the Company is contractually obligated for construction projects totaling \$382,838 and \$215,667 at current construction cost levels. It is expected that these costs will be incurred in the next twelve months. The Company intends to 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 \$464,231 and \$463,293 for the years ended December 31, 2023 and 2022, respectively.

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(In thousands)

(7) Long-Term Debt

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

Long-term debt	Coupon rates	Maturity through	December 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	389,005	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	656,835	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	0.79-4.40	2031	103,400	109,400
MH Series 2010C/D demand and DP bonds	0.37-5.36	2034	145,100	152,900
MH Series 2012B demand bonds	0.05-5.01	2036	100,000	100,000
Bon Secours Series 2017 (SC) DP bonds	0.95-5.49	2042	69,925	69,925
MH Series 2018AB commercial paper notes	0.11-5.50		300,000	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	0.68-6.06	2029	150,000	150,000
2018 US Bank variable rate taxable term loan	0.67-6.01	2023	—	160,000
2020 JPMorgan fixed rate taxable term loan	1.73	2023	—	250,000
2022 Euro private placement	4.24	2052	177,568	—
2023 TD Bank variable rate taxable term loan	5.56-6.34	2033	100,000	—
2023 RBC variable rate taxable term loan	6.56-6.57	2026	100,000	—
Revolving Credit Agreement debt outstanding	1.02-6.13	2024	64,939	463
Total master trust indenture obligations			4,645,966	4,462,867

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Long-term debt	Coupon rates	Maturity through	December 31, 2023	December 31, 2022
Ireland variable rate taxable term loan	1.45-5.47	2025	\$ 97,303	101,944
Other debt			27,568	13,892
			4,770,837	4,578,703
Original issue net premium			86,445	102,864
Cost of issuance			(22,565)	(24,313)
			4,834,717	4,657,254
Less current portion of long-term debt			(585,966)	(559,284)
Long-term debt, less current portion			\$ 4,248,751	4,097,970

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 \$97,303.

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 the 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. \$300,000 and \$100,000 of commercial paper notes were outstanding on December 31, 2023 and December 31, 2022, respectively.

On January 5, 2023, the Company completed the issuance of \$169,278 (€160,000) of 4.24% Senior Secured Notes due October 1, 2052, to institutional private purchasers. 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 were 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 consent 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.

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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 December 31, 2023 and December 31, 2022. The Company was in compliance with all restrictive covenants as of December 31, 2023 and December 31, 2022.

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

Period	Master trust indenture obligations	European group and other debt
2024	\$ 120,144	26,886
2025	254,450	97,356
2026	157,530	61
2027	203,810	35
2028	366,429	36
Thereafter	3,543,603	497
Total minimum payments	\$ 4,645,966	124,871

Interest payments for the years ended December 31, 2023 and 2022 were \$188,339 and \$149,925 respectively.

Unamortized debt issuance costs of \$22,565 and \$24,313 as of December 31, 2023 and December 31, 2022, respectively, represent 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 December 31, 2023, the Company has Series 2010C and 2012B variable rate bond obligations in the total amount of \$175,050 with a letter of credit support, Series 2008A, 2010D and 2017 adjustable-rate bonds in the total amount of \$243,375 held under direct purchase agreements with financial institutions and \$447,303 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 February 2033, and their respective term-out repayment provisions extend beyond the subsequent fiscal year.

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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, 2024. \$64,939 and \$463 were outstanding on this agreement as of December 31, 2023 and December 31, 2022.

The Company has recorded as short-term those variable obligations supported by agreements that expire prior to December 31, 2024. As of December 31, 2023, the current portion of long-term debt consists of \$139,500 of principal payments for two variable rate agreements, \$300,000 commercial paper notes, \$64,939 on the revolving credit agreement, (\$564) of discount on commercial paper, \$26,886 of non-master obligation current portion of long-term debt and \$55,205 of other scheduled principal payments on various remaining debt arrangements disclosed above.

(8) Derivatives and Interest Rate Swap Agreements

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

Interest rate swap agreement	Transaction type	Payment rate/basis	Termination date	Notional amount		Valuation amount	
				December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
December 2006 JPM	Pay fixed	3.63 %	2033	\$ 169,420	188,310	(5,515)	(6,586)
December 2018 Barclays	Pay fixed	3.98	2042	—	50,000	—	(2,744)
December 2018 JPM	Pay fixed	3.72	2047	—	40,900	—	(2,124)
December 2018 PNC	Pay fixed	3.45	2042	69,925	69,925	(6,797)	(7,323)
December 2007 JPM	Constant maturity	N/A	2027	250,000	250,000	(762)	(2,365)
August 2018 JPM	Constant maturity	N/A	2037	150,000	150,000	(1,160)	(1,755)
Credit valuation adjustment						1,770	1,190
						<u>\$ (12,464)</u>	<u>(21,707)</u>

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 \$1,046 and \$7,955 for the years ended December 31, 2023 and 2022, respectively.

The Company, as part of a systematic reduction of its fixed payer interest rates swap agreement exposure, canceled notional fixed payer swap agreements of \$90,900 and \$64,997 in 2023 and 2022, respectively. Settlement gains (losses) of \$5,011 and (\$5,766), 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.

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The Company has not posted collateral with designated custodians as of December 31, 2023 but did post collateral with designated custodians of \$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.

(9) 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 is a summary of the components of the change in benefit obligation and plan assets for the Plans as of December 31:

	<u>Pension Plans</u>		<u>Postemployment Plans</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Change in benefit obligation:				
Projected benefit obligation at beginning of year	\$ 2,050,307	2,960,165	13,524	16,501
Service cost	2,141	3,703	274	514
Interest cost	102,415	77,466	651	411
Actuarial loss (gain)	113,776	(573,719)	(69)	(2,247)
Plan amendments	—	(16,289)	—	—
Settlement	(329,487)	(292,630)	—	—
Gross benefits paid and expenses	<u>(126,186)</u>	<u>(108,389)</u>	<u>(1,567)</u>	<u>(1,655)</u>
Projected benefit obligation at end of year	<u>1,812,966</u>	<u>2,050,307</u>	<u>12,813</u>	<u>13,524</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	1,975,281	2,878,430	—	—
Actual return on plan assets	115,312	(533,460)	—	—
Employer contributions	20,000	31,330	1,567	1,655
Gross benefits paid	(126,186)	(108,389)	(1,567)	(1,655)
Settlement	<u>(329,487)</u>	<u>(292,630)</u>	<u>—</u>	<u>—</u>
Fair value of plan assets at end of year	<u>1,654,920</u>	<u>1,975,281</u>	<u>—</u>	<u>—</u>
Under funded status	<u>\$ (158,046)</u>	<u>(75,026)</u>	<u>(12,813)</u>	<u>(13,524)</u>

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(In thousands)

Settlements of \$329,487 and \$292,630 were recognized during the years ended December 31, 2023 and 2022 as a result of one-time lump sum windows offered in both years. The actuarial loss on the benefit obligation for the year ended December 31, 2023 was due primarily to a decrease in the discount rate. In addition, the benefit obligation increased due to an adjustment to reflect an estimate of the cost of purchasing annuities for remaining participants (refer to note 15). The actuarial gain on the benefit obligation for the year ended December 31, 2022, was due primarily to a significant increase in the discount rate.

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

	<u>Pension Plans</u>		<u>Postemployment Plans</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Retirement assets	\$ 131,071	178,337	—	—
Current liabilities	—	—	(1,753)	(1,652)
Retirement liabilities	<u>(289,117)</u>	<u>(253,363)</u>	<u>(11,060)</u>	<u>(11,872)</u>
Net amount recognized	<u>\$ (158,046)</u>	<u>(75,026)</u>	<u>(12,813)</u>	<u>(13,524)</u>

In addition to amounts recognized in the consolidated financial statements related to the Plans, retirement liabilities on the consolidated balance sheets includes other retirement liabilities, consisting primarily of accrued contributions to defined contribution plans, of \$808 and \$607 at December 31, 2023 and 2022, respectively.

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

	<u>Pension Plans</u>		<u>Postemployment Plans</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net prior service cost	\$ (4,224)	(6,975)	—	—
Net actuarial (loss) gain	<u>(433,291)</u>	<u>(381,041)</u>	<u>3,361</u>	<u>3,928</u>
Net amount unrecognized	(437,515)	(388,016)	3,361	3,928
Cumulative excess (shortfall) of employer contributions over net periodic benefit cost	<u>279,469</u>	<u>312,990</u>	<u>(16,174)</u>	<u>(17,452)</u>
	<u>\$ (158,046)</u>	<u>(75,026)</u>	<u>(12,813)</u>	<u>(13,524)</u>

Net actuarial (loss) gain is amortized as a component of net periodic benefit cost (income), only if the losses exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. Net prior service credit (cost) is amortized on a straight-line basis over the estimated life of the Plans' participants.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

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

	<u>Pension Plans</u>		<u>Postemployment Plans</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Amortization of prior service credit	\$ (2,751)	(4,210)	—	—
Net actuarial gain	115,360	63,103	—	—
Amortization of net actuarial loss	(63,110)	(81,241)	—	—
Unrecognized prior service cost	—	(16,289)	—	—
Other postemployment benefit changes	—	—	(567)	2,228
	<u>\$ 49,499</u>	<u>(38,637)</u>	<u>(567)</u>	<u>2,228</u>

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

	<u>Pension benefits</u>		<u>Postemployment benefits</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Service cost	\$ 2,141	3,703	274	514
Interest cost	102,415	77,466	651	411
Expected return on plan assets	(116,897)	(103,362)	—	—
Curtailment/settlement cost	61,785	64,449	—	—
Amortization of:				
Actuarial loss	1,325	16,792	(636)	(19)
Prior service credit/(cost)	2,751	4,210	—	—
Net periodic benefit (income) cost	<u>\$ 53,520</u>	<u>63,258</u>	<u>289</u>	<u>906</u>

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

	<u>Pension Plans</u>		<u>Postemployment Plans</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Discount rate – Church pension and postretirement benefit plans	4.95% – 4.96%	5.20% – 5.21%	4.96%	5.21%
Rate of compensation increase	2.50%	2.50%	N/A	N/A
Cash balance interest crediting rate	2.38% – 6.0%	2.38% – 6.0%	N/A	N/A
Mortality table	Pri-2012	Pri-2012	Pri-2012	Pri-2012
Generational scale	MP-2021	MP-2021	MP-2021	MP-2021

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

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

	Pension Plans		Postemployment Plans	
	2023	2022	2023	2022
Discount rate	5.20% – 5.21%	2.70% – 2.73%	5.21%	2.73%
Rate of compensation increase	2.50%	2.50%	N/A	N/A
Expected long-term rates of return on plan assets	4.50% – 6.20%	2.70% – 5.40%	N/A	N/A
Cash balance interest crediting rate	2.38% – 6.0%	0.70% – 6.0%	N/A	N/A

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

	2023	2022
Healthcare cost trend rate assumed for next year	6.0% - 6.2%	6.2% – 6.5%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.0%	4.0%
Year the rate reaches the ultimate trend rate	2046	2032

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 the years ended December 31:

	2023	2022
Asset category:		
Equity mutual and commingled funds and securities	22 %	24 %
Fixed income mutual funds and securities	55	51
Alternative investments	19	19
Cash	4	6
Total	<u>100 %</u>	<u>100 %</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

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

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

	Fair value	Fair value measurements		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 63,084	63,084	—	—
Equity mutual funds	161,697	93,175	68,522	—
Equity commingled funds	82,092	70,520	11,572	—
Common and preferred stocks	111,270	111,270	—	—
Government and agency bonds	218,233	181,706	36,527	—
Corporate obligations	676,159	—	676,159	—
Total investments	1,312,535	519,755	792,780	—
Due from broker/custodian for investment activity, net	22,541	—	22,541	—
Total plan assets	\$ 1,335,076	519,755	815,321	—

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	Fair value measurements		
		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	—

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

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

	<u>Investments measured at NAV</u>	<u>Committed capital</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Private Investments \$	234,149	62,376	N/A	N/A
Hedge funds	<u>85,695</u>	—	Monthly, Quarterly, Annually	2 to 180 days
	<u>\$ 319,844</u>	<u>62,376</u>		

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

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

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

The projected benefit payments for the Plans are as follows:

	<u>Pension Plans</u>	<u>Post employment Plans</u>
2024	\$ 626,544	1,754
2025	104,607	1,793
2026	97,364	1,849
2027	95,364	1,135
2028	94,802	1,105
2029–2033	450,067	4,618

The projected benefit payments for 2024 include the expected payments of \$517,317 related to the annuity purchase (refer to note 15).

The Company does not expect to contribute to the defined benefit pension plans in 2024. The Company does expect to contribute \$1,754 to the post-employment benefit plans in 2024. The Company has several defined contribution benefit plans to assist eligible employees in providing for retirement. Under such plans, the Company recognized expenses of \$194,228 and \$194,184 for the years ended December 31, 2023 and 2022, respectively, related to employer contributions, which is included in employee compensation in the consolidated statements of operations.

(10) 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 \$365,621 and \$354,072 as of December 31, 2023 and 2022, respectively. The current portion of such accruals, \$72,718 and \$82,998 as of December 31, 2023 and 2022, respectively, is included in other accrued expenses, and the remainder, \$292,903 and \$271,074 as of December 31, 2023 and 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 \$51,434 and \$54,423, as of December 31, 2023 and 2022, respectively. The current portion of such accruals, \$1,147 and \$1,668 as of December 31, 2023 and 2022, respectively, is reported as other accrued expenses. The remainder, \$50,287 and \$52,755, is reported within self-insurance liabilities in the accompanying consolidated balance sheets, which include estimates for incidents incurred but not reported, as of December 31, 2023 and 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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

(c) *Employee Health Insurance*

Accrued claims associated with this program, which are reported as other accrued expenses in the accompanying consolidated balance sheets, of approximately \$50,089 and \$49,384, include estimates for claims incurred but not reported as of December 31, 2023 and 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.

(e) *Leases*

The Company's leases primarily consist of real estate leases for medical and administrative office buildings. The leases have lease terms of 1 year to 119 years, some of which include options to extend the leases for up to 30 years, and some of which include options to terminate the leases within 1 year. The following is the lease expense for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Finance lease expense:		
Amortization of ROU assets	\$ 20,671	20,948
Interest on lease liabilities	13,754	13,262
Operating lease expense	93,986	96,022
Short-term lease expense	25,973	29,366
Variable lease expense	<u>34,053</u>	<u>35,393</u>
Total lease cost	<u>\$ 188,437</u>	<u>194,991</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

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

	<u>Operating</u>	<u>Finance</u>
2024	\$ 90,579	30,820
2025	75,863	30,200
2026	58,932	28,396
2027	46,060	28,435
2028	35,247	28,199
Thereafter	<u>93,076</u>	<u>577,083</u>
Total	399,757	723,133
Less present value discount	<u>(48,372)</u>	<u>(366,588)</u>
Lease liabilities	<u>\$ 351,385</u>	<u>356,545</u>

Other information is as follows as of December 31:

	<u>2023</u>	<u>2022</u>
Weighted average remaining lease terms (in years):		
Finance leases	56.89	57.95
Operating leases	6.44	6.28
Weighted average discount rate:		
Finance leases	3.72 %	3.74 %
Operating leases	3.82	3.82

(11) Net Assets with Donor Restrictions

The Company's endowments consist of 370 and 355 individual funds established for a variety of purposes as of December 31, 2023 and 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 \$95,296 and \$85,441 as of December 31, 2023 and 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 \$6,573 and \$11,060 as of December 31, 2023 and 2022, respectively. The endowment funds with deficiencies had an original gift value of \$53,851 and \$75,354 as of December 31, 2023 and 2022 and a fair value of \$47,278 and \$64,294 as of December 31, 2023 and 2022. These deficiencies resulted from unfavorable market fluctuations.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

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.

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 returns.

(12) Functional Expenses

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

	Program activities			Supporting activities	
	Healthcare services	Ancillary services and other	Total	General and administrative	Total
Employee compensation	\$ 4,629,119	1,431,475	6,060,594	114,619	6,175,213
Purchased services	582,841	321,239	904,080	755,539	1,659,619
Supplies	2,106,317	209,877	2,316,194	186,210	2,502,404
Depreciation and amortization	355,572	75,365	430,937	85,115	516,052
Interest	14,524	174,237	188,761	2,525	191,286
Other operating expenses	1,072,027	94,572	1,166,599	134,434	1,301,033
Total recurring expenses	\$ 8,760,400	2,306,765	11,067,165	1,278,442	12,345,607

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

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

	Program activities			Supporting activities	
	Healthcare services	Ancillary services and other	Total	General and administrative	Total
Employee compensation	\$ 4,491,892	1,203,849	5,695,741	233,868	5,929,609
Purchased services	1,046,774	218,241	1,265,015	248,561	1,513,576
Supplies	1,942,078	98,986	2,041,064	111,442	2,152,506
Depreciation and amortization	347,636	69,620	417,256	83,351	500,607
Interest	13,565	125,480	139,045	2,657	141,702
Other operating expenses	822,417	171,465	993,882	195,287	1,189,169
Total recurring expenses	\$ 8,664,362	1,887,641	10,552,003	875,166	11,427,169

(13) Liquidity and Capital Resources

Financial assets available for general expenditure within one year of the balance sheet date consist of the following as of December 31:

	2023	2022
Cash, cash equivalents and investments	\$ 504,937	541,475
Net patient receivables	1,151,496	1,137,675
Assets whose use is limited:		
Board-designated funds	4,101,881	4,260,497
	\$ 5,758,314	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 \$4,101,881 and \$4,260,497 as of December 31, 2023 and 2022, respectively. The fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

(14) 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, net.

(a) *Ensemble*

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

During the years ended December 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:

	<u>2023</u>	<u>2022</u>
Revenue cycle management and consulting services provided by Ensemble to BSMH	\$ 570,126	531,672
Leased employees, purchased and other services provided to Ensemble by BSMH	(81,400)	(90,755)

BSMH owed Ensemble \$61,837 and \$57,186 as of December 31, 2023 and 2022, respectively. BSMH did not have any outstanding receivables from Ensemble as of December 31, 2023 and 2022, respectively.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(In thousands)

(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 the 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 December 31, 2023 and 2022.

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

	<u>2023</u>	<u>2022</u>
Ensemble	\$ 429,035	439,587
Sentara Princess Anne	51,537	44,898
Other	<u>59,094</u>	<u>64,923</u>
	<u>\$ 539,666</u>	<u>549,408</u>

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

	<u>2023</u>	<u>2022</u>
Ensemble	\$ 55,371	58,901
Sentara Princess Anne	17,369	19,601
Other	<u>825</u>	<u>(6,289)</u>
	<u>\$ 73,565</u>	<u>72,213</u>

(15) **Subsequent Events**

The Company has evaluated and disclosed any subsequent events through March 13, 2024 which is the date the consolidated financial statements were issued and made publicly available.

As part of its defined benefit pension de-risking strategy, BSMH completed an annuity purchase of \$469,064 on February 14, 2024. As a result of this annuity purchase, the insurer will assume responsibility for the retirement benefit payments on May 1, 2024, the insurer benefit commencement date. Monthly benefit payments will be distributed from the pension trust to the participants until the commencement date. As of December 31, 2023, the defined benefit obligation included a \$38,600 reduction in anticipation of the annuity purchase. The impact of this transaction to the 2024 financial statements is still being evaluated.

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

BON SECOURS MERCY HEALTH
Consolidating Schedule – Balance Sheet Information

December 31, 2023

(In thousands)

	Core Business							Digital Business	Shared Services & Other	Discontinued Operations	Consolidating Eliminations	Bon Secours Mercy Health
	Core U.S. Total	Roper St. Francis Healthcare	European Group	Diversified Growth	Core Other	Core Eliminations	Core Total					
Assets												
Current assets:												
Cash and cash equivalents	\$ 1,471,793	74,895	8,298	101,987	95,743	—	1,752,716	18,035	(1,272,079)	(103)	—	498,569
Investments	636	3,087	—	—	2,897	—	6,620	—	(252)	—	—	6,368
Self-insurance and trustee held funds	—	—	—	—	—	—	—	—	95,982	—	—	95,982
Donor restricted funds	3,145	—	—	—	—	—	3,145	—	2,154	—	—	5,299
Total cash and investments	1,475,574	77,982	8,298	101,987	98,640	—	1,762,481	18,035	(1,174,195)	(103)	—	606,218
Net patient receivables	968,225	118,347	74,884	8,121	—	—	1,169,577	—	(16,838)	(1,243)	—	1,151,496
Other receivables	54,027	29,116	448	10,676	86,385	—	180,652	42,114	211,310	12	(48,743)	385,345
Inventories	242,143	24,739	11,139	95	—	—	278,116	—	10,991	—	—	289,107
Prepaid expenses and other current assets	37,512	17,445	7,385	206	103,145	(101,703)	63,990	29,175	275,094	9	(101,703)	266,565
Total current assets	2,777,481	267,629	102,154	121,085	288,170	(101,703)	3,454,816	89,324	(693,638)	(1,325)	(150,446)	2,698,731
Assets whose use is limited:												
Board designated funds	2,517,066	262,941	—	—	22,219	—	2,802,226	—	3,844,837	—	—	6,647,063
Self-insurance and trustee held funds	35	—	—	—	—	—	35	—	349,199	—	—	349,234
Donor restricted funds	5,167	46,326	—	—	—	—	51,493	—	—	—	—	51,493
Total assets whose use is limited	2,522,268	309,267	—	—	22,219	—	2,853,754	—	4,194,036	—	—	7,047,790
Property and equipment, net	3,581,069	716,183	336,029	31,210	27	—	4,664,518	12,411	362,168	3,989	(45)	5,043,041
Investments in unconsolidated organizations	73,811	—	11,918	431,846	—	—	517,575	8,000	14,091	—	—	539,666
Operating lease right-of-use assets	214,305	60,143	7,382	27,929	—	—	309,759	5,836	12,899	—	58	328,552
Retirement assets	—	—	—	—	—	—	—	—	131,071	—	—	131,071
Goodwill	164,537	150,799	1,775	23,102	—	—	340,213	255,632	—	—	—	595,845
Other long-term assets	141,958	110,837	12,035	5,817	359,829	(359,829)	270,647	118,053	2,022,212	4,772	(1,912,342)	503,342
Total assets	\$ 9,475,429	1,614,858	471,293	640,989	670,245	(461,532)	12,411,282	489,256	6,042,839	7,436	(2,062,775)	16,888,038
Liabilities and Net Assets												
Current liabilities:												
Accounts payable	\$ 1,033,545	64,662	52,250	(529,653)	92,239	—	713,043	(12,553)	5,394	(49,654)	10,482	666,712
Current portion of long-term debt	40	101,703	13,847	4,938	101,703	(101,704)	120,527	13,000	554,142	—	(101,703)	585,966
Accrued salaries, wages and benefits	189,722	73,788	17,915	29,833	90	—	311,348	20,677	352,520	—	—	684,545
Current portion of operating lease liabilities	55,277	13,034	392	2,386	—	—	71,089	1,743	5,322	—	23	78,177
Other accrued expenses	11,123	35,035	1,781	584	4,190	—	52,713	8,102	276,190	(271)	(4,188)	332,546
Total current liabilities	1,289,707	288,222	86,185	(491,912)	198,222	(101,704)	1,268,720	30,969	1,193,568	(49,925)	(95,386)	2,347,946
Long-term debt, less current portion	1,496,444	359,638	139,784	—	373,807	(359,828)	2,009,845	—	4,151,248	—	(1,912,342)	4,248,751
Retirement liabilities	164,599	—	460	—	—	—	165,059	—	135,926	—	—	300,985
Self-insurance liabilities	—	—	—	—	—	—	—	—	343,190	—	—	343,190
Operating lease liabilities	177,484	50,879	6,991	24,292	—	—	259,646	5,515	8,047	—	—	273,208
Other long-term liabilities	108,283	103,612	126,154	11,483	—	—	349,532	29,773	176,812	6,620	—	562,737
Total liabilities	3,236,517	802,351	359,574	(456,137)	572,029	(461,532)	4,052,802	66,257	6,008,791	(43,305)	(2,007,728)	8,076,817
Net assets without donor restrictions:												
Controlling interest	6,133,556	756,126	111,719	1,093,708	(232,153)	—	7,862,956	413,872	(168,953)	50,741	(55,047)	8,103,569
Noncontrolling interest	87,485	1,805	—	3,418	330,369	—	423,077	9,127	—	—	—	432,204
Total net assets without donor restrictions	6,221,041	757,931	111,719	1,097,126	98,216	—	8,286,033	422,999	(168,953)	50,741	(55,047)	8,535,773
Net assets with donor restrictions	17,871	54,576	—	—	—	—	72,447	—	203,001	—	—	275,448
Total net assets	6,238,912	812,507	111,719	1,097,126	98,216	—	8,358,480	422,999	34,048	50,741	(55,047)	8,811,221
Total liabilities and net assets	\$ 9,475,429	1,614,858	471,293	640,989	670,245	(461,532)	12,411,282	489,256	6,042,839	7,436	(2,062,775)	16,888,038

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH
Consolidated Schedule – Operating Information
Year Ended December 31, 2023
(In thousands)

	Core Business						Digital Business	Non-Core Shared Services & Other	Consolidating Eliminations	Bon Secours Mercy Health	
	Core U.S. Total	Roper St. Francis Healthcare	European Group	Diversified Growth	Core Other	Core Eliminations					Core Total
Revenues:											
Net patient service revenue	\$ 9,326,781	1,389,915	451,966	27,986	125	—	11,196,773	—	(208,351)	—	10,988,422
Other revenue, net	346,684	113,993	22,508	147,342	188,860	(97,544)	721,843	499,075	2,173,846	(2,161,434)	1,233,330
Total operating revenues	9,673,465	1,503,908	474,474	175,328	188,985	(97,544)	11,918,616	499,075	1,965,495	(2,161,434)	12,221,752
Expenses:											
Employee compensation	4,445,814	671,261	234,568	110,060	37,771	(34,956)	5,464,518	404,401	675,673	(369,379)	6,175,213
Purchased services and other	632,951	204,638	47,053	22,229	80,674	(76,872)	910,673	48,029	876,159	(175,242)	1,659,619
Supplies	1,834,422	334,000	131,912	7,592	68	—	2,307,994	659	186,203	7,548	2,502,404
Depreciation and amortization	320,540	54,129	17,375	2,024	22	—	394,090	34,661	87,301	—	516,052
Interest expense	(6,075)	22,119	8,542	201	19,930	(17,273)	27,444	941	182,831	(19,930)	191,286
Other Operating Expenses	2,481,001	186,185	23,688	11,748	4,603	31,557	2,738,782	15,045	151,642	(1,604,436)	1,301,033
Total operating expenses	9,708,653	1,472,332	463,138	153,854	143,068	(97,544)	11,843,501	503,736	2,159,809	(2,161,439)	12,345,607
Recurring operating (loss) income	(35,188)	31,576	11,336	21,474	45,917	—	75,115	(4,661)	(194,314)	5	(123,855)
Nonrecurring operating gains (losses), net	410	(8,818)	1	2,956	16	—	(5,435)	(32,000)	(11,083)	—	(48,518)
Operating (loss) income	(34,778)	22,758	11,337	24,430	45,933	—	69,680	(36,661)	(205,397)	5	(172,373)
Nonoperating gains (losses), net:											
Investment gains (losses)	179,752	31,567	(11)	—	4,430	—	215,738	—	315,601	—	531,339
Realized and unrealized interest rate swap agreements gains	—	—	—	—	—	—	—	—	13,205	—	13,205
Other nonoperating activities, net	(35,427)	(7,336)	(288)	(22,492)	—	—	(65,543)	50	(84,280)	—	(149,773)
Excess (deficit) of revenue over expenses	\$ 109,547	46,989	11,038	1,938	50,363	—	219,875	(36,611)	39,129	5	222,398

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Providers of Liquidity and Credit Support As of December 31, 2023

The following obligations are secured by a provider of liquidity or credit support. In addition, Bon Secours Mercy Health provides self-liquidity on certain of its variable rate debt obligations.

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

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

Standby Bond Purchase Agreement securing the
County of Allen, Ohio Adjustable Rate Hospital Facilities Revenue Bonds
Series 2012B (Catholic Health Partners)

Contact: Ohio Treasurer Robert Sprague
30 East Broad Street – Floor 9
Columbus, Ohio 43215
Attention: Lisa Eisenberg, Director of Debt Management
Phone: (614) 466-7752

Credit Agreement for the benefit of Bon Secours Mercy Health relating to
Mercy Health Taxable Commercial Paper Notes
Series 2018A and Series 2018B (Bon Secours Mercy Health)

Contact: Truist Bank
8044 Montgomery Road, Suite 340
Cincinnati, Ohio 45236
Attention: Benjamin Willingham, Relationship Manager
Phone: (513) 289-8822

Working Capital Line of Credit

Contact: Fifth Third Bank

38 Fountain Square Plaza

Cincinnati, OH 45202

Attention: Eric O'Driscoll, Managing Partner

Phone: (513) 534-6218

Note: also see Footnote (7) in the Consolidated Audited Financial Statements

Recent Developments

Nordic Consulting Group

In April of 2023, BSMH announced expanded services with majority owned Nordic Consulting Group (“Nordic”), a global health and technology consulting company that provides healthcare-focused information technology advisory and staffing consulting services to a global customer base. Those services deliver end to end IT services as BSMH Information and Technology teams joined Nordic effective July 1, 2023.

Compass Partnership

In May 2023, BSMH announced a partnership with Compass Surgical Partners, an independent, full-service ambulatory surgery center management company. This partnership will expand outpatient surgical care services across the BSMH enterprise.

Bon Secours Mercy Health Kings Mills Hospital

In January 2024, BSMH opened Mercy Health Kings Mills hospital. The facility is a \$200 million, 172,500 square feet, 60 bed facility built to serve the greater Cincinnati area.

Compassus Joint Venture

In February of 2024, BSMH announced a joint venture partnership with Compassus, a home-based care company. This partnership transfers BSMH’s home health and hospice operations in five states over to Compassus in a 50-50 joint venture.

Recent Debt Incurrences

On January 5, 2023 the Company completed the issuance of \$169.3 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, Bon Secours Mercy Health entered into a Term Loan Agreement with TD Bank, N.A. in the amount of \$100.0 million. The proceeds of this borrowing will be used for general corporate purposes.