

# BON SECOURS MERCY HEALTH

## Financial Disclosure

For the Third Quarter  
Ended September 30, 2024

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## **Interim Financial Statement Disclaimer**

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

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

BON SECOURS MERCY HEALTH

# Management's Discussion and Analysis of Recent Financial Performance

*Three and Nine Months Ended September 30, 2024*

# 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 healthcare 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 healthcare by establishing a best-in-class core healthcare 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 Health Partners Holdings, LLC (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

John M. Starcher, Jr.  
 Michael A. Bezney, JD  
 David Cannady  
 Rev. Joseph P. Cardone, PhD  
 Travis L. Crum, CPA  
 Joe L. Gage, JD  
 Wael Haidar, MD, MBA  
 Chris Hilton  
 Donald Kline  
 Sandra Mackey  
 Veronica Scott-Fulton, DNP, MBA-c, MPH, BSN, BA, NEA-BC  
 Jason Siegert  
 Jason Szczuka

#### Title

President & Chief Executive Officer  
 Chief Legal Officer  
 Chief Strategy Officer  
 Chief Mission Officer  
 Chief Financial Officer  
 Chief Human Resources Officer  
 Chief Clinical Officer  
 SVP Enterprise Optimization and Integration  
 Chief Operating Officer  
 Chief Marketing Officer  
 Chief Nurse Executive  
 Chief Ventures Officer  
 Chief Digital Officer

### Board of Directors

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

#### Board of Directors

Peter F. Maddox, Chair  
 Jennifer O’Brien, JD, Vice Chair  
 Katherine A. Arbuckle, CPA  
 Sr. Patricia Eck, CBS (PJP)  
 Sr. Fran Gorsuch, CBS  
 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

FIFTH LARGEST U.S. Catholic health care system;  
the LARGEST not-for-profit private provider in Ireland



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



Approximately **\$13 BILLION**  
in proforma net operating revenue

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

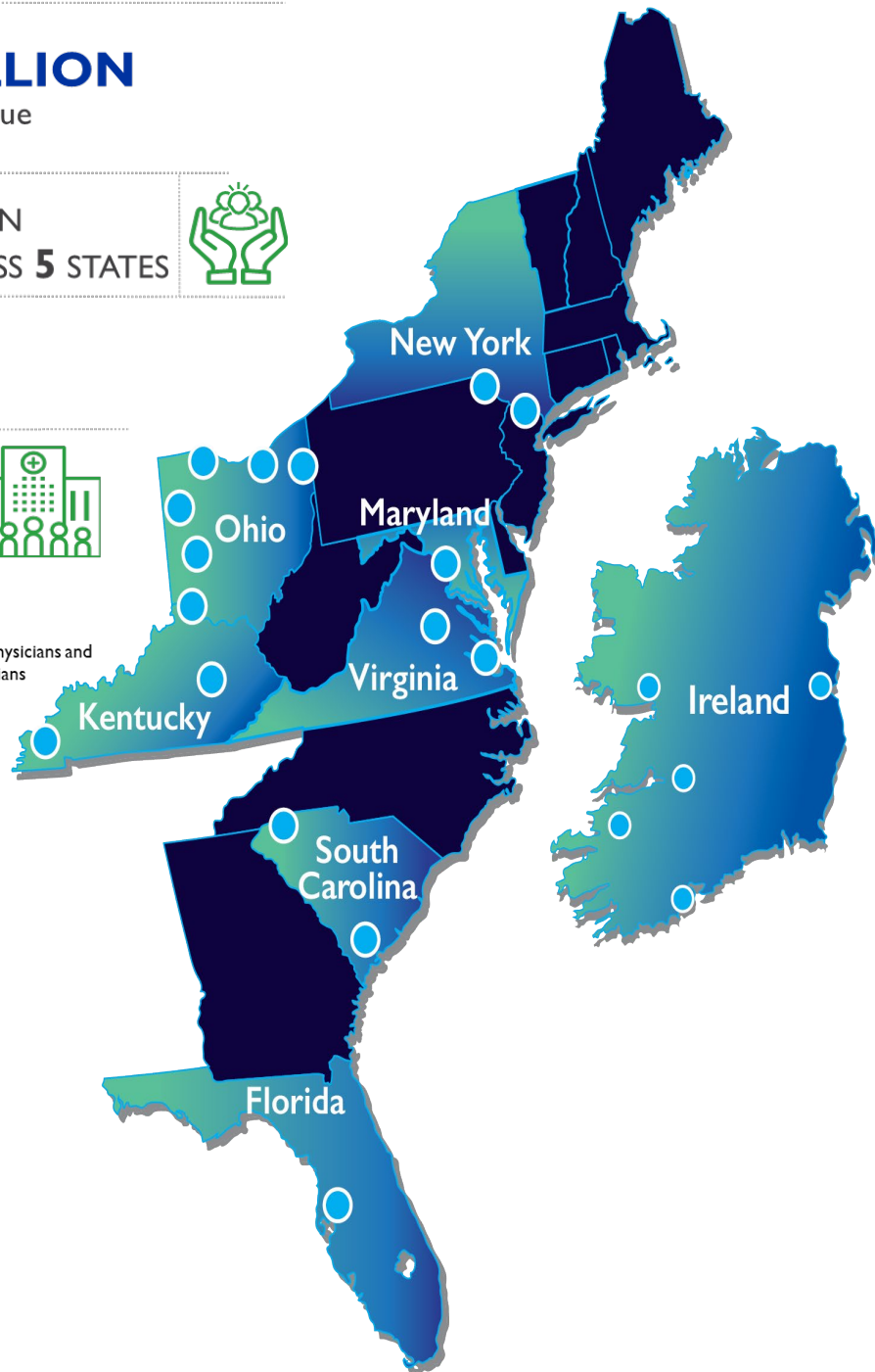


**49** HOSPITALS

**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. As we continue that journey, we have enhanced our accountability and focus on ESG work, we have released the Bon Secours Mercy Health Environmental, Social and Governance (ESG) 2024 Progress Report which is available for review on the Bon Secours Mercy Health website.

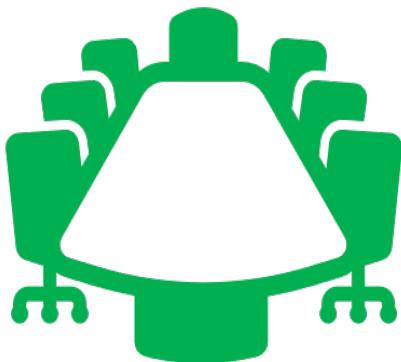
### Our Areas of Focus

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

Bon Secours Mercy Health 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. BSMH has implemented initiatives in energy efficiency such as geothermal systems, green building design, waste management and water conservation. BSMH is leading the way as one of the first healthcare systems to submit for IRA tax credits for a geothermal system. Our dedication to sustainability earned us prestigious awards from Practice Greenhealth, the leading organization in healthcare sustainability.



#### Social

Bon Secours Mercy Health is focused on helping people live healthier lives as we extend healthcare 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. BSMH is also supporting diverse suppliers in our communities through our supply chain management company, Advantus Health Partners. We have also invested more than \$47 million in local communities to address social determinants or drivers of health (SDOH). In addition, BSMH's Foundation supports individuals and programs in twelve communities in five states where our markets provide comprehensive healthcare 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 cybersecurity. Bon Secours Mercy Health implemented a comprehensive governance structure designed to effectively oversee strategy, growth and risk management. 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 explanations of the financial condition, operational results, and cash flows of BSMH to assist in an increased understanding of the consolidated financial statements. The financial information as of and for the three and nine months ended September 30, 2024 and 2023, presented below, has been derived from BSMH's internal financial information. This document is incorporated herein by reference and is available for review on the Electronic Municipal Market Access ("EMMA") website operated by the Municipal Securities Rulemaking Board ("MSRB"). In conformity with U.S. generally accepted accounting principles, the consolidated financial statements and this Management's Discussion and Analysis include the financial position, results of operations, changes in net assets, and cash flows of Bon Secours Mercy Health, HealthSpan Partners, and subsidiaries. Information as of and for the three and nine months ended September 30, 2024 and 2023, is consistent with the presentation of BSMH's unaudited financial statements.

## FINANCIAL HIGHLIGHTS AND SUMMARY

Financial performance improved during the nine months ended September 30, 2024, compared to the same period of the prior year. Patient volumes continued to improve, resulting in higher operating EBITDA and EBITDA margin for the three and nine months ended September 30, 2024, compared to the prior year periods. The positive impacts from these volume improvements during the first nine months of 2024 were partially offset by increased operating expenses. Operating expense increases for the nine months ended September 30, 2024, were driven by the continued favorability in patient volumes and the continued impacts of inflation. While expenses have increased, revenue growth has outpaced expense growth. Management continues to execute actions to right-size operating expenses to ensure that the health system can deliver services to the communities it serves. These actions are expected to result in run-rate improvements of more than \$430.0 million in 2024.

Investment equity markets performed well during the first nine months of 2024, resulting in investment gains (realized and unrealized) for BSMH. The favorable operating results for the first nine months of 2024, combined with net investment gains, led to an excess of revenue over expenses.

## OVERVIEW OF SIGNIFICANT TRANSACTIONS

BSMH completed an annuity purchase of \$469.1 million on February 14, 2024 as part of its defined benefit pension de-risking strategy. As a result of the annuity purchase, a third-party insurer assumed responsibility for the retirement benefit payments for specific retirement plans on May 1, 2024, the insurer benefit commencement date. This annuity purchase triggered a noncash pension settlement loss in the amount of \$41.8 million. Additionally, pension assets and liabilities have been remeasured as of March 31, 2024, resulting in an increase of net funded status by \$45.5 million.

On May 1, 2024, Bon Secours Mercy Health completed an agreement with the Medical Society of South Carolina to restructure Roper St. Francis Healthcare, a BSMH consolidated subsidiary. Through a restructuring capital contribution, BSMH increased its ownership interest in the joint venture from 51% to 80% equity.

On May 1, 2024, Bon Secours Mercy Health and FC Compassus, LLC (Compassus), a for-profit company that provides innovative home-based healthcare services, completed the execution of a 50/50 joint venture partnership for home care and hospice. Under the joint venture, Compassus owns a 50% interest and manages the operations for ten Bon Secours Mercy Health home health agencies and eleven hospice operations spanning five states. In consideration of the divestiture of its home care and hospice assets, BSMH received a 4.1% equity ownership in the Compassus parent company and the remaining 50% noncontrolling ownership in the joint venture. The divestiture resulted in a non-operating gain of \$87.0 million (net of transaction costs) for the nine months ended September 30, 2024 and is provisional pending final working capital adjustments.

During July 2024, Bon Secours Mercy Health received a one-time cash distribution of \$331.3 million dividend from Ensemble. This cash inflow was recognized in July 2024 as a reduction to the carrying value of BSMH's investment in Ensemble.

## KEY FINANCIAL RATIOS

Three Months Ended September 30,				(\$s in thousands)	Nine Months Ended September 30,			
2024		2023			2024		2023	
Amount	Margin	Amount	Margin		Amount	Margin	Amount	Margin
\$3,266,261		\$3,003,594		Net operating revenue	\$9,813,936		\$8,942,758	
\$147,831	4.5%	\$114,639	3.8%	Operating EBITDA	\$576,578	5.9%	\$319,048	3.6%
(\$38,899)	(1.2%)	(\$62,806)	(2.1%)	Recurring operating income (loss)	\$24,478	0.2%	(\$215,101)	(2.4%)
\$267,521	8.2%	(\$174,590)	(5.8%)	Excess (Deficit) of revenue over expenses	\$522,725	5.1%	(\$114,730)	(1.3%)

Net operating revenue grew by \$262.7 million or 8.8% for the three months ended September 30, 2024, compared to the prior year. Net operating revenue grew by \$871.2 million or 9.7% for the nine months ended September 30, 2024, compared to the prior year. The growth in net operating revenue was primarily attributable to growth in net patient revenue driven by increased patient volumes. FEMA Public Assistance program funding of \$39.9 million for the nine months ended September 30, 2024, was received, and recognized in other operating revenue, while none was recognized in the prior year.

Operating EBITDA was \$147.8 million (margin 4.5%) and \$576.6 million (margin 5.9%) for the three and nine months ended September 30, 2024, respectively, an improvement compared to the prior year periods. The improvement was attributed to increased patient volumes and the positive impacts of run-rate improvement efforts. Consistent with the improvement in operating EBITDA, the recurring operating income (loss) margin of 0.2% for the first nine months of 2024 also improved from the prior year (-2.4%). Excess of revenue over expenses was \$267.5 million (margin 8.2%) and \$522.7 million (margin 5.1%) for the three and nine months ended September 30, 2024, respectively, favorable as compared to the prior year as a result of the improved operating performance in 2024 as well as significant investment gains during 2024.

Three Months Ended September 30,				(\$s in thousands)	Nine Months Ended September 30,			
2024		2023			2024		2023	
Amount	% of Exp	Amount	% of Exp		Amount	% of Exp	Amount	% of Exp
\$140,383	4.2%	\$151,272	4.9%	Community Benefit	\$413,789	4.2%	\$451,233	4.9%

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 nine months ended September 30, 2024, community benefit totaled \$413.8 million or 4.2% of total operating expenses, a decrease from the prior period largely due to increased reimbursement from supplemental state Medicaid programs in the current year. Excluding this reimbursement, community benefits would be \$1.0 billion or 10.3% of total expenses for the nine months ended September 30, 2024, compared to \$925.8 million or 10.1% of total operating expenses in the same period of the prior year.

## LIQUIDITY AND KEY PERFORMANCE INDICATORS

	September 30, 2024	December 31, 2023
<b>Days cash on hand</b>	<b>222</b>	221
<b>Unrestricted cash to debt</b>	<b>159.9%</b>	147.9%
<b>Total debt to capitalization</b>	<b>34.7%</b>	37.4%
<b>Pension funding</b>	<b>91.3%</b>	91.2%

The Company's balance sheet remains strong with solid liquidity and stable leverage. Days cash on hand increased from 221 days as of December 31, 2023 to 222 days as of September 30, 2024, primarily as a result of positive cash flows from operating results, investment income and the Ensemble dividend, offset by capital expenditures, growth in cash expenses (10 days) and working capital changes. For the nine months that ended September 30, 2024, capital expenditures were \$576.7 million (17 days) and included \$217.8 million related to the construction of new hospitals and hospital expansions. The Company's debt to capitalization ratio was 34.7% as of September 30, 2024, a decrease from 37.4% as of December 31, 2023, largely driven by the net gains for the period, payoff of \$60.0 million on the revolving credit agreement and \$204.6 million reclassification from noncontrolling interest to controlling interest for BSMH's increased ownership interest in Roper St. Francis Healthcare.

Pension funding was 91.3% as of September 30, 2024, up 0.1% over the prior year, due to asset gains and the execution of the Company's pension de-risking strategy related to its defined benefit pension obligations. Actions related to this pension de-risking strategy triggered the recognition of noncash pension settlement losses during the first quarter of 2024 totaling \$41.8 million. Additionally, pension assets and liabilities were remeasured as of March 31, 2024, increasing net funded status by \$45.5 million. Primarily as a result of the pension de-risking activity, pension liabilities decreased from \$1.8 billion as of December 31, 2023, to \$1.3 billion as of September 30, 2024.

## VOLUME TRENDS

Three Months Ended September 30,				Nine Months Ended September 30,		
2024	2023	Change %		2024	2023	Change %
<b>92,662</b>	88,662	4.5%	<b>Admissions</b>	<b>280,231</b>	267,100	4.9%
<b>17,154</b>	15,832	8.4%	<b>Observations</b>	<b>48,191</b>	47,765	0.9%
<b>7,007</b>	7,001	0.1%	<b>Deliveries</b>	<b>19,718</b>	20,147	(2.1%)
<b>18,672</b>	17,952	4.0%	<b>Inpatient Surgeries</b>	<b>55,844</b>	54,599	2.3%
<b>53,500</b>	52,211	2.5%	<b>Outpatient Surgeries</b>	<b>164,230</b>	162,311	1.2%
<b>415,708</b>	401,073	3.6%	<b>ER Visits</b>	<b>1,228,320</b>	1,172,595	4.8%
<b>1,913,732</b>	1,771,607	8.0%	<b>Physician Visits</b>	<b>5,823,596</b>	5,375,711	8.3%

Volumes for the nine months ended September 30, 2024, improved when compared to the prior year. Admissions and physician visits for the nine months ended September 30, 2024, increased significantly compared to the prior year by 4.9% and 8.3%, respectively. Emergency room visits and inpatient surgeries in the nine months ended September 30, 2024, also improved from the prior year with increases of 4.8% and 2.3%, respectively. Observations were 0.9% higher than the prior year. Deliveries also declined compared to the prior year but remained above pre-pandemic levels.

## RESULTS OF OPERATIONS

Three Months Ended September 30,		(\$s in thousands)	Nine Months Ended September 30,	
2024	2023		2024	2023
\$ 2,931,060	\$2,658,192	Net Patient Service Revenue	\$ 8,814,771	\$8,042,322
335,201	345,402	Other Operating Revenue <sup>(1)</sup>	999,165	900,436
<b>3,266,261</b>	<b>3,003,594</b>	<b>Net Operating Revenue</b>	<b>9,813,936</b>	<b>8,942,758</b>
1,580,934	1,524,830	Employee Compensation	4,743,554	4,614,203
467,040	417,506	Purchased Services	1,368,560	1,193,763
689,894	626,515	Pharmaceuticals & Supplies	2,041,977	1,855,520
131,821	123,807	Depreciation and Amortization	390,187	383,160
48,032	48,664	Interest Expense	146,564	141,761
387,439	325,078	Other Operating Expenses	1,098,616	969,452
<b>(38,899)</b>	<b>(62,806)</b>	<b>Recurring Operating (Loss) Income</b>	<b>24,478</b>	<b>(215,101)</b>
(7,567)	(4,734)	Nonrecurring (Losses) Net	(26,819)	(4,375)
(984)	16,977	Interest Rate Swap Agreements (Losses) Gains	(265)	18,494
338,739	(106,819)	Investment Gains (Losses)	527,897	144,276
(23,768)	(17,208)	Other Nonoperating Activities, Net	(2,566)	(58,024)
<b>\$ 267,521</b>	<b>(\$174,590)</b>	<b>Excess (Deficit) of Revenue Over Expenses</b>	<b>\$ 522,725</b>	<b>(\$114,730)</b>

<sup>1</sup> Other Operating Revenue includes funding of \$39.9 million for the FEMA Public Assistance program recognized for the nine months ended September 30, 2024. There was no funding from FEMA recognized for the nine months ended September 30, 2023.

## NET OPERATING REVENUE

Net operating revenue increased by \$262.7 million or 8.8% for the three months ended September 30, 2024, compared to the prior year. Net operating revenue increased by \$871.2 million or 9.7% for the nine months ended September 30, 2024, compared to the prior year. Net patient service revenue increased by \$272.9 million or 10.3% for the three months ending September 30, 2024, compared to the prior year. Net patient service revenue increased by \$772.4 million or 9.6% for the nine months ended September 30, 2024, when compared to the prior year. The growth in net patient service revenue was primarily due to higher patient volumes for the nine months ended September 30, 2024.

Other operating revenue decreased (\$10.2) million or (3.0%) for the three months ended September 30, 2024, compared to the prior year. Other operating revenue increased \$98.7 million or 11.0% for the nine months ended September 30, 2024, compared to the prior year. The increase was mainly driven by the FEMA Public Assistance program funding of \$39.9 million for the nine months ending September 30, 2024, recognized in other operating revenue, while none was received or recognized in the prior year to date period. Additionally, retail pharmacy revenue increased by \$69.6 million, resulting in an increase in other operating revenue.

## OPERATING EXPENSES

Total operating expenses were \$9.8 billion for the nine months ended September 30, 2024, an increase of \$631.6 million or 6.9% from the prior year. This was primarily driven by increased patient volumes, partially offset by the positive impacts of management's run-rate improvement action plans. The 6.9% increase in operating expenses is below the comparable growth in net operating revenue of 9.7%. Employee compensation increased \$129.4 million or 2.8% from the prior year, driven by the increased patient volumes in the nine months of 2024. These increases were partially offset by reductions in agency labor expense for the nine months ended September 30, 2024, compared to the same period of the prior year, as a result of successful efforts to transition contract labor roles to full-time employees. Agency costs declined from \$205.4 million for the nine months ended September 30, 2023, to \$128.6 million for the same period in 2024. This reduction in

contract labor has helped drive total employee compensation as a percentage of net patient service revenue from 57.4% for the nine months ending September 30, 2023, to 53.8% for the nine months ending September 30, 2024. For the nine months ended September 30, 2024, pharmaceuticals and supplies expense as a percentage of net patient service revenue was 23.2%, compared to 23.1% for the prior year. Supplies expense grew by \$89.7 million for the nine months ended September 30, 2024, largely due to increased patient volumes. For the nine months ended September 30, 2024, other operating expenses (including professional fees, rent, insurance, utilities, and other operating expenses) as a percentage of net patient service revenue was 12.5%, a slight increase from 12.1% in the prior year.

## **NONOPERATING GAINS AND LOSSES, NET**

Investment results continued to be positive in 2024 primarily due to strong public equity returns in the year's first nine months. Net investment gains (realized and unrealized) were \$527.9 million for the nine months ended September 30, 2024, compared to \$144.3 million for the nine months ended September 30, 2023. The combined operating portfolios (\$6.7 billion) returned 7.9% for the nine months ended September 30, 2024. The loss on interest rate swap agreements was (\$0.3) million for the nine months ended September 30, 2024, compared to income of \$18.5 million for the nine months ended September 30, 2023.

In consideration of the divestiture of its home care and hospice assets, the Company recognized a non-operating gain of \$87.0 million (net of transaction costs and provisional pending final working capital adjustments) for the nine months ended September 30, 2024. Additionally, a pension settlement loss of \$41.8 million was recognized during the first quarter of 2024, related to pension de-risking activity.

## **SUBSEQUENT EVENTS**

On November 26, 2024, Hamilton County finalized its agreement to purchase the property currently serving as BSMH's primary corporate administrative space. As of September 30, 2024, this property was reflected as a financing lease in our consolidated financial statements. The closing triggered the termination of BSMH's long-term lease for the site, resulting in a one-time termination fee of \$31.5 million being paid to the county. The accounting impact of the transaction is currently being evaluated and will be recorded during the fourth quarter of 2024.

There were no other recognized or unrecognized subsequent events identified for recognition or disclosure in the consolidated financial statements.

**BON SECOURS MERCY HEALTH**

Consolidated Financial Statements (Unaudited)

Nine Months Ended September 30, 2024 and 2023

**BON SECOURS MERCY HEALTH**  
Consolidated Balance Sheets  
September 30, 2024 (Unaudited) and December 31, 2023  
(In thousands)

	<b>September 30,</b>	<b>December 31,</b>
<b>Assets</b>	<b>2024</b>	<b>2023</b>
	<hr/>	<hr/>
Current assets:		
Cash and cash equivalents	\$ 471,855	498,569
Investments	6,673	6,368
Self-insurance and trustee held funds	89,661	95,982
Donor restricted funds	3,790	5,299
Total cash and investments	<hr/> 571,979	<hr/> 606,218
Net patient receivables	1,230,720	1,151,496
Other receivables	371,657	385,345
Inventories	300,339	289,107
Prepaid expenses and other current assets	299,041	266,565
Total current assets	<hr/> 2,773,736	<hr/> 2,698,731
Assets whose use is limited:		
Board designated funds	7,061,765	6,647,063
Self-insurance and trustee held funds	385,588	349,234
Donor restricted funds	64,108	51,493
Total assets whose use is limited	<hr/> 7,511,461	<hr/> 7,047,790
Property and equipment, net	5,247,353	5,043,041
Investments in unconsolidated organizations	344,918	539,666
Operating lease right-of-use assets	341,807	328,552
Retirement assets	177,355	131,071
Goodwill	594,303	595,845
Other long-term assets	462,907	503,342
Total assets	<hr/> \$ 17,453,840	<hr/> 16,888,038
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 646,703	666,712
Current portion of long-term debt	505,242	585,966
Accrued salaries, wages and benefits	581,357	684,545
Current portion of operating lease liabilities	76,701	78,177
Other accrued expenses	388,202	332,546
Total current liabilities	<hr/> 2,198,205	<hr/> 2,347,946
Long-term debt, less current portion	4,211,676	4,248,751
Retirement liabilities	296,570	300,985
Self-insurance liabilities	394,900	343,190
Operating lease liabilities	285,497	273,208
Other long-term liabilities	597,193	562,737
Total liabilities	<hr/> 7,984,041	<hr/> 8,076,817
Net assets without donor restrictions:		
Controlling interest	8,867,242	8,103,569
Noncontrolling interest	268,804	432,204
Total net assets without donor restrictions	<hr/> 9,136,046	<hr/> 8,535,773
Net assets with donor restrictions	333,753	275,448
Total net assets	<hr/> 9,469,799	<hr/> 8,811,221
Total liabilities and net assets	<hr/> \$ 17,453,840	<hr/> 16,888,038
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to consolidated financial statements.

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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
<b>Revenues:</b>				
Net patient service revenue	\$ 2,931,060	2,658,192	\$ 8,814,771	8,042,322
Other revenue, net	335,201	345,402	999,165	900,436
Total operating revenues	3,266,261	3,003,594	9,813,936	8,942,758
<b>Expenses:</b>				
Employee compensation	1,580,934	1,524,830	4,743,554	4,614,203
Purchased services	467,040	417,506	1,368,560	1,193,763
Supplies	689,894	626,515	2,041,977	1,855,520
Depreciation and amortization	131,821	123,807	390,187	383,160
Interest expense	48,032	48,664	146,564	141,761
Other operating expenses	387,439	325,078	1,098,616	969,452
Total operating expenses	3,305,160	3,066,400	9,789,458	9,157,859
Recurring operating (loss) income	(38,899)	(62,806)	24,478	(215,101)
<b>Nonrecurring operating (losses), net</b>				
Operating loss	(7,567)	(4,734)	(26,819)	(4,375)
<b>Nonoperating gains (losses), net:</b>				
Investment gains (losses)	338,739	(106,819)	527,897	144,276
Realized and unrealized interest rate swap agreements (losses) gains	(984)	16,977	(265)	18,494
Other nonoperating activities, net	(23,768)	(17,208)	(2,566)	(58,024)
Excess (deficit) of revenue over expenses	\$ 267,521	(174,590)	\$ 522,725	(114,730)

See accompanying notes to consolidated financial statements.

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

	<b>Controlling interest</b>	<b>Noncontrolling interest</b>	<b>Net assets without donor restrictions</b>	<b>Net assets with donor restrictions</b>	<b>Total net assets</b>
Balance at December 31, 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	\$ 8,103,569	432,204	8,535,773	275,448	8,811,221
Excess of revenues over expenses	474,843	47,882	522,725	—	522,725
Grants and contributions	1,300	6,062	7,362	81,286	88,648
Investment gains	—	—	—	13,022	13,022
Net assets released from restrictions	9,413	—	9,413	(33,341)	(23,928)
Transfer of interest from noncontrolling interest owners	204,635	(204,635)	—	—	—
Distributions to noncontrolling interest owner	—	(13,839)	(13,839)	—	(13,839)
Pension and other postemployment changes	83,895	—	83,895	—	83,895
Other changes, net	(10,413)	1,130	(9,283)	(2,662)	(11,945)
Increase (decrease) in net assets	<u>763,673</u>	<u>(163,400)</u>	<u>600,273</u>	<u>58,305</u>	<u>658,578</u>
Balance at September 30, 2024	\$ <u>8,867,242</u>	<u>268,804</u>	<u>9,136,046</u>	<u>333,753</u>	<u>9,469,799</u>

See accompanying notes to consolidated financial statements.

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

**Nine months ended September 30,**

	<b>2024</b>	<b>2023</b>
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets	\$ 658,578	(116,531)
Depreciation and amortization	390,187	383,160
Amortization of premium on issued debt securities	(9,976)	(10,677)
Gain on sale of home health and hospice	(88,548)	—
Other changes in net assets, net	(14,049)	(41,804)
Pension and other post employment adjustments	(83,895)	—
Contributions restricted by donor	(81,286)	(42,923)
Net gains on investments	(435,236)	(59,586)
<b>Cash (used in) provided by changes in operating assets and liabilities:</b>		
Current assets	(108,201)	(199,177)
Long-term assets	76,914	26,209
Current liabilities	(66,255)	(162,261)
Long-term liabilities	77,259	65,852
Net cash provided by (used in) operating activities	315,492	(157,738)
<b>Cash flows from investing activities:</b>		
Acquisition of subsidiaries, net of cash received	—	(18,249)
Property and equipment additions, net of disposals	(576,675)	(500,591)
Purchase of alternative investments and other securities	(300,949)	(215,458)
Sales of alternative investments and other securities	346,253	126,430
Investments and assets whose use is limited, net	(66,214)	360,403
Distribution from equity method investment	331,332	—
Purchase of investments in unconsolidated organizations	(28,877)	(2,837)
Net cash used in investing activities	(295,130)	(250,302)
<b>Cash flows from financing activities:</b>		
Restricted contributions	81,286	42,923
Contribution from noncontrolling interest	6,062	—
Distributions to noncontrolling interest	(13,839)	(12,998)
Proceeds from debt issuance	3,461	476,813
Repayment of long-term debt	(112,313)	(293,717)
Repayment of finance lease	(11,732)	(12,244)
Cost of long-term debt issuance	—	(191)
Net cash (used in) provided by financing activities	(47,075)	200,586
Effect of exchange rates on cash and cash equivalents	(1)	9
Net decrease in cash and cash equivalents	(26,714)	(207,445)
Cash and cash equivalents, beginning of the year	498,569	506,242
Cash and cash equivalents, end of the period	\$ 471,855	298,797

See accompanying notes to consolidated financial statements.

## **BON SECOURS MERCY HEALTH**

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(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 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 (US-GAAP), the consolidated financial statements include the balance sheets, results of operations and changes in net assets, and cash flows of BSMH. Investments in entities where the Company holds a noncontrolling interest are recorded under the equity or cost method of accounting. The Company has included its equity share of income or losses and changes in net assets from investments in unconsolidated affiliates in other revenue, net in the accompanying consolidated statements of operations. All material intercompany transactions and account balances have been eliminated in consolidation.

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

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

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

##### **(b) Assets Whose Use is Limited**

Assets whose use is limited include assets held by trustees under indentures, self-insurance trust arrangements, securities on loan under securities lending arrangements, assets related to donor-restricted net assets, and assets designated by the board of directors over which it retains control and may, at its discretion, use for other purposes. Investments consist of marketable equity securities, corporate bonds, U.S. government and government-related marketable debt securities, alternative investments, money market funds and non-government-related marketable debt securities.

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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

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

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

Unrealized gains or losses on trading securities are included in investment gains on the consolidated statements of operations. As of September 30, 2024 and 2023, 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.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

Level 3 – inputs are unobservable inputs for the asset or liability, which is typically based on an entity's assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

In order to meet the requirements of ASC Topic 820, the Company utilizes three basic valuation approaches (cost, market, and income) to determine the fair value of its assets and liabilities required to be recorded at fair value. The cost approach is generally the value a market participant would expect to replace the respective asset or liability.

The market approach looks at what a market participant would consider an exact or similar asset or liability to that of the Company, including those traded on exchanges, to determine value.

The income approach uses estimation techniques to determine the estimated future cash flows of the Company's respective asset or liability expected by a market participant and discounts those cash flows back to present value (more typically referred to as a discounted cash flow approach).

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

#### **(d) Net Patient Service Revenue and Net Patient Receivables**

In accordance with ASC Topic 606, *Revenue from Contracts with Customers*, the Company records patient service revenue at the transaction price estimated by the Company to reflect the total consideration due from patients and third-party payors (including commercial payors and government programs) and others, and they include variable consideration for retroactive revenue adjustments. Revenue is recognized as performance obligations 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

## **BON SECOURS MERCY HEALTH**

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

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 historical experience, a significant portion of the Company's uninsured patients (self-pay) will be unable or unwilling to pay for the services provided.

The Company's concentration of credit risk related to net patient receivables is limited due to the diversity of patients and payors. Net patient receivables consist of amounts due from government programs (primarily Medicare and Medicaid), private insurance companies, managed care programs and patients themselves. The Medicare program represented 22% and 24% of net patient account receivables as of September 30, 2024 and December 31, 2023, respectively while the Medicaid program represented 8% as of September 30, 2024 and December 31, 2023. Excluding the Medicare program, no one other payor represents more than 10% of the Company's net patient receivables as of September 30, 2024 and December 31, 2023.

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.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

The Company's net patient service revenues during the three and nine months ended September 30, 2024 and 2023 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:

	<b>Three months ended</b>			
	<b>September 30,</b>			
	<u>2024</u>		<u>2023</u>	
Commercial and other third party	\$ 1,297,873	44.3 %	1,190,755	44.8 %
Medicare	1,080,029	36.8	1,003,132	37.7
Medicaid	479,396	16.4	400,755	15.1
Other governmental	62,345	2.1	46,143	1.7
Self-pay	11,417	0.4	17,407	0.7
Total	<u>\$ 2,931,060</u>	<u>100.0 %</u>	<u>2,658,192</u>	<u>100.0 %</u>

	<b>Nine months ended</b>			
	<b>September 30,</b>			
	<u>2024</u>		<u>2023</u>	
Commercial and other third party	\$ 3,859,691	43.7 %	3,579,901	44.5 %
Medicare	3,295,308	37.4	3,029,796	37.7
Medicaid	1,427,427	16.2	1,229,427	15.3
Other governmental	190,257	2.2	153,127	1.9
Self-pay	42,088	0.5	50,071	0.6
Total	<u>\$ 8,814,771</u>	<u>100.0 %</u>	<u>8,042,322</u>	<u>100.0 %</u>

**(e) Inventories**

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

**(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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

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) gains, 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 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

## **BON SECOURS MERCY HEALTH**

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

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.

#### **(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.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

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

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Goodwill at the beginning of the period	\$ 595,845	574,113
Goodwill related to acquisitions	2,156	22,212
Goodwill related to disposals	(3,766)	—
Other	68	(480)
Goodwill at the end of the period	\$ 594,303	595,845

**(l) Other Long-Term Assets**

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

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Right-of-use assets – finance	\$ 206,271	215,083
Other intangibles, net	117,515	140,502
Other	94,886	102,684
Notes and other long term receivables	44,235	45,073
Total other long-term assets	\$ 462,907	503,342

**(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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

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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:

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Lease liabilities – finance	\$ 334,256	339,512
Supplemental executive retirement plan liability	134,197	114,415
Other	93,067	72,219
Deferred income tax liability	24,106	24,127
Derivative instrument (note 8)	11,567	12,464
Total other long-term liabilities	<u>\$ 597,193</u>	<u>562,737</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 the Digital business, grant revenues including the FEMA assistance program, reimbursements, 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) Income***

Recurring operating (loss) income 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 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 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.

## BON SECOURS MERCY HEALTH

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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 nine months ended September 30, 2024 and 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 nine months ended September 30, 2024 and 2023, the Company has no uncertain tax positions.

The Company's taxable subsidiaries had net operating loss carryforwards for Federal income tax purposes of \$183,232 and \$182,444 as of September 30, 2024 and December 31, 2023, 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 \$121,155 and \$119,717 as of September 30, 2024 and December 31, 2023, 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 September 30, 2024, the Company has placed a partial valuation allowance of \$80,640 and \$19,174 on the gross deferred Federal and state tax assets, respectively. 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. 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 tax assets of \$2,528 and an increase in the valuation allowance for gross deferred state tax assets of \$229 as of September 30, 2024. 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.

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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 \$1,916 and \$8,392 for the three months ended September 30, 2024 and 2023, respectively and an increase of \$33,901 and \$26,552 for the nine months ended September 30, 2024 and 2023, 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.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

### (3) Community Benefits

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

The following represents unsponsored community benefit expense at cost for the:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Charitable services and other community benefits:				
Traditional charity care	\$ 32,060	17,196	\$ 108,597	58,245
Unpaid costs of public programs	65,398	101,765	188,442	292,280
Other community benefit programs	42,925	32,311	116,750	100,708
Total quantifiable community benefits \$	140,383	151,272	\$ 413,789	451,233
Percent of total recurring expenses	4.2 %	4.9 %	4.2 %	4.9 %

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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

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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:

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Board designated funds:		
Cash and cash equivalents	\$ 22,509	106,501
Equity mutual funds	541,225	774,435
Equity commingled funds	551,611	665,703
Common and preferred stocks	678,187	717,939
Fixed income mutual funds	—	26,341
Fixed income commingled funds	462,825	70,622
Government and agency securities	1,282,006	941,986
Corporate obligations	930,948	878,176
Alternative investments	2,592,454	2,465,360
	<u>7,061,765</u>	<u>6,647,063</u>
Self-insurance and trustee held funds:		
Cash and cash equivalents	109,228	114,729
Equity mutual funds	243,081	218,622
Government and agency securities	77,837	70,340
Corporate obligations	45,103	41,525
	<u>475,249</u>	<u>445,216</u>
Donor restricted funds:		
Cash and cash equivalents	7,284	8,073
Equity mutual funds	5,327	9,363
Equity commingled funds	3,933	9,653
Common and preferred stocks	5,465	3,167
Fixed income mutual funds	—	4,673
Fixed income commingled funds	4,791	963
Government and agency bonds	9,403	—
Corporate obligations	5,118	—
Alternative investments	26,577	20,900
	<u>67,898</u>	<u>56,792</u>

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Investments:		
Cash and cash equivalents	\$ 3,492	3,307
Corporate obligations	3,181	3,061
	6,673	6,368
Investments and assets whose use is limited	7,611,585	7,155,439
Available for current liabilities	(100,124)	(107,649)
Long-term assets limited or restricted as to use	\$ 7,511,461	7,047,790

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Dividends and interest	\$ 42,708	32,206	105,682	88,012
Net realized gains on securities	25,868	15,096	91,359	61,898
Net change in unrealized gains (losses) on securities	270,163	(154,121)	330,856	(5,634)
	\$ 338,739	(106,819)	527,897	144,276

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 September 30, 2024 and December 31, 2023.

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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.

#### **(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. 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.

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

## BON SECOURS MERCY HEALTH

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

	Fair value	Fair value measurements at September 30, 2024 using		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 471,855	471,855	—	—
Investments:				
Cash and cash equivalents	3,492	3,492	—	—
Corporate obligations	3,181	—	3,181	—
	6,673	3,492	3,181	—
Assets limited or restricted as to use:				
Cash and cash equivalents	139,021	139,021	—	—
Equity mutual funds	789,633	397,000	392,633	—
Equity commingled funds	555,544	406,372	66,384	82,788
Common and preferred stocks	666,102	666,102	—	—
Fixed income commingled funds	467,616	340,262	127,354	—
Government and agency securities	1,369,246	392,963	976,283	—
Corporate obligations	981,169	—	981,169	—
Cash and assets limited or restricted as to use	5,446,859	2,817,067	2,547,004	82,788
Assets whose use is limited under securities lending arrangements	17,550	17,550	—	—
Total cash and assets limited or restricted as to use	\$ 5,464,409	2,834,617	2,547,004	82,788
Liabilities:				
Interest rate swaps	\$ 11,567	—	—	11,567
Total liabilities	\$ 11,567	—	—	11,567

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(In thousands)

	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

Following is the summary of the inputs and valuation techniques utilized to value Level 2 financial instruments as of September 30, 2024 and December 31, 2023:

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 period ended:

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Beginning balance	\$ 79,822	66,191
Purchases	8,446	17,513
Sales	(705)	(2,474)
Impairment loss	—	(1,281)
Realized and unrealized losses	<u>(4,775)</u>	<u>(127)</u>
Ending balance	<u>\$ 82,788</u>	<u>79,822</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 nine months ended September 30, 2024 and year ended December 31, 2023, 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 September 30, 2024 and December 31, 2023, 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 September 30, 2024:

	<u>Investments measured at NAV</u>	<u>Committed capital</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Alternative investments:				
Private Investments	\$ 1,621,811	551,520	N/A	N/A
Hedge funds	<u>997,220</u>	<u>—</u>	Monthly, Quarterly, Annually	2 to 180 days <sup>(1)</sup>
	<u>\$ 2,619,031</u>	<u>551,520</u>		

Investments that are not redeemable as of September 30, 2024 are \$72,798<sup>(1)</sup>.

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>		

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

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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- (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:

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
Land	\$ 538,282	525,768
Land improvements	150,101	126,949
Buildings and fixed equipment	5,395,327	5,024,394
Movable equipment	4,306,523	3,980,907
Software	637,114	628,719
Leasehold improvements	259,994	252,486
	<u>11,287,341</u>	<u>10,539,223</u>
Less accumulated depreciation	<u>(6,637,248)</u>	<u>(6,291,370)</u>
	4,650,093	4,247,853
Construction in progress	<u>597,260</u>	<u>795,188</u>
	<u>\$ 5,247,353</u>	<u>5,043,041</u>

As of September 30, 2024 and December 31, 2023, the Company is contractually obligated for construction projects totaling \$318,179 and \$382,838 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 \$120,608 and \$111,035 for the three months ended September 30, 2024 and 2023, respectively and \$357,016 and \$343,142 for the nine months ended September 30, 2024 and 2023, respectively.

## BON SECOURS MERCY HEALTH

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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	September 30, 2024	December 31, 2023
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	360,115	389,005
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	656,835
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	3.25-4.41	2031	103,400	103,400
MH Series 2010C demand bonds	0.96-5.36	2034	72,250	75,050
MH Series 2010D DP bonds	2.19-5.08	2034	67,250	70,050
MH Series 2012B demand bonds	2.36-5.01	2036	100,000	100,000
Bon Secours Series 2017 (SC) DP bonds	4.37-5.50	2042	69,925	69,925
MH Series 2018AB commercial paper notes	4.27-5.5		300,000	300,000
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	4.97-6.07	2029	150,000	150,000
2022 Euro private placement	4.24	2052	178,608	177,568
2023 TD Bank variable rate taxable term loan	5.56-6.35	2033	100,000	100,000
2023 RBC variable rate taxable term loan	6.07-6.65	2026	100,000	100,000
Revolving Credit Agreement debt outstanding	5.0-6.13	2024	1,008	64,939
Total master trust indenture obligations			4,548,585	4,645,966
Ireland variable rate taxable term loan	1.89-5.47	2025	97,870	97,303
Other debt			17,218	27,568
			4,663,673	4,770,837
Original issue net premium			74,308	86,445
Cost of issuance			(21,063)	(22,565)
			4,716,918	4,834,717
Less current portion of long-term debt			(505,242)	(585,966)
Long-term debt, less current portion			\$ 4,211,676	4,248,751

## **BON SECOURS MERCY HEALTH**

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

The Company's master trust indenture (the MTI) provides that Bon Secours Mercy Health is the sole obligor on all outstanding indebtedness incurred under the MTI. All bond obligations of the Company have been evidenced by obligations issued under the MTI. In addition, the Company has issued a master obligation guaranty under the MTI for a bank term loan of its contractual affiliate, Bon Secours Health System Limited by Guarantee, the principal amount of which is \$97,870.

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.

On December 15, 2023, the Company entered into a 2.5-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.

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 September 30, 2024 and December 31, 2023. The Company was in compliance with all restrictive covenants as of September 30, 2024 and December 31, 2023.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

The following is a schedule of future minimum payments based on scheduled maturities as of September 30, 2024:

Period	Master trust indenture obligations	European group and other debt
2024	\$ 21,723	848
2025	254,450	98,022
2026	157,530	1,721
2027	203,810	13,963
2028	366,429	36
Thereafter	3,544,643	498
Total minimum payments	\$ 4,548,585	115,088

Interest payments for the three months ended September 30, 2024 and 2023 were \$35,156 and \$35,572, respectively, and \$138,635 and \$128,620 for the nine months ended September 30, 2024 and 2023 respectively.

Unamortized debt issuance costs of \$21,063 and \$22,565 as of September 30, 2024 and December 31, 2023, 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 September 30, 2024, the Company has Series 2010C and 2012B variable rate bond obligations in the total amount of \$172,250 with a letter of credit support, Series 2008A, 2010D and 2017 adjustable-rate bonds in the total amount of \$240,575 held under direct purchase agreements with financial institutions and \$447,870 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 August 2025 to February 2033.

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. \$1,008 and \$64,939 were outstanding on this agreement as of September 30, 2024 and December 31, 2023.

As of September 30, 2024, the current portion of long-term debt consists of \$300,000 commercial paper notes, \$97,870 for a private placement agreement that expires within one year, \$1,008 on the revolving credit agreement, (\$1,297) of discount on commercial paper, \$961 of non-master obligation current portion of long-term debt and \$106,700 of other scheduled principal payments on various remaining debt arrangements disclosed above.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

#### (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	
				September 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
December 2006 JPM	Pay fixed	3.63 %	2033	\$ 154,220	169,420	(5,335)	(5,515)
December 2018 PNC	Pay fixed	3.45	2042	69,925	69,925	(7,078)	(6,797)
December 2007 JPM	Constant maturity	N/A	2027	250,000	250,000	788	(762)
August 2018 JPM	Constant maturity	N/A	2037	150,000	150,000	(402)	(1,160)
Credit valuation adjustment						460	1,770
						\$ (11,567)	(12,464)

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 swap (receipts) payments were (\$116) and (\$397) for the three months ended September 30, 2024 and 2023, respectively and \$751 and \$249 for the nine months ended September 30, 2024 and 2023, respectively.

The Company's interest rate swap agreements include certain collateralization requirements based on the market value of these transactions. The amount required for collateral is determined daily based on the current market value of the interest rate swap agreements.

The Company has not posted collateral with designated custodians as of September 30, 2024 and December 31, 2023, 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.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

The following amounts are a summary of the components of net periodic benefit cost for the:

	Three months ended September 30,			
	Pension benefits		Postemployment benefits	
	2024	2023	2024	2023
Service cost	\$ 506	535	72	69
Interest cost	16,930	25,604	146	163
Expected return on plan assets	(21,153)	(29,224)	—	—
Curtailment/settlement cost	—	—	—	—
Amortization of:				
Actuarial loss (gain)	444	331	(110)	(85)
Prior service credit	634	688	—	—
Net periodic benefit (income) cost	\$ (2,639)	(2,066)	108	147

	Nine months ended September 30,			
	Pension benefits		Postemployment benefits	
	2024	2023	2024	2023
Service cost	\$ 1,517	1,606	216	206
Interest cost	50,790	76,811	438	488
Expected return on plan assets	(63,458)	(87,673)	—	—
Curtailment/settlement cost	41,813	—	—	—
Amortization of:				
Actuarial loss (gain)	1,332	994	(329)	(254)
Prior service credit	1,901	2,063	—	—
Net periodic benefit cost (income)	\$ 33,895	(6,199)	325	440

An annuity purchase was completed on February 14, 2024 which resulted in a settlement of \$41,813 that was recognized during the nine months ended September 30, 2024. Additionally, pension assets and liabilities have been remeasured as of March 31, 2024 resulting in an increase of net funded status by \$45,485.

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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

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

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Asset category:		
Equity mutual and commingled funds and securities	33 %	22 %
Fixed income mutual funds and securities	34	55
Alternative investments	28	19
Cash	5	4
Total	100 %	100 %

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

The following is a summary of the plan assets measured at fair value on a recurring basis based on the fair value hierarchy as of September 30, 2024:

	<b>Fair value</b>	<b>Fair value measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and cash equivalents	\$ 58,381	58,381	—	—
Equity mutual funds	174,690	108,899	65,791	—
Equity commingled funds	100,921	87,240	13,681	—
Common and preferred stocks	106,867	106,867	—	—
Government and agency bonds	236,501	220,863	15,638	—
Corporate obligations	173,727	—	173,727	—
Total investments	851,087	582,250	268,837	—
Due to broker/custodian for investment activity, net	(4,043)	—	(4,043)	—
Total plan assets	\$ 847,044	582,250	264,794	—

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

The following is a summary of the plan assets measured at fair value on a recurring basis based on the fair value hierarchy as of December 31, 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 table summarizes the alternative investments, committed capital and associated redemptions as of September 30, 2024:

	Investments measured at NAV	Committed capital	Redemption frequency	Redemption notice period
Private Investments	\$ 224,866	60,307	N/A	N/A
Hedge funds	97,846	—	Monthly, Quarterly, Annually	2 to 180 days <sup>(1)</sup>
	\$ 322,712	60,307		

Investments that are not redeemable as of September 30, 2024 are \$6,484<sup>(1)</sup>.

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

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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

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

Categorization of alternative investments with respect to investee strategies and redemptions for those funds whose fair value is estimated based on NAVs are as follows:

- (a) **Private investments** – Includes Private Equity, Real Estate and Private Debt. This category includes investments in funds with multiple opportunistic strategies that are primarily private in nature. These investments cannot be redeemed by the Company; rather, the Company has committed to an amount to invest in the private funds over the respective periods. After the commitment period has ended, distributions are received through the liquidation of the underlying assets in the private fund. Based on the expiration dates of the funds, it is estimated that underlying assets will be liquidated over the next 1 to 15 years.
- (b) **Hedge funds** – This category included investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. Distributions will be received as the underlying investments are liquidated.

The Company 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 expense of \$41,674 and \$45,695 for the three months ended September 30, 2024 and 2023, respectively and \$141,902 and \$150,903 for the nine months ended September 30, 2024 and 2023, 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 \$414,376 and \$365,621 as of September 30, 2024 and December 31, 2023, respectively. The current portion of such accruals, \$72,740 and \$72,718 as of September 30, 2024 and December 31, 2023, respectively, is included in other accrued expenses, and the remainder, \$341,636 and \$292,903 as of September 30, 2024 and December 31, 2023, 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 \$54,114 and \$51,434, as of September 30, 2024 and December 31, 2023, respectively. The current portion of such accruals, \$849 and \$1,147 as of September 30, 2024 and December 31, 2023, respectively, is reported as other accrued expenses. The remainder, \$53,265 and \$50,287, is reported within self-insurance liabilities in the accompanying consolidated balance sheets, which include estimates for incidents incurred but not reported, as of

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

September 30, 2024 and December 31, 2023, respectively. Amounts recorded for unpaid claims are based upon the estimated present value of future claim payments and such amounts are undiscounted and based upon an actuarial central estimate.

**(c) Employee Health Insurance**

Accrued claims associated with this program, which are reported as other accrued expenses in the accompanying consolidated balance sheets, of approximately \$77,697 and \$50,089, include estimates for claims incurred but not reported as of September 30, 2024 and December 31, 2023, 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:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Finance lease expense:				
Amortization of ROU assets \$	3,740	5,222	11,457	16,434
Interest on lease liabilities	3,333	3,459	10,014	10,379
Operating lease expense	23,340	23,419	69,042	71,132
Short-term lease expense	7,082	6,579	21,874	20,328
Variable lease expense	9,927	11,167	29,609	29,903
Total lease cost \$	47,422	49,846	141,996	148,176

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

Commitments related to non-cancellable operating and finance leases for each of the next five years and thereafter as of September 30, 2024 are as follows:

	<b>Operating</b>	<b>Finance</b>
2024	\$ 24,014	7,808
2025	85,980	30,110
2026	69,075	28,417
2027	56,161	28,505
2028	43,809	27,871
Thereafter	140,054	584,007
Total	419,093	706,718
Less present value discount	(56,895)	(360,314)
Acquired lease liabilities	—	6,814
Lease liabilities	\$ 362,198	353,218

Other information is as follows as of:

	<b>2024</b>	<b>2023</b>
Weighted average remaining lease terms (in years):		
Finance leases	57.26	56.25
Operating leases	6.90	6.56
Weighted average discount rate:		
Finance leases	3.73 %	3.73 %
Operating leases	3.97	3.81

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

The Company's endowments consist of 374 and 370 individual funds established for a variety of purposes as of September 30, 2024 and December 31, 2023, 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 \$109,780 and \$95,296 as of September 30, 2024 and December 31, 2023, 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 \$3,111 and \$6,573 as of September 30, 2024 and December 31, 2023, respectively. The endowment funds with deficiencies had an original gift value of

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

\$49,043 and \$53,851 as of September 30, 2024 and December 31, 2023 and a fair value of \$45,932 and \$47,278 as of September 30, 2024 and December 31, 2023. These deficiencies resulted from unfavorable market fluctuations.

The Company has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Company must hold in perpetuity or for a donor specified period. The practice allows the endowment assets to be invested in a manner that is intended to produce investment returns that exceed the price and yield the results of the allocation index while assuming a moderate level of investment risk. The Company expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

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

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:

	<b>For the three months ended September 30, 2024</b>				
	<b>Program activities</b>			<b>Supporting activities</b>	
	<b>Healthcare services</b>	<b>Ancillary services and other</b>	<b>Total</b>	<b>General and administrative</b>	<b>Total</b>
Employee compensation	\$ 1,182,853	352,376	1,535,229	45,705	1,580,934
Purchased services	160,018	86,266	246,284	220,756	467,040
Supplies	560,950	50,670	611,620	78,274	689,894
Depreciation and amortization	94,391	18,039	112,430	19,391	131,821
Interest	3,390	44,051	47,441	591	48,032
Other operating expenses	293,733	29,928	323,661	63,778	387,439
Total recurring expenses	\$ 2,295,335	581,330	2,876,665	428,495	3,305,160

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

	<b>For the nine months ended September 30, 2024</b>				
	<b>Program activities</b>			<b>Supporting activities</b>	
	<b>Healthcare services</b>	<b>Ancillary services and other</b>	<b>Total</b>	<b>General and administrative</b>	<b>Total</b>
Employee compensation	\$ 3,541,895	1,071,234	4,613,129	130,425	4,743,554
Purchased services	455,654	257,398	713,052	655,508	1,368,560
Supplies	1,664,610	156,147	1,820,757	221,220	2,041,977
Depreciation and amortization	276,300	53,924	330,224	59,963	390,187
Interest	11,077	133,686	144,763	1,801	146,564
Other operating expenses	835,224	79,820	915,044	183,572	1,098,616
Total recurring expenses	\$ 6,784,760	1,752,209	8,536,969	1,252,489	9,789,458

	<b>For the three months ended September 30, 2023</b>				
	<b>Program activities</b>			<b>Supporting activities</b>	
	<b>Healthcare services</b>	<b>Ancillary services and other</b>	<b>Total</b>	<b>General and administrative</b>	<b>Total</b>
Employee compensation	\$ 1,160,458	347,684	1,508,142	16,688	1,524,830
Purchased services	135,476	89,017	224,493	193,013	417,506
Supplies	522,727	53,263	575,990	50,525	626,515
Depreciation and amortization	85,570	18,370	103,940	19,867	123,807
Interest	3,305	44,732	48,037	627	48,664
Other operating expenses	256,306	26,191	282,497	42,581	325,078
Total recurring expenses	\$ 2,163,842	579,257	2,743,099	323,301	3,066,400

	<b>For the nine months ended September 30, 2023</b>				
	<b>Program activities</b>			<b>Supporting activities</b>	
	<b>Healthcare services</b>	<b>Ancillary services and other</b>	<b>Total</b>	<b>General and administrative</b>	<b>Total</b>
Employee compensation	\$ 3,464,543	1,035,251	4,499,794	114,409	4,614,203
Purchased services	434,692	227,673	662,365	531,398	1,193,763
Supplies	1,565,613	155,530	1,721,143	134,377	1,855,520
Depreciation and amortization	263,933	58,017	321,950	61,210	383,160
Interest	11,291	128,563	139,854	1,907	141,761
Other operating expenses	770,299	69,572	839,871	129,581	969,452
Total recurring expenses	\$ 6,510,371	1,674,606	8,184,977	972,882	9,157,859

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

#### (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:

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Cash, cash equivalents and investments	\$ 478,528	504,937
Net patient receivables	1,230,720	1,151,496
Assets whose use is limited:		
Board-designated funds	<u>4,386,523</u>	<u>4,101,881</u>
	<u>\$ 6,095,771</u>	<u>5,758,314</u>

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 \$4,386,523 and \$4,101,881 as of September 30, 2024 and December 31, 2023, respectively. The fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

#### (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 cost or equity method of accounting. For the investments accounted for under the equity method, the Company includes its interest in the excess of revenues over expenses of these entities in its consolidated statement of operations as other revenue, net.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

**(a) Ensemble**

Ensemble is a Delaware limited liability company providing revenue cycle management and consulting services to hospitals and health systems. As of September 30, 2024, BSMH's ownership interest in Ensemble was 41.4%. In July 2024, Bon Secours Mercy Health received a one-time cash distribution totaling \$331,300 related to a dividend recapitalization financing of the Ensemble joint venture. This cash inflow was recognized in July 2024 as a reduction to the carrying value of BSMH's investment in Ensemble.

During the three and nine months ended September 30, 2024 and 2023, 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:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Revenue cycle management and consulting services provided by Ensemble to BSMH	\$ 146,537	141,658	447,426	421,210
Leased employees, purchased and other services provided to Ensemble by BSMH	(4,802)	(21,530)	(20,342)	(63,083)

BSMH owed Ensemble \$54,025 and \$61,837 as of September 30, 2024 and December 31, 2023, respectively. BSMH did not have any outstanding receivables from Ensemble as of September 30, 2024 and December 31, 2023, respectively.

**(b) Sentara Princess Anne**

BSMH and Sentara Healthcare (Sentara) are members in a Virginia not-for-profit, nonstock, corporation that owns and operates Sentara Princess Anne Hospital located in Virginia Beach, Virginia. Sentara holds a 70% membership interest and the Company holds a 30% membership interest in the corporation. The joint venture is managed by Sentara and the agreements provide the members with 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 September 30, 2024 and December 31, 2023.

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

#### (c) *FC Compassus, LLC (Compassus)*

On May 1, 2024, as part of a full divestiture plan of all operations and facilities that involve home health and hospice, Bon Secours Mercy Health and Compassus, a for-profit company that provides innovative home-based healthcare services, completed the execution of a 50/50 joint venture partnership for home care and hospice. Under the joint venture, Compassus owns a 50% interest and manages the operations for ten Bon Secours Mercy Health home health agencies and eleven hospice operations spanning five states. In consideration of the divestiture of its home care and hospice assets, BSMH received a 4.1% equity ownership in the Compassus parent company, which was accounted for using the cost method. Additionally, under the equity method, the Company received the remaining 50% noncontrolling ownership in the joint venture. The divestiture resulted in a gain of \$88,548 which is reflected in the other nonoperating activities, net section of the consolidated statement of operations and is provisional pending final working capital adjustments.

During the three and nine months ended September 30, 2024 and 2023, BSMH and Compassus engaged in various transactions. These transactions were not eliminated because Compassus is not consolidated. The following is a summary of the related party transactions and balances for:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2024	2023	2024	2023
Leased employees, purchased and other services provided to Compassus by BSMH \$	(5,417)	—	(5,417)	—

Compassus owed BSMH \$2,871 as of September 30, 2024. BSMH did not have any outstanding payables due to Compassus as of September 30, 2024.

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

	September 30, 2024	December 31, 2023
Ensemble	\$ 103,088	429,035
Sentara Princess Anne	53,938	51,537
Compassus	113,454	—
Other	74,438	59,094
	\$ 344,918	539,666

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

For the Nine months ended September 30, 2024 and 2023

(In thousands)

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

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Ensemble	\$ 19,572	12,643	65,669	42,246
Sentara Princess Anne	4,357	4,473	14,755	12,380
Compassus	(5,818)	—	(5,818)	—
Other	(603)	1,298	(4,408)	458
	<u>\$ 17,508</u>	<u>18,414</u>	<u>70,198</u>	<u>55,084</u>

#### (15) Subsequent Events

The Company has evaluated and disclosed any subsequent events through November 27, 2024 which is the date the consolidated financial statements were issued and made publicly available.

On November 26, 2024, Hamilton County finalized its agreement to purchase the property currently serving as BSMH's primary corporate administrative space. As of September 30, 2024, this property was reflected as a financing lease in our consolidated financial statements. The closing triggered the termination of BSMH's long-term lease for the site, resulting in a one-time termination fee of \$31,500 being paid to the county. The accounting impact of the transaction is currently being evaluated and will be recorded during the fourth quarter of 2024.

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

# **BON SECOURS MERCY HEALTH**

## **Utilization Statistics**

**For the Nine Months Ended  
September 30, 2024 and 2023**

**and**

**For the Twelve Months Ended  
December 31, 2023, 2022 and 2021**

# BON SECOURS MERCY HEALTH

## Consolidated Utilization Statistics (Unaudited)

	Nine Months Ended September 30,		Twelve Months Ended December 31,		
	2024	2023	2023	2022	2021
<b>Utilization Statistics</b>					
Staffed beds - Acute	7,105	7,181	7,193	6,636	7,487
Staffed beds - Long-Term Care	229	229	229	255	1,501
Admissions - Acute	278,753	265,216	355,641	332,668	334,295
Admissions - Post-acute	1,478	1,884	2,512	2,726	4,119
Total Admissions	280,231	267,100	358,153	335,394	338,414
Observations	48,191	47,765	63,666	65,734	62,664
Equivalent Inpatient Admissions	688,913	666,540	892,716	826,014	794,283
Newborn Deliveries	19,718	20,147	26,647	27,850	27,849
Patient days - Acute	1,212,462	1,165,600	1,562,279	1,568,813	1,583,629
Patient days - Post-acute	8,329	9,490	14,909	38,193	395,949
Occupancy on staffed beds - Acute	62.3%	59.5%	59.5%	64.8%	57.9%
Total Patient Days	1,220,791	1,175,090	1,577,188	1,607,006	1,979,579
Average length of stay - Acute	4.35	4.39	4.39	4.72	4.74
Emergency Room Visits	1,228,320	1,172,595	1,589,935	1,529,142	1,452,343
Physician Visits	5,823,596	5,375,711	7,230,233	6,912,128	6,878,752
Inpatient surgeries and medical procedures	55,844	54,599	72,919	68,372	68,834
Outpatient surgeries	164,230	162,311	218,324	206,108	202,574
Full Time Equivalent Employees	53,155	54,338	54,107	52,413	51,621
Institutional case mix index	1.638	1.633	1.637	1.667	1.716
Medicare case mix index	1.737	1.741	1.743	1.778	1.825

Note:

(1) Acute staffed beds includes psychiatric and physical rehabilitation beds.

# **BON SECOURS MERCY HEALTH**

## **Financial Ratios & Analyses**

**For the Nine Months Ended  
September 30, 2024 and 2023**

**and**

**For the Twelve Months Ended  
December 31, 2023, 2022 and 2021**

# BON SECOURS MERCY HEALTH

## Consolidated Financial Analyses (Unaudited)

(Dollars in Thousands)

Financial Analyses	Nine Months Ended September 30,		Twelve Months Ended December 31,		
	2024	2023	2023	2022	2021
Operating Margin	0.2%	(2.4%)	(1.0%)	(2.9%)	1.6%
Excess Margin	5.1%	(1.3%)	1.8%	(11.7%)	8.5%
Debt Service Coverage - Rolling 12-month Basis <sup>(1)</sup>	3.01	1.28	1.92	1.36	3.93
Debt Service Coverage YTD <sup>(2)</sup>	3.08	1.44	1.92	1.36	3.93
<i>based on Maximum Annual Debt Service <sup>(3)</sup> of:</i>	<i>318,447</i>	<i>357,755</i>	<i>\$317,662</i>	<i>\$342,939</i>	<i>\$280,724</i>
<i>adjusted to remove unrealized investments gains (losses) of:</i>	<i>\$330,856</i>	<i>(\$5,634)</i>	<i>\$329,746</i>	<i>(\$1,060,296)</i>	<i>\$475,957</i>
<i>adjusted to remove unrealized swap gains (losses) of:</i>	<i>\$897</i>	<i>\$17,219</i>	<i>\$9,243</i>	<i>\$68,000</i>	<i>\$28,544</i>
<i>adjusted to remove impairment gains (charges) of:</i>	<i>(\$4,014)</i>	<i>\$14,287</i>	<i>(\$21,014)</i>	<i>(\$37,596)</i>	<i>(\$12,819)</i>
<i>adjusted to remove gains (losses) on disposed assets not in ordinary course of:</i>	<i>(\$3,558)</i>	<i>\$82</i>	<i>\$3,371</i>	<i>\$1,567</i>	<i>(\$45)</i>
<i>adjusted to remove (loss) on early extinguishment of debt of:</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>(\$328)</i>	<i>(\$152)</i>
Operating EBITDA	\$576,578	\$319,048	\$569,454	\$331,411	\$780,859
Operating EBITDA Margin	5.9%	3.6%	4.7%	3.0%	7.2%
Total Unrestricted Cash <sup>(4)</sup>	7,540,294	6,727,296	\$7,151,999	\$7,195,078	\$9,373,998
Days Cash on Hand - YTD basis	222	212	221	240	334
Debt to Capitalization	34.7%	38.2%	37.4%	37.0%	33.4%
Debt to Capitalization (per MTI Indebtedness definition) <sup>(5)</sup>	36.4%	39.8%	39.0%	38.7%	35.2%
Net Patient Revenue per EIPA-CMI Adj	\$7,809	\$7,391	\$7,519	\$7,394	\$7,486
Total Community Benefit (TCB) Cost <sup>(6)</sup>	\$413,789	\$451,233	\$606,928	\$644,695	\$605,293
TCB Cost as a percent of Total Expense <sup>(6)</sup>	4.2%	4.9%	4.9%	5.6%	5.7%
<b>Net Patient Revenue by Payor Type -</b>					
Medicare - Traditional	18.3%	19.6%	19.3%	19.6%	20.2%
Medicare - Managed	19.1%	18.1%	18.1%	17.2%	16.2%
Medicaid - Traditional	7.9%	6.8%	7.4%	6.9%	5.9%
Medicaid - Managed	8.3%	8.5%	8.4%	9.0%	9.2%
Other Governmental	2.2%	1.9%	1.9%	1.9%	1.7%
Commercial	43.7%	44.5%	44.3%	44.4%	46.2%
Self Pay & Other	0.5%	0.6%	0.6%	1.0%	0.6%
Total Net Patient Revenue by Payor Type	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Debt Service Coverage - Rolling 12-month Basis uses the Master Trust Indenture (Amended and Restated) dated as of December 1, 2017 definition. Interim periods are calculated using a rolling 12-month basis of all factors in this calculation. MTI covenant compliance is measured on an annual basis based on the Company's fiscal year-end of December 31.

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

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

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

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

(6) Includes the unpaid cost of public programs for the treatment of Medicaid and indigent beneficiaries, as well as other costs provided to the broader community. This does not include the unpaid cost for the treatment of Medicare beneficiaries nor does it include bad debts. See Note 3 of the consolidated audited and unaudited financial statements for a thorough discussion of Community Benefits.