



BON SECOURS MERCY HEALTH

Consolidated Financial Statements and Independent Auditors' Reports
Required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform
Administrative Requirements, Cost Principles, and Audit Requirements for
Federal Awards*, and Related Information

Year Ended December 31, 2020

(With Independent Auditors' Reports Thereon)

BON SECOURS MERCY HEALTH

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KPMG LLP
Suite 3400
312 Walnut Street
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Independent Auditors' Report

The Board of Directors
Bon Secours Mercy Health:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Bon Secours Mercy Health, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bon Secours Mercy Health as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Matter – Supplementary Schedule of Financial Responsibility Data

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Supplementary Schedule of Financial Responsibility Data as of and for the year ended December 31, 2020 is presented for the purposes of additional analysis, as required by the US Department of Education, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Schedule of Financial Responsibility Data is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2021, except as to note 17, which is as of February 14, 2022, on our consideration of Bon Secours Mercy Health’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bon Secours Mercy Health’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bon Secours Mercy Health’s internal control over financial reporting and compliance.

KPMG LLP

Cincinnati, Ohio

April 9, 2021, except as to note 17

and our report on the Supplementary Schedule of
Financial Responsibility Data, which are
as of February 14, 2022

BON SECOURS MERCY HEALTH

Consolidated Balance Sheets

December 31, 2020 and 2019

(In thousands)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 721,837	453,258
Investments	159,169	50,513
Self-insurance and trustee held funds	73,846	89,238
Donor-restricted funds	4,411	17,301
Total cash and investments	959,263	610,310
Net patient receivables	1,072,483	1,017,577
Other receivables	168,706	110,335
Inventories	251,699	209,577
Prepaid expenses and other current assets	206,390	146,977
Total current assets	2,658,541	2,094,776
Assets whose use is limited:		
Board-designated funds	7,850,710	5,075,847
Self-insurance and trustee held funds	240,333	183,040
Donor-restricted funds	113,286	119,126
Total assets whose use is limited	8,204,329	5,378,013
Property and equipment, net	4,352,024	3,721,991
Investments in unconsolidated organizations	976,545	1,343,215
Operating lease right-of-use assets	333,629	310,318
Retirement assets	133,678	125,015
Other long-term assets	637,540	601,312
Total assets	\$ 17,296,286	13,574,640
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 765,718	448,696
Current portion of long-term debt	255,926	762,807
Accrued salaries, wages and benefits	595,264	499,610
Current portion of operating lease liabilities	80,372	78,845
Other accrued expenses	681,353	311,639
Total current liabilities	2,378,633	2,101,597
Long-term debt, less current portion	4,241,545	2,440,078
Retirement liabilities	560,638	500,924
Self-insurance liabilities	273,090	246,649
Operating lease liabilities	262,113	245,360
Other long-term liabilities	1,026,412	443,375
Total liabilities	8,742,431	5,977,983
Net assets without donor restrictions:		
Controlling interest	7,547,543	7,078,276
Noncontrolling interest	754,964	322,927
Total net assets without donor restrictions	8,302,507	7,401,203
Net assets with donor restrictions	251,348	195,454
Total net assets	8,553,855	7,596,657
Total liabilities and net assets	\$ 17,296,286	13,574,640

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH
Consolidated Statements of Operations
Years ended December 31, 2020 and 2019
(In thousands)

	<u>2020</u>	<u>2019</u>
Revenues:		
Net patient service revenue	\$ 8,970,458	7,953,806
Other revenue, net	999,202	579,571
Total operating revenues	<u>9,969,660</u>	<u>8,533,377</u>
Expenses:		
Employee compensation	4,782,547	4,357,396
Purchased services and other	2,376,389	1,832,199
Supplies	1,945,919	1,582,756
Depreciation and amortization	499,631	424,261
Interest expense	129,975	97,048
Total operating expenses	<u>9,734,461</u>	<u>8,293,660</u>
Recurring operating income	235,199	239,717
Nonrecurring operating losses, net	<u>(74,942)</u>	<u>(54,986)</u>
Operating income	160,257	184,731
Nonoperating gains (losses), net:		
Investment gains	599,824	583,091
Realized and unrealized interest rate swap agreements losses	(38,531)	(37,772)
Loss on defeasance of debt	(29,924)	—
Gain on sale of Ensemble, net	—	1,890,636
Inherent contribution on Ireland acquisition	337	77,667
Other nonoperating activities, net	(82,844)	(74,452)
Excess of revenue over expenses	<u>\$ 609,119</u>	<u>2,623,901</u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2020 and 2019

(In thousands)

	<u>Controlling interest</u>	<u>Noncontrolling interest</u>	<u>Net assets without donor restrictions</u>	<u>Net assets with donor restrictions</u>	<u>Total net assets</u>
Balance at December 31, 2018	\$ 4,244,471	415,445	4,659,916	177,975	4,837,891
Excess of revenues over expenses	2,566,771	57,130	2,623,901	—	2,623,901
Gain from discontinued operations	2,638	—	2,638	—	2,638
Grants and contributions	9,212	2,580	11,792	33,121	44,913
Investment gains	920	—	920	13,238	14,158
Net assets released from restrictions	7,141	—	7,141	(29,215)	(22,074)
Transfer of interest from noncontrolling interest owners	135,143	(135,143)	—	—	—
Distributions to noncontrolling interest owner	—	(17,085)	(17,085)	—	(17,085)
Pension and other postemployment changes	123,922	—	123,922	—	123,922
Other changes, net	(11,942)	—	(11,942)	335	(11,607)
Increase (decrease) in net assets	<u>2,833,805</u>	<u>(92,518)</u>	<u>2,741,287</u>	<u>17,479</u>	<u>2,758,766</u>
Balance at December 31, 2019	<u>7,078,276</u>	<u>322,927</u>	<u>7,401,203</u>	<u>195,454</u>	<u>7,596,657</u>
Excess of revenues over expenses	474,425	134,694	609,119	—	609,119
Gain from discontinued operations	39,492	—	39,492	—	39,492
Grants and contributions	—	17,500	17,500	36,067	53,567
Investment gains	—	—	—	15,532	15,532
Net assets released from restrictions	7,455	—	7,455	(27,493)	(20,038)
Distributions to noncontrolling interest owner	—	(51,137)	(51,137)	—	(51,137)
Pension and other postemployment changes	(59,701)	—	(59,701)	—	(59,701)
Acquisition of Roper St Francis	57,256	290,918	348,174	37,094	385,268
Additional capital contribution for Roper St Francis	(41,650)	41,650	—	—	—
Other changes, net	(8,010)	(1,588)	(9,598)	(5,306)	(14,904)
Increase in net assets	<u>469,267</u>	<u>432,037</u>	<u>901,304</u>	<u>55,894</u>	<u>957,198</u>
Balance at December 31, 2020	<u>\$ 7,547,543</u>	<u>754,964</u>	<u>8,302,507</u>	<u>251,348</u>	<u>8,553,855</u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statements of Cash Flows

Years ended December 31, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Increase in net assets	\$ 957,198	2,758,766
Depreciation and amortization	499,631	424,261
Amortization of premium on issued debt securities	(14,004)	(11,183)
Loss on defeasance of debt	29,924	—
Gain on sale of Ensemble	—	(1,045,636)
Gain on remeasurement of retained interest in Ensemble	—	(845,000)
Ireland inherent contribution	(337)	(77,667)
Acquisition of Roper St Francis	(385,268)	—
Gain on step acquisition of Roper St Francis	(7,997)	—
Other changes in net assets, net	40,150	23,879
Pension and other post employment adjustments	59,701	(123,922)
Contributions restricted by donor	(36,067)	(33,121)
Net unrealized gains on certain investments	(420,056)	(258,049)
Cash provided by (used in) changes in operating assets and liabilities:		
Current assets	(41,740)	(58,434)
Long-term assets	104,822	(35,741)
Proceeds from Accelerated Medicare Payments Program	734,246	—
Other current liabilities	299,240	94,556
Other long-term liabilities	3,365	(8,809)
Net cash provided by operating activities	<u>1,822,808</u>	<u>803,900</u>
Cash flows from investing activities:		
Sale of subsidiary, net of cash sold	—	1,184,150
Acquisitions, net of cash received	62,684	(233,821)
Property and equipment additions, net of disposals	(431,952)	(409,202)
Purchase of alternative investments and other securities	(263,567)	(379,851)
Sales of alternative investments and other securities	125,798	330,613
Investments and assets whose use is limited, net	(2,122,630)	(1,277,210)
Sale of equity investment	253,138	46,741
Net cash used in investing activities	<u>(2,376,529)</u>	<u>(738,580)</u>
Cash flows from financing activities:		
Restricted contributions	36,067	33,121
Contribution from noncontrolling interest	17,500	—
Distributions to noncontrolling interest	(51,137)	—
Proceed from debt issuance	3,094,695	240,000
Repayment of long-term debt	(2,252,792)	(44,037)
Repayment of finance lease	(11,945)	(7,519)
Cost of long-term debt issuance	(12,046)	(1,045)
Net cash provided by financing activities	<u>820,342</u>	<u>220,520</u>
Effect of exchange rates on cash and cash equivalents	<u>1,958</u>	<u>(117)</u>
Net increase in cash and cash equivalents	268,579	285,723
Cash and cash equivalents, beginning of the year	<u>453,258</u>	<u>167,535</u>
Cash and cash equivalents, end of the year	\$ <u><u>721,837</u></u>	\$ <u><u>453,258</u></u>

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(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 these separately organized market delivery systems (the Groups) to carry out the mission, vision, and values of BSMH. The Groups operate as Providence, Samaritan, and European groups. The Providence group encompasses operations within Virginia, Ohio and Kentucky. The Samaritan group encompasses operations within Ohio and South Carolina and the European group encompasses the Ireland market within the Republic of Ireland. The Roper St. Francis Healthcare acquisition (RSFH) is not included in the groups and operates as the Charleston market within Charleston, South Carolina. See Note (1)(b), - Acquisitions and Disposals for further details on the RSFH acquisition.

The mission of the Company is to extend the compassionate ministry of Jesus by improving the health and well-being of our communities and bring good help to those in need, especially people who are poor, dying and underserved.

The consolidated financial statements include the accounts of all members of the corporate group controlled by BSMH. As required, in conformity with U.S. generally accepted accounting principles (GAAP), the consolidated financial statements include the balance sheets, results of operations and changes in net assets, and cash flows of BSMH, the Groups, HealthSpan Partners (HSP), Shared Services Organization, Self-Funding Programs, and BSMH Health Insurance Company, Ltd. (the Captive)(collectively, the Company). Investments in entities where the Company holds a noncontrolling interest are recorded under the equity or cost method of accounting. The Company has included its equity share of income or losses and changes in net assets from investments in unconsolidated affiliates in other revenue, net in the accompanying consolidated statement of operations. All material intercompany transactions and account balances have been eliminated in consolidation.

On April 30, 2020, the Company ceased operations of Our Lady of Bellefonte Hospital and related Bellefonte Physician Services with the exit from the Ashland market. The consolidated financial statements for all periods presented have been adjusted to present the operating results of the Ashland market as discontinued operations. See Note (1)(c), – Discontinued Operations for further details.

(b) Acquisitions and Disposals

(i) Acquisition of Roper St. Francis Healthcare (RSFH)

On January 2, 2020, Bon Secours Mercy Health completed an agreement with the Medical Society of South Carolina to restructure the RSFH joint venture, a charitable healthcare delivery system based in Charleston, South Carolina. The restructuring increased BSMH's ownership interest in the joint venture from a noncontrolling 27% to a controlling 51%. As the controlling interest in the joint venture was obtained in the transaction, BSMH accounted for this as a business combination under

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Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(In thousands)

the acquisition method, consistent with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 954-805 *Health Care Entities Business Combinations*.

The goodwill of \$99,171 arising from the acquisition relates to the synergies and cost reductions expected to be achieved. The goodwill is included in other long-term assets in the consolidated balance sheet. The following table summarizes the consideration paid for the acquisition and the estimated fair value of the assets acquired and liabilities assumed, the fair value of previously held equity interest, as well as the fair value of the noncontrolling interest at the acquisition date.

Cash consideration	\$	185,000
Fair value of BSMH's equity interest in RSFH before the business combination		<u>122,613</u>
Fair value of consideration	\$	<u><u>307,613</u></u>
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Current assets	\$	252,707
Property and equipment		573,773
Other long-term assets		379,172
Current liabilities		(216,434)
Other long-term liabilities		<u>(580,508)</u>
Total identifiable net assets assumed		408,710
Fair value of noncontrolling interest in RSFH		(200,268)
Goodwill		<u>99,171</u>
Total	\$	<u><u>307,613</u></u>

Included in the acquired other long-term assets are financing right-of-use (ROU) assets of \$128,339 and operating ROU assets of \$45,352. Current financing lease liabilities of \$2,949 and operating lease liabilities of \$10,435 are included in current liabilities. Other long-term liabilities include financing lease liabilities and operating lease liabilities of \$105,451 and \$36,895, respectively.

The fair value of the noncontrolling interest and the previously held equity interest in RSFH was estimated by applying the income approach and the market approach.

BSMH recognized a gain of \$7,997 as a result of remeasuring to fair value its 27% equity interest in RSFH held before the business combination. The gain is included within other nonoperating activities, net on the consolidated statement of operations for the period ending December 31, 2020.

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Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(In thousands)

(ii) *Acquisition of three hospitals (CHS) from affiliates of Community Health Systems*

On December 31, 2019, BSMH acquired three hospitals from affiliates of Community Health Systems, Inc. BSMH accounted for this business combination under the acquisition method. The goodwill arising from the acquisition relates to the synergies and cost reductions. The fair value of identifiable assets acquired at December 31, 2019, was estimated to be \$204,457 and was provisional pending receipt of the final valuation report for those assets from a third-party valuation specialist. During the year ended December 31, 2020, measurement-period adjustments were recorded to account for changes to the originally estimated fair values assigned to property and equipment, leases, intangible assets, inventory and the value assigned to goodwill. In accordance with ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*, the financial statements were not retrospectively adjusted for these measurement-period adjustments. The following table summarizes the consideration paid for the acquisition and the fair value of the assets acquired and liabilities assumed at the acquisition date, which are adjusted for measurement-period adjustments through December 31, 2020.

Cash consideration	\$	239,550
Acquisition related costs included in nonrecurring losses, net		754
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Current assets	\$	10,229
Property and equipment		204,481
Intangible assets		8,865
Other long-term assets		21,744
Current liabilities		(6,157)
Other long-term liabilities		<u>(15,564)</u>
Total identifiable net assets assumed		223,598
Goodwill		<u>15,952</u>
Total	\$	<u><u>239,550</u></u>

(iii) *Divestiture of Ensemble Health Partners (Ensemble)*

On August 1, 2019, BSMH sold a 51% equity interest in Ensemble to Golden Gate Capital, a leading nonaffiliated private equity investment firm. Prior to the transaction, Ensemble was a wholly owned subsidiary of BSMH. As a result of the transaction, the Company derecognized Ensemble from its balance sheet as of the transaction date and excluded the results of Ensemble operations beginning August 1, 2019. The retained noncontrolling interest of 49% is accounted for under the equity method of accounting and included in other long-term assets on the balance sheet. The fair value of retained interest was estimated by applying the income approach and market approach by a third-party valuation expert.

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Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(In thousands)

The Company recorded a gain on disposal of the 51% stake amounting to \$1,890,636 which is included in gain on sale of Ensemble, net caption on the statement of operations for the period ended December 31, 2019. The following table summarizes the consideration received and the net assets derecognized at the acquisition date, as well as the fair value of the remaining interest:

Proceeds	\$	1,194,459
Fair value of retained 49% interest in Ensemble		845,000
Net assets of Ensemble at date of disposal		(49,817)
Goodwill and other intangible assets, net		<u>(88,696)</u>
Gain on disposal		1,900,946
Transaction costs		<u>(10,310)</u>
Gain on sale of Ensemble, net of transaction costs	\$	<u><u>1,890,636</u></u>

(iv) *Acquisition of Bon Secours Health System CLG (Ireland)*

On July 1, 2019, BSMH acquired Ireland through a members substitution for no consideration. BSMH accounted for this business combination under the acquisition method and recorded an inherent contribution of \$77,667 for the year ended December 31, 2019. The fair value of identifiable assets acquired at July 1, 2019, was provisional pending receipt of the final valuation report for those assets from a third-party valuation specialist. During the year ended December 31, 2020, measurement-period adjustments were recorded to account for changes to fair values assigned to property and equipment, finance leases and the value assigned to inherent contribution. A reduction in amortization expenses of \$803 that would have been recorded in 2019 was recorded during the year ended December 31, 2020. The following table summarizes the consideration paid for the acquisition and the fair value of the assets acquired and liabilities assumed at the acquisition date, which are adjusted for measurement-period adjustments through December 31, 2020.

The assets, liabilities, and net assets of Ireland on the acquisition date were as follows:

Current assets	\$	90,827
Property and equipment		266,494
Other long-term assets		16,865
Current liabilities		(50,987)
Long-term debt		(107,903)
Other long-term liabilities		<u>(137,292)</u>
Total identifiable net assets	\$	<u><u>78,004</u></u>

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Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(In thousands)

The following are the results of all acquisitions' operations (Ireland, CHS, and RSFH in 2020 and Ireland operations in 2019) that have been included in the consolidated statement of operations and statement of changes in net assets from the acquisition date for years ended December 31:

	<u>2020</u>	<u>2019</u>
Total operating revenues	\$ 1,828,150	171,921
Total operating expenses	<u>2,019,051</u>	<u>168,395</u>
Recurring operating income	(190,901)	3,526
Nonrecurring operating losses, net	<u>(1,202)</u>	<u>(1,723)</u>
Recurring operating income	(192,103)	1,803
Nonoperating gains/(losses), net	<u>63,189</u>	<u>(83)</u>
(Deficit) excess of revenue over expenses	\$ <u><u>(128,914)</u></u>	<u><u>1,720</u></u>

The following unaudited financial information presents BSMH's results for the year ended December 31, 2019 had the acquisition date been January 1, 2019, for all acquisitions (Ireland, CHS and RSFH):

	<u>2019</u> <u>(Unaudited)</u>
Total operating revenues	\$ 9,975,173
Total operating expenses	<u>9,745,357</u>
Recurring operating income	229,816
Nonrecurring operating losses, net	<u>(58,616)</u>
Operating income	171,200
Nonoperating gains, net	<u>2,454,595</u>
Excess of revenue over expenses	\$ <u><u>2,625,795</u></u>

(c) Discontinued Operations

On April 30, 2020, the Company ceased operations of Our Lady of Bellefonte Hospital and related Bellefonte Physician Services located in Ashland, Kentucky representing the Company's exit from the Ashland market. Based on the criteria in ASC 205, *Discontinued Operations*, it was determined that the abandonment met the criteria for discontinued operations treatment. The results of the Ashland market are presented as discontinued operation in the Company's consolidated financial statements. The loss on discontinued operations excluded general corporate overhead allocations.

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Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(In thousands)

The following financial information presents the results of the Ashland market for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Total operating revenues	\$ 41,376	184,843
Total operating expenses	<u>56,540</u>	<u>161,859</u>
Recurring operating (loss) income	(15,164)	22,984
Nonrecurring operating losses, net	<u>(7,627)</u>	<u>(50,448)</u>
Operating loss	(22,791)	(27,464)
Nonoperating losses, net	<u>(9,196)</u>	<u>(3,234)</u>
Deficit of revenue over expenses	<u>\$ (31,987)</u>	<u>(30,698)</u>

(2) Significant Accounting Policies

(a) Cash and Cash Equivalents

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

(b) Assets Whose Use is Limited

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

Unrealized gains or losses on trading securities are included in investment gains. As of December 31, 2020 and 2019, all investments and assets whose use is limited are designated as trading securities, except for certain foundation investments and trustee held funds, which are designated as other than trading securities.

(c) Fair Value Measurement

The carrying values of financial instruments classified as current assets and current liabilities approximate fair values. The fair values of assets limited or restricted as to use, with the exception of alternative investments, are based on quoted market prices or other observable inputs. Alternative investments are recorded under the equity method, but approximate fair value. The Company elected to record its investments in equity and fixed income commingled funds at fair value. See note 5 for

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additional disclosures of assets limited or restricted as to use. ASC Topic 820 *Fair Value*, emphasizes that fair value is a market-based measurement, not an entity specific measurement.

ASC Topic 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The three levels are defined as follows:

Level 1 – inputs utilize quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

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

The Company adopted the FASB Accounting Standards Update (ASU) No. 2018-13 *Disclosure framework – changes to the disclosure requirements for fair value measurement*, ASC Topic 230, *Fair Value Measurement*, on January 1, 2020 which eliminates the disclosure of transfers between level 1 and level 2 investments, valuation process for level 3 fair values measurement and changes in unrealized gains (losses) for recurring level 3 fair value measurements. This ASU requires the disclosure of transfers in and out of level 3 as well as purchases and issues of level 3 instead of providing a detailed roll-forward. Lastly, for investments measured at net asset value (NAV), there are additional disclosures required for the timing of liquidations of an investee's assets and the date when restrictions from redemption might lapse. The adoption of this ASU did not have a significant impact on the consolidated financial statements other than the changes to disclosure requirements above.

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 to determine the fair value of its assets and liabilities required to be recorded at fair value. The first approach is the cost approach. The cost approach is generally the value a market participant would expect to replace the respective asset or liability.

The second approach is the market approach. 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.

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

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

(d) Net Patient Service Revenue and Net Patient Receivables

In accordance with ASC Topic 606, *Revenue from Contracts with Customers*, the Company records patient service revenue at the transaction price estimated by the Company to reflect the total consideration due from patients and third party payors (including commercial payors and government programs) and others, and they include variable consideration for retroactive revenue adjustments. Revenue is recognized as performance obligations are satisfied in exchange for providing goods and services in patient care. Revenue is recorded as these goods and services are provided. The transaction price, which involves significant estimates, is determined based on the Company's standard charges for the goods and services provided, with a reduction recorded for price concessions related to third party contractual arrangements as well as patient discounts and other patient price concessions. Patient service revenue for services provided to patients who have third party payor coverage is recognized based on contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Company recognizes revenue when services are provided. Based on historical experience, a significant portion of the Company's uninsured patients (self pay) will be unable or unwilling to pay for the services provided.

The Company's concentration of credit risk related to net patient receivables is limited due to the diversity of patients and payors. Net patient receivables consist of amounts due from government programs (primarily Medicare and Medicaid), private insurance companies, managed care programs and patients themselves. The Medicare program represented 20% and 18% of net patient accounts receivable as of December 31, 2020, and December 31, 2019, respectively while the Medicaid program represented 8% and 9%, as of December 31, 2020 and December 31, 2019, respectively. Excluding the Medicare and Medicaid programs, no one other payor represents more than 10% of the Company's net patient accounts receivable as of December 31, 2020, or December 31, 2019.

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

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

The Company's net patient service revenues during the years ended December 31, 2020 and 2019 has been presented in the following table based on an allocation of the estimated transaction price with the patient between the primary patient classification of insurance coverage:

	2020		2019	
Medicare	\$ 3,291,141	36 %	\$ 2,884,408	36 %
Medicaid	1,259,709	14	1,028,333	13
Other governmental	165,575	2	159,966	2
Commercial and other third party	4,187,776	47	3,841,238	48
Self-pay	66,257	1	39,861	1
Total	\$ 8,970,458	100 %	\$ 7,953,806	100 %

(e) Inventories

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

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(In thousands)

(f) *Property and Equipment, Net*

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

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

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

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

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

(g) *Leases*

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, current portion of operating lease liabilities and operating lease liabilities on the consolidated balance sheet. Finance leases are included in other long-term assets (Note 2(k)), other accrued expenses, and other long-term liabilities (Note 2(n)).

Lease liabilities are recognized based on the present value, net of the future minimum lease payments over the lease term using the Company's incremental borrowing rate based on the information available at commencement. The ROU asset is derived from the lease liability and also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Certain lease agreements for real estate include payments based on actual common area maintenance expenses and others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in other operating expenses, net, but are not included in the right-of-use asset or liability

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

In 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. Variable lease payments associated with these leases are recognized and presented in the same manner as all other leases.

(h) Asset Impairment

BSMH early adopted ASU 2017-04 – *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* which eliminates the Step 2 calculation for the implied fair value of goodwill to measure a goodwill impairment charge. Under the updated standard, an entity will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. ASU 2017-04 does not change the guidance on completing Step 1 of the goodwill impairment test and still allows an entity to perform the optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. The adoption of the standard did not have a material impact on the consolidated financial statements and disclosures.

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

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

On January 26, 2021, BSMH announced the decision to close Bon Secours DePaul Medical Center and consolidate acute and emergency services from the hospital to Bon Secours Maryview Medical Center. The anticipated closure is an impairment indicator and a resulting impairment charge of \$34,653 was recorded in nonrecurring operating losses, net within the consolidated statement of operations of BSMH for the year ended December 31, 2020.

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(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. Investments in unconsolidated organizations are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the investment might not be recoverable. No impairment was recognized for the years ended December 31, 2020 and 2019.

(j) *Retirement Assets and Liabilities*

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

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

(k) *Other Long-Term Assets*

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

	<u>2020</u>	<u>2019</u>
Goodwill, net	\$ 268,713	197,695
Self insured reinsurance receivable	—	15,984
Notes and other long term receivables	56,637	85,876
Other intangibles	31,944	37,347
Right-of-use assets – finance	225,963	185,489
Other	<u>54,283</u>	<u>78,921</u>
Total other long-term assets	<u>\$ 637,540</u>	<u>601,312</u>

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

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The following is the carrying amount and changes in the carrying amount of goodwill included in other assets in the consolidated balance sheets as of December 31:

	2020	2019
Goodwill at the beginning of the period	\$ 197,695	209,764
Goodwill related to acquisitions	99,171	41,307
Measurement period adjustments	(19,367)	—
Goodwill related to deconsolidation of Ensemble	—	(53,135)
Impairment	(8,542)	(241)
Other	(244)	—
	\$ 268,713	197,695
Goodwill at the end of the period		

(I) **Accrued Claims Expense and Related Liabilities**

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

(i) *Self-Insurance*

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

(ii) *Professional Liability and General Insurance*

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

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(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 sheet.

(m) Net Assets Including Noncontrolling Interest

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

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

The consolidated financial statements include all assets, liabilities, revenue and expenses of less than 100% owned entities that the Company controls in accordance with applicable accounting guidance. Accordingly, the Company has reflected a noncontrolling interest for the portion of the Company's revenue and expenses not controlled by the Company, separately in the consolidated balance sheets and the consolidated statement of operations.

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(n) Other Long-Term Liabilities

Other long-term liabilities consist of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Derivative instruments (note 9)	\$ 118,251	95,959
SERP liability	75,568	54,146
Lease liabilities – finance	344,266	216,889
Accelerated Medicare Payments Program	397,566	—
Deferred social security tax liabilities	69,858	—
Other	<u>20,903</u>	<u>76,381</u>
Total other long-term liabilities	<u>\$ 1,026,412</u>	<u>443,375</u>

(o) Other Revenue

Other operating revenues includes income from equity investments in joint ventures (note 15), grant revenues including stimulus funding provided by the CARES Act, assisted living, revenues from corporate services, earnings on funds held by bond trustees and cafeteria and meal sales.

(p) Charity Care

The Company exists to benefit the people in the communities it serves. In pursuing its mission, the Company advocates for and provides services to help meet healthcare and related socio-economic needs of poor and disadvantaged individuals and the broader community. The Company provides services in the communities served by holistically ministering to its patients with respect and without regard to their ability to pay.

Programs and services for the uninsured and underinsured represent the financial commitment of the Company to everyone in the community. The Company's financial assistance policy ensures that all members of the community receive this basic human right to access healthcare.

Charity care costs are estimated based on multiplying the ratio of costs to gross charges for all payments not attributable to other community benefits programs by the revenue recognized and written-off for health services provided to persons who cannot afford to pay. Charity care amounts are not recorded as net patient service revenue.

The categories included as programs and services for the poor and disadvantaged are as follows:

(i) Charitable Services – Financially Disadvantaged Persons

The Company provides care to patients regardless of their ability to pay for all or a portion of the charges incurred. This care is classified as charity care based upon the Company's established policies. In accordance with the Catholic Health Association (CHA) guidelines, charity care represents the unpaid costs of free or discounted health services provided to persons who cannot afford to pay and who meet the Company's criteria for financial assistance.

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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. Additional assistance is provided by a reduction in charges for medically necessary services through a community service adjustment.

(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.

(q) Recurring Operating Income

Recurring operating income includes financial results of operating entities, but excludes certain nonrecurring activities such as restructuring, asset impairments and gains/losses on operating asset sales/disposals.

(r) Performance Indicator

The consolidated statement of operations includes the caption excess of revenues over expenses, which represents the operating (performance) indicator for the Company. Consistent with industry practice, changes in net assets which are excluded from the excess of revenue over expenses may include impact of acquisitions, discontinued operations, change in net unrealized gains on restricted investments, restricted contributions, distributions to noncontrolling interests, certain pension and other postemployment benefit adjustments, and other miscellaneous items as defined under U.S. Generally Accepted Accounting Principles (GAAP).

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(s) Income Taxes

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

The Company accounts for uncertain tax positions in accordance with ASC Topic 740, *Income Taxes*. The Company accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company has determined that no significant unrecognized tax benefits or liabilities exist as of December 31, 2020 and 2019.

Accounting for uncertainty in income taxes, ASC Topic 740-10 prescribes a comprehensive model for how an organization should measure, recognize, present and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. The Company is subject to routine audits by taxing jurisdictions. There are no current audits in progress. As of December 31, 2020 and 2019, the Company has no uncertain tax positions.

The Company's taxable subsidiaries had \$199,705 and \$205,170 net operating loss carryforwards as of December 31, 2020 and 2019, respectively, which expire in varying periods through 2037 and are available to offset future taxable income. The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be in effect during the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Interest and penalties related to income taxes are accounted for as income tax expense. The Company has placed a full valuation allowance on the deferred tax assets as of December 31, 2020 and 2019 as the Company considers it more likely than not that these amounts will not be utilized in future periods.

(t) Medicare and Medicaid Programs

The Company renders services to patients under contractual arrangements with the Medicare and Medicaid programs. Payment for the majority of Medicare and Medicaid services is based on a prospectively determined fixed price, according to a patient classification, based on clinical and other diagnostic factors.

Amounts earned under these contractual arrangements are subject to review and final determination by Medicare and Medicaid intermediaries and other appropriate governmental authorities or their agents and may be adjusted in future periods as settlements are determined.

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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 \$7,788 and \$14,523 for the years ended December 31, 2020 and 2019, 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.

(u) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The impact of the Novel Coronavirus (COVID-19) pandemic has increased the uncertainty of assumptions underlying management's estimates. The Company will be impacted by the severity and duration of the COVID-19 pandemic. Those primary drivers are uncertain and beyond management's control and may adversely impact revenue growth, patient volumes, supply chain, investments, and workforce. The impact of COVID-19 on the Company's consolidated financial statements may differ from the judgments and estimates determined as of the year ended December 31, 2020.

(v) Contingencies

During the normal course of business, the Company may become involved in litigation. Management assesses the probable outcome of unresolved litigation and records estimated settlements, if applicable. It is not possible to determine the eventual outcome of any presently unresolved litigation. However, after consultation with legal counsel, management believes that these matters will be resolved without material adverse impact to the consolidated financial position or results of operations of the Company.

(w) Reclassifications

The Company has reclassified certain amounts relating to its prior period results to conform to the current period presentation. These reclassifications have not changed the results of operations or changes in net assets of prior periods.

(x) New Accounting Pronouncements

In August 2017 and October 2018, FASB issued ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities (Topic 815)* and ASU No. 2018-16, *Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (Topic 815)*. This ASU adjusts hedge accounting recognition and presentation requirements. In addition, it allows for the use of the OIS Rate as a benchmark interest rate for hedge accounting. The provisions of ASU No. 2017-12 and ASU No. 2018-16 are effective for

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fiscal years beginning after December 15, 2020. The adoption of the above ASU is not anticipated to have a significant impact on the consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, which adds, clarifies, and removes certain disclosure requirements related to defined benefit and other postretirement plans. The provisions of ASU No. 2018-14 are effective for fiscal years ending after December 15, 2021. The Company is currently evaluating the impact of this ASU on the footnote disclosure.

In August 2018, FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software. The provisions of ASU No. 2018-15 are effective for fiscal years beginning after December 15, 2020. The adoption of the above ASU is not anticipated to have a significant impact on the consolidated financial statements.

In January 2020, FASB issued ASU No. 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. This ASU clarifies accounting for certain equity securities when transitioning into or out of the equity method of accounting and clarifies scope considerations related to forward contracts and purchased options on certain securities. The provisions of ASU No. 2020-01 are effective for fiscal years beginning after December 15, 2021. The Company did not early adopt and is currently evaluating the impact of this ASU.

In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires contributed nonfinancial assets to be separately stated in the statement of changes in net assets and for the contributions to be disaggregated by type in the footnotes. The provisions of ASU No. 2020-07 are effective for fiscal years beginning after June 15, 2021. The Company did not early adopt and is currently evaluating the impact of this ASU.

(3) Novel Coronavirus (COVID-19)

On March 11, 2020, the World Health Organization designated the Novel Coronavirus (COVID-19) as a global pandemic. The pandemic negatively impacted the global economy, the communities we serve, our employees, our suppliers, and has created significant volatility and disruption of the financial markets. Patient volumes and the related revenue for the Company’s health care services were significantly impacted during the first half of 2020 due to state and local policies implemented to contain the spread of COVID-19 and preserve personal protective equipment. However, the Company saw a gradual and steady recovery beginning in May 2020 through December 31, 2020 as states began to re-open and allow for non-emergent procedures.

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In response to COVID-19, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on March 27, 2020. Subsequent to the CARES Act enactment, the Consolidated Appropriations Act, 2021 (CAA) was signed into law on December 27, 2020. The CAA extended certain provisions of the CARES Act and provided additional COVID-19 relief.

During the year ended December 31, 2020, the Company received approximately \$426,510 (net of amounts returned) through the CARES Act Provider Relief Fund and state grant programs. Payments from the Fund are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with specific terms and conditions. The funds were accounted for as government grants and recognized in operating revenue as the Company substantially met the terms and conditions required to retain the funds. Approximately \$376,033 was recognized in other revenues, net in 2020 within the consolidated statement of operations and \$50,477 was not recognized per reporting guidelines issued by the U.S. Department of Health and Human Services (HHS). The amounts not recognized were included in other accrued expenses within the consolidated balance sheet as of December 31, 2020. In addition, Ireland government implemented a cost reimbursement program through Health Services Executive (HSE). Ireland received and recognized \$82,000 in other revenues, net within the consolidated statement of operations.

As a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic, the CARES Act expanded the Medicare Advance Payment Program. Health systems were provided with the opportunity to request accelerated payments of up to 100% of the Medicare payment amount for a six-month period. Centers for Medicare and Medicaid Services ("CMS") based payment amounts for inpatient acute care hospitals on the provider's Medicare fee-for service reimbursements in the last six months of 2019. Accelerated payments are interest free for up to 29 months, and the program currently requires CMS to start recouping the payments beginning 12 months after receipt by the provider by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been returned. The Company received \$734,246 in Accelerated Medicare Payments and recognized the funds as a refund liability with repayment to occur based upon the terms and conditions of the Program. The CAA through the Centers for Medicare and Medicaid Services ("CMS") extended the repayments term through 2022. The Company accounted for \$336,680 within other accrued expenses for the amounts due in 2021, and \$397,566 was recorded within other long-term liabilities for the amounts due in 2022, on the consolidated balance sheet.

The CARES Act also provided for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Company began deferring the employer portion of social security taxes in April 2020 and recorded a deferral of \$139,716 of which \$69,858 is recorded in other salaries, wages and benefits and \$69,858 is recorded in other long-term liabilities within the consolidated balance sheet. Lastly, the CARES Act provided an employee retention tax credit. The Company recognized the \$20,942 of tax credits as a reduction to employee compensation within the consolidated statement of operations in 2020.

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(4) Community Benefits (Unaudited)

The following is a summary of the Company's community service as measured by services to the poor and benefits provided to the 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, 2020 Edition.

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

	<u>2020</u>	<u>2019</u>
Charitable services and other community benefits:		
Traditional charity care	\$ 123,402	96,849
Unpaid costs of public programs	447,003	464,490
Community health services	27,449	26,495
Health professional education	64,947	63,287
Subsidized health services	7,339	24,148
Financial and in-kind donations	6,042	8,137
Community building activities	6,103	4,730
Community benefit operations	5,051	9,149
Research	181	110
Total quantifiable community benefits	<u>\$ 687,517</u>	<u>697,395</u>
Percent of total recurring expenses	7.1 %	8.4 %

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

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(5) Investments and Assets Whose Use is Limited

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

	<u>2020</u>	<u>2019</u>
Board-designated funds:		
Cash and cash equivalents	\$ 901,776	86,921
Equity mutual funds	1,137,602	896,406
Equity commingled funds	702,717	626,110
Common and preferred stocks	665,746	568,336
Fixed income commingled funds	275,629	143,496
Government and agency securities	1,364,425	910,796
Corporate obligations	1,424,040	747,486
Alternative investments	1,378,775	1,096,214
Other investments	—	82
	<u>\$ 7,850,710</u>	<u>5,075,847</u>
	<u>2020</u>	<u>2019</u>
Self-insurance and trustee held funds:		
Cash and cash equivalents	\$ 107,442	133,711
Equity mutual funds	150,638	87,690
Government and agency securities	28,823	50,877
Corporate obligations	27,276	—
	<u>\$ 314,179</u>	<u>272,278</u>
	<u>2020</u>	<u>2019</u>
Donor-restricted funds:		
Cash and cash equivalents	\$ 73,385	109,875
Equity mutual funds	14,564	5,856
Equity commingled funds	—	3,881
Common and preferred stocks	3,634	3,557
Fixed income commingled funds	17,978	249
Government and agency securities	136	3,867
Corporate obligations	—	2,624
Alternative investments	8,000	6,518
	<u>\$ 117,697</u>	<u>136,427</u>

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	<u>2020</u>	<u>2019</u>
Investments:		
Cash and cash equivalents	\$ 94,245	50,513
Government and agency securities	24,594	—
Corporate obligations	40,330	—
	<u>\$ 159,169</u>	<u>50,513</u>
Investments and assets whose use is limited	\$ 8,441,755	5,535,065
Available for current liabilities	<u>(237,426)</u>	<u>(157,052)</u>
Long-term assets limited or restricted as to use	<u>\$ 8,204,329</u>	<u>5,378,013</u>

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

The following is a summary of nonoperating investment gains, for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Dividends and interest	\$ 63,172	72,495
Net realized gains on securities	116,596	252,547
Net change in unrealized gains on securities	420,056	258,049
	<u>\$ 599,824</u>	<u>583,091</u>

The Company's ability to generate investment income is dependent in large measure on market conditions. The market value of the Company's investment portfolio, as well as the Company's investment income, have fluctuated significantly in the past and are likely to continue to fluctuate in the future. The Company's investment portfolio assets are designated as trading securities as discussed in ASC Topic 320, *Investments – Debt and Equity Securities*. The Company's entire portfolio is actively managed by third-party investment managers. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. As required by U.S. GAAP, realized and unrealized gains and losses on an investment portfolio, designated as a trading portfolio, are accounted for as nonoperating investment (losses) income and are included in (deficit) excess of revenues over expenses. Because of this designation as a trading portfolio, management anticipates fluctuations in excess of revenues over expenses. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit as of December 31, 2020 and 2019.

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.

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(6) Fair Value of Financial Instruments

The following discussion describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about the Company's business, its value or consolidated financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Fair values for the Company's fixed maturity securities are based on prices provided by its investment managers and its custodian bank. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations and designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. The Company's fixed maturity securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair values of equity securities have been determined by the Company from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

Fair values for the Company's interest rate swaps have been determined using pricing models developed based on the LIBOR swap rate and other observable market data. The values were determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and the Company.

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

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data points for the asset or liability and include situations where there is little, if any, market activity for the asset or liability, such as internal estimates of future cash flows.

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

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:

	<u>Fair value</u>	<u>Fair value measurements at December 30, 2020 using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 721,837	721,837	—	—
Investments:				
Cash and cash equivalents	94,245	94,245	—	—
Government and agency securities	24,594	24,594	—	—
Corporate obligations	40,330	—	40,330	—
	159,169	118,839	40,330	—
Assets limited or restricted as to use:				
Cash and cash equivalents	1,082,603	1,082,603	—	—
Equity mutual funds	1,302,804	737,514	565,290	—
Equity commingled funds	694,619	580,825	72,278	41,516
Common and preferred stocks	669,380	648,956	20,424	—
Fixed income commingled funds	237,893	194,584	43,309	—
Government and agency securities	1,393,384	812,436	580,948	—
Corporate obligations	1,451,316	—	1,451,316	—
Cash and assets limited or restricted as to use	7,713,005	4,897,594	2,773,895	41,516

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	Fair value	Fair value measurements at December 30, 2020 using		
		Level 1	Level 2	Level 3
Assets whose use is limited under securities lending arrangements	\$ 8,098	8,098	—	—
Total cash and assets limited or restricted as to use	\$ 7,721,103	4,905,692	2,773,895	41,516
Liabilities:				
Interest rate swaps	\$ 118,251	—	—	118,251
Total liabilities	\$ 118,251	—	—	118,251

	Fair value	Fair value measurements at December 30, 2019 using		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 453,258	453,258	—	—
Investments:				
Cash and cash equivalents	50,513	50,513	—	—
Assets limited or restricted as to use:				
Cash and cash equivalents	330,487	330,487	—	—
Equity mutual funds	989,259	504,976	484,283	—
Equity commingled funds	629,995	546,843	83,152	—
Common and preferred stocks	571,896	571,896	—	—
Fixed income commingled funds	143,744	100,721	43,023	—
Government and agency securities	961,728	443,259	518,469	—
Corporate obligations	752,702	—	752,702	—
Cash and assets limited or restricted as to use	4,883,582	3,001,953	1,881,629	—
Assets whose use is limited under securities lending arrangements	12,688	—	12,688	—
Total cash and assets limited or restricted as to use	\$ 4,896,270	3,001,953	1,894,317	—
Liabilities:				
Interest rate swaps	\$ 95,959	—	—	95,959
Contingent consideration	695	—	—	695
Total liabilities	\$ 96,654	—	—	96,654

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There were no significant transfers between Levels 1 and 2 during the years ended December 31, 2020 and 2019.

Following is the summary of the inputs and valuation techniques utilized to value Level 2 financial instruments as of December 31, 2020 and 2019:

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

For the year ended December 31, 2020, the changes in the fair value of the assets measured using significant unobservable inputs (Level 3) consisted of the following:

Beginning balance	\$	—
Purchases		41,082
Sales		(2,342)
Realized and unrealized gains		<u>2,776</u>
Ending balance	\$	<u><u>41,516</u></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. For the year ended December 31, 2020, investments measured at NAV consist of fixed income commingled funds and alternative investments. The fixed income commingled investment funds are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of the fair value of the commingled investments funds as of December 31, 2020, since the commingled investment funds are audited and accounted for at fair value by the administrators of the respective commingled investment funds.

Alternative investments are not necessarily readily marketable and may include short sales on securities and trading in future contracts, options, foreign currency contracts, other derivative instruments and private equity investments. Alternative investments can be divested only at specified times in accordance with terms of the partnership agreements. Hedge fund redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated. These redemptions are subject to lock-up provisions that are generally imposed upon initial investment in the fund. Private equity funds are generally closed-end funds and have significant redemption restrictions that prohibit redemptions during the fund's life.

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The following table summarizes the investments measured at NAV, committed capital and associated redemptions as of December 31, 2020:

	<u>Investments measured at NAV</u>	<u>Committed capital</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Fixed income commingled funds	\$ 55,714	—	Monthly	10 days
Alternative investments:				
Private investments	739,719	555,138	N/A	N/A
Hedge funds	647,056	—	Monthly, quarterly, annually	2 to 90 days ⁽¹⁾
	<u>\$ 1,442,489</u>	<u>555,138</u>		

Investments that are not redeemable as of December 31, 2020 are \$121,679⁽¹⁾.

The following table summarizes the investments measured at NAV, committed capital and associated redemptions as of December 31, 2019:

	<u>Investments measured at NAV</u>	<u>Committed capital</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Alternative investments:				
Private investments	\$ 532,643	372,092	N/A	N/A
Hedge funds	563,676	—	Monthly, quarterly, annually	2 to 90 days ⁽¹⁾
Other	6,419	—	N/A	N/A
	<u>\$ 1,102,738</u>	<u>372,092</u>		

Investments that are not redeemable as of December 31, 2019 are \$51,585⁽¹⁾.

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

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

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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.

(7) Property and Equipment, Net

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

	<u>2020</u>	<u>2019</u>
Land	\$ 321,021	260,435
Land improvements	118,917	103,777
Buildings and fixed equipment	4,599,743	4,756,299
Movable equipment	5,312,983	4,544,127
Leasehold improvements	<u>197,317</u>	<u>208,404</u>
	10,549,981	9,873,042
Less accumulated depreciation	<u>(6,561,206)</u>	<u>(6,363,763)</u>
	3,988,775	3,509,279
Construction in progress	<u>363,249</u>	<u>212,712</u>
	<u>\$ 4,352,024</u>	<u>3,721,991</u>

As of December 31, 2020 and 2019, the Company is contractually obligated for construction projects totaling \$112,325 and \$140,995 at current construction cost levels. It is expected that these costs will be incurred in the next twelve months. The Company will finance these construction projects through the use of tax-exempt bond obligations proceeds, assets whose use is limited and operating cash flow.

Depreciation expense for the Company was \$478,312 and \$414,938 for the years ended December 31, 2020 and 2019, respectively.

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(8) Long-Term Debt

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

Long-term debt	Coupon rates	Maturity through	December 31	
			2020	2019
Master trust indenture obligations:				
Fixed rate Hospital Facilities Revenue and Revenue Refunding and Improvement Bonds:				
Mercy Health Series 2010B serial bonds	4.00–5.00%	2020	\$ —	19,035
Mercy Health Series 2012A serial and term bonds	2.25–5.00	2042	13,530	266,010
Mercy Health Series 2015A term bonds	4.00–5.00	2045	159,205	159,205
Mercy Health Series 2015C taxable bonds	3.38	2025	150,000	150,000
Mercy Health Series 2017A serial and term bonds	3.00–5.00	2047	472,335	476,325
Mercy Health Series 2017C taxable bonds	3.56	2027	143,150	143,150
Mercy Health Series 2018A taxable bonds	4.30	2028	305,684	305,684
BSMH Series 2020A serial and term bonds	4.00–5.00	2049	675,630	—
BSMH Series 2020 taxable bonds	3.46	2030	389,680	—
BSMH Series 2020-2 taxable bonds	1.35–3.21	2050	650,000	—
Adjustable rate Hospital Facilities Revenue and Revenue Refunding and Improvement Bonds:				
Mercy Health Series 2008 direct placement bonds		2031	118,600	300,000
Mercy Health Series 2010C/D demand and direct placement		2034	166,500	172,400
Mercy Health Series 2012B demand bonds		2036	100,000	100,000
Bon Secours Series 2013B (VSBFA) direct placement bonds		2042	40,740	40,740
Mercy Health Series 2015B notes payable		2035	—	100,000
Mercy Health Series 2017B bonds payable		2047	89,425	89,425
Bon Secours Series 2017 (SC) direct placement bonds		2042	69,925	69,925
Mercy Health Series 2018AB commercial paper notes			100,000	100,000
BSMH Series 2020B bonds payable		2048	87,380	—
2018 TD Bank variable rate taxable term loan		2026	150,000	150,000
2018 US Bank variable rate taxable term loan		2023	160,000	160,000
2019 Wells Fargo variable rate taxable term loan		2020	—	240,000
2020 JPMorgan fixed rate taxable term loan		2023	250,000	—
Total master trust indenture obligations			4,291,784	3,041,899
Ireland variable rate taxable term loan payable in August 2024			101,916	93,045
Other debt			22,193	23,572
			<u>4,415,893</u>	<u>3,158,516</u>

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Long-term debt	Coupon rates	Maturity through	December 31	
			2020	2019
Original issue net premium			\$ 105,290	60,319
Cost of issuance			(23,712)	(15,950)
			4,497,471	3,202,885
Less current portion of long-term debt			(255,926)	(762,807)
Long-term debt, less current portion			\$ 4,241,545	2,440,078

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 \$101,916.

On December 31, 2019, as part of the acquisition of three hospitals from affiliates of Community Health Systems, Inc., as described in note (1)(b), the Company entered into a taxable term loan with a financial institution in the amount of \$240,000.

On January 2, 2020, as part of the restructure of the RSFH joint venture described in note (1)(b), the Company entered into taxable term loans with financial institutions in the amount of \$460,000 to fund the defeasance of tax-exempt debt and swaps held by RSFH. The Company recorded a net loss on extinguishment of debt of \$21,332.

On April 15, 2020, the Company issued \$242,590 of tax exempt fixed rate bond obligations through its Series 2020A OH bonds, \$234,855 of tax exempt fixed rate bond obligations through its Series 2020A SC bonds, \$206,450 of tax exempt fixed rate bond obligations through its Series 2020A VA bonds and \$87,380 of tax exempt adjustable rate bond obligations through its Series 2020B SC bonds. The proceeds of these bond obligation issues were used to defease \$175,000 of the Series 2008 bonds, \$100,000 of the Series 2015B floating rate notes, and pay off \$570,000 of taxable term loans. The Company also issued \$389,680 of taxable fixed rate bond obligations through its Series 2020 bonds, the proceeds of which were used for general corporate purposes and to pay for associated costs of issuance. The Company recorded a loss from early extinguishment of debt of \$1,153.

The Company incurred additional indebtedness in the second quarter of 2020 to maintain liquidity despite the operational impacts of COVID-19. On April 3, 2020, the Company amended its revolving credit agreement from \$150,000 to \$250,000. There was no amount drawn on the increased line at December 31, 2020 and 2019. In addition, on April 23, 2020, the company entered into a taxable term loan with a financial institution in the amount of \$250,000. On May 11, 2020, the Company entered into an additional revolving credit agreement in the amount of \$250,000, drawing a total of \$250,000 on that line.

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On October 15, 2020, the Company issued \$650,000 of taxable fixed rate bond obligations through its Series 2020-2 bonds, the proceeds of which were used to defease \$242,830 of the Series 2012A bonds, pay off the \$250,000 additional revolving credit agreement entered into in May of 2020, pay off a \$130,000 term loan, and pay for associated costs of issuance. The Company recorded a loss from early extinguishment of debt of \$7,439.

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

The Company is subject to certain restrictive covenants under the MTI, revolving credit agreements, reimbursement agreements and irrevocable letters of credit as of December 31, 2020 and 2019. The Company was in compliance with all restrictive covenants as of December 31, 2020 and 2019.

The following is a schedule of future minimum payments based on scheduled maturities as of December 31, 2020:

Period	Master trust indenture obligations	European group and other debt
2021	\$ 50,160	3,507
2022	53,150	3,315
2023	458,945	21
2024	55,205	15,333
2025	254,450	101,926
Thereafter	3,419,874	7
Total minimum payments	\$ 4,291,784	124,109

Interest payments for the years ended December 31, 2020 and December 31, 2019 were \$122,620 and \$96,641, respectively.

Unamortized debt issuance costs of \$23,712 and \$15,950 as of December 31, 2020 and December 31, 2019, respectively, represents costs related to the issuance of bond obligations and is being amortized over the terms of the related bond obligations at amounts approximating the effective interest method.

As of December 31, 2020, current portion of long-term debt includes \$100,000 adjustable rate demand bonds supported by the Company's own liquidity and \$100,000 commercial paper notes supported by the Company's own liquidity.

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The Company has \$85,750 of variable rate bond obligations with letter of credit support, a total of \$310,015 adjustable rate bonds held under direct purchase agreements with financial institutions and \$411,916 of variable rate taxable term loan agreements with financial institutions. The Company's dedicated liquidity facilities and direct placement agreements on variable rate demand bonds have expiration dates that extend from June 2024 to November 2027, and their respective term-out repayment provisions extend beyond the subsequent fiscal year.

The Company 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, 2021, with an intention to extend the agreement beyond this period. No amounts were outstanding under the revolving credit agreement as of December 31, 2020 or December 31, 2019.

(9) Derivatives and Interest Rate Swap Agreements

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

Interest rate swap agreement	Transaction type	Payment rate/basis	Termination date	Notional amount		Valuation amount	
				December 31		December 31	
				2020	2019	2020	2019
December 2006 JPM	Pay fixed	3.63 %	2033	\$ 269,200	269,200	(44,802)	(38,695)
December 2018 Barclays	Pay fixed	3.98	2042	50,000	50,000	(24,973)	(17,438)
December 2018 Citi	Pay fixed	3.84	2032	25,000	25,000	(8,319)	(5,767)
December 2018 JPM	Pay fixed	3.72	2047	80,000	80,000	(26,160)	(18,100)
December 2018 PNC	Pay fixed	3.45	2042	69,925	69,925	(26,744)	(20,885)
December 2007 JPM	Constant maturity	N/A	2027	250,000	250,000	9,589	3,963
August 2018 JPM	Constant maturity	N/A	2037	150,000	150,000	988	(377)
Credit valuation adjustment						2,170	1,340
						<u>\$ (118,251)</u>	<u>(95,959)</u>

All changes in the fair value of the Company's interest rate swap agreements are recognized in realized and unrealized interest rate swap agreements 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 losses on the consolidated statement of operations. The net payments were \$15,062 and \$9,167 as of December 31, 2020 and 2019, 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 posted collateral with designated custodians of \$62,227 as of December 31, 2020 (\$64,373 as of December 31, 2019) 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 on

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(In thousands)

the consolidated balance sheet. Interest earned while collateralized funds are held by the custodian is shown in nonoperating gains, net on the consolidated statement of operations.

(10) Pension Plans

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

The following is a summary of the components of the change in benefit obligation and plan assets for the Plans as of December 31:

	<u>Pension Plans</u>		<u>Postemployment Plans</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Change in benefit obligation:				
Net projected benefit obligation				
at beginning of year	\$ 2,986,659	2,739,089	17,688	18,306
Service cost	3,661	29,891	472	548
Interest cost	91,844	109,567	508	681
Actuarial (gain)/loss	333,322	358,259	724	(201)
Plan amendments	44,585	616	—	—
Curtailments	—	(52,281)	—	—
Settlement	(45,625)	(60,557)	—	—
Gross benefits paid and expenses	(116,094)	(137,925)	(1,694)	(1,646)
Projected benefit obligation at end of year	<u>3,298,352</u>	<u>2,986,659</u>	<u>17,698</u>	<u>17,688</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	2,627,406	2,275,964	—	—
Actual return on plan assets	419,392	521,731	—	—
Employer contributions	3,492	28,194	1,694	1,646
Gross benefits paid	(116,094)	(137,926)	(1,694)	(1,646)
Settlement	(45,625)	(60,557)	—	—
Fair value of plan assets at end of year	<u>2,888,571</u>	<u>2,627,406</u>	<u>—</u>	<u>—</u>
Under funded status \$	<u>(409,781)</u>	<u>(359,253)</u>	<u>(17,698)</u>	<u>(17,688)</u>

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Settlements of \$45,625 and \$60,557 were recognized during the years ended December 31, 2020 and 2019. During 2020 and 2019, the Company updated the mortality projection assumptions used to determine the Plans' projected benefit obligation. The change to the MP-2020 and MP-2019 mortality improvement scales in 2020 and 2019 respectively, resulted in a decrease in the Plans' projected benefit obligation and an increase in the funded status of \$19,432 and \$13,633 at December 31, 2020 and 2019, respectively.

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

	<u>Pension Plans</u>		<u>Postemployment Plans</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Retirement assets	\$ 133,678	125,015	—	—
Current liabilities	—	—	(1,798)	(1,694)
Retirement liabilities	<u>(543,459)</u>	<u>(484,268)</u>	<u>(15,900)</u>	<u>(15,994)</u>
Net amount recognized	<u>\$ (409,781)</u>	<u>(359,253)</u>	<u>(17,698)</u>	<u>(17,688)</u>

In addition to amounts recognized in the consolidated financial statements related to the Plans, retirement liabilities on the consolidated balance sheets includes other retirement liabilities, consisting primary of accrued contributions to defined contribution plans, of \$1,279 and \$650 at December 31, 2020 and 2019, respectively.

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

	<u>Pension Plans</u>		<u>Postemployment Plans</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net prior service credit (cost)	\$ (29,299)	16,442	—	—
Net actuarial (loss) gain	<u>(684,852)</u>	<u>(669,434)</u>	<u>1,375</u>	<u>2,171</u>
Net amount unrecognized	(714,151)	(652,992)	1,375	2,171
Cumulative excess (shortfall) of employer contributions over net periodic benefit cost	<u>304,370</u>	<u>293,739</u>	<u>(19,073)</u>	<u>(19,859)</u>
	<u>\$ (409,781)</u>	<u>(359,253)</u>	<u>(17,698)</u>	<u>(17,688)</u>

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Net actuarial (loss) gain is amortized as a component of net periodic benefit cost (income), only if the losses exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. Net prior service credit (cost) is amortized on a straight-line basis over the estimated life of the Plans' participants. The net prior service credit (cost) included in unrestricted net assets expected to be recognized as a (loss) gain in net periodic benefit cost (income) during the year ended December 31, 2020 and 2019 is \$29,299 and (\$16,442), respectively. The net actuarial (loss) gain included in unrestricted net assets expected to be recognized as a (loss) gain in net periodic benefit cost (income) during the year ended December 31, 2020 and 2019 is \$683,477 and \$667,263, respectively.

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

	Pension Plans		Postemployment Plans	
	2020	2019	2020	2019
Amortization of prior service cost	\$ 1,155	3,179	—	—
Net actuarial gain	47,732	78,085	—	—
Amortization of net actuarial gain/(loss)	(34,567)	43,266	—	—
Unrecognized prior service cost	44,586	(616)	—	—
Other postemployment benefit changes	—	—	795	(110)
	\$ 58,906	123,914	795	(110)

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

	Pension Benefits		Postemployment Benefits	
	2020	2019	2020	2019
Service cost	\$ 3,661	29,891	472	548
Interest cost	91,844	109,567	508	681
Expected return on plan assets	(134,422)	(137,667)	—	—
Curtailment/settlement cost	9,151	22,700	—	—
Amortization of:				
Actuarial loss/(gain)	25,416	24,291	—	(13)
Prior service cost	(1,155)	(547)	(71)	(79)
Net periodic benefit cost (income)	\$ (5,505)	48,235	909	1,137

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

	Pension Plans		Postemployment Plans	
	2020	2019	2020	2019
Discount rate – ERISA	2.24 %	3.07	N/A	N/A
Discount rate – Church pension and postretirement benefit plans	2.23%–2.31%	3.17	2.31	3.17
Rate of compensation increase	2.50%–3.60%	2.50	N/A	N/A
Expected long-term rates of return on plan assets	5.75 %	6.00	N/A	N/A
Mortality table	Pri-2012	Pri-2012	Pri-2012	Pri-2012
Generational scale	MP-2020	MP-2019	MP-2020	MP-2019

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

	Pension Plans		Postemployment Plans	
	2020	2019	2020	2019
Discount rate	3.07%–3.17%	3.02–4.31	3.17	4.18
Rate of compensation increase	2.50%–2.59%	2.50–2.68	N/A	N/A
Expected long-term rates of return on plan assets	5.75 %	3.02–6.00	N/A	N/A

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

	2020	2019
Healthcare cost trend rate assumed for next year	5.2%–7.4%	5.3–7.8
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.5%	4.5
Year the rate reaches the ultimate trend rate	2030	2029

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The healthcare cost trend rate assumptions can have a significant effect on the amounts reported. A one-percentage-point change in assumed healthcare cost trend rate assumptions would have the following effects:

	<u>One- percentage- point increase</u>	<u>One- percentage- point decrease</u>
Effect on total of service and interest cost	\$ 55	46
Effect of post-employment benefit obligation	776	681

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

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

	<u>2020</u>	<u>2019</u>
Asset category:		
Equity mutual and commingled funds and securities	35 %	29 %
Fixed income mutual funds and securities	46	47
Alternative investments	16	20
Cash	3	4
Total	<u>100 %</u>	<u>100 %</u>

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.

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(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, 2020:

	Fair value	Fair value measurements		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 80,616	80,616	—	—
Equity mutual funds	342,267	201,871	140,396	—
Equity commingled funds	442,900	416,238	26,662	—
Common and preferred stocks	232,449	232,449	—	—
Fixed income commingled funds	23,866	23,866	—	—
Government and agency bonds	330,513	295,597	34,916	—
Corporate obligations	975,274	—	975,274	—
Total investments	2,427,885	1,250,637	1,177,248	—
Due from broker/custodian for investment activity, net	3,369	—	3,369	—
Total plan assets	\$ 2,431,254	1,250,637	1,180,617	—

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, 2019:

	Fair value	Fair value measurements		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 51,612	51,612	—	—
Equity mutual funds	353,613	196,268	157,345	—
Equity commingled funds	612,573	579,970	32,603	—
Common and preferred stocks	261,784	249,959	11,825	—
Fixed income commingled funds	25,316	25,316	—	—
Government and agency bonds	200,900	177,475	23,425	—
Corporate obligations	678,451	—	678,451	—
Other	16,535	—	16,535	—
Total investments	2,200,784	1,280,600	920,184	—
Due to broker/custodian for investment activity, net	(2,333)	—	(2,333)	—
Total plan assets	\$ 2,198,451	1,280,600	917,851	—

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(In thousands)

The following table summarizes the alternative investments, committed capital and associated redemptions as of December 31, 2020:

	<u>Alternative investments</u>	<u>Committed capital</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Private investments	\$ 245,159	114,267	N/A	N/A
Hedge funds	212,158	—	Monthly, quarterly, annually	2 to 90 days ⁽¹⁾
	<u>\$ 457,317</u>	<u>114,267</u>		

Investments that are not redeemable as of December 31, 2020 are \$52,881⁽¹⁾.

The following table summarizes the alternative investments, committed capital and associated redemptions as of December 31, 2019:

	<u>Alternative investments</u>	<u>Committed capital</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Private investments	\$ 228,674	84,081	N/A	N/A
Hedge funds	200,277	—	Monthly, quarterly, annually	2 to 90 days ⁽¹⁾
	<u>\$ 428,951</u>	<u>84,081</u>		

Investments that are not redeemable as of December 31, 2019 are \$23,028⁽¹⁾.

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

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

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The projected benefit payments for the Plans are as follows:

	Pension Plans	Post employment Plans
2021	\$ 234,974	1,798
2022	167,782	1,847
2023	166,417	1,896
2024	165,965	1,339
2025	167,570	1,328
2026–2030	815,627	5,713

The Company expects to contribute \$50,000 to the defined benefit pension plans and \$1,798 to the post-employment benefit plans in 2021. The Company has several defined contribution benefit plans to assist eligible employees in providing for retirement. Under such plans, the Company recognized expense of \$148,868 and \$148,672 for the years ended December 31, 2020 and 2019, respectively, related to employer contributions, which is included in employee benefits expense in the consolidated statements of operations.

(11) Other Commitments and Contingent Liabilities

(a) General and Professional Liability Insurance

The provision for claims and related funding levels for the HPL/GL 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 \$289,102 and \$246,987 as of December 31, 2020 and 2019, respectively. The current portion of such accruals, \$75,616 and \$71,556 as of December 31, 2020 and 2019, respectively, is included in other accrued expenses, and the remainder, \$213,486 and \$175,431 as of December 31, 2020 and 2019, 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 of \$61,049 and \$79,919, as of December 31, 2020 and 2019, respectively. The current portion of such accruals, \$1,445 and \$8,700 as of December 31, 2020 and 2019, respectively, is reported as other accrued expenses. The remainder, \$59,604 and \$71,218, is reported within self-insurance liabilities in the accompanying consolidated balance sheets, include estimates for incidents incurred but not reported as of December 31, 2020 and 2019, 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.

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(In thousands)

(c) *Employee Health Insurance*

Accrued claims associated with this program, which are reported as other accrued expenses in the accompanying consolidated balance sheets, of approximately \$44,543 and \$47,070, include estimates for claims incurred but not reported as of December 31, 2020 and 2019, respectively.

(d) *Litigation*

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. The Company's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business but cannot reasonably predict any particular outcomes or operational or financial effects from these matters at this time.

(e) *Leases*

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

	<u>2020</u>	<u>2019</u>
Finance lease expense:		
Amortization of ROU assets	\$ 18,602	9,913
Interest on lease liabilities	14,406	5,743
Operating lease expense	108,056	102,176
Short-term lease expense	30,459	31,283
Variable lease expense	<u>31,353</u>	<u>13,287</u>
Total lease cost	<u>\$ 202,876</u>	<u>162,402</u>

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Commitments related to non-cancellable operating and finance leases for each of the next five years and thereafter as of December 31, 2020 are as follows:

	<u>Operating</u>	<u>Finance</u>
2021	\$ 92,939	29,886
2022	76,155	28,525
2023	58,839	35,455
2024	45,178	22,890
2025	33,940	21,575
Thereafter	<u>83,845</u>	<u>648,083</u>
Total	390,896	786,414
Less present value discount	<u>(48,411)</u>	<u>(425,919)</u>
Lease liabilities	<u>\$ 342,485</u>	<u>360,495</u>

Other information is as follows:

	<u>2020</u>	<u>2019</u>
Weighted average remaining lease terms (in years):		
Finance leases	68.85	51.46
Operating leases	6.15	6.06
Weighted average discount rate:		
Finance leases	3.79 %	3.69 %
Operating leases	4.23	4.46

(12) Net Assets with Donor Restrictions

The Company's endowments consist of 333 and 283 individual funds established for a variety of purposes as of December 31, 2020 and 2019, respectively. Net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor or board-imposed restrictions and the nature of the restrictions, if any.

The Company's endowment net assets were \$98,941 and \$90,617 as of December 31, 2020 and 2019, respectively. The Company does not hold any board-designated endowment funds within assets without donor restrictions or temporarily restricted net assets (assets with donor restrictions).

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Uniform Prudent Management of Institutional Funds Act requires the Company to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets without donor restrictions. There were no deficiencies as of December 31, 2020 and 2019.

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

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

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

(13) Functional Expenses

The functional breakdown of expenses incurred by the Company in fulfilling its mission is as follows for the year ended December 31, 2020:

	<u>Program activities</u>			<u>Supporting activities</u>	
	<u>Healthcare services</u>	<u>Ancillary services and other</u>	<u>Total</u>	<u>General and administrative</u>	<u>Total</u>
Employee compensation	\$ 3,672,182	880,468	4,552,650	229,897	4,782,547
Purchased services and other	1,815,990	93,482	1,909,472	466,917	2,376,389
Supplies	1,779,647	61,295	1,840,942	104,977	1,945,919
Depreciation and amortization	366,629	35,824	402,453	97,178	499,631
Interest	13,021	114,000	127,021	2,954	129,975
Total recurring expenses	<u>\$ 7,647,469</u>	<u>1,185,069</u>	<u>8,832,538</u>	<u>901,923</u>	<u>9,734,461</u>

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(In thousands)

The functional breakdown of expenses incurred by the Company in fulfilling its mission is as follows for the year ended December 31, 2019:

	Program activities			Supporting activities	
	Healthcare services	Ancillary services and other	Total	General and administrative	Total
Employee compensation	\$ 2,933,336	926,418	3,859,754	497,642	4,357,396
Purchased services and other	1,184,843	387,231	1,572,074	260,125	1,832,199
Supplies	1,333,074	87,066	1,420,140	162,616	1,582,756
Depreciation and amortization	263,134	85,801	348,935	75,326	424,261
Interest	2,831	80,012	82,843	14,205	97,048
	Total recurring expenses	\$ 5,717,218	1,566,528	7,283,746	1,009,914
		\$ 5,717,218	1,566,528	7,283,746	8,293,660

(14) Liquidity and Capital Resources

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

	2020	2019
Cash, cash equivalents and investments	\$ 881,006	462,056
Net patient receivables	1,072,483	1,017,577
Assets whose use is limited:		
Board-designated funds	6,416,222	4,021,347
Self-insurance and trustee held funds	73,846	88,927
Restricted funds	4,411	17,060
	\$ 8,447,968	5,606,967

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

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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 \$6,416,222 and \$4,021,347 as of December 31, 2020 and 2019, respectively. The fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

(15) Investments in Unconsolidated Organizations

The Company has invested in a number of joint ventures, limited liability corporations and other entities to provide specialty healthcare services or engage in other activities. The most significant of these investments are presented below. The Company accounts for its interest in these entities under the equity method of accounting and includes its interest in the excess of revenues over expenses of these entities in its consolidated statement of operations and changes in net assets as other revenue. None of these entities are otherwise affiliated with BSMH.

(a) Ensemble

Ensemble is a Delaware limited liability company providing revenue cycle management and consulting services to hospitals and health systems. Ensemble was a wholly owned subsidiary of BSMH and 52% was sold on August 1, 2019. An additional 1% of BSMH ownership interest in Ensemble was sold to another non-affiliated party on November 1, 2019. As of December 31, 2020 and December 31, 2019, BSMH ownership interest in Ensemble was 47%.

(b) Summa Health System

Summa Health System (Summa), located in Akron, Ohio, is a tax-exempt integrated health care delivery system and provides health services and insurance to communities in Northeast Ohio. As of December 31, 2019, Healthspan Partners (HSP) had an ownership interest of 30% in Summa and did not manage or control the operations. In December 2020, a full redemption of the 30% equity interest was finalized for \$240,000. The loss on redemption of \$10,000 was recorded in nonrecurring operating losses, net within the consolidated statement of operations in 2020.

(c) Roper St. Francis Healthcare – South Carolina

As of December 31, 2019, BSMH, The Medical Society of South Carolina and the Carolinas Health Company, Inc. were members of Care Alliance Health Services (d/b/a Roper St. Francis Healthcare). Roper St. Francis Healthcare was the sole member of and operated Bon Secours – St. Francis Xavier Hospital, Roper Hospital, a supporting foundation and physician practices located in Charleston, South Carolina. The Company was obligated to provide 27% of any capital contribution to Roper St. Francis Healthcare and was entitled to 27% of any surplus capital. On January 2, 2020, Bon Secours Mercy Health completed an agreement with the Medical Society of South Carolina to restructure the Roper St. Francis Healthcare joint venture to increase BSMH's ownership to a controlling 51%. Refer to Note 1(b) for disclosure on restructuring.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(In thousands)

(d) Sentara Princess Anne

BSMH and Sentara Healthcare (Sentara) are members in a Virginia not-for-profit, nonstock, corporation that owns and operates Sentara Princess Anne Hospital located in Virginia Beach, Virginia. Sentara holds a 70% membership interest and DePaul Medical Center holds a 30% membership interest in the corporation. The joint venture is managed by Sentara and the agreements provide the members with rights to “put” and “call” the BSMH’s membership interest at fair market value terms upon the occurrence of certain events and dates.

(e) Bon Secours Charity Health System, Inc

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

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

	<u>2020</u>	<u>2019</u>
Ensemble (equity method investment as of July 31, 2019)	\$ 839,267	836,038
Summa Health System	—	250,000
Roper St. Francis Healthcare (consolidated subsidiary effective January 2, 2020)	—	114,616
Sentara Princess Anne	51,754	39,803
Charity	36,425	48,298
Other	49,099	54,460
	<u>\$ 976,545</u>	<u>1,343,215</u>

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

	<u>2020</u>	<u>2019</u>
Ensemble	\$ 68,593	25,052
Roper St. Francis Healthcare	—	2,798
Sentara Princess Anne	12,209	13,945
Charity	(11,872)	(6,922)
Other	5,869	7,458
	<u>\$ 74,799</u>	<u>42,331</u>

(16) Subsequent Events

The Company has evaluated and disclosed any subsequent events through April 9, 2021, which is the date the consolidated financial statements were issued and made publicly available.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(In thousands)

On January 26, 2021, BSMH announced the decision to close Bon Secours DePaul Medical Center and consolidate acute and emergency services from Bon Secours DePaul Medical Center to Bon Secours Maryview Medical Center. The anticipated closure is an impairment indicator and a resulting impairment charge of \$34,653 was recorded in nonrecurring operating losses for the year ended December 31, 2020, in the consolidated statement of operations of BSMH.

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

(17) Financial Responsibility Standards

Bon Secours Mercy Health participates in federal Title IV student financial assistance programs, which require the Organization to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR 668.171. The criteria for private institutions include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR 668.172, using audited financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve Ratio, Equity Ratio and Net Income Ratio. These ratios utilize the following financial data of the Organization, which are not presented elsewhere within the notes to these financial statements, as of and for the year ended December 31, 2020:

<u>Required input per standards</u>	<u>Ratio uses</u>	<u>Amounts</u>
Expendable net assets ratio inputs:		
Property and equipment, net – pre-implementation	Primary reserve \$	2,505,653
Property and equipment, net – post-implementation without outstanding debt for original purchase	Primary reserve	<u>1,483,122</u>
Total property plant and equipment	Not applicable \$	<u><u>3,988,775</u></u>
Long-term debt – pre-implementation	Primary reserve \$	2,228,898
Long-term debt – post-implementation – not for purchases of property and equipment	Not applicable	1,438,397
Long-term debt – post-implementation – for purchases of property and equipment	Primary reserve	<u>830,176</u>
Total long-term debt	Not applicable \$	<u><u>4,497,471</u></u>
Annuities with donor restrictions	Primary reserve \$	265
Total expenses and losses inputs:		
Total operating expenses	Not applicable \$	9,734,461
Plus realized and unrealized interest rate swap agreements loss	Not applicable	38,531
Plus other non-operating activities, net	Not applicable	92,010
Pension-related changes other than net periodic costs	Not applicable	<u>—</u>
Total expenses without donor restrictions	Primary reserve \$	<u><u>9,865,002</u></u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(In thousands)

The basis for the property and equipment, net - pre-implementation and the long-term debt - pre-implementation are based on the amounts reported in the Company's most recently accepted financial statement submission to the ED prior to the effective date and implementation of 34 CFR 668.171, which for the Company was December 31, 2018. These pre-implementation amounts have been adjusted by depreciation and amortization and other reductions for property and equipment, net - pre-implementation; and by debt payments and other reductions for long-term debt – pre-implementation. Post-implementation property and equipment, net are amounts of property and equipment that the Company has obtained since December 31, 2018, adjusted for depreciation and amortization and other reductions.

Refer to footnote 8 for information related to issue dates and terms of long-term debt.

BON SECOURS MERCY HEALTH
Consolidating Schedule – Balance Sheet Information
December 31, 2020
(In thousands)

Assets	Providence Group	Samaritan Group	Charleston Market	European Group	Shared Services	BSMH Other	BSMH Captives	Discontinued operations	Consolidating eliminations	Bon Secours Mercy Health
Current assets:										
Cash and cash equivalents	\$ 1,901,994	1,176,010	61,761	22,517	(2,476,887)	12,536	860	23,046	—	721,837
Investments	—	1,062	153,809	—	4,298	—	—	—	—	159,169
Self-insurance and trustee held funds	—	—	—	—	8,097	—	65,749	—	—	73,846
Donor-restricted funds	2,116	518	—	—	1,293	484	—	—	—	4,411
Total cash and investments	1,904,110	1,177,590	215,570	22,517	(2,463,199)	13,020	66,609	23,046	—	959,263
Net patient receivables	462,319	483,238	117,607	60,036	(43,030)	3,175	—	(10,862)	—	1,072,483
Other receivables	36,208	35,642	13,993	348	38,696	(124)	53,235	754	(10,046)	168,706
Inventories	123,587	91,160	19,141	10,826	6,985	—	—	—	—	251,699
Prepaid expenses and other current assets	15,785	12,599	27,859	5,809	207,040	221	5,640	(101)	(68,462)	206,390
Total current assets	2,542,009	1,800,229	394,170	99,536	(2,253,508)	16,292	125,484	12,837	(78,508)	2,658,541
Assets whose use is limited:										
Board-designated funds	936,727	1,359,046	329,868	—	5,077,906	—	129,942	17,221	—	7,850,710
Self-insurance and trustee held funds	46	6,031	1,570	—	21,832	—	210,854	—	—	240,333
Donor-restricted funds	5,125	1,359	44,499	—	62,228	—	—	75	—	113,286
Total assets whose use is limited	941,898	1,366,436	375,937	—	5,161,966	—	340,796	17,296	—	8,204,329
Property and equipment, net	1,507,008	1,541,045	573,513	300,107	414,690	11,274	—	4,388	(1)	4,352,024
Investments in unconsolidated organizations	70,812	4,982	(32)	5,169	914,055	—	—	—	(18,441)	976,545
Operating lease right-of-use assets	138,438	115,010	42,026	13,730	28,332	110	—	—	(4,017)	333,629
Retirement assets	15,319	—	—	—	118,359	—	—	—	—	133,678
Other long-term assets	140,899	149,328	227,992	13,386	2,083,177	50	—	22,057	(1,999,349)	637,540
Total assets	\$ 5,356,383	4,977,030	1,613,606	431,928	6,467,071	27,726	466,280	56,578	(2,100,316)	17,296,286
Liabilities and Net Assets										
Current liabilities:										
Accounts payable	\$ 598,167	498,594	77,730	47,567	(681,822)	5,042	76,860	127,279	16,301	765,718
Current portion of long-term debt	24,103	45,919	49	—	254,317	—	—	—	(68,462)	255,926
Accrued salaries, wages and benefits	71,991	80,657	52,786	13,677	375,275	447	102	329	—	595,264
Current portion of operating lease liabilities	38,274	25,312	9,712	390	6,345	70	—	136	133	80,372
Other accrued expenses	392,444	352,498	64,730	5,632	146,205	239	65,749	14,196	(360,340)	681,353
Total current liabilities	1,124,979	1,002,980	205,007	67,266	100,320	5,798	142,711	141,940	(412,368)	2,378,633
Long-term debt, less current portion	926,393	627,701	385,286	116,719	4,150,498	13,852	—	17,557	(1,996,461)	4,241,545
Retirement liabilities	289,572	22,548	—	929	153,937	—	—	93,652	—	560,638
Self-insurance liabilities	—	—	—	—	59,603	—	213,487	—	—	273,090
Operating lease liabilities	105,568	92,131	32,182	8,967	22,936	37	—	125	167	262,113
Other long-term liabilities	66,574	29,182	168,608	138,519	255,470	794	—	6,926	360,339	1,026,412
Total liabilities	2,513,086	1,774,542	791,083	332,400	4,742,764	20,481	356,198	260,200	(2,048,323)	8,742,431
Net assets without donor restrictions:										
Controlling interest	2,525,369	3,085,143	435,887	99,528	1,540,463	6,761	110,082	(203,697)	(51,993)	7,547,543
Noncontrolling interest	311,348	103,614	341,000	—	(998)	—	—	—	—	754,964
Total net assets without donor restrictions	2,836,717	3,188,757	776,887	99,528	1,539,465	6,761	110,082	(203,697)	(51,993)	8,302,507
Net assets with donor restrictions										
Total net assets	2,843,297	3,202,488	822,523	99,528	1,724,307	7,245	110,082	(203,622)	(51,993)	8,553,855
Total liabilities and net assets	\$ 5,356,383	4,977,030	1,613,606	431,928	6,467,071	27,726	466,280	56,578	(2,100,316)	17,296,286

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Schedule – Operating Information

Year ended December 31, 2020

(In thousands)

	<u>Providence Group</u>	<u>Samaritan Group</u>	<u>Charleston Market</u>	<u>European Group</u>	<u>BSMH Shared Services</u>	<u>BSMH Other</u>	<u>BSMH Captives</u>	<u>Consolidating eliminations</u>	<u>Bon Secours Mercy Health</u>
Revenues:									
Net patient service revenue	\$ 4,063,442	3,824,350	954,605	280,269	(176,550)	24,342	—	—	8,970,458
Other revenue, net	313,590	298,278	51,630	87,072	2,073,198	6,318	161,619	(1,992,503)	999,202
Total operating revenues	<u>4,377,032</u>	<u>4,122,628</u>	<u>1,006,235</u>	<u>367,341</u>	<u>1,896,648</u>	<u>30,660</u>	<u>161,619</u>	<u>(1,992,503)</u>	<u>9,969,660</u>
Expenses:									
Employee compensation	1,831,985	1,860,763	528,917	187,314	825,009	21,618	6,229	(479,288)	4,782,547
Purchased services and other	1,426,950	1,255,182	220,214	53,460	739,234	7,937	172,243	(1,498,831)	2,376,389
Supplies	797,116	745,240	192,348	102,565	105,603	3,032	15	—	1,945,919
Depreciation and amortization	165,222	153,823	64,895	11,910	102,952	829	—	—	499,631
Interest expense	878	(129)	19,613	6,465	117,028	92	—	(13,972)	129,975
Total operating expenses	<u>4,222,151</u>	<u>4,014,879</u>	<u>1,025,987</u>	<u>361,714</u>	<u>1,889,826</u>	<u>33,508</u>	<u>178,487</u>	<u>(1,992,091)</u>	<u>9,734,461</u>
Recurring operating income (loss)	154,881	107,749	(19,752)	5,627	6,822	(2,848)	(16,868)	(412)	235,199
Nonrecurring operating losses, net	(36,800)	(3,344)	—	(816)	(33,980)	—	(2)	—	(74,942)
Operating income (loss)	118,081	104,405	(19,752)	4,811	(27,158)	(2,848)	(16,870)	(412)	160,257
Nonoperating gains (losses), net:									
Investment gains	92,183	131,884	42,024	(14)	293,286	—	40,461	—	599,824
Realized and unrealized interest rate swap agreements loss	—	—	—	—	(38,531)	—	—	—	(38,531)
Loss on defeasance of debt	—	—	24,701	—	(54,625)	—	—	—	(29,924)
Inherent contribution on Ireland acquisition	—	—	—	—	337	—	—	—	337
Other nonoperating activities, net	(18,240)	(17,465)	(2,842)	(104)	(44,140)	(61)	8	—	(82,844)
(Deficit) excess of revenue over expenses	<u>\$ 192,024</u>	<u>218,824</u>	<u>44,131</u>	<u>4,693</u>	<u>129,169</u>	<u>(2,909)</u>	<u>23,599</u>	<u>(412)</u>	<u>609,119</u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH
Supplementary Schedule of Financial Responsibility Data
December 31, 2020

Location in financial statements and notes	Required input per standards	Summary amount	Detailed amount
Expendable net assets ratio inputs:			
Consolidated balance sheets – net assets without donor restrictions	Net assets without donor restrictions	\$ —	8,302,507
Consolidated balance sheets – net assets with donor restrictions	Net assets with donor restrictions	—	251,348
Consolidated balance sheets – property and equipment, net	Property and equipment, net (includes construction in progress)	4,352,024	—
Note 17 – property and equipment, net – pre-implementation	Property and equipment, net – pre-implementation	—	2,505,653
Note 17 – property and equipment, net – post implementation without outstanding debt for original purchase	Property and equipment, net – post-implementation without outstanding debt for original purchase	—	1,483,122
Note 7 – property and equipment, net	Construction in process	—	363,249
Consolidated balance sheets	Lease right-of-use asset, net	559,592	—
Consolidated balance sheets – operating lease right-of-use asset	Lease right-of-use asset, net (operating)	—	333,629
Note 2(k) – other long-term assets	Finance lease right-of-use assets, net (finance)	—	225,963
Note 2(k) – other long-term assets	Intangible assets	300,657	—
Note 2(k) – other long-term assets	Goodwill	—	268,713
Note 2(k) – other long-term assets	Other intangibles	—	31,944
Consolidated balance sheets – retirement liabilities	Post-employment and pension liabilities	—	560,638
Note 8 – long-term debt	Long-term debt – for long term purposes	4,497,471	—
Note 17 – long-term debt – for long term purposes pre-implementation	Long-term debt – for long term purposes pre-implementation	—	2,228,898
Note 17 – financial responsibility standards – long term debt – not for purchases of property and equipment	Long-term debt – post-implementation – not for purchases of property and equipment	—	1,438,397
Note 17 – financial responsibility standards – long term debt – for purchases of property and equipment	Long-term debt – post-implementation – for purchases of property and equipment	—	830,176
Note 11(e) – leases	Lease right-of-use asset liability	702,980	—
Note 11(e) – leases	Lease right-of-use asset liability (operating)	—	342,485
Note 11(e) – leases	Lease right-of-use asset liability (finance)	—	360,495
Note 17 – financial responsibility standards – annuities	Annuities with donor restrictions	—	265
Note 12 – net assets with donor restrictions	Net assets with donor restrictions, restricted in perpetuity	—	98,941
Total expenses and losses inputs:			
Note 17 – total expense without donor restrictions	Total expenses without donor restrictions	—	9,865,002
Equity ratio – modified net assets inputs:			
Consolidated balance sheets – net assets without donor restrictions	Net assets without donor restrictions	—	8,302,507
Consolidated balance sheets – net assets with donor restrictions	Net assets with donor restrictions	—	251,348
Note 2(k) – other long-term assets	Intangible assets	300,657	—
Note 2(k) – other long-term assets	Goodwill	—	268,713
Note 2(k) – other long-term assets	Other intangibles	—	31,944
Modified assets inputs:			
Consolidated balance sheets – total assets	Total assets	—	17,296,286
Note 2(k) – other long-term assets	Intangible assets	300,657	—
Note 2(k) – other long-term assets	Goodwill	—	268,713
Note 2(k) – other long-term assets	Other intangibles	—	31,944
Net income ratio inputs:			
Consolidated balance sheets – net assets without donor restrictions	Net assets without donor restrictions	—	8,302,507
Consolidated statement of operations	Total revenues and gains	10,569,484	—
Consolidated statement of operations – total operating revenues	Total revenues and gains (operating revenues)	—	9,969,660
Consolidated statement of operations – investment gains	Total revenues and gains (investment gains)	—	599,824

See accompanying independent auditors' report.



KPMG LLP
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Cincinnati, OH 45202

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Directors
Bon Secours Mercy Health:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Bon Secours Mercy Health, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 9, 2021, except as to note 17, which is as of February 14, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Bon Secours Mercy Health's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bon Secours Mercy Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Bon Secours Mercy Health's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bon Secours Mercy Health's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Bon Secours Mercy Health's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bon Secours Mercy Health's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Cincinnati, Ohio
April 9, 2021, except as to note 17,
which is as of February 14, 2022



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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Bon Secours Mercy Health:

Report on Compliance for Each Major Federal Program

We have audited Bon Secours Mercy Health's (the Company) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Company's major federal programs for the year ended December 31, 2020. The Company's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Company's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified and modified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the Company's compliance.

Basis for Qualified Opinion on Coronavirus Relief Fund

As described in the accompanying schedule of findings and questioned costs, the Company did not comply with requirements regarding CFDA 21.019 Coronavirus Relief Fund as discussed in finding number 2020-002 for Allowability. Compliance with such requirements is necessary, in our opinion, for the Company to comply with the requirements applicable to that program.

Qualified Opinion on Coronavirus Relief Fund

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Company complied, in all material respects, with the types of compliance requirements referred to above that



could have a direct and material effect on CFDA 21.019 Coronavirus Relief Fund for the year ended December 31, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2020.

Other Matters

The Company's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Company is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Company's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses or the corrective action plan.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-001 to be a significant deficiency.



The Company's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Company is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Company's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses or the corrective action plan.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Company as of and for the year ended December 31, 2020, and have issued our report thereon dated April 9, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Cincinnati, Ohio
February 14, 2022

BON SECOURS MERCY HEALTH
Consolidated Schedule of Expenditures of Federal Awards
Year ended December 31, 2020

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
U.S. Department of Agriculture Pass-Through Programs:				
Youngstown Neighborhood Development Corp – Food Insecurity Nutrition Incentive Grants Program	10.331	2017-70025-26687	\$ —	66,063
Supplemental Nutrition Assistance Food Stamp Program Cluster:				
Structured Employment Economic Development Co. – Supplemental Nutrition Assistance Program	10.551	FIA/FSO 19-004	—	6,150
Supplemental Nutrition Assistance Food Program Cluster Subtotal			—	6,150
Ohio Department of Health – WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	05030011WA1320	—	782,465
Ohio Department of Health – WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	05010011WA1421	—	233,774
Toledo – Lucas County Health Department – WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	04810011WA1320	—	378,373
Toledo – Lucas County Health Department – WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	04810011WA1421	—	118,083
Total WIC Special Supplemental Nutrition Program for Women, Infants, and Children			—	1,512,695
Total U.S. Department of Agriculture			—	1,584,908
U.S. Department of Defense Pass-Through Programs:				
The University of Southern California Alzheimers Therapeutic Research Institute – Military Medical Research and Development	12.420	W81XWH-12-2-0012 (via subaward #WE11675-1915)	—	21,058
Total U.S. Department of Defense			—	21,058
U.S. Department of Housing and Urban Development Direct Programs:				
Multifamily Housing Service Coordinators	14.191		—	36,751
Subtotal U.S. Department of Housing and Urban Development Direct Programs			—	36,751
U.S. Department of Housing and Urban Development Pass-Through Programs:				
City of Charleston Department of Housing & Community Development – Housing Opportunities for Persons with AIDS	14.241	2018 Contract Year	—	164,888
City of Charleston Department of Housing & Community Development – Housing Opportunities for Persons with AIDS	14.241	2019 Contract Year	—	125,959
City of Charleston Department of Housing & Community Development – COVID-19 Housing Opportunities for Persons with AIDS	14.241	2020 Contract Year	—	6,560
Total Housing Opportunities for Persons with AIDS			—	297,407
Enterprise Community Partners – Section 4 Capacity Building for Community Development and Affordable Housing	14.252	19SG1576	—	2,550
Enterprise Community Partners-COVID-19 Partner Support – Section 4 Capacity Building for Community Development and Affordable Housing	14.252	20SG1666	—	18,225
Total Section 4 Capacity Building for Community Development and Affordable Housing			—	20,775
Subtotal U.S. Department of Housing and Urban Development Pass-Through Programs			—	318,182
Total U.S. Department of Housing and Urban Development			—	354,933
U.S. Department of Justice Pass-Through Programs:				
Ohio Attorney General – Crime Victim Assistance	16.575	2020-VOCA-132925492	—	371,834
Ohio Attorney General – Crime Victim Assistance	16.575	2021-VOCA-133977810	—	76,113
Virginia Hospital & Healthcare Assoc Foundation (VHHAF) – Crime Victim Assistance	16.575	21-B4739VP19	—	341,127
Total Crime Victim Assistance			—	789,074
Institute for Intergovernmental Research – Comprehensive Opioid Abuse Site-Based Program	16.838	6620384000	—	58,819
Total U.S. Department of Justice			—	847,893
U.S. Department of Labor Pass-Through Programs:				
DLLR Mayor's Office of Employment Development – WIA Youth Activities	17.259	4000-806419-6313-781005-603051	—	176,610
Ohio Department of Job and Family Services – ODEP Disability Employment Policy Development	17.720	G-2021-15-0691	—	803,343
Total U.S. Department of Labor			—	979,953
U.S. Department of the Treasury Pass-Through Programs:				
Ohio Department of Mental Health & Addiction Services – COVID-19 Coronavirus Relief Fund	21.019	8302506600	—	25,000
Ohio Department of Higher Education – COVID-19 Coronavirus Relief Fund	21.019	6764-964000	—	262,364
Greenville County Offices – COVID-19 Coronavirus Relief Fund	21.019	1700-1	—	3,069,302
City of Newport News – COVID-19 Coronavirus Relief Fund	21.019	90002250-1450	—	815,719
South Carolina – COVID 19 Coronavirus Relief Fund	21.019	10-6038, 12-6038, 14-6038, 15-6038	—	5,233,460
Total Coronavirus Relief Fund			—	9,405,845
Total U.S. Department of the Treasury			—	9,405,845
U.S. Department of Education Direct Programs:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007		—	103,569
Federal Work-Study Program	84.033		—	72,719
Federal Pell Grant Program	84.063		—	2,566,586
Federal Direct Student Loans	84.268		—	11,535,392
Student Financial Assistance Cluster Subtotal			—	14,278,266

BON SECOURS MERCY HEALTH
 Consolidated Schedule of Expenditures of Federal Awards
 Year ended December 31, 2020

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act:				
COVID-19 Higher Education Emergency Relief Fund – Student Aid Portion	84.425E		\$ —	624,838
COVID-19 Higher Education Emergency Relief Fund – Institutional Portion	84.425F		—	167,774
Total Education Stabilization Fund			—	792,612
Total U.S. Department of Education			—	15,070,878
U.S. Department of Health and Human Services Direct Programs:				
Training in General, Pediatric, and Public Health Dentistry	93.059		—	60,079
Telehealth Programs	93.211		—	46,085
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		—	14,266
COVID-19 – Testing for the Uninsured	93.461		—	2,646,202
Mental and Behavioral Health Education and Training Grants	93.732		—	10,000
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement	93.912		—	245,914
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease – Ryan White Part C	93.918		—	589,521
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease – COVID-19 Ryan White Part C	93.918		—	82,010
Total Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease			—	671,531
Subtotal U.S. Department of Health and Human Services Direct Programs			—	3,694,077
U.S. Department of Health and Human Services Pass-Through Programs From:				
Ohio Department of Health – State Rural Hospital Flexibility Program	93.241	62-1	—	44,416
Ohio Department of Health – State Rural Hospital Flexibility Program	93.241	03930011CR0120	—	75,000
Ohio Department of Health – State Rural Hospital Flexibility Program	93.241	0390011CR0221	—	18,750
Total Community Paramedicine Rural Pilot Program			—	138,166
Kentucky Office of Rural Health – COVID-19 Small Rural Hospital Improvement Grant Program	93.301	6620-800004	—	114,214
Ohio Department of Health – Small Rural Hospital Improvement Grant Program	93.301	5H3HRH00045-19-00	—	35,565
Ohio Department of Health – COVID-19 Small Rural Hospital Improvement Grant Program	93.301	5 H3HRH00045-17-00	—	168,634
Ohio Department of Health – COVID-19 Small Rural Hospital Improvement Grant Program	93.301	1 H3JRH374540100	—	252,951
VHHA Foundation (VHHAF) – COVID-19 Small Rural Hospital Improvement Grant Program	93.301	1416, 2420	—	83,590
Total Small Rural Hospital Improvement Grant Program			—	654,954
HRSA – Nurse Education, Practice, Quality and Retention	93.359	6 UK1HP3172602015, UK1HP31726-03-00	—	272,817
HRSA – COVID-19 Nurse Education, Practice, Quality and Retention	93.359	1 T1PHP391030100	—	31,495
Total Nurse, Education, Practice, Quality, and Retention			—	304,312
Temporary Assistance for Needy Families Cluster				
Ohio Children's Trust Fund – Regional Coordination – Temporary Assistance for Needy Families	93.558	G-2021-22-0194-02	98,688	98,688
Ohio Children's Trust Fund – Early Childhood Safety Initiative – Temporary Assistance for Needy Families	93.558	G-2021-22-0550, G-2021-22-0550-01	—	45,890
Temporary Assistance for Needy Families Cluster Subtotal			98,688	144,578
South Carolina HHS – COVID 19 Child Care & Development Block Grant – Emergency Operating Grant	93.575	01-3683	—	40,000
Ohio Children's Trust Fund – Community-Based Child Abuse Prevention Grants	93.590	G-2021-22-0194-02	68,712	72,995
Headstart Cluster:				
Lucas County Family Council – Head Start	93.600	6762-2300 (Contract Year 2020)	—	154,395
Lucas County Family Council – Head Start	93.600	6762-2300 (Contract Year 2021)	—	12,630
Lucas County Family Council – COVID-19 Head Start	93.600	6762-2300	—	1,442
Maryland Family Network – Head Start	93.600	03CH011118-02	—	815,379
Head Start Cluster Subtotal			—	983,846
Virginia Department of Health – Organized Approaches to Increase Colorectal Cancer Screening	93.800	NU58DP006089-03)	—	125,485
Ohio Department of Health – Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	U3REP150529	—	45,798
Ohio Department of Health – Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	6 U3REP150529-01-01	—	45,000
Total Hospital Preparedness Program (HPP) Ebola Assessment and Response Activities			—	90,798
Research and Development Cluster:				
Mayo Clinic Jacksonville – Extramural Research Programs in Neurosciences and Neurological Disorders	93.853	5U01NS080168-06	—	2,290
Total Extramural Research Programs in Neurosciences & Neurological Disorders			—	2,290
University of Maryland – Aging Research	93.866	F300151-2	—	62,788
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research – AD Clinical Trial (A4)	93.866	U19AG010483	—	4,429
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research – AD Clinical Trial (A4 OLE)	93.866	R01AG063689	—	17,104
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research – AD Clinical Trial (ADNI-3)	93.866	U19AG024904	—	174,309
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research – AD Clinical Trial (NIC)	93.866	R01AG047992	—	101,913

BON SECOURS MERCY HEALTH
 Consolidated Schedule of Expenditures of Federal Awards
 Year ended December 31, 2020

Federal grantor/pass-through grantor/program or cluster title	CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research – AD Clinical Trial (PEACE-AD)	93.866	U19AG010483	\$ —	5,257
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research – AD Clinical Trial (TRC-PAD)	93.866	R01AG053798	—	200,033
Medical University of South Carolina- Aging Research – ADMET-2	93.866	R01AG046543	—	106,576
Medical University of South Carolina- Aging Research – ADMET-2 (Supplement – Minority Recruitment)	93.866	R01AG046543-A1	—	25,250
Medical University of South Carolina- Aging Research – ADMET-2 (Supplement – Biomarker Labs)	93.866	R01AG046543-A3	—	1,626
Johns Hopkins University- Aging Research (Actigraph)	93.866	R01AG049872	—	3,196
Johns Hopkins University- Aging Research (s-CitAD)	93.866	R01AG052510	—	33,804
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research (ACTC Infrastructure)	93.866	U24AG057437	—	106,544
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research (TRC-PAD Infrastructure)	93.866	R01AG053798	—	6,396
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research (ADNI-3 Diversity Taskforce)	93.866	U19AG024904	—	43,199
Total Aging Research Programs			—	892,424
Research and Development Cluster Subtotal			—	894,714
Ohio Department of Health – Maternal, Infant and Early Childhood Home Visiting Grant	93.870	04830031MH0420	—	273,726
Ohio Department of Health – Maternal, Infant and Early Childhood Home Visiting Grant	93.870	04830031MH0521	—	70,954
Total Maternal, Infant and Early Childhood Home Visiting Grant			—	344,680
Ohio Department of Health – National Bioterrorism Hospital Preparedness Program	93.889	6077390085, 6205218000	—	38,449
Ohio Department of Health – National Bioterrorism Hospital Preparedness Program	93.889	07760042RP1420	—	14,853
Ohio Department of Health – National Bioterrorism Hospital Preparedness Program	93.889	07760042RP1421	—	54,727
Ohio Hospital Association – COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	1 U3REP200665-01-00	—	125,376
Hospital Council of Northwest Ohio – National Bioterrorism Hospital Preparedness Program	93.889	04860042RP1320	—	68,622
Hospital Council of Northwest Ohio – COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	90002250-2	—	64,893
SCHA – COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	U3REP200666	—	37,597
SCHA – COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	1700390085, 1701390085	—	18,964
Virginia Hospital & Healthcare Association – COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	Grant Award #1 USREP200640-01-00	—	611,063
Total National Bioterrorism Hospital Preparedness Program			—	1,034,544
Ohio Department of Health – Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations	93.898	NU58DP006284	—	5,500
Va Department of Health – Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations	93.898	NU58DP006324	—	32,311
Total Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations			—	37,811
Cuyahoga County Board of Health – HIV Emergency Relief Project Grants	93.914	H89HA23812	—	280,211
Cuyahoga County Board of Health – COVID-19 HIV Emergency Relief Project Grants	93.914	H89HA23812	—	3,531
Total HIV Emergency Relief Project Grants			—	283,742
South Carolina Department of Health & Environmental Control- HIV Care Formula Grants	93.917	HV-7-775, HV-0-614	—	435,454
Eau Claire Cooperative Health Center, Inc – HIV Prevention Activities – Health Department Based	93.940	10-3600	—	422
Ohio Department of Health – Maternal and Child Health Services Block Grant to the States	93.994	05030011CD0120	—	33,400
Subtotal U.S. Department of Health and Human Services Pass Through Programs			167,400	5,619,901
Total U.S. Department of Health and Human Services			167,400	9,313,978
Corporation for National and Community Services Pass-Through Programs:				
ServeOhio – AmeriCorps	94.006	18AFH-1502-20-OC132	—	76,264
ServeOhio – AmeriCorps	94.006	18AFH-1502-21-OC132	—	17,577
Total AmeriCorps			—	93,841
Total Corporation for National and Community Services			—	93,841
U.S. Department of Homeland Security Pass-Through Programs:				
United Way of America – COVID-19 Emergency Food and Shelter National Board Program	97.024	679600	—	7,476
United Way of America – Emergency Food and Shelter National Board Program	97.024	679600	—	4,010
Total Emergency Food and Shelter National Board Program			—	11,486
South Carolina Emergency Management Division – Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4286-PA-SC	—	100,121
South Carolina Emergency Management Division – Hazard Mitigation Grant	97.039	FEMA-DR-4166-0014	—	209,552
South Carolina Emergency Management Division – Hazard Mitigation Grant	97.039	FEMA-DR-4241-0029	—	1,721,486
Total Hazard Mitigation Grant			—	1,931,038
Total U.S. Department of Homeland Security			—	2,042,645
Total Federal Expenditures			\$ 167,400	39,715,932

See accompanying notes to consolidated schedule of expenditures of federal awards.

BON SECOURS MERCY HEALTH

Notes to Consolidated Schedule of Expenditures of Federal Awards

December 31, 2020

(1) Basis of Presentation

The accompanying consolidated schedule of expenditures of federal awards includes the federal grant activity of Bon Secours Mercy Health and consolidated subsidiaries (the Company). The accompanying schedule is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

(2) Federal Student Loan Program

With respect to the Federal Student Loan Program, the Company is only responsible for the performance of certain administrative duties related to approving and disbursing the loan and has no ongoing responsibility for administration of the loan; therefore, the transaction and the balances of the loans outstanding related to this program are not included in the Company's consolidated financial statements. The consolidated schedule of expenditures of federal awards includes the amounts loaned to students during the year ended December 31, 2020.

(3) Indirect Cost

The Company has not elected to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance. The Company has negotiated indirect cost rates ranging between 0% and 10%.

(4) Provider Relief Funds

During the year ended December 31, 2020, the Company was the recipient of funds under the Provider Relief Fund program CFDA 93.498. In accordance with guidance provided in the OMB 2 CFR Part 200 Compliance Supplement, such amounts will be reflected, to the extent utilized, in the schedule of expenditures of federal awards in future years.

BON SECOURS MERCY HEALTH
 Schedule of Findings and Questioned Costs
 December 31, 2020

(1) Summary of Auditor's Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None Reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **Yes; finding 2020-002**
 - Significant deficiencies: **Yes; finding 2020-001**
- (e) Type of report issued on compliance for major programs:

CFDA #	Program (or Cluster) Name	Type of Report
10.557	WIC Special Supplemental Nutrition Program for Women, Infants and Children	Unmodified
93.461	COVID-19 Testing for the Uninsured	Unmodified
21.019	Coronavirus Relief Fund	Qualified

- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- (g) Major programs:
 - WIC Special Supplemental Nutrition Program for Women, Infants and Children, CFDA No. 10.557
 - COVID-19 Testing for the Uninsured, CFDA No. 93.461
 - Coronavirus Relief Fund, CFDA No. 21.019
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,191,478**
- (i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

BON SECOURS MERCY HEALTH
Schedule of Findings and Questioned Costs
December 31, 2020

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2020-001

Federal Agency: U.S. Department of Agriculture

Federal Program: WIC Special Supplemental Nutrition Program for Women, Infants and Children, CFDA No. 10.557

Pass-through Entity: Ohio Department of Health

Pass-through Award Number: 05030011WA1320, 05010011WA1421

Pass-through Award Year: Oct. 1, 2019 – Sept. 30, 2020; Oct. 1, 2020 – Sept. 30, 2021

Criteria or Requirement

2 CFR Section 200.514(c) requires the auditor to perform procedures to obtain an understanding of internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs and perform testing of internal control. Internal control procedures included controls over 2 CFR 200.305(b)(3) under cash management to ensure that program costs were paid using non-federal entity funds before submitting a payment request.

Condition Found, Including Perspective

During our testing of the Company's compliance of cash management, a formal control for management review of the quarterly reimbursement reports submitted through Grant Management Information System (GMIS) did not operate consistently. This was identified through sampling the quarterly reimbursement report and not being able to obtain sufficient documentation to support management's review of the quarterly report for one of the four quarters tested.

Cause and Possible Asserted Effect

A formal control for management review of the reimbursement request did not occur. This resulted in one quarter not being properly reviewed prior to submission; therefore, the Company did not maintain the proper level of internal control to ensure compliance with the requirements of cash management. This control failure could allow inappropriate expenses to be submitted for reimbursement.

Questioned Costs

There are no questioned costs associated with this finding.

Statistical Validity

The samples were not intended to be, and were not, statistically valid samples.

Identification of whether the audit finding is a repeat of a finding in the immediately prior audit and if so, the applicable prior year finding number

The audit finding is not a repeat finding.

BON SECOURS MERCY HEALTH
Schedule of Findings and Questioned Costs
December 31, 2020

Recommendations

We recommend that the Company strengthen its internal control and monitoring procedures to ensure there is proper management review when submitting monthly/quarterly cash reimbursement requests.

Views of Responsible Officials

Management acknowledges the importance of an effective control environment, including appropriate review and approval of cash drawdowns prior to initiation of such activity. Management emphasizes a review process was occurring but acknowledges it was not consistently documented and therefore created a lack of audit trail, resulting in this finding. Prospectively, a consistent, documented, and evidenced review process by the WIC Program Manager prior to drawdown request submission has been implemented within the WIC Special Supplemental Nutrition Program for Women, Infants and Children Program.

BON SECOURS MERCY HEALTH
Schedule of Findings and Questioned Costs
December 31, 2020

Finding 2020-002

Federal Agency: U.S. Department of Treasury
Federal Program: Coronavirus Relief Fund, CFDA No. 21.019
Pass-through Entity: Greenville County Offices
Pass-through Award Number: 1700-1
Pass-through Award Year: Mar. 1, 2020 – Dec. 31, 2020

Criteria or Requirement

Per Title 2, U.S. Code of Federal Regulations Part 200 (2 CFR 200), Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, (Subpart D, Section 200.303), the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Per Department of Treasury guidance in the Federal Register Vol. 86, No. 10 dated January 15, 2021, the CARES Act provides that payments from the Fund may only be used to cover costs that are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) and recipients should keep records sufficient to demonstrate that the amount of fund payments to the recipient has been used in accordance with section 601(d) of the Social Security Act.

Condition Found, Including Perspective

During our testing of activities allowed or unallowed and allowable costs/cost principles, we selected a sample of 40 expenditures of other than payroll costs. Our sample was selected from a list of amounts charged to the Coronavirus Relief Fund Program. The sample identified one expenditure that was charged twice to the award. The sample also identified three expenditures where management was unable to provide supporting documents. These four expenditures totaled \$430,934 and were charged to the Community Health Grant from Greenville County, SC. The total other than payroll sample was \$585,293 and the total other than payroll population was \$3,061,633.

Cause and Possible Asserted Effect

The control to review supporting documentation for grant expenditures and the management review control to review the listing of expenditures prior to submission of the grant reporting did not operate effectively. Without effective controls in place, expenditures could be reported that are not accurate, are unallowable, or outside of the stated period of performance, resulting in non-compliance with grant requirements.

Questioned Costs

Known questioned costs totaled \$430,934.

Statistical Validity

The samples were not intended to be, and were not, statistically valid samples.

BON SECOURS MERCY HEALTH
Schedule of Findings and Questioned Costs
December 31, 2020

Identification of whether the audit finding is a repeat of a finding in the immediately prior audit and if so, the applicable prior year finding number

The audit finding is not a repeat finding.

Recommendations

We recommend that the Company strengthen its internal control and monitoring procedures to ensure there is proper management review prior to submitting expenditure reports for grants.

Views of Responsible Officials

This was a new funding program originating to support healthcare facilities dealing with the onset of the COVID-19 pandemic. The root cause of the finding is due to the new program and initial collection of the support required. Following the original grant development, stronger controls have been put in place and will be monitored if funding is received in future periods.

BON SECOURS MERCY HEALTH

BON SECOURS MERCY HEALTH

Corrective Action Plan in Response to Current Year Findings

For the Year Ended December 31, 2020

Management acknowledges the need for effective internal controls and procedures to ensure compliance with all requirements of the federal program for both the WIC Special Supplemental Nutrition Program from Women, Infants and Children and the Coronavirus Relief Fund. In 2022, BMSH continues to enhance internal controls to ensure compliance. Management will implement certain centralized oversight controls with respect to federal funding reimbursement requests, which is expected to result in fewer audit findings. Management maintains that the implementation of strengthened internal controls and procedures will ensure sustained compliance.

2020-001 WIC Special Supplemental Nutrition Program from Women, Infants and Children

As of August 1, 2021, management has established review procedures locally for the timely and accurate submission of quarterly reimbursement reports, as well as evidenced review and reconciliation of such data prior to submission.

Contact Person:

Kim Beckley, Program Manager of WIC
Kim_Beckley@mercy.com

2020-002 Coronavirus Relief Fund

Management makes note that this grant was awarded and administered during unprecedented times during the onset of the COVID-19 pandemic. Certain finance leaders and administrators were encountering unexpected operational challenges. The operational challenges shifted focus away from detailed reviews in certain instances of documentation for grant reimbursement. Currently, there are no active grants under this program. In the event of future grants, management has implemented, effective January 1, 2022, more robust review of source documents prior to expense reimbursement requests. In addition, management will proactively identify reporting challenges and training needs when new federal grants are awarded to the organization.

Despite the questioned costs of \$430,934, management has identified other costs that were necessary expenditures incurred due to the public health emergency with respect to COVID-19, that sufficiently offset all funds received under this grant.

Contact Person:

Lisa Landreth, Site CFO
Lisa_Landreth@bshsi.org