



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, 2019

(With Independent Auditors' Reports Thereon)

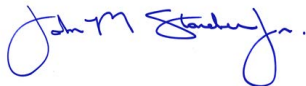
Statement of Management Responsibility

The accompanying consolidated financial statements of Bon Secours Mercy Health (the Company) for the year ended December 31, 2019 were prepared by the Company's management in conformity with U.S. generally accepted accounting principles appropriate in the circumstances.

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

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

KPMG LLP, the independent auditors, have audited the consolidated financial statements of the Company for the year ended December 31, 2019, and their report thereon is included herein. The independent auditors meet with members of the Audit & Compliance Committee of the Board of Trustees of the Company, in the absence of Management personnel, to discuss the results of their audit and are afforded the opportunity to present their comments with respect to the conduct of the audit engagement.



John Starcher
President & CEO



Deborah Bloomfield
Chief Financial Officer



Travis L. Crum
System SVP, Finance

April 2, 2020

BON SECOURS MERCY HEALTH

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheet	3
Consolidated Statement of Operations	4
Consolidated Statement of Changes in Net Assets	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7
Consolidating Schedule – Balance Sheet Information – December 31, 2019	53
Consolidating Schedule – Operating Information – December 31, 2019	54
Consolidating Schedule – Balance Sheet Information – December 31, 2018	55
Schedule of Financial Responsibility Data	56
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in accordance with <i>Government Auditing Standards</i>	57
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	59
Consolidated Schedule of Expenditures of Federal Awards	61
Notes to Consolidated Schedule of Expenditures of Federal Awards	64
Schedule of Findings and Questioned Costs	65



KPMG LLP
Suite 3400
312 Walnut Street
Cincinnati, OH 45202

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, 2019 and 2018, and the related consolidated statement of operations, changes in net assets, and cash flows for the year ended December 31, 2019, 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, 2019 and 2018, and the changes in its net assets and its cash flows for the year ended December 31, 2019 in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 2(g), Bon Secours Mercy Health has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

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 related 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 – Financial Responsibility Schedule

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying financial responsibility schedule as of and for the year ended December 31, 2019 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 financial responsibility schedule 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 2, 2020 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 2, 2020, except as to note 16

and our report on the financial
responsibility schedule, which is
as of September 30, 2020

BON SECOURS MERCY HEALTH

Consolidated Balance Sheets

December 31, 2019 and 2018

(In thousands)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 453,258	167,535
Investments	8,798	27,292
Board designated funds	41,715	44,496
Self-insurance and trustee held funds	89,238	104,903
Donor restricted funds	17,301	14,774
Total cash and investments	<u>610,310</u>	<u>359,000</u>
Net patient receivables	1,017,577	976,269
Other receivables	110,335	97,963
Inventories	209,577	181,926
Prepaid expenses and other current assets	146,977	121,097
Total current assets	<u>2,094,776</u>	<u>1,736,255</u>
Assets whose use is limited:		
Board designated funds	5,075,847	3,493,625
Self-insurance and trustee held funds	183,040	186,531
Donor restricted funds	119,126	78,340
Total assets whose use is limited	<u>5,378,013</u>	<u>3,758,496</u>
Property and equipment, net	3,721,991	3,545,712
Investments in unconsolidated organizations	1,343,215	520,220
Operating lease right-of-use assets	310,318	—
Retirement assets	125,015	40,662
Other long-term assets	601,312	407,679
Total assets	<u>\$ 13,574,640</u>	<u>10,009,024</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 448,696	366,947
Current portion of long-term debt	762,807	419,994
Accrued salaries, wages and benefits	499,610	472,209
Current portion of operating lease liabilities	78,845	—
Other accrued expenses	311,639	277,024
Total current liabilities	<u>2,101,597</u>	<u>1,536,174</u>
Long-term debt, less current portion	2,440,078	2,507,229
Retirement liabilities	500,924	520,738
Self-insurance liabilities	246,649	256,269
Operating lease liabilities	245,360	—
Other long-term liabilities	443,375	350,723
Total liabilities	<u>5,977,983</u>	<u>5,171,133</u>
Net assets without donor restrictions:		
Controlling interest	7,078,276	4,244,471
Noncontrolling interest	322,927	415,445
Total net assets without donor restrictions	<u>7,401,203</u>	<u>4,659,916</u>
Net assets with donor restrictions	195,454	177,975
Total net assets	<u>7,596,657</u>	<u>4,837,891</u>
Total liabilities and net assets	<u>\$ 13,574,640</u>	<u>10,009,024</u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statement of Operations

Year Ended December 31, 2019

(In thousands)

Revenues:		
Net patient service revenue	\$	8,136,092
Other revenue, net		<u>581,547</u>
Total operating revenues		<u>8,717,639</u>
Expenses:		
Employee compensation		4,396,088
Purchased services and other		1,917,434
Supplies		1,612,957
Depreciation and amortization		432,825
Interest expense		<u>95,633</u>
Total operating expenses		<u>8,454,937</u>
Recurring operating income		262,702
Nonrecurring operating losses, net		<u>(105,434)</u>
Operating income		157,268
Nonoperating gains (losses), net:		
Investment gains		584,626
Realized and unrealized interest rate swap agreements loss		(37,772)
Gain on sale of Ensemble, net		1,890,636
Inherent contribution on Ireland acquisition		77,667
Other nonoperating activities, net		<u>(79,222)</u>
Excess of revenue over expenses	\$	<u><u>2,593,203</u></u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statement of Changes in Net Assets

Year Ended December 31, 2019

(In thousands)

	Controlling interest	Noncontrolling interest	Net assets without donor restrictions	Net assets with donor restrictions	Total net assets
Balance at December 31, 2018	\$ 4,244,471	415,445	4,659,916	177,975	4,837,891
Excess of revenues over expenses	2,536,073	57,130	2,593,203	—	2,593,203
Gain from discontinued operations	33,335	—	33,335	—	33,335
Grants and restricted contributions	9,212	—	9,212	33,121	42,333
Contribution from non controlling interest	—	2,580	2,580	—	2,580
Investment gains	920	—	920	13,238	14,158
Net assets released from restrictions used for purchase of property and equipment	7,141	—	7,141	(7,141)	—
Net assets released from restrictions used for operations	—	—	—	(22,074)	(22,074)
Net change in equity of joint ventures	326	—	326	—	326
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	(12,267)	—	(12,267)	335	(11,932)
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>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH
Consolidated Statement of Cash Flows
Year Ended December 31, 2019
(In thousands)

Cash flows from operating activities:	
Increase in net assets	\$ 2,758,766
Depreciation and amortization	432,825
Amortization of premium on issued debt securities	(11,183)
Gain on sale of Ensemble, net	(1,045,636)
Gain on remeasurement of retained interest in Ensemble	(845,000)
Ireland inherent contribution	(77,667)
Impairment of long-lived assets	50,625
Gain on disposal of long-lived assets	(2,054)
Gain from discontinued operations	(33,335)
Change in valuation of interest rate swap agreements	28,383
Other changes in net assets, net	(27,697)
Pension and other post employment adjustments	(123,922)
Contributions restricted by donor	(33,121)
Net unrealized gains on certain investments	(258,656)
Cash provided by (used in) changes in operating assets and liabilities:	
Net patient receivables	31,926
Other current assets	(90,360)
Other assets	(35,741)
Accounts payable	27,204
Current liabilities	67,352
Other long-term liabilities	(8,809)
Net cash provided by operating activities	<u>803,900</u>
Cash flows from investing activities:	
Sale of subsidiary, net of cash sold	1,184,150
Acquisitions, net of cash received	(233,821)
Property and equipment additions, net of disposals	(409,202)
Purchase of alternative investments and other securities	(379,851)
Sales of alternative investments and other securities	330,613
Investments and assets whose use is limited, net	(1,277,210)
Sale of equity investment	46,741
Net cash used in investing activities	<u>(738,580)</u>
Cash flows from financing activities:	
Restricted contributions	33,121
Proceeds from debt issuance	240,000
Repayment of long-term debt	(44,037)
Repayment of finance lease	(7,519)
Cost of long-term debt issuance	(1,045)
Net cash provided by financing activities	<u>220,520</u>
Effect of exchange rates on cash and cash equivalents	<u>(117)</u>
Net increase in cash and cash equivalents	285,723
Cash and cash equivalents, beginning of the year	<u>167,535</u>
Cash and cash equivalents, end of the year	<u>\$ 453,258</u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

(1) Basis of presentation

(a) Organizational Structure and Mission

On September 1, 2018, Bon Secours Health System, Inc. (BSHSI) and Mercy Health (Mercy), merged to become the United States' fifth largest Catholic health care ministry and the new ministry was named Bon Secours Mercy Health (BSMH or the Company).

BSMH 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 the Atlantic, Mid-American and Great Lakes and European groups. The Atlantic group encompasses Virginia, New York, South Carolina and Maryland, the Mid-American and Great Lakes groups encompass Ohio and Kentucky and the European group encompasses Ireland.

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

The consolidated financial statements include the accounts of all members of the corporate group controlled by BSMH. Members of the corporate group include all entities that BSMH directly or indirectly controls. Investments in entities where the Company holds a noncontrolling interest are recorded under the equity or cost method of accounting. The Company has included its equity share of income or losses and changes in net assets from investments in unconsolidated affiliates in other revenue, net in the accompanying consolidated statement of operations. All material intercompany transactions and account balances have been eliminated in consolidation.

(b) Acquisitions and Disposals

On July 1, 2019, BSMH acquired Bon Secours Health System CLG (Ireland) through a members substitution for no consideration. BSMH accounted for this business combination under the acquisition method, consistent with Accounting Standards Codification (ASC) Topic 954-805 *Health Care Entities Business Combinations* and recorded an inherent contribution of \$77,667, which is recorded in nonoperating gains (losses), net.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

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

Current assets	\$	90,827
Property and equipment		169,545
Other long-term assets		113,477
Current liabilities		(50,987)
Long-term debt		(107,903)
Other long-term liabilities		<u>(137,292)</u>
Total identifiable net assets	\$	<u><u>77,667</u></u>

The following are the results of Ireland's operations that have been included in the consolidated statement of operations and statement of changes in net assets from the acquisition date:

Total operating revenues	\$	171,921
Total operating expenses		<u>168,395</u>
Recurring operating income		3,526
Nonrecurring operating losses, net		<u>(1,723)</u>
Operating income		1,803
Nonoperating gains (losses), net:		<u>(83)</u>
Excess of revenue over expenses	\$	<u><u>1,720</u></u>

The fair value of the acquired property and equipment is provisional pending receipt of the final valuation report for those assets from a third-party valuation specialist.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

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 of \$35,321 arising from the acquisition relates to the synergies and cost reductions. The fair value at December 31, 2019, is estimated to be \$204,457 and is provisional pending receipt of the final valuation report for those assets from a third-party valuation specialist. The following table summarizes the consideration paid for the acquisition and the estimated fair value of the assets acquired and liabilities assumed at the acquisition date.

Cash consideration (subject to pending final working capital adjustments)	\$	239,778
Acquisition related costs included in nonrecurring operating losses, net	\$	754
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Current assets	\$	11,290
Property and equipment		194,651
Intangible assets		10,365
Other long-term assets		7,147
Current liabilities		(6,157)
Other long-term liabilities		(12,839)
		<hr/>
Total identifiable net assets assumed		204,457
Goodwill		35,321
		<hr/>
Total	\$	<u>239,778</u>

The following unaudited financial information presents BSMH's results had the acquisition date been January 1, 2019 for all acquisitions:

		2019
		(Unaudited)
Total operating revenues	\$	9,200,863
Total operating expenses		<hr/> 8,951,178
Recurring operating income		249,685
Nonrecurring operating losses, net		<hr/> (105,135)
Operating income		144,550
Nonoperating gains (losses), net:		<hr/> 2,395,342
Excess of revenue over expenses	\$	<u>2,539,892</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

The proforma financial information was adjusted to exclude the \$77,667 inherent contribution on the Ireland acquisition and \$754 costs relating to the acquisitions.

On August 1, 2019, BSMH sold a 51% and 1% equity interest in Ensemble Health Partners (Ensemble) to Golden Gate Capital, a leading non-affiliated private equity investment firm, and other non-affiliated persons, respectively. 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. The retained noncontrolling interest of 48% is accounted for under the equity method of accounting and included in other long-term assets on the consolidated balance sheets. The fair value of retained interest was estimated by applying the income approach and market approach by a third-party valuation specialist.

The Company has recorded a gain relating to the sale and resulting deconsolidation stake amounting to \$1,890,636 which is included in nonoperating gains (losses), net on the consolidated statement of operations. The following table summarizes the consideration received and the net assets derecognized at the sale date, as well as the fair value of the remaining interest:

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

(2) Significant Accounting Policies

(a) Cash and Cash Equivalents

The Company adopted *Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-18, Statement of Cash Flows*, Accounting Standards Codification (ASC) Topic 230 on January 1, 2019 which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The adoption of this ASU did not have a significant impact on the consolidated financial statements other than additional disclosure about the nature of cash and cash equivalents held by BSMH.

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

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. Funds held by trustees are primarily related to the unexpended proceeds of the 2017 tax-exempt bond obligation issuance.

Unrealized gains or losses on trading securities are included in investment gains. As of December 31, 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 4 for 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.

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

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.

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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

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 18% and 20% of net patient accounts receivable as of December 31, 2019, and December 31, 2018, respectively, while the Medicaid program represented 9% as of December 31, 2019 and December 31, 2018. 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, 2019, or December 31, 2018.

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 year ended December 31, 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:

Medicare	37 %
Medicaid	12
Other governmental	2
Commercial and other third party	48
Self-pay	1
	<hr/>
Total	100 %
	<hr/> <hr/>

(e) Inventories

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(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	10 to 20 years
Major 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 adopted ASU No. 2016-02 *Leases* (ASC Topic 842) on January 1, 2019. ASC Topic 842 required the recognition of right-of-use assets ("ROU") and lease liabilities on the consolidated balance sheet and the disclosure of qualitative and quantitative information about leasing arrangements. The Company elected the effective date method to adopt this standard. All leases that existed at the effective date were recognized and measured using a modified retrospective approach without restating prior comparative periods. The Company elected to utilize the practical expedients being made available, including the package of practical expedients to not reassess whether a contract is or contains a lease, the lease classification and initial direct costs. On January 1, 2019, the Company recognized operating ROU assets of \$359,719, financing ROU assets of \$64,288 and corresponding operating lease liabilities of \$367,992 and financing lease liabilities of \$64,859 on the Company's consolidated balance sheet. The recognition represented a material noncash investing activity that

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

affected the amount reported in other changes in assets and liabilities on the consolidated statement of cash flows. The adoption did not have a material impact on the consolidated statement of operations.

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use 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 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

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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

On January 21, 2020, BSMH announced the decision to close Our Lady of Bellefonte Hospital in Ashland, Kentucky in addition to the related Bellefonte Physician Services. The planned timeline for the closure is by the end of September 2020. The anticipated closure is an impairment indicator and a resulting impairment charge of \$50,000 was recorded in nonrecurring operating losses for the year ended December 31, 2019, in the consolidated statement of operations of BSMH.

(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 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 year ended December 31, 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 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. Other long-term assets, net consists of the following as of December 31:

	2019	2018
Goodwill, net	\$ 197,695	209,764
Self insured reinsurance receivable	15,984	23,298
Notes and other long term receivables	85,876	74,045
Other intangibles	37,347	60,399
Right-of-use assets – finance	185,489	—
Other	78,921	40,173
Total other long-term assets	<u>\$ 601,312</u>	<u>407,679</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

The carrying amount and changes in the carrying amount of goodwill and identifiable intangible assets, which are included in other assets in the consolidated balance sheets for the year ended December 31:

Goodwill at December 31, 2018	\$	209,764
Goodwill related to acquisitions		41,307
Goodwill related to deconsolidation of Ensemble		(53,135)
Impairment		(241)
Goodwill at December 31, 2019	\$	<u>197,695</u>

(I) Accrued Claims Expense and Related Liabilities

Accrued claims expense and related liabilities consist of unpaid healthcare expenses. The estimate for incurred but not reported claims is based on actuarial projections of costs using historical paid claims and other relevant data. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount 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 Captives. The Captives are offshore insurance companies domiciled in the Cayman Islands and 100% owned by the Company. In addition to providing HPL and HGL coverage to its insureds, the Captives provide policies for certain employed physician, commercial insurance deductibles, and the Company's fleet property damage coverage, with excess layers reinsured through commercial carriers under policies written on a claims-made basis.

(iii) Workers Compensation Insurance

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

(iv) *Employee Health Insurance*

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

(m) *Net Assets*

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.

(n) *Other Long-Term Liabilities*

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

	<u>2019</u>	<u>2018</u>
Derivative instruments (note 8)	\$ 95,959	67,576
Medical office building liabilities	—	139,352
SERP liability	54,146	42,463
Lease liabilities – finance	216,889	—
Other	76,381	101,332
Total other long-term liabilities	<u>\$ 443,375</u>	<u>350,723</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

Medical office building liabilities as of December 31, 2018 were recognized due to BSMH being the accounting owner under ASC Topic 840, *Leases*. As of December 31, 2019, these medical office building liabilities have been derecognized and are now included in lease liabilities – finance as a result of the adoption of ASC Topic 842.

(o) Other Revenue

Other operating revenues includes income from equity investments in joint ventures (note 14), grant revenues, 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 included in net patient service revenue.

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

(i) Charitable Services – Financially Disadvantaged Persons

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

In assessing a patient's ability to pay, the Company utilizes generally recognized poverty income levels, financially supporting 100% of the healthcare services provided to patients with annual family income at or below 200% of the federal poverty guidelines. 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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

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, gains/losses on operating asset sales/disposals and merger related expenses.

(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 gain on 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).

(s) Income Taxes

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

The Company accounts for uncertain tax positions in accordance with ASC Topic 740, Income Taxes. The Company accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company has determined that no significant unrecognized tax benefits or liabilities exist as of December 31, 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. An Internal Revenue Service audit of Mercy for 2016 and 2017 tax periods was completed in July 2019. There are no current audits in progress. The Company believes it is no longer subject to income tax examinations for years prior to 2014. As of December 31, 2019, the Company has no uncertain tax positions.

The Company's taxable subsidiaries had \$205,170 and \$169,666 of net operating loss carryforwards as of December 31, 2019 and 2018, 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's deferred tax assets are fully reserved as of December 31, 2019 and 2018 as the Company considers it more likely than not that these amounts will not be recognized.

(t) Medicare and Medicaid Programs

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

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

In the opinion of management, adequate provision has been made in the consolidated financial statements for any adjustments resulting from the respective intermediary reviews. The Company received settlements related to prior years' cost reports and other third-party contracts, which resulted in an increase in net patient service revenue of \$18,142 for the year ended December 31, 2019.

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

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. Actual results could differ from those estimates.

(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) Management's Assessment and Plans

Management is required to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). Management determined that there were no conditions or events that raise substantial doubt about the Company's ability to continue as a going concern and the Company will continue to meet its obligations through April 2, 2021.

(x) New accounting pronouncements

In January 2017, FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350)*. This ASU eliminates Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The provisions of ASU No. 2017-04 are effective for fiscal years beginning after December 15, 2019, and interim periods within those years. The Company did not early adopt and is currently evaluating the impact of this ASU.

In August 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)*, which adds, modifies, and removes certain disclosure requirements on fair value measurement. The provisions of ASU No. 2018-13 are effective for fiscal years beginning after December 15, 2019. The adoption of the additional disclosures required by ASU No. 2018-13 will have no impact on the consolidated financial statements of the Company but will result in changes to the footnote disclosures.

On May 30, 2019, the FASB issued ASU No. 2019-06, *Intangibles-Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities* (the ASU). The ASU extends the optional accounting alternatives for goodwill and

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

intangible assets acquired in a business combination that were previously only available to private companies to all not-for-profit entities (including conduit bond obligors with publicly traded debt). Upon adoption of the accounting alternative, the entity must make a policy election to test for impairment of goodwill at either the entity level or the reporting unit level, such testing would only occur if an event occurs or circumstances change indicating the fair value of the entity or reporting unit may be below its carrying amount. The guidance was effective upon issuance. Not-for-profit entities have an open-ended effective date. The Company did not elect the alternative to amortize goodwill and continues to test goodwill for impairment.

(3) 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, 2017 Edition. The following represents unsponsored community benefit expense at cost for the year ended December 31, 2019:

Charitable services and other community benefits:	
Traditional charity care	\$ 98,253
Unpaid costs of public programs	497,932
Community health services	30,921
Health professional education and research	63,637
Subsized health services	8,431
Financial and in-kind donations	8,202
Community building activities	8,008
Community benefit operations	9,169
Total quantifiable community benefits	<u>\$ 724,553</u>
Percent of total recurring expenses	8.6 %

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

(4) Investments and Assets Whose Use is Limited

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

	<u>2019</u>	<u>2018</u>
Board-designated funds:		
Cash and cash equivalents	\$ 128,635	123,750
Equity mutual funds	896,406	568,244
Equity commingled funds	626,110	247,448
Common and preferred stocks	568,336	403,212
Fixed income mutual funds	—	99,725
Fixed income commingled funds	143,496	420,995
U.S. government and agency securities	910,796	440,049
Corporate obligations	747,486	232,797
Alternative investments	1,096,214	991,996
Other investments	82	9,905
	<u>\$ 5,117,561</u>	<u>3,538,121</u>
	<u>2019</u>	<u>2018</u>
Self insurance and trustee held funds:		
Cash and cash equivalents	\$ 133,711	96,513
Equity mutual funds	87,690	23,789
Equity commingled funds	—	22,666
Common and preferred stocks	—	15,980
Fixed income commingled funds	—	50,348
U.S. government and agency securities	50,877	20,789
Corporate obligations	—	10,915
Alternative investments	—	41,230
Other investments	—	9,204
	<u>\$ 272,278</u>	<u>291,434</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

Donor restricted funds:

Cash and cash equivalents	\$	109,876	56,117
Equity mutual funds		5,856	7,278
Equity commingled funds		3,881	1,500
Common and preferred stocks		3,557	13,860
Fixed income mutual funds		—	1,680
Fixed income commingled funds		249	3,261
U.S. government and agency securities		3,867	485
Corporate obligations		2,624	5,775
Alternative investments		6,518	3,158
		<u>136,428</u>	<u>93,114</u>

Investments:

Cash and cash equivalents		8,798	4,038
Equity mutual funds		—	8,100
Common and preferred stocks		—	2,210
Fixed income commingled funds		—	1,789
U.S. government and agency securities		—	7,259
Corporate obligations		—	3,896
		<u>8,798</u>	<u>27,292</u>

Investments and assets whose use is limited		5,535,065	3,949,961
Available for current liabilities		<u>(157,052)</u>	<u>(191,465)</u>
Long-term assets limited or restricted as to use	\$	<u>5,378,013</u>	<u>3,758,496</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 (losses), net for the year ended December 31, 2019:

Dividends and interest	\$	72,495
Net realized gains on securities		253,475
Net change in unrealized gains and losses on securities		<u>258,656</u>
	\$	<u>584,626</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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

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, 2019, and December 31, 2018.

The Company, through its professional investment managers, enters into derivative transactions (primarily in the form of money market, equity index and government futures), which are used in conjunction with the Company's portfolio of marketable debt securities to economically hedge various investment risks.

(5) Fair Value of Financial Instruments

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

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

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

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

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

Nonrecurring Fair Value Measurements

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

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31:

	Fair value	Fair value measurements at December 31, 2019 using:			Reported at NAV'
		Level 1	Level 2	Level 3	
Cash, cash equivalents and investments	\$ 453,258	453,258	—	—	—
Investments	8,798	8,798	—	—	—
Assets limited or restricted as to use:					
Cash and cash equivalents	372,202	372,202	—	—	—
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 bonds	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	—

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

	Fair value	Fair value measurements at December 31, 2018 using:			Reported at NAV ¹
		Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 167,535	167,535	—	—	—
Assets limited or restricted as to use:					
Cash and cash equivalents	284,166	284,166	—	—	—
Equity mutual funds	602,717	410,459	192,258	—	—
Equity commingled funds	182,413	—	182,413	—	89,767
Common and preferred stocks	435,262	435,262	—	—	—
Fixed income mutual funds	101,405	101,405	—	—	—
Fixed income commingled funds	476,393	68,641	407,752	—	—
Government and agency bonds	468,582	236,195	232,387	—	—
Corporate obligations	253,383	—	253,383	—	—
Cash and assets limited or restricted as to use	2,971,856	1,703,663	1,268,193	—	89,767
Assets whose use is limited under securities lending arrangements	9,179	—	9,179	—	—
Total cash and assets limited or restricted as to use	\$ 2,981,035	1,703,663	1,277,372	—	89,767
Liabilities:					
Interest rate swaps	\$ 67,576	—	—	67,576	—
Contingent consideration	31,496	—	—	31,496	—
Total liabilities	\$ 99,072	—	—	99,072	—

¹ Fund investments reported at NAV as practical expedient estimate.

The equity 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, 2019 and December 31, 2018, since the commingled investment funds are audited and accounted for at fair value by the administrators of the respective commingled investment funds. There are no restrictions on the ability of the Company to redeem any of the commingled investment funds as of December 31, 2019 and December 31, 2018.

Alternative investments are not included in the table. 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. However, management has determined an estimate of the fair value of these investments as of December 31, 2019, and December 31, 2018, since the alternative investments are audited and accounted for at fair value by the administrators of the respective alternative 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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

The following table summarizes the alternative investments and committed capital as of December 31:

	Alternative investments		Committed capital	
	2019	2018	2019	2018
Hedge funds	\$ 563,676	529,764	—	—
Private equity	532,643	500,587	372,092	287,928
Other	6,419	6,033	—	—
	<u>\$ 1,102,738</u>	<u>1,036,384</u>	<u>372,092</u>	<u>287,928</u>

Realized and unrealized interest rate swap agreements gains (losses), including payments to and from a counterparty, are presented net and included in the consolidated statement of operations as nonoperating gains (losses), net.

The following table summarizes the activity related to interest rate swap agreements for which fair value measurements are based on significant unobservable inputs (Level 3) as of:

Fair value as of December 31, 2018	\$ (67,576)
Unrealized gains	745
Unrealized losses	<u>(29,128)</u>
Fair value as of December 31, 2019	<u>\$ (95,959)</u>

Contingent consideration due to the previous owners/corporate members of certain acquired organizations is required to be recorded at fair value on a recurring basis under applicable accounting guidance. The Company's contingent consideration payable was \$695 and \$31,496 as of December 31, 2019 and December 31, 2018, respectively. The reduction of the contingent consideration was due to the Ensemble transaction.

Accretion expense related to accrued contingent consideration is included within the excess of revenue over expenses. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the consolidated balance sheet date.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

Following is the summary of the inputs and valuation techniques utilized to value Level 2 financial instruments as of December 31, 2019 and December 31, 2018:

<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 Level 3 measurements, when observable prices are not available, the Company might use one or more valuation techniques such as the cost approach or the income approach for which sufficient and reliable data is available. Within Level 3, the use of the cost approach generally consists of using historical purchase data or similar transaction cost data while the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. Significant increases (decreases) in any of those observable inputs in isolation would result in a significantly lower (higher) fair value measurement.

(6) Property and Equipment, Net

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

	<u>2019</u>	<u>2018</u>
Land	\$ 260,435	261,293
Land improvements	103,777	104,735
Buildings and fixed equipment	4,756,299	4,386,607
Major movable equipment	4,544,127	4,421,433
Leasehold improvements	208,404	198,177
	<u>9,873,042</u>	<u>9,372,245</u>
Less accumulated depreciation	<u>(6,363,763)</u>	<u>(5,946,119)</u>
	3,509,279	3,426,126
Construction in progress	212,712	119,586
	<u>\$ 3,721,991</u>	<u>3,545,712</u>

As of December 31, 2019, the Company is contractually obligated for construction projects totaling \$140,995 at current construction cost levels. It is expected that all of 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 \$414,938 for the year ended December 31, 2019.

BON SECOURS MERCY HEALTH
Notes to Consolidated Financial Statements
Year ended December 31, 2019
(In thousands)

(7) Long-Term Debt

The following is a summary of the Company's long-term debt as of December 31:

<u>Long-term debt</u>	<u>2019</u>	<u>2018</u>
Master trust indenture obligations:		
Hospital Facilities Revenue and Revenue Refunding and Improvement Bonds:		
Mercy Health Series 2008 variable rate direct placement bonds payable in installments through October 2031	\$ 300,000	300,000
Mercy Health Series 2010B fixed rate serial bonds payable in installments through September 2020; interest at 4.00% to 5.00%	19,035	41,490
Mercy Health Series 2010C/D variable rate demand and direct placement bonds payable in installments through June 2034	172,400	177,800
Mercy Health Series 2012A fixed rate serial and term bonds payable in installments beginning May 2019 through May 2042; interest at 2.25% to 5.00%	266,010	273,620
Mercy Health Series 2012B variable rate demand bonds payable in installments beginning May 2034 to May 2036	100,000	100,000
Bon Secours Series 2013B (VSBFA) variable rate direct placement bonds payable in installments beginning November 2031 through November 2042	40,740	40,740
Mercy Health Series 2015A fixed rate term bonds payable in installments beginning November 2039 through November 2045; interest at 4.00% to 5.00%	159,205	159,205
Mercy Health Series 2015B floating rate notes payable November 2035 with initial FRN hard put mandatory purchase date of May 2020	100,000	100,000
Mercy Health Series 2015C Fixed Rate Taxable Bonds payable November 2025; interest at 3.38%	150,000	150,000
Mercy Health Series 2017A fixed rate serial and term bonds payable in installments beginning August 2019 through August 2047; interest at 3.00%-5.00%	476,325	482,665
Mercy Health Series 2017B variable rate bonds payable August 2047 with first longterm mandatory purchase date of May 2022; interest at 5.00%	89,425	89,425
Mercy Health Series 2017C Fixed Rate Taxable Bonds payable August 2027; interest 3.56%	143,150	143,150
Bon Secours Series 2017 (SC) variable rate direct placement bonds payable in installments beginning November 2031 through November 2042	69,925	69,925
Mercy Health Series 2018A fixed rate taxable bonds payable July 2028; interest at 4.30%	305,684	305,684
Mercy Health Series 2018AB commercial paper notes	100,000	100,000
2018 TD Bank variable rate taxable term loan payable in December 2026	150,000	150,000
2018 US Bank variable rate taxable term loan payable in December 2023	160,000	160,000
2019 Wells Fargo variable rate taxable term loan payable in December 2020	240,000	—
Total master trust indenture obligations	3,041,899	2,843,704

BON SECOURS MERCY HEALTH
Notes to Consolidated Financial Statements
Year ended December 31, 2019
(In thousands)

<u>Long-term debt</u>	<u>2019</u>	<u>2018</u>
Ireland variable rate taxable term loan payable in August 2024	\$ 93,045	—
Other debt	23,572	13,165
Capital lease obligations	—	15,854
	<u>3,158,516</u>	<u>2,872,723</u>
Original issue net premium	60,319	71,443
Cost of issuance	<u>(15,950)</u>	<u>(16,943)</u>
	3,202,885	2,927,223
Less current portion of long-term debt	<u>(762,807)</u>	<u>(419,994)</u>
	<u>\$ 2,440,078</u>	<u>2,507,229</u>

The Company's master trust indenture (the MTI) provides that Mercy 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 \$93,045.

The Company's MTI obligations mature at various dates through 2047 and are subject to optional and mandatory redemption features. While only Mercy Health is obligated under the terms of the MTI, Mercy Health has covenanted to cause its controlled affiliates and certain contractual affiliates to transfer such funds to Mercy Health as necessary to pay amounts due under the MTI. Certain controlled affiliates of Mercy Health have entered into agreements obligating them to make these transfers at the request of Mercy Health.

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, 2019 and December 31, 2018. The Company was in compliance with all restrictive covenants as of December 31, 2019 or December 31, 2018.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

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

Period	Master trust indenture obligations	European group and other debt
2020	\$ 759,966	2,832
2021	41,509	4,975
2022	41,560	1,568
2023	201,750	129
2024	35,875	107,085
Thereafter	1,961,239	28
Total minimum payments	\$ 3,041,899	116,617

Interest payments for the year ended December 31, 2019 were \$96,641.

Unamortized debt issuance cost of \$15,950 and \$16,943 as of December 31, 2019, and December 31, 2018, 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, 2019, the Company had a taxable term loan in the amount of \$240,000 and \$175,000 in variable direct placement agreements due to expire in the next year, as well as \$100,000 of the Series 2015 Adjustable Rate Bonds ("Series 2015B bonds"). The Series 2015B bonds were sold in the Floating Rate Note ("FRN") mode in 2015. The initial period for these Series 2015B FRN bonds have a tender on April 30, 2020. At that time the Corporation may choose to remarket these bonds for another segment in FRN mode or may choose to change the mode one of several other options available within the Series 2015 bond indenture. Management will choose the appropriate mode at the time of the tender depending upon appropriate capital market conditions. Additionally, the Company has \$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 as of December 31, 2019. These amounts are included in the current portion of long-term debt. The Company has \$88,700 of variable rate bond obligations with letter of credit support, a total of \$494,365 adjustable rate bonds held under direct purchase agreements with certain financial institutions, \$550,000 taxable term loan agreements with certain financial institutions, and \$100,000 floating rate notes. The Company's dedicated liquidity facilities and direct placement agreements on variable rate demand bonds have expiration dates that extend from July 2019 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 \$150,000 and is secured by the MTI. This agreement expires on December 11, 2020, with an intention to extend the agreement beyond this period. No amounts were outstanding under the revolving credit agreement as of December 31, 2019 or December 31, 2018.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

(8) Derivatives and Interest Rate Swap Agreements

The following table includes the notional and valuation amounts (parenthetical amounts represent liabilities) of the Company's interest rate swap agreements as of December 31:

Interest rate swap agreement	Transaction type	Payment rate/basis	Termination date	Notional amount		Valuation amount	
				2019	2018	2019	2018
December 2006 JPM	Pay fixed	3.63 %	2033	\$ 269,200	269,200	(38,695)	(32,905)
December 2018 Barclays	Pay fixed	3.98	2042	50,000	50,000	(17,438)	(10,346)
December 2018 Citi	Pay fixed	3.84	2032	25,000	25,000	(5,767)	(3,374)
December 2018 JPM	Pay fixed	3.72	2047	80,000	80,000	(18,100)	(10,120)
December 2018 PNC	Pay fixed	3.45	2042	69,925	69,925	(20,885)	(15,172)
December 2007 JPM	Constant maturity	N/A	2027	250,000	250,000	3,963	3,492
August 2018 JPM	Constant maturity	N/A	2037	150,000	150,000	(377)	(651)
Credit valuation adjustment						1,340	1,500
						\$ (95,959)	(67,576)

All changes in the fair value of the Company's interest rate swap agreements are recognized in nonoperating gains (losses), net 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 nonoperating gains (losses), net on the consolidated statement of operations. The net payments were \$9,167 for the year ended December 31, 2019.

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 \$64,373 as of December 31, 2019 (\$40,401 as of December 31, 2018) 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 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.

(9) 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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

The following is a summary of the components of the change in benefit obligation and plan assets for the Plans as of December 31, 2019:

	<u>Pension Plans</u>	<u>Postemployment</u>
Change in benefit obligation:		
Net projected benefit obligation at beginning of year	\$ 2,739,089	18,306
Service cost	29,891	548
Interest cost	109,567	681
Actuarial loss/(gain)	358,259	(201)
Plan amendments	616	—
Curtailments	(52,281)	—
Settlement	(60,557)	—
Gross benefits paid and expenses	<u>(137,925)</u>	<u>(1,646)</u>
Projected benefit obligation at end of year	<u>2,986,659</u>	<u>17,688</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	2,275,964	—
Actual return on plan assets	521,731	—
Employer contributions	28,194	1,646
Gross benefits paid	(137,926)	(1,646)
Settlement	<u>(60,557)</u>	<u>—</u>
Fair value of plan assets at end of year	<u>2,627,406</u>	<u>—</u>
Under funded status	<u>\$ (359,253)</u>	<u>(17,688)</u>

Settlements of \$60,557 were recognized during the year ended December 31, 2019. During 2019 and 2018, the Company updated the mortality projection assumptions used to determine the Plans' projected benefit obligation. The change to the MP-2019 and MP-2018 mortality improvement scales in 2019 and 2018 respectively, resulted in a decrease in the Plans' projected benefit obligation and an increase in the funded status of \$13,633 and \$5,530 at December 31, 2019 and 2018, respectively.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

Amounts recognized in the consolidated financial statements consist of the following as of December 31, 2019:

	Pension Plans	Postemployment
Retirement assets	\$ 125,015	—
Current liabilities	—	(1,694)
Retirement liabilities	<u>(484,268)</u>	<u>(15,994)</u>
Net amount recognized	<u>\$ (359,253)</u>	<u>(17,688)</u>

Amounts recognized in the consolidated financial statements consist of the following as of December 31, 2018:

	Pension Plans	Postemployment
Retirement assets	\$ 40,663	—
Current liabilities	—	(1,603)
Retirement liabilities – long term	<u>(503,787)</u>	<u>(16,703)</u>
Net amount recognized	<u>\$ (463,124)</u>	<u>(18,306)</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 \$650 and \$635 at December 31, 2019 and 2018, respectively.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

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, 2019:

	Pension Plans	Postemployment
Net prior service credit	\$ 16,442	—
Net actuarial (loss) gain	(669,434)	2,171
Net amount unrecognized	(652,992)	2,171
Cumulative excess (shortfall) of employer contributions over net periodic benefit cost	293,739	(19,859)
	\$ (359,253)	(17,688)

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) and 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 is (\$16,442) 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, 2019:

	Pension Plans	Postemployment
Amortization of prior service cost	\$ 3,179	—
Net actuarial gain	78,085	—
Amortization of net actuarial loss	43,266	—
Unrecognized prior service cost	(616)	—
Other postemployment benefit changes	—	(110)
	\$ 123,914	(110)

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

The following amounts are a summary of the components of net periodic benefit cost for the Plans for the year ended December 31, 2019:

	Pension Plans	Postemployment
Service cost	\$ 29,891	548
Interest cost	109,567	681
Expected return on plan assets	(137,667)	—
Curtailment/settlement cost	22,700	—
Amortization of:		
Actuarial loss/(gain)	24,291	(13)
Prior service cost	(547)	(79)
Net periodic benefit cost	<u>\$ 48,235</u>	<u>1,137</u>

The following weighted average assumptions were used to determine the benefit obligation as of December 31, 2019:

	Pension Plans	Postemployment
Discount rate-ERISA	3.07 %	N/A
Discount rate-Church pension and postretirement benefit plan	3.17	3.17
Rate of compensation increase	2.50	N/A
Mortality table	Pri-2012	Pri-2012
Generational scale	MP-2019	MP-2019

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

The following weighted average assumptions were used to determine the benefit obligation as of December 31, 2018:

	<u>Pension Plans</u>	<u>Postemployment</u>
Discount rate-ERISA	3.02 %	N/A
Discount rate-Church pension and postretirement benefit plan	4.18	4.18
Rate of compensation increase	2.50	N/A
Mortality table	RP-2014	RP-2014
Generational scale	MP-2018	MP-2018

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

	<u>2019</u>	<u>2018</u>
Healthcare cost trend rate assumed for next year	5.3%-7.8%	6.2%-6.8%
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	2029	2028

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	\$ 58	49
Effect of post-employment benefit obligation	724	637

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

The Company's defined benefit pension plans targeted asset allocations, by asset category, are as follows as of December 31:

	2019	2018
Asset category:		
Equity mutual and commingled funds and securities	29 %	47 %
Fixed income mutual funds and securities	47	37
Alternative investments	20	14
Cash	4	2
Total	100 %	100 %

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

The following is a summary of the plan assets measured at fair value on a recurring basis based on the fair value hierarchy as of 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	—

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(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, 2018:

	Fair value	Fair value measurements		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 39,683	39,683	—	—
Equity mutual funds	573,265	445,158	128,107	—
Equity commingled funds	191,147	—	191,147	—
Common and preferred stocks	289,395	288,777	618	—
Fixed income mutual funds	9,042	9,042	—	—
Fixed income commingled funds	189,796	27,448	162,348	—
Government and agency bonds	72,786	67,084	5,702	—
Corporate obligations	473,183	—	473,183	—
Other	3,826	—	3,826	—
Total investments	1,842,123	877,192	964,931	—
Due from broker/custodian for investment activity, net	12,692	—	12,692	—
Total plan assets	\$ 1,854,815	877,192	977,623	—

The following table summarizes the alternative investments and committed capital as of December 31:

	Alternative investments		Committed capital	
	2019	2018	2019	2018
Hedge funds	\$ 200,277	196,634	—	—
Private equity	228,674	224,515	84,081	72,795
	\$ 428,951	421,149	84,081	72,795

The projected benefit payments for the Plans are as follows:

	Pension Plans	Postemployment
2020	\$ 168,387	1,694
2021	159,384	1,798
2022	162,649	1,847
2023	162,597	1,896
2024	163,178	1,339
2025–2029	819,453	6,037

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

The Company expects to contribute \$3,100 to the defined benefit pension plans and \$2,093 to the post-employment benefit plans in 2020. The Company has several defined contribution benefit plans to assist eligible employees in providing for retirement. Under such plans, the company recognized expense of \$151,309 for the year ended December 31, 2019, related to employer contributions, which is included in employee benefits expense in the consolidated statement of operations.

(10) Other Commitments and Contingent Liabilities

(a) General and Professional Liability Insurance

The provision for claims and related funding levels for the HPL/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 \$246,987 and \$235,575 as of December 31, 2019, and December 31, 2018, respectively. The current portion of such accruals, \$71,556 and \$58,196 as of December 31, 2019 and December 31, 2018, respectively, is included in other accrued expenses, and the remainder, \$175,431 and \$177,379 as of December 31, 2019 and December 31, 2018, 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 \$79,919 and \$87,590, of which the current portion, \$8,700 as of December 31, 2019 and December 31, 2018, respectively, is reported as other accrued expenses. The remainder, \$71,218 and \$78,890, is reported within self-insurance liabilities in the accompanying consolidated balance sheets, include estimates for incidents incurred but not reported as of December 31, 2019 and December 31, 2018, respectively. Amounts recorded for unpaid claims are based upon the estimated present value of future claim payments and such amounts are undiscounted and based upon an actuarial central estimate.

(c) Employee Health Insurance

Accrued claims associated with this program, which are reported as other accrued expenses in the accompanying consolidated balance sheet, of approximately \$47,070 and \$46,453, include estimates for claims incurred but not reported as of December 31, 2019 and December 31, 2018.

(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.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

(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. Lease expense for the year ended December 31, 2019 is as follows:

Finance lease expense:		
Amortization of ROU assets	\$	9,913
Interest on lease liabilities		5,743
Operating lease expense		102,176
Short-term lease expense		31,283
Variable lease expense		13,287
		<hr/>
Total lease cost	\$	<u>162,402</u>

Commitments related to non-cancellable operating and finance leases for each of the next five years and thereafter as of December 31, 2019 are as follows:

	<u>Operating</u>	<u>Finance</u>
2020	\$ 89,381	15,913
2021	70,592	16,118
2022	53,014	15,108
2023	39,411	14,261
2024	28,658	12,735
Thereafter	<hr/> 76,253	<hr/> 482,949
Total	357,309	557,084
Less: Present value discount	(40,322)	(339,913)
Acquired lease liabilities	<hr/> 7,218	<hr/> 7,361
Lease liabilities	\$ <u>324,205</u>	<u>224,532</u>

The commitment analysis and other information above for acquired leases at December 31, 2019 was provisional pending receipt of the final valuation report for those assets from a third-party valuation specialist.

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

Other information is as follows

Weighted average remaining lease terms (in years):

Finance leases 51.46

Operating leases 6.06

Weighted average discount rate:

Finance leases 3.69 %

Operating leases 4.46 %

The following is a schedule of aggregate future minimum payments for leases as of December 31, 2018:

	<u>Operating</u>	<u>Finance</u>
2019	\$ 79,217	2,255
2020	73,318	2,201
2021	58,554	2,250
2022	43,409	2,258
2023	31,815	2,376
Thereafter	71,055	4,514
	<u>\$ 357,368</u>	<u>15,854</u>

(11) Net Assets with Donor Restrictions

The Company's endowments consist of 283 and 278 individual funds established for a variety of purposes as of December 31, 2019 and December 31, 2018, 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 are comprised of permanently restricted funds, which were \$90,617 and \$74,959 as of December 31, 2019 and December 31, 2018, 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, 2019 or December 31, 2018.

The Company has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Company must hold in perpetuity or for a donor-specified period as well as board-designated

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

funds. The practice allows the endowment assets to be invested in a manner that is intended to produce investment returns that exceed the price and yield the results of the allocation index while assuming a moderate level of investment risk. The Company expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

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

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

(12) Functional Expenses

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

	Program activities			Supporting activities	
	Healthcare services	Ancillary services and other	Total	General and administrative	Total
Employee compensation	\$ 3,020,965	926,418	3,947,383	448,705	4,396,088
Purchased services and other	1,222,675	387,231	1,609,906	307,528	1,917,434
Supplies	1,362,322	87,066	1,449,388	163,569	1,612,957
Depreciation and amortization	270,279	87,220	357,499	75,326	432,825
Interest	2,835	78,593	81,428	14,205	95,633
Total recurring expenses	\$ 5,879,076	1,566,528	7,445,604	1,009,333	8,454,937

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

(13) Liquidity and Capital Resources

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

	<u>2019</u>	<u>2018</u>
Cash, cash equivalents and investments	\$ 462,056	167,535
Accounts receivable, net	1,017,577	976,269
Assets whose use is limited:		
Board designated funds	4,021,347	2,450,498
Self-insurance and trustee held funds	88,927	236,950
Restricted funds	17,060	89,956
	<u>\$ 5,606,967</u>	<u>3,921,208</u>

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 qualitative 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. Additionally, certain other board-designated assets are designated for future capital expenditures and an operating reserve. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above. However, the board-designated amounts could be made available, if necessary.

As part of the Company's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds. Occasionally, the Board designates a portion of any operating surplus to an operating reserve, which was \$4,021,347 and \$2,450,498 as of December 31, 2019 and December 31, 2018, respectively. The fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

(14) Investments in Unconsolidated Organizations

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. These investments range from minority investments with no control to majority investments or investments with control. 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, as disclosed in Note 1(b). An additional 1% of BSMH ownership interest in

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

Ensemble was sold to another non-affiliated party on November 1, 2019. As of 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. Healthspan Partners (HSP) has an ownership interest of 30% in Summa and does not manage or control the operations. In September 2018, the Company entered into an agreement to redeem HSP's ownership interest in Summa and has reduced HSP's investment in Summa to HSP's estimated realizable value of the investment. No future Summa earnings (losses) will be recognized on the investment in the consolidated statement of operations and changes in net assets until resolution of the redemption agreement.

(c) Roper St. Francis Healthcare – South Carolina

BSHSI, The Medical Society of South Carolina and the Carolinas Health Company, Inc. are members of Care Alliance Health Services (d/b/a Roper St. Francis Healthcare). Roper St. Francis Healthcare is the sole member of and operates Bon Secours – St. Francis Xavier Hospital, Roper Hospital, a supporting foundation and physician practices located in Charleston, South Carolina. The Company is obligated to provide 27% of any capital contribution to Roper St. Francis Healthcare and is entitled to 27% of any surplus capital. Refer to Note 15 for subsequent events related to the investment.

(d) Other

Other joint ventures mainly include Bon Secours Charity Health System, Inc. (Charity), Sentara Princess Anne, and Premier, Inc. The Company, the Sisters of Charity and Westchester Medical Center, are members of Charity. The Company owns 40% of Charity. The Company and Sentara Healthcare are members of a Virginia not-for-profit, nonstock, corporation that owns and operates Sentara Princess Anne Hospital. The Company owns 30% of Sentara Princess Anne.

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

	2019	2018
Ensemble	\$ 836,038	—
Summa Health System	250,000	250,000
Roper St. Francis Healthcare	114,616	107,880
Other	142,561	162,340
	<u>\$ 1,343,215</u>	<u>520,220</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

The following is a summary of the income from unconsolidated organizations, which is included in other revenue, net for year ended December 31, 2019:

Ensemble (equity method investment as of July 31, 2019)	\$	25,052
Roper St. Francis Healthcare		2,798
Other		14,481
	\$	<u>42,331</u>

The following is a summary of assets, liabilities, net assets, revenues and expenses as of and for the years ended December 31, 2019 (from their unaudited consolidated financial statements):

	<u>Ensemble</u>	<u>Roper</u>
Total assets	\$ 1,989,185	1,166,763
Total liabilities	667,967	745,344
Unrestricted net assets	1,321,219	383,240
Restricted net assets	—	38,179
Total revenues	247,571	958,181
Total expenses	209,663	955,519
Non operating gains (losses)	—	12,793

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

Summa has not been included in the summary of assets, liabilities, net assets, revenues and expenses as the investment was impaired to realizable value as of December 31, 2018 and no income was recognized for the year ended December 31, 2019. Ensemble revenues and expenses are from date of deconsolidation. Ensemble operations from January 1, 2019 to July 31, 2019 are included in the consolidated statement of operations. The income from Ensemble as an unconsolidated organization from the date of deconsolidation is included in other operating revenue within the consolidated statement of operations.

(15) Subsequent Events

The Company has evaluated and disclosed any subsequent events through April 2, 2020, which is the date the consolidated financial statements were issued and made publicly available.

Effective January 1, 2020, Mercy Health was dissolved and consolidated into Bon Secours Mercy Health, thereby, the Master Trust Indenture (Amended and Restated) Dated as of December 1, 2017 now resides in Bon Secours Mercy Health, Inc.

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, increasing BSMH's ownership interest in the joint venture from 27% to 51% equity. Roper St. Francis Healthcare, which includes four Charleston, SC-area hospitals, will be a fully consolidated subsidiary.

On January 21, 2020, BSMH announced the decision to close Our Lady of Bellefonte Hospital in Ashland, Kentucky in addition to the related Bellefonte Physician Services. The planned timeline for the closure is by the end of September 2020. The anticipated closure is an impairment indicator and a resulting impairment charge of \$50,000 was recorded in nonrecurring operating losses for the year ended December 31, 2019, in the consolidated statement of operations of BSMH.

The Company is in the process of evaluating the projected impact to the consolidated financial statements as a result of the coronavirus (COVID-19) including the potential impacts to patient volumes, net operating revenue and operating income. Additionally, subsequent to December 31, 2019, there has been instability in the global financial markets. BSMH has a diverse investment portfolio, including in its defined benefit pension plan portfolio. The diversified investment allocation strategy employed by BSMH serves to reduce volatility and negativity in performance. As of April 2, 2020, BSMH is not currently able to measure or predict the overall impact that this pandemic, and the related financial market volatility, may have on its future financial results.

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

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 2019

(In thousands)

(16) Financial Responsibility Standards

Bon Secours Mercy Health participates in federal Title IV student financial assistance programs, which require the Company 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 Company, which are not presented elsewhere within the notes to these consolidated financial statements, as of and for the year ended December 31, 2019:

Required input per standards	Ratio uses	Amounts
Expendable net assets ratio inputs:		
Property and equipment, net – pre-implementation	Primary reserve	\$ 2,870,283
Property and equipment, net – pre-implementation (business combination)	Primary reserve	364,196
Property and equipment, net – post-implementation, without outstanding debt for original purchase	Primary reserve	<u>274,800</u>
Total property plant and equipment	Not applicable	<u>\$ 3,509,279</u>
Long-term debt – pre-implementation	Primary reserve	\$ 2,844,403
Long-term debt – pre implementation (business combination)	Primary reserve	93,045
Long-term debt – post implementation – not for the purchase of property and equipment	Not applicable	<u>265,437</u>
Total long-term debt	Not applicable	<u>\$ 3,202,885</u>
Annuities with donor restrictions	Primary reserve	\$ 204
Total expenses and losses inputs:		
Total operating expenses	Not applicable	\$ 8,454,937
Plus realized and unrealized interest rate swap agreements loss	Not applicable	37,772
Plus other nonoperating activities, net	Not applicable	60,878
Pension-related changes other than net periodic costs	Not applicable	<u>—</u>
Total expenses without donor restrictions	Primary reserve	<u>\$ 8,553,587</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Year ended December 31, 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, plant and equipment, net – pre-implementation; and by debt payments and other reductions for long-term debt – pre-implementation. Post implementation property, plant and equipment, net are amounts of property, plant and equipment that the Company has obtained since December 31, 2018, adjusted for depreciation and amortization and other reductions. Property, plant and equipment net – pre implementation (business combination) and long-term debt – pre implementation (business combination) are based on amounts related to business combinations that occurred subsequent to the Company's most recently accepted financial statements submission to the ED, but were not previously subject to the requirements of 34 CFR 668.171. See footnote 1(b), for further information related to business combinations.

Refer to footnote 7 for information related to issue dates and terms of long-term debt.

BON SECOURS MERCY HEALTH
Consolidating Schedule – Balance Sheet Information
December 31, 2019
(In thousands)

Assets	Atlantic Group	Great Lakes Group	Mid-American Group	European Group	BSMH Shared Services	BSMH Captives	Consolidating Eliminations	Bon Secours Mercy Health
Current assets:								
Cash and investments:								
Cash and cash equivalents	\$ 1,129,178	336,603	89,575	10,777	(72,447)	598	(1,041,026)	453,258
Investments	—	976	—	—	7,822	—	—	8,798
Board designated funds	3,885	—	—	—	37,830	—	—	41,715
Self-insurance and trustee held funds	—	—	—	—	30,994	58,244	—	89,238
Donor restricted funds	15,859	144	1,241	—	57	—	—	17,301
Total cash and investments	1,148,922	337,723	90,816	10,777	4,256	58,842	(1,041,026)	610,310
Net patient receivables	407,648	322,162	237,153	57,822	(7,208)	—	—	1,017,577
Other receivables	16,550	23,847	38,116	332	330,861	13,069	(312,440)	110,335
Inventories	75,553	68,289	53,242	8,235	4,258	—	—	209,577
Prepaid expenses and other current assets	10,039	9,571	5,287	3,252	114,878	3,950	—	146,977
Total current assets	1,658,712	761,592	424,614	80,418	447,045	75,861	(1,353,466)	2,094,776
Assets whose use is limited, less current portion:								
Board designated funds	785,878	1,215,866	329,119	—	2,129,127	96,125	519,732	5,075,847
Self-insurance and trustee held funds	29	6,031	—	—	(1)	176,981	—	183,040
Donor restricted funds	24,703	—	2,940	—	91,483	—	—	119,126
Total assets whose use is limited, less current portion	810,610	1,221,897	332,059	—	2,220,609	273,106	519,732	5,378,013
Property, plant and equipment, net								
Investments in unconsolidated organizations	974,135	1,140,409	1,047,405	174,632	385,410	—	—	3,721,991
Operating lease right-of-use assets	58,769	2,900	11,955	4,719	1,283,313	—	(18,441)	1,343,215
Retirement assets	138,048	67,748	61,418	8,917	34,187	—	—	310,318
Other long-term assets, net	—	—	—	—	125,015	—	—	125,015
Total assets	314,251	61,185	88,485	100,248	1,643,265	—	(1,606,122)	601,312
Total assets	\$ 3,954,525	3,255,731	1,965,936	368,934	6,138,844	348,967	(2,458,297)	13,574,640
Liabilities and Net Assets								
Current liabilities:								
Accounts payable	\$ 149,409	60,625	55,640	34,867	151,001	166	(3,012)	448,696
Current portion of long-term debt	2,841	104	—	—	759,862	—	—	762,807
Accrued salaries, wages and benefits	105,465	31,907	36,634	12,399	313,205	—	—	499,610
Current portion of operating lease liabilities	42,466	13,373	16,298	346	6,362	—	—	78,845
Other accrued expenses	304,454	308,480	233,941	542	(294,602)	68,572	(309,748)	311,639
Total current liabilities	604,635	414,489	342,513	48,154	935,828	68,738	(312,760)	2,101,597
Long-term debt, less current portion	6,166	100	90	106,560	2,327,162	—	—	2,440,078
Retirement liabilities	281,949	13,422	39,050	414	166,089	—	—	500,924
Self-insurance liabilities	92,480	—	9,706	—	108,993	176,980	(141,510)	246,649
Operating lease liabilities	100,729	54,206	53,147	8,570	28,708	—	—	245,360
Other long-term liabilities	1,004,292	316,418	714,609	128,225	258,408	—	(1,978,577)	443,375
Total liabilities	2,090,251	798,635	1,159,115	291,923	3,825,188	245,718	(2,432,847)	5,977,983
Net assets without donor restrictions:								
Controlling interest	1,589,887	2,358,041	753,530	77,011	2,222,008	103,249	(25,450)	7,078,276
Noncontrolling interest	227,722	4,341	1,426	—	89,438	—	—	322,927
Total net assets without donor restrictions	1,817,609	2,362,382	754,956	77,011	2,311,446	103,249	(25,450)	7,401,203
Net assets with donor restrictions								
Total net assets	46,665	94,714	51,865	—	2,210	—	—	195,454
Total net assets	1,864,274	2,457,096	806,821	77,011	2,313,656	103,249	(25,450)	7,596,657
Total liabilities and net assets	\$ 3,954,525	3,255,731	1,965,936	368,934	6,138,844	348,967	(2,458,297)	13,574,640

See accompanying independent auditors' report.

BON SECOURS MERCY HEALTH

Consolidated Schedule – Operating Information

Year Ended December 31, 2019

(In thousands)

	Atlantic Group	Great Lakes Group	Mid-American Group	European Group	BSMH Shared Services	Ensemble	BSMH Captives	Consolidating Eliminations	Bon Secours Mercy Health
Revenues:									
Net patient service revenue	\$ 3,132,578	2,770,611	2,203,131	168,332	(138,560)	—	—	—	8,136,092
Other revenue, net	69,227	88,711	49,160	3,589	1,651,584	344,894	64,505	(1,690,123)	581,547
Total operating revenues	<u>3,201,805</u>	<u>2,859,322</u>	<u>2,252,291</u>	<u>171,921</u>	<u>1,513,024</u>	<u>344,894</u>	<u>64,505</u>	<u>(1,690,123)</u>	<u>8,717,639</u>
Expenses:									
Employee compensation	1,308,959	1,356,669	1,048,502	86,764	756,591	163,098	4,383	(328,878)	4,396,088
Purchased services and other	1,034,860	844,649	691,871	26,568	546,455	65,566	70,771	(1,363,306)	1,917,434
Supplies	594,945	494,475	410,687	49,905	61,654	1,284	7	—	1,612,957
Depreciation and amortization	85,225	115,280	105,730	4,885	119,225	2,518	133	(171)	432,825
Interest expense	330	81	1,081	273	91,866	—	25	1,977	95,633
Total operating expenses	<u>3,024,319</u>	<u>2,811,154</u>	<u>2,257,871</u>	<u>168,395</u>	<u>1,575,791</u>	<u>232,466</u>	<u>75,319</u>	<u>(1,690,378)</u>	<u>8,454,937</u>
Recurring operating income	177,486	48,168	(5,580)	3,526	(62,767)	112,428	(10,814)	255	262,702
Nonrecurring operating losses, net	(9,370)	(546)	(53,637)	(1,723)	(40,095)	—	(63)	—	(105,434)
Operating income	168,116	47,622	(59,217)	1,803	(102,862)	112,428	(10,877)	255	157,268
Nonoperating gains (losses) , net:									
Investment gains	98,643	139,841	37,457	(5)	276,479	—	32,211	—	584,626
Realized and unrealized interest rate swap agreements loss	—	—	—	—	(37,772)	—	—	—	(37,772)
Gain on sale of Ensemble, net	—	—	—	—	1,890,636	—	—	—	1,890,636
Inherent contribution on Ireland acquisition	—	—	—	—	77,667	—	—	—	77,667
Other nonoperating activities, net	(32,079)	(5,331)	(6,837)	(78)	(34,902)	11	—	(6)	(79,222)
Excess of revenue over expenses	<u>\$ 234,680</u>	<u>182,132</u>	<u>(28,597)</u>	<u>1,720</u>	<u>2,069,246</u>	<u>112,439</u>	<u>21,334</u>	<u>249</u>	<u>2,593,203</u>

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidating Schedule – Balance Sheet Information

December 31, 2018

(In thousands)

Assets	Atlantic Group	Great Lakes Group	Mid-American Group	BSMH Shared Services	Ensemble	BSMH Captives	Consolidating Eliminations	Bon Secours Mercy Health
Current assets:								
Cash and investments:								
Cash and cash equivalents	\$ 938,107	250,868	62,964	(276,373)	120,255	(10,920)	(917,366)	167,535
Investments	—	870	203	26,219	—	—	—	27,292
Board designated funds	2,795	—	—	41,701	—	—	—	44,496
Self-insurance and trustee held funds	—	—	—	56,435	—	48,468	—	104,903
Donor restricted funds	14,774	—	—	—	—	—	—	14,774
Total cash and investments	955,676	251,738	63,167	(152,018)	120,255	37,548	(917,366)	359,000
Net patient receivables	375,599	334,413	269,943	(3,686)	—	—	—	976,269
Other receivables	14,070	20,119	33,219	49,277	15,347	250	(34,319)	97,963
Inventories	58,644	69,691	53,124	467	—	—	—	181,926
Prepaid expenses and other current assets	36,779	15,376	12,994	115,569	3,407	2,576	(65,604)	121,097
Total current assets	1,440,768	691,337	432,447	9,609	139,009	40,374	(1,017,289)	1,736,255
Assets whose use is limited, less current portion:								
Board designated funds	674,398	1,067,491	288,104	3,289,860	—	69,859	(1,896,087)	3,493,625
Self-insurance and trustee held funds	21	4,631	—	(1)	—	181,880	—	186,531
Donor restricted funds	22,516	—	2,623	53,201	—	—	—	78,340
Total assets whose use is limited, less current portion	696,935	1,072,122	290,727	3,343,060	—	251,739	(1,896,087)	3,758,496
Property, plant and equipment, net	847,742	1,149,067	1,123,240	444,442	10,158	—	(28,937)	3,545,712
Investments in unconsolidated organizations	216,296	3,277	11,309	307,778	—	—	(18,440)	520,220
Retirement assets	—	—	—	40,662	—	—	—	40,662
Other long-term assets, net	227,276	59,606	73,081	1,963,661	857	7,383	(1,924,185)	407,679
Total assets	\$ 3,429,017	2,975,409	1,930,804	6,109,212	150,024	299,496	(4,884,938)	10,009,024
Liabilities and Net Assets								
Current liabilities:								
Accounts payable	\$ 137,449	186,435	146,702	(87,912)	(15,075)	1,326	(1,978)	366,947
Payable under securities lending arrangements	—	—	—	9,238	—	—	(59)	9,179
Current portion of long-term debt	3,665	37,414	30,033	414,488	—	—	(65,606)	419,994
Accrued salaries, wages and benefits	112,856	94,583	76,115	170,002	18,349	—	304	472,209
Other accrued expenses	48,113	18,877	28,158	155,226	1,588	48,468	(32,585)	267,845
Total current liabilities	302,083	337,309	281,008	661,042	4,862	49,794	(99,924)	1,536,174
Long-term debt, less current portion	9,686	324,382	653,644	2,740,465	—	—	(1,220,948)	2,507,229
Retirement liabilities	219,418	13,647	41,043	246,630	—	—	—	520,738
Self-insurance liabilities	96,373	—	9,706	112,210	—	179,500	(141,520)	256,269
Other long-term liabilities	986,034	39,511	117,281	2,565,543	499	9,763	(3,367,908)	350,723
Total liabilities	1,613,594	714,849	1,102,682	6,325,890	5,361	239,057	(4,830,300)	5,171,133
Net assets:								
Unrestricted-controlling interest	1,444,384	2,171,583	777,257	(218,070)	144,663	60,439	(135,785)	4,244,471
Unrestricted-noncontrolling interest	328,067	4,790	1,441	—	—	—	81,147	415,445
Total net assets without donor restrictions	1,772,451	2,176,373	778,698	(218,070)	144,663	60,439	(54,638)	4,659,916
Net assets with donor restrictions	42,972	84,187	49,424	1,392	—	—	—	177,975
Total net assets	1,815,423	2,260,560	828,122	(216,678)	144,663	60,439	(54,638)	4,837,891
Total liabilities and net assets	\$ 3,429,017	2,975,409	1,930,804	6,109,212	150,024	299,496	(4,884,938)	10,009,024

See accompanying independent auditors' report.

BON SECOURS MERCY HEALTH

Schedule of Financial Responsibility Data

December 31, 2019

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	\$ —	7,401,203
Consolidated balance sheets – net assets with donor restrictions	Net assets with donor restrictions	—	195,454
Consolidated balance sheets – property and equipment, net	Property and equipment, net (includes construction in progress)	3,721,991	—
Note 16 – property and equipment – pre-implementation	Property and equipment – pre-implementation	—	2,870,283
Note 1(b) – acquisitions and disposals	Property and equipment – pre-implementation (business combination)	—	364,196
Note 16 – financial responsibility standards – property, plant and equipment – post implementation without outstanding debt for original purchase	Property and equipment – post-implementation without outstanding debt for original purchase	—	274,800
Note 6 – property and equipment	Construction in process	—	212,712
Consolidated balance sheets	Lease right-of-use asset, net	495,807	—
Consolidated balance sheets – operating lease right-of-use asset	Lease right-of-use asset, net (operating)	—	310,318
Note 2(k) – other long-term assets	Finance lease right-of-use assets, net (finance)	—	185,489
Note 2(k) – other long-term assets	Intangible assets	235,042	—
Note 2(k) – other long-term assets	Goodwill	—	197,695
Note 2(k) – other long-term assets	Other intangibles	—	37,347
Consolidated balance sheets – retirement liabilities	Post-employment and pension liabilities	—	500,924
Note 7 – long-term debt	Long-term debt	3,202,885	—
Note 16 – long-term debt – for long term purposes pre-implementation	Long-term debt – pre-implementation	—	2,844,403
Note 7 – long-term debt	Long-term debt – pre-implementation (business combination not for purchases of property and equipment)	—	93,045
Note 16 – 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	—	265,437
Note 10(e) – leases	Lease right-of-use asset liability	548,737	—
Note 10(e) – leases	Lease right-of-use asset liability (operating)	—	324,205
Note 10(e) – leases	Lease right-of-use asset liability (finance)	—	224,532
Note 16 – financial responsibility standards – annuities	Annuities with donor restrictions	—	204
Note 11-net assets with donor restrictions	Net assets with donor restrictions, restricted in perpetuity	—	90,617
Total expenses and losses inputs:			
Note 16 – total expenses without donor restrictions	Total expenses without donor restrictions	\$ —	8,553,587
Equity ratio – modified net assets inputs:			
Consolidated balance sheets – net assets without donor restrictions	Net assets without donor restrictions	—	7,401,203
Consolidated balance sheets – net assets with donor restrictions	Net assets with donor restrictions	—	195,454
Note 2(k) – other long-term assets	Intangible assets	235,042	—
Note 2(k) – other long-term assets	Goodwill	—	197,695
Note 2(k) – other long-term assets	Other intangibles	—	37,347
Modified assets inputs		—	—
Consolidated balance sheets – total assets	Total assets	—	13,574,640
Note 2(k) – other long-term assets	Intangible assets	235,042	—
Note 2(k) – other long-term assets	Goodwill	—	197,695
Note 2(k) – other long-term assets	Other intangibles	—	37,347
Net income ratio inputs:			
Consolidated balance sheets – net assets without donor restrictions	Net assets without donor restrictions	\$ —	7,401,203
Consolidated statement of operations	Total revenues and gains	9,302,265	—
Consolidated statement of operations – total operating revenues	Total revenues and gains (operating revenues)	—	8,717,639
Consolidated statement of operations – investment gains	Total revenues and gains (investment gains)	—	584,626

See accompanying independent auditors' report.



KPMG LLP
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312 Walnut Street
Cincinnati, OH 45202

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated 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 sheet as of December 31, 2019, and the related consolidated statement of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 2, 2020, except as to note 16, which is as of September 30, 2020. Our report dated April 2, 2020 included an emphasis of matter paragraph indicating Bon Secours Mercy Health changed its method of accounting for leases as of January 1, 2019 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases*.

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) to determine the 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 determination of financial statement amounts. 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 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 Bon Secours Mercy Health's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Cincinnati, Ohio
April 2, 2020, except as to note 16,
which is as of September 30, 2020



KPMG LLP
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Cincinnati, OH 45202

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, 2019. The Company's major federal programs are identified in the summary of auditor's 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 opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Each Major Federal Program

In our opinion, Bon Secours Mercy Health, 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 major federal programs for the year ended December 31, 2019.

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.

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 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. 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.

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

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 Bon Secours Mercy Health as of and for the year ended December 31, 2019, and have issued our report thereon dated April 2, 2020, except as to note 16, which is as of September 30, 2020, 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 expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Cincinnati, Ohio
September 30, 2020

Bon Secours Mercy Health
Schedule of Expenditures of Federal Awards
Year ended December 31, 2019

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	\$ —	47,058
Supplemental Nutrition Assistance Food Stamp Program Cluster:				
Structured Employment Economic Development Co. – Supplemental Nutrition Assistance Food Stamp Program	10.551	FIA/FSO 19-004	—	5,126
Supplemental Nutrition Assistance Food Program Cluster Subtotal			—	5,126
Ohio Department of Health – WIC Special Supplemental Nutrition Program for Women, Infants and Children	10.557	05030011WA1219	—	819,660
Ohio Department of Health – WIC Special Supplemental Nutrition Program for Women, Infants and Children	10.557	05030011WA1320	—	236,555
Toledo – Lucas County Health Department – WIC Special Supplemental Nutrition Program for Women, Infants and Children	10.557	04810011WA1119	—	368,617
Toledo – Lucas County Health Department – WIC Special Supplemental Nutrition Program for Women, Infants and Children	10.557	04810011WA1320	—	110,128
Total WIC Special Supplemental Nutrition Program for Women, Infants, and Children			—	1,534,960
Total U.S. Department of Agriculture			—	1,587,144
U.S. Department of Housing and Urban Development Direct Programs:				
Multifamily Housing Service Coordinators	14.191		—	22,110
Subtotal U.S. Department of Housing and Urban Development Direct Programs			—	22,110
U.S. Department of Housing and Urban Development Pass-Through Programs From:				
Community Development Block Grants – Entitlement Grants Cluster				
Mayor and Council of Baltimore City – Community Development Block Grants/Entitlement Grants	14.218	B-18-MC-24-0010	—	92,366
Community Development Block Grants – Entitlement Grants Cluster Subtotal			—	92,366
Enterprise Community Partners – Section 4 Capacity Building Community Development	14.252	15SG0243	—	27,800
Subtotal U.S. Department of Housing and Urban Development Pass-Through Programs			—	120,166
Total U.S. Department of Housing and Urban Development			—	142,276
U.S. Department of Justice Pass-Through Programs From:				
Ohio Attorney General – Crime Victim Assistance	16.575	2019-VOCA-132135024	—	294,310
Ohio Attorney General – Crime Victim Assistance	16.575	2020-VOCA-132925492	—	90,002
Total Crime Victim Assistance			—	384,312
Total U.S. Department of Justice			—	384,312
U.S. Department of Labor Pass-Through Programs From:				
Structured Employment Economic Development Co. – Reentry Employment Opportunities	17.270	PE-29012-16-60-A-36	—	25,695
DLLR Mayor's Office of Employment Development – WIOA Dislocated Worker National Reserve Demonstration Grants	17.280	4000-806418-781005-603051/4000-806419-781005-603051	—	120,067
Ohio Department of Job and Family Services – ODEP Disability Grants	17.720	G-1819-15-0785	—	115,870
Ohio Department of Job and Family Services – ODEP Disability Grants	17.720	G-2021-15-006	—	474,365
Total ODEP Disability Grants			—	590,235
Total U.S. Department of Labor			—	735,997
U.S. Department of Education Direct Programs:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007		—	100,697
Federal Work-Study Program	84.033		—	92,459
Federal Pell Grant Program	84.063		—	2,370,683
Federal Direct Student Loans	84.268		—	10,710,008
Student Financial Assistance Cluster Subtotal			—	13,273,847
Total U.S. Department of Education			—	13,273,847

Bon Secours Mercy Health
 Schedule of Expenditures of Federal Awards
 Year ended December 31, 2019

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. Election Assistance Commission Direct Programs:				
Delta Area Economic Development	90.201		\$ —	55,125
<i>Total U.S. Election Assistance Commission</i>			—	55,125
U.S. Department of Health and Human Services Direct Programs:				
Rural Communities Opioid Response	93.211		—	97,510
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Quality Improvement Program	93.212		—	316,756
<i>Subtotal U.S. Department of Health and Human Services Direct Programs</i>			—	414,266
U.S. Department of Health and Human Services Pass-Through Programs From:				
Ohio Department of Health – Environmental Public Health and Emergency Response	93.070	04830031AS0319	—	1,973
Substance Abuse and Mental Health Services Administration – Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	5H79TI025954-01	—	7,506
Kentucky Hospital Research and Education Foundation Inc. – Small Rural Hospital Improvement Grant Program	93.301	H3HRH00046	—	9,510
Kentucky Hospital Research and Education Foundation Inc. – Small Rural Hospital Improvement Grant Program	93.301	6620-335000-33500000	—	3,803
Ohio Department of Health – Small Rural Hospital Improvement Grant Program	93.301	5H3HRH00045-17-00	—	10,170
Ohio Department of Health – Small Rural Hospital Improvement Grant Program	93.301	6H3HRH00045-15-01	—	8,110
Ohio Department of Health – Small Rural Hospital Improvement Grant Program	93.301	H3HRH00045	—	24,000
<i>Total Small Rural Hospital Improvement Grant Program</i>			—	55,593
HRSA – Nurse Education, Practice, Quality and Retention	93.359	UK1HP31726	—	229,150
The Ohio State University – The Ohio Regional TBI Model	93.433	60067386	—	20,000
The Family League of Baltimore – Maternal, Infant and Early Childhood Home Visiting Grant	93.505	1901-524110	—	99,482
Temporary Assistance for Needy Families Cluster				
Ohio Children's Trust Fund – Temporary Assistance for Needy Families	93.558	1901OHTANF	55,504	55,504
<i>Temporary Assistance for Needy Families Cluster Subtotal</i>			55,504	55,504
Ohio Children's Trust Fund – Community-Based Child Abuse Prevention Grants	93.590	G-1601OHFRPG, G-1701OHFRPG, G-1901OHBCAP	231,492	231,656
Lucas County Family Council – Head Start	93.600	05CH8473	—	131,102
Lucas County Family Council – Head Start	93.600	6762-260000-26500525	—	75,684
Maryland Family Network – Head Start	93.600	03CH3452-05-00	—	439,906
<i>Total Head Start</i>			—	646,692
Virginia Department of Health – Organized Approaches to Increase Colorectal Cancer Screening	93.800	NU58DP006089-03)	—	230,790
Ohio Department of Health – Hospital Preparedness Program Ebola Preparedness and Responses Activities	93.817	U3REP150529	—	39,454
University of Cincinnati – Extramural Research Programs in Neurosciences & Neurological Disorders ARCADIA	93.853	1U01NS095869-01A1	—	10,055
Mayo Clinic Jacksonville – Extramural Research Programs in Neurosciences & Neurological Disorders-CREST2	93.853	5U01NS080168-06	—	190
<i>Total Extramural Research Programs in Neurosciences & Neurological Disorders</i>			—	10,245
Ohio Department of Health – Maternal, Infant and Early Childhood Home Visiting Grant	93.870	04830031MH0319	—	268,695
Ohio Department of Health – Maternal, Infant and Early Childhood Home Visiting Grant	93.870	04830031MH0420	—	76,026
<i>Total Maternal, Infant and Early Childhood Home Visiting Grant</i>			—	344,721
NEOMED – Advancing Primary Care Competency Across the Training Continuum	93.884	G0098-CC	—	13,660
Ohio Department of Health – National Bioterrorism Hospital Preparedness Program	93.889	6195-800000-56000000	—	83,612
Hospital Council of Northwest Ohio – National Bioterrorism Hospital Preparedness Program	93.889	04860042RP1219	—	52,653
Greater Cleveland Healthcare Association – National Bioterrorism Hospital Preparedness Program	93.889	01860052RP1219	—	15,375
Greater Cleveland Healthcare Association – National Bioterrorism Hospital Preparedness Program	93.889	01860052RP1320	—	9,894
Greater Dayton Area Health Information Network – National Bioterrorism Hospital Preparedness Program	93.889	05760052RP1117	—	14,218
MD Department of Health and Mental Hygiene & Virginia Hospital and Healthcare Association - National Bioterrorism Hospital Preparedness Program	93.889	1901-524110	—	25,000
The Health Collaborative – National Bioterrorism Hospital Preparedness Program	93.889	6321-900000-63700000/6319-465000-63700000	—	23,383
<i>Total National Bioterrorism Hospital Preparedness Program</i>			—	224,135
Cuyahoga County Board of Health – HIV Emergency Relief Project Grants	93.914	H89HA23812	—	247,848
<i>Subtotal U.S. Department of Health and Human Services Pass Through Programs</i>			286,996	2,458,409
<i>Total U.S. Department of Health and Human Services</i>			286,996	2,872,675

Bon Secours Mercy Health
 Schedule of Expenditures of Federal Awards
 Year ended December 31, 2019

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>CFDA number</u>	<u>Pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>Total federal expenditures</u>
Corporation for National and Community Services Pass-Through Programs From:				
ServeOhio - AmeriCorps	94.006	15AFH-1502-18-OC132	\$ —	104,882
ServeOhio - AmeriCorps	94.006	18AFH-1502-19-OC132	—	28,033
Total AmeriCorps			—	132,915
<i>Total Corporation for National and Community Services</i>			—	132,915
Total Federal Expenditures			<u>286,996</u>	<u>19,184,291</u>

BON SECOURS MERCY HEALTH

Notes to Consolidated Schedule of Expenditures of Federal Awards

December 31, 2019

(1) Basis of Presentation

The accompanying consolidated schedule of expenditures of federal awards includes the federal grant activity of Bon Secours Mercy Health (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, 2019.

(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 costs rates ranging between 0% and 10%.

BON SECOURS MERCY HEALTH
Schedule of Findings and Questioned Costs
December 31, 2019

(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: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (g) Major programs:
 - Student Financial Assistance Cluster:
 - Federal Supplemental Educational Opportunity Grants, CFDA No. 84.007
 - Federal Work-study Program, CFDA No. 84.033
 - Federal Pell Grant, CFDA No. 84.063
 - Federal Direct Student Loans, CFDA No. 84.268
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (i) Auditee qualified as a low-risk auditee: **No**

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

None

(3) Findings and Questioned Costs Relating to Federal Awards

None

BON SECOURS MERCY HEALTH

Bon Secours Mercy Health

Summary of Prior Audit Findings

December 31, 2019

The status of audit findings reported in the audit Bon Secours Mercy Health's federal awards for the four months ended December 31, 2018 is summarized below:

Reference	Finding	Status	Contact Person
2019-001	Student Financial Assistance Cluster Federal Pell Grant 84.063 and Federal Direct Student Loans 84.268 – Special Tests Enrollment Reporting	Corrected – Controls were put into place to ensure that required reporting to ED via NSLDS occurred in a timely fashion	Amy Pozza Amy_Pozza@bshsi.org
2019-002	Student Financial Assistance Cluster Federal Pell Grant 84.063 – Reporting – Pell Reporting	Corrected – Controls were put into place to ensure that Pell Payment data submitted to COD reconciles to the student file information	Amy Pozza Amy_Pozza@bshsi.org