



## **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, 2021

(With Independent Auditors' Reports Thereon)

# BON SECOURS MERCY HEALTH

## Table of Contents

	<b>Page(s)</b>
Independent Auditors' Report	1–3
Consolidated Financial Statements:	
Consolidated Balance Sheet	4
Consolidated Statement of Operations	5
Consolidated Statement of Changes in Net Assets	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8–51
Consolidating Schedule – Balance Sheet Information – December 31, 2021	52
Consolidating Schedule – Operating Information – December 31, 2021	53
Schedule of Financial Responsibility	54
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>	55–56
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	57–59
Consolidated Schedule of Expenditures of Federal Awards	60–64
Notes to Consolidated Schedule of Expenditures of Federal Awards	65
Schedule of Findings and Questioned Costs	66



KPMG LLP  
Suite 3400  
312 Walnut Street  
Cincinnati, OH 45202

## Independent Auditors' Report

The Board of Directors  
Bon Secours Mercy Health:

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Bon Secours Mercy Health, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bon Secours Mercy Health as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Bon Secours Mercy Health and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Consolidated Financial Statements*

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

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

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion,



forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

#### *Supplementary Information*

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

#### *Supplementary Information – Supplementary Schedule of Financial Responsibility Data*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Supplementary Schedule of Financial Responsibility Data is presented for purposes of additional analysis as required by the US Department of Education and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such



information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Schedule of Financial Responsibility Data is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2022, on our consideration of Bon Secours Mercy Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Bon Secours Mercy Health's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bon Secours Mercy Health's internal control over financial reporting and compliance.

*KPMG LLP*

Cincinnati, Ohio  
March 25, 2022

**BON SECOURS MERCY HEALTH**

Consolidated Balance Sheets

December 31, 2021 and 2020

(In thousands)

Assets	2021	2020
Current assets:		
Cash and cash equivalents	\$ 402,402	721,837
Investments	155,412	159,169
Self-insurance and trustee held funds	76,151	73,846
Donor restricted funds	5,911	4,411
Total cash and investments	639,876	959,263
Net patient receivables	1,126,277	1,072,483
Other receivables	144,011	168,706
Inventories	275,393	251,699
Prepaid expenses and other current assets	210,032	206,390
Total current assets	2,395,589	2,658,541
Assets whose use is limited:		
Board designated funds	8,816,184	7,850,710
Self-insurance and trustee held funds	300,992	240,333
Donor restricted funds	90,966	113,286
Total assets whose use is limited	9,208,142	8,204,329
Property and equipment, net	4,559,248	4,352,024
Investments in unconsolidated organizations	642,289	976,545
Operating lease right-of-use assets	325,142	333,629
Retirement assets	214,890	133,678
Other long-term assets	613,980	637,540
Total assets	\$ 17,959,280	17,296,286
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 759,108	765,718
Current portion of long-term debt	342,603	255,926
Accrued salaries, wages and benefits	705,154	595,264
Current portion of operating lease liabilities	78,791	80,372
Other accrued expenses	697,919	681,353
Total current liabilities	2,583,575	2,378,633
Long-term debt, less current portion	4,038,912	4,241,545
Retirement liabilities	311,778	560,638
Self-insurance liabilities	323,818	273,090
Operating lease liabilities	260,282	262,113
Other long-term liabilities	589,908	1,026,412
Total liabilities	8,108,273	8,742,431
Net assets without donor restrictions:		
Controlling interest	8,726,705	7,547,543
Noncontrolling interest	840,784	754,964
Total net assets without donor restrictions	9,567,489	8,302,507
Net assets with donor restrictions	283,518	251,348
Total net assets	9,851,007	8,553,855
Total liabilities and net assets	\$ 17,959,280	17,296,286

See accompanying notes to consolidated financial statements.

**BON SECOURS MERCY HEALTH**  
Consolidated Statements of Operations  
Years ended December 31, 2021 and 2020  
(In thousands)

	<b>2021</b>	<b>2020</b>
Revenues:		
Net patient service revenue	\$ 10,202,509	8,970,458
Other revenue, net	674,491	999,202
Total operating revenues	10,877,000	9,969,660
Expenses:		
Employee compensation	5,409,691	4,782,547
Purchased services and other	2,535,710	2,376,389
Supplies	2,155,990	1,945,919
Depreciation and amortization	465,307	499,631
Interest expense	131,210	129,975
Total operating expenses	10,697,908	9,734,461
Recurring operating income	179,092	235,199
Nonrecurring operating losses, net	(53,221)	(74,942)
Operating income	125,871	160,257
Nonoperating gains (losses), net:		
Investment gains	881,941	599,824
Realized and unrealized interest rate swap agreements gains (losses)	13,912	(38,531)
Loss on defeasance of debt	(152)	(29,924)
Inherent contribution on Ireland acquisition	—	337
Other nonoperating activities, net	(23,874)	(82,844)
Excess of revenue over expenses	\$ 997,698	609,119

See accompanying notes to consolidated financial statements.

**BON SECOURS MERCY HEALTH**  
Consolidated Statements of Changes in Net Assets  
Years ended December 31, 2021 and 2020  
(In thousands)

	<b>Controlling interest</b>	<b>Noncontrolling interest</b>	<b>Net assets without donor restrictions</b>	<b>Net assets with donor restrictions</b>	<b>Total net assets</b>
Balance at December 31, 2019	\$ 7,078,276	322,927	7,401,203	195,454	7,596,657
Excess of revenues over expenses	474,425	134,694	609,119	—	609,119
Gain from discontinued operations	39,492	—	39,492	—	39,492
Grants and contributions	—	17,500	17,500	36,067	53,567
Investment gains	—	—	—	15,532	15,532
Net assets released from restrictions	7,455	—	7,455	(27,493)	(20,038)
Distributions to noncontrolling interest owner	—	(51,137)	(51,137)	—	(51,137)
Pension and other postemployment changes	(59,701)	—	(59,701)	—	(59,701)
Acquisition of Roper St Francis	57,256	290,918	348,174	37,094	385,268
Additional capital contribution for Roper St Francis	(41,650)	41,650	—	—	—
Other changes, net	(8,010)	(1,588)	(9,598)	(5,306)	(14,904)
Increase in net assets	<u>469,267</u>	<u>432,037</u>	<u>901,304</u>	<u>55,894</u>	<u>957,198</u>
Balance at December 31, 2020	<u>7,547,543</u>	<u>754,964</u>	<u>8,302,507</u>	<u>251,348</u>	<u>8,553,855</u>
Excess of revenues over expenses	893,688	104,010	997,698	—	997,698
Gain from discontinued operations	9,243	—	9,243	—	9,243
Grants and contributions	7,548	—	7,548	46,813	54,361
Investment gains	—	—	—	20,438	20,438
Net assets released from restrictions	13,930	—	13,930	(38,670)	(24,740)
Distributions to noncontrolling interest owner	—	(20,008)	(20,008)	—	(20,008)
Pension and other postemployment changes	287,770	—	287,770	—	287,770
Other changes, net	(33,017)	1,818	(31,199)	3,589	(27,610)
Increase in net assets	<u>1,179,162</u>	<u>85,820</u>	<u>1,264,982</u>	<u>32,170</u>	<u>1,297,152</u>
Balance at December 31, 2021	<u>\$ 8,726,705</u>	<u>840,784</u>	<u>9,567,489</u>	<u>283,518</u>	<u>9,851,007</u>

See accompanying notes to consolidated financial statements.

**BON SECOURS MERCY HEALTH**  
Consolidated Statements of Cash Flows  
Years ended December 31, 2021 and 2020  
(In thousands)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Increase in net assets	\$ 1,297,152	957,198
Depreciation and amortization	465,307	499,631
Amortization of premium on issued debt securities	(14,586)	(14,004)
Loss on defeasance of debt	152	29,924
Ireland inherent contribution	—	(337)
Acquisition of Roper St Francis	—	(393,265)
Other changes in net assets, net	(91,944)	40,150
Pension and other post employment adjustments	(287,770)	59,701
Contributions restricted by donor	(46,813)	(36,067)
Net gains on investments	(801,895)	(420,056)
Current assets	(63,042)	(41,740)
Long-term assets	59,645	104,822
Accelerated Medicare Payments Program	(296,697)	734,246
Other current liabilities	103,247	299,240
Long-term liabilities	(16,770)	3,365
	<u>305,986</u>	<u>1,822,808</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Acquisitions, net of cash received	—	62,684
Property and equipment additions, net of disposals	(681,598)	(431,952)
Purchase of alternative investments and other securities	(547,349)	(263,567)
Sales of alternative investments and other securities	283,712	125,798
Investments and assets whose use is limited, net	61,671	(2,122,630)
Dividend received from equity method investment	357,315	—
Purchase of equity method investments	(12,087)	—
Sale of equity method investments	—	253,138
	<u>(538,336)</u>	<u>(2,376,529)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Restricted contributions	46,813	36,067
Contribution from noncontrolling interest	—	17,500
Distributions to noncontrolling interest	(20,008)	(51,137)
Proceed from debt issuance	5,547	3,094,695
Repayment of long-term debt	(97,955)	(2,252,792)
Repayment of finance lease	(20,592)	(11,945)
Cost of long-term debt issuance	—	(12,046)
	<u>(86,195)</u>	<u>820,342</u>
Net cash (used in) provided by financing activities		
Effect of exchange rates on cash and cash equivalents	(890)	1,958
	<u>(319,435)</u>	<u>268,579</u>
Net (decrease) increase in cash and cash equivalents		
Cash and cash equivalents, beginning of the year	<u>721,837</u>	<u>453,258</u>
Cash and cash equivalents, end of the year	<u>\$ 402,402</u>	<u>721,837</u>

See accompanying notes to consolidated financial statements.

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

### (1) Basis of Presentation

#### (a) Organizational Structure and Mission

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

The consolidated financial statements include the accounts of all members of the corporate group controlled by BSMH. As required, in conformity with U.S. generally accepted accounting principles (GAAP), the consolidated financial statements include the balance sheets, results of operations and changes in net assets, and cash flows of the business units and shared services. 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

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

On January 2, 2020, Bon Secours Mercy Health completed an agreement with the Medical Society of South Carolina to restructure the RSFH joint venture, a charitable healthcare delivery system based in Charleston, South Carolina. The restructuring increased BSMH's ownership interest in the joint venture from a noncontrolling 27% to a controlling 51%. As the controlling interest in the joint venture was obtained in the transaction, BSMH accounted for this as a business combination under the acquisition method, consistent with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 954-805 *Health Care Entities Business Combinations*.

The goodwill of \$99,171 arising from the acquisition relates to the synergies and cost reductions expected to be achieved. The goodwill is included in other long-term assets in the consolidated balance sheets. The consideration paid for the acquisition was \$185,000, the estimated fair value of the assets acquired and liabilities assumed was \$408,710, the fair value of previously held equity interest was \$122,613 and the fair value of the noncontrolling interest at the acquisition date was \$200,268.

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

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

### **(c) Discontinued Operations**

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

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

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

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

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

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

Unrealized gains or losses on trading securities are included in investment gains. As of December 31, 2021 and 2020, all investments and assets whose use is limited are designated as trading securities, except for certain foundation investments and trustee held funds, which are designated as other than trading securities.

### **(c) Fair Value Measurement**

The carrying values of financial instruments classified as current assets and current liabilities approximate fair values. The fair values of assets limited or restricted as to use, with the exception of alternative investments, are based on quoted market prices or other observable inputs. Alternative investments are recorded under the equity method, but approximate fair value. The Company elected to record its investments in equity and fixed income commingled funds at fair value. See note 5 for additional disclosures of investments and assets whose use is limited. ASC Topic 820 *Fair Value*, emphasizes that fair value is a market-based measurement, not an entity specific measurement.

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

The three levels are defined as follows:

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

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

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

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

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

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

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

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

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

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

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

The Company's concentration of credit risk related to net patient receivables is limited due to the diversity of patients and payors. Net patient receivables consist of amounts due from government programs (primarily Medicare and Medicaid), private insurance companies, managed care programs and patients themselves. The Medicare program represented 18% and 20% of net patient accounts receivable as of December 31, 2021 and 2020, respectively while the Medicaid program represented 12% as of December 31, 2021 and 8% as of December 31, 2020. 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, 2021, or December 31, 2020.

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.

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

The Company's net patient service revenues during the years ended December 31, 2021 and 2020 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:

	2021		2020	
Medicare	\$ 3,722,496	36 %	3,291,141	36 %
Medicaid	1,533,756	15	1,259,709	14
Other governmental	178,376	2	165,575	2
Commercial and other third party	4,714,925	46	4,187,776	47
Self-pay	52,956	1	66,257	1
Total	\$ 10,202,509	100 %	8,970,458	100 %

**(e) Inventories**

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

**(f) Property and Equipment, Net**

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

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

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

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

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

### **(g) Leases**

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, current portion of operating lease liabilities and operating lease liabilities on the consolidated balance sheets. 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 purchased services and other.

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

### **(h) Asset Impairment**

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

## **BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

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

On March 25, 2021, RSFH resolved to replace the electronic medical records systems. The planned abandonment and replacement is expected to occur in the second half of 2022. The abandonment decision is an impairment indicator and a resulting impairment charge of \$9,686 was recorded in nonrecurring operating losses, net within the consolidated statement of operations of BSMH for the year ended December 31, 2021.

### **(i) *Investments in Unconsolidated Organizations***

The Company maintains noncontrolling interests in various joint ventures and other companies that do not require consolidation. The majority of these investments are accounted for using the equity method of accounting, as the Company has significant influence, but does not have control, over the operating and financial policies of the investee. The Company classifies distributions from an investee on the cashflow statement by evaluating the facts, circumstances and nature of each distribution. Investments in unconsolidated organizations are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the investment might not be recoverable. No impairment was recognized for the years ended December 31, 2021 and 2020.

### **(j) *Retirement Assets and Liabilities***

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

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

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

### (k) Other Long-Term Assets

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

	<u>2021</u>	<u>2020</u>
Goodwill, net	\$ 267,904	268,713
Notes and other long term receivables	51,222	56,637
Other intangibles	30,048	31,944
Right-of-use assets – finance	208,372	225,963
Other	56,434	54,283
Total other long-term assets	<u>\$ 613,980</u>	<u>637,540</u>

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

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

	<u>2021</u>	<u>2020</u>
Goodwill at the beginning of the period	\$ 268,713	197,695
Goodwill related to acquisitions	80	99,171
Measurement period adjustments	—	(19,367)
Impairment	—	(8,542)
Other	(889)	(244)
Goodwill at the end of the period	<u>\$ 267,904</u>	<u>268,713</u>

### (l) Accrued Claims Expense and Related Liabilities

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

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

dependent on future developments, management is of the opinion that the reserves for claims are adequate to cover such claims.

*(i) Self-Insurance*

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

*(ii) Professional Liability and General Insurance*

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

*(iii) Workers Compensation Insurance*

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

*(iv) Employee Health Insurance*

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

***(m) Net Assets Including Noncontrolling Interest***

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

Unconditional promises to give cash and other assets to the Company are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as donor-restricted if they

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, these restricted net assets are reclassified as assets without donor restrictions and reported in the accompanying consolidated statement of operations and statement of changes in net assets as net assets released from restrictions. Such amounts are classified as other revenue, net or transfers for additions to property and equipment. Donor-restricted contributions whose restrictions are satisfied within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

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

### **(n) Other Long-Term Liabilities**

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

	<u>2021</u>	<u>2020</u>
Derivative instruments (note 9)	\$ 89,707	118,251
Supplemental executive retirement plan liability	93,947	75,568
Lease liabilities – finance	337,881	344,266
Accelerated Medicare Payments Program	—	397,566
Deferred payroll tax liabilities	—	69,858
Other	<u>68,373</u>	<u>20,903</u>
Total other long-term liabilities	<u>\$ 589,908</u>	<u>1,026,412</u>

### **(o) Other Revenue**

Other operating revenues includes income from equity investments in joint ventures (note 15), grant revenues including stimulus funding provided by the CARES Act (note 3), reimbursements, 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 the communities they serve.

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

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

(i) *Charitable Services – Financially Disadvantaged Persons*

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

In assessing a patient's ability to pay, the Company utilizes generally recognized poverty income levels, financially supporting 100% of the healthcare services provided to patients with annual family income at or below 200% of the federal poverty guidelines. Patients with annual family income above 200% and below 400% are eligible for a prorated reduction in charges for medically necessary services through a sliding scale applicable to the respective market area.

*Charitable Services – State Programs*

The Company provides services to indigent patients under various state programs, including state Medicaid, that generally pay healthcare providers amounts that are less than the cost of the services provided to the recipients. Estimated unreimbursed costs of the care provided to these disadvantaged patients are also reported as charitable services.

(ii) *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.

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

### **(q) Recurring Operating Income**

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

### **(r) Performance Indicator**

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

### **(s) Income Taxes**

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

The Company accounts for uncertain tax positions in accordance with ASC Topic 740, *Income Taxes*. The Company accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company has determined that no significant unrecognized tax benefits or liabilities exist as of December 31, 2021.

Accounting for uncertainty in income taxes, ASC Topic 740-10 prescribes a comprehensive model for how an organization should measure, recognize, present and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. The Company is subject to routine audits by taxing jurisdictions. There are no current audits in progress. As of December 31, 2021, the Company has no uncertain tax positions.

The Company's taxable subsidiaries had \$155,184 and \$199,705 net operating loss carryforwards as of December 31, 2021 and 2020, respectively, which expire in varying periods through 2037 and are available to offset future taxable income. The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be in effect during the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Interest and penalties related to income taxes are accounted for as income tax expense. The Company has placed

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

a full valuation allowance on the deferred tax assets as of December 31, 2021 and 2020 as the Company considers it more likely than not that these amounts will not be utilized in future periods.

### **(t) Medicare and Medicaid Programs**

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

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

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 \$23,534 and \$7,788 for the years ended December 31, 2021 and 2020, respectively.

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

### **(u) Use of Estimates**

The preparation of financial statements in conformity with US-GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The impact of the Novel Coronavirus (COVID-19) pandemic has increased the uncertainty of assumptions underlying management's estimates. The Company will be impacted by the severity and duration of the COVID-19 pandemic. Those primary drivers are uncertain and beyond management's control and may adversely impact revenue growth, patient volumes, supply chain, investments, and workforce. The impact of COVID-19 on the Company's consolidated financial statements may differ from the judgments and estimates determined as of the year ended December 31, 2021.

### **(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.

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

### **(w) New Accounting Pronouncements**

In June 2016, FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The provisions of ASU No. 2016-13 are effective for fiscal years beginning after December 15, 2022. The Company did not early adopt and is currently evaluating the impact of this ASU.

In August 2017 and October 2018, FASB issued ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities (Topic 815)* and ASU No. 2018-16, *Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes (Topic 815)*. This ASU adjusts hedge accounting recognition and presentation requirements. In addition, it allows for the use of the OIS Rate as a benchmark interest rate for hedge accounting. The Company adopted these pronouncements in 2021 and these pronouncements did not have a material impact on the consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, which adds, clarifies, and removes certain disclosure requirements related to defined benefit and other postretirement plans. The Company adopted ASU No. 2018-14 in 2021 and this ASU did not have a material impact on the consolidated financial statements.

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

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

In 2021, the Company adopted ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

for capitalizing implementation costs incurred to develop or obtain internal use software. The adoption of this ASU did not have a material impact on the consolidated financial statements.

### (3) Coronavirus (COVID-19)

On March 11, 2020, the World Health Organization designated COVID-19 as a pandemic. The pandemic negatively affected the Company's results of operations during 2020 and continued to affect the Company's results of operations during the year ended December 31, 2021. However, the Company saw a gradual and steady recovery in volumes in 2021 compared to 2020 despite the surges caused by the Delta and Omicron variants.

In response to COVID-19, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on March 27, 2020. Subsequent to the CARES Act enactment, the Consolidated Appropriations Act, 2021 (CAA) was signed into law on December 27, 2020. The CAA extended certain provisions of the CARES Act and provided additional COVID-19 relief. On March 11, 2021 the government also enacted the American Rescue Plan Act of 2021 ("ARPA"). Together, these stimulus laws authorize over \$178,000,000 in funding to be distributed to hospitals and other healthcare providers through the Public Health and Social Services Emergency Fund, (PHSSEF or Provider Relief Fund).

Through the CARES Act and state grant programs, the Company received \$115,380 and \$426,510 for the years ended December 31, 2021 and 2020, respectively. The funds were accounted for as government grants and recognized in operating revenue as the Company substantially met the terms and conditions required to retain the funds. Approximately \$118,352 and \$376,033 was recognized in other revenue, net within the consolidated statement of operations, for the years ended December 31, 2021 and 2020, respectively.

Through the CARES Act, the Company also received \$734,349 in Medicare Accelerated and Advance Payments for the year ended December 31, 2020 and recognized the funds as a refund liability with repayment to occur based upon the terms and conditions of the Program. No additional payments were received by the Company for the year ended December 31, 2021. Under the terms of the current program, payments are advances that must be repaid through 2022. The Company repaid \$296,697 during the year ended December 31, 2021. There were no repayments made in 2020. The Company accounted for \$437,652 and \$336,783 as of December 31, 2021 and 2020, respectively, within other accrued expenses on the consolidated balance sheets. As the remaining amounts are expected to be repaid in 2022, there was no long-term liability recorded as of December 31, 2021. \$397,566 was recorded as of December 31, 2020, within other long-term liabilities, on the consolidated balance sheets.

The CARES Act also provided for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Company began deferring the employer portion of social security taxes in April 2020. A deferral of \$139,716 was recorded as of December 31, 2020, of which \$69,858 and \$69,858 was recorded in accrued salaries, wages, and benefits for the years ended December 31, 2021 and 2020, respectively. Recorded in other long-term liabilities within the consolidated balance sheets, was \$0 and \$69,858 as of December 31, 2021 and 2020, respectively. Lastly, the CARES Act provided an employee retention tax credit of which the Company recognized \$20,942 as a reduction to

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

employee compensation within the consolidated statement of operations for the year ended December 31, 2020.

#### (4) Community Benefits (Unaudited)

The following is a summary of the Company's community service as measured by services provided to the poor, medically underserved, and broader community. The summary has been prepared in accordance with the Catholic Health Association (CHA) of the United States document, A Guide for Planning and Reporting Community Benefit, 2021 Edition.

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

	<u>2021</u>	<u>2020</u>
Charitable services and other community benefits:		
Traditional charity care	\$ 94,835	123,402
Unpaid costs of public programs	371,582	447,003
Community health services	36,205	27,449
Health professional education and research	68,113	64,947
Subsidized health services	18,002	7,339
Financial and in-kind donations	7,191	6,042
Community building activities	5,782	6,103
Community benefit operations	3,034	5,051
Research	549	181
Total quantifiable community benefits	<u>\$ 605,293</u>	<u>687,517</u>
Percent of total recurring expenses	5.7 %	7.1 %

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

Years ended December 31, 2021 and 2020

(In thousands)

**(5) Investments and Assets Whose Use is Limited**

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

	<u>2021</u>	<u>2020</u>
Board designated funds:		
Cash and cash equivalents	\$ 339,363	901,776
Equity mutual funds	1,154,013	1,137,602
Equity commingled funds	1,009,817	702,717
Common and preferred stocks	1,127,962	665,746
Fixed income commingled funds	319,467	275,629
Government and agency securities	1,316,102	1,364,425
Corporate obligations	1,481,930	1,424,040
Alternative investments	2,067,530	1,378,775
	<u>\$ 8,816,184</u>	<u>7,850,710</u>
Self-insurance and trustee held funds:		
Cash and cash equivalents	\$ 96,022	107,442
Equity mutual funds	202,254	150,638
Government and agency securities	45,346	28,823
Corporate obligations	33,521	27,276
	<u>\$ 377,143</u>	<u>314,179</u>
Donor restricted funds:		
Cash and cash equivalents	\$ 50,335	73,385
Equity mutual funds	15,255	14,564
Common and preferred stocks	4,625	3,634
Fixed income commingled funds	9,641	17,978
Government and agency securities	147	136
Alternative investments	16,874	8,000
	<u>\$ 96,877</u>	<u>117,697</u>

**BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Investments:		
Cash and cash equivalents	\$ 129,264	94,245
Government and agency securities	5,040	24,594
Corporate obligations	<u>21,108</u>	<u>40,330</u>
	<u>\$ 155,412</u>	<u>159,169</u>
Investments and assets whose use is limited	\$ 9,445,616	8,441,755
Available for current liabilities	<u>(237,474)</u>	<u>(237,426)</u>
Long-term assets limited or restricted as to use	<u>\$ 9,208,142</u>	<u>8,204,329</u>

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

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

	<u>2021</u>	<u>2020</u>
Dividends and interest	\$ 80,046	63,172
Net realized gains on securities	325,938	116,596
Net change in unrealized (losses) gains on securities	<u>475,957</u>	<u>420,056</u>
	<u>\$ 881,941</u>	<u>599,824</u>

The Company's ability to generate investment income is dependent in large measure on market conditions. The market value of the Company's investment portfolio, as well as the Company's investment income, have fluctuated significantly in the past and are likely to continue to fluctuate in the future. The Company's investment portfolio assets are designated as trading securities as discussed in ASC Topic 320, *Investments – Debt and Equity Securities*. The Company's entire portfolio is actively managed by third-party investment managers. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. As required by U.S. GAAP, realized and unrealized gains and losses on an investment portfolio, designated as a trading portfolio, are accounted for as Nonoperating gains (losses), net 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, 2021 and 2020.

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

## **BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

### **(6) Fair Value of Financial Instruments**

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

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

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

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

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

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(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.

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

**BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

	Fair value	Fair value measurements at December 31, 2021 using		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 402,402	402,402	—	—
Investments:				
Cash and cash equivalents	129,263	129,263	—	—
Government and agency securities	5,040	5,040	—	—
Corporate obligations	21,109	—	21,109	—
	155,412	134,303	21,109	—
Assets limited or restricted as to use:				
Cash and cash equivalents	485,721	485,721	—	—
Equity mutual funds	1,371,522	715,130	656,392	—
Equity commingled funds	986,266	799,497	127,665	59,104
Common and preferred stocks	1,132,587	1,132,587	—	—
Fixed income commingled funds	329,108	242,121	86,987	—
Government and agency securities	1,361,595	740,006	621,589	—
Corporate obligations	1,515,450	—	1,515,450	—
Cash and assets limited or restricted as to use	7,740,063	4,651,767	3,029,192	59,104
Assets whose use is limited under securities lending arrangements	23,551	23,551	—	—
Total cash and assets limited or restricted as to use	\$ 7,763,614	4,675,318	3,029,192	59,104
Liabilities:				
Interest rate swaps	\$ 89,707	—	—	89,707
Total liabilities	\$ 89,707	—	—	89,707

**BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

	<b>Fair value measurements at December 31, 2020 using</b>			
	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and cash equivalents	\$ 721,837	721,837	—	—
Investments:				
Cash and cash equivalents	94,245	94,245	—	—
Government and agency securities	24,594	24,594	—	—
Corporate obligations	40,330	—	40,330	—
	159,169	118,839	40,330	—
Assets limited or restricted as to use:				
Cash and cash equivalents	1,082,603	1,082,603	—	—
Equity mutual funds	1,302,804	737,514	565,290	—
Equity commingled funds	694,619	580,825	72,278	41,516
Common and preferred stocks	669,380	648,956	20,424	—
Fixed income commingled funds	237,893	194,584	43,309	—
Government and agency securities	1,393,384	812,436	580,948	—
Corporate obligations	1,451,316	—	1,451,316	—
Cash and assets limited or restricted as to use	7,713,005	4,897,594	2,773,895	41,516
Assets whose use is limited under securities lending arrangements	8,098	8,098	—	—
Total cash and assets limited or restricted as to use	\$ 7,721,103	4,905,692	2,773,895	41,516
Liabilities:				
Interest rate swaps	\$ 118,251	—	—	118,251
Total liabilities	\$ 118,251	—	—	118,251

Following is the summary of the inputs and valuation techniques utilized to value Level 2 financial instruments as of December 31, 2021 and 2020:

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

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

	December 31	
	2021	2020
Beginning balance	\$ 41,516	—
Purchases	17,755	41,082
Sales	—	(2,342)
Realized and unrealized (losses) gains	(167)	2,776
Ending balance	\$ 59,104	41,516

Investments for which fair value is measured using the Net Asset Value (NAV) as a practical expedient are excluded from the fair value hierarchy in accordance with ASU No. 2015-07, *Fair Value Measurement (Topic 820)*. As of December 31, 2021 and 2020, investments measured at NAV consist of fixed income commingled funds and alternative investments. The fixed income commingled investment funds are valued at NAV provided by the respective fund administrators. Management has determined that the NAV is an appropriate estimate of the fair value of the commingled investments funds as of December 31, 2021 and 2020, since the commingled investment funds are audited and accounted for at fair value by the administrators of the respective commingled investment funds.

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

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

The following table summarizes the investments measured at NAV, committed capital and associated redemptions as of December 31, 2021:

	<u>Investments measured at NAV</u>	<u>Committed capital</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Fixed income commingled funds	\$ 60,563	—	Monthly	10 days
Alternative investments:				
Private Investments	1,194,651	599,785	N/A	N/A
Hedge funds	<u>829,190</u>	<u>—</u>	Monthly, Quarterly, Annually	2 to 180 days
	<u>\$ 2,084,404</u>	<u>599,785</u>		

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

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

Investments that are not redeemable as of December 31, 2021 and 2020 are \$0 and \$121,679, respectively.

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

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

**BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

**(7) Property and Equipment, Net**

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

	<u>2021</u>	<u>2020</u>
Land	\$ 444,102	321,021
Land improvements	113,838	118,917
Buildings and fixed equipment	4,729,536	4,599,743
Movable equipment	4,456,743	5,312,983
Leasehold improvements	<u>231,293</u>	<u>197,317</u>
	9,975,512	10,549,981
Less accumulated depreciation	<u>(5,838,995)</u>	<u>(6,561,206)</u>
	4,136,517	3,988,775
Construction in progress	<u>422,731</u>	<u>363,249</u>
	<u>\$ 4,559,248</u>	<u>4,352,024</u>

As of December 31, 2021 and 2020, the Company is contractually obligated for construction projects totaling \$184,633 and \$112,325 at current construction cost levels. It is expected that these costs will be incurred in the next twelve months. The Company will finance these construction projects through the use of tax-exempt bond obligations proceeds, assets whose use is limited and operating cash flow.

Depreciation expense for the Company was \$439,747 and \$478,312 for the years ended December 31, 2021 and 2020, respectively.

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

### (8) Long-Term Debt

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

Long-term debt	Coupon rates	Maturity through	2021	2020
Master trust indenture obligations:				
Fixed rate Hospital Facilities Revenue and Revenue Refunding and Improvement Bonds:				
Mercy Health (MH) Series 2012A serial/term bonds	2.50-5.00%	2042	\$ 7,010	13,530
MH Series 2015A term bonds	4.00-5.00	2045	159,205	159,205
MH Series 2015C taxable bonds	3.38	2025	150,000	150,000
MH Series 2017A serial and term bonds	3.00-5.00	2047	442,955	472,335
MH Series 2017C taxable bonds	3.56	2027	143,150	143,150
MH Series 2018A taxable bonds	4.30	2028	305,684	305,684
BSMH Series 2020A serial and term bonds	4.00-5.00	2049	670,970	675,630
BSMH Series 2020 taxable bonds	3.46	2030	389,680	389,680
BSMH Series 2020-2 taxable bonds	1.35-3.21	2050	650,000	650,000
Adjustable rate Hospital Facilities Revenue and Revenue Refunding and Improvement Bonds:				
MH Series 2008 direct placement (DP) bonds	0.79-0.87	2031	114,600	118,600
MH Series 2010C/D demand and DP bonds	0.37-0.64	2034	160,900	166,500
MH Series 2012B demand bonds	0.02-0.13	2036	100,000	100,000
Bon Secours Series 2013B (VSBFA) DP bonds	0.82-0.87	2042	—	40,740
MH Series 2017B bonds payable	5.00	2047	89,425	89,425
Bon Secours Series 2017 (SC) DP bonds	0.93-0.99	2042	69,925	69,925
MH Series 2018AB commercial paper notes	0.10-0.20		100,000	100,000
BSMH Series 2020B bonds payable	5.00	2048	87,380	87,380
2018 TD Bank variable rate taxable term loan	0.68-0.87	2029	150,000	150,000
2018 US Bank variable rate taxable term loan	0.65-0.72	2023	160,000	160,000
2020 JPMorgan fixed rate taxable term loan	1.73-2.65	2023	250,000	250,000
Total master trust indenture obligations			4,200,884	4,291,784
Ireland variable rate taxable term loan	1.45-1.90	2025	99,288	101,916
Other debt			14,110	22,193
			4,314,282	4,415,893
Original issue net premium			88,881	105,290
Cost of issuance			(21,648)	(23,712)
			4,381,515	4,497,471
Less current portion of long-term debt			(342,603)	(255,926)
Long-term debt, less current portion			<u>\$ 4,038,912</u>	<u>4,241,545</u>

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

The Company's master trust indenture (the MTI) provides that Bon Secours Mercy Health is the sole obligor on all outstanding indebtedness incurred under the MTI. All bond obligations of the Company have been evidenced by obligations issued under the MTI. In addition, the Company has issued a master obligation guaranty under the MTI for a bank term loan of its contractual affiliate, Bon Secours Health System Limited by Guarantee, the principal amount of which is \$99,288.

On October 1, 2021, the Company paid off its Series 2013B debt in the amount of \$40,740. The Company recorded a loss from early extinguishment of debt of \$152.

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

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

The Company incurred additional indebtedness in the second quarter of 2020 to maintain liquidity despite the operational impacts of COVID-19. On April 3, 2020, the Company amended its revolving credit agreement from \$150,000 to \$250,000. There was no amount drawn on the increased line at December 31, 2021 and 2020. In addition, on April 23, 2020, the company entered into a taxable term loan with a financial institution in the amount of \$250,000. On May 11, 2020, the Company entered into an additional revolving credit agreement in the amount of \$250,000, drawing a total of \$0 and \$250,000 on that line as of December 31, 2021 and 2020.

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

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

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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, 2021 and 2020. The Company was in compliance with all restrictive covenants as of December 31, 2021 and 2020.

The following is a schedule of future minimum payments based on scheduled maturities as of December 31, 2021:

Period	Master trust indenture obligations	European group and other debt
2022	\$ 53,150	33
2023	458,945	21
2024	55,205	21
2025	254,450	113,293
2026	57,530	10
Thereafter	3,321,604	20
Total minimum payments	\$ 4,200,884	113,398

Interest payments for the years ended December 31, 2021 and 2020 were \$136,810 and \$122,620, respectively.

Unamortized debt issuance costs of \$21,648 and \$23,712 as of December 31, 2021 and 2020, 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, 2021, current portion of long-term debt includes \$89,425 of adjustable rate bonds with a mandatory purchase date within the next year, \$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.

The Company has \$82,950 of Series 2010C variable rate bond obligations with letter of credit support, Series 2008A, 2010D and 2017 adjustable rate bonds in the total amount of \$262,475 held under direct purchase agreements with financial institutions and \$409,288 of variable rate taxable term loan agreements with financial institutions. The Company's dedicated liquidity facilities and direct placement agreements have expiration dates that extend from May 2023 to November 2027, and their respective term-out repayment provisions extend beyond the subsequent fiscal year. Due to the supporting agreements noted above, the Company has recorded the obligations as long term.

The Company maintains a revolving credit agreement for purposes of working capital support or capital asset acquisition. This revolving credit agreement has a commitment amount of \$250,000 and is secured by the MTI. The agreement expires on December 11, 2022, with an intention to extend the agreement beyond this period. No amounts were outstanding under the revolving credit agreement as of December 31, 2021 or December 31, 2020.

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

### (9) Derivatives and Interest Rate Swap Agreements

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

Interest rate swap agreement	Transaction type	Payment rate/basis	Termination date	Notional amount		Valuation amount	
				December 31		December 31	
				2021	2020	2021	2020
December 2006 JPM	Pay fixed	3.63 %	2033	\$ 250,177	269,200	(30,424)	(44,802)
December 2018 Barclays	Pay fixed	3.98	2042	50,000	50,000	(19,475)	(24,973)
December 2018 Citi	Pay fixed	3.84	2032	25,000	25,000	(6,055)	(8,319)
December 2018 JPM	Pay fixed	3.72	2047	80,000	80,000	(20,000)	(26,160)
December 2018 PNC	Pay fixed	3.45	2042	69,925	69,925	(21,499)	(26,744)
December 2007 JPM	Constant maturity	N/A	2027	250,000	250,000	5,457	9,589
August 2018 JPM	Constant maturity	N/A	2037	150,000	150,000	839	988
Credit valuation adjustment						1,450	2,170
						<u>\$ (89,707)</u>	<u>(118,251)</u>

All changes in the fair value of the Company's interest rate swap agreements are recognized in realized and unrealized interest rate swap agreements gains/(losses) in the consolidated statement of operations. The differences between settlement payments made and settlement payments received on all interest rate swap agreements are included in realized and unrealized interest rate swap agreements gains/(losses) on the consolidated statement of operations. The net payments were \$14,813 and \$15,062 for the years ended December 31, 2021 and 2020, respectively.

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

The Company has posted collateral with designated custodians of \$33,918 as of December 31, 2021 (\$62,227 as of December 31, 2020) commensurate with the valuation of the interest rate swap agreements. All collateral posted is in the form of cash and cash equivalents and is included within donor restricted funds on the consolidated balance sheets. Interest earned while collateralized funds are held by the custodian is shown in nonoperating gains (losses), net on the consolidated statement of operations.

### (10) Pension Plans

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

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(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:

	<u>Pension Plans</u>		<u>Postemployment Plans</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Change in benefit obligation:				
Projected benefit obligation at beginning of year	\$ 3,298,352	2,986,659	17,698	17,688
Service cost	4,274	3,661	511	472
Interest cost	72,496	91,844	373	508
Actuarial (gain)/loss	(150,666)	333,322	(284)	724
Plan amendments	—	44,585	—	—
Settlement	(156,929)	(45,625)	—	—
Gross benefits paid and expenses	<u>(107,362)</u>	<u>(116,094)</u>	<u>(1,797)</u>	<u>(1,694)</u>
Projected benefit obligation at end of year	<u>2,960,165</u>	<u>3,298,352</u>	<u>16,501</u>	<u>17,698</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	2,888,571	2,627,406	—	—
Actual return on plan assets	204,150	419,392	—	—
Employer contributions	50,000	3,492	1,798	1,694
Gross benefits paid	(107,362)	(116,094)	(1,798)	(1,694)
Settlement	<u>(156,929)</u>	<u>(45,625)</u>	<u>—</u>	<u>—</u>
Fair value of plan assets at end of year	<u>2,878,430</u>	<u>2,888,571</u>	<u>—</u>	<u>—</u>
Under funded status	<u>\$ (81,735)</u>	<u>(409,781)</u>	<u>(16,501)</u>	<u>(17,698)</u>

Settlements of \$156,929 and \$45,625 were recognized during the years ended December 31, 2021 and 2020. During 2021 and 2020, the Company updated the mortality projection assumptions used to determine the Plans' projected benefit obligation. The change to the MP-2021 mortality improvement scales in 2021 resulted in increase in the Plans' projected benefit obligation and decrease in the funded status of \$9,824 at December 31, 2021. The change to the MP-2020 mortality improvement scales in 2020 resulted in decrease in the Plans' projected benefit obligation and increase in the funded status of \$19,432 at December 31, 2020. The actuarial gain on the benefit obligation for the year ended December 31, 2021 was due to significant increase in discount rate and partially offset by the change to the MP-2021 mortality improvement scales. The actuarial loss on the benefit obligation for the year ended December 31, 2020 was due to significant decrease in discount rate and partially offset by the change to the MP-2020 mortality improvement scales.

**BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

	<b>Pension Plans</b>		<b>Postemployment Plans</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Retirement assets	\$ 214,890	133,678	—	—
Current liabilities	—	—	(1,847)	(1,798)
Retirement liabilities	(296,625)	(543,459)	(14,654)	(15,900)
Net amount recognized	\$ (81,735)	(409,781)	(16,501)	(17,698)

In addition to amounts recognized in the consolidated financial statements related to the Plans, retirement liabilities on the consolidated balance sheets includes other retirement liabilities, consisting primarily of accrued contributions to defined contribution plans, of \$499 and \$1,279 at December 31, 2021 and 2020, respectively.

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

	<b>Pension Plans</b>		<b>Postemployment Plans</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Net prior service cost	\$ (27,527)	(29,299)	—	—
Net actuarial (loss) gain	(399,179)	(684,852)	1,700	1,375
Net amount unrecognized	(426,706)	(714,151)	1,700	1,375
Cumulative excess (shortfall) of employer contributions over net periodic benefit cost	344,971	304,370	(18,201)	(19,073)
	\$ (81,735)	(409,781)	(16,501)	(17,698)

Net actuarial (loss) gain is amortized as a component of net periodic benefit cost (income), only if the losses exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. Net prior service credit (cost) is amortized on a straight-line basis over the estimated life of the Plans' participants. The net prior service credit (cost) included in unrestricted net assets expected to be recognized as a (loss) gain in net periodic benefit cost (income) during the year ended December 31, 2021 and 2020 is \$27,527 and \$29,299, respectively. The net actuarial (loss) gain included in unrestricted net assets expected to be recognized as a (loss) gain in net periodic benefit cost (income) during the year ended December 31, 2021 and 2020 is \$397,479 and \$683,477, respectively.

**BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

	<b>Pension Plans</b>		<b>Postemployment Plans</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Amortization of prior service (credit)/cost	\$ (1,824)	1,155	—	—
Net actuarial gain/(loss)	(232,781)	47,732	—	—
Amortization of net actuarial loss	(52,840)	(34,567)	—	—
Unrecognized prior service cost	—	44,586	—	—
Other postemployment benefit changes	—	—	(325)	795
	<u>\$ (287,445)</u>	<u>58,906</u>	<u>(325)</u>	<u>795</u>

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

	<b>Pension Benefits</b>		<b>Postemployment Benefits</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Service cost	\$ 4,274	3,661	511	472
Interest cost	72,496	91,844	373	508
Expected return on plan assets	(122,035)	(134,422)	—	—
Curtailment/settlement cost	20,102	9,151	—	—
Amortization of:				
Actuarial loss	32,737	25,416	—	—
Prior service credit/(cost)	1,824	(1,155)	41	(71)
Net periodic benefit cost (income)	<u>\$ 9,398</u>	<u>(5,505)</u>	<u>925</u>	<u>909</u>

## BON SECOURS MERCY HEALTH

### Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

	Pension Plans		Postemployment Plans	
	2021	2020	2021	2020
Discount rate – ERISA	2.51%	2.24%	N/A	N/A
Discount rate – Church pension and postretirement benefit plans	2.70% – 2.73%	2.23% – 2.31%	2.73%	2.31%
Rate of compensation increase	2.50%	2.50% – 3.60%	N/A	N/A
Expected long-term rates of return on plan assets	3.60% – 5.80%	5.75%	N/A	N/A
Mortality table	Pri-2012	Pri-2012	Pri-2012	Pri-2012
Generational scale	MP-2021	MP-2020	MP-2021	MP-2020

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

	Pension Plans		Postemployment Plans	
	2021	2020	2021	2020
Discount rate	2.23% – 2.31%	3.07% – 3.17%	2.31%	3.17%
Rate of compensation increase	2.50% – 2.59%	2.50% – 2.59%	N/A	N/A
Expected long-term rates of return on plan assets	3.60% – 5.80%	5.75%	N/A	N/A

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

	2021	2020
Healthcare cost trend rate assumed for next year	5.2% – 7.0%	5.2% – 7.4%
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	2031	2030

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

Years ended December 31, 2021 and 2020

(In thousands)

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

	2021	2020
Asset category:		
Equity mutual and commingled funds and securities	34 %	35 %
Fixed income mutual funds and securities	46	46
Alternative investments	17	16
Cash	3	3
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, 2021:

	Fair value	Fair value measurements		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 98,114	98,114	—	—
Equity mutual funds	528,889	380,219	148,670	—
Equity commingled funds	220,626	195,392	25,234	—
Common and preferred stocks	231,112	231,112	—	—
Fixed income commingled funds	22,414	22,414	—	—
Government and agency bonds	161,004	136,991	24,013	—
Corporate obligations	1,122,623	—	1,122,623	—
Total investments	2,384,782	1,064,242	1,320,540	—
Due from broker/custodian for investment activity, net	31,543	—	31,543	—
Total plan assets	\$ 2,416,325	1,064,242	1,352,083	—

**BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

The following is a summary of the plan assets measured at fair value on a recurring basis based on the fair value hierarchy as of December 31, 2020:

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

The following table summarizes the alternative investments, committed capital and associated redemptions as of December 31, 2021:

	Alternative investments	Committed capital	Redemption frequency	Redemption notice period
Private Investments	\$ 296,879	86,318	N/A	N/A
Hedge funds	165,226	—	Monthly, Quarterly, Annually	2 to 180 days
	\$ 462,105	86,318		

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

	Alternative investments	Committed capital	Redemption frequency	Redemption notice period
Private Investments	\$ 245,159	114,267	N/A	N/A
Hedge funds	212,158	—	Monthly, Quarterly, Annually	2 to 90 days
	\$ 457,317	114,267		

The non-redeemable investments were \$0 and \$52,881, respectively, as of December 31, 2021 and 2020.

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

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

The projected benefit payments for the Plans are as follows:

	<u>Pension Plans</u>	<u>Post employment Plans</u>
2022	\$ 203,584	1,847
2023	164,580	1,896
2024	163,594	1,339
2025	164,579	1,328
2026	163,710	1,256
2027–2031	793,006	5,417

The Company expects to contribute \$30,000 to the defined benefit pension plans and \$1,847 to the post-employment benefit plans in 2022. The Company has several defined contribution benefit plans to assist eligible employees in providing for retirement. Under such plans, the Company recognized expense of \$227,587 and \$148,868 for the years ended December 31, 2021 and 2020, respectively, related to employer contributions, which is included in employee benefits expense in the consolidated statements of operations.

### (11) Other Commitments and Contingent Liabilities

#### (a) General and Professional Liability Insurance

The provision for claims and related funding levels for the HPL/HGL Program is established annually based upon the recommendations of consulting actuaries. The Company has accrued claims including liabilities for incidents incurred but not reported of approximately \$323,566 and \$289,102 as of December 31, 2021 and 2020, respectively. The current portion of such accruals, \$58,496 and \$75,616 as of December 31, 2021 and 2020, respectively, is included in other accrued expenses, and the remainder, \$265,070 and \$213,486 as of December 31, 2021 and 2020, respectively, is included within self-insurance liabilities in the accompanying consolidated balance sheets. Amounts recorded for

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

unpaid claims are based upon the estimated present value of future claim payments and such amounts are undiscounted and based upon an actuarial estimate.

### **(b) Workers' Compensation Insurance**

Accrued workers' compensation claims were \$61,270 and \$61,049, as of December 31, 2021 and 2020, respectively. The current portion of such accruals, \$2,522 and \$1,445 as of December 31, 2021 and 2020, respectively, is reported as other accrued expenses. The remainder, \$58,748 and \$59,604, is reported within self-insurance liabilities in the accompanying consolidated balance sheets, which includes estimates for incidents incurred but not reported, as of December 31, 2021 and 2020, respectively. Amounts recorded for unpaid claims are based upon the estimated present value of future claim payments and such amounts are undiscounted and based upon an actuarial central estimate.

### **(c) Employee Health Insurance**

Accrued claims associated with this program, which are reported as other accrued expenses in the accompanying consolidated balance sheets, of approximately \$52,483 and \$44,543, include estimates for claims incurred but not reported as of December 31, 2021 and 2020, respectively.

### **(d) Litigation**

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

### **(e) Leases**

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

	<u>2021</u>	<u>2020</u>
Finance lease expense:		
Amortization of ROU assets	\$ 20,352	18,602
Interest on lease liabilities	14,495	14,406
Operating lease expense	102,962	108,056
Short-term lease expense	32,857	30,459
Variable lease expense	<u>32,087</u>	<u>31,353</u>
Total lease cost	<u>\$ 202,753</u>	<u>202,876</u>

**BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

Commitments related to non-cancellable operating and finance leases for each of the next five years and thereafter as of December 31, 2021 are as follows:

	<u>Operating</u>	<u>Finance</u>
2022	\$ 88,673	30,071
2023	73,455	37,404
2024	59,928	24,893
2025	47,121	23,690
2026	30,341	21,931
Thereafter	<u>79,795</u>	<u>607,593</u>
Total	379,313	745,582
Less present value discount	<u>(40,240)</u>	<u>(391,202)</u>
Lease liabilities	\$ <u><u>339,073</u></u>	\$ <u><u>354,380</u></u>

Other information is as follows:

	<u>2021</u>	<u>2020</u>
Weighted average remaining lease terms (in years):		
Finance leases	61.06	68.85
Operating leases	6.01	6.15
Weighted average discount rate:		
Finance leases	3.74 %	3.79 %
Operating leases	3.98	4.23

**(12) Net Assets with Donor Restrictions**

The Company's endowments consist of 347 and 333 individual funds established for a variety of purposes as of December 31, 2021 and 2020, respectively. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions and the nature of the restrictions, if any. The Company's endowment net assets were \$107,004 and \$98,941 as of December 31, 2021 and 2020, respectively.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or Uniform Prudent Management of Institutional Funds Act requires the Company to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets without donor restrictions. There were no deficiencies as of December 31, 2021 and 2020.

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

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

funds that the Company must hold in perpetuity or for a donor specified period as well as board designated funds. The practice allows the endowment assets to be invested in a manner that is intended to produce investment returns that exceed the price and yield the results of the allocation index while assuming a moderate level of investment risk. The Company expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

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

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

### (13) Functional Expenses

The functional breakdown of expenses incurred by the Company in fulfilling its mission is as follows for the year ended December 31, 2021:

	<u>Program activities</u>			<u>Supporting activities</u>	
	<u>Healthcare services</u>	<u>Ancillary services and other</u>	<u>Total</u>	<u>General and administrative</u>	<u>Total</u>
Employee compensation	\$ 4,122,804	1,041,387	5,164,191	245,500	5,409,691
Purchased services and other	1,908,295	131,028	2,039,323	496,387	2,535,710
Supplies	1,967,096	76,019	2,043,115	112,875	2,155,990
Depreciation and amortization	323,916	57,755	381,671	83,636	465,307
Interest	11,738	116,694	128,432	2,778	131,210
Total recurring expenses	<u>\$ 8,333,849</u>	<u>1,422,883</u>	<u>9,756,732</u>	<u>941,176</u>	<u>10,697,908</u>

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

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

### (14) Liquidity and Capital Resources

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

	2021	2020
Cash, cash equivalents and investments	\$ 557,814	881,006
Net patient receivables	1,126,277	1,072,483
Assets whose use is limited:		
Board-designated funds	6,689,550	6,416,222
Self-insurance and trustee held funds	—	73,846
Restricted funds	—	4,411
	\$ 8,373,641	8,447,968

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

As part of the Company's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds. Occasionally, the Board designates a portion of any operating surplus to an operating reserve, which was \$6,689,550 and \$6,416,222 as of December 31, 2021

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

and 2020, respectively. The fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

### (15) Investments in Unconsolidated Organizations

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

#### (a) Ensemble

Ensemble is a Delaware limited liability company providing revenue cycle management and consulting services to hospitals and health systems. As of December 31, 2021 and December 31, 2020, BSMH ownership interest in Ensemble was approximately 48% and 47%, respectively. In February 2021, BSMH received a one-time cash dividend of \$357,315 from Ensemble due to a dividend recapitalization financing of Ensemble.

During the years ended December 31, 2021 and 2020, BSMH and Ensemble engaged in various transactions. These transactions were not eliminated because Ensemble is not consolidated. The following is a summary of the significant related party transactions and balances for the year ended December 31:

	<u>2021</u>	<u>2020</u>
Revenue cycle management and consulting services provided by Ensemble to BSMH	\$ 497,243	443,675
Leased employees, purchased and other services provided to Ensemble by BSMH	(88,723)	(88,304)
Due to Ensemble	42,832	36,203

#### (b) Sentara Princess Anne

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

#### (c) Bon Secours Charity Health System, Inc

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

## BON SECOURS MERCY HEALTH

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

	<u>2021</u>	<u>2020</u>
Ensemble	\$ 509,989	839,267
Sentara Princess Anne	50,788	51,754
Charity	22,659	36,425
Other	58,853	49,099
	<u>\$ 642,289</u>	<u>976,545</u>

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

	<u>2021</u>	<u>2020</u>
Ensemble	\$ 77,822	68,593
Sentara Princess Anne	20,284	12,209
Charity	(13,767)	(11,872)
Other	4,189	5,869
	<u>\$ 88,528</u>	<u>74,799</u>

### (16) Subsequent Events

The Company has evaluated and disclosed any subsequent events through March 25, 2022, which is the date the consolidated financial statements were issued and made publicly available.

On February 28, 2022, Bon Secours Mercy Health acquired for \$40,000 the 17% noncontrolling interest of Bon Secours – Richmond Health System from Richmond Memorial Health Foundation. The purchase increases the ownership interest of the Bon Secours – Richmond Health System from 83% to 100%.

On March 1, 2022, Bon Secours Mercy Health sold for approximately \$89 million of net proceeds four senior living and care operations operating in Ohio. This sale is part of the full divestiture plan of all operations and facilities that involve skilled nursing, assisted living and independent living.

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

Years ended December 31, 2021 and 2020

(In thousands)

**(17) Financial Responsibility Standards**

Bon Secours Mercy Health participates in federal Title IV student financial assistance programs, which require the Organization to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR 668.171. The criteria for private institutions include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR 668.172, using audited financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve Ratio, Equity Ratio and Net Income Ratio. These ratios utilize the following financial data of the Organization, which are not presented elsewhere within the notes to these financial statements, as of and for the year ended December 31, 2021:

<u>Required input per standards</u>	<u>Ratio uses</u>	<u>Amounts</u>
Expendable net assets ratio inputs:		
Property and equipment, net – pre-implementation	Primary reserve \$	2,196,403
Property and equipment, net – post-implementation without outstanding debt for original purchase	Primary reserve	<u>1,940,114</u>
Total property plant and equipment	Not applicable	<u><u>4,136,517</u></u>
Long-term debt – pre-implementation	Primary reserve	2,127,525
Long-term debt – post-implementation - not for purchases of property and equipment	Not applicable	1,435,760
Long-term debt – post-implementation - for purchases of property and equipment	Primary reserve	<u>818,230</u>
Total long-term debt	Not applicable	<u><u>4,381,515</u></u>
Annuities with donor restrictions	Primary reserve	353
Total expenses and losses inputs:		
Total operating expenses	Not applicable	10,697,908
Less realized and unrealized interest rate swap agreements gain	Not applicable	(13,912)
Plus other non-operating activities, net	Not applicable	28,998
Pension-related changes other than net periodic costs	Not applicable	<u>—</u>
Total expenses without donor restrictions	Primary reserve \$	<u><u>10,712,994</u></u>

## **BON SECOURS MERCY HEALTH**

Notes to Consolidated Financial Statements

Years ended December 31, 2021 and 2020

(In thousands)

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

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

**BON SECOURS MERCY HEALTH**  
Consolidating Schedule – Balance Sheet Information  
December 31, 2021  
(In thousands)

Assets	Core Business								Non-Core				Consolidating Eliminations	Bon Secours Mercy Health	
	Providence Group	Samaritan Group	Charleston Market	European Group	Core Other	Core Shared Services	Core Eliminations	Core Total	Digital Business	Diversified Growth Business	Shared Services & Other	Discontinued Operations			
Current assets:															
Cash and cash equivalents	\$ 1,577,538	915,828	60,255	304	124,288	239,652	—	2,917,865	—	19,946	(2,540,040)	4,631	—	—	402,402
Investments	—	1,187	150,182	—	2,775	—	—	154,144	—	—	1,268	—	—	—	155,412
Self-insurance and trustee held funds	—	—	—	—	—	—	—	—	—	—	76,151	—	—	—	76,151
Donor restricted funds	2,151	514	—	—	—	—	—	2,665	—	—	3,246	—	—	—	5,911
Total cash and investments	1,579,689	917,529	210,437	304	127,063	239,652	—	3,074,674	—	19,946	(2,459,375)	4,631	—	—	639,876
Net patient receivables	446,130	539,666	134,966	67,494	—	10,784	—	1,199,040	—	—	(68,095)	(4,668)	—	—	1,126,277
Other receivables	33,482	42,853	12,187	299	11,098	15,476	(9,308)	106,087	27,317	11,396	43,479	627	(44,895)	—	144,011
Inventories	141,012	97,013	19,781	11,025	—	6,370	—	275,201	—	—	192	—	—	—	275,393
Prepaid expenses and other current assets	14,997	12,240	25,580	6,336	179	59,032	—	116,364	45,906	104	53,927	(13)	(8,256)	—	210,032
Total current assets	2,215,310	1,609,301	402,951	85,458	138,340	331,314	(9,308)	4,773,366	73,223	31,446	(2,429,872)	577	(53,151)	—	2,395,589
Assets whose use is limited:															
Board designated funds	1,088,587	1,573,055	341,986	—	15,682	—	—	3,019,310	—	—	5,776,853	20,021	—	—	8,816,184
Self-insurance and trustee held funds	53	6,031	1,569	—	—	—	—	7,653	—	—	293,339	—	—	—	300,992
Donor restricted funds	6,020	—	49,593	—	—	—	—	55,613	—	—	35,278	75	—	—	90,966
Total assets whose use is limited	1,094,660	1,579,086	393,148	—	15,682	—	—	3,082,576	—	—	6,105,470	20,096	—	—	9,208,142
Property and equipment, net	1,613,113	1,606,657	602,939	283,825	92	34,670	—	4,141,296	294,325	11,268	107,971	4,388	—	—	4,559,248
Investments in unconsolidated organizations	68,124	4,667	(36)	10,279	22,659	—	—	105,693	—	509,989	26,607	—	—	—	642,289
Operating lease right-of-use assets	130,029	114,575	48,653	8,293	—	12,641	—	314,191	2,244	—	8,511	—	196	—	325,142
Retirement assets	—	—	—	—	—	—	—	—	—	—	214,890	—	—	—	214,890
Other long-term assets	106,020	169,298	212,890	9,990	377,231	966	(377,232)	499,163	23,663	—	1,992,402	178	(1,901,426)	—	613,980
Total assets	\$ 5,227,256	5,083,584	1,660,545	397,845	554,004	379,591	(386,540)	12,916,285	393,455	552,703	6,025,979	25,239	(1,954,381)	—	17,959,280
<b>Liabilities and Net Assets</b>															
Current liabilities:															
Accounts payable	\$ 467,393	492,301	97,541	42,290	78,943	(302,901)	(9,307)	866,260	16,760	(382,212)	126,349	121,055	10,896	—	759,108
Current portion of long-term debt	—	—	35	—	8,256	—	—	8,291	—	—	342,568	—	(8,256)	—	342,603
Accrued salaries, wages and benefits	83,307	97,899	72,669	13,450	353	4,701	—	272,379	2,274	7,804	422,735	(38)	—	—	705,154
Current portion of operating lease liabilities	37,241	23,984	10,921	374	—	2,649	—	75,169	878	—	2,608	62	74	—	78,791
Other accrued expenses	193,405	211,204	78,762	718	350	40	(4)	484,475	2,106	(1)	204,309	7,290	(260)	—	697,919
Total current liabilities	781,346	825,388	259,928	56,832	87,902	(295,511)	(9,311)	1,706,574	22,018	(374,409)	1,098,569	128,369	2,454	—	2,583,575
Long-term debt, less current portion	882,392	627,801	377,025	112,937	391,210	—	(377,229)	2,014,136	—	—	3,926,202	—	(1,901,426)	—	4,038,912
Retirement liabilities	192,529	12,788	—	151	—	—	—	205,468	—	—	106,310	—	—	—	311,778
Self-insurance liabilities	—	—	—	—	—	—	—	—	—	—	323,818	—	—	—	323,818
Operating lease liabilities	98,563	95,079	40,510	7,919	—	10,515	—	252,586	1,338	—	6,202	63	93	—	260,282
Other long-term liabilities	56,343	39,285	113,614	129,090	—	388	—	338,720	6,118	—	238,262	6,808	—	—	589,908
Total liabilities	2,011,173	1,600,341	791,077	306,929	479,112	(284,608)	(386,540)	4,517,484	29,474	(374,409)	5,699,363	135,240	(1,898,879)	—	8,108,273
Net assets without donor restrictions:															
Controlling interest	2,843,070	3,462,292	815,614	90,916	(285,153)	664,199	—	7,590,938	363,981	927,112	10,252	(110,076)	(55,502)	—	8,726,705
Noncontrolling interest	365,611	5,848	2,005	—	360,045	—	—	733,509	—	—	107,275	—	—	—	840,784
Total net assets without donor restrictions	3,208,681	3,468,140	817,619	90,916	74,892	664,199	—	8,324,447	363,981	927,112	117,527	(110,076)	(55,502)	—	9,567,489
Net assets with donor restrictions	7,402	15,103	51,849	—	—	—	—	74,354	—	—	209,089	75	—	—	283,518
Total net assets	3,216,083	3,483,243	869,468	90,916	74,892	664,199	—	8,398,801	363,981	927,112	326,616	(110,001)	(55,502)	—	9,851,007
Total liabilities and net assets	\$ 5,227,256	5,083,584	1,660,545	397,845	554,004	379,591	(386,540)	12,916,285	393,455	552,703	6,025,979	25,239	(1,954,381)	—	17,959,280

See accompanying notes to consolidated financial statements.

**BON SECOURS MERCY HEALTH**  
Consolidated Schedule – Operating Information  
Year Ended December 31, 2021  
(In thousands)

	Core Business								Non-Core			Consolidating Eliminations	Bon Secours Mercy Health
	Providence Group	Samaritan Group	Charleston Market	European Group	Core Other	Core Shared Services	Core Eliminations	Core Total	Digital Business	Diversified Growth Business	Shared Services & Other		
Revenues:													
Net patient service revenue	\$ 4,470,101	4,331,796	1,122,668	406,058	—	(4)	—	10,330,619	—	—	(128,110)	—	10,202,509
Other revenue, net	157,997	178,170	52,361	21,878	38,548	1,047,776	(905,219)	591,511	492,757	123,516	805,154	(1,338,447)	674,491
Total operating revenues	4,628,098	4,509,966	1,175,029	427,936	38,548	1,047,772	(905,219)	10,922,130	492,757	123,516	677,044	(1,338,447)	10,877,000
Expenses:													
Employee compensation	1,957,138	2,122,143	611,140	205,896	33,577	313,592	(162)	5,243,324	165,462	23,599	530,665	(553,359)	5,409,691
Purchased services and other	1,514,639	1,356,629	265,897	63,746	17,417	560,860	(891,369)	2,887,819	194,932	24,346	196,871	(768,258)	2,535,710
Supplies	877,759	829,833	204,398	127,588	78	138,178	—	2,177,834	1,544	326	(23,714)	—	2,155,990
Depreciation and amortization	151,347	150,660	53,026	17,377	174	3,827	—	376,411	78,109	—	10,787	—	465,307
Interest expense	858	320	17,827	6,032	16,859	—	(13,688)	28,208	—	—	119,861	(16,859)	131,210
Total operating expenses	4,501,741	4,459,585	1,152,288	420,639	68,105	1,016,457	(905,219)	10,713,596	440,047	48,271	834,470	(1,338,476)	10,697,908
Recurring operating income	126,357	50,381	22,741	7,297	(29,557)	31,315	—	208,534	52,710	75,245	(157,426)	29	179,092
Nonrecurring operating losses, net	(4,285)	(809)	(9,220)	(84)	—	(1,430)	—	(15,828)	(11)	—	(37,382)	—	(53,221)
Operating income	122,072	49,572	13,521	7,213	(29,557)	29,885	—	192,706	52,699	75,245	(194,808)	29	125,871
Nonoperating gains (losses), net:													
Investment gains	151,800	219,201	29,980	(15)	1,757	—	—	402,723	—	—	479,218	—	881,941
Realized and unrealized interest rate swap agreements loss	—	—	—	—	—	—	—	—	—	—	13,912	—	13,912
Loss on defeasance of debt	—	—	—	—	—	—	—	—	—	—	(152)	—	(152)
Other nonoperating activities, net	13,280	1,038	371	(220)	1	(15)	—	14,455	—	(23,195)	(15,134)	—	(23,874)
Excess of revenue over expenses	\$ 287,152	269,811	43,872	6,978	(27,799)	29,870	—	609,884	52,699	52,050	283,036	29	997,698

See accompanying notes to consolidated financial statements.

**BON SECOURS MERCY HEALTH**  
Supplementary Schedule of Financial Responsibility Data  
December 31, 2021

Location in financial statements and notes	Required input per standards	Summary amount	Detailed amount
<b>Expendable net assets ratio inputs:</b>			
Consolidated balance sheets – net assets without donor restrictions	Net assets without donor restrictions	\$ —	9,567,489
Consolidated balance sheets – net assets with donor restrictions	Net assets with donor restrictions	—	283,518
Consolidated balance sheets – property and equipment, net	Property and equipment, net (includes construction in progress)	4,559,248	—
Note 17 – property and equipment, net – pre-implementation	Property and equipment, net – pre-implementation	—	2,196,403
Note 17 – property and equipment, net – post implementation without outstanding debt for original purchase	Property and equipment, net – post-implementation without outstanding debt for original purchase	—	1,940,114
Note 7 – property and equipment, net	Construction in process	—	422,731
Consolidated balance sheets	Lease right-of-use asset, net	533,514	—
Consolidated balance sheets – operating lease right-of-use asset	Lease right-of-use asset, net (operating)	—	325,142
Note 2(k) – other long-term assets	Finance lease right-of-use assets, net (finance)	—	208,372
Note 2(k) – other long-term assets	Intangible assets	297,952	—
Note 2(k) – other long-term assets	Goodwill	—	267,904
Note 2(k) – other long-term assets	Other intangibles	—	30,048
Consolidated balance sheets – retirement liabilities	Post-employment and pension liabilities	—	311,778
Note 8 – long-term debt	Long-term debt – for long term purposes	4,381,515	—
Note 17 – long-term debt – for long term purposes pre-implementation	Long-term debt – for long term purposes pre-implementation	—	2,127,525
Note 17 – financial responsibility standards – long term debt – not for purchases of property and equipment	Long-term debt – post-implementation - not for purchases of property and equipment	—	1,435,760
Note 17 – financial responsibility standards – long term debt – for purchases of property and equipment	Long-term debt – post-implementation - for purchases of property and equipment	—	818,230
Note 11(e) – leases	Lease right-of-use asset liability	693,453	—
Note 11(e) – leases	Lease right-of-use asset liability (operating)	—	339,073
Note 11(e) – leases	Lease right-of-use asset liability (finance)	—	354,380
Note 17 – financial responsibility standards – annuities	Annuities with donor restrictions	—	353
Note 12 – net assets with donor restrictions	Net assets with donor restrictions, restricted in perpetuity	—	107,004
<b>Total expenses and losses inputs:</b>			
Note 17 - total expense without donor restrictions	Total expenses without donor restrictions	—	10,712,994
<b>Equity ratio – modified net assets inputs:</b>			
Consolidated balance sheets – net assets without donor restrictions	Net assets without donor restrictions	—	9,567,489
Consolidated balance sheets – net assets with donor restrictions	Net assets with donor restrictions	—	283,518
Note 2(k) – other long-term assets	Intangible assets	297,952	—
Note 2(k) – other long-term assets	Goodwill	—	267,904
Note 2(k) – other long-term assets	Other intangibles	—	30,048
<b>Modified assets inputs:</b>			
Consolidated balance sheets – total assets	Total assets	—	17,959,280
Note 2(k) – other long-term assets	Intangible assets	297,952	—
Note 2(k) – other long-term assets	Goodwill	—	267,904
Note 2(k) – other long-term assets	Other intangibles	—	30,048
<b>Net income ratio inputs:</b>			
Consolidated balance sheets – net assets without donor restrictions	Net assets without donor restrictions	—	9,567,489
Consolidated statement of operations	Total revenues and gains	11,758,941	—
Consolidated statement of operations – total operating revenues	Total revenues and gains (operating revenues)	—	10,877,000
Consolidated statement of operations – investment gains	Total revenues and gains (investment gains)	—	881,941

See accompanying independent auditors' report.



KPMG LLP  
Suite 3400  
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 Financial Statements Performed in Accordance With *Government Auditing Standards***

The Board of Directors  
Bon Secours Mercy Health:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Bon Secours Mercy Health, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 25, 2022.

### **Report on Internal Control Over Financial Reporting**

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

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

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

### **Report on Compliance and Other Matters**

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



### **Purpose of This Report**

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

KPMG LLP

Cincinnati, Ohio  
March 25, 2022



KPMG LLP  
Suite 3400  
312 Walnut Street  
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**

*Opinion on Each Major Federal Program*

We have audited Bon Secours Mercy Health's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Bon Secours Mercy Health's major federal programs for the year ended December 31, 2021. Bon Secours Mercy Health's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Bon Secours Mercy Health complied, in all material respects, with the 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, 2021.

*Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Bon Secours Mercy Health and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Bon Secours Mercy Health's compliance with the compliance requirements referred to above.

*Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Bon Secours Mercy Health's federal programs.



### *Auditors' Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Bon Secours Mercy Health's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Bon Secours Mercy Health's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Bon Secours Mercy Health's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Bon Secours Mercy Health's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Bon Secours Mercy Health's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### *Other Matters*

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on Bon Secours Mercy Health's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Bon Secours Mercy Health is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. Bon Secours Mercy Health's response and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

### **Report on Internal Control Over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be



material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002, to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on Bon Secours Mercy Health's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Bon Secours Mercy Health is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. Bon Secours Mercy Health's response and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

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

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

We have audited the consolidated financial statements of Bon Secours Mercy Health as of and for the year ended December 31, 2021, and have issued our report thereon dated March 25, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*KPMG LLP*

Cincinnati, Ohio  
September 27, 2022

**BON SECOURS MERCY HEALTH**  
Schedule of Expenditures of Federal Awards  
Year ended December 31, 2021

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>AL number</u>	<u>Pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>BSMH Total federal expenditures</u>
U.S. Department of Agriculture Direct Programs:				
Community Facilities Loans and Grants Cluster:				
Community Facilities Loans and Grants	10.766		\$ —	9,900
Community Facilities Loans and Grants Cluster Subtotal			—	9,900
Subtotal U.S. Department of Agriculture Direct Programs			—	9,900
U.S. Department of Agriculture Pass-Through Programs:				
Youngstown Neighborhood Development Corp - Food Insecurity Nutrition Incentive Grants Program	10.331	2017-70025-26687	—	23,412
Ohio Department of Health - WIC Special Supplemental Nutrition Program for Women, Infants and Children	10.557	05030011WA1421	—	716,390
Ohio Department of Health - WIC Special Supplemental Nutrition Program for Women, Infants and Children	10.557	05030011WA1522	—	224,619
Toledo - Lucas County Health Department - WIC Special Supplemental Nutrition Program for Women, Infants and Children	10.557	04810011WA1421	—	360,346
Toledo - Lucas County Health Department - WIC Special Supplemental Nutrition Program for Women, Infants and Children	10.557	04810011WA1522	—	120,721
Total WIC Special Supplemental Nutrition Program for Women, Infants, and Children			—	1,422,076
Supplemental Nutrition Assistance Food Stamp Program Cluster:				
Structured Employment Economic Development Co. - Supplemental Nutrition Assistance Program	10.551	FIA/FSO 19-004	—	4,807
Supplemental Nutrition Assistance Food Stamp Program Cluster Subtotal			—	4,807
Subtotal U.S. Department of Agriculture Pass-Through Programs			—	1,450,295
Total U.S. Department of Agriculture			—	1,460,195
U.S. Department of Housing and Urban Development Pass-Through Programs:				
Community Development Block Grants/Entitlement Grants Cluster:				
Mayor and Council of Baltimore City - Community Development Block Grants/Entitlement Grants	14.218	1/1/2021-12/31/2021	—	161,172
Community Development Block Grants/Entitlement Grants Cluster Subtotal			—	161,172
City of Charleston Department of Housing & Community Development - Housing Opportunities for Persons with AIDS	14.241	2019 Contract Year	—	94,041
City of Charleston Department of Housing & Community Development - Housing Opportunities for Persons with AIDS	14.241	2020 Contract Year	—	152,230
City of Charleston Department of Housing & Community Development - COVID-19 Housing Opportunities for Persons with AIDS	14.241	2020 Contract Year	—	52,883
Total Housing Opportunities for Persons with AIDS			—	299,154
Enterprise Community Partners - COVID-19 Partner Support - Section 4 Capacity Building for Community Development and Affordable Housing	14.252	20SG1666	—	17,210
Enterprise Community Partners - Section 4 Capacity Building for Community Development and Affordable Housing	14.252	19SG1576	—	89,386
Total Section 4 Capacity Building for Community Development and Affordable Housing			—	106,596
Total U.S. Department of Housing and Urban Development			—	566,922
U.S. Department of Justice Pass-Through Programs:				
Ohio Attorney General - Crime Victim Assistance	16.575	2021-VOCA-133977810	—	240,764
Ohio Attorney General - Crime Victim Assistance	16.575	2022-VOCA-134719058	—	61,331
Virginia Hospital & Healthcare Assoc Foundation (VHHAF) - Crime Victim Assistance	16.575	21-B4739VP19	—	260,189
Total Crime Victim Assistance			—	562,284
Commonwealth of Virginia - Recovery Act - VOCA Crime Victim Assistance Discretionary Grant Program	16.807	22-A8629VP20	—	60,490
Institute for Intergovernmental Research-Comprehensive Opioid Abuse Site-Based Program	16.838	6620384000	—	210,923
Total U.S. Department of Justice			—	833,697

**BON SECOURS MERCY HEALTH**  
Schedule of Expenditures of Federal Awards  
Year ended December 31, 2021

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>AL number</u>	<u>Pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>BSMH Total federal expenditures</u>
U.S. Department of Labor Pass-Through Programs:				
WIOA Cluster:				
DLLR Mayor's Office of Employment Development - WIA Youth Activities	17.259	4000-806422-6313-817705-603051	\$ —	83,203
WIOA Cluster Subtotal			—	83,203
Ohio Department of Job and Family Services - ODEP Disability Employment Policy Development	17.720	G-2223-15-03280	—	1,495,105
Total U.S. Department of Labor			—	1,578,308
U.S. Department of the Treasury Pass-Through Programs:				
Ohio Department of Higher Education - COVID-19 Coronavirus Relief Fund	21.019	6764	—	54,221
State of South Carolina - COVID-19 Coronavirus Relief Fund	21.019	Phase I and II	—	3,362,730
State of South Carolina - COVID-19 Coronavirus Relief Fund	21.019	Phase III	—	1,871,132
South Carolina Treasury - COVID 19 Coronavirus Relief Fund	21.019	01-6038, 10-6038, 12-6038, 14-6038	—	1,388,898
Total Coronavirus Relief Fund			—	6,676,981
Commonwealth of Virginia - COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	22-A8629ARRF	—	63,829
Total U.S. Department of the Treasury			—	6,740,810
U.S. Department of Education Direct Programs:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007		—	104,563
Federal Work-Study Program	84.033		—	66,767
Federal Pell Grant Program	84.063		—	2,617,356
Federal Direct Student Loans	84.268		—	11,787,238
Student Financial Assistance Cluster Subtotal			—	14,575,924
Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act:				
COVID-19 Higher Education Emergency Relief Fund - Student Aid Portion	84.425E		—	2,276,396
COVID-19 Higher Education Emergency Relief Fund - Institutional Portion	84.425F		—	2,849,927
Total Education Stabilization Fund			—	5,126,323
Total U.S. Department of Education			—	19,702,247
U.S. Department of Health and Human Services Direct Programs:				
Training in General, Pediatric, and Public Health Dentistry	93.059		—	359,570
Nursing Workforce Diversity	93.178		—	55,194
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		—	131,633
HRSA - Nurse Education, Practice, Quality and Retention	93.359		—	395,529
COVID-19 - HRSA Nurse Education, Practice, Quality and Retention	93.359		—	47,088
Total Nurse Education, Practice Quality and Retention Grants			—	442,617
COVID-19 - Testing for the Uninsured	93.461		—	5,136,120
COVID-19 - Provider Relief Fund and American Rescue Plan Rural Distribution - General Distribution	93.498		—	188,534,612
COVID-19 - Provider Relief Fund and American Rescue Plan Rural Distribution - Rural Providers	93.498		—	42,270,945
COVID-19 - Provider Relief Fund and American Rescue Plan Rural Distribution - Hard Hit States	93.498		—	119,521,368
COVID-19 - Provider Relief Fund and American Rescue Plan Rural Distribution - SNF	93.498		—	5,243,404
COVID-19 - Provider Relief Fund and American Rescue Plan Rural Distribution - Safety Net	93.498		—	55,642,269
Total Provider Relief Fund and American Rescue Plan Rural Distribution			—	411,212,598

**BON SECOURS MERCY HEALTH**  
Schedule of Expenditures of Federal Awards  
Year ended December 31, 2021

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>AL number</u>	<u>Pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>BSMH Total federal expenditures</u>
COVID-19 Testing for Rural Health Clinics	93.697		\$ —	593,537
Mental and Behavioral Health Education and Training Grants	93.732		—	87,673
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement	93.912		—	376,020
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease - Ryan White Part C	93.918		—	626,485
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease - COVID-19 Ryan White Part C	93.918		—	12,990
Total Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease			—	639,475
Subtotal U.S. Department of Health and Human Services Direct Programs			—	419,034,437
U.S. Department of Health and Human Services Pass-Through Programs:				
University of Cincinnati - Injury Prevention and Control Research and State and Community Based Programs	93.136	Subaward # 013518-00002	—	93,500
Ohio Department of Health - Injury Prevention and Control Research and State and Community Based Programs	93.136	03160321ED0121	—	176,318
Total Injury Prevention and Control Research and State and Community Based Programs			—	269,818
Ohio Department of Health - State Rural Hospital Flexibility Program	93.241	ODH # 01130011CR0221	—	67,334
Ohio Department of Health - State Rural Hospital Flexibility Program	93.241	ODH # 01130011CR0322	—	31,498
Ohio Department of Health - State Rural Hospital Flexibility Program	93.241	01130011CR0322	—	35,000
Total State Rural Hospital Flexibility Program			—	133,832
Kentucky Office of Rural Health - Small Rural Hospital Improvement Grant Program	93.301	662020000	—	9,089
Temporary Assistance for Needy Families Cluster:				
Ohio Children's Trust Fund - Regional Coordination - Temporary Assistance for Needy Families	93.558	G-2021-22-0194-02	50,707	50,707
Temporary Assistance for Needy Families Cluster Subtotal			50,707	50,707
CCDF Cluster:				
South Carolina HHS - COVID 19 Child Care & Development Block Grant - Emergency Operating Grant	93.575	01-3683	—	123,000
CCDF Cluster Subtotal			—	123,000
Ohio Children's Trust Fund - Community-Based Child Abuse Prevention Grants	93.590	G-2021-22-0194-02	58,615	67,639
Ohio Children's Trust Fund - Community-Based Child Abuse Prevention Grants	93.590	G-2001OHBCAP/ C-2223-22-0242-01	—	47,896
Ohio Children's Trust Fund - Community-Based Child Abuse Prevention Grants	93.590	G-2001OHBCAP	—	54,560
Total Community-Based Child Abuse Prevention Grants			58,615	170,095
Head Start Cluster:				
Lucas County Family Council - Head Start	93.600	6762-2300 21	—	154,395
Lucas County Family Council - Head Start	93.600	6762-2300 22	—	9,057
Commonwealth of Virginia Department of Social Services - COVID-19 Head Start	93.600	Grant Contract # 50621	—	136,650
Maryland Family Network - Head Start	93.600	03CH011118-03-00	—	369,816
Maryland Family Network - Head Start	93.600	03CH011118-02-00	—	435,418
Head Start Cluster Subtotal			—	1,105,336
Mental Health Recovery and Services Board of Lucas County - Opioid STR	93.788	6762-02	—	75,540
Ohio Department of Health - Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	1U3REP150529	—	12,012
Research and Development Cluster:				
Case Western Reserve University - Drug Abuse and Addiction Research Programs	93.279	6762-01	—	2,600
Medical University of South Carolina - Drug Abuse and Addiction Research Programs	93.279	A00-0322-S007	—	34,531
Total Drug Abuse and Addiction Research Programs			—	37,131

**BON SECOURS MERCY HEALTH**  
Schedule of Expenditures of Federal Awards  
Year ended December 31, 2021

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>AL number</u>	<u>Pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>BSMH Total federal expenditures</u>
Mayo Clinic Jacksonville - Extramural Research Programs in Neurosciences and Neurological Disorders	93.853	5U01NS080168-06	\$ —	18,300
Duke University-Extramural Research Programs in Neurosciences and Neurological Disorders	93.853	HHSO100201400002	—	73,500
University of Pittsburg/University of Michigan - Extramural Research Programs in Neurosciences and Neurological Disorders	93.853	1U01NS099043-01A1	—	7,500
Total Extramural Research Programs in Neurosciences and Neurological Disorders			—	99,300
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research - AD Clinical Trial (A4 OLE)	93.866	R01AG063689	—	19,912
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research - AD Clinical Trial (ADNI-3)	93.866	U19AG024904	—	77,528
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research - AD Clinical Trial (NIC)	93.866	R01AG047992	—	31,919
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research - AD Clinical Trial (PEACE-AD)	93.866	U19AG010483	—	8,420
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research - AD Clinical Trial (TRC-PAD)	93.866	R01AG053798	—	93,311
Medical University of South Carolina- Aging Research - ADMET-2 (Supplement - Minority Recruitment)	93.866	R01AG046543-A1	—	7,481
Johns Hopkins University- Aging Research (s-CitAD)	93.866	R01AG052510	—	20,618
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research (TRC-PAD Infrastructure)	93.866	R01AG053798	—	13,640
The University of Southern California Alzheimers Therapeutic Research Institute- Aging Research (ADNI-3 Diversity Taskforce)	93.866	U19AG024904	—	29,152
Total Aging Research Programs			—	301,981
Research and Development Cluster Subtotal			—	438,412
Ohio Department of Health - Maternal, Infant and Early Childhood Home Visiting Grant	93.870	04830031MH0521	—	287,856
Ohio Department of Health - Maternal, Infant and Early Childhood Home Visiting Grant	93.870	04830031MH0622	—	78,340
Total Maternal, Infant and Early Childhood Home Visiting Grant			—	366,196
Northeast Ohio Medical University - Grants for Primary Care Training and Enhancement	93.884	Subaward # G0098-TT	—	11,923
Greater Cleveland Healthcare Assn - National Bioterrorism Hospital Preparedness Program	93.889	6077218000	—	7,930
Greater Dayton Area Health Information Network - National Bioterrorism Hospital Preparedness Program	93.889	6205390085	—	18,992
Hospital Council of Northwest Ohio - National Bioterrorism Hospital Preparedness Program	93.889	04860042RP1522	—	37,220
Ohio Department of Health - National Bioterrorism Hospital Preparedness Program	93.889	07760042RP1421	—	15,630
The Health Collaborative - National Bioterrorism Hospital Preparedness Program	93.889	2021 ASPR-West Hospital	—	8,490
The Health Collaborative - National Bioterrorism Hospital Preparedness Program	93.889	2021 ASPR-Jewish Hospital	—	8,060
SCHA - COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	U3REP200666	—	94,972
SCHA - COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	St. Francis Downtown - Round 2	—	26,883
SCHA - COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	St. Francis Eastside - Round 2	—	16,697
Virginia Hospital & Healthcare Association - COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	EP-U3R-20-001	—	83,590
Virginia Hospital & Healthcare Association - COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	Richmond	—	45,221
Total National Bioterrorism Hospital Preparedness Program			—	363,685
Ohio Department of Health - Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations	93.898	43721; pass through 6 NU58DP006284	—	15,500
Va Department of Health - Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations	93.898	NU58DP006324	—	143,595
Total Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations			—	159,095
Cuyahoga County Board of Health - HIV Emergency Relief Project Grants	93.914	H89HA23812	—	287,865
South Carolina Department of Health & Environmental Control- HIV Care Formula Grants	93.917	HV-0-614	—	529,543
Ohio Department of Health - Maternal and Child Health Services Block Grant to the States	93.994	05030011CD0120	—	32,000
Subtotal U.S. Department of Health and Human Services Pass-Through Programs			109,322	4,138,148
Total U.S. Department of Health and Human Services			109,322	423,172,585

**BON SECOURS MERCY HEALTH**  
Schedule of Expenditures of Federal Awards  
Year ended December 31, 2021

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>AL number</u>	<u>Pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>BSMH Total federal expenditures</u>
Corporation for National and Community Services Pass-Through Programs:				
ServeOhio - AmeriCorps	94.006	18AFH-1502-21-OC132	\$ —	72,912
ServeOhio - AmeriCorps	94.006	21AFH-1502-22-OC132	—	35,876
Total AmeriCorps			—	108,788
Total Corporation for National and Community Services			—	108,788
U.S. Department of Homeland Security Pass-Through Programs:				
United Way of America - Emergency Food and Shelter National Board Program	97.024	679600	—	2,544
South Carolina Emergency Management Division - Hazard Mitigation Grant	97.039	FEMA-DR-4166-0014	—	161,604
South Carolina Emergency Management Division - Hazard Mitigation Grant	97.039	FEMA-DR-4166-0013	—	1,491,537
South Carolina Emergency Management Division - Hazard Mitigation Grant	97.039	FEMA-DR-4241-0029	—	1,318,125
Total Hazard Mitigation Grant			—	2,971,266
Total U.S. Department of Homeland Security			—	2,973,810
Total Federal Expenditures			\$ 109,322	457,137,362

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

## **BON SECOURS MERCY HEALTH**

### Notes to Schedule of Expenditures of Federal Awards

December 31, 2021

#### **(1) Basis of Presentation**

The accompanying 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 schedule of expenditures of federal awards includes the amounts loaned to students during the year ended December 31, 2021.

#### **(3) Indirect Cost**

The Company has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

#### **(4) Personal Protective Equipment Receipts**

The Company has not received donated personal protective equipment (PPE) from various governmental entities.

**BON SECOURS MERCY HEALTH**  
Schedule of Findings and Questioned Costs  
December 31, 2021

**(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: **Yes; findings 2021-001 and 2021-002**
- (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): **Yes**
- (g) Major programs:
  - COVID-19 Testing for the Uninsured, AL No. 93.461
  - COVID-19 Coronavirus Relief Fund, AL No. 21.019
  - COVID-19 Education Stabilization Fund, AL No. 84.425E/84.425F
  - COVID-19 Provider Relief Fund, AL No. 93.498
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee: **No**

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

None

**BON SECOURS MERCY HEALTH**  
Schedule of Findings and Questioned Costs  
December 31, 2021

**(3) Findings and Questioned Costs Relating to Federal Awards**

**Finding 2021-001**

**Federal Agency:** U.S. Department of Education  
**Federal Program:** COVID-19 Education Stabilization Fund  
**Federal Award Number:** 84.425F  
**Federal Award Year:** May 6, 2020 – Jan 15, 2022

*Compliance Requirement*

Procurement and Suspension and Debarment

*Criteria or Requirement*

According to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance), the General procurement standards, 2 CFR 200.318(a) states non-federal entities must have and use documented procurement procedures that are consistent with the applicable Federal law and standards. The procurement policy should include the formal and informal methods of procurement for non-federal entities described in 2 CFR 200.320. The Uniform Guidance section 2 CFR 200.214 also restricts awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise ineligible for participation in Federal assistance programs or activities.

In addition, 2 CFR 200.303 requires non-federal entities to, among other things, establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. Effective internal controls should include procedures to ensure the procurement policy appropriately describes procurement methods required by the Uniform Guidance and addresses suspension and debarment requirements.

*Condition Found, Including Perspective*

The Company's written procurement policy did not include provisions related to the micro-purchase threshold or the small purchase threshold. In addition, there were not provisions to address the requirement to determine whether a vendor is suspended or debarred.

*Cause and Possible Asserted Effect*

The Company did not update their procurement policy for the Uniform Guidance principles.

A procurement policy which does not reflect the current procurement requirements may result in procurement actions which do not comply with federal regulations.

The Company did not perform suspension and debarment procedures over vendors which may result in procurement actions which do not comply with federal regulations.

## **BON SECOURS MERCY HEALTH**

### Schedule of Findings and Questioned Costs

December 31, 2021

#### *Questioned Costs*

There are no questioned costs associated with this finding.

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

The audit finding is not a repeat finding.

#### *Recommendations*

We recommend that the Company update their written procurement policy to comply with the Uniform Guidance principles.

We recommend that the Company update their written procurement policy to include procedures related to performing suspension and debarment verification prior to disbursing federal funds to comply with the Uniform Guidance principles.

#### *Views of Responsible Officials*

As recommended, the Institutions of Higher Education (IHEs), which are consolidating subsidiaries of Bon Secours Mercy Health, will create and implement a procurement policy specific to expenditures made from the institutional portion of the COVID 19 Higher Education Emergency Relief Funds (HEERF). This will include a requirement to determine if a vendor is suspended or debarred. Management subsequently verified all vendors with procurement transactions over \$25,000 in this federal award year were not suspended or debarred.

**BON SECOURS MERCY HEALTH**  
Schedule of Findings and Questioned Costs  
December 31, 2021

**Finding 2021-002**

**Federal Agency:** U.S. Department of Education  
**Federal Program:** COVID-19 Education Stabilization Fund  
**Federal Award Number:** 84.425E/84.425F  
**Federal Award Year:** May 6, 2020 – Jan 15, 2022

*Compliance Requirement*

Reporting

*Criteria or Requirement*

The terms and conditions for HEERF recipients include the following reporting provisions:

The HEERF institutional quarterly portion reporting requirements involve publicly posting completed forms on the institution's website. The forms must be conspicuously posted on the institution's primary website on the same page the reports of the Institutions of Higher Education's (IHE) activities as to the emergency financial aid grants to students (Student Aid Portion) are posted. A new, separate form must be posted covering aggregate amounts spent for HEERF I, HEERF II, and HEERF III funds each quarterly reporting period (March 31, June 30, September 30, December 31), concluding after an institution has expended and liquidated all (a)(1) Institutional Portion, (a)(2), and (a)(3) funds and checks the "final report" box. IHEs must post this quarterly report form no later than 10 days after the end of each calendar quarter (April 10, July 10, October 10, January 10) apart from the first report, which was due July 10, 2021.

Quarterly Public Reporting for (a)(1) Student Aid Portion (Assistance Listings 84.425E):

For CARES, beginning on May 6, 2020, ED required institutions that received a HEERF I Section 18004(a)(1) Student Aid Portion award to publicly post certain information on their website no later than 30 days after award, and update that information every 45 days thereafter (by posting a new report). On August 31, 2020, ED revised the Electronic Announcement by decreasing the frequency of reporting after the initial 30-day period from every 45 days thereafter to every calendar quarter. Grantees posting a 45-day report on or after August 31, 2020, should instead post a report every calendar quarter, with the first calendar quarter report due by October 10, 2020 and covering the period from after their last 45-day or 30-day report through the end of the calendar quarter on September 30, 2020. Institutions must publicly post their report as soon as possible, but no later than 30 days after the publication of the notice or 30 days after the date ED first obligated funds under HEERF I, II, or III to the institution for Emergency Financial Aid Grants to Students, whichever comes later. The report must be updated no later than 10 days after the end of each calendar quarter (March 31, June 30, September 30, December 31).

Key Line Items – The following are identified as critical information for the Quarterly Public Reporting for Student Aid Portion:

1. The total amount of Emergency Financial Aid Grants distributed to students under the CARES (a)(1) subprogram and the CRRSAA and ARP (a)(1) subprograms as of the date of submission (i.e., as of the initial report and every calendar quarter thereafter).

## **BON SECOURS MERCY HEALTH**

### Schedule of Findings and Questioned Costs

December 31, 2021

2. The estimated total number of students at the institution that are eligible to receive Emergency Financial Aid Grants to Students under the CARES (a)(1) subprogram and the CRRSAA and ARP (a)(1) subprograms.
3. The total number of students who have received an Emergency Financial Aid Grant to students under the CARES (a)(1) subprogram and the CRRSAA and ARP (a)(1) subprograms.
4. The method(s) used by the institution to determine which students receive Emergency Financial Aid Grants and how much they would receive under the CARES (a)(1) subprogram and the CRRSAA and ARP (a)(1) subprograms.

#### *Condition Found, Including Perspective*

During our testing of reporting, we selected all quarterly and annual required reports for testing. Bon Secours Mercy Health has three IHEs each with quarterly reporting. The testing of the quarterly student aid reports and quarterly institutional reports identified 3 instances of quarterly student aid reports being reported late and 2 instances of institutional funds being reported late. In addition, the testing of the quarterly student aid reports identified 4 quarterly reports did not meet the key line item requirements outlined above. The reports did not include the total number of students eligible to receive the grants or the method used by the IHEs to determine how much different classes of eligible students would receive if the student applied for the funding.

#### *Cause and Possible Asserted Effect*

The control for review of reports prior to submission and public posting on the website of the IHEs did not operate effectively. Without effective controls in place, reports could be submitted and posted publicly without all required information or outside the required timeframe, resulting in non-compliance with grant requirements.

#### *Questioned Costs*

There are no questioned cost associated with this finding.

#### *Statistical Validity*

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

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

The audit finding is not a repeat finding.

#### *Recommendations*

We recommend that the Company strengthen its internal control and monitoring procedures to ensure there is proper review of reports and reporting requirements.

**BON SECOURS MERCY HEALTH**  
Schedule of Findings and Questioned Costs  
December 31, 2021

*Views of Responsible Officials*

Management recognizes the robust reporting requirements, both quarterly and annually, with respect to HEERF funds. In certain circumstances documentation could not be provided on when the IHEs websites were updated with Quarterly Budget and Expenditure Reporting, certain Quarterly Budget and Expenditure Reports were not published on the IHEs websites within the ten (10) day reporting requirement, and certain elements required to be reported were not included. All Annual HEERF reports were filed accurately and timely. As recommended, the IHEs have reinforced procedures regarding the Quarterly Budget and Expenditure Reporting of student and institutional portions of HEERF funds, will ensure that all reporting aspects are published on the IHEs websites, will adhere to the ten (10) day reporting deadline for publication on the IHEs website, and will maintain adequate documentation to support that such reporting was published within the required timeframe. As of September 27, 2022, the IHEs websites have been updated to reflect the required HEERF reporting information.

# BON SECOURS MERCY HEALTH

## **Corrective Action Plan for:**

### **Finding 2021-001**

Management recognizes that the Institutions of Higher Education (IHEs), which received Higher Education Emergency Relief Funds (HEERF), as authorized by the Coronavirus Aid, Relief and Economic Security Act (CARES), Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and American Rescue Plan (ARP) did not have a robust procurement policy in place that specifically addresses Procurement Methods, as defined in 2 CFR 200.320. The IHEs procured goods or services with Institutional HEERF funds that exceeded the Micro-Purchase Threshold, which requires Formal Procurement Methods. However, in all instances, there were specific circumstances in which competitive procurement processes were not required due to items only being available from a single source or emergency so that significant delays in operationalizing the software or equipment would not result in significant delays in academic programming for its students.

In all instances, the vendors utilized were vetted through the Bon Secours Mercy Health (BSMH) exclusion process, which utilizes various databases including the System for Award Management (SAM), to verify that vendors have not been debarred, suspended or otherwise ineligible to participate in Federal assistance programs or activities.

As recommended, the IHEs will create a specific procurement policy related to the expenditure of Institutional HEERF funds which includes Informal and Formal Procurement methods, including the continued use of the BSMH exclusion process, to verify that vendors have not been debarred, suspended or otherwise ineligible to participate in Federal assistance programs or activities.

If you have any questions, please contact Andrea Fleming, CFO – Mercy College of Ohio, [Andrea.Fleming1@mercycollege.edu](mailto:Andrea.Fleming1@mercycollege.edu).

### **Finding 2021-002**

As recommended, the IHEs have reinforced procedures regarding the Quarterly Budget and Expenditure Reporting of student and institutional portions of HEERF funds. Management will ensure that all reporting aspects are published on the IHEs websites, will adhere to the ten (10) day reporting deadline for publication on the IHEs website, and will maintain adequate documentation to support that such reporting was published within the required timeframe. As of September 26, 2022, the IHEs websites have been updated to reflect the required HEERF reporting information.

If you have any questions, please contact Amy Pozza CFO, RHEIs [amy\\_pozza@bshsi.org](mailto:amy_pozza@bshsi.org) or Andrea Fleming CFO, Mercy College of Ohio [andrea.fleming1@mercycollege.edu](mailto:andrea.fleming1@mercycollege.edu).

# BON SECOURS MERCY HEALTH

## Bon Secours Mercy Health

### Summary of Prior Audit Findings

December 31, 2021

The status of audit findings reported in the audit of Bon Secours Mercy Health's federal awards for the year-ended December 31, 2020 is summarized below:

Reference	Finding	Status	Contact Person
2020-001	WIC Special Supplemental Nutrition Program for Women, Infants and Children 10.557	Corrected – Controls were put into place to establish review procedures locally for the timely and accurate submission of quarterly reimbursement reports, as well as evidenced review and reconciliation of such data prior to submission.	Kim Beckley Kim_Beckley@mercy.com
2020-002	Coronavirus Relief Fund 21.019	Corrected – Controls were put into place to establish a more robust review of source documents prior to expense reimbursement requests.	Lisa Landreth Lisa_Landreth@bshsi.org