BON SECOURS MERCY HEALTH

Audited Financial Statements Disclosure

For the Four-Month Period Ended

December 31, 2018

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ABOUT BON SECOURS MERCY HEALTH

OUR MISSION

Bon Secours Mercy Health (BSMH) is a health care ministry of the Catholic Church, serving communities in seven states. Through hospitals, physician clinics, a variety of care delivery sites and social services programs, we improve the health of entire communities. Bon Secours Mercy Health is sponsored by Partners in Catholic Health Ministries, a public juridic person of the Roman Catholic Church.

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

OUR ORGANIZATION

On September 1, 2018, Bon Secours Health System and Mercy Health combined to become the United States' fifth largest Catholic health care ministry and one of the nation's 20 largest health care systems. Bon Secours Mercy Health has a deep commitment to corporate and financial responsibility. Our senior leaders set the tone for the entire organization, reinforcing our commitment to "doing the right thing," which is rooted in our religious heritage and core Values. For almost two centuries, the historical founders of BSMH have been providing care to those in need. Today, the ministry is part of the top performing quartile of Catholic health systems for the lowest cost per case for patient care. This quality care is provided by more than 57,000 employees serving communities throughout Florida, Kentucky, Maryland, New York, Ohio, South Carolina and Virginia. For the calendar year 2018, the health care ministry provided care for patients more than 10.3 million times through its network of more than 1,000 care sites, including 43 hospitals, more than 50 home health agencies and senior health and housing facilities. Consistent with its commitment to serve each patient with dignity, Bon Secours Mercy Health provides nearly $2 million per day in community benefit.

Our Values
Human dignity
Integrity
Compassion
Stewardship
Service

Our Vision
Inspired by God's hope for the world, we will be a ministry where associates want to work, clinicians want to practice, people seek wellness and communities thrive.

OUR STRATEGY

To support the Mission, the ministry's Strategic Plan is built on four pillars: Improve Community Health and Well-Being, Deliver Clinical and Operational Excellence, Strengthen Culture and Capabilities, Innovate and Grow. These pillars are described below and serve as the foundation for programs, investments and innovation across BSMH.

Improve Community Health and Well Being. Under this strategic pillar, BSMH strives to "bring good help to those in need" reaffirming its Mission and Values by engaging its patients and the communities it serves. BSMH has a range of initiatives focused on social determinants of health, education and training opportunities, as well as wellness and prevention services. BSMH, in partnership with local and state governments and nonprofits, is focusing on education, prevention and treatment efforts to reduce the societal and economic impact of addiction. In addition to these efforts, the ministry addresses the behavioral health needs in communities it serves. BSMH promotes advocacy priorities related to environmental stewardship, non-violence, immigration reform and health care for all.

Deliver Clinical and Operational Excellence. BSMH has a range of initiatives to enhance timely and convenient patient access, deliver a differentiated patient experience, focus on patient safety, ensure continuity of care, improve clinical outcomes and drive value-based reimbursement.

BSMH has a physician alignment strategy through integration models covering the full spectrum of relationships: employment, clinically integrated network affiliation, joint venture opportunities, electronic medical record (EMR) connectivity and general medical staff appointments. In addition, BSMH conducts medical staff work force planning to ensure it has the necessary physician complement and bench strength to support clinical service development and to ensure network adequacy of its clinically integrated network and accountable care organizations.

BSMH's initiatives leverage the ministry's scale to improve efficiency and effectiveness. Specific areas of focus include information technology, revenue cycle, supply chain, labor productivity and the continued development of shared services.

Strengthen Culture and Capabilities. With the coming together of two ministries, this pillar supports BSMH's achievement of its integration goals and related synergies of the recent merger. The pillar's initiatives center on leadership formation, talent acquisition and retention, and engaging all who serve the ministry. BSMH will continue to build a culture of diversity and inclusion based on its Mission and Values.

Innovate and Grow. Under this strategic pillar, the portfolio of initiatives focus on top-line growth across five broad categories: service line development, access strategies, consumer outreach, inorganic growth and innovation.

Service lines are a key means of differentiation among BSMH's competitors. Managing by service lines aligns resources, expertise, capital investment and marketing spend to target specific growth opportunities within each market. Service lines allow for optimal clinical alignment with physicians and serve as a rallying point for improvement efforts in patient experience, quality improvement, payor strategies and margin expansion.

BSMH views access strategies as both brick and mortar and digital entry points for patients and consumers. A robust ambulatory access strategy is critical to providing convenience for consumers, to meeting changes in clinical practice and to responding to payor expectations for providing care in the most clinically appropriate, high-value settings. BSMH is prioritizing its capital investment toward ambulatory surgery, urgent care, diagnostic centers, primary care sites and virtual care services.

Inorganic growth through acquisitions and mergers is also a significant part of BSMH's growth agenda. BSMH evaluates opportunities within and adjacent to its current footprint, as well as within new markets. Acquisitions and mergers are evaluated on a stringent set of criteria: aligning with BSMH's Mission and Values, sharing a common strategic vision, being financially accretive within a defined window of time, and providing for organizational synergies for scale and efficiency.

BSMH's innovation goals include accelerating the adoption of new capabilities to create value for patients, families, consumers and caregivers. BSMH views its innovation strategy as a means of connecting to external innovation advisors and investment opportunities. The ministry seeks opportunities to foster internal innovation and to develop new revenue streams by monetizing its capabilities.

Through the successful execution of the initiatives outlined in BSMH's Strategic Plan, the organization will provide its patients with the same compassionate, quality health care they expect from BSMH, while operating as a nimble, high-performing ministry that adds value at every level.

GOVERNANCE AND MANAGEMENT

Executive Leadership Council

The Executive Leadership Council (ELC) at Bon Secours Mercy Health embodies our Mission of improving the health of the communities we serve. ELC members are listed below:

Individual	**Title**
John M. Starcher Jr., Esq.	President and CEO
Rich Statuto	Special Advisor to the CEO
Mark Nantz	Chief Administrative Officer
Deborah Bloomfield, PhD, CPA	Chief Financial Officer
Jeff Oak, PhD	Chief Enterprise Risk Officer
Michael Bezney, JD	Chief Legal Officer
David Cannady	Chief Strategy Officer
Brian Smith	Chief Operating Officer
Wael Haidar, MD	Chief Clinical Officer
Sam Ross, MD	Chief Community Health Officer
Sr. Anne Lutz, CBS	Chief Sponsorship & Mission Officer
Joe Gage, JD	Chief Human Resources Officer
Sandra Mackey	Chief Marketing Officer
Andrea Mazzoccoli, PhD	Chief Nursing Officer
Thom Morris	Chief Sponsorship & Theology Officer
Fr. Joseph Cardone	Chief Mission Officer

Board of Directors

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

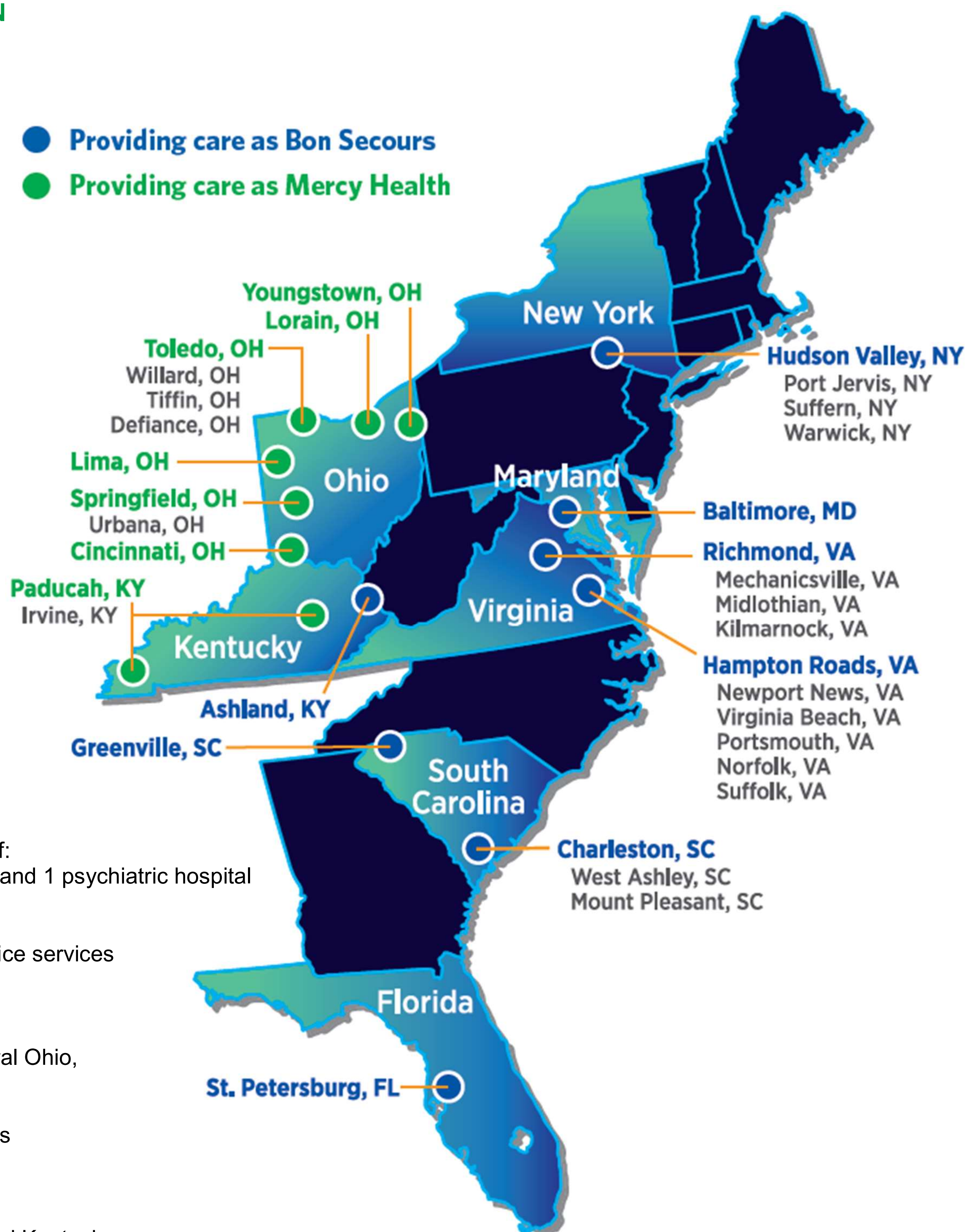
Board of Directors
Chris Allen, Chair
Katherine W. Vestal, PhD, Vice Chair
Katherine A. Arbuckle, CPA
Sr. Pat Eck, CBS (PJP)
Stephanie L. Ferguson, PhD
Sr. Fran Gorsuch, CBS
Sr. Doris Gottemoeller, RSM (PJP)
Lizanne C. Gottung
Clarion E. Johnson, MD
Gerald Kells
Peter Maddox
Jennifer O’Brien, JD
Raja Rajamannar
Janet B. Reid, PhD
Myles N. Sheehan, SJ, MD
Sr. Carol Anne Smith, MH (PJP)
John M. Starcher Jr. ex-officio

GROUP INFORMATION

Atlantic
Florida
Maryland
New York
South Carolina
Virginia

Great Lakes
Lima
Lorain
Toledo
Youngstown

Mid-American
Cincinnati
Ashland
Paducah
Springfield



Atlantic

Serving the east coast,
the division is comprised of:

- 19 acute-care hospitals and 1 psychiatric hospital
- 5 nursing care facilities
- 4 assisted care facilities
- 14 home care and hospice services

Great Lakes

Serving northern and central Ohio,
facilities include:

- 13 acute-care hospitals
- 3 long-term care facilities

Mid-American

Serving southwest Ohio and Kentucky,
facilities include:

- 10 acute-care hospitals
- 4 long-term care facilities

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's discussion and analysis provides additional narrative explanation of the financial condition, operational results and cash flow of Bon Secours Mercy Health to assist in increased understanding of the combined financial statements. The combined financial information as of and for the four months ended December 31, 2018, presented below, has been derived by Bon Secours Mercy Health's management from the audited financial information. This document is incorporated herein by reference and are available for review on the Electronic Municipal Market Access ("EMMA") website.

PRINCIPLES OF CONSOLIDATION

In conformity with U.S. generally accepted accounting principles, the consolidated financial statements and this Management's Discussion and Analysis include the financial position, results of operations, changes in net assets and cash flows of Bon Secours Mercy Health, and certain other Bon Secours Mercy Health subsidiaries. Information as of and for the four months ended December 31, 2018, is consistent with BSMH's audited financial statements. The unaudited pro forma financial information presented below of BSMH for the four months ended December 31, 2017, has been derived by combining the consolidated year-to-date results of Mercy Health and Bon Secours assuming that operations of the two organizations were combined as of September 1, 2017 through December 31, 2017. Activity from acquisitions are treated as same facility as if they were part of BSMH in the prior year and activity from disposals are treated as same facility as if they were disposed of in the prior year.

KEY FINANCIAL RATIOS

($s in thousands)	Four months ended December 31,			
	2018		Pro forma 2017	
	Amount	*Margin*	Amount	*Margin*
Net operating revenues	**$2,704,102**		$2,688,115	
Operating cash flow	**$234,631**	*8.7%*	$252,546	*9.4%*
Recurring operating income	**$58,866**	*2.2%*	$72,937	*2.7%*
Net income	**($353,484)**	*(15.4%)*	$136,413	*5.0%*

Net operating revenues for the four months ended December 31, 2018 grew by approximately 1.0%, due to the continued growth in inpatient surgical volumes and increases in acuity cases compared to the four months ended December 31, 2017. Operating cash flow, operating cash flow margin and recurring operating income have decreased from the prior period pro forma due primarily to the increases in employment expenses. Net income and the net income margin for the year decreased compared to the same period of 2017 primarily due to a decline in the global equity market during the fourth quarter of 2018.

COMMUNITY BENEFIT

Through programs and donations, health education, free care, medical research and more, community benefit investments fulfill unmet needs. Unsponsored community benefit as measured by the cost to provide services was $221.9 million for the four months ended December 31, 2018, down from $236.3 million for the comparable four month period in 2017. Community benefit as a percentage of total expenses was down slightly at 8.4% for the four months ended December 31, 2018 compared to the four months ended December 31, 2017.

($s in thousands)	Four months ended December 31,			
	2018		*Pro Forma* 2017	
	Amount	*% of Exp*	Amount	*% of Exp*
Community Benefit	**$221,946**	*8.4%*	$236,262	*9.0%*

LIQUIDITY AND KEY PERFORMANCE INDICATORS

	December 31, 2018	*Pro Forma* December 31, 2017
Days cash on hand	**183**	192
Total debt to capitalization	**40.8%**	40.7%
Pension funding	**83%**	85%
Unrestricted Cash to Debt	**127.1%**	129.0%

Investment performance also unfavorably impacted days cash on hand and pension funding at December 31, 2018, both of which declined to 183 and 83% respectively. Debt to capitalization was 40.8% and was affected by debt financing activity and fourth quarter investment losses. In 2018, BSMH management executed debt transactions to consolidate debt of the two legacy organizations under one master trust indenture. Through these transactions, the Mercy Health master trust indenture (MTI) issued new debt of $715.7 million to defease $686.1 million of legacy Bon Secours debt. Additionally, the Mercy Health MTI was substituted for an additional $110.7 million of legacy Bon Secours debt. The result of these transactions was the recognition of a $25.9 million loss on early extinguishment of debt and the elimination of the legacy Bon Secours master trust indenture.

VOLUME TRENDS

SAME FACILITY	Four months ended December 31, 2018	*Pro Forma* December 31, 2017	VARIANCE %
Admissions	**98,270**	99,615	(1.4%)
Observations	**21,533**	22,039	(2.3%)
Deliveries	**8,449**	8,680	(2.7%)
Inpatient Surgeries	**20,346**	19,955	2.0%
Outpatient Surgeries	**51,102**	53,630	(2.3%)
ER Visits	**451,076**	456,238	(1.1%)

For the four month period ended December 31, 2018, same facility inpatient surgeries grew 2.0% with same facility admissions decreasing by 1.4% compared to the prior period. Same facility outpatient surgeries decreased 2.3% for the four months ended December 31, 2018. ER visits decreased 1.1% for the period ended December 31, 2018, from the comparable prior year period in part due to initiatives surrounding the opioid epidemic and patients seeking care in more appropriate care settings.

RESULTS of OPERATIONS

($s in thousands)	Four months ended December 31, 2018	*Pro Forma* December 31, 2017
Net Patient Service Revenue	**$2,558,698**	$2,518,871
Other Operating Revenue	**145,404**	169,244
Total Operating Revenue	**2,704,102**	2,688,115
Employee Compensation	**1,432,396**	1,402,524
Purchased Services and Other	**1,037,075**	1,033,063
Depreciation and Amortization	**142,664**	143,994
Interest Expense	**33,101**	35,597
Recurring Operating Income	**58,866**	72,937
Non-recurring Losses, Net	**(95,479)**	(4,694)
Non-operating Losses, Net	**(275,929)**	119,245
Other Non-Operating Losses, Net	**(40,942)**	(51,075)
Excess of Expenses Over Revenues	**($353,484)**	$136,413

TOTAL OPERATING REVENUE

The Company adopted the new revenue recognition standard (ASU 2014-09) on January 1, 2018, with no material impact on operating results. The key change on the consolidated statement of operations was that the amounts historically classified as the provision for bad debts are now treated as an implicit price concession that directly reduces the transaction price (net patient service revenue). This change resulted in a single net patient service revenue line on the consolidated financial statements.

Net operating revenue was $2.7 billion for the four months ended December 31, 2018, representing an increase of $16.0 million over the prior period. The increase was due to growth in inpatient surgical volumes, increased case acuity and growth in revenue from Ensemble (revenue cycle services company) over the prior four month period, offset by decreases in volumes in admissions, ER visits and outpatient surgeries.

OPERATING EXPENSES

Total operating expenses were $2.6 billion for the four months ended December 31, 2018, an increase of $30.1 (1.1%) million from the four months ended December 31, 2017. Pharmaceuticals and supplies expenses, increased $23.5 million (4.9%) for four months ended December 31, 2018 compared to the prior period end. Driven by the high inpatient surgical volume and acuity cases. Total employment expenses increased $29.9 million (2.1%) for the four months ended December 31, 2018, compared to the prior four month period, driven by inflationary increases in 2018.

NON-RECURRING ACTIVITIES, NET

Non-recurring activities, net includes activities such as restructuring, asset impairments, gains/losses on operating asset sales and disposals and merger related expenses. Non-recurring losses for the period ended December 31, 2018, were $95.4 million compared to $4.7 million for the period ended December 31, 2017. These losses for the four month period ended December 31, 2018, included an impairment charge on HSP's investment in Summa and merger and transaction related costs.

NON-OPERATING INCOME

Investment losses, including unrealized gains and losses, were $275.9 million for the four months ended December 31, 2018, compared to income of $119.3 million for the four months ended December 31, 2017. Investment losses were primarily due to a decline in the global equity market during the fourth quarter of 2018. The loss on interest rate swap agreements were $6.7 million for the four months ended December 31, 2018, compared to $306 thousand for same period of December, 2017.

CONCLUSION

There were mixed volume results in the four months ended December 31, 2018, with higher inpatient surgeries but lower admissions, deliveries and ER visits. Improvement in revenue cycle processes and acuity of cases, resulted in higher net operating revenue in the current four month period ended December 31, 2018 compared to the comparable period of the prior year. Net income and the net income margin decreased compared to the same period of 2017 due to the investment losses and non-recurring losses during the month of December 2018.

The Company's balance sheet position remained strong, with days cash on hand of 183, total debt to capitalization of 40.8% and pension funding of 83% at December 31, 2018. The Company's performance continues to support the Company's overall mission while focusing on the delivery of value-based healthcare. This will allow for the continued integration of two ministries, and provide a strong foundation for the BSMH goals including synergies of the recent merger.

BON SECOURS MERCY HEALTH

Consolidated Audited Financial Statements

For the Four-Month Period Ended
December 31, 2018

BON SECOURS MERCY HEALTH

Consolidated Financial Statements

Four Months Ended December 31, 2018

(With Independent Auditors’ Report Thereon)

BON SECOURS MERCY HEALTH

Statement of Management Responsibility

The accompanying consolidated financial statements of Bon Secours Mercy Health (the Company) for the four months ended December 31, 2018 were prepared by the Company's management in conformity with U.S. generally accepted accounting principles appropriate in the circumstances.

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

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

KPMG LLP, the independent auditors, have audited the consolidated financial statements of the Company for the four months ended December 31, 2018 and their report thereon is included herein. The independent auditors meet with members of the Audit & Compliance Committee of the Board of Trustees of the Company, in the absence of Management personnel, to discuss the results of their audit and are afforded the opportunity to present their comments with respect to the conduct of the audit engagement.

John Starcher
President & CEO

Deborah Bloomfield
Chief Financial Officer

Travis L. Crum
SVP, Finance

April 3, 2019

KPMG LLP
Suite 3400
312 Walnut Street
Cincinnati, OH 45202

Independent Auditors' Report

The Board of Directors
Bon Secours Mercy Health:

We have audited the accompanying consolidated financial statements of Bon Secours Mercy Health, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the four month period then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bon Secours Mercy Health as of December 31, 2018, and the results of its operations and its cash flows for the four month period then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Cincinnati, Ohio
April 3, 2019

BON SECOURS MERCY HEALTH

Consolidated Balance Sheet

December 31, 2018

(In thousands)

Assets		
Current assets:		
Cash and investments:		
Cash and cash equivalents:	$	167,535
Investments		27,292
Board designated funds		44,496
Self-insurance and trustee held funds		104,903
Donor restricted funds		14,774
Total cash and investments		359,000
Net patient receivables		976,269
Other receivables		97,963
Inventories		181,926
Prepaid expenses and other current assets		121,097
Total current assets		1,736,255
Assets whose use is limited:		
Board designated funds		3,493,625
Self-insurance and trustee held funds		186,531
Donor restricted funds		78,340
Total assets whose use is limited		3,758,496
Property and equipment, net		3,545,712
Investments in unconsolidated organizations		520,220
Retirement assets		40,662
Other long-term assets, net		407,679
Total assets	$	10,009,024
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$	366,947
Payable under securities lending arrangements		9,179
Current portion of long-term debt		419,994
Accrued salaries, wages and benefits		472,209
Other accrued expenses		267,845
Total current liabilities		1,536,174
Long-term debt, less current portion		2,507,229
Retirement liabilities		520,738
Self-insurance liabilities		256,269
Other long-term liabilities		350,723
Total liabilities		5,171,133
Net assets without donor restrictions:		
Controlling interest		4,244,471
Noncontrolling interest		415,445
Total net assets without donor restrictions		4,659,916
Net assets with donor restrictions		177,975
Total net assets		4,837,891
Total liabilities and net assets	$	10,009,024

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statement of Operations

Four months ended December 31, 2018

(In thousands)

Revenues:	
Net patient service revenue	$ 2,558,698
Other operating revenue	145,404
Total operating revenues	2,704,102
Expenses:	
Employee compensation	1,432,396
Purchased services and other	532,547
Supplies	504,528
Depreciation and amortization	142,664
Interest expense	33,101
Total operating expenses	2,645,236
Recurring operating income	58,866
Nonrecurring operating losses, net	(95,479)
Operating loss	(36,613)
Nonoperating losses, net:	
Investment losses, net	(275,929)
Loss on defeasance of debt	(25,851)
Other nonoperating activities, net	(15,091)
Nonoperating losses, net	(316,871)
Deficit of revenues over expenses	$ (353,484)

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statement of Changes in Net Assets

Four months ended December 31, 2018

(In thousands)

	Controlling interest	Noncontrolling interest	Net assets without donor restrictions	Net assets with donor restrictions	Total net assets
Balance at August 31, 2018	$ 4,754,849	430,075	5,184,924	181,096	5,366,020
Deficit of revenues over expenses	(348,072)	(5,412)	(353,484)	—	(353,484)
Gain from discontinued operations	4,521	—	4,521	—	4,521
Grants and restricted contributions	—	—	—	8,988	8,988
Contribution from noncontrolling party	—	331	331	—	331
Net change in unrealized losses on other-than-trading securities	(434)	—	(434)	(6,106)	(6,540)
Investment losses	—	—	—	(911)	(911)
Net assets released from restrictions used for purchase of property, plant and equipment	46	—	46	(46)	—
Net assets released from restrictions used for operations	—	—	—	(6,474)	(6,474)
Net change in equity of joint ventures	(3,558)	—	(3,558)	—	(3,558)
Distributions to noncontrolling interest owners	—	(4,889)	(4,889)	—	(4,889)
Pension and other postemployment changes	(164,835)	—	(164,835)	—	(164,835)
Other changes, net	1,954	(4,660)	(2,706)	1,428	(1,278)
Decrease in net assets	(510,378)	(14,630)	(525,008)	(3,121)	(528,129)
Balance at December 31, 2018	$ 4,244,471	415,445	4,659,916	177,975	4,837,891

See accompanying notes to consolidated financial statements.

BON SECOURS MERCY HEALTH

Consolidated Statements of Cash Flows

Four months ended December 31, 2018

(In thousands)

Cash flows from operating activities:		
Decrease in net assets	$	(528,129)
Depreciation and amortization		142,664
Impairment of long-lived assets		64,312
Gain from discontinued operations		(4,521)
Change in valuation of interest rate swap agreements		(5,668)
Other changes in net assets, net		1,278
Loss on defeasance of debt		25,851
Pension and other postemployment adjustments		164,835
Contributions restricted by donor		(9,319)
Net realized/unrealized losses on certain investments and derivatives		275,929
Equity earnings on investment in joint venture, net of cash distribution		8,447
Cash provided by (used in) changes in operating assets and liabilities:		
Net patient receivables		(11,536)
Other current assets		25,782
Investments and assets whose use is limited, net		(47,014)
Other assets		22,840
Accounts payable		(27,397)
Current liabilities		32,186
Other long-term liabilities		(8,069)
Net cash provided by operating activities		122,471
Cash flows from investing activities:		
Property and equipment additions, net of disposals		(163,534)
Purchase of alternative investments		(55,710)
Sales of alternative investments		55,430
Net cash used in investing activities		(163,814)
Cash flows from financing activities:		
Restricted contributions		9,319
Repayment of long-term debt		(760,867)
Proceeds from long-term debt		715,684
Cost of long-term debt issuance		(3,334)
Net cash used in financing activities		(39,198)
Net decrease in cash and cash equivalents		(80,541)
Cash and cash equivalents, beginning of period		248,076
Cash and cash equivalents, end of period	$	167,535

See accompanying notes to consolidated financial statements.

(1) Basis of presentation

(a) Organizational Structure and Mission

On February 21, 2018, Bon Secours Health System, Inc. (BSHSI) and Mercy Health (Mercy), nonprofit corporations and Catholic health ministries, announced their intent to merge their ministries, creating the fifth largest Catholic health system in the United States. On September 1, 2018, the merger between BSHSI and Mercy became effective and the new ministry was named Bon Secours Mercy Health (BSMH or the Company). This transaction was accounted for as a merger and thus BSHSI's and Mercy's balance sheets continue to be recorded at their historical basis under the carryover method as a result of the transaction. These consolidated financial statements reflect the results of operations and financial position of BSMH after the merger.

BSMH is a nonprofit, nonstock membership Catholic health organization, supervising market delivery consisting of hospitals, physician clinics, and other organizations providing health-related services. BSMH is sponsored by partners in Bon Secours Mercy Ministries (BSMM). BSMM is a public juridic person of the Roman Catholic Church. BSMH provides management direction to these separately organized market delivery systems (the Groups), which operate as the Atlantic group consisting of Virginia, New York, South Carolina and Maryland, Mid-American and Great Lakes groups consisting of Ohio and Kentucky, to carry out the mission, vision, and values of BSMH.

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

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

(Dollar amounts in thousands)

(b) Proforma Financial Information

The following unaudited financial information summarizes the amounts recognized in assets, liabilities and net assets related to the merger of BSHSI and Mercy as of September 1, 2018:

	BSHSI	Mercy	Total
Net patient receivables	$ 380,907	583,826	964,733
Other current assets	373,732	458,378	832,110
Assets whose use is limited	1,472,347	2,547,308	4,019,655
Property and equipment, net	961,764	2,563,078	3,524,842
Other long-term assets	389,337	670,086	1,059,423
Total assets	3,578,087	6,822,676	10,400,763
Current liabilities	510,643	807,384	1,318,027
Long-term debt	802,752	1,890,030	2,692,782
Other long-term liabilities	462,557	561,377	1,023,934
Total liabilities	1,775,952	3,258,791	5,034,743
Net assets without donor restriction	1,753,819	3,431,105	5,184,924
Net assets with donor restriction	48,316	132,780	181,096
Total liabilities and net assets	$ 3,578,087	6,822,676	10,400,763

The following unaudited financial information presents the Company's results as if the merger had been reported as of the beginning of the Company's fiscal year January 1, 2018:

Total operating revenues	$ 8,135,816
Total operating expenses	7,855,724
Recurring operating income	280,092
Non recurring operating losses, net	(128,142)
Operating income	151,950
Non operating losses, net	(218,338)
Deficit of revenues over expenses	$ (66,388)

(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.

(b) Assets Whose Use is Limited

Assets whose use is limited include assets held by trustees under indentures, self-insurance trust arrangements, assets related to donor-restricted net assets, and assets designated by the board of directors over which it retains control and may, at its discretion, use for other purposes. Investments consist of marketable equity securities, corporate bonds, U.S. government and government related marketable debt securities, alternative investments and money market funds. Funds held by trustees are primarily related to the unexpended proceeds of the 2017 tax-exempt bond obligation issuance.

Unrealized gains or losses on trading securities are included in nonoperating investment (losses) gains, net. As of December 31, 2018, all investments and assets whose use is limited are designated as trading securities, except for certain foundation investments and trustee held funds, which are designated as other than trading securities.

(c) Fair Value Measurement

The carrying values of financial instruments classified as current assets and current liabilities approximate fair values. The fair values of assets limited or restricted as to use, with the exception of alternative investments, are based on quoted market prices or other observable inputs. Alternative investments are recorded under the equity method, but approximate fair value. The Company elected to record its investments in equity and fixed income commingled funds at fair value. See note 4 for additional disclosures of assets limited or restricted as to use. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820 *Fair Value Measurement* (ASC 820) emphasizes that fair value is a market-based measurement, not an entity specific measurement.

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

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

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

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

(d) Net Patient Receivables and Net Patient Service Revenue

Patient receivables are recorded at net realizable value based on certain assumptions determined by each payor. 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, the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables.

In accordance with ASC 606 *Revenue from Contracts with Customers* (ASC 606), 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 payers 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. The Company recognizes a significant amount of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay. 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. During the four months ended December 31, 2018, the impact of changes to the inputs used to determine the transaction price was considered insignificant to the current period.

The Company has elected to apply the optional exemption in ASC 606-10-50-14a as all the Company's performance obligations relate to contracts with a duration of less than one year. Under this exemption, the Company was not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Any unsatisfied or partially unsatisfied performance obligations at the end of the year are completed within days or weeks of the end of the year.

The Company has elected to apply the practical expedient under ASC Topic 340-40-25-4 and therefore, all incremental customer contract acquisition costs are expensed as incurred, as the amortization period of the asset that we would have otherwise recognized is one year or less in duration.

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 governmental programs (primarily Medicare and Medicaid), private insurance companies, managed care programs and patients themselves. As a percentage of patient receivables, the Medicare and Medicaid program represented 35% and 9% of net patient receivables at December 31, 2018, respectively. Excluding the Medicare and Medicaid programs, no one other payor represents more than 10% of the Company's net patient receivables at December 31, 2018.

(Continued)

(Dollar amounts in thousands)

The Company's net patient service revenues during the four months ended December 31, 2018 have been presented in the table based on an allocation of the estimated transaction price with the patient between the primary patient classification of insurance coverage:

Medicare	$	890,039
Medicaid		232,980
Other governmental		37,129
Commercial and other third party		1,272,650
Self-pay		125,900
Total	$	2,558,698

(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 first-in, first-out and weighted average methods.

(f) *Property and Equipment, Net*

Property and equipment, net are recorded at cost or, if donated, at fair value on the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements. Estimated useful lives of the assets are as follows:

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

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

Interest cost is capitalized as part of the cost of constructing capital assets, net of any interest income earned on unexpended bond proceeds borrowed for a specific project, during the construction period.

Costs incurred in the development and installation of internal-use software are expensed if they are incurred in the preliminary project stage or post-implementation stage, while certain costs are capitalized if incurred during the application development stage. Internal-use software is amortized over its expected useful life, generally between 3 and 7 years, with amortization beginning when the project is completed and the software is placed in service.

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

(g) Asset Impairment

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

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

(h) Investments in Unconsolidated Organizations

The Company maintains noncontrolling interest in various joint ventures and other companies that do not require consolidation. The majority of these investments are accounted for using the equity method of accounting, as the Company has significant influence over the operating and financial policies of the investee. Investments in unconsolidated organizations are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the investment might not be recoverable. An impairment was recognized for the four months ended December 31, 2018.

(i) 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.

(Dollar amounts in thousands)

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

(j) Other Long-Term Assets, Net

Other long-term assets include goodwill and identifiable intangible asset. 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. Based on this qualitative assessment, the Company concluded that goodwill was not impaired as of December 31, 2018. Other long-term assets, net consist of the following at December 31, 2018:

Goodwill	$	209,764
Self insured reinsurance receivable		23,298
Notes and other long term receivables		74,045
Other intangibles		60,399
Other long term assets		40,173
Total other long-term assets, net	$	407,679

(k) Accrued Claims Expense and Related Liabilities

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

(i) Self-Insurance

Under the Company's self-insurance programs (professional/general liability, workers' compensation, and employee health benefits), claims are reflected as 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.

(Dollar amounts in thousands)

(ii) Professional Liability and General Insurance

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

(iii) Workers Compensation Insurance

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

(iv) Employee Health Insurance

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

(l) Other Long-Term Liabilities

Other long-term liabilities consist of the following at December 31, 2018:

Derivative instrument valuations (note 8)	$	67,576
Medical office building liabilities (note 6)		139,352
SERP liability		42,463
Other long-term liabilities		101,332
Other long-term liabilities	$	350,723

(m) Net Assets

The Company adopted Accounting Standard Update No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which requires not-for-profit entities to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions), rather than the three classes of net assets, and other qualitative information regarding the entity's liquidity, financial performance and cash flows. The Company classifies net assets based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions represent contributions, gifts, and grants that have no donor-imposed restrictions or that arise as a result of operations. Net assets with donor restrictions are subject to donor-imposed restrictions that must or will be met either by satisfying a specific purpose, passage of time and/or to be maintained by the Company in perpetuity. Net assets with donor restrictions, primarily consist of pledges and funds received for capital projects, various healthcare programs, and community outreach programs.

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

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

(n) Other Operating Revenue

Other operating revenue includes income from equity investments in joint ventures (note 14), grant revenues, assisted living, capitated payments from insurance companies, revenues from corporate services provided to Bon Secours Charity Health System, which BSMH, the Sisters of Charity and Westchester Medical Center (Westchester) are members of, (Charity), earnings on funds held by bond trustees and cafeteria and meal sales.

(o) Charity Care

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

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

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

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

(i) Charitable Services – Financially Disadvantaged Persons

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

In assessing a patient's ability to pay, the Company utilizes generally recognized poverty income levels, financially supporting 100% of the healthcare services provided to patients with annual family income at or below 200% of the federal poverty guidelines. Additional assistance is provided by a reduction in charges for medically necessary services through a community service adjustment.

(ii) Charitable Services – State Programs

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

(iii) Other Community Benefits

Other community benefits include community services for the poor and disadvantaged as well as the broader community. The programs cover a broad spectrum of services and are financially supported by the Company:

- Primary care access – providing free community-based preventive and primary care services through free-standing clinics and mobile health vehicles;
- Health screenings and immunizations – provision of free health screenings and immunizations for a variety of health conditions for women, children, and senior residents;
- Child programs – providing oral healthcare, asthma and childhood obesity interventions;
- Caregiver and senior programs – focused on support, health screenings, and services to assist older adult populations;
- Education – providing medical and other health professional programs;
- Leadership activities – a full-time community health leader is provided in each community served who works to expand community capacity, identify community health needs and address social health conditions.

(p) Recurring Operating Income

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

(Continued)

(q) Performance Indicator

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

(r) 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. The Company accounts for uncertain tax positions in accordance with ASC Topic 740, *Income Taxes*. Their related income is exempt from federal income tax under Section 501(A). 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, 2018.

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; with currently the IRS audit of Mercy for 2016 tax period in progress. The Company believes it is no longer subject to income tax examinations for years prior to 2013. As of December 31, 2018, the Company has no uncertain tax positions.

The Company’s taxable subsidiaries had $169,666 of gross net operating loss carryforwards as of December 31, 2018, which expire in varying periods through 2037 and are available to offset future taxable income. The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be in effect during the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Interest and penalties related to income taxes are accounted for as income tax expense. The Company’s deferred tax assets are fully reserved at December 31, 2018 as the Company considers it more likely than not that these amounts will not be recognized.

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The Act significantly revises the U.S. corporate income tax by, lowering the statutory corporate tax rate from 35% to 21% and eliminating certain deductions. The new law also includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. The Company has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the organization.

(s) Medicare and Medicaid Programs

The system renders services to patients under contractual arrangements with the Medicare and Medicaid programs. Payment for the majority of Medicare and Medicaid services is based on a prospectively determined fixed price, according to a patient classification Company, 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 $3,113 for the four months ended December 31, 2018.

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 PPS and fee for service payment rates and are based on historical costs.

(t) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(u) 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.

(v) Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02), which requires lessees to recognize assets and liabilities for most leases. ASU 2016-02 is effective for public business entities for annual and interim periods beginning after December 15, 2018. The Company plans to adopt ASU 2016-02 effective January 1, 2019 applying a modified retrospective approach in which we will not adjust comparable prior period information and disclosures. The Company expects to utilize the practical expedients being made available, including the package of practical expedients to not reassess whether a contract is or contains a lease, the lease classification and initial direct costs. The

(Dollar amounts in thousands)

Company believes the primary effect of adopting the new standard will be to record right-of-use assets and obligations for our leases currently classified as operating leases, and the Company expects the amount of right-of-use assets and obligations resulting from the adoption of ASU 2016-02 to be approximately $300,000 to $325,000.

In January 2017, FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment.* This ASU eliminates Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The provisions of ASU 2017-04 are effective for fiscal years beginning after December 15, 2019, and interim periods within those years for public business entities, and December 15, 2021, and interim periods within those years for all other entities. The Company is currently evaluating the impact of this ASU.

(w) Management's Assessment and Plans

Management is required to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). Management determined that there were no conditions or events that raise substantial doubt about the Company's ability to continue as a going concern and the Company will continue to meet its obligations through April 3, 2020.

(3) Community Benefits (Unaudited)

The following is a summary of the Company's community service as measured by services to the poor and benefits provided to the broader community. The summary has been prepared in accordance with the Catholic Health Association (CHA) of the United States document, A Guide for Planning and Reporting Community Benefit, 2012 Edition. The following represents unsponsored community benefit expense at cost for the four months ended December 31, 2018:

Charitable services and other community benefits:		
Traditional charity care	$	41,999
Unpaid costs of public programs		130,084
Community health services		13,913
Health professional education and research		17,279
Subsized health services		11,339
Financial and in-kind donations		4,481
Community building activities		2,162
Community benefit operations		689
Total quantifiable community benefits	$	221,946
Percent of total recurring expenses		8.4 %

(Dollar amounts in thousands)

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.

(4) Investments and Assets Whose Use is Limited

The composition of assets whose use is limited consists of the following at December 31, 2018:

Board-designated funds:		
Cash and cash equivalents	$	123,750
Equity mutual funds		568,244
Equity commingled funds		247,448
Common and preferred stocks		403,212
Fixed income mutual funds		99,725
Fixed income commingled funds		420,995
U.S. government and agency securities		440,049
Corporate obligations		232,797
Alternative investments		991,996
Land and other investments		9,905
		3,538,121
Self insurance and trustee held funds:		
Cash and cash equivalents		96,513
Equity mutual funds		23,789
Equity commingled funds		22,666
Common and preferred stocks		15,980
Fixed income commingled funds		50,348
U.S. government and agency securities		20,789
Corporate obligations		10,915
Alternative investments		41,230
Other investments		9,204
		291,434

(Dollar amounts in thousands)

Donor restricted funds:		
Cash and cash equivalents	$	56,117
Equity mutual funds		7,278
Equity commingled funds		1,500
Common and preferred stocks		13,860
Fixed income mutual funds		1,680
Fixed income commingled funds		3,261
U.S. government and agency securities		485
Corporate obligations		5,775
Alternative investments		3,158
		93,114
Assets whose use is limited		3,922,669
Available for current liabilities		(164,173)
Long-term assets limited or restricted as to use	$	3,758,496

Investments consist of $4,038 of cash and cash equivalents, $8,100 of equity mutual funds, $2,210 of common and preferred stocks, $1,789 fixed income commingled funds, $7,259 U.S. government and agency securities and $3,896 of corporate obligations.

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 nonoperating investment losses, net on the consolidated statement of operations. The following is a summary of nonoperating investment gain (losses), for the four months ended December 31, 2018:

Dividends and interest	$	21,480
Net realized losses on securities		(19,295)
Net change in unrealized gains and losses on securities		(271,107)
Other		(7,007)
	$	(275,929)

The Company's ability to generate investment income is dependent in large measure on market conditions. The market value of the Company's investment portfolio, as well as the Company's investment income, have fluctuated significantly in the past and are likely to continue to fluctuate in the future. The Company's investment portfolio assets are designated as trading securities as discussed in ASC Topic 320, *Investments – Debt and Equity Securities*. The Company's entire portfolio is actively managed by third-party investment managers. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price. As required by U.S. GAAP, realized and unrealized gains and losses on an investment portfolio, designated as a trading portfolio, are accounted for as nonoperating investment (losses) income and are included in (deficit) excess of revenues over expenses. Because of this designation as a trading portfolio, management anticipates fluctuations in (deficit) excess of revenues over expenses. Accordingly, based on this diversification, management does not believe there are any material concentrations of credit at December 31, 2018.

At December 31, 2018, the Company had invested $1,036,384, or 25.2%, respectively, of the portfolio in alternative investments, which are allocated between hedge funds of funds, private equity funds, limited partnerships, real estate investment funds and long/short equity funds.

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.

At December 31, 2018, the Company has committed capital yet to be called of approximately $287,928 to private equity funds over the next one to three years.

(5) Fair Value of Financial Instruments

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

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

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

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

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

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.

Following is the summary of the inputs and valuation methodologies used for valuing Level 2 and Level 3 nonfinancial assets and liabilities:

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

(Dollar amounts in thousands)

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2018:

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

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

Contingent consideration due to the previous owners/corporate members of certain acquired organizations is required to be recorded at fair value on a recurring basis under the applicable accounting guidance. The Company's contingent consideration consists of the following as of December 31, 2018:

Payable to previous owner of Ensemble	$ 27,416
Other contingent consideration	4,080
	$ 31,496

There were no significant transfers of Level 1, 2 or 3 during the four-months ended December 31, 2018.

(Dollar amounts in thousands)

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

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

(6) Property and Equipment, Net

Property, plant, and equipment, net consist of the following at December 31, 2018:

Land	$	261,293
Land improvements		104,735
Buildings and fixed equipment		4,386,607
Major movable equipment		4,421,433
Leasehold improvements		198,177
		9,372,245
Less accumulated depreciation		(5,946,119)
		3,426,126
Construction in progress		119,586
	$	3,545,712

The Company has entered into certain transactions with developers to construct medical office buildings or other structures on land, which is owned by the Company. The Company will lease portions of these buildings from the developer in the future. Under applicable accounting guidance, the Company has determined that it maintains certain risk of ownership on these transactions and as a result has recorded property and equipment, net and a related liability, which is included in other long-term liabilities, of $139,352 at December 31, 2018, related to these transactions.

(Dollar amounts in thousands)

As of December 31, 2018, the Company is contractually obligated for construction projects totaling $76,253 at current construction cost levels. It is expected that all of these costs will be incurred in the next twelve months. The Company will finance these construction projects through the use of tax-exempt bond obligations proceeds, assets whose use is limited and operating cash flow. Depreciation and amortization expense for the Company was $139,784 for the four months ended December 31, 2018.

(7) Long-Term Debt

The following is a summary of the Company's long-term debt as of December 31, 2018:

Long-term debt		December 31, 2018
Master Trust Indenture Obligations		
Hospital Facilities Revenue and Revenue Refunding and Improvement Bonds:		
Mercy Health Series 2008 variable rate direct placement bonds payable in installments through ‘October 2031	$	300,000
Mercy Health Series 2010B fixed rate serial bonds payable in installments through September 2020; interest at 4.00% to 5.00%		41,490
Mercy Health Series 2010C/D variable rate demand and direct placement bonds payable installments through June 2034		177,800
Mercy Health Series 2012A fixed rate serial and term bonds payable in installments beginning May 2019 through May 2042; interest at 2.25% to 5.00%		273,620
Mercy Health Series 2012B variable rate demand bonds payable in installments beginning 2034 to May 2036		100,000
Bon Secours Series 2013B (VSBFA) variable rate direct placement bonds payable in installments beginning November 2031 through November 2042; secured by the Mercy Health Master Indenture		40,740
Mercy Health Series 2015A fixed rate term bonds payable in installments beginning November 2039 through November 2045; interest at 4.00% to 5.00%		159,205
Mercy Health Series 2015B floating rate notes payable November 2035 with initial FRN hard mandatory purchase date of May 2020		100,000
Mercy Health Series 2015C Fixed Rate Taxable Bonds payable November 2025; interest at 3.38%		150,000
Mercy Health Series 2017A fixed rate serial and term bonds payable in installments beginning August 2019 through August 2047; interest at 3.00%-5.00%		482,665

(Dollar amounts in thousands)

Long-term debt		December 31, 2018
Mercy Health Series 2017B variable rate bonds payable August 2047 with first long-term mandatory purchase date of May 2022; interest at 5.00%	$	89,425
Mercy Health Series 2017C Fixed Rate Taxable Bonds payable August 2027; interest at 3.56%		143,150
Bon Secours Series 2017 (SC) variable rate direct placement bonds payable in installments beginning November 2031 through November 2042; secured by the Mercy Health Master Indenture		69,925
Mercy Health Series 2018A fixed rate taxable bonds payable July 2028; interest at 4.30%		305,684
Mercy Health Series 2018AB commercial paper notes		100,000
2018 TD Bank variable rate taxable term loan payable in December 2026		150,000
2018 US Bank variable rate taxable term loan payable in December 2023		160,000
Total Master Trust Indenture Obligations		2,843,704
Other debt		13,165
Capital lease obligations		15,854
		2,872,723
Original issue net premium		71,443
Cost of issuance		(16,943)
		2,927,223
Less current portion of long-term debt		(419,994)
	$	2,507,229

The Company’s master trust indenture (the MTI) provides that Mercy is the sole obligor on all outstanding indebtedness incurred under the MTI. All bond obligations of the Company have been evidenced by obligations issued under the MTI.

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

The Company is subject to certain restrictive covenants under the MTI, revolving credit agreements, reimbursement agreements and irrevocable letters of credit at December 31, 2018. The Company was in compliance with all restrictive covenants at December 31, 2018.

(Continued)

(Dollar amounts in thousands)

In connection with the issuance of the Series 2017 bond issue, purchasers of the Series 2017 bonds consented to the amendment and restatement of the MTI. The consent by certain banks, as credit providers or as purchasers of bonds, was a condition precedent to the effectiveness of the Amended and Restated MTI. On March 29, 2018, the Company received such consents and the Amended and Restated MTI is effective as of that date.

On December 17, 2018, to consolidate all debt under one master trust indenture, Mercy on behalf of the Company issued $305,684 of taxable fixed rate bond obligations through its Series 2018A bonds, $100,000 of taxable commercial paper through its Series 2018A and 2018B commercial paper notes, and entered into taxable term loans in the amount of $310,000. The proceeds of these bond obligation issues and term loan agreements were used to defease $496,340 of BSHSI tax exempt bond obligations and $180,000 of BSHSI taxable term loans. At the same time, the Company also substituted Mercy Health Master Notes for the BSHSI Master Notes supporting $110,665 of tax-exempt variable rate direct placement bonds. This transaction and the concurrent novation of all BSHSI swaps to BSMH allowed the BSHSI Master Trust Indenture to be extinguished. The Company recorded a loss from early defeasance of debt of $25,851 which is included in nonoperating losses, net in the consolidated statement of operations.

The following is a schedule of future minimum payments for the principal repayment of MTI obligations, other debt and capital lease obligations based on scheduled maturities at December 31:

Period		Master trust indenture obligations	Other debt	Capital lease obligations
2019	$	36,405	3,534	2,255
2020		53,875	3,922	2,201
2021		51,100	3,832	2,250
2022		54,060	1,807	2,258
2023		216,350	10	2,376
Thereafter		2,431,914	60	4,514
Total minimum payments	$	2,843,704	13,165	15,854

Interest payments for the four months ended December 31, 2018 were $34,850. The Company capitalized interest of $0 for the four months ended December 31, 2018.

Unamortized debt issuance cost of $16,943 at December 31, 2018 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.

(Dollar amounts in thousands)

The Company has $91,400 of variable rate bond obligations with letter of credit support that expires in July of 2019 and $86,400 which relates to a variable direct placement agreement which expires in June of 2019. Additionally, the Company has $100,000 adjustable rate demand bonds supported by the Company's liquidity and $100,000 commercial paper notes supported by the Company's liquidity at December 31, 2018 ($94,000, $401,875, $0, $100,000,$100,000 and $0, respectively, at December 31, 2017). These amounts are included in the current portion of long-term debt on the consolidated balance sheet. Additionally, the Company has $497,065 adjustable rate bonds held under direct purchase agreements with certain financial institutions, $310,000 taxable term loan agreements with certain financial institutions, and $100,000 floating rate notes. The Company's dedicated liquidity facilities and direct placement agreements on variable rate demand bonds have expiration dates that extend from June 2019 to November 2027, and their respective term-out repayment provisions extend beyond the subsequent fiscal year.

The letter of credit agreement for the Series 2010C tax-exempt bond obligations in the amount of $91,400 and the continuing covenant agreement for the Series 2008 CDE bonds in the amount of $100,000 are due to expire within the next 12 months. Accordingly, the outstanding par amount of these tax-exempt bond obligations have been classified within the current portion of long-term debt. Management has expressed its intention to seek renewal of these agreements or provide similar support vehicles prior to expiration.

The Company maintains a revolving credit agreement for purposes of working capital support or capital asset acquisition. This revolving credit agreement has a commitment amount of $150,000 and is secured by the MTI. This agreement expires on December 31, 2019, with an intention to extend the agreement beyond this period. No amounts were outstanding under the revolving credit agreement at December 31, 2018.

(8) Derivatives and Interest Rate Swap Agreements

The following table includes the notional and valuation amounts (parenthetical amounts represent liabilities) of the Company's interest rate swap agreements as of December 31, 2018:

Interest rate swap agreement	Transaction type	Payment rate/basis	Termination date	Notional, December 31, 2018	Valuation, December 31, 2018
December 2006 JPM	Pay fixed	3.63 %	2,033	$ 269,200	(32,905)
December 2018 Barclays	Pay fixed	3.98	2,042	50,000	(10,346)
December 2018 Citi	Pay fixed	3.84	2,032	25,000	(3,374)
December 2018 JPM	Pay fixed	3.72	2,047	80,000	(10,120)
December 2018 PNC	Pay fixed	3.45	2,042	69,925	(15,172)
December 2007 JPM	Constant maturity	N/A	2,027	250,000	3,492
August 2018 JPM	Constant maturity	N/A	2,037	150,000	(651)
Credit valuation adjustment					1,500
					$ (67,576)

Following the combination of the Mercy and BSHSI in 2018, in connection with the debt transaction described in note (7) management executed a debt and swap transaction to consolidate all debt under one master trust indenture. In December 2018, four BSHSI fixed payer swap agreements with total notional value of $224,925 were novated to Mercy, and a swap agreement with notional value of $25,000 was terminated at a cost of $1,171, which was included in other income (loss) in the consolidated statement of operations and changes in net assets. These transactions resulted in the extinguishment of the BSHSI master trust indenture.

All changes in the fair value of the Company's interest rate swap agreements are recognized in nonoperating losses, net in the consolidated statements of operations. The differences between settlement payments made and settlement payments received on all interest rate swap agreements are included in nonoperating losses, net on the consolidated statement of operations in nonoperating losses, net. The net payments paid were $2,600 for the four months ended December 31, 2018.

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. All of the Company's JPM swap agreements outstanding at December 31, 2018 were issued pursuant to a single International Swaps and Derivatives Association, Inc. agreement with a single counterparty. Therefore, its interest rate swap agreements are viewed under a master netting arrangement to determine the aggregate amount of collateral to be posted or received by the Company. Collateralization of remaining swap agreements are determined individually.

The Company has posted collateral with designated custodians of $40,401 at December 31, 2018 commensurate with the valuation of the interest rate swap agreements. All collateral posted is in the form of cash and cash equivalents and is shown separately on the consolidated balance sheet as assets whose use is limited – restricted for interest rate swap agreements collateral requirements. Interest earned while collateralized funds are held by the custodian is shown in nonoperating losses, net on the consolidated statement of operations.

(9) Pension Plans

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

(Dollar amounts in thousands)

The following is a summary of the components of the change in benefit obligation and plan assets for the Plans for four months ended December 31, 2018:

	BSHSI Plans	Mercy Plans	Mercy Post employment
Change in projected benefit obligation:			
Net projected benefit obligation at beginning of year	$ 1,135,298	1,646,321	18,722
Service cost	4,900	4,608	181
Interest cost	15,690	19,639	205
Actuarial loss	1,832	(41,802)	—
Settlement/Curtailments	—	(3,879)	—
Change in discount rate and plan changes	—	—	(171)
Gross benefits paid	(15,340)	(28,179)	(631)
Projected benefit obligation at end of year	1,142,380	1,596,708	18,306
Change in plan assets:			
Fair value of plan assets at beginning of year	911,113	1,525,313	—
Actual loss on plan assets	(94,809)	(35,761)	—
Employer contributions	15,000	2,506	631
Benefit distribution at settlement	—	(3,879)	—
Gross benefits paid	(15,340)	(28,179)	(631)
Fair value of plan assets at end of year	815,964	1,460,000	—
Net amount recognized at end of year	$ (326,416)	(136,708)	(18,306)

Settlements of $3,879 were recognized during the four months ended December 31, 2018. During 2018, the Mercy Plans updated the mortality projection assumptions used to determine the Plans' projected benefit obligation. The change to the MP-2018 in 2018 resulted in a decrease in the Mercy Plans' projected benefit obligation and an increase in the funded status of $5,530 at December 31, 2018.

(Dollar amounts in thousands)

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

		BSHSI Plans	Mercy Plans	Mercy Post employment
Retirement assets	$	1,942	38,721	—
Current liabilities		—	—	(1,603)
Retirement liabilities – long term		(328,358)	(175,429)	(16,703)
Net amount recognized	$	(326,416)	(136,708)	(18,306)

In addition to the amounts recognized in the consolidated financial statements related to the Plans, retirement liabilities on the consolidated balance sheet includes other retirement liabilities, consisting primary of accrued contributions to defined contribution plans, of $248 at December 31, 2018 for BSHSI.

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic benefit cost (income) for the years ended 2018:

		BSHSI Plans	Mercy Plans	Mercy Post employment
Net prior service credit	$	—	14,251	13
Net actuarial (loss) gain		(329,090)	(462,067)	2,048
Net amount unrecognized		(329,090)	(447,816)	2,061
Cumulative excess (shortfall) of employer contributions over net periodic benefit cost		2,674	311,108	(20,367)
	$	(326,416)	(136,708)	(18,306)

Net actuarial (loss) gain is amortized as a component of net periodic benefit cost (income), only if the losses exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. Net prior service credit (cost) is amortized on a straight line basis over the estimated life of the Plans' participants. The net prior service credit (cost) and net actuarial (loss) gain for Mercy, included in unrestricted net assets expected to be recognized as a (loss) gain in net periodic benefit cost (income) during the year ending December 31, 2019 is ($14,251) and $462,067, respectively. The net prior service credit (cost) and net actuarial (loss) gain for BSHSI, included in unrestricted net assets expected to be recognized as a (loss) gain in net periodic benefit cost (income) during the year ending December 31, 2019 is $0 and $329,090, respectively.

(Continued)

(Dollar amounts 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 four months ended December 31, 2018:

		BSHSI Plans	Mercy Plans	Mercy Post employment
Amortization of prior service cost (credit)	$	—	(1,220)	—
Net actuarial gain (loss)		(113,435)	(73,585)	—
Amortization of net actuarial loss		—	21,038	—
Other postemployment benefit changes		—	—	2,367
	$	(113,435)	(53,767)	2,367

The following amounts are a summary of the components of net periodic benefit cost for the Plans for the four months ended December 31, 2018:

		BSHSI Plans	Mercy Plans	Mercy Post employment
Service cost	$	4,900	4,608	181
Interest cost		15,690	19,639	205
Expected return on plan assets		(20,683)	(30,567)	—
Curtailment/settlement cost (credit)		—	1,176	—
Amortization of:				
Actuarial loss		3,312	5,837	(11)
Prior service cost		578	(407)	(1)
Net periodic benefit cost (income)	$	3,797	286	374

The accumulated benefit obligation (ABO) for all defined benefit pension plans was $1,108,590 and $1,046,659 for BSHSI and Mercy respectively, at December 31, 2018. For certain Company defined benefit pension plans, the ABO exceeded the fair value of plan assets as follows as of December 31, 2018:

		BSHSI Plans	Mercy Plans
Accumulated benefit obligation	$	1,087,740	1,046,659
Fair value of plan assets		793,174	879,669

(Dollar amounts in thousands)

The projected benefit obligation exceeded the fair value of plan assets for certain of the Company's defined benefit pension plans as follows as of December 31, 2018:

		BSHSI Plans	Mercy Plans
Projected benefit obligation	$	1,121,531	1,055,099
Fair value of plan assets		793,174	879,669

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

	BSHSI Plans	Mercy Plans	Mercy Post employment
Discount rate-ERISA	4.31 %	3.02 %	N/A
Discount rate-Church pension and postretirement benefit plan	4.18	4.18	4.18
Rate of compensation increase	2.50	2.50	N/A
Mortality table	RP-2014	RP-2014	RP-2014
Generational scale	MP-2018	MP-2018	MP-2018

The following weighted average assumptions were used to determine net periodic benefit cost (income) as of December 31, 2018:

	BSHSI Plans	Mercy Plans	Post employment Mercy
Discount rate	4.18 %	3.54 %	3.54 %
Expected return on plan assets	7.00	6.10	N/A
Rate of compensation increase	2.50	2.50	N/A
Mortality table	RP-2014	RP-2014	RP-2014
Generational scale	MP-2018	MP-2018	MP-2018

(Continued)

(Dollar amounts in thousands)

The following healthcare cost trend rate assumptions were used in determining the Mercy benefit obligation of the post-employment healthcare benefits as of December 31, 2018:

	December 31, 2018
Healthcare cost trend rate assumed for next year	6.2%–6.8%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.5 %
Year the rate reaches the ultimate trend rate	2028

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

	One-percentage-point increase	One-percentage-point decrease
Effect on total of service and interest cost	$ 70	60
Effect of post-employment benefit obligation	927	818

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

The Company's defined benefit pension plans targeted asset allocations, by asset category, are as follows as of December 31, 2018:

	BSHSI	Mercy
Asset category:		
Equity mutual and commingled funds and securities	60 %	35 %
Fixed income mutual funds and securities	32	42
Alternative investments	5	23
Cash	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.

(Dollar amounts in thousands)

The following is a summary of BSHSI plan assets measured at fair value on a recurring basis based on the fair value hierarchy as of December 31, 2018:

		Fair value measurements			Reported at
	Fair value	Level 1	Level 2	Level 3	NAV[1]
Cash and cash equivalents	$ 20,682	20,682	—	—	—
Equity mutual funds	57,912	57,912	—	—	—
Equity commingled funds	191,147	—	191,147	—	—
Common and preferred stocks	238,617	237,999	618	—	—
Fixed income mutual funds	9,042	9,042	—	—	—
Fixed income commingled funds	135,040	—	135,040	—	—
Government and agency bonds	3,102	391	2,711	—	—
Corporate obligations	116,334	—	116,334	—	—
Alternative investments	—	—	—	—	44,088
Total plan assets	$ 771,876	326,026	445,850	—	44,088

1 Fund investments reported at NAV as practical expedient estimate.

The following is a summary of Mercy plan assets measured at fair value on a recurring basis based on the fair value hierarchy as of December 31, 2018:

		Fair value measurements			Reported at
	Fair value	Level 1	Level 2	Level 3	NAV[1]
Cash and cash equivalents	$ 19,001	19,001	—	—	—
Exchange traded mutual funds	515,353	387,246	128,107	—	—
Common and preferred stocks	50,778	50,778	—	—	—
Fixed income commingled funds	54,756	27,448	27,308	—	—
Government and agency bonds	69,684	66,693	2,991	—	—
Corporate obligations	356,849	—	356,849	—	—
Other	3,826	—	3,826	—	—
Alternative investments	—	—	—	—	377,061
Total investments	1,070,247	551,166	519,081	—	377,061
Due from broker/custodian for investment activity, net	12,692	—	12,692	—	—
Total plan assets	$ 1,082,939	551,166	531,773	—	377,061

1 Fund investments reported at NAV as practical expedient estimate.

Fair value methodologies for cash and cash equivalents, marketable debt securities, marketable equity securities, and exchange traded/mutual funds are consistent with the inputs described in note 4. The valuation of interest rate swap agreements is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each interest rate swap agreement. The discounted cash flow analysis reflects the contractual terms of the interest rate swap agreement, including the period to maturity, and uses observed market-based inputs, including interest rate curves and implied volatilities. The Company has categorized the interest rate swap agreements as a Level 2 measurement based on the transparency of inputs, including observable inputs, as well as the daily collateralization thresholds.

Following is the summary of the inputs and valuation techniques as of December 31, 2018 used for valuing Level 2 securities in the portfolio:

Securities	Input	Valuation technique
Cash equivalents	Broker/Dealer	Market
Marketable debt securities:		
U.S. government agencies	Broker/Dealer	Market
Corporate	Broker/Dealer	Market
Interest rate swap agreements	Broker/Dealer	Market
Other	Matrix	Market/Income
Exchange traded/mutual funds	NAV	Market

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

Alternative investments are not necessarily readily marketable and may include short sales on securities and trading in future contracts, options, foreign currency contracts, other derivative instruments and private equity investments. However, management has determined that the NAV is an appropriate estimate of the fair value of these investments at December 31, 2018, since the alternative investments are audited and accounted for at fair value by the administrators of the respective alternative investments. Alternative investments can be divested only at specified times in accordance with terms of the partnership agreements. Hedge fund redemptions typically contain restrictions that allow for a portion of the withdrawal proceeds to be held back from distribution while the underlying investments are liquidated. These redemptions are subject to lock-up provisions that are generally imposed upon initial investment in the fund. Private equity funds are generally closed-end funds and have significant redemption restrictions that prohibit redemptions during the fund’s life.

(Dollar amounts in thousands)

The projected benefit payments for the Plans are as follows:

		BSHSI Pension	Pension	Mercy Post employment
2019	$	52,622	160,180	1,990
2020		54,470	98,977	2,093
2021		57,386	100,839	1,608
2022		59,564	101,644	1,550
2023		62,951	100,099	1,540
2024–2028		344,830	495,145	7,037

The Company expects to contribute $14,200 to the defined benefit pension plans and $1,990 to the post-employment benefit plans in 2019. The Company has several defined contribution benefit plans to assist eligible employees in providing for retirement. Under such plans, BSHSI and Mercy recognized expense of $19,094 and $29,047, respectively, for the four months ended December 31, 2018 related to employer contributions, which is included in employee benefits expense in the consolidated statements of operations.

(10) Other Commitments and Contingent Liabilities

(a) General and Professional Liability Insurance

The provision for claims and related funding levels for the HPL/GL Program is established annually based upon the recommendations of consulting actuaries The Company has accrued claims including liabilities for incidents incurred but not reported of approximately $235,575 at December 31, 2018. The current portion of such accruals, $58,196 at December 31, 2018 is included in other accrued expenses, and the remainder, $177,379 at December 31, 2018, is included within self-insurance liabilities in the accompanying consolidated balance sheet. Amounts recorded for unpaid claims are based upon the estimated present value of future claim payments and such amounts are undiscounted and based upon an actuarial estimate.

(b) Workers' Compensation Insurance

Accrued workers' compensation claims of $87,590, of which the current portion, $8,700 at December 31, 2018 is reported as other accrued expenses and the remainder, $78,890, is reported within self-insurance liabilities in the accompanying consolidated balance sheet, include estimates for incidents incurred but not reported at December 31, 2018. 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.

(Dollar amounts in thousands)

(c) Employee Health Insurance

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

(d) Litigation

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

(e) Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Total rental expense was $45,779 for the four months ended December 2018. Future rental payments under noncancelable operating leases with durations in excess of one year are as follows:

2019	$	79,217
2020		73,318
2021		58,554
2022		43,409
2023		31,815
Thereafter		71,055

(11) Net Assets with Donor Restrictions

The Company's endowments consist of 278 individual funds established for a variety of purposes as of December 31, 2018. Net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor or board-imposed restrictions and the nature of the restrictions, if any.

The Company's endowment net assets are comprised of permanently restricted funds, which were $74,959 at December 31, 2018. The Company does not hold any board-designated endowment funds within assets without donor restrictions or temporarily restricted net assets (assets with donor restrictions).

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or Uniform Prudent Management of Institutional Funds Act requires the Company to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets without donor restrictions. There were no deficiencies at December 31, 2018.

(Continued)

(Dollar amounts in thousands)

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

(12) Functional Expenses

The functional breakdown of expenses incurred by the Company in fulfilling its mission for the four months ended December 31, 2018:

	Program activities			Supporting activities	
	Healthcare services	Ancillary services and other	Total	General and administrative	Total
Employee compensation	$ 1,002,373	248,418	1,250,791	181,605	1,432,396
Purchased services and other	341,910	116,439	458,349	74,198	532,547
Supplies	436,518	22,809	459,327	45,201	504,528
Depreciation and amortization	88,524	28,934	117,458	25,206	142,664
Interest	8,956	20,290	29,246	3,855	33,101
Total recurring expenses	$ 1,878,281	436,890	2,315,171	330,065	2,645,236

(Dollar amounts in thousands)

(13) Liquidity and Capital Resources

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

		December 31, 2018
Cash and cash equivalents	$	167,535
Accounts receivable, net		976,269
Assets whose use is limited:		
Board designated funds		2,450,498
Self-insurance and trustee held funds		236,950
Donor restricted funds		89,956

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

As part of the Company’s liquidity management plan, cash in excess of daily requirements are 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 $2,450,498 as of December 31, 2018. The fund established by the board of directors may be drawn upon, if necessary, to meet unexpected liquidity needs.

(14) Investments in Unconsolidated Organizations

The Company has invested in a number of joint ventures, limited liability corporations and other entities to provide specialty healthcare services or engage in other activities. These investments range from minority investments with no control to majority investments or investments with control. The most significant of these investments are presented below. The Company accounts for its interest in these entities under the equity method of accounting and includes its interest in the excess of revenues over expenses of these entities in its consolidated statement of operations and changes in net assets as other revenue. None of these entities are otherwise affiliated with BSMH.

(Dollar amounts in thousands)

(a) Summa Health System

Summa Health System (Summa), located in Akron, Ohio, is a tax-exempt integrated health care delivery system and provides health services and insurance to communities in Northeast Ohio. Healthspan Partners (HSP) has an ownership interest of 30% in Summa and does not manage or control the operations. In September 2018, the Company entered into an agreement to redeem HSP's ownership interest in Summa and has reduced HSP's investment in Summa to HSP's estimated realizable value of the investment. The adjustment has been recorded as a nonrecurring loss on the statement of operations. No future Summa earnings (losses) will be recognized on the investment in the consolidated statement of operations and changes in net assets until resolution of the redemption agreement.

(b) Roper St. Francis Healthcare – South Carolina

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

(c) Other

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

The following is a summary of the investments in unconsolidated organizations as of December 31, 2018:

Summa Health System	$	250,000
Roper St. Francis Healthcare		107,880
Other		162,340
	$	520,220

(Dollar amounts in thousands)

The following is a summary of the income (loss) from unconsolidated organizations, which is included in other revenue, net, for the four months ended December 31, 2018:

Summa Health System	$	—
Roper St. Francis Healthcare		(2,674)
Other		6,844
	$	4,170

The following is a summary of assets, liabilities, net assets, revenues and expenses as of and for the year ended December 31, 2018 (from their unaudited consolidated financial statements):

		Summa	Roper
Total assets	$	1,922,840	1,144,061
Total liabilities		903,362	713,143
Unrestricted net assets		971,785	396,444
Restricted net assets		43,075	34,474
Total revenue		460,539	310,111
Total expenses		453,295	304,262
Investment gains, net		(25,098)	(19,166)
Change in unrestricted net assets		(1,534)	11,719

(15) Subsequent Events

The Company has evaluated and disclosed any subsequent events through April 3, 2019, which is the date the consolidated financial statements were issued and made publicly available. No other recognized or nonrecognized subsequent events were identified for recognition or disclosure in the consolidated financial statements.

Schedule 1

BON SECOURS MERCY HEALTH

Consolidating Schedule – Balance Sheet Information

December 31, 2018

(In thousands)

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

See accompanying independent auditors' report.

Schedule 2

BON SECOURS MERCY HEALTH

Consolidating Schedule – Operating Information

Four months ended December 31, 2018

(In thousands)

	Atlantic Group	Great Lakes Group	Mid-American Group	BSMH Shared Services	Ensemble	BSMH Captives	Consolidating eliminations	Bon Secours Mercy Health
Revenue:								
Net patient service revenue	$ 1,017,695	908,209	709,047	—	—	—	(76,253)	2,558,698
Other operating revenue	34,209	40,434	18,347	465,220	120,021	10,529	(543,356)	145,404
Total recurring revenue	1,051,904	948,643	727,394	465,220	120,021	10,529	(619,609)	2,704,102
Expenses:								
Employee compensation	497,552	454,120	357,880	235,642	55,940	1,394	(170,132)	1,432,396
Purchased services and other	276,791	259,531	202,699	193,198	17,183	5,484	(422,339)	532,547
Supplies	201,513	167,787	136,002	7,811	479	3	(9,067)	504,528
Depreciation and amortization	39,295	39,382	35,667	38,801	764	—	(11,245)	142,664
Interest expense	9,599	188	1,790	24,645	—	7	(3,128)	33,101
Total recurring expenses	1,024,750	921,008	734,038	500,097	74,366	6,888	(615,911)	2,645,236
Recurring operating income	27,154	27,635	(6,644)	(34,877)	45,655	3,641	(3,698)	58,866
Nonrecurring operating revenues:								
Nonrecurring losses, net	(2,119)	(348)	(2,302)	(90,528)	(182)	—	—	(95,479)
Operating income	25,035	27,287	(8,946)	(125,405)	45,473	3,641	(3,698)	(36,613)
Nonoperating gains (losses), net:								
Investment losses, net	(45,799)	(52,735)	(14,809)	(147,947)	—	(14,601)	(38)	(275,929)
Loss on defeasance of debt	—	—	—	(25,874)	—	—	23	(25,851)
Other nonoperating activities, net	(11,696)	(2,172)	(1,702)	446	—	—	33	(15,091)
Nonoperating losses, net	(57,495)	(54,907)	(16,511)	(173,375)	—	(14,601)	18	(316,871)
(Deficit) excess of revenues over expenses	$ (32,460)	(27,620)	(25,457)	(298,780)	45,473	(10,960)	(3,680)	(353,484)

See accompanying independent auditors' report.

BON SECOURS MERCY HEALTH

Utilization Statistics

For the Four-Month Period Ended December 31, 2018

BON SECOURS MERCY HEALTH

Consolidated Utilization Statistics (Unaudited)

	Four Months Ended December 31, 2018
Utilization Statistics	
Admissions - Acute	96,633
Admissions - Post-acute	1,636
Equivalent Inpatient Admissions	52,778
Newborn Deliveries	8,449
Patient days - Acute	418,965
Patient days - Post-acute	102,345
Average daily census - Acute	1,148
Average length of stay - Acute	4.34
Emergency Room Visits	451,076
Inpatient Surgeries	20,346
Outpatient Surgeries	51,102
Full Time Equivalent Employees	45,744

NOTE:
The utilization statitics above represent relative volumes to be compared to the financial period upon which these are presented.
Other statistics that would normally be presented are being reviewed for consistency between healthcare entities and from time period to time period.

BON SECOURS MERCY HEALTH

Financial Ratios & Analyses

For the Four-Month Period Ended December 31, 2018

BON SECOURS MERCY HEALTH

Consolidated Financial Analyses (Unaudited)

(Dollars in Thousands)

	Four Months Ended December 31, 2018
Financial Analyses	
Operating Margin	2.2%
Excess Margin	(15.4%)
Debt Service Coverage [1]	3.00
based on Maximum Annual Debt Service ("MADS") [2] of:	*$63,148*
adjusted to remove unrealized investments gains (losses) of:	*($271,107)*
adjusted to remove unrealized swap gains (losses) of:	*($5,668)*
adjusted to remove (impairment) charges of:	*($64,312)*
adjusted to remove (loss) on early extinguishment of debt of:	*($25,851)*
Operating EBIDA	$234,631
Operating EBIDA Margin	8.7%
Total unrestricted cash [3]	$3,732,948
Days Cash on Hand [4]	182
Total Debt to Capitalization	40.8%
Net Patient Revenue per EIPA-CMI Adj	$30,684
Total Community Benefit (TCB) Cost [5]	$221,946
TCB Cost as a percent of Total Expense [5]	8.4%
Net Patient Revenue by Payor Type *(reported on annual basis only):*	
Medicare - Traditional	24.5%
Medicare -Managed	13.5%
Medicaid - Traditional	2.3%
Medicaid - Managed	8.3%
Other Governmental	1.5%
Commercial	48.2%
Self Pay & Other	1.7%
Total Net Patient Revenue by Payor Type	100.0%

Note: All financial ratios above reflect the accounting effects for discontinued operations and changes in accounting principle. See footnotes to the financial statements for further details.

(1) Debt Service Coverage Ratio as defined in the Master Trust Indenture (Amended and Restated) dated as of December 1, 2017.

(2) MADS represents the greatest annual period of debt service (principal repayment plus interest payments). MADS is determined on the debt service of Indebtedness as defined in the Mercy Health Master Trust Indenture. For this reporting period, MADS has been adjusted for the number of days in the four-month period upon which this calculation is made.

(3) Cash excludes trustee held funds and donor restricted funds.

(4) Days Cash on Hand reflects unrestricted cash divided by cash expense per day for the four-month period September 1, 2018 to December 31, 2018.

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