Mercy Health Corporation

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2021 and 2020

Mercyhealth™

WIPFLI

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Independent Auditor's Report

Board of Directors
Mercy Health Corporation
Rockford, Illinois

We have audited the accompanying consolidated financial statements of Mercy Health Corporation, which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 Mercy Health Corporation as of June 30, 2021 and 2020, and the results of its operations, changes in nets assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP
Milwaukee, Wisconsin

August 23, 2021

Mercy Health Corporation

Consolidated Balance Sheets

June 30, 2021 and 2020

	(In Thousands)	
Assets	**2021**	**2020**
Current assets:		
Cash and cash equivalents	$ 345,028	$ 163,395
Patient accounts receivable - Net	74,046	163,934
Supplies	27,891	28,289
Prepaid expenses	3,743	11,766
Current portion of assets limited as to use	1,746	1,502
Other receivables	29,994	23,342
Total current assets	482,448	392,228
Assets limited as to use, less current portion	949,630	774,292
Property and equipment - Net	829,167	874,039
Other assets:		
Investment in joint ventures	13,840	11,110
Operating lease assets	5,595	-
Pension assets	2,368	-
Other	16,517	13,957
Total other assets	38,320	25,067
TOTAL ASSETS	$ 2,299,565	$ 2,065,626

Mercy Health Corporation

Consolidated Balance Sheets (Continued)

June 30, 2021 and 2020

	(In Thousands)	
Liabilities and Net Assets	**2021**	**2020**
Current liabilities:		
Current maturities of long-term debt	$ 12,569	$ 3,607
Current portion of operating lease liabilities	2,701	-
Accounts payable	44,602	47,785
Due to third-party payors	24,440	20,890
Accrued salaries, wages, and payroll taxes	78,583	71,061
Other accrued expenses	65,547	77,019
Total current liabilities	228,442	220,362
Long-term liabilities:		
Long-term debt, less current maturities	673,666	689,625
Long-term portion of operating lease liabilities	2,755	-
Accrued liabilities under self-insurance program	77,143	55,333
Deferred compensation	98,754	74,099
Pension obligations	-	22,139
Accrued postretirement medical benefits	4,721	4,580
Other liabilities	2,635	1,375
Total long-term liabilities	859,674	847,151
Total liabilities	1,088,116	1,067,513
Net assets:		
Without donor restrictions	1,183,742	973,668
With donor restrictions	27,707	24,445
Total net assets	1,211,449	998,113
TOTAL LIABILITIES AND NET ASSETS	$ 2,299,565	$ 2,065,626

See accompanying notes to consolidated financial statements.

Mercy Health Corporation

Consolidated Statements of Operations

Years Ended June 30, 2021 and 2020

	(In Thousands) 2021	2020
Revenue:		
Patient service revenue	$ 935,100	$ 979,564
Premium revenue	128,576	116,084
Other operating revenue	99,483	64,410
Total revenue	1,163,159	1,160,058
Expenses:		
Salaries and wages	535,043	590,602
Employee benefits	66,949	79,786
Professional fees and purchased services	95,087	107,238
Medical claims and capitation payments	23,109	30,593
Medical supplies, other supplies, and drugs	196,647	197,310
Insurance	41,825	14,057
Provider tax assessment	26,104	24,486
Other	41,763	38,963
Depreciation	71,462	73,057
Interest	27,654	27,044
Total expenses	1,125,643	1,183,136
Income (loss) from operations	37,516	(23,078)
Nonoperating income (expense):		
Other	(5,248)	(764)
Investment income - Net	156,664	23,986
Total nonoperating income - Net	151,416	23,222
Excess of revenue over expenses	188,932	144
Other changes in net assets without donor restrictions:		
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	21,137	(405)
Other	5	(16)
Increase (decrease) in net assets without donor restrictions	$ 210,074	$ (277)

See accompanying notes to consolidated financial statements.

Mercy Health Corporation

Consolidated Statements of Changes in Net Assets

Years Ended June 30, 2021 and 2020

	(In Thousands) 2021	2020
Net assets without donor restrictions:		
Excess of revenue over expenses	$ 188,932	$ 144
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	21,137	(405)
Other	5	(16)
Increase (decrease) in net assets without donor restrictions	210,074	(277)
Net assets with donor restrictions:		
Contributions	373	770
Investment income - Net	590	54
Net change in beneficial interest in trusts	2,501	(435)
Net assets released from restriction	(202)	(636)
Increase (decrease) in net assets with donor restrictions	3,262	(247)
Change in net assets	213,336	(524)
Net assets at beginning	998,113	998,637
Net assets at end	$ 1,211,449	$ 998,113

See accompanying notes to consolidated financial statements.

Mercy Health Corporation

Consolidated Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	(In Thousands)	
	2021	2020
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	$ 213,336	$ (524)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Equity gains in joint ventures	(3,522)	(3,265)
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	(21,137)	405
Change in operating right-of-use assets and liabilities	(139)	-
Net realized and unrealized gains and losses on investments	(147,150)	(20,393)
Depreciation and amortization	68,072	69,761
(Gain) loss on sale of property and equipment	(725)	238
Changes in operating assets and liabilities:		
Patient accounts receivable	89,888	53,828
Supplies and other assets	(791)	(1,717)
Accounts payable	(3,183)	8,495
Accrued liabilities and other	40,546	31,117
Due to/from third-party payors	3,550	(5,476)
Net cash provided by operating activities	238,745	132,469
Cash flows from investing activities:		
Net (increase) decrease in assets limited as to use	(28,432)	(14,394)
Purchases of property and equipment	(25,895)	(76,666)
Proceeds from sale of property and equipment	30	40
Proceeds received from joint ventures	792	3,242
Net cash used in investing activities	(53,505)	(87,778)
Net cash used in financing activities - Principal payments on long-term debt	(3,607)	(3,174)
Net increase in cash and cash equivalents	181,633	41,517
Cash and cash equivalents at beginning	163,395	121,878
Cash and cash equivalents at end	$ 345,028	$ 163,395
Supplemental cash flow information:		
Cash paid for interest	$ 31,057	$ 30,358

See accompanying notes to consolidated financial statements.

Mercy Health Corporation
Notes to Consolidated Financial Statements (In Thousands)

Note 1: Summary of Significant Accounting Policies

Principles of Consolidation

Mercy Health Corporation (MHC) is a not-for-profit entity that serves as the parent corporation and supports the operations of its affiliated entities with the goal of providing integrated primary, secondary, and advanced tertiary medical and surgical services for the benefits of the residents of the combined service area.

Mercy Health Corporation consists of the following affiliated entities:

- Mercy Health System Corporation (MHSC), which operates a 240-bed hospital in Janesville, Wisconsin, and approximately 41 physician clinics in southern Wisconsin and northern Illinois; a skilled nursing facility (SNF) that operates as a subacute care unit of the hospital; Mercy Walworth Hospital and Medical Center (MWH), which operates a 25-bed hospital facility in Walworth County, Wisconsin; and MercyCare Insurance Company (MCIC), which is an indemnity insurance company that contracts with local employers. MCIC has a wholly owned subsidiary, MercyCare HMO, which operates as a health maintenance organization (HMO) under Wisconsin statutes. MCIC and MercyCare HMO contract for services with affiliates and other providers.

- Mercy Assisted Care, Inc. (MAC) operates Mercy Homecare, a supplier of durable medical equipment and coordinates home care and hospice services through nurses, physical therapists, and speech therapists.

- Mercy Harvard Hospital, Inc. (MHH) operates a hospital with 25 acute and 45 long-term care beds located in Harvard, Illinois. In 2017, the Illinois Health Planning and Review Board approved MHC's certificate of need application to build a micro-hospital in Crystal Lake, IL, allocating 13 of the 25 licensed beds of MHH to the development of the micro-hospital.

- Javon Bea Hospital (JBH), previously Rockford Memorial Hospital, which operates a 74-bed hospital and a 194-bed hospital in Rockford, Illinois, provides inpatient, outpatient, and emergency care services to residents of Rockford, Illinois and the surrounding communities. Rockford Health System Ventures, LLC (RHSV) is a wholly owned subsidiary of JBH and was created to manage JBH's investments in joint ventures. Rockford Health Insurance Ltd. (RHIL) is a wholly owned subsidiary of JBH, incorporated under the laws of Bermuda, and provides the affiliated entities with excess professional and general liability insurance.

- Rockford Health Physicians (RHPH) provides physician and ambulatory care services at several sites.

- Mercy Health Development Foundation (MHDF) is organized to promote education and scientific and charitable health care activities.

- Mercyhealth Visiting Nurses Association, Inc. (VNA) provides home health nursing services and rents medical equipment to residents of Rockford, Illinois and the surrounding communities.

Note 1: Summary of Significant Accounting Policies (Continued)

Principles of Consolidation (Continued)

The accompanying consolidated financial statements include the accounts and operations of MHC, including MHSC, MAC, MHH, JBH, RHPH, MHDF, VNA, and their wholly owned subsidiaries (collectively the "Corporation"). All significant intercompany accounts and transactions have been eliminated in consolidation. The Corporation eliminates patient service revenue generated from employees participating in the self-insured health plan.

Financial Statement Presentation

The Corporation follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

The Corporation considers critical accounting estimates to be those that require more significant judgments which include the valuation of accounts receivable, estimated third-party settlements, reserves for losses and expenses related to self-insurance for employee health care claims and malpractice claims, valuation of the pension liability and postretirement medical benefits, and reserves for unpaid claims for participants in MCIC and MercyCare HMO insurance programs.

Cash and Cash Equivalents

Highly liquid debt instruments with an original maturity of three months or less are considered to be cash equivalents, excluding assets limited as to use and amounts held by the pension plans.

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivables and Credit Policy

Patient accounts receivable is reported at the amount that reflects the consideration to which the Corporation expects to be entitled, in exchange for providing patient care services. Patient accounts receivable are recorded in the accompanying consolidated balance sheets net of contractual adjustments and implicit price concessions which reflects management's estimate of the transaction price. The Corporation estimates the transaction price based on negotiated contractual agreements, historical experience, and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions and is recorded through a reduction of gross revenue and a credit to patient accounts receivable.

The Corporation does not have a policy to charge interest on past due patient accounts.

Supplies

Supplies are valued at the lower of cost, determined using the average cost method, or net realizable value.

Assets Limited as to Use and Investment Income

Investments, included in assets limited as to use, are measured at fair value in the accompanying consolidated balance sheets and have been designated as trading securities. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in nonoperating income in the accompanying consolidated statements of operations, unless the income is restricted by donor or law. Realized gains and losses are determined by specific identification. Investment related expenses are included with investment income.

Assets limited as to use include assets the Board of Directors has designated for future capital improvements and expansion over which the Board retains control and may at its discretion subsequently use for other purposes, amounts set aside for compensation agreements and for professional liability programs, amounts set aside for regulatory requirements and compliance, assets held by a trustee under bond indenture agreements, and assets designated to fund donor restrictions, except interests in beneficial trusts, which are recorded in other assets. Amounts required to meet current liabilities have been classified as current assets.

Note 1: Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

GAAP specifies a three-tier fair value hierarchy, which prioritizes the inputs used in estimating fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exits, therefore, requiring an entity to develop its own assumptions.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost. Interest and other costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Any investment return on those borrowed funds reduces the amount of costs that are capitalized. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line half year method. Leasehold improvements are amortized over the shorter period of the estimated useful life or the remaining term of the lease. Estimated useful lives range from 2 to 25 years for land improvements, 5 to 20 years for leasehold improvements, 5 to 40 years for building and improvements, and 3 to 20 years for equipment.

Unamortized Debt Issuance Costs and Bond Premiums

Bond issuance costs and original issue premiums related to the issuance of long-term debt are netted against long-term debt and amortized over the life of the related debt using the effective interest method. This amortization is included with interest expense in the accompanying consolidated statements of operations.

Asset Retirement Obligation

ASC Topic 410-20, *Accounting for Conditional Asset Retirement Obligation*, clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered ASC Topic 410-20, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Accruals are estimated using recent remediation cost per square foot applied to properties with determinable settlement dates. No accrual is recorded where there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Corporation may settle the obligation is unknown and cannot be estimated.

Note 1: Summary of Significant Accounting Policies (Continued)

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an impairment has occurred, a loss will be recognized. No impairment losses were recorded in 2021 and 2020.

Net Assets

Net assets without donor restrictions are those not subject to donor-imposed stipulations and includes those expendable resources which have been designated for special use by the Board of Directors. Net assets with donor restrictions are those whose use by the Corporation has been limited by donors to a specific time period or purpose, or have been restricted by donors to be maintained by the Corporation in perpetuity.

Self-Insurance

Accrued liabilities under self-insurance programs include estimates of the ultimate cost for known claims as well as incurred but not reported claims as of the consolidated balance sheet dates.

Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue from performance obligations satisfied over time is recognized based on actual charges incurred. Generally, performance obligations satisfied over time relate to patients receiving inpatient hospital acute care services, and sub-acute care services. For these services the Corporation measures the performance obligation from admission to the point when there are no further services required for the patient, which is generally at the time of discharge. For outpatient services provided at hospitals, clinics, and home health and sub-acute services, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed. In the case of these outpatient services, recognition of the obligation over time yields the same result as recognizing the obligation at a point in time.

Because the Corporation's performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption and, therefore, is 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. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Service Revenue (Continued)

The Corporation uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The Corporation used the following factors to develop portfolios: major payor classes, type of service (i.e. inpatient, outpatient, clinic), and geographic location. Using historical collection trends and other analyses, the Corporation evaluated the accuracy of its estimate and determined that recognizing revenue by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

The Corporation determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation's policy, and implicit price concessions provided to patients. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. The Corporation determines its estimate of implicit price concessions based on its historical collection experience for each patient portfolio based on payor class, service type, and geographic location.

The Corporation has agreements with third-party payors that typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Government Payors

Prospective Payment

Medicare - Inpatient hospital acute care services are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient, clinic, home health, and subacute care services are reimbursed primarily on a prospective payment methodology based upon a patient classification system or fixed fee schedules.

Medicaid - Inpatient and outpatient services are reimbursed primarily based upon prospectively determined rates. Clinic services are reimbursed primarily on a fixed fee schedule.

Cost-Reimbursed

MHH and MWH are critical access hospitals (CAH). Under the CAH designation, inpatient and outpatient hospital services rendered to Medicare and Wisconsin Medicaid beneficiaries are paid based upon a cost-reimbursement methodology.

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Service Revenue (Continued)

Other Payors

The Corporation has entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Because of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon the Corporation. The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RACs) to search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once the RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Corporation has not been notified by the RAC of any potential significant reimbursement adjustments. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2021 and 2020. Medicare cost reports have been settled through June 30, 2017 for MHSC, through June 30, 2017 for JBH, through June 30, 2016 for MHH, and through June 30, 2017 for MWH.

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Service Revenue (Continued)

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2021 and 2020, was not significant.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Corporation expects to collect based on its collection history with those patients. The Corporation's policy is to provide a discount from established charges to uninsured patients. This policy did not change in 2021 and 2020.

The estimated amount of consideration from patients and third-party payors have not been adjusted for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

All incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Corporation otherwise would have recognized is one year or less in duration.

Premium Revenue and Claims Payable

Premiums are billed monthly for coverage in the following month and are recognized as revenue in the month for which insurance protection is provided. Claims payable, included in other accrued expenses in the accompanying consolidated balance sheets, are determined using statistical analyses and represent estimates of the ultimate net cost of all reported and unreported claims that are unpaid at the end of each accounting period. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for claims are adequate. The estimates are reviewed periodically, and as adjustments to these liabilities become necessary, such adjustments are reflected in current operations. The Corporation has recorded a provision for claims payable of $13,599 and $16,308 at June 30, 2021 and 2020, respectively.

Note 1: Summary of Significant Accounting Policies (Continued)

Grant Revenue

The Corporation receives certain governmental grants for a variety of purposes. Revenue from grants is considered earned when the Corporation incurs the related expenditures or otherwise meets the terms and conditions of the grant. Grant income is included with other operating income in the consolidated statements of operations. Grants earned but not received are recorded as other receivables, and any amounts received but not yet earned are recorded as refundable advances in the accompanying consolidated balance sheets.

During 2020, the Corporation agreed to the terms and conditions to participate in a portion of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") program issued through the U.S. Department of Health and Human Services ("HHS"). Based on the terms and conditions of the grant, the Corporation earns the grant by incurring COVID-19 expenses or by incurring lost revenues related to COVID-19. The Corporation recognized approximately $25,340 and $26,177 in grant income related to this program in 2021 and 2020, respectively. As of June 30, 2021 and 2020, the Corporation recorded a refundable advance of $10,947 and $23,043, respectively, within other accrued expenses for the net amount of grants received but not earned, or for overpayments.

Hospital Assessments

Wisconsin state regulations require eligible hospitals to pay the state an annual assessment. The assessment period is the state's fiscal year, which runs from July 1 to June 30. The assessment is based on each Wisconsin hospital's gross revenues, as defined. The revenue generated from the assessment is to be used, in part, to increase overall reimbursement under the Wisconsin Medicaid program.

The state of Illinois has a hospital assessment program to improve Medicaid reimbursement for Illinois hospitals and access to hospital services for qualifying patients. The program requires Illinois hospitals to pay an assessment based on inpatient and outpatient utilization factors, primarily on occupied bed days and revenue, respectively. The funds raised from the assessments are matched by the federal government and distributions are made to hospitals based on certain factors, including Medicaid inpatient and outpatient utilization.

Provider tax assessments and payments are recognized in the period to which they apply and are included in the accompanying consolidated statements of operations.

Excess (Deficiency) of Revenue Over Expenses

The accompanying consolidated statements of operations and changes in net assets include excess (deficiency) of revenue over expenses, which is considered the operating indicator. Changes in net assets without donor restrictions, which are excluded from the operating indicator, include changes in pension obligations other than pension expense and postretirement medical benefit adjustment, permanent transfer of assets to and from affiliates for other than goods and services, and contributions of long-lived assets.

Note 1: Summary of Significant Accounting Policies (Continued)

Pension Costs

The Corporation recognizes the service cost component of net periodic benefit costs as employee benefits expense within operating expenses in the accompanying consolidated statements of operations. The other components of net periodic benefit cost are recognized within the nonoperating section of the consolidated statements of operations.

Charity Care

The Corporation provides care to patients who meet criteria under its charity care policy without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The estimated cost of providing care to patients under the Corporation’s charity care policy is calculated by multiplying the ratio of cost to gross charges for the Corporation times the gross uncompensated charges associated with providing charity care. The cost to provide the Corporation's charity care was approximately $5,294 and $4,530 in 2021 and 2020, respectively.

Promises to Give

Unconditional promises to give cash and other assets to the Corporation 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 deemed unconditional. The gifts are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Advertising Costs

Advertising costs are expensed as incurred.

Notes to Consolidated Financial Statements (In Thousands)

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Corporation, except MCIC and MercyCare HMO, is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Corporation is also exempt from state income taxes on related income.

Federal and state income taxes are paid on nonexempt unrelated business income in accordance with the Code.

MCIC and MercyCare HMO are taxable entities for both federal and Wisconsin income tax purposes and file returns on a calendar year basis. Deferred income taxes have been provided under the asset and liability method. Deferred tax assets and liabilities are determined based upon the difference between the financial statement and tax basis of assets and liabilities, as measured by the enacted tax rates which are to be in effect when these differences are expected to reverse. Income tax expense is not significant in relation to the accompanying consolidated financial statements.

Subsequent Events

Subsequent events have been evaluated through August 23, 2021, which is the date the consolidated financial statements were issued.

Note 2: Accounting Pronouncements Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). ASU 2016-02 is intended to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases on the balance sheet. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases. The Corporation adopted this guidance for the year ended June 30, 2021, with modified retrospective application to July 1, 2020 through a cumulative-effect adjustment. The Corporation has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Corporation accounted for its existing operating leases as operating leases and capital leases as finance leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether the classification of the leases would be different in accordance with ASC Topic 842, or (c) whether any unamortized initial direct costs before transition adjustments (as of June 30, 2020) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. Similarly, the Corporation did not reassess service contracts evaluated for lease treatment under ASC 840 for embedded leases under ASC 842.

As a result of the adoption of the new lease accounting guidance, the Corporation recognized the following ROU assets and liabilities as of July 1, 2020:

ROU assets - operating leases	$9,308
Operating lease liabilities	$9,308

Note 2: Accounting Pronouncements Adopted (Continued)

Lease Policy - Effective 2021

The Corporation is a lessee in several noncancelable operating leases. If the contract provides the Corporation the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use ("ROU") assets and lease liabilities are recognized at lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset is also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease cost (income) in the period in which they are incurred.

The discount rate is the implicit rate if it is readily determinable, otherwise, the Corporation has elected to use the risk-free rate. The Corporation uses the risk-free rate as of the lease commencement date for a term similar to the underlying lease.

The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease costs are recognized on a straight-line basis over the lease term.

The Corporation has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that the Corporation is reasonably certain to exercise. Leases containing termination clauses in which either party may terminate the lease without cause, given a notice period less than 12 months, are deemed short-term leases and those costs are included in short-term lease expense. The Corporation recognizes lease cost associated with short-term leases on a straight-line basis over the lease term.

The Corporation's clinic office space leases require variable payments for the Corporation's proportionate share of the building's property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred. For all other underlying classes of assets, the Corporation separates lease and non-lease components in their determination of the lease payment.

Notes to Consolidated Financial Statements (In Thousands)

Note 3: Assets Limited as to Use

The composition of assets limited as to use was as follows at June 30:

	2021	2020
Held by Treasurer of State of Wisconsin for regulatory requirements	$ 4,944	$ 4,892
Donor-restricted and endowment funds	11,677	10,015
Internally designated:		
Deferred compensation	98,627	74,004
Expansion, capital improvements, and other	791,304	648,828
Regulatory compliance	44,824	38,055
Total assets limited as to use	951,376	775,794
Less: Current portion	1,746	1,502
Assets limited as to use, less current portion	$ 949,630	$ 774,292

Investment income on cash equivalents, investments, and assets limited as to use (except donor restricted), consisted of the following:

	2021	2020
Interest and dividends	$ 9,514	$ 3,593
Realized gain on sale of investments	14,495	1,902
Change in net unrealized gains and losses on investments	132,655	18,491
Investment income - Net	$ 156,664	$ 23,986

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Note 4: Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value, including assets held in the Corporation's defined benefit retirement plans (Note 9).

Cash equivalents: Valued at cost which approximates fair value.

Money market funds: Valued using a net asset value (NAV) of $1.

Marketable equity securities: Valued at the closing price reported in the active market in which the individual securities are traded.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Corporation are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held are deemed to be actively traded.

U.S. government and agency obligations, municipal obligations, corporate obligations, and foreign obligations: Valued using the closing price reported in the active market in which the individual security is traded, or using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Common trust funds, limited partnerships and limited liability companies (at NAV): Valued at the NAV of units of the separate account or fund. The NAV, as provided by the issuer/trustee, is used as a practical expedient in estimating fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. There were no funding commitments associated with these investments, and the investments can be redeemed continuously with up to a 15-day notice period.

Common trust funds, limited partnerships and limited liability companies: Valued based on the fair value of the underlying assets within the partnership as provided by the investment issuer. The values are then independently assessed by a third party. There were no funding commitments associated with the partnerships, and partnership units can be redeemed continuously with up to a 15-day notice period.

Interests in beneficial trusts: Valued based on the Corporation's ownership interest of the trust, whose portfolios consist of traded equities, mutual funds, and fixed income obligations.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation 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 fair value measurement at the reporting date.

Notes to Consolidated Financial Statements (In Thousands)

Note 4: Fair Value Measurements (Continued)

The following tables sets forth by level, within the fair value hierarchy, the Corporation's assets at fair value as of June 30:

2021	Level 1	Level 2	Level 3	Total
Assets limited as to use:				
Cash equivalents and money market funds	$ -	$ 2,707	$ -	$ 2,707
U.S. government and agency obligations	-	10,609	-	10,609
Corporate obligations	-	6,510	-	6,510
Foreign obligations	-	802	-	802
Mutual funds:				
Fixed income	79,688	-	-	79,688
U.S. equities	94,077	-	-	94,077
Foreign and emerging market funds	10,304	-	-	10,304
Limited partnerships and limited liability companies - Fixed income	-	285,490	-	285,490
Common trust funds using NAV as an expedient - Fixed income (a)				38,583
Common trust funds using NAV as an expedient - Domestic equity (b)				278,479
Common trust funds using NAV as an expedient - Foreign and emerging equity markets (c)				144,127
Total assets limited as to use	184,069	306,118	-	951,376
Interest in beneficial trusts	-	23,105	-	23,105
Total	$ 184,069	$ 329,223	$ -	$ 974,481

Notes to Consolidated Financial Statements (In Thousands)

Note 4: Fair Value Measurements (Continued)

2020	Level 1	Level 2	Level 3	Total
Assets limited as to use:				
Cash equivalents and money market funds	$ -	$ 2,968	$ -	$ 2,968
U.S. government and agency obligations	-	13,989	-	13,989
Corporate obligations	-	9,544	-	9,544
Foreign obligations	-	1,303	-	1,303
Mutual funds:				
Fixed income	74,769	-	-	74,769
U.S. equities	66,127	-	-	66,127
Foreign and emerging market funds	7,489	-	-	7,489
Limited partnership and limited liability companies - Fixed income	-	241,473	-	241,473
Common trust funds using NAV as an expedient - Fixed income (a)				31,987
Common trust funds using NAV as an expedient - Domestic equity (b)				217,252
Common trust funds using NAV as an expedient - Foreign and emerging equity markets (c)				108,893
Total assets limited as to use	148,385	269,277	-	775,794
Interests in beneficial trusts	-	19,411	-	19,411
Total	$ 148,385	$ 288,688	$ -	$ 795,205

(a) Invests primarily in investment-grade fixed income securities, including obligations issued or guaranteed by the U.S. Government and agency obligations, corporate securities, and other fixed income. The objective is to outperform the Barclays Intermediate Government/Credit Index.

(b) Invests primarily in stock or shares of ownership of U.S. companies. The objective is to replicate, over an extended period of time, broad measures of the U.S. large and small-capitalization index markets.

(c) Invests primarily in other index common trust funds. The objective is an investment return that approximates the performance of the MSCI ACWI ex USA Index over the long term.

Notes to Consolidated Financial Statements (In Thousands)

Note 5: Property and Equipment

Property and equipment consisted of the following at June 30:

	2021	2020
Land	$ 39,855	$ 39,918
Land improvements	26,545	25,247
Leasehold improvements	4,829	4,829
Buildings and improvements	906,846	902,077
Equipment	770,131	747,055
Total property and equipment	1,748,206	1,719,126
Less - Accumulated depreciation	935,299	868,610
Net depreciated value	812,907	850,516
Construction in progress	16,260	23,523
Total	$ 829,167	$ 874,039

Amounts in construction in progress at June 30, 2021 and 2020, relate to routine capital projects for renovating and updating the Corporation's facilities. At June 30, 2021, construction in progress also includes the development of a multi-specialty clinic and hospital in Crystal Lake, IL. At June 30, 2021, the Corporation has a commitment of approximately $84,000 related to the Crystal Lake project. This project is estimated to be completed in 2023.

Note 6: Leases

The Corporation has obligations as a lessee for office space, office equipment, and medical equipment with initial noncancelable terms in excess of one year. The majority of leases entered into include one or more options to renew. The renewal terms can extend the lease from one month to three years. The exercise of lease renewal options is at the Corporation's sole discretion. Renewal option periods are included in the measurement of the ROU asset and lease liability when the exercise is reasonably certain to occur.

The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The Corporation's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Payments due under the lease contracts include fixed payments plus, for many of the Corporation's leases, variable payments.

Operating leases are presented separately on the Corporation's consolidated balance sheets.

Notes to Consolidated Financial Statements (In Thousands)

Note 6: Leases (Continued)

Components of lease expense were as follows for the year ended June 30, 2021:

Lease cost:		
Operating lease cost	$	4,037
Short-term lease cost		1,141
Total lease cost	$	5,178

Supplemental cash flow and balance sheet information related to leases is as follows for the year ended June 30, 2021:

Supplemental cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities - Operating cash flows from operating leases	$	4,176
Supplemental balance sheet information:		
Weighted-average remaining lease term - operating leases		2.3 years
Weighted-average discount rate - operating leases		4.73 %

Maturities of lease liabilities are as follows as of June 30, 2021:

		Operating Leases
2022	$	2,891
2023		1,837
2024		879
2025		131
Total lease payments		5,738
Less - imputed interest		(282)
Total	$	5,456

Notes to Consolidated Financial Statements (In Thousands)

Note 7: Investment in Joint Ventures

The Corporation's investment in joint ventures is recorded on an equity basis. The related income or loss is included in the accompanying consolidated statements of operations as other operating revenue. The investment in joint ventures consisted of: a 50% ownership interest in VanMatre Encompass Health Rehabilitation Hospital (VanMatre), which provides inpatient and outpatient rehabilitation services, and a 15% ownership interest in Madison Health Linen, which provides laundry services to medical facilities.

The recorded investments at June 30, 2021 and 2020, as well as the related income reported in 2021 and 2020, was as follows:

	Joint Venture Investment at June 30, 2021	Joint Venture Income (Loss) 2021	Joint Venture Investment at June 30, 2020	Joint Venture Income (Loss) 2020
VanMatre	$ 12,692	$ 3,499	$ 9,985	$ 3,388
Madison Health Linen	1,148	23	1,125	(123)
Total	$ 13,840	$ 3,522	$ 11,110	$ 3,265

The financial position of VanMatre as of and for the years ended June 30, 2021 and 2020 was as follows:

	2021	2020
Balance sheet:		
Assets	$ 29,360	$ 23,434
Liabilities	6,003	3,466
Equity	23,357	19,968
Income statement:		
Patient and other revenues	31,568	30,627
Operating expenses	(23,866)	(22,919)
Management fees	(703)	(766)
Net income	$ 6,999	$ 6,942

Notes to Consolidated Financial Statements (In Thousands)

Note 8: Long-Term Debt

Long-term debt consisted of the following at June 30:

	2021	2020
Illinois Finance Authority (IFA) Revenue Bonds, Series 2016, fixed rates, maturing at varying amounts beginning 2021 continuing through 2047	$ 474,625	$ 475,020
Wisconsin Health and Educational Facilities Authority (WHEFA) Revenue Bonds, Series 2012, fixed rates, maturing at varying amounts beginning 2018 continuing through 2039	157,620	160,815
Equipment loans and other	-	17
Totals	632,245	635,852
Plus - Unamortized bond premiums	58,201	61,849
Less - Current maturities	(12,569)	(3,607)
Less - Unamortized debt issuance costs	(4,211)	(4,469)
Long-term portion	$ 673,666	$ 689,625

In May 2016, the Corporation replaced its two previous obligated groups with the Mercy Health Corporation Obligated Group (the "Obligated Group"), which includes MHC, MHSC, JBH, and RHPH. Under the terms of the Mercy Health Corporation Obligated Group Master Trust Indenture, all outstanding debt under the Indenture, including debt issued under the previous obligated groups, is the general, joint, and several obligations of the members of the Obligated Group. The Master Trust Indenture requires maintenance of a certain debt coverage ratio, and other various restrictive covenants.

In May 2016, the Obligated Group issued its IFA Series 2016 Revenue Bonds with a total principal value of $475,020 and a net premium of $66,566. The IFA Series 2016 Revenue Bonds were issued with fixed rates that range from 1.50% to 5.00% at June 30, 2021. Principal payments are due annually beginning in 2021, with final payment due in December 2046. The proceeds from the IFA Series 2016 Revenue Bonds were used to refund previous bonds, finance costs of acquiring, constructing, renovating, and equipping its facilities, including a 194-bed hospital and ambulatory care building in Rockford, Illinois. The IFA Series 2016 Bonds were issued pursuant to a Bond Trust Indenture by and between IFA and U.S. Bank National Association ("U.S. Bank"), as bond trustee, with the proceeds loaned to the Obligated Group pursuant to a Loan Agreement by and between the Obligated Group and IFA. The IFA Series 2016 Bonds were also issued pursuant to a Master Trust Indenture between the Obligated Group and U.S. Bank as Master Trustee. The Obligated Group is liable for all obligations under the Loan Agreement.

Notes to Consolidated Financial Statements (In Thousands)

Note 8: Long-Term Debt (Continued)

In May 2012, the Obligated Group issued its WHEFA Series 2012 Revenue Bonds with a total principal value of $169,475 and a net premium of $11,030. The proceeds from the WHEFA Series 2012 Revenue Bonds were used to refund previous bonds, and finance costs of acquiring, constructing, renovating, and equipping its facilities. The WHEFA Series 2012 Revenue Bonds were issued with fixed rates that range from 4.38% to 5.00%. Principal payments are due annually with final payment due in June 2039.

The Series 2016 and 2012 Bonds are secured by mortgages for the hospitals in the Obligated Group along with future revenues of the Obligated Group.

In December 2014, the Corporation entered into a $10,000 lease line of credit agreement for medical equipment. The credit line may be accessed for a period of one year with rental factors determined at the time of each equipment acquisition. As of June 30, 2021, the Corporation has no outstanding balance on this line of credit.

Scheduled payments of principal on long-term debt at June 30, 2021, including current maturities, are summarized as follows:

2022	$	12,569
2023		13,180
2024		13,850
2025		14,520
2026		15,335
Thereafter		562,791
Total	$	632,245

Note 9: Retirement Plans

The Corporation has a defined benefit noncontributory retirement plan (Mercy Pension) which covers employees of MHSC, MAC, and MHH who work more than 1,000 hours annually, in addition to meeting certain eligibility requirements as specified in the plan document. The plan was frozen effective December 31, 2016. The participation in the plan and the plan's benefits were frozen as of the effective date and benefits ceased to accrue for plan participants resulting in a curtailment at December 31, 2016. All assets of the plan are held in a separate bank-administered trust. The funding policy is to contribute amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA), as determined by an actuary. The Corporation contributed $3,762 and $4,434 to the plan in 2021 and 2020. The Corporation expects to incur expense of $1,440 for fiscal year 2022.

The Corporation also sponsors a noncontributory defined benefit pension plan (Rockford Pension) which covered substantially all full-time employees and regular part-time employees of JBH, RFPH, RMDF and VNA until the plan was frozen in 2003. At that time, employees either elected to stay within the defined benefit pension plan or opt into the defined contribution plan. No new participants were allowed to join the plan after 2003. Effective March 19, 2012, the plan's benefits were frozen and benefits ceased to accrue for plan participants. Pension benefits are determined based upon employee earnings, social security benefits, covered compensation, and years of service. The funding policy is to contribute annually the amount required to be funded under provisions of ERISA, as determined by an actuary. The Corporation contributed $3,627 and $3,914 to the defined benefit pension plan in 2021 and 2020, respectively. The Corporation expects to incur expense of $1,155 for fiscal year 2022.

Defined Benefit Post Retirement Medical Plan

The Corporation sponsors a post retirement medical plan with plan changes that were effective January 1, 2004. The defined benefit post retirement medical plan provides medical benefits for salaried and non-salaried employees of JBH and RHPH hired before January 1, 2004. The post retirement medical plan is noncontributory and is unfunded, other than amounts resulting from the timing of deposits to pay benefits. The Corporation recognizes the expected cost of these post retirement benefits during the years the employees render service. Post retirement benefit expense is allocated among the participating entities as determined by an actuary. The expected expense in fiscal year 2021 is anticipated to be minimal for this plan.

Notes to Consolidated Financial Statements (In Thousands)

Note 9: Retirement Plans (Continued)

The following table provides further information about the plans as of and for the years ended June 30:

	Mercy Pension		Rockford Pension		Post Retirement Medical	
	2021	2020	2021	2020	2021	2020
Change in accumulated in benefit obligation:						
Accumulated benefit obligation at beginning of period	$ 123,758	$ 128,434	$ 83,694	$ 84,529	$ 5,215	$ 6,034
Service cost	-	-	-	-	576	582
Interest cost	2,552	3,708	1,907	2,628	79	164
Plan amendments	-	-	-	-	-	(1,075)
Benefits paid	(15,800)	(13,523)	(14,730)	(10,726)	(592)	(599)
Actuarial (gains) losses	5,480	5,139	(1,605)	7,263	(2)	109
Accumulated benefit obligation at end of period	115,990	123,758	69,266	83,694	5,276	5,215
Change in assets:						
Fair value of assets at beginning of period	114,989	117,258	70,324	69,471	-	-
Actual return on assets	15,370	6,820	10,083	7,665	-	-
Employer contributions	3,762	4,434	3,626	3,914	592	599
Benefits paid	(15,800)	(13,523)	(14,730)	(10,726)	(592)	(599)
Fair value of assets at end of period	118,321	114,989	69,303	70,324	-	-
Funded status	$ 2,331	$ (8,769)	$ 37	$ (13,370)	$ (5,276)	$ (5,215)

Notes to Consolidated Financial Statements (In Thousands)

Note 9: Retirement Plans (Continued)

Amounts recognized in the accompanying consolidated balance sheets at June 30, consisted of the following:

	Mercy Pension		Rockford Pension		Post Retirement Medical	
	2021	2020	2021	2020	2021	2020
Noncurrent assets - Pension assets	$ 2,331	$ -	$ 37	$ -	$ -	$ -
Current liability - Other accrued expenses	-	-	-	-	555	635
Long-term liability - Pension obligations	-	8,769	-	13,370	4,721	4,580
Total	$ 2,331	$ 8,769	$ 37	$ 13,370	$ 4,721	$ 4,580
Total net assets:						
Prior service cost	$ -	$ -	$ -	$ -	$ (865)	$ (1,075)
Net actuarial loss	22,942	32,035	13,917	26,452	(1,887)	(2,166)
Total amount recognized in net assets	$ 22,942	$ 32,035	$ 13,917	$ 26,452	$ (2,752)	$ (3,241)

Notes to Consolidated Financial Statements (In Thousands)

Note 9: Retirement Plans (Continued)

Pension expense for 2021 and 2020 was comprised of the following:

	Mercy Pension		Rockford Pension		Post Retirement Medical	
	2021	2020	2021	2020	2021	2020
Pension expense:						
Service cost	$ -	$ -	$ -	$ -	$ 576	$ 582
Interest cost	2,552	3,708	1,907	2,628	79	164
Expected return on assets	(4,563)	(6,403)	(2,939)	(3,820)	-	-
Amortization of prior service cost	-	-	-	-	(210)	-
Amortization of unrecognized actuarial (gain) loss	580	444	486	589	(282)	(330)
Settlement charges	3,186	3,092	3,300	2,974	-	-
Total pension expense	1,755	841	2,754	2,371	163	416
Other changes in assets and benefit obligations recognized in other changes in net assets:						
Net actuarial loss (gain)	(5,327)	4,722	(8,748)	3,418	(2)	109
Amortization of unrecognized actuarial (loss) gain	(580)	(444)	(486)	(589)	282	330
Recognition due to settlements	(3,186)	(3,092)	(3,300)	(2,974)	-	-
Prior service cost	-	-	-	-	210	(1,075)
Total recognized in other changes in net assets	(9,093)	1,186	(12,534)	(145)	490	(636)
Total recognized as pension expense and other changes in net assets	$ (7,338)	$ 2,027	$ (9,780)	$ 2,226	$ 653	$ (220)

Notes to Consolidated Financial Statements (In Thousands)

Note 9: Retirement Plans (Continued)

Weighted average assumptions used at June 30, 2021 and 2020, the measurement dates, in developing the projected benefit obligation are as follows:

	Mercy Pension		Rockford Pension		Post Retirement Medical	
	2021	2020	2021	2020	2021	2020
Discount rate for obligation	2.40 %	2.40 %	2.60 %	2.65 %	1.60 %	1.60 %
Discount rate for net periodic cost (July 1 - September 30)	2.40 %	3.30 %	2.65 %	3.40 %	1.60 %	2.85 %
Discount rate for net periodic cost (October 1 - December 31)	2.25 %	2.95 %	2.50 %	3.10 %	1.60 %	2.85 %
Discount rate for net periodic cost (January 1 - March 31)	2.05 %	3.00 %	2.35 %	2.65 %	1.60 %	2.85 %
Discount rate for net periodic cost (April 1 - June 30)	2.40 %	3.30 %	2.60 %	2.65 %	1.60 %	2.85 %
Expected long-term return on plan assets	3.75 %	4.25 %	4.00 %	4.25 %	N/A	N/A

To develop the expected long-term rate of return on assets assumptions, the Corporation considers the historical returns and future expectations for returns in each asset class, as well as targeted allocation percentages within the plans' portfolios.

The Corporation intends to provide an appropriate range of investment options that span the risk/return spectrum. The investment options allow for an investment portfolio consistent with the plans' circumstances, goals, time horizons, and tolerance for risk. The pension plans' asset allocations are as follows at June 30:

	Mercy Pension		Rockford Pension	
	2021	2020	2021	2020
Asset category:				
Cash equivalents	2 %	2 %	4 %	6 %
Common trust funds:				
Fixed income	76	57	74	53
Domestic equity	9	18	14	27
International equity	8	18	8	14
International real estate	5	5	-	-
Total	100 %	100 %	100 %	100 %

Notes to Consolidated Financial Statements (In Thousands)

Note 9: Retirement Plans (Continued)

The following tables set forth by level, within the fair value hierarchy, the Corporation's plan assets at fair value as of June 30:

2021	Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 4,966	$ -	$ 4,966
Common trust funds using NAV as an expedient:				
Fixed income (a)				140,743
Domestic equity (b)				20,229
International equity (c)				15,386
International real estate (d)				6,300
Total	$ -	$ 4,966	$ -	$ 187,624

2020	Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 6,009	$ -	$ 6,009
Common trust funds using NAV as an expedient:				
Fixed income (a)				102,265
Domestic equity (b)				39,957
International equity (c)				31,272
International real estate (d)				5,810
Total	$ -	$ 6,009	$ -	$ 185,313

(a) Invests primarily in high yield, high-risk debt securities. The objective is to achieve a high level of current income by investing in a diversified portfolio of debt securities.

(b) See Note 5

(c) Invests in the SSgA Daily MSCI ACWI ex USA Index Non-Lending Fund, which directly or indirectly invests in securities of foreign companies included in the MSCI ACWI Ex-U.S. Index. The objective is to replicate the total return of the MSCI ACWI Ex-U.S. Index.

(d) Invests primarily in companies engaged in the real estate industry. The objective is to outperform, over an extended period of time, broad measures of the global real estate securities market.

Notes to Consolidated Financial Statements (In Thousands)

Note 9: Retirement Plans (Continued)

The Corporation expects to contribute $7,360 to the pension plans and $678 to the postretirement medical benefit plan in fiscal 2022.

Benefit payments are expected to be paid as follows:

	Mercy Pension	Rockford Pension	Post Retirement Medical
2022	$ 13,051	$ 11,121	$ 678
2023	10,300	4,837	705
2024	9,855	4,978	692
2025	9,501	4,940	698
2026	9,246	4,714	689
Years 2027 through 2030	37,943	21,590	3,248

The Corporation also participates in various defined contribution plans covering substantially all employees. The Corporation recognized expense of $15,263 and $19,803 in 2021 and 2020, respectively, related to these plans.

The Corporation also sponsors deferred compensation programs covering certain physicians, officers, and other highly compensated individuals. Investments designated for deferred compensation and corresponding liabilities totaled $98,727 and $74,004 at June 30, 2021 and 2020, respectively, and are included in the accompanying consolidated balance sheets as assets limited as to use and deferred compensation liability.

Note 10: Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30:

	2021	2020
Restricted for donor purposes:		
Educational programs	$ 706	$ 696
Care for the indigent	1,334	1,226
Capital purchases	23	9
Other purposes	8,463	7,832
Restricted as to time	7,503	6,041
Restricted in perpetuity, earnings from which to be used for the following:		
Educational programs	2,905	2,781
Care for the indigent	4,290	3,679
Capital purchases	31	31
Other	2,452	2,150
Total	$ 27,707	$ 24,445

Notes to Consolidated Financial Statements (In Thousands)

Note 11: Patient Service Revenue

The composition of patient care service revenue based on service lines and payors of the Corporation for the years ended June 30, are as follows:

	2021		
	Inpatient	Outpatient	Total
Payors:			
Medicare	$ 101,138	$ 202,298	$ 303,436
Medicaid	39,705	46,603	86,308
Other third-party payors	110,644	423,673	534,317
Uninsured patients	(3,683)	14,722	11,039
Total	$ 247,804	$ 687,296	$ 935,100

	2020		
	Inpatient	Outpatient	Total
Payors:			
Medicare	$ 94,964	$ 182,196	$ 277,160
Medicaid	66,418	60,781	127,199
Other third-party payors	116,294	425,472	541,766
Uninsured patients	3,541	29,898	33,439
Total	$ 281,217	$ 698,347	$ 979,564

The Corporation's practice is to assign a patient to the primary payor and not reflect other secondary insurance or patient responsibility balances such as copays and deductibles as self-pay. Therefore, the payors listed above contain patient responsibility components.

Note 12: Insurance

The Corporation has established a professional liability self-insurance program for Illinois hospitals, clinics, and physicians on a claims-made basis. Insurance coverage provides for a self-insured limit of $5,000 for each incident with no aggregate limit each year. The Corporation retains the first of $1,000 of self-insurance exposure for each incident with the next $2,000 layer covered by RHIL. Excess professional liability insurance is purchased from multiple third-party carriers to provide coverage above the self-insured and captive layers.

MHSC and MAC purchase separate professional liability insurance for Wisconsin hospital, clinic, and physician claims. Insurance coverage is provided up to $1,000 per medical incident and $3,000 per policy year. The entities retain the first $500 per medical incident and have a $1,500 annual aggregate deductible limit. Coverage for any loss amounts in excess of these amounts is maintained through mandatory participation in the Wisconsin Injured Patients and Families Compensation Fund.

The Corporation has provided reserves for potential professional liability claims for services provided to patients through June 30, 2021, which have not yet been asserted.

The Corporation has self-funded health benefit plans covering substantially all of it employees and their dependents. A liability of $3,081 and $7,862 for estimated claims, including claims incurred but not yet reported, has been recorded in other accrued expenses in the accompanying consolidated balance sheets as of June 30, 2021 and 2020, respectively.

Notes to Consolidated Financial Statements (In Thousands)

Note 13: Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended June 30:

	2021			
	Health Care Services	General and Administrative	Fund-raising	Total
Salaries and wages	$ 446,301	$ 88,742	$ -	$ 535,043
Employee benefits	54,479	12,452	18	66,949
Professional fees and purchased services	65,746	15,742	63	81,551
Supplies	159,244	37,401	2	196,647
Utilities	11,123	2,413	-	13,536
Other	107,372	25,294	135	132,801
Depreciation	58,904	12,558	-	71,462
Interest	22,653	5,001	-	27,654
Total	$ 925,822	$ 199,603	$ 218	$ 1,125,643

	2020			
	Health Care Services	General and Administrative	Fund-raising	Total
Salaries and wages	$ 486,764	$ 103,739	$ 99	$ 590,602
Employee benefits	65,355	14,374	57	79,786
Professional fees and purchased services	78,799	14,680	89	93,568
Supplies	161,115	36,182	13	197,310
Utilities	11,247	2,423	-	13,670
Other	85,218	22,252	629	108,099
Depreciation and amortization	60,262	12,795	-	73,057
Interest	22,317	4,727	-	27,044
Total	$ 971,077	$ 211,172	$ 887	$ 1,183,136

The financial statements report certain categories of expenses that are attributable to one or more supporting functions of the Corporation. Salaries and wages, employee benefits, professional fees and purchased services, supplies, utilities, and other expenses are allocated by function based on the department assigned. Depreciation and interest are allocated based on square footage.

Notes to Consolidated Financial Statements (In Thousands)

Note 14: Liquidity

As part of the Corporation’s liquidity management, it invests cash in excess of daily requirements in a variety of investment vehicles. Certain funds, included in expansion and capital improvements and other within assets limited as to use, are considered available for operational or capital needs. Though these funds, at the discretion of the Board of Directors, could be released immediately, these funds are not considered available under the Corporation’s liquidity management. At June 30, 2021 and 2020, the balance of these funds was $791,304 and $648,828, respectively.

As of June 30, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled debt service payments, and capital items, were as follows:

	2021	2020
Financial assets:		
Cash and cash equivalents	$ 345,028	$ 163,395
Patient accounts receivable - Net	74,046	163,934
Total	$ 419,074	$ 327,329

Note 15: Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to credit risk consist principally of accounts receivable and cash deposits in excess of insured limits in financial institutions.

The mix of receivables from patients and third-party payors is a follows at June 30:

	2021	2020
Medicare	26 %	24 %
Medicaid	16	23
Other third-party payors	46	42
Patients	12	11
Total	100 %	100 %

The Corporation maintains depository relationships with area financial institutions that exceeded federally insured limits at June 30, 2021 and 2020. The Corporation regularly monitors cash balances along with the financial condition of the financial institutions to minimize this potential risk.

Note 16: Reclassification

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 classifications.

WIPFLI

Independent Auditor's Report on Supplementary Information

Board of Directors
Mercy Health Corporation
Rockford, Illinois

We have audited the consolidated financial statements of Mercy Health Corporation ("the Corporation") as of and for the years ended June 30, 2021 and 2020, and our report thereon dated August 23, 2021, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating balance sheets, statements of operations, and statements of changes in net assets are presented for purposes of additional analysis and are 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. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Wipfli LLP

Wipfli LLP
Milwaukee, Wisconsin

August 23, 2021

Mercy Health Corporation

Consolidating Balance Sheet (In Thousands)

June 30, 2021

Assets	Mercy Health Corporation	Mercy Health System Corporation	Javon Bea Hospital	Rockford Health Physicians	Elimination	Obligated Group	Non-Obligated Group	Elimination	Consolidated
Current assets:									
Cash and cash equivalents	$ 3,741	$ 259,151	$ 44,964	$ 421	$ -	$ 308,277	$ 36,751	$ -	345,028
Patient accounts receivable - Net	-	44,534	18,644	12,507	-	75,685	5,231	(6,870)	74,046
Supplies	-	13,570	11,580	594	-	25,744	2,147	-	27,891
Prepaid expenses	-	1,719	1,865	92	-	3,676	67	-	3,743
Current portion of assets limited as to use	-	-	-	-	-	-	1,746	-	1,746
Other receivables	-	4,265	13,002	2,098	-	19,365	11,427	(798)	29,994
Due from related party	2,149	35,578	1,126	1,035	(34,416)	5,472	98	(5,570)	-
Total current assets	5,890	358,817	91,181	16,747	(34,416)	438,219	57,467	(13,238)	482,448
Assets limited as to use, less current portion	551,993	128,470	172,459	19,973	-	872,895	76,735	-	949,630
Property and equipment - Net	-	250,528	474,488	90,481	-	815,497	13,670	-	829,167
Other assets:									
Due from related parties, less current portion	690,119	-	1,489	-	(685,530)	6,078	-	(6,078)	-
Investment in affiliates and joint ventures	-	36,005	12,845	-	-	48,850	-	(35,010)	13,840
Operating lease assets	-	1,629	2,837	1,040	-	5,506	89	-	5,595
Pension assets	-	2,331	33	3		2,367	1	-	2,368
Other	-	61	6,131	1,403	-	7,595	14,468	(5,546)	16,517
Total other assets	690,119	40,026	23,335	2,446	(685,530)	70,396	14,558	(46,634)	38,320
TOTAL ASSETS	$ 1,248,002	$ 777,841	$ 761,463	$ 129,647	$ (719,946)	$ 2,197,007	$ 162,430	$ (59,872)	$ 2,299,565

Mercy Health Corporation

Consolidating Balance Sheet (In Thousands) (Continued)

June 30, 2021

Liabilities and Net Assets	Mercy Health Corporation	Mercy Health System Corporation	Javon Bea Hospital	Rockford Health Physicians	Elimination	Obligated Group	Non-Obligated Group	Elimination	Consolidated
Current liabilities:									
Current maturities of long-term debt	$ 12,570	$ -	$ -	$ -	$ -	$ 12,570	$ (1)	$ -	$ 12,569
Current portion of operating lease liabilities	-	1,023	1,185	416	-	2,624	77	-	2,701
Accounts payable	-	22,476	17,147	1,754	-	41,377	4,037	(812)	44,602
Due to third-party payors	-	4,254	18,590	-	-	22,844	1,596	-	24,440
Accrued salaries, wages, and payroll taxes	(263)	43,641	17,710	13,978	-	75,066	3,517	-	78,583
Other accrued expenses	2,538	26,904	8,385	4,167	734	42,728	28,044	(5,225)	65,547
Due to related parties	25,844	-	4,730	4,917	(35,150)	341	5,194	(5,535)	-
Total current liabilities	40,689	98,298	67,747	25,232	(34,416)	197,550	42,464	(11,572)	228,442
Long-term liabilities:									
Long-term debt, less current maturities	677,876	(1,250)	(2,916)	-	-	673,710	(44)	-	673,666
Long-term portion of operating lease liabilities	-	471	1,646	625	-	2,742	13	-	2,755
Accrued liabilities under self-insurance program	-	31,452	23,809	20,500	-	75,761	3,048	(1,666)	77,143
Deferred compensation	-	74,412	4,177	20,165	-	98,754	-	-	98,754
Accrued postretirement medical benefits	-	-	4,058	599	-	4,657	64	-	4,721
Other liabilities	-	-	2,371	164	-	2,535	100	-	2,635
Due to related parties, less current portion	1,489	174,502	509,549	-	(685,530)	10	6,068	(6,078)	-
Total long-term liabilities	679,365	279,587	542,694	42,053	(685,530)	858,169	9,249	(7,744)	859,674
Total liabilities	720,054	377,885	610,441	67,285	(719,946)	1,055,719	51,713	(19,316)	1,088,116
Net assets:									
Without donor restrictions	527,948	399,956	138,160	62,364	-	1,128,428	90,324	(35,010)	1,183,742
With donor restrictions	-	-	12,862	(2)	-	12,860	20,393	(5,546)	27,707
Total net assets	527,948	399,956	151,022	62,362	-	1,141,288	110,717	(40,556)	1,211,449
TOTAL LIABILITIES AND NET ASSETS	$ 1,248,002	$ 777,841	$ 761,463	$ 129,647	$ (719,946)	$ 2,197,007	$ 162,430	$ (59,872)	$ 2,299,565

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Statement of Operations (In Thousands)

Year Ended June 30, 2021

	Mercy Health Corporation	Mercy Health System Corporation	Javon Bea Hospital	Rockford Health Physicians	Elimination	Obligated Group	Non-Obligated Group	Elimination	Consolidated
Revenue:									
Patient service revenue	-	598,397	329,331	87,414	(36,611)	978,531	52,956	(96,387)	935,100
Premium revenue	-	-	-	-	-	-	128,576	-	128,576
Other operating revenue (expense)	-	34,903	54,722	58,835	(54,342)	94,118	5,835	(470)	99,483
Total revenue	-	633,300	384,053	146,249	(90,953)	1,072,649	187,367	(96,857)	1,163,159
Expenses:									
Salaries and wages	-	274,143	119,791	113,290	4,700	511,924	23,106	13	535,043
Employee benefits	4,443	57,331	25,577	12,295	(36,611)	63,035	3,914	-	66,949
Professional fees and purchased services	(270)	38,722	88,460	18,951	(59,011)	86,852	8,339	(104)	95,087
Medical claims and capitation payments	-	-	-	-	-	-	119,395	(96,286)	23,109
Medical supplies, other supplies, and drugs	2	115,656	66,179	6,060	-	187,897	8,760	(10)	196,647
Insurance	-	16,580	16,656	7,610	-	40,846	979	-	41,825
Provider tax assessment	-	10,431	14,790	-	-	25,221	883	-	26,104
Other	120	10,774	19,426	2,162	(31)	32,451	9,782	(470)	41,763
Depreciation	-	27,182	36,079	5,590	-	68,851	2,611	-	71,462
Interest	-	7,868	19,506	-	-	27,374	280	-	27,654
Total expenses	4,295	558,687	406,464	165,958	(90,953)	1,044,451	178,049	(96,857)	1,125,643
Income (loss) from operations	(4,295)	74,613	(22,411)	(19,709)	-	28,198	9,318	-	37,516
Nonoperating income (expense):									
Other	-	5,104	(522)	(717)	-	3,865	24	(9,137)	(5,248)
Investment income - Net	105,153	550	35,256	-	-	140,959	15,705	-	156,664
Total nonoperating income (expense) - Net	105,153	5,654	34,734	(717)	-	144,824	15,729	(9,137)	151,416
Excess (deficiency) of revenue over expenses	100,858	80,267	12,323	(20,426)	-	173,022	25,047	(9,137)	188,932
Other changes in net assets without donor restrictions:									
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	-	9,090	10,931	828	-	20,849	288	-	21,137
Transfers (to) from affiliates	-	-	(5,553)	5,553	-	-	-	-	-
Other	-	2	(581)	-	-	(579)	-	584	5
Increase (decrease) in net assets without donor restrictions	$ 100,858	$ 89,359	$ 17,120	$ (14,045)	$ -	$ 193,292	$ 25,335	$ (8,553)	$ 210,074

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended June 30, 2021

	Mercy Health Corporation	Mercy Health System Corporation	Javon Bea Hospital	Rockford Health Physicians	Elimination	Obligated Group	Non-Obligated Group	Elimination	Consolidated
Net assets without donor restrictions:									
Excess (deficiency) of revenue over expenses	$ 100,858	$ 80,267	$ 12,323	$ (20,426)	$ -	$ 173,022	$ 25,047	$ (9,137)	$ 188,932
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	-	9,090	10,931	828	-	20,849	288	-	21,137
Transfers (to) from affiliates	-	-	(5,553)	5,553	-	-	-	-	-
Other	-	2	(581)	-	-	(579)	-	584	5
Increase (decrease) in net assets without donor restrictions	100,858	89,359	17,120	(14,045)	-	193,292	25,335	(8,553)	210,074
Net assets with donor restrictions:									
Contributions	-	-	-	-	-	-	373	-	373
Investment income - Net	-	-	144	(2)	-	142	448	-	590
Net change in beneficial interest in trusts	-	-	531	-	-	531	2,501	(531)	2,501
Net assets released from restriction	-	-	-	-	-	-	(202)	-	(202)
Increase (decrease) in net assets with donor restrictions	-	-	675	(2)	-	673	3,120	(531)	3,262
Change in net assets	100,858	89,359	17,795	(14,047)	-	193,965	28,455	(9,084)	213,336
Net assets at beginning	427,090	310,597	133,227	76,409	-	947,323	82,262	(31,472)	998,113
Net assets at end	$ 527,948	$ 399,956	$ 151,022	$ 62,362	$ -	$ 1,141,288	$ 110,717	$ (40,556)	$ 1,211,449

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Balance Sheet (In Thousands)

June 30, 2020

Assets	Mercy Health Corporation	Mercy Health System Corporation	Javon Bea Hospital	Rockford Health Physicians	Elimination	Obligated Group	Non-Obligated Group	Elimination	Consolidated
Current assets:									
Cash and cash equivalents	$ 3,741	$ 122,355	$ 16,863	$ 929	$ -	$ 143,888	$ 19,507	$ -	$ 163,395
Patient accounts receivable - Net	-	72,842	73,882	17,008	-	163,732	8,831	(8,629)	163,934
Supplies	-	13,627	11,892	697	-	26,216	2,073	-	28,289
Prepaid expenses	-	8,854	2,338	411	-	11,603	163	-	11,766
Current portion of assets limited as to use	-	-	-	-	-	-	1,502	-	1,502
Other receivables	-	4,145	4,926	2,641	-	11,712	12,365	(735)	23,342
Due from related party	1,249	33,519	346	619	(31,204)	4,529	(342)	(4,187)	-
Total current assets	4,990	255,342	110,247	22,305	(31,204)	361,680	44,099	(13,551)	392,228
Assets limited as to use, less current portion	446,002	113,049	136,135	14,998	-	710,184	64,108	-	774,292
Property and equipment - Net	-	263,690	503,096	93,135	-	859,921	14,118	-	874,039
Other assets:									
Due from related parties, less current portion	697,417	-	-	-	(691,206)	6,211	-	(6,211)	-
Investment in affiliates and joint ventures	-	26,845	10,722	-	-	37,567	-	(26,457)	11,110
Other	-	-	5,600	1,403	-	7,003	11,969	(5,015)	13,957
Total other assets	697,417	26,845	16,322	1,403	(691,206)	50,781	11,969	(37,683)	25,067
TOTAL ASSETS	$ 1,148,409	$ 658,926	$ 765,800	$ 131,841	$ (722,410)	$ 1,982,566	$ 134,294	$ (51,234)	$ 2,065,626

Mercy Health Corporation

Consolidating Balance Sheet (In Thousands) (Continued)

June 30, 2020

Liabilities and Net Assets	Mercy Health Corporation	Mercy Health System Corporation	Javon Bea Hospital	Rockford Health Physicians	Elimination	Obligated Group	Non-Obligated Group	Elimination	Consolidated
Current liabilities:									
Current maturities of long-term debt	$ 3,590	$ 17	$ -	$ -	$ -	$ 3,607	$ -	$ -	$ 3,607
Accounts payable	-	22,469	21,004	2,117	-	45,590	2,961	(766)	47,785
Due to third-party payors	-	3,326	16,418	-	-	19,744	1,146	-	20,890
Accrued salaries, wages, and payroll taxes	(263)	35,370	19,682	12,863	-	67,652	3,409	-	71,061
Other accrued expenses	2,556	27,340	19,879	4,699	(996)	53,478	32,035	(8,494)	77,019
Due to related parties	21,342	-	8,837	78	(30,208)	49	2,632	(2,681)	-
Total current liabilities	27,225	88,522	85,820	19,757	(31,204)	190,120	42,183	(11,941)	220,362
Long-term liabilities:									
Long-term debt, less current maturities	694,094	(1,321)	(3,101)	-	-	689,672	(47)	-	689,625
Accrued liabilities under self-insurance program	-	18,575	16,461	18,848	-	53,884	3,059	(1,610)	55,333
Deferred compensation	-	55,636	3,375	15,088	-	74,099	-	-	74,099
Pension obligations	-	8,769	12,017	984	-	21,770	369	-	22,139
Accrued postretirement medical benefits	-	-	3,922	591	-	4,513	67	-	4,580
Other liabilities	-	-	1,011	164	-	1,175	200	-	1,375
Due to related parties, less current portion	-	178,148	513,068	-	(691,206)	10	6,201	(6,211)	-
Total long-term liabilities	694,094	259,807	546,753	35,675	(691,206)	845,123	9,849	(7,821)	847,151
Total liabilities	721,319	348,329	632,573	55,432	(722,410)	1,035,243	52,032	(19,762)	1,067,513
Net assets:									
Without donor restrictions	427,090	310,597	121,040	76,409	-	935,136	64,989	(26,457)	973,668
With donor restrictions	-	-	12,187	-	-	12,187	17,273	(5,015)	24,445
Total net assets	427,090	310,597	133,227	76,409	-	947,323	82,262	(31,472)	998,113
TOTAL LIABILITIES AND NET ASSETS	$ 1,148,409	$ 658,926	$ 765,800	$ 131,841	$ (722,410)	$ 1,982,566	$ 134,294	$ (51,234)	$ 2,065,626

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Statement of Operations (In Thousands)

Year Ended June 30, 2020

	Mercy Health Corporation	Mercy Health System Corporation	Javon Bea Hospital	Rockford Health Physicians	Elimination	Obligated Group	Non-Obligated Group	Elimination	Consolidated
Revenue:									
Patient service revenue	-	565,828	376,411	94,870	(40,700)	996,409	53,328	(70,173)	979,564
Premium revenue	-	-	-	-	-	-	116,084	-	116,084
Other operating revenue (expense)	-	26,281	30,416	65,958	(65,154)	57,501	7,749	(840)	64,410
Total revenue	-	592,109	406,827	160,828	(105,854)	1,053,910	177,161	(71,013)	1,160,058
Expenses:									
Salaries and wages	-	284,608	144,805	132,266	4,533	566,212	24,377	13	590,602
Employee benefits	4,193	60,207	33,470	18,492	(40,700)	75,662	4,124	-	79,786
Professional fees and purchased services	38	39,921	99,611	27,720	(69,649)	97,641	10,186	(589)	107,238
Medical claims and capitation payments	-	-	-	-	-	-	100,092	(69,499)	30,593
Medical supplies, other supplies, and drugs	7	107,534	73,647	7,122	-	188,310	9,098	(98)	197,310
Insurance	-	6,973	4,708	2,445	-	14,126	(69)	-	14,057
Provider tax assessment	-	10,664	13,022	-	-	23,686	800	-	24,486
Other	121	3,971	17,664	3,331	(38)	25,049	14,754	(840)	38,963
Depreciation	-	26,745	38,336	5,445	-	70,526	2,531	-	73,057
Interest	(30)	8,037	18,751	-	-	26,758	286	-	27,044
Total expenses	4,329	548,660	444,014	196,821	(105,854)	1,087,970	166,179	(71,013)	1,183,136
Income (loss) from operations	(4,329)	43,449	(37,187)	(35,993)	-	(34,060)	10,982	-	(23,078)
Nonoperating income (expense):									
Other	-	2,345	2,551	(921)	-	3,975	(1,548)	(3,191)	(764)
Investment income - Net	15,668	1,463	4,274	-	-	21,405	2,581	-	23,986
Total nonoperating income (expense) - Net	15,668	3,808	6,825	(921)	-	25,380	1,033	(3,191)	23,222
Excess (deficiency) of revenue over expenses	11,339	47,257	(30,362)	(36,914)	-	(8,680)	12,015	(3,191)	144
Other changes in net assets without donor restrictions:									
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	-	(1,186)	334	428	-	(424)	19	-	(405)
Transfers (to) from affiliates	-	4,112	(29,808)	29,808	-	4,112	(4,112)	-	-
Additional paid in capital	-	-	-	-			6,500	(6,500)	
Other	-	-	229	1	-	230	(9)	(237)	(16)
Increase (decrease) in net assets without donor restrictions	$ 11,339	$ 50,183	$ (59,607)	$ (6,677)	$ -	$ (4,762)	$ 14,413	$ (9,928)	$ (277)

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended June 30, 2020

	Mercy Health Corporation	Mercy Health System Corporation	Javon Bea Hospital	Rockford Health Physicians	Elimination	Obligated Group	Non-Obligated Group	Elimination	Consolidated
Net assets without donor restrictions:									
Excess (deficiency) of revenue over expenses	$ 11,339	$ 47,257	$ (30,362)	$ (36,914)	$ -	$ (8,680)	$ 12,015	$ (3,191)	$ 144
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	-	(1,186)	334	428	-	(424)	19	-	(405)
Transfers (to) from affiliates	-	4,112	(29,808)	29,808	-	4,112	(4,112)	-	-
Additional paid in captial	-	-	-	-	-	-	6,500	(6,500)	-
Other	-	-	229	1	-	230	(9)	(237)	(16)
Increase (decrease) in net assets without donor restrictions	11,339	50,183	(59,607)	(6,677)	-	(4,762)	14,413	(9,928)	(277)
Net assets with donor restrictions:									
Contributions	-	-	-	-	-	-	770	-	770
Investment income - Net	-	-	21	-	-	21	33	-	54
Net change in beneficial interest in trusts	-	-	(176)	-	-	(176)	(435)	176	(435)
Net assets released from restriction	-	-	-	-	-	-	(636)	-	(636)
Increase in net assets with donor restrictions	-	-	(155)	-	-	(155)	(268)	176	(247)
Change in net assets	11,339	50,183	(59,762)	(6,677)	-	(4,917)	14,145	(9,752)	(524)
Net assets at beginning	415,751	260,414	192,989	83,086	-	952,240	68,117	(21,720)	998,637
Net assets at end	$ 427,090	$ 310,597	$ 133,227	$ 76,409	$ -	$ 947,323	$ 82,262	$ (31,472)	$ 998,113

See Independent Auditor's Report on Supplementary Information.