

Mercy Health Corporation

Consolidated Financial Statements and
Supplementary Information

Years Ended June 30, 2023 and 2022



WIPFLI

Independent Auditor's Report

Board of Directors
Mercy Health Corporation
Rockford, Illinois

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements (the "financial statements") of Mercy Health Corporation (the "Corporation"), which comprise the consolidated balance sheets as of June 30, 2023 and 2022, 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 financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Mercy Health Corporation as of June 30, 2023 and 2022, and the results of its operations, changes in its net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS we:

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

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Wipfli LLP
Milwaukee, Wisconsin

August 15, 2023

Mercy Health Corporation

Consolidated Balance Sheets

June 30, 2023 and 2022

Assets	(In Thousands)	
	2023	2022
Current assets:		
Cash and cash equivalents	\$ 464,213	\$ 396,382
Patient accounts receivable - Net	49,957	48,138
Supplies	26,348	29,051
Prepaid expenses	6,401	5,504
Current portion of assets limited as to use	2,635	1,829
Other receivables	17,508	27,874
Total current assets	567,062	508,778
Assets limited as to use, less current portion	843,533	830,603
Property and equipment - Net	856,844	834,110
Other assets:		
Investment in joint ventures	10,981	12,118
Operating lease assets	3,519	3,722
Other	12,499	13,888
Total other assets	26,999	29,728
TOTAL ASSETS	\$ 2,294,438	\$ 2,203,219

Mercy Health Corporation

Consolidated Balance Sheets (Continued)

June 30, 2023 and 2022

Liabilities and Net Assets	(In Thousands)	
	2023	2022
Current liabilities:		
Current maturities of long-term debt	\$ 13,850	\$ 13,180
Current portion of operating lease liabilities	1,740	2,281
Accounts payable	34,713	35,400
Due to third-party payors	42,293	37,623
Accrued salaries, wages, and payroll taxes	58,059	74,557
Other accrued expenses	81,086	75,035
Total current liabilities	231,741	238,076
Long-term liabilities:		
Long-term debt, less current maturities	640,236	657,187
Long-term portion of operating lease liabilities	1,778	1,440
Accrued liabilities under self-insurance program	91,075	87,929
Deferred compensation	88,841	87,254
Pension obligations	-	5,496
Accrued postretirement medical benefits	3,951	4,303
Other liabilities	2,621	2,644
Total long-term liabilities	828,502	846,253
Total liabilities	1,060,243	1,084,329
Net assets:		
Without donor restrictions	1,204,694	1,091,207
With donor restrictions	29,501	27,683
Total net assets	1,234,195	1,118,890
TOTAL LIABILITIES AND NET ASSETS	\$ 2,294,438	\$ 2,203,219

See accompanying notes to consolidated financial statements.

Mercy Health Corporation

Consolidated Statements of Operations

Years Ended June 30, 2023 and 2022

	(In Thousands)	
	2023	2022
Revenue:		
Patient service revenue	\$ 977,649	\$ 962,351
Premium revenue	146,543	137,175
Other operating revenue	53,513	72,000
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Total revenue	1,177,705	1,171,526
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Expenses:		
Salaries and wages	553,480	535,774
Employee benefits	69,861	74,128
Professional fees and purchased services	115,157	105,598
Medical claims and capitation payments	38,120	41,220
Medical supplies, other supplies, and drugs	199,704	198,504
Insurance	21,703	31,877
Provider and other tax assessments	28,781	25,211
Other	20,258	32,822
Depreciation	67,611	69,877
Interest	26,473	26,888
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Total expenses	1,141,148	1,141,899
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Income from operations	36,557	29,627
Nonoperating income (expense):		
Other	(41,054)	(2,057)
Investment income (loss) - Net	71,963	(108,336)
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Total nonoperating income (expense) - Net	30,909	(110,393)
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Excess (deficiency) of revenue over expenses	67,466	(80,766)
Other changes in net assets without donor restrictions:		
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	46,164	(9,596)
Other	(143)	(2,173)
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Increase (decrease) in net assets without donor restrictions	\$ 113,487	\$ (92,535)

See accompanying notes to consolidated financial statements.

Mercy Health Corporation

Consolidated Statements of Changes in Net Assets

Years Ended June 30, 2023 and 2022

	(In Thousands)	
	2023	2022
Net assets without donor restrictions:		
Excess (deficiency) of revenue over expenses	\$ 67,466	\$ (80,766)
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	46,164	(9,596)
Other	(143)	(2,173)
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Increase (decrease) in net assets without donor restrictions	113,487	(92,535)
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Net assets with donor restrictions:		
Contributions	3,967	3,464
Investment income (loss) - Net	283	(229)
Net change in beneficial interest in trusts	599	(2,400)
Net assets released from restriction	(3,031)	(859)
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Increase (decrease) in net assets with donor restrictions	1,818	(24)
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Change in net assets	115,305	(92,559)
Net assets at beginning	1,118,890	1,211,449
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Net assets at end	\$ 1,234,195	\$ 1,118,890

See accompanying notes to consolidated financial statements.

Mercy Health Corporation

Consolidated Statements of Cash Flows

Years Ended June 30, 2023 and 2022

	(In Thousands)	
	2023	2022
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 115,305	\$ (92,559)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Equity gains in joint ventures	(2,080)	(1,350)
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	254	9,596
Change in operating right-of-use assets and liabilities	-	138
Net realized and unrealized gains and losses on investments	(63,693)	109,341
Depreciation and amortization	64,510	66,579
Loss on sale of property and equipment	135	9
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,819)	25,908
Supplies and other assets	13,561	1,828
Accounts payable	(687)	(9,202)
Accrued liabilities and other	(11,839)	2,607
Due to/from third-party payors	4,670	13,183
Net cash provided by operating activities	118,317	126,078
Cash flows from investing activities:		
Net (increase) decrease in assets limited as to use	49,957	9,603
Purchases of property and equipment	(90,887)	(75,083)
Proceeds from sale of property and equipment	407	254
Proceeds received from joint ventures	3,217	3,072
Net cash used in investing activities	(37,306)	(62,154)
Net cash used in financing activities - Principal payments on long-term debt	(13,180)	(12,570)
Net increase in cash and cash equivalents	67,831	51,354
Cash and cash equivalents at beginning	396,382	345,028
Cash and cash equivalents at end	\$ 464,213	\$ 396,382
Supplemental cash flow information:		
Cash paid for interest	\$ 26,528	\$ 26,940
Non-cash supplemental information:		
Component of pension expense related to amounts previously recognized in net assets	\$ 46,418	\$ -

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. MHC is currently building 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 4-bed hospital, a 264-bed hospital, and a 17-bed skilled nursing facility 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.

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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 1: Summary of Significant Accounting Policies (Continued)

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 of America ("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.

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.

The balance of patient accounts receivable - net at June 30, 2021 was \$74,046.

Supplies

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

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 1: Summary of Significant Accounting Policies (Continued)

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 (expense) 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 (loss).

Assets limited as to use include assets the Board of Directors has designated for charity care, education and other 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, 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.

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 exists, 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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 1: Summary of Significant Accounting Policies (Continued)

Unamortized Debt Issuance Costs and Bond Premiums

Debt 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. There has been no accrual recorded as of June 30, 2023 and 2022.

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 2023 and 2022.

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 professional liability 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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Service Revenue (Continued)

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, 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.

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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Service Revenue (Continued)

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.

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. In addition, the contracts the Corporation has with some commercial payors also provide for retroactive audit and review of claims.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Service Revenue (Continued)

Other Payors (Continued)

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 2023 and 2022. Medicare cost reports have been settled through June 30, 2018 for MHSC, through June 30, 2019 for MWH and JBH, and through June 30, 2020 for MHH.

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, 2023 and 2022, 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 2023 and 2022.

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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 1: Summary of Significant Accounting Policies (Continued)

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 \$15,122 and \$15,721 at June 30, 2023 and 2022, respectively.

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 \$2,064 and \$19,159 in grant income related to this program in 2023 and 2022, respectively. As of June 30, 2023 and 2022, the Corporation recorded a refundable advance of \$10,880, within other accrued expenses for the net amount of grants received but not earned, or for overpayments from this program.

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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 1: Summary of Significant Accounting Policies (Continued)

Leases

The Corporation is a lessee in multiple noncancelable operating leases for office space, office equipment, and medical equipment. 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 the lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset includes contractual lease payments to be made, less any lease incentives 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 Corporation uses its estimated borrowing rate as of the lease commencement for a term similar to the underlying lease for all leases.

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 with lease costs included in short-term lease expense.

The Corporation separates the lease components of a contract and its associated non-lease components (i.e., lessor-provided maintenance and other services).

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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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 \$4,141 and \$5,230 in 2023 and 2022, 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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 1: Summary of Significant Accounting Policies (Continued)

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The Corporation, except MCIC and MercyCare HMO, is made up of not-for-profit corporations 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 15, 2023, which is the date the consolidated financial statements were issued.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 2: Assets Limited as to Use

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

	2023	2022
Held for insurance regulatory requirements	\$ 4,827	\$ 4,915
Donor-restricted and endowment funds	15,237	13,826
Internally designated:		
Deferred compensation	88,354	86,862
Charity care, education, and other	697,328	688,628
Regulatory compliance	40,422	38,201
Total assets limited as to use	846,168	832,432
Less: Current portion	2,635	1,829
Assets limited as to use, less current portion	\$ 843,533	\$ 830,603

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

	2023	2022
Interest and dividends	\$ 8,270	\$ 1,005
Realized gain (loss) on sale of investments	11,306	8,903
Change in net unrealized gains and losses on investments	52,387	(118,244)
Investment income (loss) - Net	\$ 71,963	\$ (108,336)

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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 3: 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.

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 (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.

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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 3: 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:

2023	Level 1	Level 2	Level 3	Total
Assets limited as to use:				
Cash equivalents and money market funds	\$ -	\$ 5,791	\$ -	\$ 5,791
U.S. government and agency obligations	-	68,619	-	68,619
Corporate obligations	-	25,897	-	25,897
Foreign obligations	-	4,453	-	4,453
Mutual funds:				
Fixed income	14,268	-	-	14,268
U.S. equities	97,752	-	-	97,752
Foreign and emerging market funds	6,135	-	-	6,135
Limited partnerships and limited liability companies - Fixed income	-	62,056	-	62,056
Limited partnerships and limited liability companies - Domestic equity	-	336	-	336
Limited partnerships and limited liability companies - Fixed income (e)				63,912
Common trust funds using NAV as an expedient - Fixed income (a)				36,087
Common trust funds using NAV as an expedient - Fixed income (d)				60,832
Common trust funds using NAV as an expedient - Domestic equity (b)				266,237
Common trust funds using NAV as an expedient - Foreign and emerging equity markets (c)				133,793
Total assets limited as to use	118,155	167,152	-	846,168
Interest in beneficial trusts (included in other assets)	-	12,295	-	12,295
Total	\$ 118,155	\$ 179,447	\$ -	\$ 858,463

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 3: Fair Value Measurements (Continued)

2022	Level 1	Level 2	Level 3	Total
Assets limited as to use:				
Cash equivalents and money market funds	\$ -	\$ 10,417	\$ -	\$ 10,417
U.S. government and agency obligations	-	10,651	-	10,651
Corporate obligations	-	5,397	-	5,397
Foreign obligations	-	971	-	971
Mutual funds:				
Fixed income	72,282	-	-	72,282
U.S. equities	77,507	-	-	77,507
Foreign and emerging market funds	8,192	-	-	8,192
Limited partnerships and limited liability companies - Fixed income	-	205,046	-	205,046
Limited partnerships and limited liability companies - Domestic equity (b)	-	62,825	-	62,825
Common trust funds using NAV as an expedient - Fixed income (a)				36,597
Common trust funds using NAV as an expedient - Domestic equity (b)				223,752
Common trust funds using NAV as an expedient - Foreign and emerging equity markets (c)				118,795
Total assets limited as to use	157,981	295,307	-	832,432
Interests in beneficial trusts	-	11,695	-	11,695
Total	\$ 157,981	\$ 307,002	\$ -	\$ 844,127

- (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.
- (d) The objective is high total investment return through a combination of current income and capital appreciation and to outperform the Bloomberg Capital Aggregate Bond Index.
- (e) Invests in credit-related investments. The objective is to generate income and total return.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 4: Property and Equipment

Property and equipment consisted of the following at June 30:

	2023	2022
Land	\$ 43,543	\$ 41,575
Land improvements	27,502	27,222
Leasehold improvements	3,557	4,829
Buildings and improvements	1,111,066	1,095,183
Equipment	507,440	604,819
<hr/>		
Total property and equipment	1,693,108	1,773,628
Less - Accumulated depreciation	951,181	1,000,233
<hr/>		
Net depreciated value	741,927	773,395
Construction in progress	114,917	60,715
<hr/>		
Total	\$ 856,844	\$ 834,110

Amounts in construction in progress at June 30, 2023 and 2022, relate to routine capital projects for renovating and updating the Corporation's facilities. At June 30, 2023 and 2022, construction in progress also includes the development of a multi-specialty clinic and hospital in Crystal Lake, IL. At June 30, 2023, the Corporation has an unfunded commitment of approximately \$4,000 related to the Crystal Lake project. This project is estimated to be completed in 2024.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 5: 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, 2023 and 2022, as well as the related income reported in 2023 and 2022, was as follows:

	Joint Venture Investment at June 30, 2023	Joint Venture Income (Loss) 2023	Joint Venture Investment at June 30, 2022	Joint Venture Income (Loss) 2022
VanMatre	\$ 10,016	\$ 2,237	\$ 10,996	\$ 1,377
Madison Health Linen	965	(157)	1,122	(26)
Total	\$ 10,981	\$ 2,080	\$ 12,118	\$ 1,351

The financial position of VanMatre as of and for the years ended June 30, 2023 and 2022 was as follows:

	2023	2022
Balance sheet:		
Assets	\$ 22,640	\$ 25,274
Liabilities	4,807	4,252
Equity	17,833	21,022
Income statement:		
Patient and other revenues	33,824	30,726
Operating expenses	(28,827)	(27,508)
Management fees	(560)	(429)
Net income	\$ 4,437	\$ 2,789

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 6: Long-Term Debt

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

	2023	2022
Illinois Finance Authority ("IFA") Revenue Bonds, Series 2016, fixed rates, maturing at varying amounts beginning 2021 continuing through 2047	\$ 457,000	\$ 465,400
Wisconsin Health and Educational Facilities Authority ("WHEFA") Revenue Bonds, Series 2012, fixed rates, maturing at varying amounts beginning 2018 continuing through 2039	149,495	154,275
Totals	606,495	619,675
Plus - Unamortized bond premiums	51,308	54,650
Less - Current maturities	(13,850)	(13,180)
Less - Unamortized debt issuance costs	(3,717)	(3,958)
Long-term portion	\$ 640,236	\$ 657,187

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, 2022. Principal payments are due annually beginning in 2022, with final payment due in December 2046. The proceeds from the IFA Series 2016 Revenue Bonds were used to refund previous bonds and 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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 6: 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 on the hospitals in the Obligated Group along with future revenues of the Obligated Group.

Scheduled payments of principal on long-term debt at June 30, 2023, including current maturities, are summarized as follows:

2024	\$	13,850
2025		14,520
2026		15,335
2027		16,025
2028		16,840
Thereafter		529,925
<hr/>		
Total	\$	606,495

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 7: Retirement Plans

The Corporation had a defined benefit noncontributory retirement plan (Mercy Pension) which covered employees of MHSC, MAC, and MHH who worked 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 were held in a separate bank-administered trust. The funding policy was 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 \$86 and \$2,875 to the plan in 2023 and 2022

The Corporation also sponsored a noncontributory defined benefit pension plan (Rockford Pension) which covered substantially all full-time employees and regular part-time employees of JBH, RFPH, RMDP, and VNA until the plan was partially 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 were determined based upon employee earnings, social security benefits, covered compensation, and years of service. The funding policy was to contribute annually the amount required to be funded under provisions of ERISA, as determined by an actuary. The Corporation contributed \$0 and \$2,735 to the defined benefit pension plan in 2023 and 2022, respectively.

In 2022, the Corporation committed to terminate the Mercy Pension and Rockford Pension plans in 2023. Participants were offered lump sum payments through December 2022. Effective March 31, 2023, the plans were fully terminated through the purchases of an annuity contract with a third-party.

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, MAC, MHH, MHSC, RHPH, and VNA 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 2024 is anticipated to be minimal for this plan.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 7: 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	
	2023	2022	2023	2022	2023	2022
Change in accumulated in benefit obligation:						
Accumulated benefit obligation at beginning of period	\$ 102,197	\$ 115,990	\$ 58,656	\$ 69,266	\$ 4,857	\$ 5,276
Service cost	-	-	-	-	550	586
Interest cost	1,340	2,628	829	1,657	189	79
Benefits paid	(71,744)	(12,613)	(31,575)	(8,966)	(710)	(678)
Actuarial (gains) losses	(1,721)	(3,808)	(4,989)	(3,301)	(225)	(406)
Annuity purchase	(30,072)	-	(22,921)	-	-	-
Accumulated benefit obligation at end of period	-	102,197	-	58,656	4,661	4,857
Change in assets:						
Fair value of assets at beginning of period	101,130	118,321	54,227	69,302	-	-
Actual return on assets	628	(7,453)	515	(8,844)	-	-
Employer contributions	86	2,875	-	2,735	710	678
Benefits paid	(71,744)	(12,613)	(31,575)	(8,966)	(710)	(678)
Annuity purchase	(30,072)	-	(22,921)	-	-	-
Asset reversion	(28)	-	(246)	-	-	-
Fair value of assets at end of period	-	101,130	-	54,227	-	-
Funded status	\$ -	\$ (1,067)	\$ -	\$ (4,429)	\$ (4,661)	\$ (4,857)

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 7: 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	
	2023	2022	2023	2022	2023	2022
Current liability - Other accrued expenses	\$ -	\$ -	\$ -	\$ -	\$ (710)	\$ (554)
Long-term liability - Pension obligations	-	(1,067)	-	(4,429)	(3,951)	(4,303)
Total	\$ -	\$ (1,067)	\$ -	\$ (4,429)	\$ (4,661)	\$ (4,857)
Total net assets:						
Prior service cost	\$ -	\$ -	\$ -	\$ -	\$ (446)	\$ (656)
Net actuarial loss	-	27,027	-	19,391	(2,015)	(2,059)
Total amount recognized in net assets	\$ -	\$ 27,027	\$ -	\$ 19,391	\$ (2,461)	\$ (2,715)

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 7: Retirement Plans (Continued)

Pension expense for 2023 and 2022 was comprised of the following:

	Mercy Pension		Rockford Pension		Post Retirement Medical	
	2023	2022	2023	2022	2023	2022
Pension expense:						
Service cost	\$ -	\$ -	\$ -	\$ -	\$ 550	\$ 585
Interest cost	1,340	2,628	829	1,657	189	79
Expected return on assets	(1,220)	(3,972)	(667)	(2,639)	-	-
Amortization of prior service cost	-	-	-	-	(210)	(210)
Amortization of unrecognized actuarial (gain) loss	187	522	298	240	(269)	(232)
Settlement charges	25,711	3,010	14,256	2,468	-	-
Total pension expense	26,018	2,188	14,716	1,726	260	222
Other changes in assets and benefit obligations recognized in other changes in net assets:						
Net actuarial loss (gain)	(1,129)	7,617	(4,837)	8,182	(225)	(406)
Amortization of unrecognized actuarial (loss) gain	(25,898)	(522)	(14,554)	(240)	269	233
Recognition due to settlements	-	(3,010)	-	(2,468)	-	-
Prior service cost	-	-	-	-	210	210
Total recognized in other changes in net assets	(27,027)	4,085	(19,391)	5,474	254	37
Total recognized as pension expense and other changes in net assets	\$ (1,009)	\$ 6,273	\$ (4,675)	\$ 7,200	\$ 514	\$ 259

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 7: Retirement Plans (Continued)

Weighted average assumptions used at June 30, 2023 and 2022, the measurement dates, in developing the projected benefit obligation are as follows:

	Mercy Pension		Rockford Pension		Post Retirement Medical	
	2023	2022	2023	2022	2023	2022
Discount rate for obligation	4.44 %	3.64 %	4.85 %	3.57 %	5.00 %	4.20 %
Discount rate for net periodic cost (July 1 - September 30)	3.64 %	2.40 %	3.57 %	2.60 %	4.20 %	1.60 %
Discount rate for net periodic cost (October 1 - December 31)	3.64 %	2.40 %	3.57 %	2.60 %	4.20 %	1.60 %
Discount rate for net periodic cost (January 1 - March 31)	3.64 %	2.40 %	3.57 %	2.60 %	4.20 %	1.60 %
Discount rate for net periodic cost (April 1 - June 30)	N/A	2.40 %	N/A	2.60 %	4.20 %	1.60 %
Expected long-term return on plan assets	3.25 %	3.25 %	3.25 %	3.25 %	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 pension plans' asset allocations are as follows at June 30, 2022:

	Mercy Pension	Rockford Pension
Asset category:		
Cash equivalents	55 %	54 %
Common trust funds - fixed income	45	46
Total	100 %	100 %

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 7: 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, 2022:

	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ -	\$ 85,007	\$ -	85,007
Common trust funds using NAV as an expedient:				
Fixed income (d)				70,350
Total	\$ -	\$ 85,007	\$ -	155,357

- (f) 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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 7: Retirement Plans (Continued)

The Corporation expects to contribute \$703 to the postretirement medical benefit plan in fiscal 2024.

Benefit payments are expected to be paid as follows:

	Post Retirement Medical
2024	\$ 703
2025	716
2026	714
2027	703
2028	687
Years 2029 through 2031	3,238

The Corporation also participates in various defined contribution plans covering substantially all employees. The Corporation recognized expense of \$16,526 and \$21,865 in 2023 and 2022, 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 approximately \$88,000 and \$87,000 at June 30, 2023 and 2022, respectively, and are included in the accompanying consolidated balance sheets as assets limited as to use and deferred compensation liability.

Note 8: Net Assets With Donor Restrictions

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

	2023	2022
Restricted for donor purposes:		
Educational programs	\$ 2,035	\$ 1,855
Care for the indigent	2,215	1,511
Capital purchases	7	23
Other purposes	9,888	9,512
Restricted as to time	6,785	6,356
Restricted in perpetuity, earnings from which to be used for the following:		
Educational programs	3,099	2,768
Care for the indigent	3,524	3,525
Capital purchases	31	31
Other purposes	1,917	2,102
Total	\$ 29,501	\$ 27,683

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 9: 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:

	2023		
	Inpatient	Outpatient	Total
Payors:			
Medicare	\$ 119,009	\$ 230,542	\$ 349,551
Medicaid	69,809	52,721	122,530
Other third-party payors	92,145	391,921	484,066
Uninsured patients	4,084	17,418	21,502
Total	\$ 285,047	\$ 692,602	\$ 977,649

	2022		
	Inpatient	Outpatient	Total
Payors:			
Medicare	\$ 112,838	\$ 223,518	\$ 336,356
Medicaid	46,015	50,126	96,141
Other third-party payors	112,071	411,344	523,415
Uninsured patients	(1,903)	8,342	6,439
Total	\$ 269,021	\$ 693,330	\$ 962,351

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.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 10: Insurance

The Corporation has established professional liability self-insurance program for Illinois hospitals, clinics and providers on a group policy and claims-made basis. Insurance coverage provides for a self-insured limit of \$10,000 for each incident. The Corporation retains the first \$5,000 exposure for each incident with \$2,500 retained by RHIL. The Corporation then provides an additional \$2,500 of excess buffer layer. Excess professional liability insurance is purchased from multiple third-party carriers to provide coverage above the self-insured and captive layers.

Mercy Health Corporation has purchased separate lines of liability coverage for each MHSC corporate entity, MAC, Mercyhealth Development Foundation, Mercyhealth Visiting Nurse Association, Inc., and each employed Wisconsin physician. The Corporation retains the first \$500 per medical claim against each entity and physician and each entity has a \$1,500 annual aggregate deductible limit. Insurance coverage is provided per physician incident from \$500 to \$1,000, with a \$3,000 aggregate for each entity and each physician. Coverage in excess of the insured amounts for Mercy Health System Corporation, Mercy Hospital & Trauma Center, Mercy Walworth Hospital and Medical Center and Wisconsin employed physicians 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, 2023, which have not yet been asserted. The accrual for these reserves is included in accrued liabilities under self-insurance program in the accompanying consolidated balance sheets.

The Corporation has self-funded health benefit plans covering substantially all of its employees and their dependents. A liability of \$3,275 and \$4,109 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, 2023 and 2022, respectively.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 11: 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:

	2023			
	Health Care Services	General and Administrative	Fund-raising	Total
Salaries and wages	\$ 459,251	\$ 94,108	\$ 121	\$ 553,480
Employee benefits	58,013	11,607	61	69,681
Professional fees and purchased services	96,598	18,488	71	115,157
Supplies	163,040	36,659	5	199,704
Utilities	10,769	2,241	-	13,010
Other	75,693	20,277	62	96,032
Depreciation	56,319	11,292	-	67,611
Interest	22,088	4,385	-	26,473
Total	\$ 941,771	\$ 199,057	\$ 320	\$ 1,141,148

	2022			
	Health Care Services	General and Administrative	Fund-raising	Total
Salaries and wages	\$ 442,830	\$ 92,829	\$ 115	\$ 535,774
Employee benefits	61,226	12,839	63	74,128
Professional fees and purchased services	87,789	17,757	52	105,598
Supplies	160,508	37,988	8	198,504
Utilities	9,637	2,156	-	11,793
Other	94,243	24,960	134	119,337
Depreciation and amortization	57,473	12,404	-	69,877
Interest	22,020	4,868	-	26,888
Total	\$ 935,726	\$ 205,801	\$ 372	\$ 1,141,899

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 amortization and interest are allocated based on square footage.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 12: 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 charity care, education 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, 2023 and 2022, the balance of these funds was \$697,328 and \$688,628, 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:

	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 464,213	\$ 396,382
Patient accounts receivable - Net	49,957	48,138
Total	\$ 514,170	\$ 444,520

Note 13: 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 as follows at June 30:

	2023	2022
Medicare	33 %	31 %
Medicaid	14	17
Other third-party payors	47	46
Patients	6	6
Total	100 %	100 %

The Corporation maintains depository relationships with area financial institutions that exceeded federally insured limits at June 30, 2023 and 2022. The Corporation regularly monitors cash balances along with the financial condition of the financial institutions to minimize this potential risk.

Mercy Health Corporation

Notes to Consolidated Financial Statements (In Thousands)

Note 14: Reclassification

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 classifications.

Mercy Health Corporation

Consolidating Balance Sheet (In Thousands)

June 30, 2023

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	\$ 13,745	\$ 367,171	\$ 51,431	\$ 609	\$ -	\$ 432,956	\$ 31,257	\$ -	\$ 464,213
Patient accounts receivable - Net	-	37,483	5,706	6,048	-	49,237	6,026	(5,306)	49,957
Supplies	-	14,465	8,929	678	-	24,072	2,276	-	26,348
Prepaid expenses	-	2,264	2,700	1,362	-	6,326	75	-	6,401
Current portion of assets limited as to use	-	-	-	-	-	-	2,635	-	2,635
Other receivables	-	1,046	3,084	919	-	5,049	12,521	(62)	17,508
Due from related party	(4)	11,465	7,813	7,788	(46,696)	(19,634)	(614)	20,248	-
Total current assets	13,741	433,894	79,663	17,404	(46,696)	498,006	54,176	14,880	567,062
Assets limited as to use, less current portion	523,804	66,416	163,690	20,064	-	773,974	69,559	-	843,533
Property and equipment - Net	-	340,573	418,786	86,002	-	845,361	11,483	-	856,844
Other assets:									
Due from related parties, less current portion	657,192	-	4,923	-	(656,366)	5,749	-	(5,749)	-
Investment in affiliates and joint ventures	-	27,913	10,242	-	-	38,155	-	(27,174)	10,981
Operating lease assets	-	461	2,240	490	-	3,191	328	-	3,519
Other	-	34	5,877	-	-	5,911	12,465	(5,877)	12,499
Total other assets	657,192	28,408	23,282	490	(656,366)	53,006	12,793	(38,800)	26,999
TOTAL ASSETS	\$ 1,194,737	\$ 869,291	\$ 685,421	\$ 123,960	\$ (703,062)	\$ 2,170,347	\$ 148,011	\$ (23,920)	\$ 2,294,438

Mercy Health Corporation

Consolidating Balance Sheet (In Thousands) (Continued)

June 30, 2023

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	\$ 13,850	\$ -	\$ -	\$ -	\$ -	\$ 13,850	\$ -	\$ -	\$ 13,850
Current portion of operating lease liabilities	-	360	951	355	-	1,666	74	-	1,740
Accounts payable	-	17,756	12,137	3,468	-	33,361	1,290	62	34,713
Due to third-party payors	-	11,421	27,796	-	-	39,217	3,076	-	42,293
Accrued salaries, wages, and payroll taxes	-	34,225	12,068	9,454	-	55,747	2,312	-	58,059
Other accrued expenses	2,430	37,793	7,282	4,076	(1,036)	50,545	35,368	(4,827)	81,086
Due to related parties	41,927	14	3,296	487	(45,660)	64	(20,709)	20,645	-
Total current liabilities	58,207	101,569	63,530	17,840	(46,696)	194,450	21,411	15,880	231,741
Long-term liabilities:									
Long-term debt, less current maturities	643,953	(1,108)	(2,570)	-	-	640,275	(39)	-	640,236
Long-term portion of operating lease liabilities	-	101	1,289	134	-	1,524	254	-	1,778
Accrued liabilities under self-insurance program	-	39,082	35,640	12,002	-	86,724	5,353	(1,002)	91,075
Deferred compensation	-	64,445	3,849	20,547	-	88,841	-	-	88,841
Pension obligations	-	-	-	-	-	-	-	-	-
Accrued postretirement medical benefits	-	-	3,378	520	-	3,898	53	-	3,951
Other liabilities	-	-	2,371	150	-	2,521	100	-	2,621
Due to related parties, less current portion	4,923	164,800	486,659	-	(656,366)	16	5,733	(5,749)	-
Total long-term liabilities	648,876	267,320	530,616	33,353	(656,366)	823,799	11,454	(6,751)	828,502
Total liabilities	707,083	368,889	594,146	51,193	(703,062)	1,018,249	32,865	9,129	1,060,243
Net assets:									
Without donor restrictions	487,654	500,402	77,873	72,767	-	1,138,696	93,172	(27,174)	1,204,694
With donor restrictions	-	-	13,402	-	-	13,402	21,974	(5,875)	29,501
Total net assets	487,654	500,402	91,275	72,767	-	1,152,098	115,146	(33,049)	1,234,195
TOTAL LIABILITIES AND NET ASSETS	\$ 1,194,737	\$ 869,291	\$ 685,421	\$ 123,960	\$ (703,062)	\$ 2,170,347	\$ 148,011	\$ (23,920)	\$ 2,294,438

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation
Consolidating Statement of Operations (In Thousands)
Year Ended June 30, 2023

	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	\$ -	\$ 616,417	\$ 362,620	\$ 73,465	\$ (34,715)	\$ 1,017,787	\$ 50,904	\$ (91,042)	\$ 977,649
Premium revenue	-	-	-	-	-	-	146,543	-	146,543
Other operating revenue (expense)	-	20,910	28,115	50,680	(49,900)	49,805	4,296	(588)	53,513
Total revenue	-	637,327	390,735	124,145	(84,615)	1,067,592	201,743	(91,630)	1,177,705
Expenses:									
Salaries and wages	-	306,513	120,974	96,071	4,348	527,906	25,561	13	553,480
Employee benefits	5,544	58,561	23,501	12,965	(34,715)	65,856	4,005	-	69,861
Professional fees and purchased services	48	50,707	89,721	19,775	(54,241)	106,010	9,245	(98)	115,157
Medical claims and capitation payments	-	-	-	-	-	-	129,075	(90,955)	38,120
Medical supplies, other supplies, and drugs	2	124,163	60,802	6,930	-	191,897	7,809	(2)	199,704
Insurance	29	6,889	9,445	3,993	-	20,356	1,347	-	21,703
Provider and other tax assessments	-	10,952	16,831	-	-	27,783	998	-	28,781
Other	122	(2,628)	10,720	(2,775)	(7)	5,432	15,414	(588)	20,258
Depreciation	-	26,426	33,196	5,377	-	64,999	2,612	-	67,611
Interest	-	7,526	18,678	-	-	26,204	269	-	26,473
Total expenses	5,745	589,109	383,868	142,336	(84,615)	1,036,443	196,335	(91,630)	1,141,148
Income (loss) from operations	(5,745)	48,218	6,867	(18,191)	-	31,149	5,408	-	36,557
Nonoperating income (expense):									
Other	-	(21,093)	(13,879)	(1,175)	-	(36,147)	(520)	(4,387)	(41,054)
Investment income (loss) - Net	43,307	6,417	15,695	-	-	65,419	6,544	-	71,963
Total nonoperating income (expense) - Net	43,307	(14,676)	1,816	(1,175)	-	29,272	6,024	(4,387)	30,909
Excess (deficiency) of revenue over expenses	37,562	33,542	8,683	(19,366)	-	60,421	11,432	(4,387)	67,466
Other changes in net assets without donor restrictions:									
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	-	27,027	17,150	1,366	-	45,543	621	-	46,164
Transfers (to) from affiliates	-	-	(34,133)	34,133	-	-	-	-	-
Other	-	-	(538)	-	-	(538)	(141)	536	(143)
Increase (decrease) in net assets without donor restrictions	\$ 37,562	\$ 60,569	\$ (8,838)	\$ 16,133	\$ -	\$ 105,426	\$ 11,912	\$ (3,851)	\$ 113,487

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended June 30, 2023

	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	\$ 37,562	\$ 33,542	\$ 8,683	\$ (19,366)	-	\$ 60,421	\$ 11,432	\$ (4,387)	\$ 67,466
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	-	27,027	17,150	1,366	-	45,543	621	-	46,164
Transfers (to) from affiliates	-	-	(34,133)	34,133	-	-	-	-	-
Other	-	-	(538)	-	-	(538)	(141)	536	(143)
Increase (decrease) in net assets without donor restrictions	37,562	60,569	(8,838)	16,133	-	105,426	11,912	(3,851)	113,487
Net assets with donor restrictions:									
Contributions	-	-	-	-	-	-	3,966	1	3,967
Investment income (loss) - Net	-	-	111	-	-	111	172	-	283
Net change in beneficial interest in trusts	-	-	737	-	-	737	599	(737)	599
Net assets released from restriction	-	-	-	-	-	-	(3,031)	-	(3,031)
Increase (decrease) in net assets with donor restrictions	-	-	848	-	-	848	1,706	(736)	1,818
Change in net assets	37,562	60,569	(7,990)	16,133	-	106,274	13,618	(4,587)	115,305
Net assets at beginning	450,092	439,833	99,265	56,634	-	1,045,824	101,528	(28,462)	1,118,890
Net assets at end	\$ 487,654	\$ 500,402	\$ 91,275	\$ 72,767	-	\$ 1,152,098	\$ 115,146	\$ (33,049)	\$ 1,234,195

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Balance Sheet (In Thousands)

June 30, 2022

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	\$ 9,993	\$ 271,658	\$ 68,309	\$ 231	-	\$ 350,191	\$ 46,191	-	\$ 396,382
Patient accounts receivable - Net	-	33,497	6,736	8,961	-	49,194	5,361	(6,417)	48,138
Supplies	-	14,296	11,907	573	-	26,776	2,275	-	29,051
Prepaid expenses	-	2,679	2,926	85	-	5,690	76	(262)	5,504
Current portion of assets limited as to use	-	-	-	-	-	-	1,829	-	1,829
Other receivables	-	1,287	12,808	1,260	-	15,355	13,310	(791)	27,874
Due from related party	3,851	52,785	2,543	866	(53,472)	6,573	578	(7,151)	-
Total current assets	13,844	376,202	105,229	11,976	(53,472)	453,779	69,620	(14,621)	508,778
Assets limited as to use, less current portion	480,209	118,626	148,626	18,024	-	765,485	65,118	-	830,603
Property and equipment - Net	-	286,582	447,070	87,327	-	820,979	13,131	-	834,110
Other assets:									
Due from related parties, less current portion	673,749	-	4,722	-	(672,531)	5,940	-	(5,940)	-
Investment in affiliates and joint ventures	-	23,683	11,758	-	-	35,441	-	(23,323)	12,118
Operating lease assets	-	1,155	1,888	666	-	3,709	13	-	3,722
Other	-	48	5,725	1,389	-	7,162	11,865	(5,139)	13,888
Total other assets	673,749	24,886	24,093	2,055	(672,531)	52,252	11,878	(34,402)	29,728
TOTAL ASSETS	\$ 1,167,802	\$ 806,296	\$ 725,018	\$ 119,382	\$ (726,003)	\$ 2,092,495	\$ 159,747	\$ (49,023)	\$ 2,203,219

Mercy Health Corporation

Consolidating Balance Sheet (In Thousands) (Continued)

June 30, 2022

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	\$ 13,180	\$ -	\$ -	\$ -	\$ -	\$ 13,180	\$ -	\$ -	\$ 13,180
Current portion of operating lease liabilities	-	578	1,332	358	-	2,268	13	-	2,281
Accounts payable	2	16,959	12,552	2,525	-	32,038	4,163	(801)	35,400
Due to third-party payors	-	4,208	31,986	-	-	36,194	1,429	-	37,623
Accrued salaries, wages, and payroll taxes	-	38,645	18,019	14,388	-	71,052	3,505	-	74,557
Other accrued expenses	2,485	34,745	7,693	3,459	(637)	47,745	32,303	(5,013)	75,035
Due to related parties	36,176	6	11,343	5,336	(52,835)	26	7,474	(7,500)	-
Total current liabilities	51,843	95,141	82,925	26,066	(53,472)	202,503	48,887	(13,314)	238,076
Long-term liabilities:									
Long-term debt, less current maturities	661,145	(1,179)	(2,737)	-	-	657,229	(42)	-	657,187
Long-term portion of operating lease liabilities	-	577	555	308	-	1,440	-	-	1,440
Accrued liabilities under self-insurance program	-	35,269	33,890	16,928	-	86,087	3,149	(1,307)	87,929
Deferred compensation	-	65,348	3,490	18,416	-	87,254	-	-	87,254
Pension obligations	-	1,067	3,975	312	-	5,354	142	-	5,496
Accrued postretirement medical benefits	-	-	3,701	545	-	4,246	57	-	4,303
Other liabilities	-	-	2,371	173	-	2,544	100	-	2,644
Due to related parties, less current portion	4,722	170,240	497,583	-	(672,531)	14	5,926	(5,940)	-
Total long-term liabilities	665,867	271,322	542,828	36,682	(672,531)	844,168	9,332	(7,247)	846,253
Total liabilities	717,710	366,463	625,753	62,748	(726,003)	1,046,671	58,219	(20,561)	1,084,329
Net assets:									
Without donor restrictions	450,092	439,833	86,711	56,634	-	1,033,270	81,260	(23,323)	1,091,207
With donor restrictions	-	-	12,554	-	-	12,554	20,268	(5,139)	27,683
Total net assets	450,092	439,833	99,265	56,634	-	1,045,824	101,528	(28,462)	1,118,890
TOTAL LIABILITIES AND NET ASSETS	\$ 1,167,802	\$ 806,296	\$ 725,018	\$ 119,382	\$ (726,003)	\$ 2,092,495	\$ 159,747	\$ (49,023)	\$ 2,203,219

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation
Consolidating Statement of Operations (In Thousands)
Year Ended June 30, 2022

	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	\$ -	\$ 603,636	\$ 343,315	\$ 83,139	\$ (34,197)	\$ 995,893	\$ 52,956	\$ (86,498)	\$ 962,351
Premium revenue	-	-	-	-	-	-	137,175	-	137,175
Other operating revenue (expense)	-	23,501	45,030	44,318	(44,154)	68,695	3,738	(433)	72,000
Total revenue	-	627,137	388,345	127,457	(78,351)	1,064,588	193,869	(86,931)	1,171,526
Expenses:									
Salaries and wages	-	285,428	119,885	102,657	4,422	512,392	23,369	13	535,774
Employee benefits	5,348	59,052	25,886	14,302	(34,196)	70,392	3,736	-	74,128
Professional fees and purchased services	24	46,957	79,191	19,337	(48,566)	96,943	8,920	(265)	105,598
Medical claims and capitation payments	-	-	-	-	-	-	127,447	(86,227)	41,220
Medical supplies, other supplies, and drugs	2	119,856	63,422	6,247	-	189,527	8,996	(19)	198,504
Insurance	-	6,717	21,225	3,779	-	31,721	156	-	31,877
Provider and other tax assessments	-	10,776	13,629	-	-	24,405	806	-	25,211
Other	122	6,284	13,272	806	(11)	20,473	12,782	(433)	32,822
Depreciation	-	26,758	34,838	5,596	-	67,192	2,685	-	69,877
Interest	-	7,703	18,911	-	-	26,614	274	-	26,888
Total expenses	5,496	569,531	390,259	152,724	(78,351)	1,039,659	189,171	(86,931)	1,141,899
Income (loss) from operations	(5,496)	57,606	(1,914)	(25,267)	-	24,929	4,698	-	29,627
Nonoperating income (expense):									
Other	-	(12,900)	(660)	(571)	-	(14,131)	(19)	12,093	(2,057)
Investment income (loss) - Net	(72,360)	(744)	(24,106)	-	-	(97,210)	(11,126)	-	(108,336)
Total nonoperating income (expense) - Net	(72,360)	(13,644)	(24,766)	(571)	-	(111,341)	(11,145)	12,093	(110,393)
Excess (deficiency) of revenue over expenses	(77,856)	43,962	(26,680)	(25,838)	-	(86,412)	(6,447)	12,093	(80,766)
Other changes in net assets without donor restrictions:									
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	-	(4,085)	(5,018)	(302)	-	(9,405)	(191)	-	(9,596)
Transfers (to) from affiliates	-	-	(20,410)	20,410	-	-	-	-	-
Other	-	-	659	-	-	659	(2,426)	(406)	(2,173)
Increase (decrease) in net assets without donor restrictions	\$ (77,856)	\$ 39,877	\$ (51,449)	\$ (5,730)	\$ -	\$ (95,158)	\$ (9,064)	\$ 11,687	\$ (92,535)

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended June 30, 2022

	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	\$ (77,856)	\$ 43,962	\$ (26,680)	\$ (25,838)	-	\$ (86,412)	\$ (6,447)	12,093	\$ (80,766)
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	-	(4,085)	(5,018)	(302)	-	(9,405)	(191)	-	(9,596)
Transfers (to) from affiliates	-	-	(20,410)	20,410	-	-	-	-	-
Other	-	-	659	-	-	659	(2,426)	(406)	(2,173)
Increase (decrease) in net assets without donor restrictions	(77,856)	39,877	(51,449)	(5,730)	-	(95,158)	(9,064)	11,687	(92,535)
Net assets with donor restrictions:									
Contributions	-	-	-	-	-	-	3,464	-	3,464
Investment income - Net	-	-	99	2	-	101	(330)	-	(229)
Net change in beneficial interest in trusts	-	-	(407)	-	-	(407)	(2,400)	407	(2,400)
Net assets released from restriction	-	-	-	-	-	-	(859)	-	(859)
Increase in net assets with donor restrictions	-	-	(308)	2	-	(306)	(125)	407	(24)
Change in net assets	(77,856)	39,877	(51,757)	(5,728)	-	(95,464)	(9,189)	12,094	(92,559)
Net assets at beginning	527,948	399,956	151,022	62,362	-	1,141,288	110,717	(40,556)	1,211,449
Net assets at end	\$ 450,092	\$ 439,833	\$ 99,265	\$ 56,634	-	\$ 1,045,824	\$ 101,528	\$ (28,462)	\$ 1,118,890

See Independent Auditor's Report on Supplementary Information.