Mercy Health Corporation

Rockford, Illinois

Consolidated Financial Statements and Supplementary Information

Years ended June 30, 2019 and 2018

Mercyhealth™

WIPFLi LLP
CPAs and Consultants

WIPFLi LLP

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, 2019 and 2018, 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, 2019 and 2018, 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 13, 2019

Mercy Health Corporation

Consolidated Balance Sheets

June 30, 2019 and 2018

	(In Thousands)	
Assets	**2019**	**2018**
Current assets:		
Cash and cash equivalents	$ 121,878	$ 195,359
Patient accounts receivable - Net	217,762	175,493
Supplies	33,111	24,492
Prepaid expenses	8,383	8,441
Current portion of assets limited as to use	9,264	8,821
Other receivables	18,591	27,544
Total current assets	408,989	440,150
Assets limited as to use, less current portion	731,743	774,074
Property and equipment - Net	870,707	760,712
Other assets:		
Investment in joint ventures	11,087	11,200
Other	15,552	15,486
Total other assets	26,639	26,686
TOTAL ASSETS	$ 2,038,078	$ 2,001,622

Liabilities and Net Assets		(In Thousands) 2019		2018
Current liabilities:				
Current maturities of long-term debt	$	3,175	$	6,500
Accounts payable		39,290		46,323
Due to third-party payors		26,366		27,649
Accrued salaries, wages, and payroll taxes		67,419		73,572
Other accrued expenses		46,110		52,360
Total current liabilities		182,360		206,404
Long-term liabilities:				
Long-term debt, less current maturities		696,526		702,876
Accrued liabilities under self-insurance program		61,151		64,834
Deferred compensation		66,484		58,703
Pension obligations		26,234		14,012
Accrued postretirement medical benefits		5,435		5,161
Other liabilities		1,251		1,903
Total long-term liabilities		857,081		847,489
Total liabilities		1,039,441		1,053,893
Net assets:				
Without donor restrictions		973,945		924,553
With donor restrictions		24,692		23,176
Total net assets		998,637		947,729
TOTAL LIABILITIES AND NET ASSETS	$	2,038,078	$	2,001,622

See accompanying notes to consolidated financial statements.

Mercy Health Corporation

Consolidated Statements of Operations

Years ended June 30, 2019 and 2018

	(In Thousands)	
	2019	2018
Revenue:		
Patient service revenue	1,029,787	971,764
Premium revenue	105,487	99,609
Other operating revenue	17,149	23,041
Total revenue	1,152,423	1,094,414
Expenses:		
Salaries and wages	574,253	536,218
Employee benefits	75,824	74,625
Professional fees and purchased services	116,790	112,679
Medical claims and capitation payments	28,816	21,983
Medical supplies, other supplies, and drugs	190,633	187,853
Insurance	10,938	4,948
Provider tax assessment	23,256	24,231
Other	37,331	35,868
Depreciation and amortization	60,893	51,497
Interest	19,436	11,340
Total expenses	1,138,170	1,061,242
Income from operations	14,253	33,172
Nonoperating income:		
Other	12,352	591
Investment income - Net	35,581	38,720
Total nonoperating income - Net	47,933	39,311
Excess of revenue over expenses	62,186	72,483
Other changes in net assets without donor restrictions:		
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	(12,816)	6,857
Other	22	(24)
Increase in net assets without donor restrictions	$ 49,392	$ 79,316

See accompanying notes to consolidated financial statements.

Mercy Health Corporation

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2019 and 2018

	(In Thousands)	
	2019	2018
Net assets without donor restrictions:		
Excess of revenue over expenses	$ 62,186	$ 72,483
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	(12,816)	6,857
Other	22	(24)
Increase in net assets without donor restrictions	49,392	79,316
Net assets with donor restrictions:		
Contributions	535	518
Investment income - Net	774	461
Net change in beneficial interest in trusts	355	-
Net assets released from restriction	(148)	(411)
Increase in net assets with donor restrictions	1,516	568
Change in net assets	50,908	79,884
Net assets at beginning	947,729	867,845
Net assets at end	$ 998,637	$ 947,729

See accompanying notes to consolidated financial statements.

Mercy Health Corporation

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

	(In Thousands)	
	2019	**2018**
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	$ 50,908	$ 79,884
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Equity gains in joint ventures	(4,331)	(4,098)
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	12,816	(6,857)
Net realized and unrealized gains and losses on investments	(30,975)	(33,990)
Depreciation and amortization	57,684	48,365
Loss on sale of property and equipment	3,186	173
Gain from insurance event	(18,381)	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(42,269)	5,131
Supplies and other assets	(7,084)	(2,126)
Accounts payable	(7,033)	8,824
Accrued liabilities and other	(9,277)	10,472
Due to/from third-party payors	(1,283)	10,211
Net cash provided by operating activities	3,961	115,989
Cash flows from investing activities:		
Net decrease in assets limited as to use	72,863	225,605
Purchases of property and equipment	(174,085)	(286,634)
Proceeds from sale of property and equipment	11	15
Proceeds from insurance event	25,791	-
Proceeds received from joint ventures	4,444	4,766
Net cash used in investing activities	(70,976)	(56,248)
Net cash used in financing activities - Principal payments on long-term debt	(6,466)	(6,955)
Net increase (decrease) in cash and cash equivalents	(73,481)	52,786
Cash and cash equivalents at beginning	195,359	142,573
Cash and cash equivalents at end	$ 121,878	$ 195,359
Supplemental cash flow information:		
Cash paid for interest	$ 21,887	$ 31,763
Non-cash supplemental information:		
Capitalized interest	$ 9,582	$ 13,165

See accompanying notes to consolidated financial statements.

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 43 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. The project is still going through the appeals and approval process.

- Javon Bea Hospital (JBH), previously Rockford Memorial Hospital, which operates a 94-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. RHS Regional Health Network (RRHN) is an accountable care organization (ACO); the ACO contract expired December 31, 2017. 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 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 accounts.

Inventories

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

Investments, Assets Limited as to Use, and Investment Income

Investments, including assets limited as to use, are measured at fair value in the accompanying consolidated balance sheets. Investments 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 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. Management believes that 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. As a result, management cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2019 and 2018.

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. See Note 6 for further discussion on impairment losses.

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 care 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.

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Service Revenue (Continued)

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 analyzes, 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 judgement, 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.

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Service Revenue (Continued)

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. 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 2019 and 2018. Medicare and Medicaid cost reports have been settled through June 30, 2016 for MHSC and JBH, through June 30, 2014 for MHH, and through June 30, 2013 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, 2019 and 2018, 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 2019 and 2018.

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 $11,856 and $12,702 at June 30, 2019 and 2018, respectively.

Note 1: Summary of Significant Accounting Policies (Continued)

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 of Revenue Over Expenses

The accompanying consolidated statements of operations and changes in net assets include excess 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 $4,496 and $5,730 in 2019 and 2018, respectively.

Note 1: Summary of Significant Accounting Policies (Continued)

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.

Income Taxes

The Corporation, except MCIC and 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.

New Accounting Pronouncements

In February 2016, the FASB issued Accounting Standard Update (ASU) No. 2016-02, *Leases*. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. This guidance requires all leases (except immaterial leases and leases less than one yearin duration) to be reflected on the balance sheet as assets and liabilities. The Corporation is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements and disclosures.

Subsequent Events

Subsequent events have been evaluated through August 13, 2019, which is the date the consolidated financial statements were issued.

Notes to Consolidated Financial Statements (In Thousands)

Note 2: Accounting Pronouncements Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation adopted this guidance as of July 1, 2018. The Corporation applied Topic 606 on a retrospective basis and elected the practical expedient in paragraph FASB ASC 606-10-65-1(f)3), under which the Corporation does not disclose the aggregate amount of the transaction price allocated to the remaining performance obligations referred to above that 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 implementation of this ASU resulted in a change in bad debt presentation, which is reported as an operating expense, rather than a net patient service revenue deduction. Under this ASU, management's initial estimate of the transaction price includes implicit price concessions, which were previously reported as provision for bad debts. The following consolidated financial statements line items as of and for the year ended June 30, 2018, were affected by the adoption of this guidance:

	As Previously Reported	As Restated	Effect of Change
Patient service revenue (net of contractual allowances and discounts	$ 1,020,036	$ -	$ (1,020,036)
Provision for bad debts	(48,272)	-	48,272
Patient service revenue	$ -	$ 971,764	$ 971,764

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958). This ASU provides for certain improvements in financial reporting for not-for-profit organizations and requires changes to net asset classification, enhancements to liquidity presentation and disclosures, presentation of an analysis of expenses by function and by nature, netting of investment expenses with return, among other changes. The guidance in this ASU is effective for the Corporation's year ended June 30, 2019, and was applied retrospectively to these comparative financial statements. Net assets as of June 30, 2018, were restated by combining the temporarily restricted net assets of $14,757 and permanently restricted net assets of $8,419 into net assets with donor restrictions of $23,176. The Corporation has elected under the ASU's adoption guidance to omit the liquidity and statement of functional expenses disclosures for the year ended June 30, 2018.

Notes to Consolidated Financial Statements (In Thousands)

Note 3: Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30:

	2019	2018
Patient accounts receivable	$ 589,730	$ 509,989
Less: Contractual adjustments and implicit price concessions	371,968	334,496
Total	$ 217,762	$ 175,493

Note 4: Assets Limited as to Use

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

	2019	2018
Held by trustee under bond indenture agreements	$ 2,566	$ 136,158
Held by Treasurer of State of Wisconsin for regulatory requirements	4,835	5,208
Donor-restricted and endowment funds	11,494	10,840
Internally designated:		
Deferred compensation	66,575	58,708
Expansion and capital improvements	554,509	476,306
Professional liability	71,010	67,301
Regulatory compliance	30,018	28,374
Total assets limited as to use	741,007	782,895
Less: Current portion	9,264	8,821
Assets limited as to use, less current portion	$ 731,743	$ 774,074

Investment income on cash equivalents, investments, and assets limited as to use, consiisted of the following:

	2019	2018
Interest and dividends	$ 4,606	$ 4,730
Realized gain on sale of investments	28,747	15,329
Change in net unrealized gains and losses on investments	2,228	18,661
Investment income - Net	$ 35,581	$ 38,720

Note 4: Assets Limited as to Use (Continued)

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 5: 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.

Intermediate and short-term fixed fund: Valued using NAV as a practical expedient. There are no commitments or redemption notice periods.

Common trust funds and limited liability company: 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.

Notes to Consolidated Financial Statements (In Thousands)

Note 5: Fair Value Measurements (Continued)

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.

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

2019	Level 1	Level 2	Level 3	Total
Assets limited as to use:				
Cash equivalents and money market funds	$ -	$ 1,736	$ -	$ 1,736
U.S. government and agency obligations	-	13,945	-	13,945
Corporate obligations	-	5,636	-	5,636
Foreign obligations	-	584	-	584
Mutual funds:				
Fixed income	100,366	-	-	100,366
U.S. equities	59,469	-	-	59,469
Foreign and emerging market funds	9,888	-	-	9,888
Limited partnership and limited liability companies - Fixed income	-	231,275	-	231,275
Common trust funds using NAV as an expedient - Domestic equity (b)				318,108
Total assets limited as to use	$ 169,723	$ 253,176	$ -	$ 741,007

Notes to Consolidated Financial Statements (In Thousands)

Note 5: Fair Value Measurements (Continued)

2018	Level 1	Level 2	Level 3	Total
Assets limited as to use:				
Cash equivalents and money market funds	$ -	$ 79,775	$ -	$ 79,775
U.S. government and agency obligations	-	38,810	-	38,810
Corporate obligations	-	67,155	-	67,155
Foreign obligations	-	10,728	-	10,728
Mutual funds:				
Fixed income	77,086	-	-	77,086
U.S. equities	117,474	-	-	117,474
Foreign and emerging market funds	26,567	-	-	26,567
Marketable equity securities	61,519	-	-	61,519
Limited partnership and limited liability companies:				
Fixed income	-	73,215	-	73,215
International equity	-	19,058	-	19,058
Limited liability company using NAV as an expedient - Fixed income (a)				39,854
Common trust funds using NAV as an expedient - Domestic equity (b)				171,654
Total assets limited as to use	$ 282,646	$ 288,741	$ -	$ 782,895

(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 United States large and small-capitalization index markets.

Notes to Consolidated Financial Statements (In Thousands)

Note 6: Property and Equipment

Property and equipment consisted of the following at June 30:

	2019	2018
Land	$ 39,981	$ 39,752
Land improvements	22,877	18,986
Leasehold improvements	4,829	4,824
Buildings and improvements	883,169	482,592
Equipment	696,370	587,486
Total property and equipment	1,647,226	1,133,640
Less - Accumulated depreciation	798,719	744,870
Net depreciated value	848,507	388,770
Construction in progress	22,200	371,942
Total	$ 870,707	$ 760,712

Amounts in construction in progress at June 30, 2019, relate to routine capital projects for renovating and updating the Corporation's facilities. Amounts in construction in progress at June 30, 2018, relate to construction of a 194-bed hospital and ambulatory care building and medical office building in Rockford, Illinois (Riverside Project), routine capital projects for renovating and updating the Corporation's facilities, and computer software. The Riverside Project was completed in January of 2019.

In June 2018, JBH incurred water damage to the main level of the hospital. The water damage impacted clinical service offerings, including but not limited to radiation oncology, infusion, endoscopy, pharmacy, and laboratory. It also impacted support services including the data center and medical records, as well as other administrative functions. The estimated impairment related to this event is $3,100, which is the net book value of damaged equipment and building improvements. The damaged equipment and building improvements had a cost of $8,600 and accumulated depreciation of $5,500. The Corporation is insured for property damage, except for a deductible of $100. Coverage under the Corporation's policy is replacement value, and business interruption. The replacement value of the damaged equipment and building improvements exceeded the impairment loss. Insurance proceeds for this claim collected through June 30, 2019 is $25,800. At June 30, 2018, the Corporation recorded a receivable for $7,500 related to the estimated impairment loss at that time plus remediation costs to date. In 2019, the Corporation recorded the remaining amount of $18,300 as a non-operating gain. The Corporation is still in negotiations with the insurer for additional settlements; however, these amounts cannot be estimated.

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 27% ownership interest in KSB/RMHSC Partnership (KSB), which owned and leased a medical office building that disolved in 2018, 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, 2019 and 2018, as well as the related income reported in 2019 and 2018, was as follows:

	Joint Venture Investment at June 30, 2019	Joint Venture Income (Loss) 2019	Joint Venture Investment at June 30, 2018	Joint Venture Income (Loss) 2018
KSB	$ -	$ -	$ -	$ 17
VanMatre	9,839	4,349	9,913	4,109
Madison Health Linen	1,248	(39)	1,287	(28)
Total	$ 11,087	$ 4,310	$ 11,200	$ 4,098

The financial position of VanMatre as of and for the years ended June 30, 2019 and 2018 was as follows:

	2019	2018
Balance sheet:		
Assets	$ 25,001	$ 21,421
Liabilities	5,323	1,572
Equity	19,678	19,849
Income statement:		
Patient and other revenues	31,314	30,471
Operating expenses	(21,748)	(21,415)
Management fees	(868)	(838)
Net income	$ 8,698	$ 8,218

Notes to Consolidated Financial Statements (In Thousands)

Note 8: Long-Term Debt

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

	2019	2018
Illinois Finance Authority (IFA) Revenue Bonds, Series 2016, fixed rates, maturing at varying amounts beginning 2021 continuing through 2047	$ 475,020	$ 475,020
Wisconsin Health and Educational Facilities Authority (WHEFA) Revenue Bonds, Series 2012, fixed rates, maturing at varying amounts beginning 2018 continuing through 2039	163,860	166,755
WHEFA Revenue Bonds, Series 2010A, fixed rates	-	2,230
Equipment loans and other	146	1,487
Totals	639,026	645,492
Plus - Unamortized bond premiums	65,458	68,985
Less - Current maturities	(3,175)	(6,500)
Less - Unamortized debt issuance costs	(4,783)	(5,101)
Long-term portion	$ 696,526	$ 702,876

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.

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, 2019. 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)

The bond indenture agreements require the creation of funds to be held by a trustee for payment of construction costs and bond principal and interest. These funds, which are not available for general purposes, are classified as assets limited as to use in the accompanying consolidated balance sheets. In addition, the bond agreements require maintenance of certain debt service coverage ratios, limit additional borrowings, and require compliance with various other restrictive covenants.

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% at June 30, 2019. 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, 2019, the Corporation has no outstanding balance on this line of credit.

Scheduled payments of principal on long-term debt at June 30, 2019, including current maturities, are summarized as follows:

2020	$ 3,175
2021	3,612
2022	12,570
2023	13,180
2024	13,850
Thereafter	592,639
Total	$ 639,026

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. Due to the plan being frozen, a settlement expense was triggered resulting in an acceleration of the recognition of prior service costs. 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 $3,500 to the plan in 2019 and 2018. The Corporation expects to incur income of $1,934 for fiscal year 2020.

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 resulting in a curtailment at December 31, 2011. 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 $0 and $2,735 to the defined benefit pension plan in 2019 and 2018, respectively. The Corporation expects to incur income of $539 for fiscal year 2020.

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 2019 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	
	2019	2018	2019	2018	2019	2018
Change in accumulated in benefit obligation:						
Accumulated benefit obligation at beginning of period	$ 123,195	$ 132,580	$ 81,848	$ 92,851	$ 5,716	$ 4,115
Service cost	-	-	-	-	557	257
Interest cost	4,852	4,842	3,058	3,128	212	112
Settlements	-	-	-	(9,461)	-	-
Benefits paid	(12,640)	(11,688)	(10,204)	(1,076)	(703)	(627)
Actuarial (gains) losses	13,027	(2,539)	9,827	(3,594)	252	1,859
Accumulated benefit obligation at end of period	128,434	123,195	84,529	81,848	6,034	5,716
Change in assets:						
Fair value of assets at beginning of period	117,265	119,238	73,766	77,784	-	-
Actual return on assets	9,133	6,215	5,909	3,784	-	-
Employer contributions	3,500	3,500	-	2,735	703	627
Settlements	-	-	-	(9,461)	-	-
Benefits paid	(12,640)	(11,688)	(10,204)	(1,076)	(703)	(627)
Fair value of assets at end of period	117,258	117,265	69,471	73,766	-	-
Funded status	$ (11,176)	$ (5,930)	$ (15,058)	$ (8,082)	$ (6,034)	$ (5,716)
Accumulated benefit obligation at end of period	$ 128,434	$ 123,195	$ 84,529	$ 81,848	$ 6,034	$ 5,716

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	
	2019	2018	2019	2018	2019	2018
Current liability - Other accrued expenses	$ -	$ -	$ -	$ -	$ 599	$ 555
Long-term liability - Pension obligations	11,176	5,930	15,058	8,082	5,435	5,161
Total	$ 11,176	$ 5,930	$ 15,058	$ 8,082	$ 6,034	$ 5,716
Total net assets:						
Prior service cost	$ -	$ -	$ -	$ -	$ -	$ 69
Net actuarial loss	30,849	23,079	26,597	22,333	2,606	3,318
Total amount recognized in net assets	$ 30,849	$ 23,079	$ 26,597	$ 22,333	$ 2,606	$ 3,387

Notes to Consolidated Financial Statements (In Thousands)

Note 9: Retirement Plans (Continued)

Pension expense for 2019 and 2018 was comprised of the following:

	Mercy Pension		Rockford Pension		Post Retirement Medical	
	2019	2018	2019	2018	2019	2018
Pension expense:						
Service cost	$ -	$ -	$ -	$ -	$ 557	$ 257
Interest cost	4,852	4,842	3,058	3,128	212	112
Expected return on assets	(6,925)	(7,960)	(3,775)	(4,223)	-	-
Amortization of prior service cost	-	-	-	-	(69)	(141)
Amortization of unrecognized actuarial (gain) loss	303	299	524	624	(459)	(945)
Settlement charges	2,746	2,041	2,904	2,889	-	-
Total pension expense (income)	976	(778)	2,711	2,418	241	(717)
Other changes in assets and benefit obligations recognized in other changes in net assets:						
Net actuarial loss (gain)	10,819	(794)	7,693	(3,155)	253	1,859
Amortization of unrecognized actuarial (loss) gain	(303)	(299)	(524)	(624)	459	945
Recognition due to settlements	(2,746)	(2,041)	(2,904)	(2,889)	-	-
Amortization of prior service cost	-	-	-	-	69	141
Total recognized in other changes in net assets	7,770	(3,134)	4,265	(6,668)	781	2,945
Total recognized as pension expense and other changes in net assets	$ 8,746	$ (3,912)	$ 6,976	$ (4,250)	$ 1,022	$ 2,228

Notes to Consolidated Financial Statements (In Thousands)

Note 9: Retirement Plans (Continued)

Weighted average assumptions used at June 30, 2019 and 2018, the measurement dates, in developing the projected benefit obligation are as follows:

	Mercy Pension		Rockford Pension		Post Retirement Medical	
	2019	2018	2019	2018	2019	2018
Discount rate for obligation	3.30 %	4.20 %	3.40 %	4.00 %	2.85 %	3.90 %
Discount rate for net periodic cost (July 1 - September 30)	4.20 %	3.75 %	4.00 %	3.50 %	3.90 %	2.95 %
Discount rate for net periodic cost (October 1 - December 31)	4.25 %	3.75 %	4.05 %	3.45 %	3.90 %	2.95 %
Discount rate for net periodic cost (January 1 - March 31)	3.85 %	3.95 %	3.60 %	3.35 %	3.90 %	2.95 %
Discount rate for net periodic cost (April 1 - June 30)	3.30 %	3.95 %	3.40 %	3.75 %	3.90 %	2.95 %
Expected long-term return on plan assets	5.75 %	6.00 %	5.75 %	5.62 %	N/A	N/A

To develop the expected long-term rate of return on assets assumptions, the Corporation considered 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	
	2019	2018	2019	2018
Asset category:				
Cash equivalents	1 %	2 %	5 %	4 %
Equity securities, equity mutual funds, and equity limited partnerships	-	-	-	40
Fixed income, fixed income mutual funds, and intermediate and short-term fixed funds	-	-	-	56
Common trust funds:				
Fixed income	57	57	55	-
Domestic equity	18	18	26	-
International equity	19	18	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:

2019	Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 4,713	$ -	$ 4,713
Mutual funds:				
Equity	-	-	-	-
Fixed income	-	-	-	-
Common trust funds using NAV as an expedient:				
Fixed income (b)				105,102
Domestic equity (c)				39,000
International equity (d)				31,822
International real estate (e)				6,092
Total	$ -	$ 4,713	$ -	$ 186,729

2018	Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 4,907	$ -	$ 4,907
Marketable equity securities	10,967	-	-	10,967
Mutual funds:				
Equity	14,663	-	-	14,663
Fixed income	5,774	-	-	5,774
U.S. government and agency obligations	-	6,154	-	6,154
Corporate obligations	-	10,879	-	10,879
Limited Partnerhip - International equities	-	3,483	-	3,483
Intermediate and short-term fixed income funds using NAV as an expedient (a)				18,832
Common trust funds using NAV as an expedient:				
Fixed income (b)				66,548
Domestic equity (c)				21,629
International equity (d)				21,169
International real estate (e)				6,026
Total	$ 31,404	$ 25,423	$ -	$ 191,031

Notes to Consolidated Financial Statements (In Thousands)

Note 9: Retirement Plans (Continued)

(a) Invests in a variety of intermediate and short-term bonds or asset-backed securities. The objective is to add value through overlooked or inefficiently priced issues.
(b) 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.
(c) See Note 5
(d) 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.
(e) 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.

The Corporation expects to contribute $7,000 to the pension plans and $599 to the postretirement medical benefit plan in fiscal 2020.

Benefit payments are expected to be paid as follows:

	Mercy Pension	Rockford Pension	Post Retirement Medical
2020	$ 12,431	$ 9,433	$ 599
2021	11,022	6,342	711
2022	10,123	6,026	750
2023	9,804	5,803	798
2024	9,616	5,810	784
Years 2025 through 2029	43,259	25,847	4,101

The Corporation also participates in various defined contribution plans covering substantially all employees. The Corporation recognized expense of $19,150 and $22,329 in 2019 and 2018, 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 $66,600 and $58,700 at June 30, 2019 and 2018, respectively, and are included in the accompanying consolidated balance sheets as assets limited as to use and deferred compensation liability.

Notes to Consolidated Financial Statements (In Thousands)

Note 10: Net Assets With Donor Restrictions

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

	2019	2018
Restricted for donor purposes:		
Educational programs	$ 447	$ 413
Care for the indigent	1,324	1,113
Capital purchases	9	9
Other purposes	1,313	1,174
Restricted as to time	12,941	12,048
Restricted in perpetuity, earnings from which to be used for the following:		
Care for the indigent	3,225	3,006
Education and other purposes	5,433	5,413
Total	$ 24,692	$ 23,176

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:

	2019		
	Inpatient	Outpatient	Total
Payors:			
Medicare	$ 107,575	$ 188,922	$ 296,497
Medicaid	58,606	66,277	124,883
Other third-party payors	136,248	436,700	572,948
Uninsured patients	3,780	31,679	35,459
Total	$ 306,209	$ 723,578	$ 1,029,787

	2018		
	Inpatient	Outpatient	Total
Payors:			
Medicare	$ 111,347	$ 184,986	$ 296,333
Medicaid	78,644	60,973	139,617
Other third-party payors	105,880	397,249	503,129
Uninsured patients	5,912	26,773	32,685
Total	$ 301,783	$ 669,981	$ 971,764

Notes to Consolidated Financial Statements (In Thousands)

Note 11: Patient Service Revenue (Continued)

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 $3,000 for each incident with up to a $9,000 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, MHH, 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 $250 per medical incident and have a $750 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, 2019, which have not yet been asserted.

The internally designated investments and self-insurance reserves recorded in the accompanying consolidated balance sheets at June 30, were as follows:

	2019	2018
Assets:		
Current portion of assets limited as to use	$ 8,000	$ 8,000
Internally designated assets limited as to use	63,010	59,301
Total	$ 71,010	$ 67,301
Liabilities:		
Other accrued expenses	$ 8,000	$ 8,000
Accrued liabilities under self-insurance program	61,151	64,834
Total	$ 69,151	$ 72,834

The Corporation has self-funded health benefit plans covering substantially all of it employees and their dependents. A liability of $5,566 and $9,648 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, 2019 and 2018, 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, 2019 are as follows:

	Health Care Services	General and Administrative	Fund-raising	Total
Salaries and wages	$ 476,283	$ 97,797	$ 173	$ 574,253
Employee benefits	61,673	13,089	62	74,824
Professional fees and purchased services	97,762	18,842	186	116,790
Supplies	154,348	36,270	15	190,633
Utilities	10,684	2,325	-	13,009
Other	70,972	16,350	1,010	88,332
Depreciation and amortization	50,208	10,685	-	60,893
Interest	15,927	3,509	-	19,436
Total	$ 937,857	$ 198,867	$ 1,446	$ 1,138,170

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, utilites, and other expenses are allocated by function based on the department assigned. Depreciation and interest are allocated based on square footage.

Note 14: Liquidity

As part of Corporation's liquidity management, it invests cash in excess of daily requirements in a variety of investment vehicles. These funds, included in expansion and capital improvments 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, 2019, the balance of these funds was $554,509.

As of June 30, 2019, 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:

Financial assets:	
Cash and cash equivalents	$ 121,878
Patient accounts receivable - Net	217,762
Total	$ 339,640

Notes to Consolidated Financial Statements (In Thousands)

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:

	2019	2018
Medicare	27 %	26 %
Medicaid	24	25
Other third-party payors	41	33
Patients	8	16
Total	100 %	100 %

The Corporation maintains depository relationships with area financial institutions that exceeded federally insured limits at June 30, 2019 and 2018. 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 2018 financial statements to conform to the 2019 classifications.

WIPFLi LLP

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, 2019 and 2018, and our report thereon dated August 13, 2019, 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 13, 2019

Mercy Health Corporation

Consolidating Balance Sheet (In Thousands)

June 30, 2019

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	$ 6,763	$ 84,336	$ 16,508	$ 336	$ -	$ 107,943	$ 13,935	$ -	121,878
Patient accounts receivable - Net	-	102,538	96,271	14,982	-	213,791	9,908	(5,937)	217,762
Supplies	-	13,443	16,853	806	-	31,102	2,009	-	33,111
Prepaid expenses	-	5,984	2,375	(169)	-	8,190	193	-	8,383
Current portion of assets limited as to use	-	-	8,000	-	-	8,000	1,264	-	9,264
Other receivables	-	3,900	5,855	2,132	-	11,887	7,542	(838)	18,591
Due from related party	391	3,905	7,734	4,919	(11,383)	5,566	38	(5,604)	-
Total current assets	7,154	214,106	153,596	23,006	(11,383)	386,479	34,889	(12,379)	408,989
Assets limited as to use, less current portion	420,489	109,815	133,350	12,160	-	675,814	55,929	-	731,743
Property and equipment - Net	-	247,285	516,364	93,576	-	857,225	13,482	-	870,707
Other assets:									
Due from related parties, less current portion	704,085	-	-	-	(697,733)	6,352	-	(6,352)	-
Investment in affiliates and joint ventures	-	17,277	10,339	-	-	27,616	-	(16,529)	11,087
Other	-	-	5,794	1,399	-	7,193	13,550	(5,191)	15,552
Total other assets	704,085	17,277	16,133	1,399	(697,733)	41,161	13,550	(28,072)	26,639
TOTAL ASSETS	$ 1,131,728	$ 588,483	$ 819,443	$ 130,141	$ (709,116)	$ 1,960,679	$ 117,850	$ (40,451)	$ 2,038,078

Mercy Health Corporation

Consolidating Balance Sheet (In Thousands) (Continued)

June 30, 2019

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	$ 3,045	$ 130	$ -	$ -	$ -	$ 3,175	$ -	$ -	$ 3,175
Accounts payable	8	16,715	16,490	3,881	-	37,094	3,034	(838)	39,290
Due to third-party payors	-	2,886	22,158	-	-	25,044	1,322	-	26,366
Accrued salaries, wages, and payroll taxes	(262)	36,973	20,547	6,721	-	63,979	3,440	-	67,419
Other accrued expenses	2,569	11,481	7,405	4,418	-	25,873	26,174	(5,937)	46,110
Due to related parties	9,324	105	1,881	34	(11,383)	(39)	5,643	(5,604)	-
Total current liabilities	14,684	68,290	68,481	15,054	(11,383)	155,126	39,613	(12,379)	182,360
Long-term liabilities:									
Long-term debt, less current maturities	701,293	(1,432)	(3,280)	-	-	696,581	(55)	-	696,526
Accrued liabilities under self-insurance program	-	17,120	23,050	17,770	-	57,940	3,211	-	61,151
Deferred compensation	-	51,279	3,045	12,160	-	66,484	-	-	66,484
Pension obligations	-	11,176	13,336	1,306	-	25,818	416	-	26,234
Accrued postretirement medical benefits	-	-	4,725	605	-	5,330	105	-	5,435
Other liabilities	-	-	991	160	-	1,151	100	-	1,251
Due to related parties, less current portion	-	181,636	516,106	-	(697,733)	9	6,343	(6,352)	-
Total long-term liabilities	701,293	259,779	557,973	32,001	(697,733)	853,313	10,120	(6,352)	857,081
Total liabilities	715,977	328,069	626,454	47,055	(709,116)	1,008,439	49,733	(18,731)	1,039,441
Net assets:									
Without donor restrictions	415,751	260,414	180,647	83,086	-	939,898	50,576	(16,529)	973,945
With donor restrictions	-	-	12,342	-	-	12,342	17,541	(5,191)	24,692
Total net assets	415,751	260,414	192,989	83,086	-	952,240	68,117	(21,720)	998,637
TOTAL LIABILITIES AND NET ASSETS	$ 1,131,728	$ 588,483	$ 819,443	$ 130,141	$ (709,116)	$ 1,960,679	$ 117,850	$ (40,451)	$ 2,038,078

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Statement of Operations (In Thousands)

Year Ended June 30, 2019

	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	-	593,201	388,720	101,339	(37,902)	1,045,358	54,209	(69,780)	1,029,787
Premium revenue	-	-	-	-	-	-	105,487	-	105,487
Other operating revenue (expense)	-	(335)	24,193	53,524	(63,427)	13,955	3,564	(370)	17,149
Total revenue	-	592,866	412,913	154,863	(101,329)	1,059,313	163,260	(70,150)	1,152,423
Expenses:									
Salaries and wages	-	287,623	135,004	124,345	3,088	550,060	24,193	-	574,253
Employee benefits	3,238	63,080	27,287	16,603	(38,375)	71,833	4,013	(22)	75,824
Professional fees and purchased services	42	45,288	88,492	39,663	(66,309)	107,176	10,197	(583)	116,790
Medical claims and capitation payments	-	-	-	-	-	-	98,061	(69,245)	28,816
Medical supplies, other supplies, and drugs	34	116,964	57,274	8,178	-	182,450	8,255	(72)	190,633
Insurance	14	4,270	1,630	4,312	-	10,226	712	-	10,938
Provider tax assessment	-	10,233	12,242	-	-	22,475	781	-	23,256
Other	121	3,565	16,830	3,715	267	24,498	13,061	(228)	37,331
Depreciation and amortization	-	26,096	26,218	6,130	-	58,444	2,449	-	60,893
Interest	33	8,237	10,861	-	-	19,131	305	-	19,436
Total expenses	3,482	565,356	375,838	202,946	(101,329)	1,046,293	162,027	(70,150)	1,138,170
Income (loss) from operations	(3,482)	27,510	37,075	(48,083)	-	13,020	1,233	-	14,253
Nonoperating income (expense):									
Other	-	(4,529)	13,362	(251)	-	8,582	186	3,584	12,352
Investment income - Net	21,214	1,990	9,544	-	-	32,748	2,833	-	35,581
Total nonoperating income (expense) - Net	21,214	(2,539)	22,906	(251)	-	41,330	3,019	3,584	47,933
Excess (deficiency) of revenue over expenses	17,732	24,971	59,981	(48,334)	-	54,350	4,252	3,584	62,186
Other changes in net assets without donor restrictions:									
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	-	(7,795)	(4,739)	(81)	-	(12,615)	(201)	-	(12,816)
Transfers (to) from affiliates	-	6,132	(95,134)	95,134	-	6,132	(6,132)	-	-
Other	-	25	(410)	-	-	(385)	20	387	22
Increase in net assets without donor restrictions	$ 17,732	$ 23,333	$ (40,302)	$ 46,719	$ -	$ 47,482	$ (2,061)	$ 3,971	$ 49,392

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended June 30, 2019

	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	$ 17,732	$ 24,971	$ 59,981	$ (48,334)	$ -	$ 54,350	$ 4,252	$ 3,584	$ 62,186
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	-	(7,795)	(4,739)	(81)	-	(12,615)	(201)	-	(12,816)
Transfers (to) from affiliates	-	6,132	(95,134)	95,134	-	6,132	(6,132)	-	-
Other	-	25	(410)	-	-	(385)	20	387	22
Increase (decrease) in net assets without donor restrictions	17,732	23,333	(40,302)	46,719	-	47,482	(2,061)	3,971	49,392
Net assets with donor restrictions:									
Contributions	-	-	-	-	-	-	535	-	535
Investment income - Net	-	-	601	-	-	601	173	-	774
Net change in beneficial interest in trusts	-	-	725	-	-	725	355	(725)	355
Net assets released from restriction	-	-	-	-	-	-	(148)	-	(148)
Increase in net assets with donor restrictions	-	-	1,326	-	-	1,326	915	(725)	1,516
Change in net assets	17,732	23,333	(38,976)	46,719	-	48,808	(1,146)	3,246	50,908
Net assets at beginning	398,019	237,081	231,965	36,367	-	903,432	69,263	(24,966)	947,729
Net assets at end	$ 415,751	$ 260,414	$ 192,989	$ 83,086	$ -	$ 952,240	$ 68,117	$ (21,720)	$ 998,637

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Balance Sheet (In Thousands)

June 30, 2018

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	$ 3,387	$ 102,936	$ 70,868	$ 1,180	$ -	$ 178,371	$ 16,988	$ -	$ 195,359
Patient accounts receivable - Net	-	104,992	56,034	14,778	-	175,804	10,071	(10,382)	175,493
Supplies	-	13,648	8,176	783	-	22,607	1,885	-	24,492
Prepaid expenses	14	5,203	2,859	180	-	8,256	185	-	8,441
Current portion of assets limited as to use	-	-	8,000	-	-	8,000	821	-	8,821
Other receivables	-	4,000	16,237	1,618	-	21,855	8,603	(2,914)	27,544
Due from related party	2,415	10,470	1,173	561	(12,531)	2,088	(86)	(2,002)	-
Total current assets	5,816	241,249	163,347	19,100	(12,531)	416,981	38,467	(15,298)	440,150
Assets limited as to use, less current portion	401,475	53,979	256,056	9,453	-	720,963	53,111	-	774,074
Property and equipment - Net	-	258,321	437,486	51,223	-	747,030	13,682	-	760,712
Other assets:									
Due from related parties, less current portion	712,563	-	-	-	(705,550)	7,013	-	(7,013)	-
Investment in affiliates and joint ventures	-	20,901	10,799	-	-	31,700	-	(20,500)	11,200
Other	-	-	5,356	1,401	-	6,757	13,195	(4,466)	15,486
Total other assets	712,563	20,901	16,155	1,401	(705,550)	45,470	13,195	(31,979)	26,686
TOTAL ASSETS	$ 1,119,854	$ 574,450	$ 873,044	$ 81,177	$ (718,081)	$ 1,930,444	$ 118,455	$ (47,277)	$ 2,001,622

Mercy Health Corporation

Consolidating Balance Sheet (In Thousands) (Continued)

June 30, 2018

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	$ 5,125	$ 864	$ 511	$ -	$ -	$ 6,500	$ -	$ -	$ 6,500
Accounts payable	95	16,789	25,169	3,165	-	45,218	2,243	(1,138)	46,323
Due to third-party payors	-	2,957	21,875	-	-	24,832	2,817	-	27,649
Accrued salaries, wages, and payroll taxes	-	38,544	20,235	11,461	-	70,240	3,332	-	73,572
Other accrued expenses	2,590	19,876	9,094	4,082	-	35,642	27,062	(10,344)	52,360
Due to related parties	6,160	20	6,321	-	(12,531)	(30)	2,032	(2,002)	-
Total current liabilities	13,970	79,050	83,205	18,708	(12,531)	182,402	37,486	(13,484)	206,404
Long-term liabilities:									
Long-term debt, less current maturities	707,865	(1,468)	(3,455)	-	-	702,942	(66)	-	702,876
Accrued liabilities under self-insurance program	-	20,923	26,582	14,948	-	62,453	4,195	(1,814)	64,834
Deferred compensation	-	46,434	2,816	9,453	-	58,703	-	-	58,703
Pension obligations	-	5,930	7,294	583	-	13,807	205	-	14,012
Accrued postretirement medical benefits	-	-	4,011	956	-	4,967	194	-	5,161
Other liabilities	-	-	1,567	162	-	1,729	174	-	1,903
Due to related parties, less current portion	-	186,500	519,059	-	(705,550)	9	7,004	(7,013)	-
Total long-term liabilities	707,865	258,319	557,874	26,102	(705,550)	844,610	11,706	(8,827)	847,489
Total liabilities	721,835	337,369	641,079	44,810	(718,081)	1,027,012	49,192	(22,311)	1,053,893
Net assets:									
Without donor restrictions	398,019	237,081	220,949	36,367	-	892,416	52,637	(20,500)	924,553
With donor restrictions	-	-	11,016	-	-	11,016	16,626	(4,466)	23,176
Total net assets	398,019	237,081	231,965	36,367	-	903,432	69,263	(24,966)	947,729
TOTAL LIABILITIES AND NET ASSETS	$ 1,119,854	$ 574,450	$ 873,044	$ 81,177	$ (718,081)	$ 1,930,444	$ 118,455	$ (47,277)	$ 2,001,622

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Statement of Operations (In Thousands)

Year Ended June 30, 2018

	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	-	584,757	357,865	88,445	(36,588)	994,479	47,146	(69,861)	971,764
Premium revenue	-	-	-	-	-	-	99,609	-	99,609
Other operating revenue (expense)	-	(134)	29,425	53,738	(62,992)	20,037	3,419	(415)	23,041
Total revenue	-	584,623	387,290	142,183	(99,580)	1,014,516	150,174	(70,276)	1,094,414
Expenses:									
Salaries and wages	-	280,181	118,278	112,757	2,772	513,988	22,230	-	536,218
Employee benefits	3,131	65,941	25,621	12,625	(36,972)	70,346	4,300	(21)	74,625
Professional fees and purchased services	31	43,069	85,471	41,038	(65,636)	103,973	8,959	(253)	112,679
Medical claims and capitation payments	-	-	-	-	-	-	91,351	(69,368)	21,983
Medical supplies, other supplies, and drugs	4	116,485	57,382	7,150	-	181,021	7,192	(360)	187,853
Insurance	14	7,819	(2,797)	(975)	-	4,061	887	-	4,948
Provider tax assessment	-	9,189	14,418	-	-	23,607	624	-	24,231
Other	122	5,791	16,089	3,036	256	25,294	10,848	(274)	35,868
Depreciation and amortization	-	26,382	17,302	5,230	-	48,914	2,583	-	51,497
Interest	63	8,451	2,490	-	-	11,004	336	-	11,340
Total expenses	3,365	563,308	334,254	180,861	(99,580)	982,208	149,310	(70,276)	1,061,242
Income (loss) from operations	(3,365)	21,315	53,036	(38,678)	-	32,308	864	-	33,172
Nonoperating income (expense):									
Other	-	1,009	(641)	(59)	-	309	618	(336)	591
Investment income	26,433	62	9,160	-	-	35,655	3,065	-	38,720
Total nonoperating income (expense)	26,433	1,071	8,519	(59)	-	35,964	3,683	(336)	39,311
Excess (deficiency) of revenue over expenses	23,068	22,386	61,555	(38,737)	-	68,272	4,547	(336)	72,483
Other changes in net assets without donor restrictions:									
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	-	3,134	3,692	(30)	-	6,796	61	-	6,857
Transfers (to) from affiliates	-	-	(50,685)	50,685	-	-	-	-	-
Other	-	-	(465)	-	-	(465)	-	441	(24)
Increase in net assets without donor restrictions	$ 23,068	$ 25,520	$ 14,097	$ 11,918	$ -	$ 74,603	$ 4,608	$ 105	$ 79,316

See Independent Auditor's Report on Supplementary Information.

Mercy Health Corporation

Consolidating Statement of Changes in Net Assets (In Thousands)

Year Ended June 30, 2018

	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	$ 23,068	$ 22,386	$ 61,555	$ (38,737)	$ -	$ 68,272	$ 4,547	$ (336)	$ 72,483
Changes in pension obligations other than pension expense and postretirement medical benefit adjustment	-	3,134	3,692	(30)	-	6,796	61	-	6,857
Transfers (to) from affiliates	-	-	(50,685)	50,685	-	-	-	-	-
Other	-	-	(465)	-	-	(465)	-	441	(24)
Increase in net assets without donor restrictions	23,068	25,520	14,097	11,918	-	74,603	4,608	105	79,316
Net assets with donor restrictions:									
Contributions	-	-	-	-	-	-	518	-	518
Investment income - Net	-	-	325	-	-	325	136	-	461
Net change in beneficial interest in trusts	-	-	428	-	-	428	-	(428)	-
Net assets released from restriction	-	-	-	-	-	-	(411)	-	(411)
Increase in net assets with donor restrictions	-	-	753	-	-	753	243	(428)	568
Change in net assets	23,068	25,520	14,850	11,918	-	75,356	4,851	(323)	79,884
Net assets at beginning	374,951	211,561	217,115	24,449	-	828,076	64,412	(24,643)	867,845
Net assets at end	$ 398,019	$ 237,081	$ 231,965	$ 36,367	$ -	$ 903,432	$ 69,263	$ (24,966)	$ 947,729

See Independent Auditor's Report on Supplementary Information.