

Marshfield Clinic Health System

Continuing Disclosure Quarterly Report

Q1 2018 – December 31, 2017



Marshfield Clinic Health System

CONTINUING DISCLOSURE QUARTERLY REPORT

Q1 2018 – December 31, 2017

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I. INTRODUCTION

This report for the quarter ending December 31, 2017 (Q1 2018) (the “*Quarterly Report*”) is filed pursuant to the Continuing Disclosure Agreement dated June 1, 2012 (the “2012 Disclosure Agreement”) by Marshfield Clinic, a Wisconsin nonprofit corporation (“*Marshfield Clinic*,” “*MC*” or “*the Clinic*”) and U.S. Bank National Association (the “*Dissemination Agent*”), and the Master Continuing Disclosure Undertaking dated October 1, 2016 by Marshfield Clinic Health System, Inc. (“*MCHS*” or “*the System*”), (the “2016 Disclosure Undertaking” and together with the 2012 Disclosure Agreement, the “*Disclosure Agreements*”). The Clinic has authorized and directed the System to file this Quarterly Report on its behalf and pursuant to the requirements of the 2012 Disclosure Agreement.

This Quarterly Report is provided solely pursuant to the Disclosure Agreements. The filing of this Quarterly Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the System or the Bonds (defined below), (iii) that no changes, circumstances or events have occurred since the end of the quarter to which this Quarterly Report relates (other than as contained in this Quarterly Report), or any other date specified with respect to any of the information contained in this Quarterly Report, or (iv) that no other information exists, which may have a bearing on the security for the Bonds, or an investor’s decision to buy, sell or hold the Bonds. The information contained in this Quarterly Report has been obtained from sources which are believed to be reliable. No statement in this Quarterly Report should be construed as a prediction or representation about future financial performance of the System.

This Quarterly Report is being provided in connection with the outstanding bonds (the “Bonds”) identified by CUSIP numbers set out in the following table. The CUSIP numbers are provided for the convenience of the user. The System is not responsible for the accuracy or completeness of such CUSIP numbers.

Maturity Date	SERIES 2012B	SERIES 2016A	SERIES 2016B	SERIES 2017B	SERIES 2017C
February 15, 2018	97710BX72	97712DTJ5	97712DUJ3		97712DZH2
February 15, 2019	97710BX80	97712DTK2	97712DUK0		97712DZJ8
February 15, 2020	97710BX98	97712DTL0	97712DUL8		97712DZK5
February 15, 2021	97710BY22	97712DTM8	97712DUM6		97712DZL3
February 15, 2022	97710BY30	97712DTN6	97712DUN4		97712DZM1
February 15, 2023	97710BY48	97712DTP1	97712DUP9		97712DZN9
February 15, 2024	97710BY55	97712DTQ9	97712DUQ7		97712DZP4
February 15, 2025	97710BY63	97712DTR7	97712DUR5		97712DZQ2
February 15, 2026	97710BY71	97712DTS5	97712DUS3		97712DZR0
February 15, 2027	97710BY89	97712DTT3	97712DUT1		97712DZS8
February 15, 2028	97710BY97	97712DTU0	97712DUU8		97712DZT6
February 15, 2029	97710BZ21	97712DTV8	97712DUV6		97712DZU3
February 15, 2030	97710BZ39	97712DTW6	97712DUW4		97712DZV1
February 15, 2031	97710BZ47	97712DTX4	97712DUX2		97712DZW9
February 15, 2032	97710BZ54	97712DTY2	97712DUY0		97712DZX7
February 15, 2033	97710BZ62	97712DTZ9	97712DUZ7		97712DZY5
February 15, 2034		97712DUA2	97712DVA1		97712DZZ2
February 15, 2035		97712DUB0	97712DVB9		97712DA22
February 15, 2036		97712DUC8	97712DVC7		97712DA30
February 15, 2037			97712DVD5		97712DA48
February 15, 2040		97712DUF1			
February 15, 2042		97712DUD6			97712DA55
February 15, 2043					
February 15, 2046		97712DUE4			
February 15, 2046		97712DUG9			
February 15, 2047					97712DA63
February 15, 2050				97712DZG4	97712DA71

Additional information with respect to MCHS can be found on the Electronic Municipal Market Access (“EMMA”) system, located at <http://emma.msrb.org> using the base CUSIPS 97710B (for issues dated prior to April 13, 2013) and 97712D (for issues dated on or after April 13, 2013).

II. GENERAL SYSTEM OVERVIEW AND RECENT DEVELOPMENTS

General System Overview

The System is a patient-focused and clinically-driven, integrated regional healthcare provider. Its mission is to enrich lives to create healthy communities through accessible, affordable, compassionate health care. The System's vision is to define the future of health care through innovation.

MCHS is the parent corporation of a group of not-for-profit and for-profit corporations and other organizations that comprise the System. The System provides services throughout central, northern and western Wisconsin and a portion of the Upper Peninsula of Michigan.

The System operates a comprehensive ambulatory care network, including Marshfield Clinic, a multispecialty clinic serving Wisconsin for over 100 years, as well as four ambulatory surgery centers with a combined 38 operating and procedure rooms. The System also operates three acute care facilities (one of which it co-owns) and owns and operates Security Health Plan of Wisconsin, Inc., a health plan providing insurance to over 200,000 members throughout the state of Wisconsin.

MCHS and certain of its affiliates (collectively, the "Obligated Group") are jointly and severally obligated for the debt pertaining to this Quarterly Report. As of the date of this filing, the Obligated Group comprises the following members: MCHS, Marshfield Clinic, Family Health Center of Marshfield, Inc. ("FHC"), Lakeview Medical Center, Inc. ("Lakeview"), Marshfield Clinic Health System Foundation, Inc. (the "MCHS Foundation") and MCHS Hospitals, Inc. ("MHI"). Security Health Plan of Wisconsin, Inc. is not a member of the Obligated Group and MCHS does not expect to add it to the Obligated Group.

References to "MCHS" are references only to the parent corporation and should not be read to include any of MCHS' affiliates and subsidiaries. References to "Marshfield Clinic" are references only to Marshfield Clinic, Inc. and should not be read to include any of Marshfield Clinic's affiliates or subsidiaries.

Recent Developments

On January 22, 2018 the System held an Investor Update call. The materials discussed during that call can be found at: <https://emma.msrb.org/ES1094109-ES854691-ES1255831.pdf>

III. MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion presents certain financial information and operating data of the System. Such data includes financial and operating data that is attributable to certain Non-Obligated Group Members that are not legally obligated to make any payments with respect to the Bonds covered under this Quarterly Report.

We recommend that you read this discussion together with our unaudited consolidated financial statements and related notes included elsewhere in this quarterly report, as well as the audited consolidated financial statements of the System as of and for the year ended September 30, 2017. The audited consolidated financial statements are available from the Municipal Securities Rulemaking Board (MSRB) on its Electronic Municipal Market Access (EMMA) system, found at <https://emma.msrb.org/ES1083177-ES846360-ES1247579.pdf>

Certain statements included in this quarterly report may constitute forward-looking statements that involve risks and uncertainties. Actual results may differ significantly from the results discussed in the forward-looking statements as a result of known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. We do not plan to issue any updates or revisions to those forward-looking statements if or when the expectations, or events, conditions or circumstances on which such statements are based occur.

KEY FINANCIAL RATIOS

	<u>Quarter Ended December 31,</u>	
	<u>2016</u>	<u>2017</u>
Operating margin ⁽¹⁾	0.6%	(3.0%)
Operating EBITDA ⁽²⁾	4.0%	1.5%
Days cash on hand ⁽³⁾	140.8	152.4
Debt to capitalization ⁽⁴⁾	28.9%	44.1%
Maximum annual debt service coverage ratio ⁽⁵⁾	5.0	2.7
⁽¹⁾ Operating margin is calculated as Income (loss) from operations/Total Revenues		
⁽²⁾ Operating EBITDA is calculated as (Income/(loss) from operations plus Interest and Depreciation and amortization)/Total Revenues		
⁽³⁾ Days cash on hand is calculated in accordance with the terms of the Master Indenture		
⁽⁴⁾ Debt to capitalization is calculated as Long-term debt/(Long-term debt plus Total unrestricted net assets)		
⁽⁵⁾ Maximum annual debt service coverage ratio is calculated in accordance with the terms of the Master Indenture		

ANALYSIS OF RESULTS OF OPERATIONS

Quarter Ended December 2017 Compared to the Quarter Ended December 2016

The System generated total revenues of \$576.8 million for the three months ended December 2017, representing an increase of 8.4% (\$44.9 million) from the same time frame in the previous year. The acquisition of Marshfield Medical Center on June 30, 2017 was the primary factor in this increase.

For the three months ended December 2017, the System generated an operating deficit of \$17.0 million (3.0%), compared to an operating margin of \$2.9 million (0.6%) for the same time frame in the previous year. The System generated earnings before interest, depreciation and amortization (EBIDA) for the three months ended December 2017 of \$8.8 million (1.5%), in comparison to \$21.2 million (4.0%) for the same time frame in the prior year. Management attributes the decline in operating performance to a number of factors, the most significant of which is negative revenue impacts and higher utilization at Security Health Plan. Specifically, Security Health Plan received approximately \$9.3 million lower reimbursement due to the suspension of the Affordable Care Act (ACA) transitional reinsurance and cost sharing reductions. This negative impact was partially offset by a \$2.4 million reduction in ACA Health Insurance Taxes. Payor mix shifts and increased supply costs within the care delivery division also hindered earnings. Additionally, the System incurred \$2.6 million of costs related to the implementation of a new revenue cycle system.

Medical services revenue before bad debt totaled \$275.9 million for the three months ended December 2017, representing an increase of \$45.3 million (19.7%) compared to the same time frame in the previous year. This revenue growth was driven by a combination of factors, most notably the inclusion of Marshfield Medical Center to the System's operations, which generated \$39.2 million (net of intercompany eliminations) from October 1, 2017 through December, 2017. Additionally, the System continued to experience growing volumes from the comfort and recovery suites. These positive factors were partially offset by softer volumes in other services and a continued payor mix shift from commercial to Medicare as well as from broad to narrow network commercial plans.

Premium revenue increased \$10.3 million (3.7%) for the three months ended December 2017, compared to the same time frame in the previous year. This increase in premium revenue was driven primarily by premium rate increases in the Individual and Family Plan product line as well as strong enrollment growth in the Medicare Medical Savings Account product line.

Other revenue declined by \$12.0 million (54.3%) due to the integration of Marshfield Medical Center. Prior to the acquisition of Marshfield Medical Center (formerly St. Joseph's Hospital) the hospital purchased certain services from Marshfield Clinic. Upon acquisition these costs are internally allocated.

The System's charity care policy changed in fiscal 2017 resulting in increased charity care and decreased bad debts. On a combined basis, charity care and provision for bad debts increased \$3.5 million to \$10.9 million for the three months ended December 2017, compared to \$7.4 million for the same time period in the prior fiscal year. As a percentage of medical services revenue before bad debt, combined charity care and provision for bad debt increased to 3.9% for the three months ended December 2017, compared to 3.2% for the same time frame in the previous year. The increase in charity care and bad debt was driven in part by the inclusion of Marshfield Medical Center to the System's operations (accounting for \$2.8 million of the increase), coupled with an increase in patient deductibles and co-insurance.

Total expenses for the three months ended December 2017 were \$593.8 million, an increase of \$64.8 million (12.3%) compared to the same time frame in the previous year. This increase was driven primarily by the inclusion of Marshfield Medical Center to the System's operations, which accounted for \$39.8 million of the increase (net of intercompany eliminations), compared to the same time frame in the prior year.

Labor costs (salaries plus employee benefits) accounted for the most significant component of the System's total expenses, representing 36.8% and 36.5% of total expenses for the three months ended December 2017 and 2016, respectively. The System's labor costs increased \$25.4 million (13.2%) for the three months ended December 2017 compared to the same time frame in the previous year. The inclusion of Marshfield Medical Center resulted in the addition of over 1,000 FTE's and \$25.7 million of additional labor costs in comparison to the same time frame in the prior year.

Medical claims expense at Security Health Plan increased by \$25.6 million (exclusive of intracompany activity), reflective of increased utilization in the Medicare Advantage and ACA Individual and Family Plan products. Management attributes this increased utilization to enrollee behavior driven by uncertainty regarding the future of the ACA. Consolidated medical claims expense decreased \$4.0 million (2.1%) for the three months ended December 2017, compared to the same time frame in the previous year. This decrease is due to increased intercompany eliminations between Security Health Plan and the MCHS care delivery division. The increased intercompany activity is reflective of the fact that more services are being performed 'in-System' as a direct result of the acquisition of Marshfield Medical Center.

Supplies expense increased \$20.1 million (25.0%) for the three months ended December 2017, compared to the same time frame in the previous year. The inclusion of Marshfield Medical Center to the System's operations accounted for \$18.0 million of the increase in comparison to the same timeframe in the prior year. Increased cost and utilization of specialty drugs in the Oncology and retail pharmacy areas was a primary driver of the remaining difference.

Depreciation expense increased \$4.6 million (30.8%) for the three months ended December 2017, compared to the same time frame in the previous year. The inclusion of Marshfield Medical Center to the System's operations accounts for \$4.5 million of the increase in comparison to the same timeframe in the prior year.

Non-operating gains, representing primarily investment income, increased \$10.8 million for the three months ended December 2017, compared to the same time frame in the previous year. The increase is driven by favorable investment returns.

ANALYSIS OF FINANCIAL CONDITION

Summary of Balance Sheet – December 31, 2017 Compared to December 31, 2016

Liquidity, as measured by total cash, assets whose use is limited and investments, increased by \$106.2 million (11.9%) to \$997.1 million at December 31, 2017 as compared to \$890.9 million at December 31, 2016. The System's unrestricted days of cash on hand increased to 152.4 days at December 31, 2017 from 140.8 days at December 31, 2016. The primary factor contributing to the increased liquidity was operating cash flows, investment returns, and proceeds from various borrowings, less capital investments such as the acquisition of Marshfield Medical Center and other strategic investments. A significant portion of the increase in cash and cash equivalents was driven by a corresponding decrease in investments. These variances are temporary, as the System is transitioning its investment portfolio.

The System's patient receivables, net, increased by \$81.6 million (53.7%) at December 31, 2017 as compared to December 31, 2016. Approximately \$46.8 of this increase is attributable to the acquisition of Marshfield Medical Center as of June 30, 2017. The remaining increase is due primarily to delays in reimbursement by government payors relating to the change in ownership of Marshfield Medical Center and a billing system conversion which went live on December 1, 2017.

Property, plant and equipment, net increased by \$264.3 million (44.2%) due primarily to the acquisition of Marshfield Medical Center and other strategic investments.

Long-term debt increased by \$428.7 million due to the aforementioned borrowings which financed the acquisition of Marshfield Medical Center and other strategic capital investments, such as the new hospital in Eau Claire, WI. As of December 31, 2017, the System's debt-to-capitalization ratio was 44.1%. The System's Maximum Annual Debt Service Coverage Ratio was 2.8x, as calculated on a trailing twelve month basis. The Maximum Annual Debt Service Ratio of 2.8x is reflective of the fact that income available for debt service for the twelve months ended December 2017 only includes six months of results for Marshfield Medical Center.

Total net assets increased by \$57.2 million (5.5%) as of December 31, 2017 compared to December 31, 2016, driven primarily by revenues and gains in excess of expenses during this time frame.

IV. UNAUDITED FINANCIAL STATEMENTS

Pursuant solely to the requirements of the Disclosure Agreements, the System provides the following financial information. Certain financial information and operating data included in this Quarterly Report are that of the System. Such data includes financial and operating data that is attributable to certain members of the System that are not legally obligated to make any payments with respect to obligations covered under this Quarterly Report (the “Non-Obligated Group Members”). As of and for the fiscal quarter ended December 31, 2017, the Non-Obligated Group Members represented approximately 33.0% of the total revenues of the System. This percentage is calculated inclusive of applicable intercompany eliminations.

The unaudited consolidated financial statements of as of December 31, 2017 and for the three months ended December 31, 2017 and 2016, include all adjustments that management considers necessary to present such information on a basis consistent with that of the audited consolidated financial statements. The results of operations for the three months ended December 31, 2017 are not necessarily indicative of the operating results to be expected for the entire fiscal year ending September 30, 2018. The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim reporting and, accordingly, do not include all of the disclosures required in annual financial statements. As such, these unaudited consolidated financial statements should be read in conjunction with the information included under Management’s Discussion and Analysis included in this quarterly report, and the audited consolidated financial statements as of and for the years ended September 30, 2017 and 2016, and the related notes. The audited consolidated financial statements are available from the Municipal Securities Rulemaking Board (MSRB) on its Electronic Municipal Market Access (EMMA) system, found at <https://emma.msrb.org/ES1083177-ES846360-ES1247579.pdf>

MARSHFIELD CLINIC HEALTH SYSTEM, INC.

Consolidated Balance Sheets - Unaudited

December 31, 2017 and 2016

(Dollars in thousands)

	UNAUDITED	
	Dec. 31, 2017	Dec. 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 366,619	\$ 167,326
Current portion of assets whose use is limited or restricted	49,456	37,406
Patient receivables, net of allowance for uncollectible accounts of \$24,631 and \$16,137 at December 31, 2017 and 2016, respectively	233,619	152,009
Other receivables, net of allowance for uncollectible accounts of \$220 and \$235 at December 31, 2017 and 2016 respectively	70,112	69,450
Prepaid expenses and other	59,071	41,618
Total current assets	778,877	467,809
Assets whose use is limited or restricted, net of current portion	215,917	159,043
Investments	365,123	527,120
Notes receivable from and investments in affiliates	21,283	17,250
Property, plant, and equipment, net	862,139	597,823
Other assets	106,553	9,802
Total assets	<u>\$ 2,349,892</u>	<u>\$ 1,778,847</u>

MARSHFIELD CLINIC HEALTH SYSTEM, INC.

Consolidated Balance Sheets - Unaudited

December 31, 2017 and 2016

(Dollars in thousands)

	UNAUDITED	
	Dec. 31, 2017	Dec. 31, 2016
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 16,382	\$ 9,797
Medical claims payable	131,707	101,115
Accounts payable	80,746	54,180
Accrued expenses	77,598	66,114
Deferred revenue	29,789	29,795
Total current liabilities	<u>336,222</u>	<u>261,001</u>
Long-term debt, less current installments and unamortized discount and premium	840,742	412,061
Estimated liability for unpaid professional liability claims	10,014	9,096
Other liabilities	62,429	53,401
Total liabilities	<u>1,249,407</u>	<u>735,559</u>
Net assets:		
Unrestricted:		
Undesignated	1,003,560	955,486
Board designated	63,842	58,679
Total unrestricted net assets	<u>1,067,402</u>	<u>1,014,165</u>
Temporarily restricted	16,804	13,681
Permanently restricted	16,279	15,442
Total net assets	<u>1,100,485</u>	<u>1,043,288</u>
Total liabilities and net assets	<u>\$ 2,349,892</u>	<u>\$ 1,778,847</u>

MARSHFIELD CLINIC HEALTH SYSTEM, INC.

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Three Months Ended December 31, 2017 and 2016 - Unaudited

(Dollars in thousands)

	UNAUDITED	
	Dec. 31, 2017	Dec. 31, 2016
Revenues:		
Net medical services revenue before bad debt	\$ 275,949	\$ 230,628
Provision for bad debts	4,048	4,360
Net medical services revenue	<u>271,901</u>	<u>226,268</u>
Premium revenues	287,659	277,370
Grants and contracts	7,120	6,137
Other	<u>10,131</u>	<u>22,154</u>
Total revenues	<u>576,811</u>	<u>531,929</u>
Expenses:		
Salaries and wages	189,655	167,859
Employee benefits	28,636	24,986
Medical claims expense	183,318	187,272
Supplies	100,715	80,571
Purchased services	35,003	19,007
Rent and occupancy	12,114	10,239
Depreciation and amortization	19,356	14,803
Interest	6,481	3,461
Other expenses	<u>18,555</u>	<u>20,801</u>
Total expenses	<u>593,833</u>	<u>528,999</u>
Income from operations	<u>(17,022)</u>	<u>2,930</u>
Nonoperating gains, net	9,175	<u>(1,628)</u>
Revenues and gains in excess of expenses	<u>(7,847)</u>	<u>1,302</u>
Other changes in unrestricted net assets:		
Current year change in unfunded benefit liabilities	—	(238)
Net assets released from restrictions for property, plant, and equipment	14	12
Net asset transfer		
Other, net	<u>535</u>	<u>35</u>
Increase in unrestricted net assets	<u>(7,298)</u>	<u>1,111</u>
Unrestricted net assets at beginning of year	<u>1,074,683</u>	<u>1,013,060</u>
Unrestricted net assets at end of year	<u>\$ 1,067,385</u>	<u>\$ 1,014,171</u>

MARSHFIELD CLINIC HEALTH SYSTEM, INC.
Consolidated Statements of Changes in Net Assets - Unaudited
Three Months Ended December 31, 2017 and 2016
(Dollars in thousands)

	UNAUDITED	
	Dec. 31, 2017	Dec. 31, 2016
Unrestricted net assets:		
Revenues and gains in excess of expenses	\$ (7,847)	\$ 1,302
Other	549	(191)
Increase in unrestricted net assets	<u>(7,298)</u>	<u>1,111</u>
Temporarily restricted net assets:		
Contributions and investment income	1,735	1,124
Net change in unrealized gains and losses on restricted net assets	487	106
Net assets released from restrictions for property, plant, and equipment	(14)	—
Net assets released from restrictions for operations	<u>(966)</u>	<u>(938)</u>
Increase (decrease) in temporarily restricted net assets	<u>1,242</u>	<u>292</u>
Permanently restricted net assets:		
Contributions and investment income	41	148
Increase in permanently restricted net assets	<u>41</u>	<u>148</u>
Increase in net assets	(6,015)	1,551
Net assets at beginning of year	1,106,500	1,013,060
Net assets at end of three months	<u>\$ 1,100,485</u>	<u>\$ 1,014,611</u>

MARSHFIELD CLINIC HEALTH SYSTEM, INC.
Consolidated Statements of Cash Flows - Unaudited
Three Months Ended December 31, 2017 and 2016
(Dollars in thousands)

	UNAUDITED	
	Dec. 31, 2017	Dec. 31, 2016
Cash flows from operating activities:		
Increase in net assets	\$ (6,015)	\$ 1,533
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and change in net unrealized gains and losses on investments	1,165	5,811
Income from equity basis investments	(2,244)	(2,016)
Cash received from equity basis investments	2,000	1,840
Depreciation and amortization	19,356	14,975
Provision for bad debts	4,048	4,360
Changes in assets and liabilities:		
Patient and other receivables	(66,219)	8,703
Prepaid expenses and other	(5,490)	(648)
Accounts payable and accrued expenses	43,711	2,807
Medical claims payable	28,204	2,329
Deferred revenue	(35,629)	(36,037)
Net cash provided by operating activities	<u>(17,113)</u>	<u>3,657</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(53,660)	(32,756)
Purchase of assets whose use is limited or restricted	(24,685)	(35,200)
Proceeds from sales of assets whose use is limited or restricted	6,062	11,264
Decrease in note receivable and other noncurrent assets	(2,804)	1,621
Purchases of investments	(12,386)	(12,733)
Proceeds from sales of investments	157,505	2,616
Net cash used in investing activities	<u>70,032</u>	<u>(65,188)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	74,650	226,283
Payments on long-term debt	(1,946)	(120,289)
Other, net	316	(2,059)
Net cash provided by (used in) financing activities	<u>73,020</u>	<u>103,935</u>
Net increase (decrease) in cash and cash equivalents	<u>125,939</u>	<u>42,404</u>
Cash and cash equivalents:		
Beginning of year	240,702	124,946
End of year	<u>\$ 366,641</u>	<u>\$ 167,350</u>
Supplementary information:		
Cash paid for interest, net of amounts capitalized	\$ 3,224	\$ 521

MARSHFIELD CLINIC HEALTH SYSTEM, INC.
Consolidating Balance Sheet Information - Unaudited
December 31, 2017
(Dollars in thousands)

		UNAUDITED			
	Assets	Obligated Group	Security Health Plan	Eliminations	Total
Current assets:					
	Cash and cash equivalents	\$ 207,387	159,232	—	\$ 366,619
	Current portion of assets whose use is limited or restricted	49,456	—	—	49,456
	Patient receivables, net of allowance for uncollectible accounts of \$24,631	233,619	—	—	233,619
	Other receivables, net of allowance for uncollectible accounts of \$220	73,368	(3,256)	—	70,112
	Prepaid expenses and other	57,759	1,312	—	59,071
	Total current assets	621,589	157,288	—	778,877
	Assets whose use is limited or restricted	208,966	5,900	1,051	215,917
	Investments	218,044	147,079	—	365,123
	Notes receivable from and investments in affiliates	208,172	—	(186,889)	21,283
	Property, plant, and equipment, net	841,625	20,514	—	862,139
	Other assets	105,273	1,280	—	106,553
	Total assets	\$ 2,203,669	332,061	(185,838)	\$ 2,349,892

MARSHFIELD CLINIC HEALTH SYSTEM, INC.
Consolidating Balance Sheet Information - Unaudited
December 31, 2017
(Dollars in thousands)

Liabilities and Net Assets	UNAUDITED			
	Obligated Group	Security Health Plan	Eliminations	Total
Current liabilities:				
Current installments of long-term debt	\$ 15,532	850	—	\$ 16,382
Medical claims payable	34,716	96,991	—	131,707
Accounts payable	61,166	19,580	—	80,746
Accrued expenses	75,358	2,240	—	77,598
Deferred revenue	4,726	25,063	—	29,789
Total current liabilities	191,498	144,724	—	336,222
Long-term debt, less current installments and unamortized discount and premium	840,294	448	—	840,742
Estimated liability for unpaid professional liability claims	10,014	—	—	10,014
Other liabilities	62,429	—	—	62,429
Total liabilities	1,104,235	145,172	—	1,249,407
Net assets:				
Unrestricted:				
Undesignated	1,003,560	186,889	(186,889)	1,003,560
Board designated	63,842	—	—	63,842
Total unrestricted net assets	1,067,402	186,889	(186,889)	1,067,402
Temporarily restricted	16,781	—	23	16,804
Permanently restricted	15,251	—	1,028	16,279
Total net assets	1,099,434	186,889	(185,838)	1,100,485
Total liabilities and net assets	\$ 2,203,669	332,061	(185,838)	\$ 2,349,892

MARSHFIELD CLINIC HEALTH SYSTEM, INC.
Consolidating Balance Sheet Information - Unaudited
December 31, 2016
(Dollars in thousands)

		UNAUDITED			
		Obligated	Security		
		Group	Health	Eliminations	Total
Assets			Plan		
Current assets:					
Cash and cash equivalents	\$	104,786	62,540	—	\$ 167,326
Current portion of assets whose use is limited or restricted		37,406	—	—	37,406
Patient receivables, net of allowance for uncollectible accounts of \$16,137		152,009	—	—	152,009
Other receivables, net of allowance for uncollectible accounts of \$235		39,182	30,268	—	69,450
Prepaid expenses and other		39,942	21,176	(19,500)	41,618
Total current assets		373,325	113,984	(19,500)	467,809
Assets whose use is limited or restricted		152,092	5,900	1,051	159,043
Investments		272,529	254,591	—	527,120
Notes receivable from and investments in affiliates		260,552	—	(243,302)	17,250
Property, plant, and equipment, net		577,012	20,811	—	597,823
Other assets		8,522	1,280	—	9,802
Total assets	\$	1,644,032	396,566	(261,751)	\$ 1,778,847

MARSHFIELD CLINIC HEALTH SYSTEM, INC.
Consolidating Balance Sheet Information - Unaudited
December 31, 2016
(Dollars in thousands)

		UNAUDITED		
		Obligated	Security	
		Group	Health	
			Plan	Eliminations
				Total
Liabilities and Net Assets				
Current liabilities:				
Current installments of long-term debt		\$ 9,006	791	—
Medical claims payable		(239)	101,354	—
Accounts payable		34,587	19,593	—
Accrued expenses		61,382	4,732	—
Deferred revenue		4,299	25,496	—
Total current liabilities		109,035	151,966	—
Long-term debt, less current installments and unamortized discount and premium		410,763	1,298	—
Health plan prepayment		19,500	—	(19,500)
Estimated liability for unpaid professional liability claims		9,096	—	—
Other liabilities		53,401	—	—
Total liabilities		601,795	153,264	(19,500)
Net assets:				
Unrestricted:				
Undesignated		955,486	243,302	(243,302)
Board designated		58,679	—	—
Total unrestricted net assets		1,014,165	243,302	(243,302)
Temporarily restricted		13,658	—	23
Permanently restricted		14,414	—	1,028
Total net assets		1,042,237	243,302	(242,251)
Total liabilities and net assets		\$ 1,644,032	396,566	(261,751)
				\$ 1,778,847

MARSHFIELD CLINIC HEALTH SYSTEM, INC.

Consolidating Statement of Operations and Changes in Unrestricted Net Assets Information - Unaudited

Three Months Ended December 31, 2017

(Dollars in thousands)

	UNAUDITED			
	Obligated	Security		
	Group	Health	Eliminations	Total
		Plan		
Revenues:				
Net medical services revenue before bad debt	\$ 396,883	—	(120,934)	\$ 275,949
Provision for bad debts	4,048	—	—	4,048
Net medical services revenue	392,835	—	(120,934)	271,901
Premium revenues	110	304,068	(16,519)	287,659
Grants and contracts	7,120	—	—	7,120
Other	(13,837)	608	23,360	10,131
Total revenues	386,228	304,676	(114,093)	576,811
Expenses:				
Salaries and wages	183,111	6,528	16	189,655
Employee benefits	42,996	2,159	(16,519)	28,636
Medical claims expense	565	304,664	(121,911)	183,318
Supplies	100,652	63	—	100,715
Purchased services	29,460	5,583	(40)	35,003
Rent and occupancy	11,841	265	8	12,114
Depreciation and amortization	18,417	939	—	19,356
Interest	6,424	57	—	6,481
Other expenses	11,898	6,598	59	18,555
Shared services	(6,465)	6,465	—	—
Total expenses	398,899	333,321	(138,387)	593,833
Income (loss) from operations	(12,671)	(28,645)	24,294	(17,022)
Nonoperating gains, net	4,824	4,351	—	9,175
Revenues and gains in excess of (less than) expenses	(7,847)	(24,294)	24,294	(7,847)
Other changes in unrestricted net assets:				
Net assets released from restrictions for property, plant, and equipment	14	—	—	14
Other, Net	13,435	(12,900)	—	535
Increase in unrestricted net assets	5,602	(37,194)	24,294	(7,298)
Unrestricted net assets at beginning of year	1,074,683	224,083	(224,083)	1,074,683
Unrestricted net assets at end of year	\$ 1,080,285	186,889	(199,789)	\$ 1,067,385

MARSHFIELD CLINIC HEALTH SYSTEM, INC.

Consolidating Statement of Operations and Changes in Unrestricted Net Assets Information - Unaudited
Three Months Ended December 31, 2016
(Dollars in thousands)

	UNAUDITED			
	Obligated	Security		
	Group	Health	Eliminations	Total
		Plan		
Revenues:				
Net medical services revenue before bad debt	\$ 321,574	—	(90,946)	\$ 230,628
Provision for bad debts	4,360	—	—	4,360
Net medical services revenue	317,214	—	(90,946)	226,268
Premium revenues	(222)	293,812	(16,220)	277,370
Grants and contracts	6,137	—	—	6,137
Other	9,189	519	12,446	22,154
Total revenues	332,318	294,331	(94,720)	531,929
Expenses:				
Salaries and wages	161,848	6,011	—	167,859
Employee benefits	39,237	1,969	(16,220)	24,986
Medical claims expense	477	279,206	(92,411)	187,272
Supplies	80,531	40	—	80,571
Purchased services	13,411	5,602	(6)	19,007
Rent and occupancy	9,936	312	(9)	10,239
Depreciation and amortization	12,872	1,931	—	14,803
Interest	3,406	57	(2)	3,461
Other expenses	12,438	8,370	(7)	20,801
Shared services	(5,057)	5,057	—	—
Total expenses	329,099	308,555	(108,655)	528,999
Income (loss) from operations	3,219	(14,224)	13,935	2,930
Nonoperating gains, net	(1,917)	291	(2)	(1,628)
Revenues and gains in excess of (less than) expenses	1,302	(13,933)	13,933	1,302
Other changes in unrestricted net assets:				
Current year change in unfunded benefit liabilities	(238)			(238)
Net assets released from restrictions for property, plant, and equipment	12			12
Other, net	35	119	(119)	35
Increase in unrestricted net assets	1,111	(13,814)	13,814	1,111
Unrestricted net assets at beginning of year	1,013,060	257,116	(257,116)	1,013,060
Unrestricted net assets at end of year	\$ 1,014,171	243,302	(243,302)	\$ 1,014,171