

ASPIRUS, INC. OBLIGATED GROUP
Fiscal Year Ended June 30, 2020

These Aspirus, Inc. Obligated Group (Obligated Group) financial statements were developed by combining the audited statements of Aspirus, Inc. and Subsidiaries, Aspirus Medford Hospital & Clinics, Inc. (formerly Memorial Health Center, Inc.) and Langlade Hospital - Hotel Dieu of St. Joseph of Antigo Wisconsin (for the years ended June 30, 2019 and June 30, 2020).

The following documents are included in this filing:

Exhibit 1	Obligated Group Financial Statements
Exhibit 2	Report of Obligated Group Representative
Exhibit 3	Acute Care Hospitals
Exhibit 4	Inpatient Facilities
Exhibit 5	Market Share
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Exhibit 7	Utilization Statistics
Exhibit 8	Summary of Revenue and Expenses
Exhibit 9	Summary Balance Sheet
Exhibit 10	Days Cash on Hand
Exhibit 11	Long Term Debt to Capitalization
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Exhibit 13	Additional Key Ratios
Exhibit 14	Aspirus, Inc. and Subsidiaries Audited Financial Statements
Exhibit 15	Aspirus Medford Hospital & Clinics Audited Financial Statements
Exhibit 16	Aspirus Langlade Hospital Audited Financial Statements

Exhibit 1

Aspirus, Inc. Obligated Group

Combined Financial Statements and
Supplementary Combining Information

Years Ended June 30, 2020 and 2019



Aspirus, Inc. Obligated Group

Combined Balance Sheets

June 30	2020	2019
	<i>(In Thousands)</i>	
Current assets:		
Cash and cash equivalents	\$ 409,662	\$ 179,175
Short-term investments	232,063	192,817
Current portion of assets limited as to use	7,588	10,132
Patient accounts receivable - Net	145,081	149,395
Inventory	24,284	20,335
Prepaid expenses and other current assets	40,401	33,295
Total current assets	859,079	585,149
Investments	17,374	15,802
Assets limited as to use	500,108	470,424
Property and equipment - Net	597,903	523,819
Other assets:		
Investments in unconsolidated affiliates	48,605	35,005
Goodwill and other intangibles	4,715	4,715
Other	10,640	5,829
Total other assets	63,960	45,549
TOTAL ASSETS	\$ 2,038,424	\$ 1,640,743

Aspirus, Inc. Obligated Group

Combined Balance Sheets (Continued)

June 30	2020	2019
	<i>(In Thousands)</i>	
Current liabilities:		
Current maturities of long-term debt	\$ 11,658	\$ 9,034
Current maturities of finance lease obligations	887	-
Accounts payable	23,623	25,198
Accrued salaries and wages	56,602	51,044
Accrued interest payable	3,680	3,761
Other accrued liabilities	102,407	31,244
Estimated third-party payor settlements	104,539	14,194
Total current liabilities	303,396	134,475
Long-term liabilities:		
Long-term debt - Less current maturities	295,130	268,144
Finance lease obligations - Less current maturities	3,000	-
Deferred compensation	53,896	50,443
Postretirement benefits	5,620	4,308
Interest rate swap agreement	4,575	3,203
Other long-term liabilities	18,630	11,213
Total long-term liabilities	380,851	337,311
Total liabilities	684,247	471,786
Net assets:		
Aspirus, Inc. net assets without donor restrictions	1,341,638	1,153,341
Aspirus, Inc. net assets with donor restrictions	12,539	15,616
Total net assets	1,354,177	1,168,957
TOTAL LIABILITIES AND NET ASSETS	\$ 2,038,424	\$ 1,640,743

See accompanying notes to combined financial statements.

Aspirus, Inc. Obligated Group

Combined Statements of Operations and Changes in Net Assets

Year Ended June 30	2020	2019
	<i>(In Thousands)</i>	
Revenue:		
Net patient service revenue	\$ 1,115,125	\$ 1,075,800
Income from unconsolidated affiliates	12,516	5,153
Other operating revenue	63,812	58,590
Grant revenue	31,694	1,065
Total revenue	1,223,147	1,140,608
Expenses:		
Salaries and wages	511,906	479,420
Employee benefits	95,312	90,989
Medical fees	5,210	4,800
Supplies	206,980	197,007
Purchased services and other	211,306	205,872
Insurance and utilities	14,346	12,949
Depreciation and amortization	64,334	61,852
Interest	9,594	9,066
Total expenses	1,118,988	1,061,955
Income from operations	104,159	78,653
Nonoperating income (loss):		
Investment income	14,128	35,393
Contributions and other	68,055	373
Loss on interest rate swap agreement	(1,657)	(1,136)
Total nonoperating income - Net	80,526	34,630
Revenue in excess of expenses before noncontrolling interest	184,685	113,283

Aspirus, Inc. Obligated Group

Combined Statements of Operations and Changes in Net Assets (Continued)

Year Ended June 30	2020	2019
	<i>(In Thousands)</i>	
Revenue in excess of expenses before noncontrolling interest (brought forward)	\$ 184,685	\$ 113,283
Revenue in excess (deficiency) of expenses attributable to noncontrolling interest	-	-
Revenue in excess of expenses attributable to Aspirus, Inc.	184,685	113,283
Other changes in net assets without donor restrictions:		
Postretirement benefit adjustment	(202)	195
Other changes in net assets	(280)	(94)
Contributions for property and equipment	287	26
Net assets released from restrictions for property and equipment	3,807	841
Change in net assets without donor restrictions	188,297	114,251
Changes in net assets with donor restrictions:		
Contributions	605	4,940
Investment income	125	432
Net assets released from restrictions	(3,807)	(841)
Change in net assets with donor restrictions	(3,077)	4,531
Change in net assets	185,220	118,782
Net assets at beginning	1,168,957	1,050,175
Net assets at end	\$ 1,354,177	\$ 1,168,957

See accompanying notes to combined financial statements.

Aspirus, Inc. Obligated Group

Combined Statements of Cash Flows

Year Ended June 30	2020	2019
	<i>(In Thousands)</i>	
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 185,220	\$ 118,782
Adjustments to reconcile increase in net assets attributable to net cash provided by operating activities:		
Depreciation and amortization	64,334	69,659
Amortization of bond premiums, discounts, and bond issuance costs	(1,085)	(1,078)
Bad debt expense	403	589
Net change in unrealized losses on trading securities	12,182	6,339
Change in fair value of interest rate swap agreement	1,372	923
Share of earnings in uncombined affiliates	(15,221)	(17,321)
Restricted contributions	(605)	(4,940)
Loss on refinancing of debt	2,552	-
Net cash paid upon acquisition	(12,573)	-
Gain on acquisition	(69,796)	-
Changes in operating assets and liabilities:		
Patient accounts receivable	18,400	(11,702)
Other current assets	(7,043)	(7,916)
Investments and assets limited as to use, including realized gains and losses	(14,721)	(33,790)
Accounts payable, accrued, and other liabilities	47,095	9,215
Estimated third-party payor settlements	106,578	19,845
Other long-term assets and liabilities	6,863	(13,664)
Total adjustments	138,735	16,159
Net cash provided by operating activities	323,955	134,941
Cash flows from investing activities:		
Purchases of property and equipment	(60,019)	(58,894)
Purchase of trading investments	(52,099)	(72,810)
Proceeds from sale of trading investments	30,620	45,557
Cash paid for remaining interest in uncombined affiliate	-	(8,052)
Purchase of goodwill	-	(651)
Investment in uncombined affiliate - Net	1,357	(2,972)
Net cash used in investing activities	(80,141)	(97,822)

Aspirus, Inc. Obligated Group

Consolidated Statements of Cash Flows (Continued)

Year Ended June 30	2020	2019
	<i>(In Thousands)</i>	
Cash flows from financing activities:		
Proceeds from issuance of revenue bonds	\$ 39,809	\$ -
Payment of principal to refinance revenue bonds	(39,809)	(7,524)
Payment made for early extinguishment of revenue bonds	(2,129)	-
Payment of bond issue costs	(8)	-
Principal payments on long-term debt	(11,370)	(1,049)
Principal payments on finance lease obligations	(425)	-
Restricted contributions	605	4,847
Net cash used in financing activities	(13,327)	(3,726)
Net change in cash and cash equivalents	230,487	33,393
Cash and cash equivalents at beginning	179,175	145,782
Cash and cash equivalents at end	\$ 409,662	\$ 179,175

Supplemental disclosure of cash flows information:

Cash paid for interest net of capitalized interest	10,980	10,841
Property and equipment included in accounts payable	1,059	2,134
Property and equipment included in other accrued liabilities	8,424	139
Property and equipment acquired under finance lease obligations	3,536	-

For the year ended June 30, 2020, assets acquired and liabilities assumed through acquisition totaled \$136,458 and \$49,869, respectively (See Note 3).

For the year ended June 30, 2019, assets acquired and liabilities assumed through acquisition of the remaining interest in an unconsolidated affiliate totaled \$43,883 and \$25,078, respectively (See Note 3).

See accompanying notes to combined financial statements.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 1: Summary of Significant Accounting Policies

Principal Business Activity

Aspirus, Inc. Obligated Group (collectively "Aspirus") provide comprehensive medical, surgical, emergency, outpatient, nursing home, home care, hospice, and clinical services to the residents of central and northern Wisconsin and the Upper Peninsula of Michigan.

Principles of Consolidation

The accompanying combined financial statements include the accounts of the Aspirus, Inc. Obligated Group. All significant intercompany accounts and transactions have been eliminated in consolidation.

Aspirus' entities are Aspirus Wausau Hospital, Inc. (AWH), Aspirus Clinics, Inc. (ACI), Aspirus Riverview Hospital & Clinics, Inc. (ARH), Aspirus Iron River Hospital & Clinics, Inc. (AIR), Aspirus Keweenaw Hospital (AKH), Aspirus Ironwood Hospital and Clinics, Inc. (AIW), Aspirus Ontonagon Hospital, Inc. (AOH), Aspirus Buildings, Inc. (ABI), Aspirus Network, Inc. (ANI), Aspirus Health Foundation, Inc. (AHF), Aspirus VNA Home Health, Inc. (AVNA), Aspirus Extended Services, Inc. (AES), Aspirus Medford Hospital and Clinics, Inc. (AMH), Aspirus Langlade Hospital Hotel – Dieu of St. Joseph of Antigo Wisconsin (ALH) and Divine Savior Healthcare, Inc. (ADS), which was acquired at 100% effective February 1, 2020. (See Note 3 for additional information on acquisition of ADS.)

Financial Statement Presentation

Aspirus follows accounting standards contained in 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 in the preparation of financial statements in conformity with GAAP.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying combining financial statements in conformity with GAAP requires management to make 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 combining financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash Equivalents and Short-Term Investments

Aspirus considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts held as short-term investments in the investment portfolio and amounts whose use is limited. Short-term investments consist primarily of mutual funds.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Investments, Assets Limited as to Use, and Investment Income

Investments are classified as trading securities, and accordingly investments in marketable equity and debt securities are recorded at fair value in the accompanying combining balance sheets, with the changes in fair value during the period included in revenue in excess of expenses in the accompanying combining statements of operations and changes in net assets.

Investments designated as assets limited as to use are stated at fair value and consist of investments held by bond trustees under the terms of bond agreements, investments designated by the Board of Directors for future capital improvements, amounts set aside for deferred compensation agreements, and investments held for various other purposes. Assets limited as to use that are required for obligations classified as current liabilities are reported as current assets.

Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in nonoperating income unless the income or loss is restricted by donor or law. Realized gains and losses are determined by specific identification.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. Aspirus measures fair value of its financial instruments using a three-tier hierarchy that prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's 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.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable is reported at the amount that reflects the consideration to which Aspirus expects to be entitled, in exchange for providing patient care services. Patient accounts receivable are recorded in the accompanying combining balance sheets net of contractual adjustments and implicit price concessions which reflects management's estimate of the transaction price. Aspirus 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. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Aspirus does not have a policy to charge interest on past due accounts.

Inventory

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

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives range from 2 to 20 years for equipment and 2 to 70 years for land improvements, buildings, building improvements, and building equipment.

Interest cost incurred on borrowed funds during the period of construction of capital assets along with interest income on any unexpended project funds is capitalized as a component of the cost of acquiring those assets.

Finance leases are included in property and equipment and long-term liabilities in the accompanying balance sheets. Property and equipment under finance lease obligations are amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation on the accompanying statements of operations and changes in net assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions and are excluded from revenue in excess of expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Aspirus periodically evaluates whether events and circumstances have occurred that may affect the carrying value of property and equipment. If said events or circumstances indicate the carrying value may not be recoverable, impairment is determined by comparing the carrying value with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Obligated Group would recognize an impairment loss. During 2019 and 2020, the Obligated Group determined that no evaluations of recoverability were necessary.

Asset Retirement Obligation

Management annually assesses its existing properties to determine if there is a need to recognize a liability for a conditional asset retirement obligation, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Asset retirement obligation represents the obligation to dispose of assets that are legally required to be removed at a future date. This obligation is recorded at the net present value of estimated future payments for the removal of asbestos and totaled approximately \$5,163,000 as of June 30, 2020 and 2019.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Investments in Uncombined Affiliates

Investments in uncombined affiliates are accounted for using the equity or cost method.

Aspirus' share of the operating results and other changes in net assets (if any) of its investments in uncombined affiliates are included in total operating revenue in the accompanying combined statements of operations and changes in net assets.

Goodwill and Other Intangibles

Goodwill represents the excess of the total cost of an acquisition over the fair value of the underlying identifiable net assets at the date of acquisition. Intangible assets include amounts paid for trade names, patient relationships, and other intangibles acquired in business combinations which are deemed to have finite lives. Goodwill and intangible assets with indefinite lives are not amortized, but are reviewed for impairment, at least annually. Intangible assets with finite lives are amortized over their estimated remaining useful lives ranging from 5 to 15 years.

Deferred Bond Issuance Costs and Bond Premium and Discount

Bond issuance costs and original issue premium and discount related to issuance of long-term debt are reported in long-term debt on the combined balance sheets and are amortized on the straight-line method over the term of the related indebtedness. Amortization of bond issuance costs and original issue premium and discount is included with interest expense in the accompanying combined statements of operations and changes in net assets.

Interest Rate Swap Agreement

An interest rate swap is used to manage risk related to interest rate movements. The interest rate risk management strategy is to stabilize cash flow requirements by maintaining the interest rate swap to convert a portion of variable rate debt to a fixed rate. Aspirus has adopted the fair value option of accounting for its interest rate swap agreement. The interest rate swap agreement is reported at fair value in the accompanying combined balance sheets. Under the fair value option, changes in fair value are recorded as nonoperating income in the accompanying combined statements of operations and changes in net assets.

Net Assets

Net assets without donor restrictions consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of Aspirus not subject to donor-imposed stipulations and include 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 Aspirus has been limited by donors to a specific time period, purpose, or net assets have been restricted by donors to be maintained by Aspirus in perpetuity. Earnings on net assets with donor restricted endowment funds are recorded as net assets with donor restrictions until appropriated by Aspirus' Board of Directors.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue in Excess of Expenses

The combined statements of operations and changes in net assets include the classification revenue in excess of expenses, which is considered to be the operating indicator. Changes in net assets, which are excluded from the operating indicator, include, but are not limited to, permanent transfer of assets to and from affiliates for items other than goods and services, changes in the funded status of postretirement benefits, and contributions of long-lived assets, including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets.

Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Aspirus 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, Aspirus bills the patients and third-party payors several days after the services are performed 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 in relation to total expected (or actual) charges. Generally, performance obligations satisfied over time relate to patients receiving hospital inpatient acute care services, nursing home post-acute care services, and hospice post-acute care services. For these services Aspirus 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 in our hospital, clinics, and nursing homes, and home health services, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed. In the case of these outpatient services, recognition of the obligation over time yields the same result as recognizing the obligation at a point in time.

Because Aspirus' performance obligations relate to contracts with a duration of less than one year, Aspirus 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.

Aspirus uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. Aspirus used the following factors to develop portfolios: major payor classes and type of service (i.e., inpatient, outpatient). Using historical collection trends and other analysis, Aspirus evaluated the accuracy of its estimates 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.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

Aspirus determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Aspirus' policy, and implicit price concessions provided to patients. Aspirus determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Aspirus also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. Aspirus determines its estimate of implicit price concessions based on its historical collection experience for each patient portfolio based on payor class and service type.

Aspirus 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:

- **Medicare - Hospitals:** Inpatient hospital acute care services rendered to AWH, ARH, and ADS Medicare program beneficiaries 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. Other AWH and ARH inpatient acute care services, which include rehabilitation, behavioral health, and hospice, are paid based on prospectively determined daily rates, established fee schedules, or a combination thereof. Outpatient services provided to AWH, ARH, and ADS patients are paid primarily based on prospectively determined rates or fixed fee schedules.

AIW, AIR, AKH, and AOH are designated as Critical Access Hospitals (CAHs) under the Medicare program. Under CAH designation, inpatient and outpatient Medicare hospital services are reimbursed based on a cost-reimbursement methodology, with the exception of certain types of laboratory and radiology services, which are reimbursed based on fee schedules.

- **Medicare - Nursing Home and Home Care:** Nursing home resident care is paid based on a predetermined rate per patient day, which varies depending upon the patient's level of care and type of services provided. Home care services are paid based upon a predetermined rate per episode of care, which varies depending on the patient's level of care and types of services provided.
- **Medicaid:** Hospital, nursing home, and home health services rendered to Medicaid program beneficiaries are reimbursed primarily based upon prospectively determined rates. Medicaid outpatient hospital services are paid based upon a predetermined fee schedule.
- **Medicare and Medicaid - Clinics:** Professional services provided in clinics by physicians and other clinicians are reimbursed based on prospectively determined fee schedules with the exception of provider-based rural health clinics (RHCs) where certain clinic physician and professional services rendered to Medicare and Medicaid beneficiaries are reimbursed on a cost-reimbursement method.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

- **Other:** Aspirus has entered into payment agreements with certain commercial insurance carriers, HMOs, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and fee schedules.

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 Aspirus' compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon Aspirus. 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. Aspirus has not been notified by the RAC of any potential significant reimbursement adjustments. In addition, the contracts Aspirus has with third-party 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 Aspirus' 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, 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 2020 and 2019.

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 expenses for the years ended June 30, 2020 and 2019 were not significant.

Consistent with Aspirus' mission, care is provided to patients regardless of their ability to pay. Therefore, Aspirus 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 Aspirus expects to collect based on its collection history with those patients. Aspirus' policy is to provide a 20% discount from established charges to uninsured patients. This policy did not change in 2020 and 2019.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

The promised amount of consideration from patients and third-party payors have not been adjusted for the effects of a significant financing component due to Aspirus' 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, Aspirus 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 Aspirus otherwise would have recognized is one year or less in duration.

Charity Care

Aspirus 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 Aspirus' charity care policy is calculated by multiplying the ratio of cost to gross charges for Aspirus times the gross uncompensated charges associated with providing charity care.

Hospital Assessment

Wisconsin and Michigan state regulations require eligible hospitals to pay the state an annual hospital tax assessment. The assessments are based on each hospital's gross revenue, as defined. The revenue generated from the assessments is to be used, in part, to increase overall reimbursement under state Medicaid programs.

Aspirus' assessment expense was approximately \$11,635,000 and \$10,551,000 for the years ended June 30, 2020 and 2019, respectively, and is included in supplies expense in the accompanying combined statements of operations and changes in net assets. Increases in reimbursement from Medicaid related to this assessment are included in net patient service revenue in the accompanying combined statements of operations and changes in net assets.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Donor-Restricted Contributions

Contributions are considered to be available for use without restrictions unless specifically restricted by the donor.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net assets with donor restrictions restricted support if they are received with donor stipulations that limit the use of 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 accompanying combined statements of operations and changes in net assets as net assets released from restrictions.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions.

Unemployment Compensation

Aspirus has elected reimbursement financing under provisions of the Wisconsin and Michigan unemployment compensation laws. Unemployment claims are paid to the respective states. Aspirus has obtained letters of credit and pledged certificates of deposit totaling approximately \$975,000 and \$3,764,000 at June 30, 2020, and approximately \$975,000 and \$3,119,000 at June 30, 2019, to comply with the funding requirements for the states of Michigan and Wisconsin, respectively. No draws have been made against the letters of credit to date. In addition, AIW has a surety bond in the amount of \$931,000 and \$942,000 at June 30, 2020 and 2019, respectively, to meet state funding requirements.

Advertising Costs

Advertising expenses amounted to approximately \$4,616,000 and \$4,859,000 for the years ended June 30, 2020 and 2019, respectively. All advertising costs are expensed as incurred.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

All subsidiaries, except for ANI and AHV, are tax-exempt corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 509(a)(2) of the Code. They are also exempt from state income taxes on related income. Aspirus is also engaged, to a limited extent, in certain activities subject to taxation as unrelated business income (UBI). Income taxes on UBI are not significant.

At June 30, 2020 and 2019, Aspirus did not have any deferred tax assets. At June 30, 2020 and 2019, Aspirus' federal and state net operating loss carryforwards were approximately \$6,121,000 and \$5,767,000, respectively. The net operating loss carryforwards will carryforward for 20 years from the year of filing.

Aspirus has reviewed its tax positions for all open years and concluded that no material liabilities exist for uncertain tax positions at June 30, 2020. Aspirus' federal income tax returns are no longer subject to examination for the year ended June 30, 2016 and prior years. Aspirus' Wisconsin and Michigan state income tax returns are no longer subject to examination for the year ended June 30, 2015 and prior years.

Subsequent Events

Subsequent events have been evaluated through October 14, 2020, which is the date the combined financial statements were issued.

Change in Accounting Policy

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

The standard did not have a material impact on Aspirus' net assets or cash flows from operations and had an immaterial impact on Aspirus' operating results. The most significant impact was the recognition of the ROU assets and lease obligations for operating leases.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Change in Accounting Policy (Continued)

As a result of the adoption of the new lease accounting guidance, Aspirus recognized the following ROU assets and lease liabilities as of July 1, 2019:

	2020 (In Thousands)
ROU assets - Finance leases	\$ 1,364
Finance lease obligation	(1,364)
ROU assets - Operating leases	6,559
Operating lease obligation	(6,559)

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments (Topic 230)*. The updates in this ASU are expected to change the classification of certain cash receipts and payments within statements of cash flows. This ASU is effective for the Aspirus' year ending June 30, 2020. The adoption of this ASU did not materially impact the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statements of Cash Flows - Restricted Cash (Topic 230)*. The updates in this ASU are expected to change the presentation on the statement of cash flows that all cash and cash equivalents, including restricted cash equivalents, will be shown within the total cash and cash equivalents on the statement of cash flows. This will require a reconciliation be shown to reconcile the total cash and cash equivalents on the statement of cash flows to the related captions in the balance sheet. This ASU is effective for the Aspirus' year ending June 30, 2020. The adoption of this ASU did not materially impact the financial statements.

New Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*. This ASU improves the effectiveness of the notes to the financial statements through changes in the disclosure requirements for fair value measurement. This ASU is effective for fiscal year 2021 and will be applied using a retrospective approach.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other, Internal-Use software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for fiscal year 2022 and will be applied using a prospective approach.

Management is currently evaluating the impact the new accounting pronouncements will have on the combined financial statements.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 2: COVID-19

Starting in March 2020, the nation in general, and healthcare-related entities specifically, have been faced with a global pandemic. As healthcare entities prepared for the crisis, operational changes were made to delay routine visits and elective procedures and reevaluate the entire care delivery model to care for patient needs, specifically those affected by COVID-19. The complete financial impact on the economy in general and healthcare-related entities specifically is undeterminable at this time; however, it was noted and is anticipated by Aspirus that both operational performance and cash flows for healthcare-related entities has been and will be impacted in fiscal year 2020 as well as in future periods until the pandemic ends.

The federal and state governments, as well as other agencies, have been assisting many healthcare organizations to prevent significant financial constraints by providing supplemental payment programs in the forms of distributions which are intended to help in offsetting lost revenues as well as the cost of staffing, supplies, and equipment from treating patients impacted by or preparing for the pandemic's healthcare needs.

During 2020, Aspirus received \$63,570,000 in grant funding from the U.S. Department of Health and Human Services (HHS) Provider Relief Fund which was established as a result of the Coronavirus Aid, Relief, and Economic CARES Act. Based on the terms and conditions of the grant, Aspirus earns the grant by incurring COVID-19 expenses or by incurring lost revenues as a result of COVID-19. During 2020, Aspirus recognized approximately \$30,170,000 in grant revenue related to this program. Aspirus received other grants which were recognized in grant revenue during 2020 totaling \$1,524,000 of which \$886,000 was due to COVID-19 funding received from other federal and state agencies. As of June 30, 2020, Aspirus recorded deferred revenue of \$33,400,000 for the amount of grants received but not earned, which is reported within other accrued liabilities in the accompanying combined balance sheets. Management is continuing to monitor compliance with the terms and conditions of the Provider Relief Fund as new guidance and clarification is released from HHS and other agencies. If Aspirus is unable to attest to or comply with current or future terms and conditions as more information becomes available, Aspirus' ability to retain some or all of the distributions received may be impacted.

In addition to the provider relief funds noted above, CMS offered an accelerated and advance payment program which gave healthcare providers the opportunity to receive an advance on future Medicare payments. Aspirus received a non-interest-bearing Medicare refundable advance of \$110,860,000 in 2020. Repayment of the Medicare Refundable Advance is expected to begin 120 days after receipt of the advance with total repayment due no later than one year after receipt of the advance. Aspirus recorded the amount owed to Medicare within the liability captioned estimated third-party payor settlements in the accompanying balance sheet at June 30, 2020.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 3: Acquisitions

Divine Savior Healthcare, Inc.

As of January 31, 2020, Aspirus entered into a membership substitution agreement between Sisters of the Divine Savior Sponsorship Corporation and Sisters of the Divine Savior to acquire 100% interest of Divine Savior Healthcare, Inc., which subsequent to its acquisition does business as Aspirus Divine Savior Hospital & Clinics ("ADS") totaling \$86,588,000 for cash consideration of \$15,492,000 and a commitment to make future contributions to support ongoing ministry needs of \$1,425,000. This acquisition was accounted for using the purchase method of accounting; therefore, the assets acquired and liabilities assumed were recorded at their estimated fair values at the date of acquisition and the operating results for ADS have been included in the accompanying combined financial statements starting February 1, 2020. The estimated fair value of ADS exceeded the cash consideration which resulted in a gain on acquisition of \$69,796,000 recorded in nonoperating income (loss) in the accompanying combined statement of operation and changes in net assets. the following table summarizes the estimated fair value of the assets and liabilities of ADS as of January 31, 2020:

	<i>(In Thousands)</i>
Assets:	
Cash and cash equivalents	\$ 2,919
Short-term investments	5,126
Patient accounts receivable - net	14,489
Prepaid expenses and other assets	5,710
Assets limited as to use	38,814
Property and equipment - Net	68,408
Other	992
Total assets acquired	136,458
Liabilities:	
Current maturities of long-term liabilities	2,280
Accounts payable	1,031
Other accrued liabilities	5,421
Revenue bonds payable	39,373
Other long term liabilities	1,764
Total liabilities assumed	49,869
Net assets as of January 31, 2020	86,589
Less:	
Cash consideration	15,492
Net present value of deferred contract liability	1,300
Gain recorded	\$ 69,797

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 3: Acquisitions (Continued)

Aspirus Health Ventures, Inc.

Prior to January 1, 2019, Aspirus owned 50% of AHV, formerly known as Arise Health Ventures, Inc., and recorded the investment under the equity method. As of January 1, 2019, Aspirus acquired the remaining 50% membership interest in AHV for cash consideration of \$8,052,000. This acquisition was accounted for using the purchase method of accounting; therefore, the assets acquired and liabilities assumed were recorded at their estimated fair values at the date of acquisition, and the operating results for AHV have been included in the accompanying combined financial statements starting January 1, 2019. The estimated fair value of AHV exceeded the cash consideration which resulted in goodwill of \$650,000 recorded in the accompanying combined balance sheets. The following table summarized the estimated fair value of the assets and liabilities of AHV as of January 1, 2019:

	<i>(In Thousands)</i>
Assets:	
Cash and cash equivalents	\$ 30,105
Short-term investments	10,731
Patient accounts receivable - net	2,981
Prepaid expenses and other assets	46
Property and equipment - Net	20
Total assets acquired	43,883
Liabilities:	
Accounts payable	2,020
Other accrued liabilities	23,058
Total liabilities assumed	25,078
Total stockholders equity as of December 31, 2018	18,805
Less - Aspirus, Inc.'s recoded interest of AHV as of December 31, 2018	10,102
Remaining interest acquired	8,703
Less - Cash consideration	8,052
Gain recorded	\$ 651

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 4: Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30:

	2020	2019
	<i>(In Thousands)</i>	
Patient accounts receivable	\$ 339,961	\$ 339,442
Less: Contractual adjustments and implicit price concessions	194,880	190,047
Patient accounts receivable - Net	\$ 145,081	\$ 149,395

Note 5: Net Patient Service Revenue

Aspirus has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. Tables providing details of these factors are presented below.

The composition of net patient service revenue by primary payor for the years ended June 30 is as follows:

	2020	2019
	<i>(In Thousands)</i>	
Medicare	\$ 363,974	\$ 400,283
Medicaid	70,494	77,954
Commercial insurers	672,233	577,674
Uninsured	8,424	19,889
Totals	\$ 1,115,125	\$ 1,075,800

Revenue from patients' deductibles and coinsurance are included in the categories presented above based on the primary payor.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 5: Net Patient Service Revenue (Continued)

The composition of net patient service revenue based on the System's lines of business, geographic service area, and timing of revenue recognition for the years ended June 30 is as follows:

	2020	2019
	<i>(In Thousands)</i>	
Service lines by geographic location:		
Wisconsin:		
Hospital inpatient	\$ 282,420	\$ 261,224
Hospital outpatient	397,100	375,468
Retail sales	116	119
Residential care	18,426	15,136
Ambulatory	269,892	262,292
Michigan:		
Hospital inpatient	23,426	39,637
Hospital outpatient	97,960	74,564
Residential care	8,559	10,117
Ambulatory	17,226	37,243
Net patient service revenue	\$ 1,115,125	\$ 1,075,800
Timing of revenue and recognition:		
Services performed over time	\$ 332,953	\$ 326,114
At times services were rendered	782,172	749,686
Net patient service revenue	\$ 1,115,125	\$ 1,075,800

Note 6: Community Care

Aspirus provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the communities served, including the health of low-income patients. Consistent with the mission of Aspirus, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources or to those who are underinsured.

Aspirus has a community care policy which is generally based on federal poverty guidelines and applications completed by patients and/or their families. Patients who meet the criteria for community care are provided care without charge or at a reduced rate.

The estimated cost of providing care to patients under Aspirus' community care program aggregated approximately \$12,291,000 and \$9,666,000 in 2020 and 2019, respectively.

Other benefits for the community also include unpaid costs of treating the elderly, health screenings, community education through seminars and classes, and other health-related services.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 7: Liquidity

As of June 30, 2020, 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:

	2020	2019
	<i>(In Thousands)</i>	
Financial assets:		
Cash and cash equivalents	\$ 409,662	\$ 179,175
Patient accounts receivable - Net	146,874	149,395
Board designated funds for capital improvements	433,723	407,594
Investments	189,572	208,619
Total financial assets and liquidity resources	\$ 1,179,831	\$ 944,783

As part of Aspirus' liquidity management, it invests cash in excess of daily requirements in a variety of investment vehicles. These funds, included in investments, are considered available for operational or capital needs, except for investment vehicles with restrictive redemption requirements. Occasionally, the Board of Directors designates a portion of operating surplus to be appropriated at its discretion for future operational initiatives and capital expenditures. Though these funds, at the discretion of the Board of Directors, could be released immediately, these funds are considered available under the Aspirus' liquidity management.

The Organization endowment funds consist of donor endowments and funds functioning as endowments. Income from donor endowments is restricted for specific purposes and, therefore, is not available for general expenditure. Funds functioning as endowments of \$10,523,000 and \$10,374,000 are available for general expenditure with Board approval as of June 30, 2020 and 2019, respectively. Funds functioning as endowments have a spending rate of 0.20%, and it's estimated that \$21,400 of appropriations will be available with the next 12 months.

Note 8: Investments

Investments, including amounts designated as short-term investments, consisted of the following at June 30:

	2020	2019
	<i>(In Thousands)</i>	
Cash equivalents	\$ 2,122	\$ 813
Mutual funds	238,894	207,609
Corporate stocks	8,421	197
Total investments	249,437	208,619
Less - Amount classified as short-term	232,063	192,817
Investments	\$ 17,374	\$ 15,802

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 8: Investments (Continued)

Assets limited as to use consisted of the following at June 30:

	2020	2019
	<i>(In Thousands)</i>	
Cash equivalents	\$ 10,310	\$ 31,278
Certificates of deposit	22,414	-
Pledges receivable	415	804
Mutual funds	455,741	438,291
Corporate stocks	11,678	9,182
Corporate bonds	5,711	-
Government bonds	1,427	1,001
Total assets limited as to use	\$ 507,696	\$ 480,556

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

	2020	2019
	<i>(In Thousands)</i>	
Held by trustees under bond agreements - Construction fund	\$ -	\$ 1,099
Designated by Board of Directors for capital improvements	433,724	407,594
Held for deferred compensation	53,896	50,443
Other	20,076	21,420
Total assets limited as to use	507,696	480,556
Less - Current portion	7,588	10,132
Total assets limited as to use - Noncurrent	\$ 500,108	\$ 470,424

Investment income consisted of the following for the years ended June 30:

	2020	2019
	<i>(In Thousands)</i>	
Interest and dividend income	\$ 26,249	\$ 33,409
Net realized gains (losses)	186	8,179
Net change in unrealized losses	(12,307)	(6,195)
Total investment income	\$ 14,128	\$ 35,393

Investments 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 accompanying combined financial statements.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 9: Fair Value Measurements

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis.

Cash equivalents consist primarily of money market funds that are valued using a net asset value (NAV) of \$1. Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by Aspirus 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 by Aspirus are deemed to be actively traded. Quoted market prices from active markets where the stocks are traded are used to determine the fair value of investments in corporate stocks. Certificates of deposit are valued using the contractual cash flows and current market rates for certificates of deposit with a similar remaining time to maturity.

The interest rate swap's fair value is based on estimates by a third-party valuation service, which used a discounted cash flow analysis using observable market-based inputs, including forward interest rate curves.

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 Aspirus 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 set forth by level, within the fair value hierarchy, Aspirus' assets and liabilities measured at fair value on a recurring basis as of June 30:

	2020				
	Fair Value Measurements Using				
	Level 1	Level 2	Level 3		Totals
	(In Thousands)				
Assets:					
Cash equivalents	\$ 50,812	\$ -	\$ -	\$	50,812
Certificates of deposit	-	22,414	-		22,414
Mutual funds:					
Fixed income	313,402	-	-		313,402
Equity	381,187	-	-		381,187
Government bonds	1,427	-	-		1,427
Corporate bonds	15,628				15,628
Corporate stocks	10,182	-	-		10,182
Total assets	\$ 772,638	\$ 22,414	\$ -	\$	795,052
Liability - Interest rate swap agreement	\$ -	\$ 4,575	\$ -	\$	4,575

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 9: Fair Value Measurements (Continued)

	2019			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Totals
	(In Thousands)			
Assets:				
Cash equivalents	\$ 49,299	\$ -	\$ -	\$ 49,299
Mutual funds:				
Fixed income	279,550	-	-	279,550
Equity	359,821	-	-	359,821
Government bonds	308	-	-	308
Corporate stocks	197	-	-	197
Total assets	\$ 689,175	\$ -	\$ -	\$ 689,175
Liability - Interest rate swap agreement	\$ -	\$ 3,203	\$ -	\$ 3,203

Reconciliation of the fair value hierarchy tables to the financial statements is as follows as of June 30:

	2020	2019
	(In Thousands)	
Cash and cash equivalents	\$ 39,144	\$ -
Current portion of assets limited as to use	7,588	10,132
Long-term portion of assets limited as to use	500,108	470,424
Short-term investments	232,063	192,817
Long-term investments	16,564	15,802
Less: Pledges receivable	415	-
Total assets from the fair value hierarchy tables	\$ 795,052	\$ 689,175

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 10: Property and Equipment

Property and equipment consisted of the following at June 30:

	2020	2019
	<i>(In Thousands)</i>	
Land	\$ 33,896	\$ 26,620
Land improvements	32,222	30,055
Buildings	573,342	437,267
Building improvements	2,155	1,757
Building equipment	175,855	198,365
Equipment	421,316	383,552
Total property and equipment	1,238,786	1,077,616
Less - Accumulated depreciation	698,535	602,562
Net depreciated value	540,251	475,054
Construction in progress	57,652	48,765
Property and equipment - Net	\$ 597,903	\$ 523,819

At June 30, 2020, construction in progress consisted primarily of costs related to renovation of various patient care facilities. At June 30, 2020, commitments related to the completion of these projects totaled approximately \$17,245,000. These projects will be funded from operating cash flows, cash on hand, and investments.

Note 11: Investments in Uncombined Affiliates

AWH has a 34.1% interest and ALH has a 25% interest in a joint venture, the Westwood Conference Center, LLC ("Westwood"), which owns and operates the Westwood Conference Center in Wausau, Wisconsin. In addition, during 2020 and 2019, AWH and ALH received equity distributions from Westwood totaling \$0 and \$235,000, respectively.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 11: Investments in Uncombined Affiliates (Continued)

Aspirus also has investments in certain other uncombined affiliates accounted for under the equity or cost method.

Aspirus' investments in uncombined affiliates and its share of the revenue in excess of expenses of the uncombined affiliates as of and for the years ended June 30 are as follows:

	2020		2019	
	Equity (Loss) in		Equity (Loss) in	
	Operating		Operating	
	Investments	Results	Investments	Results
	(In Thousands)			
Westwood	\$ 6,342	\$ 170	\$ 6,173	\$ 243
Aspirus Health Ventures	35,495	10,974	21,901	3,424
Others, equity or cost method	6,768	1,372	6,931	1,486
Totals	\$ 48,605	\$ 12,516	\$ 35,005	\$ 5,153

Following is a summary of the combined financial position and combined operating results of Aspirus' investments accounted for under the equity method as of and for the years ended June 30:

	2020	2019
	(In Thousands)	
Assets	\$ 434,682	\$ 375,796
Liabilities	95,839	64,071
Equity	\$ 338,843	\$ 311,725
Revenue	\$ 211,442	\$ 117,755
Expense	179,645	98,279
Revenue in excess of expenses	\$ 31,797	\$ 19,476

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 12: Long-Term Debt

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

	2020	2019
	<i>(In Thousands)</i>	
Series 2020 Revenue Bonds, subject to redemption through 2034 at amounts varying from \$2,354 on May 1, 2021, to \$3,400 on May 1, 2034, at a fixed annual interest rate of 1.75%	\$ 39,809	\$ -
Series 2017 Revenue Bonds, subject to redemption through 2052 at amounts varying from \$935 on August 15, 2040, to \$7,290 on August 15, 2052, annual fixed interest rates varying from 3.625% to 5.0%	62,700	62,700
Series 2015A Revenue Bonds, subject to redemption through 2045 at amounts varying from \$485 on August 15, 2020, to \$3,125 on August 15, 2037, annual fixed interest rates varying from 2% to 5%	41,100	41,560
Series 2013 Refunding Revenue Bonds, subject to redemption through 2043 at amounts varying from \$175 on August 15, 2020, to \$5,530 on August 15, 2038, annual fixed interest rates varying from 2% to 5%	84,990	85,950
Series 2012A Refunding Revenue Bonds, subject to redemption through 2020 at amounts varying from \$4,005 on August 15, 2020, to \$4,300 on August 15, 2019, at a fixed annual interest rate of 2.22%	4,005	8,306
Series 2004 Variable Rate Demand Revenue Bonds, subject to redemption through 2034 at amounts varying from \$1,800 on August 15, 2023, to \$2,800 on August 15, 2034, variable interest rate	27,200	27,200
Series 1998B Variable Rate Demand Revenue Bonds, subject to redemption through 2021 at amounts varying from \$2,000 on August 15, 2021, to \$2,050 on August 15, 2021, variable interest rate	4,050	6,000
Series 2001 Variable Rate Revenue Bonds, subject to redemption through 2031 at amounts varying from \$250 on February 1, 2020, to \$650 on February 1, 2031, variable interest rate	5,750	6,000
2015 tax-exempt loan, maturing in amounts ranging from \$225 to \$2,340, maturing on August 15, 2039, fixed interest rate of 4.0% until August 15, 2022	29,905	30,875

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 12: Long-Term Debt (Continued)

	2020	2019
	<i>(In Thousands)</i>	
Other debt, interest rates ranging from 1.25% to 4.80% due through 2030 in various amounts	\$ 997	\$ 1,146
Totals	300,506	269,737
Add - Unamortized original issue premiums	8,567	9,831
Less - Deferred bond issuance costs	2,152	2,235
Less - Unamortized original issue discounts	133	155
Subtotals	306,788	277,178
Less - Current maturities	11,658	9,034
Long-term portion	\$ 295,130	\$ 268,144

Scheduled future payments of principal on long-term debt at June 30, 2020, including current portion, are summarized as follows:

	<i>(In Thousands)</i>
2021	\$ 11,658
2022	10,020
2023	10,559
2024	11,008
2025	11,729
Thereafter	245,532
Total	\$ 300,506

All bonds are issued under their respective bond trust indentures between the Wisconsin Health and Education Facilities Authority (the "Authority") and the Bank of New York Mellon Trust Company, N.A., as bond trustee.

In January 1998, the Authority issued \$75,070,000 of revenue bonds for the benefit of the Aspirus Inc. Obligated Group (the "Obligated Group") which was made up solely of AWH in 1998. The bonds comprised two issuances, the Revenue Refunding Bonds Series 1998A, which were refunded in 2012, and the Variable Rate Demand Revenue Bonds Series 1998B. The Series 1998B proceeds were used for various AWH capital improvement projects and capital budget items. At June 30, 2020 and 2019, the adjusted annual interest rate was 1.02% and 1.89%, respectively. The average annual interest rate on the bonds was 0.91% and 1.56% during the years ended June 30, 2020 and 2019, respectively.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 12: Long-Term Debt (Continued)

The Authority issued \$8,000,000 of Variable Rate Revenue Bonds for the benefit of ACI. The Series 2001 bonds were issued pursuant to and secured by a bond trust indenture dated February 1, 2001, between the Authority and the trustee. The Series 2001 bonds are guaranteed by Aspirus. The Series 2001 bonds bear interest at the market rate for demand loans. At June 30, 2020 and 2019, the interest rate was 0.85% and 2.36%, respectively. The average annual interest rate during 2020 and 2019 on the Series 2001 bonds was 1.96% and 2.28%, respectively. The bond indenture provides for various restrictive covenants.

In December 2004, the Authority issued \$45,000,000 of Variable Rate Revenue Bonds for the benefit of the Obligated Group. AMH was added to the Obligated Group in 2004. The proceeds from the Series 2004 bonds were shared by AWH, \$27,200,000, and AMH, \$17,800,000. The proceeds from the Series 2004 bonds were used to construct, renovate, and equip certain health care facilities of AWH and AMH and to pay certain expenses incurred in connection with the issuance. The Series 2004 Variable Rate Revenue Bonds bear interest at interest rates remarketed weekly. At June 30, 2020 and 2019, the adjusted annual rate was 0.12% and 1.95%, respectively. The average annual interest rate on the bonds was 1.16% and 1.54% for the years ended June 30, 2020 and 2019, respectively.

The Series 2004 and Series 1998B bonds are backed by a standby bond purchase agreement (liquidity facility), which currently expires in March 2022 and August 2021, respectively. Aspirus is able to request an extension of the then-current stated expiration date for a period of one or more years. Under the terms of the letter of credit, in the event of a failed remarketing, the provider of the letter of credit will complete a liquidity advance to purchase the bonds with the first of 12 equal quarterly installments in amounts sufficient to fully amortize the liquidity advance due by Aspirus on the first business day, which is at least 367 days following the liquidity advance.

In February 2012, the Authority issued \$32,025,000 of Refunding Revenue Bonds for the benefit of the Obligated Group. JPMorgan Chase Bank, N.A. was the initial purchaser of the bonds. The proceeds from the Series 2012A bonds were used by AWH to refund the remaining principal amount on the Series 1998A bonds. Following the issuance of the Series 2012 Bonds, Aspirus, Inc., ACI, AIW, and ALH were added to the Obligated Group.

In April 2013, the Authority issued \$90,560,000 of Revenue Bonds for the benefit of the Obligated Group. The proceeds from the Series 2013 bonds were used to refund the remaining principal amount on the AWH Series 2000 bonds, refinance the outstanding AMH Series 2004 bonds, and fund construction projects.

In May 2015, the Authority issued \$42,975,000 of Revenue Bonds for the benefit of the Aspirus, Inc. Obligated Group. Upon issuance of the Series 2015 bonds, ARH, AKH, AIR, AOH, ABI, AHF, AES, AVNA, and Aspirus VNA Extended Services, Inc. became members of the Obligated Group. The proceeds from the Series 2015 bonds in the amount of \$25,790,000 were used to advance refund the remaining principal amount along with other ARH funds on the ARH Series 2008 bonds, and \$17,185,000 of proceeds were used by AKH to fund the cost of acquisition, construction, renovation, and equipping of its facilities for AKH.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 12: Long-Term Debt (Continued)

In May 2015, the Authority issued a tax-exempt loan for \$33,685,000 through a financial institution for the benefit of the Obligated Group. The proceeds from the 2015 tax-exempt loan in the amount of \$16,560,000 were used to refund and legally defease, along with other ARH funds, the outstanding principal on ARH's Series 2010 bonds, and proceeds of \$17,125,000 were used to refinance an interim taxable loan for AIR. ARH and AIR were also allocated premiums related to the debt of \$4,818,000. The 2015 tax-exempt loan has a fixed interest rate of 4% until the initial fixed mandatory repurchase date of August 15, 2022. At that time the fixed interest rate will be reset for another fixed period with the 2015 tax-exempt loan maturing on August 15, 2039. The tax-exempt loan is subject to the restrictive covenants of the Obligated Group Master Trust Indenture, and is included within the caption other debt in the preceding long-term debt table.

In November 2017, the Authority issued \$62,700,000 of Revenue Bonds for the benefit of the Obligated Group. The proceeds from the Series 2017 bonds were used by AWH, ARH, AIW, and AOH to fund the cost of acquisition, construction, renovation, and equipping of their respective facilities.

In June 2020, the Authority issued \$39,809,000 of Revenue Bonds for the benefit of the Obligated Group. Upon issuance of the Series 2020 bonds, ADS became a member of the Obligated Group. The proceeds from the Series 2020 bonds were used by ADS to refinance the outstanding ADS Series 2019 and 2016 bonds, which were not part of the obligated group debt. These bonds were originally issued to fund the construction of the hospital, extended care facility, wellness center, and remodel the surgery department in the hospital.

The members of the Obligated Group are jointly and severally liable for the payment obligations under the agreements. The total Aspirus, Inc. Obligated Group outstanding debt was \$293,759,000 as of June 30, 2020.

Capitalized Interest and Interest Expense

A summary of interest expense during the years ended June 30 is as follows:

	2020	2019
	<i>(In Thousands)</i>	
Total interest cost	\$ 10,895	\$ 10,772
Less:		
Amount capitalized as part of construction projects	215	628
Amortization of original issue premium	1,264	1,260
Add:		
Amortization of original issue discount	22	21
Amortization of deferred bond issuance costs	156	161
Total interest expense	\$ 9,594	\$ 9,066

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 13: Interest Rate Swap Agreement

Aspirus has entered into an interest rate swap agreement with an original notional amount of \$12,000,000 and a fixed rate of 3.56% to reduce the impact of changes in interest rates on variable rate long-term debt. The interest rate swap agreement is not designated as a hedging instrument and matures August 15, 2034. The interest rate swap agreement was recorded at fair value and was a liability of \$4,575,000 and \$3,203,000 as of June 30, 2020 and 2019, respectively.

The effect of the derivative instrument on the accompanying combined statements of operations and changes in net assets was as follows:

Statements of Operations and Changes in Net Assets Location		Amount of Loss Recognized in	
		2020	2019
<i>(In Thousands)</i>			
Net payments on interest rate swap	Loss on interest rate swap	\$ (285)	\$ (213)
Net unrealized loss on derivative	Gain (loss) on interest rate swap	(1,372)	(923)
Totals		\$ (1,657)	\$ (1,136)

The fair value of the interest rate swap contains credit risk in the event the parties are unable to meet the terms of the contract.

Note 14: Net Assets with Donor Restriction

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

	2020	2019
	<i>(In Thousands)</i>	
Subject to expenditure for specific purposes:		
Family House	\$ -	\$ 2,598
MSTC SIMS program	694	1,000
Other program funds	2,248	2,127
Unappropriated earnings on endowment funds	941	1,119
Endowments maintained in perpetuity, income from which is expendable		
Aspirus Scholars Program	6,175	6,175
Other endowments	2,481	2,597
Total net assets with donor restrictions	\$ 12,539	\$ 15,616

Net assets were released from donor restrictions by incurring expenses, by satisfying the restricted purpose, or by occurrence of other events specified by donors. Net assets released from donor restrictions for various purposes totaled \$3,552,000 and \$579,000 in 2020 and 2019, respectively.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 15: Endowments

The Aspirus Health Foundation endowments consist of various funds established to benefit the Foundation for a variety of purposes. The Foundation's endowments include both donor-restricted endowments and funds designated by the Board of Directors to function as endowments or quasi-endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Donor-Restricted Endowments

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by Wisconsin's state legislature, as requiring the Foundation to preserve the fair value of the donor's original gift, as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of a donor's gifts to the permanent endowment, (b) the original value of a donor's subsequent gift to the permanently restricted endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The investment income of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed in UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Board-Designated Endowment

The Board of Directors has set aside certain unrestricted net assets for endowment purposes. Since these amounts are not restricted by the donor, but are restricted only by the Board of Directors, the amounts have been classified as net assets without donor restrictions. The Board of Directors may designate additional amounts from time to time to be added to the endowment fund in order to fund the Board-designated endowment known as the Aspirus Scholars Program. The Aspirus Scholars Program offers medical scholarships and incentives to advance the health of the communities served by Aspirus and to increase health services in the regions served by Aspirus.

Investment Return Objectives, Risk Parameters, and Strategies

The Foundation has adopted an investment policy for its investment funds, including the permanent endowments, that attempts to provide a balance of long-term capital appreciation, preservation of capital, and income production to support additional resources for the continuation and expansion of the charitable mission of the Foundation. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that outperform the following benchmarks: the S&P 500 Index, category-appropriate Russell Indexes, and MSCI EAFE and EM Indexes for the equity portion of the investment portfolio and Barclay's Capital Aggregate Bond Indexes for the fixed income portion of the investment portfolio.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 15: Endowments (Continued)

Investment Return Objectives, Risk Parameters, and Strategies (Continued)

To satisfy its long-term capital appreciation and expected results, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within the risk constraints.

From time to time, the fair value of assets associated with donor-restricted funds may fall below the level that the donor requires the Organization to retain as a fund. As of June 30, 2020 and 2019, no such deficiencies existed.

Changes in endowment funds were as follows for the years ended June 30, 2020 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>		
Endowment net assets at June 30, 2018	\$ 9,831	\$ 7,105	\$ 16,936
Investment return:			
Investment income	710	577	1,287
Unrealized losses	(147)	(145)	(292)
Administration fees	(20)	-	(20)
Total investment return	543	432	975
Contributions	-	300	300
Appropriation of endowment assets for expenditures	-	(293)	(293)
Endowment net assets as June 30, 2019	10,374	7,544	17,918
Investment return:			
Investment income	546	436	982
Unrealized losses	(377)	(311)	(688)
Administration fees	(21)	-	(21)
Total investment return	148	125	273
Appropriation of endowment of assets for expenditures	-	(303)	(303)
Endowment net assets as June 30, 2020	\$ 10,522	\$ 7,366	\$ 17,888

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 16: Malpractice Insurance

Aspirus has professional liability insurance for claim losses of less than \$1,000,000 per claim and a \$3,000,000 aggregate per year. The insurance covers professional liability claims incurred and reported within the policy year ("claims made" coverage). Aspirus is covered against losses in excess of these amounts through mandatory participation in the Patients' Compensation Fund of the state of Wisconsin. The state of Michigan does not have a similar fund to cover excess losses. The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the period extending to July 1, 2021.

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with Aspirus. There exists the possibility of claims arising from services provided to patients through June 30, 2020, which have not yet been asserted. Aspirus has recorded liabilities of approximately \$7,497,000 and \$8,850,000 at June 30, 2020 and 2019, respectively, to cover claims, including unasserted claims, using historical experience and other relevant industry and hospital-specific factors. The liabilities are included in other accrued liabilities and other long-term liabilities in the accompanying combined balance sheets. Aspirus has also recorded insurance receivables of approximately \$5,677,000 and \$7,234,000 at June 30, 2020 and 2019, respectively, for estimated expected recoveries from insurance related to these claims. The receivables are included in prepaid expenses and other current assets and other assets in the accompanying combined balance sheets.

Note 17: Employee Health Insurance

Aspirus has self-funded health and dental plans, which provide medical and dental benefits to employees and their dependents. Health and dental costs are expensed as incurred. Health and dental expense includes claims paid, reinsurance premiums, administration fees, and unpaid claims at year-end.

The health plan has reinsurance to cover catastrophic individual claims over \$600,000. The dental plan covers annual individual claims up to \$2,000. The plans have no aggregate reinsurance.

Employees of ADS were not eligible to participate in the Aspirus self-funded health plan in 2020 subsequent to the acquisition of ADS. ADS sponsors a fully insured employee health plan for its employees.

Total employee health and dental insurance expense for the years ended June 30, 2020 and 2019, was approximately \$41,071,000 and \$41,838,000, respectively. A liability of approximately \$8,192,000 and \$8,937,000 for claims outstanding has been recorded at June 30, 2020 and 2019, respectively. Management believes these liabilities, which are recorded in other accrued liabilities in the accompanying combined balance sheets, are sufficient to cover estimated claims, including claims incurred but not recorded at year-end.

Note 18: Retirement and Deferred Compensation Plans

Aspirus sponsors a single active qualified 403(b) defined contribution retirement plan (the "Plan"), which covers eligible employees of the majority of Aspirus and its subsidiaries other than ADS. The employer contribution is a 50.0% match on the first 6.0% of employee contributions made to the Plan and a 2.0% non-elective contribution based on eligible compensation. An additional 2.0% contribution on eligible earnings earned between the social security taxable wage base up to the IRS compensation limit is made for eligible employees.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 18: Retirement and Deferred Compensation Plans (Continued)

ADS also sponsors a 401(k) defined contribution retirement plan which covers eligible employees of ADS. The ADS employer contribution is a 50.0% match on the first 5.0% of employee contributions made to the Plan based on eligible compensation.

Aspirus' expense for these plans totaled approximately \$21,966,000 and \$20,197,000 for the years ended June 30, 2020 and 2019, respectively. In addition to the active 403(b) Plan, Aspirus sponsors three frozen qualified plans including the Aspirus Wausau Hospital 401(a) Plan, Iron River 401(k) Plan, and Aspirus Ironwood 401(k) Plan.

Aspirus sponsors one active non-qualified deferred compensation 457(b) Plan covering eligible employees. All highly compensated employees are eligible to contribute to this Plan. Physicians and advanced practice providers receive a 6.0% contribution to the 457(b) on eligible compensation up to a maximum contribution of \$5,000 per eligible employee. Aspirus' 457(f) plan contributions vary from 2.5% to 17.0% of a participant's eligible compensation. There is also an additional 457(b) Plan for executives and physicians at ADS which primarily consists of employee contributions contributed by eligible employees of ADS. Aspirus also sponsors two frozen non-qualified 457(b) Plans as of January 1, 2018 which include AIW and ARH.

Aspirus contributed \$2,200,000 and \$2,724,000 to the deferred compensation plans for the years ended June 30, 2020 and 2019, respectively. A liability for the deferred compensation plans described above including unrealized gains and losses on the investments held for the plans, net of withdrawals, totaled \$53,896,000 and \$50,443,000 as of June 30, 2020 and 2019, respectively.

Note 19: Postretirement Benefits Other Than Pensions

Aspirus provides certain medical benefits to certain qualifying retired employees who were hired prior to January 1, 2003. The benefits provided by the plan allow eligible retirees and dependents to continue participation in the health plans until eligible for Medicare, at full premium cost, plus 2%. At the time of eligibility for Medicare, the eligible retiree will be reimbursed up to a monthly amount equal to 1.5 times their consecutive years of service. Aspirus funds premium payments for current retirees only. Amounts recorded in the accompanying combined balance sheets for the postretirement benefit consisted of the following at June 30:

	2020	2019
	<i>(In Thousands)</i>	
Other accrued liabilities	\$ 104	\$ 97
Long-term liabilities	5,620	4,308
Total postretirement benefit liabilities	\$ 5,724	\$ 4,405

At June 30, 2020 and 2019, net periodic postretirement benefit costs of \$752,000 and \$550,000, respectively, are included in net assets without donor restrictions that have not yet been recognized. Aspirus recognized postretirement benefit adjustments in the accompanying combined statements of operations and changes in net assets of \$(202,000) and \$195,000 in 2020 and 2019, respectively.

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 20: Functional Expenses

Aspirus provides general health care services to residents within its geographic location. The accompanying statements of activities present certain expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis. Employee benefits are allocated based on factors of either salary expense or actual employee expense. Overhead costs include things such as purchased services, information technology, insurance, and other similar expenses which are allocated on a variety of factors including revenues and departmental expense. Costs related to building and equipment usage include depreciation and interest and are allocated on a square footage or direct assignment basis. Expenses related to providing these services consisted of the following for the year ended June 30:

	2020			
	Healthcare	Management and General	Fund-raising	Total
	<i>(In Thousands)</i>			
Salaries and wages	\$ 370,029	\$ 141,745	\$ 132	\$ 511,906
Employee benefits	102,518	23,940	41	126,499
Supplies	193,715	13,266	-	206,981
Purchased services and other	149,623	35,696	13	185,332
Insurance and utilities	6,915	7,430	-	14,345
Depreciation	40,734	23,599	-	64,333
Interest	8,134	1,458	-	9,592
Totals	\$ 871,668	\$ 247,134	\$ 186	\$ 1,118,988

	2019			
	Healthcare	Management and General	Fund-raising	Total
	<i>(In Thousands)</i>			
Salaries and wages	\$ 354,252	\$ 125,055	\$ 113	\$ 479,420
Employee benefits	57,914	33,041	34	90,989
Supplies	189,889	7,118	-	197,007
Purchased services and other	142,697	67,959	16	210,672
Insurance and utilities	5,314	7,635	-	12,949
Depreciation	39,887	21,965	-	61,852
Interest	7,888	1,178	-	9,066
Totals	\$ 797,841	\$ 263,951	\$ 163	\$ 1,061,955

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 21: Related Parties

Prior to Aspirus' acquisition of AHV on January 1, 2019 Aspirus received approximately \$44,088,000 from AHV in insurance payments for patients for 2019.

The amounts due to related parties are recorded in other accrued liabilities on the accompanying combined balance sheets. The amounts due from related parties are recorded in prepaid expenses and other current assets on the accompanying combined balance sheets.

From time to time, Aspirus may enter into various business transactions with members of the Board of Directors, members of various board committees, or organizations that employ board and/or committee members. Transactions are provided at fair value and follow Aspirus' conflict of interest policies.

Note 22: Concentrations of Credit Risk

Financial instruments that potentially subject Aspirus to credit risk consist principally of accounts receivable, cash deposits in excess of insured limits, and investments.

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

	2020	2019
	<i>(In Thousands)</i>	
Medicare and Medicare Advantage plans	36.8%	37.3%
Medicaid and Medicaid managed care plans	12.0%	9.8%
Other third-party payors	41.2%	43.2%
Uninsured patients	10.0%	9.7%
Totals	100.0%	100.0%

Aspirus, Inc. Obligated Group

Notes to Combined Financial Statements

Note 22: Concentrations of Credit Risk (Continued)

Aspirus maintains depository relationships with financial institutions. Operating cash requirements require that amounts on deposit exceed Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2020, the amount of Aspirus' bank deposits in excess of FDIC limits was approximately \$123,740,000. In addition, investments held by financial institutions and investment companies are uninsured.

Note 23: Collaborative Agreements

Aspirus has entered into collaborative agreements with other health care systems. The agreements will allow Aspirus to effectively respond to health care reform initiatives as a virtually integrated system in order to improve patient health, enhance patient experiences, and reduce or control the cost of health care in the geographic areas served by the agreements. Aspirus does not have any financial commitments related to these agreements at June 30, 2020.

Note 24: Contingencies

Aspirus may from time to time be involved in litigation and regulatory investigations that arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2020, will be resolved without material adverse effect on Aspirus' future financial position, results of operations, or cash flows.

Note 25: Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 classifications.

Supplementary Consolidating Information

Aspirus, Inc. Obligated Group

Combining Balance Sheet

June 30, 2020	Aspirus, Inc.	Aspirus Wausau Hospital, Inc.	Aspirus Clinics, Inc.	Divine Savior Healthcare, Inc.	Aspirus Riverview Hospital & Clinics, Inc.	Aspirus Iron River Hospital & Clinics, Inc.	Aspirus Keweenaw Hospital	Aspirus Ironwood Hospital, Inc.
<i>(In Thousands)</i>								
Current assets:								
Cash and cash equivalents	\$ 230,064	\$ 4,609	\$ (7)	\$ 4,719	\$ 16,752	\$ 906	\$ 9,792	\$ 12,528
Short-term investments	173,325	32,461	1,330	10,727	-	142	4,360	9,718
Current portion of assets limited as to use	-	6,878	-	-	465	-	-	-
Patient accounts receivable - Net	(2,985)	68,732	7,704	10,548	18,620	2,991	6,449	6,377
Inventory	5	11,197	1,216	1,850	2,886	690	1,303	1,253
Prepaid expenses and other current assets	16,101	54,963	2,339	3,938	21,063	11,163	9,104	10,611
Total current assets	416,510	178,840	12,582	31,782	59,786	15,892	31,008	40,487
Investments	-	-	-	-	-	-	-	-
Assets limited as to use	9,083	167,324	34,344	43,274	70,177	146	426	5,486
Property and equipment - Net	30,976	246,528	10,168	68,344	79,630	21,920	20,766	28,920
Other assets:								
Investments in unconsolidated affiliates	155,084	3,029	-	-	-	394	1,091	963
Investments in subsidiaries	2,168	-	-	-	-	-	-	-
Goodwill and other intangibles	650	-	3,762	-	-	-	-	303
Other	3,374	2,788	570	1,057	459	22	1,647	593
Total other assets	161,276	5,817	4,332	1,057	459	416	2,738	1,859
TOTAL ASSETS	\$ 617,845	\$ 598,509	\$ 61,426	\$ 144,457	\$ 210,052	\$ 38,374	\$ 54,938	\$ 76,752

Aspirus, Inc. Obligated Group

Combining Balance Sheet (Continued)

June 30, 2020	Aspirus Ontonagon Hospital, Inc.	Aspirus VNA Home Health, Inc. and Subsidiary	Aspirus Extended Services, Inc.	Aspirus Buildings, Inc.	Aspirus Network, Inc.	Aspirus Health Foundation, Inc.	Aspirus Health Ventures, Inc.	Eliminations	Consolidated
<i>(In Thousands)</i>									
Current assets:									
Cash and cash equivalents	\$ 944	\$ (1)	\$ 1,288	\$ (236)	\$ 1,346	\$ 439	\$ 45,532	\$ -	\$ 328,675
Short-term investments	-	-	-	-	-	-	-	-	232,063
Current portion of assets limited as to use	19	-	-	-	-	1,026	-	(800)	7,588
Patient accounts receivable - Net	1,835	5,005	624	8	-	-	-	(7,412)	118,496
Inventory	104	423	23	-	-	-	-	-	20,950
Prepaid expenses and other current assets	6,041	103	48	342	1,865	811	14,333	(107,062)	45,763
Total current assets	8,943	5,530	1,983	114	3,211	2,276	59,865	(115,274)	753,535
Investments	-	-	-	-	-	16,564	-	-	16,564
Assets limited as to use	168	-	11	-	-	14,246	11,636	(6,852)	349,469
Property and equipment - Net	4,181	496	2,705	4,079	8	-	55	-	518,776
Other assets:									
Investments in unconsolidated affiliates	-	-	-	919	-	-	-	-	161,480
Investments in subsidiaries	-	-	-	-	-	-	-	(2,168)	-
Goodwill and other intangibles	-	-	-	-	-	-	-	-	4,715
Other	32	27	-	-	-	-	9	-	10,578
Total other assets	32	27	-	919	-	-	9	(2,168)	176,773
TOTAL ASSETS	\$ 13,324	\$ 6,053	\$ 4,699	\$ 5,112	\$ 3,219	\$ 33,086	\$ 71,565	\$ (124,294)	\$ 1,815,117

Aspirus, Inc. Obligated Group

Combining Balance Sheet (Continued)

June 30, 2020	Aspirus Medford Hospital & Clinics, Inc.	Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin	Eliminations	System	Aspirus Health Ventures, Inc.	Eliminations	Obligated Group
	<i>(In Thousands)</i>						
Current assets:							
Cash and cash equivalents	\$ 45,025	\$ 81,494	\$ -	\$ 455,194	\$ (45,532)	\$ -	\$ 409,662
Short-term investments	-	-	-	232,063	-	-	232,063
Current portion of assets limited as to use	-	-	-	7,588	-	-	7,588
Patient accounts receivable - Net	9,479	12,826	(1,793)	139,008	-	6,073	145,081
Inventory	1,490	1,844	-	24,284	-	-	24,284
Prepaid expenses and other current assets	3,281	5,105	585	54,734	(14,333)	-	40,401
Total current assets	59,275	101,269	(1,208)	912,871	(59,865)	6,073	859,079
Investments	-	810	-	17,374	-	-	17,374
Assets limited as to use	71,108	91,167	-	511,744	(11,636)	-	500,108
Property and equipment - Net	30,102	49,080	-	597,958	(55)	-	597,903
Other assets:							
Investments in unconsolidated affiliates	1,728	4,486	(154,584)	13,110	-	35,495	48,605
Investments in subsidiaries	-	-	-	-	-	-	-
Goodwill and other intangibles	-	-	-	4,715	-	-	4,715
Other	68	3	-	10,649	(9)	-	10,640
Total other assets	1,796	4,489	(154,584)	28,474	(9)	35,495	63,960
TOTAL ASSETS	\$ 162,281	\$ 246,815	\$ (155,792)	\$ 2,068,421	\$ (71,565)	\$ 41,568	\$ 2,038,424

Aspirus, Inc. Obligated Group

Combining Balance Sheet (Continued)

June 30, 2020	Aspirus, Inc.	Aspirus Wausau Hospital, Inc.	Aspirus Clinics, Inc.	Divine Savior Healthcare, Inc.	Aspirus Riverview Hospital & Clinics, Inc.	Aspirus Iron River Hospital & Clinics, Inc.	Aspirus Keweenaw Hospital	Aspirus Ironwood Hospital, Inc.
<i>(In Thousands)</i>								
Current liabilities:								
Current maturities of long-term debt	\$ -	\$ 6,015	\$ 250	\$ 2,354	\$ 1,405	\$ 105	\$ -	\$ 166
Current maturities of finance lease obligations	241	204	58	-	133	40	27	64
Accounts payable	2,543	7,557	889	1,279	5,088	968	1,697	1,032
Accrued salaries and wages	6,958	12,752	15,267	4,607	3,373	1,478	1,853	2,430
Accrued interest payable	-	1,442	-	-	851	256	260	231
Other accrued liabilities	122,003	24,242	6,354	4,130	9,179	2,778	6,195	6,368
Estimated third-party payor settlements	-	49,216	50	9,124	3,664	10,035	10,892	13,505
Total current liabilities	131,745	101,428	22,868	21,494	23,693	15,660	20,924	23,796
Long-term liabilities:								
Long-term debt - Less current maturities	-	113,371	5,496	37,375	50,882	17,549	16,980	14,175
Finance lease obligations - Less current maturities	851	758	216	-	429	131	54	165
Deferred compensation	5,819	1,408	34,344	831	1,946	146	426	5,035
Postretirement benefits	2,269	3,225	93	-	12	21	-	-
Interest rate swap agreement	-	4,575	-	-	-	-	-	-
Other long-term liabilities	3,415	7,668	701	1,185	451	1,105	2,447	710
Total long-term liabilities	12,354	131,005	40,850	39,391	53,720	18,952	19,907	20,085
Total liabilities	144,099	232,433	63,718	60,885	77,413	34,612	40,831	43,881
Net assets (deficit):								
Aspirus, Inc. net assets								
Without donor restrictions	473,746	366,076	(2,292)	83,538	130,771	3,762	13,819	32,247
With donor restrictions	-	-	-	34	1,868	-	288	506
Noncontrolling interest	-	-	-	-	-	-	-	118
Total net assets (deficit)	473,746	366,076	(2,292)	83,572	132,639	3,762	14,107	32,871
TOTAL LIABILITIES AND NET ASSETS	\$ 617,845	\$ 598,509	\$ 61,426	\$ 144,457	\$ 210,052	\$ 38,374	\$ 54,938	\$ 76,752

Aspirus, Inc. Obligated Group

Combining Balance Sheet (Continued)

June 30, 2020	Aspirus Ontonagon Hospital, Inc.	Aspirus VNA Home Health, Inc. and Subsidiary	Aspirus Extended Services, Inc.	Aspirus Buildings, Inc.	Aspirus Network, Inc.	Aspirus Health Foundation, Inc.	Aspirus Health Ventures, Inc.	Eliminations	Consolidated
	(In Thousands)								
Current liabilities:									
Current maturities of long-term debt:	\$ 84	\$ -	\$ 69	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,448
Current maturities of finance lease obligations	(8)	21	-	-	2	-	-	-	782
Accounts payable	216	128	34	-	-	30	3,221	(985)	23,697
Accrued salaries and wages	526	566	174	-	-	-	-	-	49,984
Accrued interest payable	31	-	-	-	-	-	-	-	3,071
Other accrued liabilities	4,207	430	498	366	1,889	970	21,510	(112,343)	98,776
Estimated third-party payor settlements	3,151	1,977	214	-	-	-	11,290	(1,946)	111,172
Total current liabilities	8,207	3,122	989	366	1,891	1,000	36,021	(115,274)	297,930
Long-term liabilities:									
Long-term debt - Less current maturities	2,114	-	696	-	-	-	-	-	258,638
Finance lease obligations - Less current maturities	45	83	-	-	6	-	41	-	2,779
Deferred compensation	1	-	-	-	-	-	-	-	49,956
Postretirement benefits	-	-	-	-	-	-	-	-	5,620
Interest rate swap agreement	-	-	-	-	-	-	-	-	4,575
Other long-term liabilities	183	71	31	-	-	6,852	9	(6,852)	17,976
Total long-term liabilities	2,343	154	727	-	6	6,852	50	(6,852)	339,544
Total liabilities	10,550	3,276	1,716	366	1,897	7,852	36,071	(122,126)	637,474
Net assets (deficit):									
Aspirus, Inc. net assets									
Without donor restrictions	2,770	2,777	2,983	4,746	1,322	17,627	35,494	(2,985)	1,166,401
With donor restrictions	4	-	-	-	-	7,607	-	-	10,307
Noncontrolling interest	-	-	-	-	-	-	-	817	935
Total net assets (deficit)	2,774	2,777	2,983	4,746	1,322	25,234	35,494	(2,168)	1,177,643
TOTAL LIABILITIES AND NET ASSETS	\$ 13,324	\$ 6,053	\$ 4,699	\$ 5,112	\$ 3,219	\$ 33,086	\$ 71,565	\$ (124,294)	\$ 1,815,117

Aspirus, Inc. Obligated Group

Combining Balance Sheet (Continued)

June 30, 2020	Aspirus Medford Hospital & Clinics, Inc.	Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin	Eliminations	System	Aspirus Health Ventures, Inc.	Eliminations	Obligated Group
<i>(In Thousands)</i>							
Current liabilities:							
Current maturities of long-term debt:	\$ 675	\$ 535	\$ -	\$ 11,658	\$ -	\$ -	\$ 11,658
Current maturities of finance lease obligations	51	54	-	887	-	-	887
Accounts payable	1,437	1,125	585	26,844	(3,221)	-	23,623
Accrued salaries and wages	3,802	2,816	-	56,602	-	-	56,602
Accrued interest payable	234	375	-	3,680	-	-	3,680
Other accrued liabilities	10,324	10,536	(1,792)	117,844	(21,510)	6,073	102,407
Estimated third-party payor settlements	(73)	4,730	-	115,829	(11,290)	-	104,539
Total current liabilities	16,450	20,171	(1,207)	333,344	(36,021)	6,073	303,396
Long-term liabilities:							
Long-term debt - Less current maturities	13,668	22,824	-	295,130	-	-	295,130
Finance lease obligations - Less current maturities	192	70	-	3,041	(41)	-	3,000
Deferred compensation	2,659	1,281	-	53,896	-	-	53,896
Postretirement benefits	-	-	-	5,620	-	-	5,620
Interest rate swap agreement	-	-	-	4,575	-	-	4,575
Other long-term liabilities	345	318	-	18,639	(9)	-	18,630
Total long-term liabilities	16,864	24,493	-	380,901	(50)	-	380,851
Total liabilities	33,314	44,664	(1,207)	714,245	(36,071)	6,073	684,247
Net assets (deficit):							
Aspirus, Inc. net assets							
Without donor restrictions	127,239	201,647	(153,650)	1,341,637	(35,494)	35,495	1,341,638
With donor restrictions	1,728	504	-	12,539	-	-	12,539
Noncontrolling interest	-	-	(935)	-	-	-	-
Total net assets (deficit)	128,967	202,151	(154,585)	1,354,176	(35,494)	35,495	1,354,177
TOTAL LIABILITIES AND NET ASSETS	\$ 162,281	\$ 246,815	\$ (155,792)	\$ 2,068,421	\$ (71,565)	\$ 41,568	\$ 2,038,424

Aspirus, Inc. Obligated Group

Combining Statement of Operations and Changes in Net Assets

Year Ended June 30, 2020	Aspirus, Inc.	Aspirus Wausau Hospital, Inc.	Aspirus Clinics, Inc.	Divine Savior Healthcare, Inc.	Aspirus Riverview Hospital & Clinics, Inc.	Aspirus Iron River Hospital & Clinics, Inc.	Aspirus Keweenaw Hospital	Aspirus Ironwood Hospital, Inc.
<i>(In Thousands)</i>								
Revenue:								
Patient service revenue	\$ 7	\$ 537,703	\$ 82,123	\$ 29,092	\$ 145,172	\$ 32,965	\$ 50,767	\$ 55,020
Premium revenue	-	-	-	-	-	-	-	-
Income from uncombined affiliates	13,650	1,282	-	-	-	-	-	-
Other operating revenue	1,375	16,493	10,436	1,049	1,491	3,128	9,055	5,753
Grant revenue	40	9,519	1,594	6,869	4,648	2,955	1,901	705
Total revenue	15,072	564,997	94,153	37,010	151,311	39,048	61,723	61,478
Expenses:								
Salaries and wages	71,152	161,144	62,355	19,331	47,142	13,617	22,073	24,517
Employee benefits	21,500	40,235	12,134	5,196	11,539	4,375	5,328	5,324
Medical claims	-	-	-	-	-	-	-	-
Medical fees	13	4,049	201	446	478	-	-	-
Supplies	474	114,290	12,579	4,111	23,086	4,982	11,087	7,563
Purchased services and other	(108,440)	147,712	27,389	4,902	36,912	13,367	17,315	19,030
Insurance and utilities	1,574	4,425	854	851	1,721	748	794	760
Depreciation and amortization	11,236	23,942	1,615	2,184	7,588	2,027	2,496	2,718
Interest	26	3,888	2	500	1,865	341	740	582
Total expenses	(2,465)	499,685	117,129	37,521	130,331	39,457	59,833	60,494
Income (loss) from operations	17,537	65,312	(22,976)	(511)	20,980	(409)	1,890	984
Nonoperating income (loss):								
Investment income	4,785	2,574	119	37	1,381	18	130	341
Contributions and other	69,796	634	-	(2,542)	68	2	64	5
Loss on interest rate swap agreement	-	(1,657)	-	-	-	-	-	-
Total nonoperating income (loss) - Net	74,581	1,551	119	(2,505)	1,449	20	194	346
Revenue in excess (deficiency) of expenses before noncontrolling interest	92,118	66,863	(22,857)	(3,016)	22,429	(389)	2,084	1,330

Aspirus, Inc. Obligated Group

Combining Statement of Operations and Changes in Net Assets (Continued)

Year Ended June 30, 2020	Aspirus Ontonagon Hospital, Inc.	Aspirus VNA Home Health, Inc. and Subsidiary	Aspirus Extended Services, Inc.	Aspirus Buildings, Inc.	Aspirus Network, Inc.	Aspirus Health Foundation, Inc.	Aspirus Health Ventures, Inc.	Eliminations	Consolidated
	<i>(In Thousands)</i>								
Revenue:									
Patient service revenue	\$ 13,319	\$ 15,228	\$ 4,961	\$ -	\$ -	\$ -	\$ -	\$ (64,487)	\$ 901,870
Premium revenue	-	-	-	-	-	-	96,441	-	96,441
Income from uncombined affiliates	-	-	-	260	-	-	-	-	15,192
Other operating revenue	1,078	3,113	26	1,672	2,459	189	4,513	(14,016)	47,814
Grant revenue	137	566	100	-	-	300	-	-	29,334
Total revenue	14,534	18,907	5,087	1,932	2,459	489	100,954	(78,503)	1,090,651
Expenses:									
Salaries and wages	5,695	11,286	2,917	-	1,163	202	1,532	-	444,126
Employee benefits	1,649	3,791	880	-	314	61	380	(27,192)	85,514
Medical claims	-	-	-	-	-	-	68,847	(42,870)	25,977
Medical fees	7	15	1	-	-	-	-	-	5,210
Supplies	1,235	316	420	4	3	4	3	(319)	179,838
Purchased services and other	4,776	4,876	984	489	793	733	19,856	(8,062)	182,632
Insurance and utilities	292	149	168	74	4	2	136	(60)	12,492
Depreciation and amortization	542	106	301	194	2	-	8	-	54,959
Interest	90	-	24	-	-	-	6	-	8,064
Total expenses	14,286	20,539	5,695	761	2,279	1,002	90,768	(78,503)	998,812
Income (loss) from operations	248	(1,632)	(608)	1,171	180	(513)	10,186	-	91,839
Nonoperating income (loss):									
Investment income	4	7	3	-	-	290	788	437	10,914
Contributions and other	-	3	5	-	-	-	-	-	68,035
Loss on interest rate swap agreement	-	-	-	-	-	-	-	-	(1,657)
Total nonoperating income (loss) - Net	4	10	8	-	-	290	788	437	77,292
Revenue in excess (deficiency) of expenses before noncontrolling interest	252	(1,622)	(600)	1,171	180	(223)	10,974	437	169,131

Aspirus, Inc. Obligated Group

Combining Statement of Operations and Changes in Net Assets (Continued)

Year Ended June 30, 2020	Aspirus Medford Hospital & Clinics, Inc.	Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin	Eliminations	System	Aspirus Health Ventures, Inc.	Eliminations	Obligated Group
			<i>(In Thousands)</i>				
Revenue:							
Patient service revenue	\$ 78,630	\$ 101,508	\$ (16,161)	\$ 1,065,847	\$ -	\$ 49,278	\$ 1,115,125
Premium revenue	-	-	-	96,441	(96,441)	-	-
Income from uncombined affiliates	-	-	(13,650)	1,542	-	10,974	12,516
Other operating revenue	8,406	10,940	(1,555)	65,605	(4,513)	2,720	63,812
Grant revenue	2,164	196	-	31,694	-	-	31,694
Total revenue	89,200	112,644	(31,366)	1,261,129	(100,954)	62,972	1,223,147
Expenses:							
Salaries and wages	32,363	36,949	-	513,438	(1,532)	-	511,906
Employee benefits	9,226	9,540	(10,245)	94,035	(380)	1,657	95,312
Medical claims	-	-	(7,471)	18,506	(68,847)	50,341	-
Medical fees	-	-	-	5,210	-	-	5,210
Supplies	11,841	15,304	-	206,983	(3)	-	206,980
Purchased services and other	20,680	27,850	-	231,162	(19,856)	-	211,306
Insurance and utilities	1,004	986	-	14,482	(136)	-	14,346
Depreciation and amortization	4,489	4,894	-	64,342	(8)	-	64,334
Interest	550	986	-	9,600	(6)	-	9,594
Total expenses	80,153	96,509	(17,716)	1,157,758	(90,768)	51,998	1,118,988
Income (loss) from operations	9,047	16,135	(13,650)	103,371	(10,186)	10,974	104,159
Nonoperating income (loss):							
Investment income	1,121	2,881	-	14,916	(788)	-	14,128
Contributions and other	2	18	-	68,055	-	-	68,055
Loss on interest rate swap agreement	-	-	-	(1,657)	-	-	(1,657)
Total nonoperating income (loss) - Net	1,123	2,899	-	81,314	(788)	-	80,526
Revenue in excess (deficiency) of expenses before noncontrolling interest	10,170	19,034	(13,650)	184,685	(10,974)	10,794	184,505

Aspirus, Inc. Obligated Group

Combining Statement of Operations and Changes in Net Assets (Continued)

Year Ended June 30, 2020	Aspirus Medford Hospital & Clinics, Inc.	Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin	Eliminations	System	Aspirus Health Ventures, Inc.	Eliminations	Obligated Group
			<i>(In Thousands)</i>				
Revenue:							
Patient service revenue	\$ 78,630	\$ 101,508	\$ (16,161)	\$ 1,065,847	\$ -	\$ 49,278	\$ 1,115,125
Premium revenue	-	-	-	96,441	(96,441)	-	-
Income from uncombined affiliates	-	-	(13,650)	1,542	-	10,974	12,516
Other operating revenue	8,406	10,940	(1,555)	65,605	(4,513)	2,720	63,812
Grant revenue	2,164	196	-	31,694	-	-	31,694
Total revenue	89,200	112,644	(31,366)	1,261,129	(100,954)	62,972	1,223,147
Expenses:							
Salaries and wages	32,363	36,949	-	513,438	(1,532)	-	511,906
Employee benefits	9,226	9,540	(10,245)	94,035	(380)	1,657	95,312
Medical claims	-	-	(7,471)	18,506	(68,847)	50,341	-
Medical fees	-	-	-	5,210	-	-	5,210
Supplies	11,841	15,304	-	206,983	(3)	-	206,980
Purchased services and other	20,680	27,850	-	231,162	(19,856)	-	211,306
Insurance and utilities	1,004	986	-	14,482	(136)	-	14,346
Depreciation and amortization	4,489	4,894	-	64,342	(8)	-	64,334
Interest	550	986	-	9,600	(6)	-	9,594
Total expenses	80,153	96,509	(17,716)	1,157,758	(90,768)	51,998	1,118,988
Income (loss) from operations	9,047	16,135	(13,650)	103,371	(10,186)	10,974	104,159
Nonoperating income (loss):							
Investment income	1,121	2,881	-	14,916	(788)	-	14,128
Contributions and other	2	18	-	68,055	-	-	68,055
Loss on interest rate swap agreement	-	-	-	(1,657)	-	-	(1,657)
Total nonoperating income (loss) - Net	1,123	2,899	-	81,314	(788)	-	80,526
Revenue in excess (deficiency) of expenses before noncontrolling interest	10,170	19,034	(13,650)	184,685	(10,974)	10,794	184,505

Aspirus, Inc. Obligated Group

Combining Statement of Operations and Changes in Net Assets (Continued)

Year Ended June 30, 2020	Aspirus, Inc.	Aspirus Wausau Hospital, Inc.	Aspirus Clinics, Inc.	Divine Savior Healthcare, Inc.	Aspirus Riverview Hospital & Clinics, Inc.	Aspirus Iron River Hospital & Clinics, Inc.	Aspirus Keweenaw Hospital	Aspirus Ironwood Hospital, Inc.
	<i>(In Thousands)</i>							
Revenue in excess (deficiency) of expenses before noncontrolling interest (brought forward)	\$ 92,118	\$ 66,863	\$ (22,857)	\$ (3,016)	\$ 22,429	\$ (389)	\$ 2,084	\$ 1,330
Revenue in excess of expenses attributable to noncontrolling interest	-	-	-	-	-	-	-	39
Revenue in excess (deficiency) of expenses attributable to Aspirus, Inc.	92,118	66,863	(22,857)	(3,016)	22,429	(389)	2,084	1,291
Other changes in net assets without donor restrictions:								
Increase (decrease) in noncontrolling interest	-	-	-	-	-	-	-	39
Postretirement benefit adjustment	62	(226)	(28)	-	(10)	-	-	-
Interaffiliate transfers	5,295	(59,331)	22,435	86,588	(38,667)	(3,049)	(8,561)	(8,675)
Acquisition of affiliate	-	-	-	-	-	-	-	-
Other changes in net assets	36	(22)	-	(34)	-	-	-	-
Contribution for property and equipment	-	28	-	-	-	-	-	-
Net assets released from restrictions	-	2,645	-	-	432	-	-	-
Change in net assets without donor restrictions	97,511	9,957	(450)	83,538	(15,816)	(3,438)	(6,477)	(7,345)
Changes in net assets with donor restrictions:								
Contributions	-	46	-	34	285	-	-	-
Investment income	-	-	-	-	-	-	-	-
Net assets released from restrictions	-	(2,645)	-	-	(432)	-	-	-
Change in net assets with donor restrictions	-	(2,599)	-	34	(147)	-	-	-
Change in net assets	97,511	7,358	(450)	83,572	(15,963)	(3,438)	(6,477)	(7,345)
Net assets at beginning	376,235	358,718	(1,842)	-	148,602	7,200	20,584	40,216
Net assets at end	\$ 473,746	\$ 366,076	\$ (2,292)	\$ 83,572	\$ 132,639	\$ 3,762	\$ 14,107	\$ 32,871

Aspirus, Inc. Obligated Group

Combining Statement of Operations and Changes in Net Assets (Continued)

Year Ended June 30, 2020	Aspirus Ontonagon Hospital, Inc.	Aspirus VNA Home Health, Inc. and Subsidiary	Aspirus Extended Services, Inc.	Aspirus Buildings, Inc.	Aspirus Network, Inc.	Aspirus Health Foundation, Inc.	Aspirus Health Ventures, Inc.	Eliminations	Consolidated
	<i>(In Thousands)</i>								
Revenue in excess (deficiency) of expenses before noncontrolling interest (brought forward)	\$ 252	\$ (1,622)	\$ (600)	\$ 1,171	\$ 180	\$ (223)	\$ 10,974	\$ 437	\$ 169,131
Revenue in excess of expenses attributable to noncontrolling interest	-	-	-	-	-	-	-	(167)	(128)
Revenue in excess (deficiency) of expenses attributable to Aspirus, Inc.	252	(1,622)	(600)	1,171	180	(223)	10,974	604	169,259
Other changes in net assets without donor restrictions:									
Increase (decrease) in noncontrolling interest	-	-	-	-	-	-	-	(167)	(128)
Postretirement benefit adjustment	-	-	-	-	-	-	-	-	(202)
Interaffiliate transfers	(689)	706	260	1,326	(48)	-	2,700	(290)	-
Acquisition of affiliate	-	-	-	-	-	-	-	-	-
Other changes in net assets							(81)		(101)
Contribution for property and equipment	-	-	137	-	-	-	-	-	165
Net assets released from restrictions	-	-	-	-	-	475	-	-	3,552
Change in net assets without donor restrictions	(437)	(916)	(203)	2,497	132	252	13,593	147	172,545
Changes in net assets with donor restrictions:									
Contribution	4	-	-	-	-	97	-	-	466
Investment income	-	-	-	-	-	125	-	-	125
Net assets released from restrictions	-	-	-	-	-	(475)	-	-	(3,552)
Change in net assets with donor restrictions	4	-	-	-	-	(253)	-	-	(2,961)
Change in net assets	(433)	(916)	(203)	2,497	132	(1)	13,593	147	169,584
Net assets at beginning	3,207	3,693	3,186	2,249	1,190	25,235	21,901	(2,315)	1,008,059
Net assets at end	\$ 2,774	\$ 2,777	\$ 2,983	\$ 4,746	\$ 1,322	\$ 25,234	\$ 35,494	\$ (2,168)	\$ 1,177,643

Aspirus, Inc. Obligated Group

Combining Statement of Operations and Changes in Net Assets (Continued)

Year Ended June 30, 2020	Aspirus Medford Hospital & Clinics, Inc.	Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin	Eliminations	System	Aspirus Health Ventures, Inc.	Eliminations	Obligated Group
<i>(In Thousands)</i>							
Revenue in excess (deficiency) of expenses before noncontrolling interest (brought forward)	\$ 10,170	\$ 19,034	\$ (13,650)	\$ 184,685	\$ (10,974)	\$ 10,974	\$ 184,685
Revenue in excess of expenses attributable to noncontrolling interest	-	-	128	-	-	-	-
Revenue in excess (deficiency) of expenses attributable to Aspirus, Inc.	-	-	(13,778)	184,685	(10,974)	10,974	184,685
Other changes in net assets without donor restrictions:							
Increase (decrease) in noncontrolling interest	-	-	(128)	(256)	-	256	-
Postretirement benefit adjustment	-	-	-	(202)	-	-	(202)
Interaffiliate transfers	-	-	-	-	(2,700)	2,700	-
Acquisition of affiliate	-	-	-	-	-	-	-
Other changes in net assets	-	-	76	(25)	81	(336)	(280)
Contribution for property and equipment	122	-	-	287	-	-	287
Net assets released from restrictions	235	20	-	3,807	-	-	3,807
Change in net assets without donor restrictions	10,527	19,054	(13,830)	188,296	(13,593)	13,594	188,297
Changes in net assets with donor restrictions:							
Contribution	130	9	-	605	-	-	605
Investment income	-	-	-	125	-	-	125
Net assets released from restrictions	(235)	(20)	-	(3,807)	-	-	(3,807)
Change in net assets with donor restrictions	(105)	(11)	-	(3,077)	-	-	(3,077)
Change in net assets	10,422	19,043	(13,830)	185,219	(13,593)	13,594	185,220
Net assets at beginning	118,545	183,108	(140,755)	1,168,957	(21,901)	21,901	1,168,957
Net assets at end	\$ 128,967	\$ 202,151	\$ (154,585)	\$ 1,354,176	\$ (35,494)	\$ 35,495	\$ 1,354,177

Report of Obligated Group Representative
Fiscal Year Ended June 30, 2020

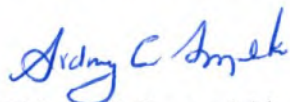
The Board of Directors
Aspirus, Inc. Obligated Group
Wausau, Wisconsin

The calculations of the historical debt service coverage ratio, historical maximum annual debt service coverage ratio, and days of unrestricted cash on hand are derived from the combined financial statements of Aspirus, Inc. Obligated Group (Obligated Group), which consists of Aspirus Wausau Hospital, Inc. (AWH), Aspirus Clinics, Inc. (ACI), Aspirus Riverview Hospital & Clinics, Inc. (ARH), Aspirus Iron River Hospital & Clinics, Inc. (AIR), Aspirus Keweenaw Hospital (AKH), Aspirus Ironwood Hospital and Clinics, Inc. (AIW), Aspirus Ontonagon Hospital, Inc. (AOH), Aspirus Buildings, Inc. (ABI), Aspirus Network, Inc. (ANI), Aspirus Health Foundation, Inc. (AHF), Aspirus VNA Home Health, Inc. (AVNA), Aspirus Extended Services, Inc. (AES), Aspirus Medford Hospital and Clinics, Inc. (AMH), Aspirus Langlade Hospital Hotel – Dieu of St. Joseph of Antigo Wisconsin (ALH) and Divine Savior Healthcare, Inc. (ADS), which was acquired at 100% effective February 1, 2020.

The method of calculating the historical debt service coverage ratio, historical maximum annual debt service coverage ratio, and days of unrestricted cash on hand is prescribed by the Restated Master Trust Indenture, dated February 1, 2012, between Aspirus Wausau Hospital, Inc. and Aspirus Medford Hospital & Clinics, Inc. and U.S. Bank National Association, as Master Trustee, as supplemented and amended by the Supplemental Master Trust Indenture No. 3, dated April 1, 2013, between Aspirus, Inc., acting as Obligated Group Representative, and the Master Trustee.

In my opinion as Obligated Group Representative, the schedules referred to above present fairly, in all material respects, the Obligated Group's historical debt service coverage ratio and historical maximum annual debt service coverage ratio for the year ended June 30, 2020, and the Obligated Group's days of unrestricted cash on hand as of June 30, 2020, on the basis of the requirement referred to in the preceding paragraph.

This report is intended solely for the information and use of the Board of Directors and management of Aspirus, Inc. Obligated Group, the Master Trustee, the bond trustee, and letter of credit banks and is not intended to be and should not be used by anyone other than these specified parties.



Sidney C. Sczygelski
Senior Vice President of Finance/CFO
November 24, 2020

Aspirus, Inc. Obligated Group

Historical Debt Service Coverage Ratio and
Historical Maximum Annual Debt Service Coverage Ratio
(Dollars in Thousands)

Year Ended June 30, 2020

Income available for debt service

Revenue and gains in excess of expenses \$ 184,685

Noncash items:

Gain on purchase (69,797)

Unrealized loss on investments 12,307

Increase in fair value of interest rate swaps 1,352

Depreciation and amortization 64,334

Loss on early extinguishment of debt 0

Interest expense 9,594

\$ 202,475 (A)

Debt service

Principal payments \$ 12,545

Interest payments 9,594

\$ 22,139 (B)

Maximum annual debt service*

\$ 22,987 (C)

Historical debt service coverage ratio

9.15 (A)/(B)

Historical maximum annual debt service coverage ratio

8.81 (A)/(C)

Financial Covenant Requirements (minimum)

1.10

Aspirus, Inc. Obligated Group

Days of Unrestricted Cash on Hand
(Dollars in Thousands)

June 30, 2020

Cash and cash equivalents	\$ 409,662
Investments	249,437
Assets limited as to use by the Board for capital improvements	<u>433,724</u>
Unrestricted liquid funds	<u><u>\$ 1,092,823</u></u> (A)
Total expenses	\$ 1,118,988
Less: depreciation and amortization	<u>64,334</u>
Total operating expenses	<u><u>\$ 1,054,654</u></u>
Daily operating expenses	<u><u>\$ 2,882</u></u> (B)
Days of unrestricted cash on hand	<u><u>379</u></u> (A)/(B)
Financial Covenant Requirements (minimum)	<u><u>90</u></u>

Aspirus, Inc. Obligated Group

Acute Care Hospitals

June 30, 2020

Exhibit 3

Exhibit 3

The following table sets forth certain information regarding the nine acute care hospitals in the Aspirus System as of June 30, 2020.

Hospital	Licensed Beds	Available Beds	Location	Approximate Distance from AWH
Aspirus Wausau Hospital	325	246	Wausau, WI	-
Aspirus Divine Savior Hospital	73	52	Portage, WI	103 miles
Aspirus Langlade Hospital	25	23	Antigo, WI	45 miles
Aspirus Medford Hospital	25	25	Medford, WI	45 miles
Aspirus Riverview Hospital	99	45	Wisconsin Rapids, WI	50 miles
Aspirus Iron River Hospital	25	25	Iron River, MI	118 miles
Aspirus Ironwood Hospital	25	25	Ironwood, MI	125 miles
Aspirus Ontonagon Hospital	18	18	Ontonagon, MI	157 miles
Aspirus Keweenaw Hospital	25	25	Laurium, MI	210 miles
	<u>640</u>	<u>484</u>		

Aspirus had 456 physicians in 56 specialties and subspecialties on its active and affiliate member staff as of June 30, 2020.

Aspirus, Inc. Obligated Group
Inpatient Facilities
June 30, 2020

Exhibit 4

Exhibit 4

The following table describes inpatient market share (excluding newborn discharges) for patients originating from the combined Service Area and from the individual Regions for the 12 months ended June 30, 2020.

Hospital	Available Beds	Inpatient Discharges	Location	Approximate Distance from AWH
Central Region				
Aspirus Wausau Hospital	246	14,459	Wausau, WI	-
Aspirus Langlade Hospital	23	1,141	Antigo, WI	45 miles
Aspirus Medford Hospital	25	591	Medford, WI	45 miles
Southern Region				
Aspirus Riverview Hospital	45	2,809	Wisconsin Rapids, WI	50 miles
Aspirus Divine Savior Hospital	52	451	Portage, WI	103 miles
Upper Michigan Region				
Aspirus Iron River Hospital	25	576	Iron River, MI	118 miles
Aspirus Ironwood Hospital	25	851	Ironwood, MI	125 miles
Aspirus Ontonagon Hospital	18	144	Ontonagon, MI	157 miles
Aspirus Keweenaw Hospital	25	929	Laurium, MI	210 miles

Aspirus, Inc. Obligated Group

Market Share Information

Exhibit 5

Exhibit 5

The following table describes inpatient market share (excluding newborn discharges) for patients originating from the combined Service Area and from the individual Regions for the 12 months ended June 30, 2017, 2018, 2019, and 2020.

Service Area	FY2017	FY2018	FY2019	FY2020
Combined Service Area				
Aspirus System Hospitals	35.5%	37.2%	36.2%	37.6%
Central Region				
Aspirus System Hospitals	48.6%	50.3%	49.7%	50.6%
Northern Region				
Aspirus System Hospitals	17.0%	16.3%	16.7%	19.8%
Southern Region				
Aspirus System Hospitals	22.1%	22.7%	23.9%	24.7%
Upper Michigan Region				
Aspirus System Hospitals	39.5%	41.3%	45.0%	44.7%

Sources: Wisconsin Hospital Association (WHA), a State-mandated Hospital Discharge Data aggregation agency that requires all hospitals to submit data on each hospital discharge excluding only hospice care discharges. Michigan Hospital Association (MHA), a Hospital Discharge Data aggregation agency that encourages hospitals to submit similar data to WHA. At this time, all hospitals in the Upper Peninsula of Michigan submit data voluntarily to the organization.

The following table describes reportable outpatient procedure market share in Aspirus Wausau Hospital's primary service area, the Central Region, for the 12 months ended June 30, 2017, 2018, 2019 and 2020.

Facility	Market Share FY2017	Market Share FY2018	Market Share FY2019	Market Share FY2020
Aspirus System	26.2%	27.0%	27.0%	29.5%
Aspirus-Aligned Independent ASC's*	18.6%	19.3%	30.3%	29.0%

*Ambulatory surgery centers owned by independent physicians who are part of the System's network.

Source: Wisconsin Hospital Association

Aspirus, Inc. Obligated Group
Selected Statistical and Financial Information
Sources of Patient Service Revenue

Exhibit 6

Exhibit 6

	Fiscal Year Ended June 30		
	2018	2019	2020
Medicare	39.0%	37.3%	36.8%
Medicaid	11.5%	9.8%	12.0%
Other third-party payors	40.5%	43.2%	41.2%
Uninsured patients	9.0%	9.7%	10.0%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Aspirus, Inc. Obligated Group

Historical Utilization

Exhibit 7

Exhibit 7

	Fiscal Year Ended June 30		
	2018	2019	2020
Available Beds - Inpatient	435	432	484
Discharges	21,850	22,252	21,951
Patient Days	81,104	86,596	88,753
Percent Occupancy (available beds)	51.1%	54.9%	51.6%
Average Length of Stay	3.71	3.89	4.04
Newborn Discharges	2,494	2,584	2,732
Inpatient Surgeries	6,876	7,202	7,403
Open Heart Surgeries	417	376	338
Outpatient Surgeries	14,636	6,861	15,067
Cardiac Cath Procedures	3,238	4,101	4,259
Outpatient Visits	445,420	483,973	486,961
Emergency Visits	100,755	108,217	107,426
Clinic Visits	944,948	999,265	996,053
Case Mix	1.52	1.53	1.58

Aspirus System

Summary of Revenue and Expenses

Unaudited
(Dollars in 000's)

Exhibit 8

Exhibit 8

	Fiscal Year Ended June 30	
	2019	2020
Revenue		
Patient service	\$ 1,075,800	\$ 1,115,125
Other	64,808	108,022
Total revenue	<u>1,140,608</u>	<u>1,223,147</u>
Expenses		
Salaries and benefits	570,409	607,218
Supplies and other	420,628	437,842
Depreciation and amortization	61,852	64,334
Interest	9,066	9,594
Total expenses	<u>1,061,955</u>	<u>1,118,988</u>
Operating income	78,653	104,159
Total nonoperating gains	<u>34,630</u>	<u>80,526</u>
Revenue in excess of expenses	<u><u>\$ 113,283</u></u>	<u><u>\$ 184,685</u></u>

Aspirus System

Summary Balance Sheet

Unaudited
(Dollars in 000's)

Exhibit 9

Exhibit 9

	Fiscal Year Ended June 30	
	2019	2020
Current assets	\$ 585,149	\$ 859,079
Investments	15,802	17,374
Noncurrent assets limited as to use	470,424	500,108
Net property, plant and equipment	523,819	597,903
Other assets	45,549	63,960
Total assets	<u>\$ 1,640,743</u>	<u>\$ 2,038,424</u>
Current liabilities	\$ 134,475	\$ 303,396
Long-term debt	268,144	298,130
Other long-term liabilities	69,167	82,721
Total net assets	<u>1,168,957</u>	<u>1,354,177</u>
Total liabilities and net assets	<u>\$ 1,640,743</u>	<u>\$ 2,038,424</u>

Aspirus System

Days Cash on Hand

(Dollars in 000's)

Exhibit 10

Exhibit 10

	Fiscal Year Ended June 30	
	2019	2020
Cash and Cash Equivalents	\$ 179,175	\$ 409,662
Investments	208,619	249,437
Board-Designated Funds for Capital Improvement	407,595	433,724
Total	<u>\$ 795,389</u>	<u>\$ 1,092,823</u>
Total Expenses (less Depreciation/Amortization)	1,000,103	1,054,654
Days Cash on Hand	290.3	379.2

Aspirus System

Long Term Debt to Capitalization

(Dollars in 000's)

Exhibit 11

Exhib11

	Fiscal Year Ended June 30	
	2019	2019
Long term debt, less current portion	\$ 268,144	\$ 310,675
Unrestricted net assets	1,168,957	1,341,638
Total capitalization	<u>\$ 1,437,101</u>	<u>\$ 1,652,313</u>
Long-term debt to capitalization	18.7%	18.8%

Aspirus System
Historical Annual Debt Service Coverage Ratio and
Historical Maximum Annual Debt Service Coverage Ratio
(Dollars in 000's)

Exhibit 12

Exhibit 12

	Fiscal Year Ended June 30	
	2019	2020
Revenue in excess of expenses	\$ 112,233	\$ 184,685
Plus:		
Gain on purchase of Aspirus Divine Savior	0	(69,797)
Depreciation and amortization	61,798	64,334
Interest expense	9,066	9,594
Unrealized loss (gain) on investments	5,403	12,307
Unrealized loss (gain) on interest rate swap	923	1,352
Loss on early extinguishment of debt		
Income available for debt service	<u>\$ 189,423</u>	<u>\$ 202,475</u>
Historical annual debt service	<u>\$ 18,829</u>	<u>\$ 22,139</u>
Maximum annual debt service	<u>\$ 19,970</u>	<u>\$ 22,987</u>
Historical annual debt service coverage ratio	<u>10.06</u>	<u>9.15</u>
Historical maximum annual debt service coverage ratio		<u>8.81</u>

Aspirus System Additional Key Ratios

Exhibit 13

Exhibit 13

The members of the System generated the following ratios for the periods set forth below:

Fiscal Year 2018			
	EBITDA	Operating Margin	Total Margin
Aspirus Consolidated	10.9%	5.1%	8.0%
Aspirus Medford Hospital & Clinics	12.1%	6.3%	9.9%
Aspirus Langlade Hospital	17.0%	11.0%	14.4%
Eliminations	100.0%	100.0%	100.0%
Total	10.6%	4.7%	7.9%

Fiscal Year 2019			
	EBITDA	Operating Margin	Total Margin
Aspirus Consolidated	13.2%	7.2%	9.8%
Aspirus Medford Hospital & Clinics	14.1%	8.2%	11.5%
Aspirus Langlade Hospital	18.1%	12.6%	15.8%
Eliminations	25.7%	25.7%	25.7%
Total	13.1%	6.9%	9.8%

Fiscal Year 2020			
	EBITDA	Operating Margin	Total Margin
Aspirus Consolidated	14.2%	8.4%	14.5%
Aspirus Medford Hospital & Clinics	15.8%	10.1%	11.3%
Aspirus Langlade Hospital	19.5%	14.3%	16.5%
Eliminations	18.6%	18.5%	19.5%
Total	14.6%	8.5%	14.2%

Aspirus, Inc. and Subsidiaries

Consolidated Financial Statements and
Supplementary Consolidating Information

Years Ended June 30, 2020 and 2019



WIPFLI

Independent Auditor's Report

Board of Directors
Aspirus, Inc.
Wausau, Wisconsin

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Aspirus, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2020 and 2019, and the related consolidated statements of operations and 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 the 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 Aspirus, Inc. and Subsidiaries as of June 30, 2020 and 2019, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information appearing on pages 44 through 51 is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads "Wipfli LLP". The script is cursive and fluid, with the letters "W", "i", "p", "f", and "l" being particularly prominent.

Wipfli LLP

October 14, 2020
Eau Claire, Wisconsin

Aspirus, Inc. and Subsidiaries

Consolidated Balance Sheets

June 30	2020	2019
	<i>(In Thousands)</i>	
Current assets:		
Cash and cash equivalents	\$ 328,675	\$ 157,529
Short-term investments	232,063	192,817
Current portion of assets limited as to use	7,588	9,852
Patient accounts receivable - Net	118,496	118,121
Inventory	20,950	16,919
Prepaid expenses and other current assets	45,763	29,052
Total current assets	753,535	524,290
Investments	16,564	14,925
Assets limited as to use	349,469	314,945
Property and equipment - Net	518,776	441,181
Other assets:		
Investments in unconsolidated affiliates	161,480	147,557
Goodwill and other intangibles	4,715	4,715
Other	10,578	5,823
Total other assets	176,773	158,095
TOTAL ASSETS	\$ 1,815,117	\$ 1,453,436

Aspirus, Inc. and Subsidiaries

Consolidated Balance Sheets (Continued)

June 30	2020	2019
	<i>(In Thousands)</i>	
Current liabilities:		
Current maturities of long-term debt	\$ 10,448	\$ 8,244
Current maturities of finance lease obligations	782	-
Accounts payable	23,697	23,160
Accrued salaries and wages	49,984	44,722
Accrued interest payable	3,071	3,136
Other accrued liabilities	98,776	50,934
Estimated third-party payor settlements	111,172	19,530
Total current liabilities	297,930	149,726
Long-term liabilities:		
Long-term debt - Less current maturities	258,638	230,376
Finance lease obligations - Less current maturities	2,779	-
Deferred compensation	49,956	46,710
Postretirement benefits	5,620	4,308
Interest rate swap agreement	4,575	3,203
Other long-term liabilities	17,976	11,054
Total long-term liabilities	339,544	295,651
Total liabilities	637,474	445,377
Net assets:		
Aspirus, Inc. net assets without donor restrictions	1,166,401	993,843
Aspirus, Inc. net assets with donor restrictions	10,307	13,268
Noncontrolling interest	935	948
Total net assets	1,177,643	1,008,059
TOTAL LIABILITIES AND NET ASSETS	\$ 1,815,117	\$ 1,453,436

See accompanying notes to consolidated financial statements.

Aspirus, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

Year Ended June 30	2020	2019
	<i>(In Thousands)</i>	
Revenue:		
Net patient service revenue	\$ 901,870	\$ 884,692
Premium revenue	96,441	51,382
Income from unconsolidated affiliates	15,192	17,124
Grant revenue	29,334	1,065
Other operating revenue	47,814	42,233
Total revenue	1,090,651	996,496
Expenses:		
Salaries and wages	444,126	413,168
Employee benefits	85,514	81,407
Medical claims	25,977	20,532
Medical fees	5,210	4,800
Supplies	179,838	170,854
Purchased services and other	182,632	163,762
Insurance and utilities	12,492	10,835
Depreciation and amortization	54,959	52,286
Interest	8,064	7,421
Total expenses	998,812	925,065
Income from operations	91,839	71,431
Nonoperating income (loss):		
Investment income	10,914	26,199
Contributions and other	68,035	671
Loss on interest rate swap agreement	(1,657)	(1,136)
Total nonoperating income - Net	77,292	25,734
Revenue in excess of expenses before noncontrolling interest	169,131	97,165

Aspirus, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (Continued)

Year Ended June 30	2020	2019
	<i>(In Thousands)</i>	
Revenue in excess of expenses before noncontrolling interest (brought forward)	\$ 169,131	\$ 97,165
Revenue in excess (deficiency) of expenses attributable to noncontrolling interest	(128)	(118)
Revenue in excess of expenses attributable to Aspirus, Inc.	169,259	97,283
Other changes in net assets without donor restrictions:		
Decrease in noncontrolling interest	(128)	(118)
Postretirement benefit adjustment	(202)	195
Other changes in net assets	(101)	32
Contributions for property and equipment	165	26
Net assets released from restrictions for property and equipment	3,552	579
Change in net assets without donor restrictions	172,545	97,997
Changes in net assets with donor restrictions:		
Contributions	466	4,847
Investment income	125	432
Net assets released from restrictions	(3,552)	(579)
Change in net assets with donor restrictions	(2,961)	4,700
Change in net assets	169,584	102,697
Net assets at beginning	1,008,059	905,362
Net assets at end	\$ 1,177,643	\$ 1,008,059

See accompanying notes to consolidated financial statements.

Aspirus, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Year Ended June 30	2020	2019
	<i>(In Thousands)</i>	
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	\$ 169,584	\$ 102,697
Adjustments to reconcile increase in net assets attributable to net cash provided by operating activities:		
Depreciation and amortization	54,959	52,286
Amortization of bond premiums, discounts, and bond issuance costs	(1,018)	(1,011)
Bad debt expense	318	434
Net change in unrealized losses on trading securities	9,869	8,179
Change in fair value of interest rate swap agreement	1,372	923
Share of earnings in unconsolidated affiliates	(15,192)	(17,124)
Restricted contributions	(466)	(4,847)
Loss on refinancing of debt	2,552	-
Cash received upon acquisition of remaining interest in unconsolidated affiliate	-	30,105
Net cash paid upon acquisition	(12,573)	-
Gain on acquisition	(69,796)	
Changes in operating assets and liabilities:		
Patient accounts receivable	13,796	(5,056)
Other current assets	(16,730)	(8,690)
Investments and assets limited as to use, including realized gains and losses	(17,595)	(24,790)
Accounts payable, accrued, and other liabilities	40,191	8,905
Estimated third-party payor settlements	93,290	21,532
Other long-term assets and liabilities	8,491	3,237
Total adjustments	91,468	64,083
Net cash provided by operating activities	261,052	166,780
Cash flows from investing activities:		
Purchases of property and equipment	(54,135)	(71,020)
Purchase of trading investments	(52,099)	(72,810)
Proceeds from sale of trading investments	30,620	45,557
Cash paid for remaining interest in unconsolidated affiliate	-	(8,052)
Purchase of goodwill	-	(651)
Investment in unconsolidated affiliate - Net	(1,269)	(3,334)
Net cash used in investing activities	(76,883)	(110,310)

Aspirus, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

Year Ended June 30	2020	2019
	<i>(In Thousands)</i>	
Cash flows from financing activities:		
Proceeds from issuance of revenue bonds	\$ 39,809	\$ -
Payment of principal to refinance revenue bonds	(39,809)	-
Payment made for early extinguishment of revenue bonds	(2,129)	-
Payment of bond issue costs	(80)	-
Principal payments on long-term debt	(10,529)	(7,808)
Principal payments on finance lease obligations	(751)	-
Restricted contributions	466	4,847
Net cash used in financing activities	(13,023)	(2,961)
Net change in cash and cash equivalents	171,146	53,509
Cash and cash equivalents at beginning	157,529	104,020
Cash and cash equivalents at end	\$ 328,675	\$ 157,529

Supplemental disclosure of cash flows information:

Cash paid for interest net of capitalized interest	9,362	9,114
Property and equipment included in accounts payable	612	1,915
Property and equipment included in other accrued liabilities	8,424	139
Property and equipment acquired under finance lease obligations	3,027	-

For the year ended June 30, 2020, assets acquired and liabilities assumed through acquisition totaled \$136,458 and \$49,869, respectively (See Note 3).

For the year ended June 30, 2019, assets acquired and liabilities assumed through acquisition of the remaining interest in an unconsolidated affiliate totaled \$43,883 and \$25,078, respectively (See Note 3).

See accompanying notes to consolidated financial statements.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Principal Business Activity

Aspirus, Inc. and Subsidiaries (collectively "Aspirus") provide comprehensive medical, surgical, emergency, outpatient, nursing home, home care, hospice, and clinical services to the residents of central and northern Wisconsin and the Upper Peninsula of Michigan.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Aspirus, Inc. and all of its wholly owned or majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Aspirus, Inc.'s wholly owned subsidiaries are Aspirus Wausau Hospital, Inc. (AWH), Aspirus Clinics, Inc. (ACI), Aspirus Riverview Hospital & Clinics, Inc. (ARH), Aspirus Iron River Hospital & Clinics, Inc. (AIR), Aspirus Keweenaw Hospital (AKH), Aspirus Ironwood Hospital and Clinics, Inc. (AIW), Aspirus Ontonagon Hospital, Inc. (AOH), Aspirus Buildings, Inc. (ABI), Aspirus Network, Inc. (ANI), Aspirus Health Foundation, Inc. (AHF), Aspirus VNA Home Health, Inc. (AVNA), Aspirus Health Ventures, Inc. (AHV) effective January 1, 2019, which was previously owned at 50%, and Divine Savior Healthcare, Inc. (ADS), which was acquired at 100% effective February 1, 2020. (See Note 3 for additional information on acquisitions of AHV and ADS.) Aspirus, Inc. is the majority-owner of subsidiary Aspirus Extended Services, Inc. (AES) at 72.68%.

Financial Statement Presentation

Aspirus follows accounting standards contained in 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 in the preparation of financial statements in conformity with GAAP.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash Equivalents and Short-Term Investments

Aspirus considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts held as short-term investments in the investment portfolio and amounts whose use is limited. Short-term investments consist primarily of mutual funds.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Investments, Assets Limited as to Use, and Investment Income

Investments are classified as trading securities, and accordingly investments in marketable equity and debt securities are recorded at fair value in the accompanying consolidated balance sheets, with the changes in fair value during the period included in revenue in excess of expenses in the accompanying consolidated statements of operations and changes in net assets.

Investments designated as assets limited as to use are stated at fair value and consist of investments held by bond trustees under the terms of bond agreements, investments designated by the Board of Directors for future capital improvements, amounts set aside for deferred compensation agreements, and investments held for various other purposes. Assets limited as to use that are required for obligations classified as current liabilities are reported as current assets.

Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in nonoperating income unless the income or loss is restricted by donor or law. Realized gains and losses are determined by specific identification.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. Aspirus measures fair value of its financial instruments using a three-tier hierarchy that prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's 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.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable is reported at the amount that reflects the consideration to which Aspirus expects to be entitled, in exchange for providing patient care services. Patient accounts receivable are recorded in the accompanying consolidated balance sheets net of contractual adjustments and implicit price concessions which reflects management's estimate of the transaction price. Aspirus 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. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Aspirus does not have a policy to charge interest on past due accounts.

Inventory

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

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives range from 2 to 20 years for equipment and 2 to 70 years for land improvements, buildings, building improvements, and building equipment.

Interest cost incurred on borrowed funds during the period of construction of capital assets along with interest income on any unexpended project funds is capitalized as a component of the cost of acquiring those assets.

Finance leases are included in property and equipment and long-term liabilities in the accompanying balance sheets. Property and equipment under finance lease obligations are amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation on the accompanying statements of operations and changes in net assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions and are excluded from revenue in excess of expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Aspirus periodically evaluates whether events and circumstances have occurred that may affect the carrying value of property and equipment. If said events or circumstances indicate the carrying value may not be recoverable, impairment is determined by comparing the carrying value with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, Aspirus would recognize an impairment loss. During 2019 and 2020, Aspirus determined that no evaluations of recoverability were necessary.

Asset Retirement Obligation

Management annually assesses its existing properties to determine if there is a need to recognize a liability for a conditional asset retirement obligation, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Asset retirement obligation represents the obligation to dispose of assets that are legally required to be removed at a future date. This obligation is recorded at the net present value of estimated future payments for the removal of asbestos and totaled approximately \$5,163,000 as of June 30, 2020 and 2019.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates are accounted for using the equity or cost method.

Aspirus' share of the operating results and other changes in net assets (if any) of its investments in unconsolidated affiliates are included in total operating revenue in the accompanying consolidated statements of operations and changes in net assets.

Goodwill and Other Intangibles

Goodwill represents the excess of the total cost of an acquisition over the fair value of the underlying identifiable net assets at the date of acquisition. Intangible assets include amounts paid for trade names, patient relationships, and other intangibles acquired in business combinations which are deemed to have finite lives. Goodwill and intangible assets with indefinite lives are not amortized, but are reviewed for impairment, at least annually. Intangible assets with finite lives are amortized over their estimated remaining useful lives ranging from 5 to 15 years.

Deferred Bond Issuance Costs and Bond Premium and Discount

Bond issuance costs and original issue premium and discount related to issuance of long-term debt are reported in long-term debt on the consolidated balance sheets and are amortized on the straight-line method over the term of the related indebtedness. Amortization of bond issuance costs and original issue premium and discount is included with interest expense in the accompanying consolidated statements of operations and changes in net assets.

Interest Rate Swap Agreement

An interest rate swap is used to manage risk related to interest rate movements. The interest rate risk management strategy is to stabilize cash flow requirements by maintaining the interest rate swap to convert a portion of variable rate debt to a fixed rate. Aspirus has adopted the fair value option of accounting for its interest rate swap agreement. The interest rate swap agreement is reported at fair value in the accompanying consolidated balance sheets. Under the fair value option, changes in fair value are recorded as nonoperating income in the accompanying consolidated statements of operations and changes in net assets.

Net Assets

Net assets without donor restrictions consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of Aspirus not subject to donor-imposed stipulations and include 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 Aspirus has been limited by donors to a specific time period, purpose, or net assets have been restricted by donors to be maintained by Aspirus in perpetuity. Earnings on net assets with donor restricted endowment funds are recorded as net assets with donor restrictions until appropriated by Aspirus' Board of Directors.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue in Excess of Expenses

The consolidated statements of operations and changes in net assets include the classification revenue in excess of expenses, which is considered to be the operating indicator. Changes in net assets, which are excluded from the operating indicator, include, but are not limited to, permanent transfer of assets to and from affiliates for items other than goods and services, changes in the funded status of postretirement benefits, and contributions of long-lived assets, including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets.

Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Aspirus 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, Aspirus bills the patients and third-party payors several days after the services are performed 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 in relation to total expected (or actual) charges. Generally, performance obligations satisfied over time relate to patients receiving hospital inpatient acute care services, nursing home post-acute care services, and hospice post-acute care services. For these services Aspirus 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 in our hospital, clinics, and nursing homes, and home health services, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed. In the case of these outpatient services, recognition of the obligation over time yields the same result as recognizing the obligation at a point in time.

Because Aspirus' performance obligations relate to contracts with a duration of less than one year, Aspirus 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.

Aspirus uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. Aspirus used the following factors to develop portfolios: major payor classes and type of service (i.e., inpatient, outpatient). Using historical collection trends and other analysis, Aspirus evaluated the accuracy of its estimates 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.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

Aspirus determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Aspirus' policy, and implicit price concessions provided to patients. Aspirus determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Aspirus also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. Aspirus determines its estimate of implicit price concessions based on its historical collection experience for each patient portfolio based on payor class and service type.

Aspirus 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:

- **Medicare - Hospitals:** Inpatient hospital acute care services rendered to AWH, ARH, and ADS Medicare program beneficiaries 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. Other AWH and ARH inpatient acute care services, which include rehabilitation, behavioral health, and hospice, are paid based on prospectively determined daily rates, established fee schedules, or a combination thereof. Outpatient services provided to AWH, ARH, and ADS patients are paid primarily based on prospectively determined rates or fixed fee schedules.

AIW, AIR, AKH, and AOH are designated as Critical Access Hospitals (CAHs) under the Medicare program. Under CAH designation, inpatient and outpatient Medicare hospital services are reimbursed based on a cost-reimbursement methodology, with the exception of certain types of laboratory and radiology services, which are reimbursed based on fee schedules.

- **Medicare - Nursing Home and Home Care:** Nursing home resident care is paid based on a predetermined rate per patient day, which varies depending upon the patient's level of care and type of services provided. Home care services are paid based upon a predetermined rate per episode of care, which varies depending on the patient's level of care and types of services provided.
- **Medicaid:** Hospital, nursing home, and home health services rendered to Medicaid program beneficiaries are reimbursed primarily based upon prospectively determined rates. Medicaid outpatient hospital services are paid based upon a predetermined fee schedule.
- **Medicare and Medicaid - Clinics:** Professional services provided in clinics by physicians and other clinicians are reimbursed based on prospectively determined fee schedules with the exception of provider-based rural health clinics (RHCs) where certain clinic physician and professional services rendered to Medicare and Medicaid beneficiaries are reimbursed on a cost-reimbursement method.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

- **Other:** Aspirus has entered into payment agreements with certain commercial insurance carriers, HMOs, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and fee schedules.

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 Aspirus' compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon Aspirus. 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. Aspirus has not been notified by the RAC of any potential significant reimbursement adjustments. In addition, the contracts Aspirus has with third-party 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 Aspirus' 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, 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 2020 and 2019.

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 expenses for the years ended June 30, 2020 and 2019 were not significant.

Consistent with Aspirus' mission, care is provided to patients regardless of their ability to pay. Therefore, Aspirus 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 Aspirus expects to collect based on its collection history with those patients. Aspirus' policy is to provide a 20% discount from established charges to uninsured patients. This policy did not change in 2020 and 2019.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

The promised amount of consideration from patients and third-party payors have not been adjusted for the effects of a significant financing component due to Aspirus' 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, Aspirus 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 Aspirus otherwise would have recognized is one year or less in duration.

Charity Care

Aspirus 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 Aspirus' charity care policy is calculated by multiplying the ratio of cost to gross charges for Aspirus times the gross uncompensated charges associated with providing charity care.

Premium Revenue

Premiums for health insurance coverage are due in advance of their respective coverage periods and are recognized as revenue in the period in which Aspirus is obligated to provide services to members. Group contracts are generally written on an annual basis, subject to cancellation by the group or the Plan with written notice provided prior to the 1st of the month before the next premium is due or by Aspirus upon noncompliance of contract terms by the group. Individual contracts are on a monthly renewable basis subject to cancellation by Aspirus upon 14 days written notice.

Aspirus offers health plans in Wisconsin and Michigan; however, during 2020 and 2019, the majority of all premium revenue was related to sales of its health insurance products in Wisconsin.

Medical Claims Expense

Medical claims expense includes the cost of healthcare services for fees charged by non-Aspirus hospitals and other providers for healthcare services provided to members of the health plan operated by Aspirus. Costs are accrued in the period in which the related medical services are provided to members, including an accrual for medical claims incurred but not reported to Aspirus.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Hospital Assessment

Wisconsin and Michigan state regulations require eligible hospitals to pay the state an annual hospital tax assessment. The assessments are based on each hospital's gross revenue, as defined. The revenue generated from the assessments is to be used, in part, to increase overall reimbursement under state Medicaid programs.

Aspirus' assessment expense was approximately \$11,635,000 and \$10,551,000 for the years ended June 30, 2020 and 2019, respectively, and is included in supplies expense in the accompanying consolidated statements of operations and changes in net assets. Increases in reimbursement from Medicaid related to this assessment are included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

Donor-Restricted Contributions

Contributions are considered to be available for use without restrictions unless specifically restricted by the donor.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net assets with donor restrictions restricted support if they are received with donor stipulations that limit the use of 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 accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions.

Unemployment Compensation

Aspirus has elected reimbursement financing under provisions of the Wisconsin and Michigan unemployment compensation laws. Unemployment claims are paid to the respective states. Aspirus has obtained letters of credit and pledged certificates of deposit totaling approximately \$975,000 and \$3,764,000 at June 30, 2020, and approximately \$975,000 and \$3,119,000 at June 30, 2019, to comply with the funding requirements for the states of Michigan and Wisconsin, respectively. No draws have been made against the letters of credit to date. In addition, AIW has a surety bond in the amount of \$931,000 and \$942,000 at June 30, 2020 and 2019, respectively, to meet state funding requirements.

Advertising Costs

Advertising expenses amounted to approximately \$4,023,000 and \$4,625,000 for the years ended June 30, 2020 and 2019, respectively. All advertising costs are expensed as incurred.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

All subsidiaries, except for ANI and AHV, are tax-exempt corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 509(a)(2) of the Code. They are also exempt from state income taxes on related income. Aspirus is also engaged, to a limited extent, in certain activities subject to taxation as unrelated business income (UBI). Income taxes on UBI are not significant.

At June 30, 2020 and 2019, Aspirus did not have any deferred tax assets. At June 30, 2020 and 2019, Aspirus' federal and state net operating loss carryforwards were approximately \$6,121,000 and \$5,767,000, respectively. The net operating loss carryforwards will carryforward for 20 years from the year of filing.

Aspirus has reviewed its tax positions for all open years and concluded that no material liabilities exist for uncertain tax positions at June 30, 2020. Aspirus' federal income tax returns are no longer subject to examination for the year ended June 30, 2016 and prior years. Aspirus' Wisconsin and Michigan state income tax returns are no longer subject to examination for the year ended June 30, 2015 and prior years.

Subsequent Events

Subsequent events have been evaluated through October 14, 2020, which is the date the consolidated financial statements were issued.

Change in Accounting Policy

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

The standard did not have a material impact on Aspirus' net assets or cash flows from operations and had an immaterial impact on Aspirus' operating results. The most significant impact was the recognition of the ROU assets and lease obligations for operating leases.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Change in Accounting Policy (Continued)

As a result of the adoption of the new lease accounting guidance, Aspirus recognized the following ROU assets and lease liabilities as of July 1, 2019:

	2020
	(In Thousands)
ROU assets - Finance leases	\$ 1,285
Finance lease obligation	\$ (1,285)
ROU assets - Operating leases	6,491
Operating lease obligation	(6,491)

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments (Topic 230)*. The updates in this ASU are expected to change the classification of certain cash receipts and payments within statements of cash flows. This ASU is effective for the Aspirus' year ending June 30, 2020. The adoption of this ASU did not materially impact the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statements of Cash Flows - Restricted Cash (Topic 230)*. The updates in this ASU are expected to change the presentation on the statement of cash flows that all cash and cash equivalents, including restricted cash equivalents, will be shown within the total cash and cash equivalents on the statement of cash flows. This will require a reconciliation be shown to reconcile the total cash and cash equivalents on the statement of cash flows to the related captions in the balance sheet. This ASU is effective for the Aspirus' year ending June 30, 2020. The adoption of this ASU did not materially impact the financial statements.

New Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*. This ASU improves the effectiveness of the notes to the financial statements through changes in the disclosure requirements for fair value measurement. This ASU is effective for fiscal year 2021 and will be applied using a retrospective approach.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other, Internal-Use software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for fiscal year 2022 and will be applied using a prospective approach.

Management is currently evaluating the impact the new accounting pronouncements will have on the consolidated financial statements.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: COVID-19

Starting in March 2020, the nation in general, and healthcare-related entities specifically, have been faced with a global pandemic. As healthcare entities prepared for the crisis, operational changes were made to delay routine visits and elective procedures and reevaluate the entire care delivery model to care for patient needs, specifically those affected by COVID-19. The complete financial impact on the economy in general and healthcare-related entities specifically is undeterminable at this time; however, it was noted and is anticipated by Aspirus that both operational performance and cash flows for healthcare-related entities has been and will be impacted in fiscal year 2020 as well as in future periods until the pandemic ends.

The federal and state governments, as well as other agencies, have been assisting many healthcare organizations to prevent significant financial constraints by providing supplemental payment programs in the forms of distributions which are intended to help in offsetting lost revenues as well as the cost of staffing, supplies, and equipment from treating patients impacted by or preparing for the pandemic's healthcare needs.

During 2020, Aspirus received \$49,199,000 in grant funding from the U.S. Department of Health and Human Services (HHS) Provider Relief Fund which was established as a result of the Coronavirus Aid, Relief, and Economic CARES Act. Based on the terms and conditions of the the grant, Aspirus earns the grant by incurring COVID-19 expenses or by incurring lost revenues as a result of COVID-19. During 2020, Aspirus recognized approximately \$28,069,000 in grant revenue related to this program. Aspirus received other grants which were recognized in grant revenue during 2020 totaling \$1,265,000 of which \$886,000 was due to COVID-19 funding received from other federal and state agencies. As of June 30, 2020, Aspirus recorded deferred revenue of \$21,130,000 for the amount of grants received but not earned, which is reported within other accrued liabilities in the accompanying consolidated balance sheets. Management is continuing to monitor compliance with the terms and conditions of the Provider Relief Fund as new guidance and clarification is released from HHS and other agencies. If Aspirus is unable to attest to or comply with current or future terms and conditions as more information becomes available, Aspirus' ability to retain some or all of the distributions received may be impacted.

In addition to the provider relief funds noted above, CMS offered an accelerated and advance payment program which gave healthcare providers the opportunity to receive an advance on future Medicare payments. Aspirus received a non-interest-bearing Medicare refundable advance of \$94,339,000 in 2020. Repayment of the Medicare Refundable Advance is expected to begin 120 days after receipt of the advance with total repayment due no later than one year after receipt of the advance. Aspirus recorded the amount owed to Medicare within the liability captioned estimated third-party payor settlements in the accompanying balance sheet at June 30, 2020.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3: Acquisitions

Divine Savior Healthcare, Inc.

As of January 31, 2020, Aspirus entered into a membership substitution agreement between Sisters of the Divine Savior Sponsorship Corporation and Sisters of the Divine Savior to acquire 100% interest of Divine Savior Healthcare, Inc., which subsequent to its acquisition does business as Aspirus Divine Savior Hospital & Clinics ("ADS") totaling \$86,588,000 for cash consideration of \$15,492,000 and a commitment to make future contributions to support ongoing ministry needs of \$1,425,000. This acquisition was accounted for using the purchase method of accounting; therefore, the assets acquired and liabilities assumed were recorded at their estimated fair values at the date of acquisition and the operating results for ADS have been included in the accompanying consolidated financial statements starting February 1, 2020. The estimated fair value of ADS exceeded the cash consideration which resulted in a gain on acquisition of \$69,796,000 recorded in nonoperating income (loss) in the accompanying consolidated statement of operation and changes in net assets. the following table summarizes the estimated fair value of the assets and liabilities of ADS as of January 31, 2020:

	<u>(In Thousands)</u>
Assets:	
Cash and cash equivalents	\$ 2,919
Short-term investments	5,126
Patient accounts receivable - Net	14,489
Prepaid expenses and other assets	5,710
Assets limited as to use	38,814
Property and equipment - Net	68,408
Other	992
Total assets acquired	136,458
Liabilities:	
Current maturities of long-term liabilities	2,280
Accounts payable	1,031
Other accrued liabilities	5,421
Revenue bonds payable	39,373
Other long term liabilities	1,764
Total liabilities assumed	49,869
Net assets as of January 31, 2020	86,588
Less:	
Cash consideration	15,492
Net present value of deferred contract liability	1,300
Gain recorded	\$ 69,796

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 3: Acquisitions (Continued)

Aspirus Health Ventures, Inc.

Prior to January 1, 2019, Aspirus owned 50% of AHV, formerly known as Arise Health Ventures, Inc., and recorded the investment under the equity method. As of January 1, 2019, Aspirus acquired the remaining 50% membership interest in AHV for cash consideration of \$8,052,000. This acquisition was accounted for using the purchase method of accounting; therefore, the assets acquired and liabilities assumed were recorded at their estimated fair values at the date of acquisition, and the operating results for AHV have been included in the accompanying consolidated financial statements starting January 1, 2019. The estimated fair value of AHV exceeded the cash consideration which resulted in goodwill of \$650,000 recorded in the accompanying consolidated balance sheets. The following table summarized the estimated fair value of the assets and liabilities of AHV as of January 1, 2019:

	<u>(In Thousands)</u>
Assets:	
Cash and cash equivalents	\$ 30,105
Short-term investments	10,731
Patient accounts receivable - Net	2,981
Prepaid expenses and other assets	46
Property and equipment - Net	20
Total assets acquired	43,883
Liabilities:	
Accounts payable	2,020
Other accrued liabilities	23,058
Total liabilities assumed	25,078
Total stockholders equity as of December 31, 2018	18,805
Less - Aspirus, Inc.'s recorded interest of AHV as of December 31, 2018	10,102
Remaining interest acquired	8,703
Less - Cash consideration	8,052
Goodwill recorded	\$ 651

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4: Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30:

	2020	2019
	<i>(In Thousands)</i>	
Patient accounts receivable	\$ 296,445	\$ 283,599
Less: Contractual adjustments and implicit price concessions	177,949	165,478
Patient accounts receivable - Net	\$ 118,496	\$ 118,121

Note 5: Net Patient Service Revenue

Aspirus has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized. Tables providing details of these factors are presented below.

The composition of net patient service revenue by primary payor for the years ended June 30 is as follows:

	2020	2019
	<i>(In Thousands)</i>	
Medicare	\$ 287,376	\$ 327,861
Medicaid	50,925	58,402
Commercial insurers	558,354	481,760
Uninsured	5,215	16,669
Totals	\$ 901,870	884,692

Revenue from patients' deductibles and coinsurance are included in the categories presented above based on the primary payor.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5: Net Patient Service Revenue (Continued)

The composition of net patient service revenue based on the System's lines of business, geographic service area, and timing of revenue recognition for the years ended June 30 is as follows:

	2020	2019
	<i>(In Thousands)</i>	
Service lines by geographic location:		
Wisconsin:		
Hospital inpatient	\$ 251,126	\$ 247,157
Hospital outpatient	266,075	242,741
Retail sales	111	117
Residential care	12,434	9,500
Ambulatory	224,953	223,616
Michigan:		
Hospital inpatient	23,426	39,637
Hospital outpatient	97,960	74,564
Residential care	8,559	10,117
Ambulatory	17,226	37,243
Net patient service revenue	\$ 901,870	\$ 884,692
Timing of revenue and recognition:		
Services performed over time	\$ 295,545	\$ 306,411
At time services were rendered	606,325	578,281
Net patient service revenue	\$ 901,870	\$ 884,692

Note 6: Community Care

Aspirus provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the communities served, including the health of low-income patients. Consistent with the mission of Aspirus, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources or to those who are underinsured.

Aspirus has a community care policy which is generally based on federal poverty guidelines and applications completed by patients and/or their families. Patients who meet the criteria for community care are provided care without charge or at a reduced rate.

The estimated cost of providing care to patients under Aspirus' community care program aggregated approximately \$9,714,000 and \$7,856,000 in 2020 and 2019, respectively.

Other benefits for the community also include unpaid costs of treating the elderly, health screenings, community education through seminars and classes, and other health-related services.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7: Liquidity

As of June 30, 2020, 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:

	2020	2019
	<i>(In Thousands)</i>	
Financial assets:		
Cash and cash equivalents	\$ 328,675	\$ 157,529
Patient accounts receivable - Net	118,496	118,121
Board designated funds for capital improvements	275,389	244,367
Investments	248,627	207,742
Total financial assets and liquidity resources	\$ 971,187	\$ 727,759

As part of Aspirus' liquidity management, it invests cash in excess of daily requirements in a variety of investment vehicles. These funds, included in investments, are considered available for operational or capital needs, except for investment vehicles with restrictive redemption requirements. Occasionally, the Board of Directors designates a portion of operating surplus to be appropriated at its discretion for future operational initiatives and capital expenditures. Though these funds, at the discretion of the Board of Directors, could be released immediately, these funds are considered available under the Aspirus' liquidity management.

The Organization endowment funds consist of donor endowments and funds functioning as endowments. Income from donor endowments is restricted for specific purposes and, therefore, is not available for general expenditure. Funds functioning as endowments of \$10,523,000 and \$10,374,000 are available for general expenditure with Board approval as of June 30, 2020 and 2019, respectively. Funds functioning as endowments have a spending rate of 0.20%, and it's estimated that \$21,400 of appropriations will be available with the next 12 months.

Note 8: Investments

Investments, including amounts designated as short-term investments, consisted of the following at June 30:

	2020	2019
	<i>(In Thousands)</i>	
Cash equivalents	\$ 1,312	\$ 18
Mutual funds	238,894	207,527
Corporate stocks	8,421	197
Total investments	248,627	207,742
Less - Amount classified as short-term	232,063	192,817
Investments	\$ 16,564	\$ 14,925

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8: Investments (Continued)

Assets limited as to use consisted of the following at June 30:

	2020	2019
	<i>(In Thousands)</i>	
Cash equivalents	\$ 10,310	\$ 20,712
Certificates of deposit	22,414	-
Pledges receivable	415	804
Mutual funds	315,019	302,280
Corporate stocks	1,761	-
Corporate bonds	5,711	-
Government bonds	1,427	1,001
Total assets limited as to use	\$ 357,057	\$ 324,797

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

	2020	2019
	<i>(In Thousands)</i>	
Held by trustees under bond agreements - Construction fund	\$ -	\$ 1,099
Designated by Board of Directors for capital improvements	275,389	244,367
Held for deferred compensation	49,956	46,710
Other	31,712	32,621
Total assets limited as to use	357,057	324,797
Less - Current portion	7,588	9,852
Total assets limited as to use - Noncurrent	\$ 349,469	\$ 314,945

Investment income consisted of the following for the years ended June 30:

	2020	2019
	<i>(In Thousands)</i>	
Interest and dividend income	\$ 20,974	\$ 27,644
Net realized gains (losses)	(66)	7,166
Net change in unrealized losses	(9,869)	(8,179)
Total investment income	\$ 11,039	\$ 26,631

Investments 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 accompanying consolidated financial statements.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9: Fair Value Measurements

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis.

Cash equivalents consist primarily of money market funds that are valued using a net asset value (NAV) of \$1. Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by Aspirus 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 by Aspirus are deemed to be actively traded. Quoted market prices from active markets where the stocks are traded are used to determine the fair value of investments in corporate stocks. Certificates of deposit are valued using the contractual cash flows and current market rates for certificates of deposit with a similar remaining time to maturity.

The interest rate swap's fair value is based on estimates by a third-party valuation service, which used a discounted cash flow analysis using observable market-based inputs, including forward interest rate curves.

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 Aspirus 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 set forth by level, within the fair value hierarchy, Aspirus' assets and liabilities measured at fair value on a recurring basis as of June 30:

	2020			
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Totals
	(In Thousands)			
Assets:				
Cash equivalents	\$ 11,622	\$ -	\$ -	\$ 11,622
Certificates of deposit	-	22,414	-	22,414
Mutual funds:				
Fixed income	227,352	-	-	227,352
Equity	326,561	-	-	326,561
Government bonds	1,427	-	-	1,427
Corporate bonds	5,711	-	-	5,711
Corporate stocks	10,182	-	-	10,182
Total assets	\$ 582,855	\$ -	\$ -	\$ 605,269
Liability - Interest rate swap agreement	\$ -	\$ 4,575	\$ -	\$ 4,575

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9: Fair Value Measurements (Continued)

	2019			
	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Totals
	(In Thousands)			
Assets:				
Cash equivalents	\$ 20,730	\$ -	\$ -	\$ 20,730
Mutual funds:				
Fixed income	201,036	-	-	201,036
Equity	308,771	-	-	308,771
Government bonds	1,001	-	-	1,001
Corporate stocks	197	-	-	197
Total assets in the hierarchy table	\$ 531,735	\$ -	\$ -	\$ 531,735
Liability - Interest rate swap agreement	\$ -	\$ 3,203	\$ -	\$ 3,203

Reconciliation of the fair value hierarchy tables to the financial statements is as follows as of June 30:

	2020	2019
<i>(In Thousands)</i>		
Current portion of assets limited as to use	\$ 7,588	\$ 9,852
Long-term portion of assets limited as to use	349,469	314,945
Short-term investments	232,063	192,817
Long-term investments	16,564	14,925
Less: Pledges receivable	415	804
Total assets from the fair value hierarchy tables	\$ 605,269	\$ 531,735

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10: Property and Equipment

Property and equipment consisted of the following at June 30:

	2020	2019
	<i>(In Thousands)</i>	
Land	\$ 32,287	\$ 25,011
Land improvements	24,586	22,333
Buildings	455,424	352,282
Building improvements	1,861	1,757
Building equipment	175,910	167,605
Equipment	374,634	335,822
 Total property and equipment	 1,064,702	 904,810
Less - Accumulated depreciation	603,039	511,134
 Net depreciated value	 461,663	 393,676
Construction in progress	57,113	47,505
 Property and equipment - Net	 \$ 518,776	 \$ 441,181

At June 30, 2020, construction in progress consisted primarily of costs related to renovation of various patient care facilities. At June 30, 2020, commitments related to the completion of these projects totaled approximately \$17,245,000. These projects will be funded from operating cash flows, cash on hand, and investments.

Note 11: Investments in Unconsolidated Affiliates

Aspirus is a 50% corporate member of Aspirus Medford Hospital & Clinics, Inc. ("AMH"), which is located in Medford, Wisconsin. AMH operates a CAH, skilled nursing long-term care facility, assisted living facility, community-based residential facility, physician clinics, and a retail pharmacy.

Aspirus is a 45% corporate member in Aspirus Langlade Hospital ("ALH"), which is located in Antigo, Wisconsin. ALH operates a CAH, an independent living apartment complex, a resident certified community-based residential facility, and physician clinics.

AWH has a 34.1% interest in a joint venture, the Westwood Conference Center, LLC ("Westwood"), which owns and operates the Westwood Conference Center in Wausau, Wisconsin. In addition, during 2020 and 2019, AWH received equity distributions from Westwood totaling \$0 and \$135,000, respectively.

Aspirus was a 50% corporate member in AHV. As described in Note 3, effective January 1, 2019, Aspirus acquired the remaining 50% interest in AHV. Prior to January 1, 2019, Aspirus invested approximately \$4,567,000 in AHV during 2019.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11: Investments in Unconsolidated Affiliates (Continued)

Aspirus also has investments in certain other unconsolidated affiliates accounted for under the equity or cost method.

Aspirus' investments in unconsolidated affiliates and its share of the revenue in excess of expenses of the unconsolidated affiliates as of and for the years ended June 30 are as follows:

	2020		2019	
	Equity (Loss) in		Equity (Loss) in	
	Investments	Operating Results	Investments	Operating Results
	<i>(In Thousands)</i>			
AMH	\$ 63,620	\$ 5,085	\$ 58,356	\$ 5,456
ALH	90,968	8,569	82,399	8,723
Westwood	2,360	141	2,219	243
Arise Health Ventures	-	-	-	1,216
Others, equity or cost method	4,536	1,401	4,583	1,486
Totals	\$ 161,484	\$ 15,196	\$ 147,557	\$ 17,124

Following is a summary of the combined financial position and combined operating results of Aspirus' investments accounted for under the equity method as of and for the years ended June 30:

	2020	2019
	<i>(In Thousands)</i>	
Assets	\$ 434,682	\$ 375,796
Liabilities	95,839	64,071
Equity	\$ 338,843	\$ 311,725
Revenue	\$ 211,442	\$ 117,755
Expense	179,645	98,279
Revenue in excess of expenses	\$ 31,797	\$ 19,476

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12: Long-Term Debt

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

	2020	2019
	<i>(In Thousands)</i>	
Series 2020 Revenue Bonds, subject to redemption through 2034 at amounts varying from \$2,354 on May 1, 2021, to \$3,400 on May 1, 2034, at a fixed annual interest rate of 1.75%	\$ 39,809	\$ -
Series 2017 Revenue Bonds, subject to redemption through 2052 at amounts varying from \$935 on August 15, 2040, to \$7,290 on August 15, 2052, annual fixed interest rates varying from 3.625% to 5.0%	62,700	62,700
Series 2015A Revenue Bonds, subject to redemption through 2045 at amounts varying from \$485 on August 15, 2020, to \$3,125 on August 15, 2037, annual fixed interest rates varying from 2% to 5%	41,100	41,560
Series 2013 Refunding Revenue Bonds, subject to redemption through 2043 at amounts varying from \$175 on August 15, 2020, to \$5,530 on August 15, 2038, annual fixed interest rates varying from 2% to 5%	48,395	48,565
Series 2012A Refunding Revenue Bonds, subject to redemption through 2020 at amounts varying from \$4,005 on August 15, 2020, to \$4,300 on August 15, 2019, at a fixed annual interest rate of 2.22%	4,005	8,306
Series 2004 Variable Rate Demand Revenue Bonds, subject to redemption through 2034 at amounts varying from \$1,800 on August 15, 2023, to \$2,800 on August 15, 2034, variable interest rate	27,200	27,200
Series 1998B Variable Rate Demand Revenue Bonds, subject to redemption through 2021 at amounts varying from \$2,000 on August 15, 2020, to \$2,050 on August 15, 2021, variable interest rate	4,050	6,000
Series 2001 Variable Rate Revenue Bonds, subject to redemption through 2031 at amounts varying from \$250 on February 1, 2020, to \$650 on February 1, 2031, variable interest rate	5,750	6,000
2015 tax-exempt loan, maturing in amounts ranging from \$225 to \$2,340, maturing on August 15, 2039, fixed interest rate of 4.0% until August 15, 2022	29,905	30,875

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12: Long-Term Debt (Continued)

	2020	2019
	<i>(In Thousands)</i>	
Other debt, interest rates ranging from 1.25% to 4.80% due through 2030 in various amounts	\$ 997	\$ 1,146
Totals	263,911	232,352
Add - Unamortized original issue premiums	7,088	8,265
Less - Deferred bond issuance costs	1,780	1,842
Less - Unamortized original issue discounts	133	155
Subtotals	269,086	238,620
Less - Current portion	10,448	8,244
Long-term portion	\$ 258,638	\$ 230,376

Scheduled future payments of principal on long-term debt at June 30, 2020, including current portion, are summarized as follows:

	<i>(In Thousands)</i>
2021	\$ 10,448
2022	8,775
2023	9,239
2024	9,653
2025	10,289
Thereafter	215,507
Total	\$ 263,911

All bonds are issued under their respective bond trust indentures between the Wisconsin Health and Education Facilities Authority (the "Authority") and the Bank of New York Mellon Trust Company, N.A., as bond trustee.

In January 1998, the Authority issued \$75,070,000 of revenue bonds for the benefit of the Aspirus Inc. Obligated Group (the "Obligated Group") which was made up solely of AWH in 1998. The bonds comprised two issuances, the Revenue Refunding Bonds Series 1998A, which were refunded in 2012, and the Variable Rate Demand Revenue Bonds Series 1998B. The Series 1998B proceeds were used for various AWH capital improvement projects and capital budget items. At June 30, 2020 and 2019, the adjusted annual interest rate was 1.02% and 1.89%, respectively. The average annual interest rate on the bonds was 0.91% and 1.56% during the years ended June 30, 2020 and 2019, respectively.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12: Long-Term Debt (Continued)

The Authority issued \$8,000,000 of Variable Rate Revenue Bonds for the benefit of ACI. The Series 2001 bonds were issued pursuant to and secured by a bond trust indenture dated February 1, 2001, between the Authority and the trustee. The Series 2001 bonds are guaranteed by Aspirus. The Series 2001 bonds bear interest at the market rate for demand loans. At June 30, 2020 and 2019, the interest rate was 0.85% and 2.36%, respectively. The average annual interest rate during 2020 and 2019 on the Series 2001 bonds was 1.96% and 2.28%, respectively. The bond indenture provides for various restrictive covenants.

In December 2004, the Authority issued \$45,000,000 of Variable Rate Revenue Bonds for the benefit of the Obligated Group. AMH was added to the Obligated Group in 2004. The proceeds from the Series 2004 bonds were shared by AWH, \$27,200,000, and AMH, \$17,800,000. The proceeds from the Series 2004 bonds were used to construct, renovate, and equip certain health care facilities of AWH and AMH and to pay certain expenses incurred in connection with the issuance. The Series 2004 Variable Rate Revenue Bonds bear interest at interest rates remarketed weekly. At June 30, 2020 and 2019, the adjusted annual rate was 0.12% and 1.95%, respectively. The average annual interest rate on the bonds was 1.16% and 1.54% for the years ended June 30, 2020 and 2019, respectively.

The Series 2004 and Series 1998B bonds are backed by a standby bond purchase agreement (liquidity facility), which currently expires in March 2022 and August 2021, respectively. Aspirus is able to request an extension of the then-current stated expiration date for a period of one or more years. Under the terms of the letter of credit, in the event of a failed remarketing, the provider of the letter of credit will complete a liquidity advance to purchase the bonds with the first of 12 equal quarterly installments in amounts sufficient to fully amortize the liquidity advance due by Aspirus on the first business day, which is at least 367 days following the liquidity advance.

In February 2012, the Authority issued \$32,025,000 of Refunding Revenue Bonds for the benefit of the Obligated Group. JPMorgan Chase Bank, N.A. was the initial purchaser of the bonds. The proceeds from the Series 2012A bonds were used by AWH to refund the remaining principal amount on the Series 1998A bonds. Following the issuance of the Series 2012 Bonds, Aspirus, Inc., ACI, AIW, and ALH were added to the Obligated Group.

In April 2013, the Authority issued \$90,560,000 of Revenue Bonds for the benefit of the Obligated Group. The proceeds from the Series 2013 bonds were used to refund the remaining principal amount on the AWH Series 2000 bonds, refinance the outstanding AMH Series 2004 bonds, and fund construction projects.

In May 2015, the Authority issued \$42,975,000 of Revenue Bonds for the benefit of the Aspirus, Inc. Obligated Group. Upon issuance of the Series 2015 bonds, ARH, AKH, AIR, AOH, ABI, AHF, AES, AVNA, and Aspirus VNA Extended Services, Inc. became members of the Obligated Group. The proceeds from the Series 2015 bonds in the amount of \$25,790,000 were used to advance refund the remaining principal amount along with other ARH funds on the ARH Series 2008 bonds, and \$17,185,000 of proceeds were used by AKH to fund the cost of acquisition, construction, renovation, and equipping of its facilities for AKH.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 12: Long-Term Debt (Continued)

In May 2015, the Authority issued a tax-exempt loan for \$33,685,000 through a financial institution for the benefit of the Obligated Group. The proceeds from the 2015 tax-exempt loan in the amount of \$16,560,000 were used to refund and legally defease, along with other ARH funds, the outstanding principal on ARH's Series 2010 bonds, and proceeds of \$17,125,000 were used to refinance an interim taxable loan for AIR. ARH and AIR were also allocated premiums related to the debt of \$4,818,000. The 2015 tax-exempt loan has a fixed interest rate of 4% until the initial fixed mandatory repurchase date of August 15, 2022. At that time the fixed interest rate will be reset for another fixed period with the 2015 tax-exempt loan maturing on August 15, 2039. The tax-exempt loan is subject to the restrictive covenants of the Obligated Group Master Trust Indenture, and is included within the caption other debt in the preceding long-term debt table.

In November 2017, the Authority issued \$62,700,000 of Revenue Bonds for the benefit of the Obligated Group. The proceeds from the Series 2017 bonds were used by AWH, ARH, AIW, and AOH to fund the cost of acquisition, construction, renovation, and equipping of their respective facilities.

In June 2020, the Authority issued \$39,809,000 of Revenue Bonds for the benefit of the Obligated Group. Upon issuance of the Series 2020 bonds, ADS became a member of the Obligated Group. The proceeds from the Series 2020 bonds were used by ADS to refinance the outstanding ADS Series 2019 and 2016 bonds, which were not part of the obligated group debt. These bonds were originally issued to fund the construction of the hospital, extended care facility, wellness center, and remodel the surgery department in the hospital.

The members of the Obligated Group are jointly and severally liable for the payment obligations under the agreements. The total Aspirus, Inc. Obligated Group outstanding debt was \$293,759,000 as of June 30, 2020.

Capitalized Interest and Interest Expense

A summary of interest expense during the years ended June 30 is as follows:

	2020	2019
	<i>(In Thousands)</i>	
Total interest cost	\$ 9,297	\$ 9,060
Less:		
Amount capitalized as part of construction projects	215	628
Amortization of original issue premium	1,177	1,173
Add:		
Amortization of original issue discount	22	21
Amortization of deferred bond issuance costs	137	141
Total interest expense	\$ 8,064	\$ 7,421

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 13: Interest Rate Swap Agreement

Aspirus has entered into an interest rate swap agreement with an original notional amount of \$12,000,000 and a fixed rate of 3.56% to reduce the impact of changes in interest rates on variable rate long-term debt. The interest rate swap agreement is not designated as a hedging instrument and matures August 15, 2034. The interest rate swap agreement was recorded at fair value and was a liability of \$4,575,000 and \$3,203,000 as of June 30, 2020 and 2019, respectively.

The effect of the derivative instrument on the accompanying consolidated statements of operations and changes in net assets was as follows:

Statements of Operations and Changes in Net Assets Location		Amount of Loss Recognized in Revenue in Excess of Expenses Years Ended June 30,	
		2020	2019
<i>(In Thousands)</i>			
Net payments on interest rate swap	Loss on interest rate swap	\$ (285)	\$ (213)
Net unrealized loss on derivative	Gain (loss) on interest rate swap	(1,372)	(923)
Totals		\$ (1,657)	\$ (1,136)

The fair value of the interest rate swap contains credit risk in the event the parties are unable to meet the terms of the contract.

Note 14: Net Assets with Donor Restriction

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

	2020	2019
	<i>(In Thousands)</i>	
Subject to expenditure for specific purposes:		
Family House	\$ -	\$ 2,598
MSTC SIMS program	694	1,000
Other program funds	2,248	2,127
Unappropriated earnings on endowment funds	941	1,119
Endowments maintained in perpetuity, income from which is expandable		
Aspirus Scholars Program	6,175	6,175
Other endowments	249	249
Total net assets with donor restrictions	\$ 10,307	\$ 13,268

Net assets were released from donor restrictions by incurring expenses, by satisfying the restricted purpose, or by occurrence of other events specified by donors. Net assets released from donor restrictions for various purposes totaled \$3,552,000 and \$579,000 in 2020 and 2019, respectively.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 15: Endowments

The Aspirus Health Foundation endowments consist of various funds established to benefit the Foundation for a variety of purposes. The Foundation's endowments include both donor-restricted endowments and funds designated by the Board of Directors to function as endowments or quasi-endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Donor-Restricted Endowments

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by Wisconsin's state legislature, as requiring the Foundation to preserve the fair value of the donor's original gift, as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of a donor's gifts to the permanent endowment, (b) the original value of a donor's subsequent gift to the permanently restricted endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The investment income of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed in UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Board-Designated Endowment

The Board of Directors has set aside certain unrestricted net assets for endowment purposes. Since these amounts are not restricted by the donor, but are restricted only by the Board of Directors, the amounts have been classified as net assets without donor restrictions. The Board of Directors may designate additional amounts from time to time to be added to the endowment fund in order to fund the Board-designated endowment known as the Aspirus Scholars Program. The Aspirus Scholars Program offers medical scholarships and incentives to advance the health of the communities served by Aspirus and to increase health services in the regions served by Aspirus.

Investment Return Objectives, Risk Parameters, and Strategies

The Foundation has adopted an investment policy for its investment funds, including the permanent endowments, that attempts to provide a balance of long-term capital appreciation, preservation of capital, and income production to support additional resources for the continuation and expansion of the charitable mission of the Foundation. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that outperform the following benchmarks: the S&P 500 Index, category-appropriate Russell Indexes, and MSCI EAFE and EM Indexes for the equity portion of the investment portfolio and Barclay's Capital Aggregate Bond Indexes for the fixed income portion of the investment portfolio.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 15: Endowments (Continued)

Investment Return Objectives, Risk Parameters, and Strategies (Continued)

To satisfy its long-term capital appreciation and expected results, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within the risk constraints.

From time to time, the fair value of assets associated with donor-restricted funds may fall below the level that the donor requires the Organization to retain as a fund. As of June 30, 2020 and 2019, no such deficiencies existed.

Changes in endowment funds were as follows for the years ended June 30, 2020 and 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
<i>(In Thousands)</i>			
Endowment net assets at June 30, 2018	\$ 9,831	\$ 7,105	\$ 16,936
Investment return:			
Investment income	710	577	1,287
Unrealized losses	(147)	(145)	(292)
Administration fees	(20)	-	(20)
Total investment return	543	432	975
Contributions	-	300	300
Appropriation of endowment assets for expenditures	-	(293)	(293)
Endowment net assets as June 30, 2019	10,374	7,544	17,918
Investment return:			
Investment income	546	436	982
Unrealized losses	(377)	(311)	(688)
Administration fees	(21)	-	(21)
Total investment return	148	125	273
Appropriation of endowment of assets for expenditures	-	(303)	(303)
Endowment net assets as June 30, 2020	\$ 10,522	\$ 7,366	\$ 17,888

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 16: Malpractice Insurance

Aspirus has professional liability insurance for claim losses of less than \$1,000,000 per claim and a \$3,000,000 aggregate per year. The insurance covers professional liability claims incurred and reported within the policy year ("claims made" coverage). Aspirus is covered against losses in excess of these amounts through mandatory participation in the Patients' Compensation Fund of the state of Wisconsin. The state of Michigan does not have a similar fund to cover excess losses. The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the period extending to July 1, 2021.

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with Aspirus. There exists the possibility of claims arising from services provided to patients through June 30, 2020, which have not yet been asserted. Aspirus has recorded liabilities of approximately \$7,397,000 and \$8,750,000 at June 30, 2020 and 2019, respectively, to cover claims, including unasserted claims, using historical experience and other relevant industry and hospital-specific factors. The liabilities are included in other accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheets. Aspirus has also recorded insurance receivables of approximately \$5,677,000 and \$7,226,000 at June 30, 2020 and 2019, respectively, for estimated expected recoveries from insurance related to these claims. The receivables are included in prepaid expenses and other current assets and other assets in the accompanying consolidated balance sheets.

Note 17: Employee Health Insurance

Aspirus has self-funded health and dental plans, which provide medical and dental benefits to employees and their dependents. Health and dental costs are expensed as incurred. Health and dental expense includes claims paid, reinsurance premiums, administration fees, and unpaid claims at year-end.

The health plan has reinsurance to cover catastrophic individual claims over \$600,000. The dental plan covers annual individual claims up to \$2,000. The plans have no aggregate reinsurance.

Employees of ADS were not eligible to participate in the Aspirus self-funded health plan in 2020 subsequent to the acquisition of ADS. ADS sponsors a fully insured employee health plan for its employees.

Total employee health and dental insurance expense for the years ended June 30, 2020 and 2019, was approximately \$31,893,000 and \$30,835,000, respectively. A liability of approximately \$7,368,000 and \$8,250,000 for claims outstanding has been recorded at June 30, 2020 and 2019, respectively. Management believes these liabilities, which are recorded in other accrued liabilities in the accompanying consolidated balance sheets, are sufficient to cover estimated claims, including claims incurred but not recorded at year-end.

Note 18: Retirement and Deferred Compensation Plans

Aspirus sponsors a single active qualified 403(b) defined contribution retirement plan (the "Plan"), which covers eligible employees of the majority of Aspirus and its subsidiaries other than ADS. The employer contribution is a 50.0% match on the first 6.0% of employee contributions made to the Plan and a 2.0% non-elective contribution based on eligible compensation. An additional 2.0% contribution on eligible earnings earned between the social security taxable wage base up to the IRS compensation limit is made for eligible employees.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 18: Retirement and Deferred Compensation Plans (Continued)

ADS also sponsors a 401(k) defined contribution retirement plan which covers eligible employees of ADS. The ADS employer contribution is a 50.0% match on the first 5.0% of employee contributions made to the Plan based on eligible compensation.

Aspirus' expense for these plans totaled approximately \$18,997,000 and \$17,269,000 for the years ended June 30, 2020 and 2019, respectively. In addition to the active 403(b) Plan, Aspirus sponsors three frozen qualified plans including the Aspirus Wausau Hospital 401(a) Plan, Iron River 401(k) Plan, and Aspirus Ironwood 401(k) Plan.

Aspirus sponsors one active non-qualified deferred compensation 457(b) Plan covering eligible employees. All highly compensated employees are eligible to contribute to this Plan. Physicians and advanced practice providers receive a 6.0% contribution to the 457(b) on eligible compensation up to a maximum contribution of \$5,000 per eligible employee. Aspirus' 457(f) plan contributions vary from 2.5% to 17.0% of a participant's eligible compensation. There is also an additional 457(b) Plan for executives and physicians at ADS which primarily consists of employee contributions contributed by eligible employees of ADS. Aspirus also sponsors two frozen non-qualified 457(b) Plans as of January 1, 2018 which include AIW and ARH.

Aspirus contributed \$1,944,000 and \$2,384,000 to the deferred compensation plans for the years ended June 30, 2020 and 2019, respectively. A liability for the deferred compensation plans described above including unrealized gains and losses on the investments held for the plans, net of withdrawals, totaled \$49,956,000 and \$46,710,000 as of June 30, 2020 and 2019, respectively.

Note 19: Postretirement Benefits Other Than Pensions

Aspirus provides certain medical benefits to certain qualifying retired employees who were hired prior to January 1, 2003. The benefits provided by the plan allow eligible retirees and dependents to continue participation in the health plans until eligible for Medicare, at full premium cost, plus 2%. At the time of eligibility for Medicare, the eligible retiree will be reimbursed up to a monthly amount equal to 1.5 times their consecutive years of service. Aspirus funds premium payments for current retirees only. Amounts recorded in the accompanying consolidated balance sheets for the postretirement benefit consisted of the following at June 30:

	2020	2019
	<i>(In Thousands)</i>	
Other accrued liabilities	\$ 104	\$ 97
Long-term liabilities	5,620	4,308
Total postretirement benefit liabilities	\$ 5,724	\$ 4,405

At June 30, 2020 and 2019, net periodic postretirement benefit costs of \$752,000 and \$550,000, respectively, are included in net assets without donor restrictions that have not yet been recognized. Aspirus recognized postretirement benefit adjustments in the accompanying consolidated statements of operations and changes in net assets of \$(202,000) and \$195,000 in 2020 and 2019, respectively.

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 20: Functional Expenses

Aspirus provides general health care services to residents within its geographic location. The accompanying statements of activities present certain expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis. Employee benefits are allocated based on factors of either salary expense or actual employee expense. Overhead costs include things such as purchased services, information technology, insurance, and other similar expenses which are allocated on a variety of factors including revenues and departmental expense. Costs related to building and equipment usage include depreciation and interest and are allocated on a square footage or direct assignment basis. Expenses related to providing these services consisted of the following for the year ended June 30:

	2020			
	Management			
	Health Care	& General	Fund-raising	Total
	(In Thousands)			
Salaries and wages	\$ 312,795	\$ 131,199	\$ 132	\$ 444,126
Employee benefits	87,427	29,233	41	116,701
Supplies	167,900	11,938	-	179,838
Purchased services and other	127,877	54,742	13	182,632
Insurance and utilities	6,539	5,953	-	12,492
Depreciation	33,905	21,054	-	54,959
Interest	7,441	623	-	8,064
Totals	\$ 743,884	\$ 254,742	\$ 186	\$ 998,812

	2019			
	Management			
	Health Care	& General	Fund-raising	Total
	(In Thousands)			
Salaries and wages	\$ 299,647	\$ 113,408	\$ 113	\$ 413,168
Employee benefits	48,714	32,659	34	81,407
Supplies	164,999	5,855	-	170,854
Purchased services and other	153,727	35,351	16	189,094
Insurance and utilities	4,875	5,960	-	10,835
Depreciation	33,022	19,264	-	52,286
Interest	7,175	246	-	7,421
Totals	\$ 712,159	\$ 212,743	\$ 163	\$ 925,065

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 21: Related Parties

Aspirus provided supplies and various contracted services to AMH. In addition, AMH provided leave management services to Aspirus. The net amount of services provided by Aspirus to AMH totaled approximately \$13,675,000 and \$13,075,000 for the years ended June 30, 2020 and 2019, respectively. The net amount due to Aspirus from AMH totaled approximately \$117,000 as of June 30, 2020. The amount owed to AMH from Aspirus totaled approximately \$335,000 for the years ending June 30, 2019.

Aspirus provided supplies and various contracted services to ALH totaling approximately \$17,980,000 and \$15,661,000 for the years ended June 30, 2020 and 2019, respectively. The amount owed to ALH from Aspirus totaled approximately \$3,287,000 and \$577,000 for the years ended June 30, 2020 and 2019, respectively. The amount owed to ALH is a result of ALH prepaying for services in both 2020 and 2019.

AI, AWH, and ACI paid rent to unconsolidated affiliates totaling approximately \$685,000, \$369,000, and \$314,000, for the year ended June 30, 2020. AI, AWH, and ACI paid rent to unconsolidated affiliates totaling approximately \$685,000, \$369,000 and \$311,000, for the year ended June 30, 2019.

Prior to Aspirus' acquisition of AHV on January 1, 2019 Aspirus received approximately \$44,088,000 from AHV in insurance payments for patients for 2019.

The amounts due to related parties are recorded in other accrued liabilities on the accompanying consolidated balance sheets. The amounts due from related parties are recorded in prepaid expenses and other current assets on the accompanying consolidated balance sheets.

From time to time, Aspirus may enter into various business transactions with members of the Board of Directors, members of various board committees, or organizations that employ board and/or committee members. Transactions are provided at fair value and follow Aspirus' conflict of interest policies.

Note 22: Concentrations of Credit Risk

Financial instruments that potentially subject Aspirus to credit risk consist principally of accounts receivable, cash deposits in excess of insured limits, and investments.

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

	2020	2019
Medicare and Medicare Advantage plans	37.3 %	38.3 %
Medicaid and Medicaid managed care plans	12.1 %	9.9 %
Other third-party payors	41.7 %	43.2 %
Uninsured patients	8.9 %	8.6 %
Totals	100.0 %	100.0 %

Aspirus, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 22: Concentrations of Credit Risk (Continued)

Aspirus maintains depository relationships with financial institutions. Operating cash requirements require that amounts on deposit exceed Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2020, the amount of Aspirus' bank deposits in excess of FDIC limits was approximately \$36,797,000. In addition, investments held by financial institutions and investment companies are uninsured.

Note 23: Collaborative Agreements

Aspirus has entered into collaborative agreements with other health care systems. The agreements will allow Aspirus to effectively respond to health care reform initiatives as a virtually integrated system in order to improve patient health, enhance patient experiences, and reduce or control the cost of health care in the geographic areas served by the agreements. Aspirus does not have any financial commitments related to these agreements at June 30, 2020.

Note 24: Contingencies

Aspirus may from time to time be involved in litigation and regulatory investigations that arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2020, will be resolved without material adverse effect on Aspirus' future financial position, results of operations, or cash flows.

Note 25: Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 classifications.

Supplementary Consolidating Information

Aspirus, Inc. and Subsidiaries

Consolidating Balance Sheet

June 30, 2020	Aspirus, Inc.	Aspirus Wausau Hospital, Inc.	Aspirus Clinics, Inc.	Divine Savior Healthcare, Inc.	Aspirus Riverview Hospital & Clinics, Inc.	Aspirus Iron River Hospital & Clinics, Inc.	Aspirus Keweenaw Hospital	Aspirus Ironwood Hospital, Inc.
	<i>(In Thousands)</i>							
Current assets:								
Cash and cash equivalents	\$ 230,064	\$ 4,609	\$ (7)	\$ 4,719	\$ 16,752	\$ 906	\$ 9,792	\$ 12,528
Short-term investments	173,325	32,461	1,330	10,727	-	142	4,360	9,718
Current portion of assets limited as to use	-	6,878	-	-	465	-	-	-
Patient accounts receivable - Net	(2,985)	68,732	7,704	10,548	18,620	2,991	6,449	6,377
Inventory	5	11,197	1,216	1,850	2,886	690	1,303	1,253
Prepaid expenses and other current assets	16,101	54,963	2,339	3,938	21,063	11,163	9,104	10,611
Total current assets	416,510	178,840	12,582	31,782	59,786	15,892	31,008	40,487
Investments	-	-	-	-	-	-	-	-
Assets limited as to use	9,083	167,324	34,344	43,274	70,177	146	426	5,486
Property and equipment - Net	30,976	246,528	10,168	68,344	79,630	21,920	20,766	28,920
Other assets:								
Investments in unconsolidated affiliates	155,084	3,029	-	-	-	394	1,091	963
Investments in subsidiaries	2,168	-	-	-	-	-	-	-
Goodwill and other intangibles	650	-	3,762	-	-	-	-	303
Other	3,374	2,788	570	1,057	459	22	1,647	593
Total other assets	161,276	5,817	4,332	1,057	459	416	2,738	1,859
TOTAL ASSETS	\$ 617,845	\$ 598,509	\$ 61,426	\$ 144,457	\$ 210,052	\$ 38,374	\$ 54,938	\$ 76,752

Aspirus, Inc. and Subsidiaries

Consolidating Balance Sheet (Continued)

June 30, 2020	Aspirus Ontonagon Hospital, Inc.	Aspirus VNA Home Health, Inc. and Subsidiary	Aspirus Extended Services, Inc.	Aspirus Buildings, Inc.	Aspirus Network, Inc.	Aspirus Health Foundation, Inc.	Aspirus Health Ventures, Inc.	Eliminations	Consolidated
	<i>(In Thousands)</i>								
Current assets:									
Cash and cash equivalents	\$ 944	\$ (1)	\$ 1,288	\$ (236)	\$ 1,346	\$ 439	\$ 45,532	\$ -	\$ 328,675
Short-term investments	-	-	-	-	-	-	-	-	232,063
Current portion of assets limited as to use	19	-	-	-	-	1,026	-	(800)	7,588
Patient accounts receivable - Net	1,835	5,005	624	8	-	-	-	(7,412)	118,496
Inventory	104	423	23	-	-	-	-	-	20,950
Prepaid expenses and other current assets	6,041	103	48	342	1,865	811	14,333	(107,062)	45,763
Total current assets	8,943	5,530	1,983	114	3,211	2,276	59,865	(115,274)	753,535
Investments	-	-	-	-	-	16,564	-	-	16,564
Assets limited as to use	168	-	11	-	-	14,246	11,636	(6,852)	349,469
Property and equipment - Net	4,181	496	2,705	4,079	8	-	55	-	518,776
Other assets:									
Investments in unconsolidated affiliates	-	-	-	919	-	-	-	-	161,480
Investments in subsidiaries	-	-	-	-	-	-	-	(2,168)	-
Goodwill and other intangibles	-	-	-	-	-	-	-	-	4,715
Other	32	27	-	-	-	-	9	-	10,578
Total other assets	32	27	-	919	-	-	9	(2,168)	176,773
TOTAL ASSETS	\$ 13,324	\$ 6,053	\$ 4,699	\$ 5,112	\$ 3,219	\$ 33,086	\$ 71,565	\$ (124,294)	\$ 1,815,117

Aspirus, Inc. and Subsidiaries

Consolidating Balance Sheet (Continued)

June 30, 2020	Aspirus, Inc.	Aspirus Wausau Hospital, Inc.	Aspirus Clinics, Inc.	Divine Savior Healthcare, Inc.	Aspirus Riverview Hospital & Clinics, Inc.	Aspirus Iron River Hospital & Clinics, Inc.	Aspirus Keweenaw Hospital	Aspirus Ironwood Hospital, Inc.
	<i>(In Thousands)</i>							
Current liabilities:								
Current maturities of long-term debt	\$ -	\$ 6,015	\$ 250	\$ 2,354	\$ 1,405	\$ 105	\$ -	\$ 166
Current maturities of finance lease obligations	241	204	58	-	133	40	27	64
Accounts payable	2,543	7,557	889	1,279	5,088	968	1,697	1,032
Accrued salaries and wages	6,958	12,752	15,267	4,607	3,373	1,478	1,853	2,430
Accrued interest payable	-	1,442	-	-	851	256	260	231
Other accrued liabilities	122,003	24,242	6,354	4,130	9,179	2,778	6,195	6,368
Estimated third-party payor settlements	-	49,216	50	9,124	3,664	10,035	10,892	13,505
Total current liabilities	131,745	101,428	22,868	21,494	23,693	15,660	20,924	23,796
Long-term liabilities:								
Long-term debt - Less current maturities	-	113,371	5,496	37,375	50,882	17,549	16,980	14,175
Finance lease obligations - Less current maturities	851	758	216	-	429	131	54	165
Deferred compensation	5,819	1,408	34,344	831	1,946	146	426	5,035
Postretirement benefits	2,269	3,225	93	-	12	21	-	-
Interest rate swap agreement	-	4,575	-	-	-	-	-	-
Other long-term liabilities	3,415	7,668	701	1,185	451	1,105	2,447	710
Total long-term liabilities	12,354	131,005	40,850	39,391	53,720	18,952	19,907	20,085
Total liabilities	144,099	232,433	63,718	60,885	77,413	34,612	40,831	43,881
Net assets (deficit):								
Aspirus, Inc. net assets								
Without donor restrictions	473,746	366,076	(2,292)	83,538	130,771	3,762	13,819	32,247
With donor restrictions	-	-	-	34	1,868	-	288	506
Noncontrolling interest	-	-	-	-	-	-	-	118
Total net assets (deficit)	473,746	366,076	(2,292)	83,572	132,639	3,762	14,107	32,871
TOTAL LIABILITIES AND NET ASSETS	\$ 617,845	\$ 598,509	\$ 61,426	\$ 144,457	\$ 210,052	\$ 38,374	\$ 54,938	\$ 76,752

Aspirus, Inc. and Subsidiaries

Consolidating Balance Sheet (Continued)

June 30, 2020	Aspirus Ontonagon Hospital, Inc.	Aspirus VNA Home Health, Inc. and Subsidiary	Aspirus Extended Services, Inc.	Aspirus Buildings, Inc.	Aspirus Network, Inc.	Aspirus Health Foundation, Inc.	Aspirus Health Ventures, Inc.	Eliminations	Consolidated
	<i>(In Thousands)</i>								
Current liabilities:									
Current maturities of long-term debt:	\$ 84	\$ -	\$ 69	\$ -	\$ -	\$ -	\$ -	\$ -	10,448
Current maturities of finance lease obligations	(8)	21	-	-	2	-	-	-	782
Accounts payable	216	128	34	-	-	30	3,221	(985)	23,697
Accrued salaries and wages	526	566	174	-	-	-	-	-	49,984
Accrued interest payable	31	-	-	-	-	-	-	-	3,071
Other accrued liabilities	4,207	430	498	366	1,889	970	21,510	(112,343)	98,776
Estimated third-party payor settlements	3,151	1,977	214	-	-	-	11,290	(1,946)	111,172
Total current liabilities	8,207	3,122	989	366	1,891	1,000	36,021	(115,274)	297,930
Long-term liabilities:									
Long-term debt - Less current maturities	2,114	-	696	-	-	-	-	-	258,638
Finance lease obligations - Less current maturities	45	83	-	-	6	-	41	-	2,779
Deferred compensation	1	-	-	-	-	-	-	-	49,956
Postretirement benefits	-	-	-	-	-	-	-	-	5,620
Interest rate swap agreement	-	-	-	-	-	-	-	-	4,575
Other long-term liabilities	183	71	31	-	-	6,852	9	(6,852)	17,976
Total long-term liabilities	2,343	154	727	-	6	6,852	50	(6,852)	339,544
Total liabilities	10,550	3,276	1,716	366	1,897	7,852	36,071	(122,126)	637,474
Net assets (deficit):									
Aspirus, Inc. net assets									
Without donor restrictions	2,770	2,777	2,983	4,746	1,322	17,627	35,494	(2,985)	1,166,401
With donor restrictions	4	-	-	-	-	7,607	-	-	10,307
Noncontrolling interest	-	-	-	-	-	-	-	817	935
Total net assets (deficit)	2,774	2,777	2,983	4,746	1,322	25,234	35,494	(2,168)	1,177,643
TOTAL LIABILITIES AND NET ASSETS	\$ 13,324	\$ 6,053	\$ 4,699	\$ 5,112	\$ 3,219	\$ 33,086	\$ 71,565	\$ (124,294)	\$ 1,815,117

See Independent Auditor's Report

Aspirus, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2020	Aspirus, Inc.	Aspirus Wausau Hospital, Inc.	Aspirus Clinics, Inc.	Divine Savior Healthcare, Inc.	Aspirus Riverview Hospital & Clinics, Inc.	Aspirus Iron River Hospital & Clinics, Inc.	Aspirus Keweenaw Hospital	Aspirus Ironwood Hospital, Inc.
	<i>(In Thousands)</i>							
Revenue:								
Patient service revenue	\$ 7	\$ 537,703	\$ 82,123	\$ 29,092	\$ 145,172	\$ 32,965	\$ 50,767	\$ 55,020
Premium revenue	-	-	-	-	-	-	-	-
Income from unconsolidated affiliates	13,650	1,282	-	-	-	-	-	-
Other operating revenue	1,375	16,493	10,436	1,049	1,491	3,128	9,055	5,753
Grant revenue	40	9,519	1,594	6,869	4,648	2,955	1,901	705
Total revenue	15,072	564,997	94,153	37,010	151,311	39,048	61,723	61,478
Expenses:								
Salaries and wages	71,152	161,144	62,355	19,331	47,142	13,617	22,073	24,517
Employee benefits	21,500	40,235	12,134	5,196	11,539	4,375	5,328	5,324
Medical claims	-	-	-	-	-	-	-	-
Medical fees	13	4,049	201	446	478	-	-	-
Supplies	474	114,290	12,579	4,111	23,086	4,982	11,087	7,563
Purchased services and other	(108,440)	147,712	27,389	4,902	36,912	13,367	17,315	19,030
Insurance and utilities	1,574	4,425	854	851	1,721	748	794	760
Depreciation and amortization	11,236	23,942	1,615	2,184	7,588	2,027	2,496	2,718
Interest	26	3,888	2	500	1,865	341	740	582
Total expenses	(2,465)	499,685	117,129	37,521	130,331	39,457	59,833	60,494
Income (loss) from operations	17,537	65,312	(22,976)	(511)	20,980	(409)	1,890	984
Nonoperating income (loss):								
Investment income	4,785	2,574	119	37	1,381	18	130	341
Contributions and other	69,796	634	-	(2,542)	68	2	64	5
Loss on interest rate swap agreement	-	(1,657)	-	-	-	-	-	-
Total nonoperating income (loss) - Net	74,581	1,551	119	(2,505)	1,449	20	194	346
Revenue in excess (deficiency) of expenses before noncontrolling interest	92,118	66,863	(22,857)	(3,016)	22,429	(389)	2,084	1,330

Aspirus, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (Continued)

Year Ended June 30, 2020	Aspirus Ontonagon Hospital, Inc.	Aspirus VNA Home Health, Inc. and Subsidiary	Aspirus Extended Services, Inc.	Aspirus Buildings, Inc.	Aspirus Network, Inc.	Aspirus Health Foundation, Inc.	Aspirus Health Ventures, Inc.	Eliminations	Consolidated
	<i>(In Thousands)</i>								
Revenue:									
Patient service revenue	\$ 13,319	\$ 15,228	\$ 4,961	\$ -	\$ -	\$ -	\$ -	\$ (64,487)	\$ 901,870
Premium revenue	-	-	-	-	-	-	96,441	-	96,441
Income from unconsolidated affiliates	-	-	-	260	-	-	-	-	15,192
Other operating revenue	1,078	3,113	26	1,672	2,459	189	4,513	(14,016)	47,814
Grant revenue	137	566	100	-	-	300	-	-	29,334
Total revenue	14,534	18,907	5,087	1,932	2,459	489	100,954	(78,503)	1,090,651
Expenses:									
Salaries and wages	5,695	11,286	2,917	-	1,163	202	1,532	-	444,126
Employee benefits	1,649	3,791	880	-	314	61	380	(27,192)	85,514
Medical claims	-	-	-	-	-	-	68,847	(42,870)	25,977
Medical fees	7	15	1	-	-	-	-	-	5,210
Supplies	1,235	316	420	4	3	4	3	(319)	179,838
Purchased services and other	4,776	4,876	984	489	793	733	19,856	(8,062)	182,632
Insurance and utilities	292	149	168	74	4	2	136	(60)	12,492
Depreciation and amortization	542	106	301	194	2	-	8	-	54,959
Interest	90	-	24	-	-	-	6	-	8,064
Total expenses	14,286	20,539	5,695	761	2,279	1,002	90,768	(78,503)	998,812
Income (loss) from operations	248	(1,632)	(608)	1,171	180	(513)	10,186	-	91,839
Nonoperating income (loss):									
Investment income	4	7	3	-	-	290	788	437	10,914
Contributions and other	-	3	5	-	-	-	-	-	68,035
Loss on interest rate swap agreement	-	-	-	-	-	-	-	-	(1,657)
Total nonoperating income (loss) - Net	4	10	8	-	-	290	788	437	77,292
Revenue in excess (deficiency) of expenses before noncontrolling interest	252	(1,622)	(600)	1,171	180	(223)	10,974	437	169,131

Aspirus, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (Continued)

Year Ended June 30, 2020	Aspirus, Inc.	Aspirus Wausau Hospital, Inc.	Aspirus Clinics, Inc.	Divine Savior Healthcare, Inc.	Aspirus Riverview Hospital & Clinics, Inc.	Aspirus Iron River Hospital & Clinics, Inc.	Aspirus Keweenaw Hospital	Aspirus Ironwood Hospital, Inc.
	<i>(In Thousands)</i>							
Revenue in excess (deficiency) of expenses before noncontrolling interest (brought forward)	\$ 92,118	\$ 66,863	\$ (22,857)	\$ (3,016)	\$ 22,429	\$ (389)	\$ 2,084	\$ 1,330
Revenue in excess of expenses attributable to noncontrolling interest	-	-	-	-	-	-	-	39
Revenue in excess (deficiency) of expenses attributable to Aspirus, Inc.	92,118	66,863	(22,857)	(3,016)	22,429	(389)	2,084	1,291
Other changes in net assets without donor restrictions:								
Increase (decrease) in noncontrolling interest	-	-	-	-	-	-	-	39
Postretirement benefit adjustment	62	(226)	(28)	-	(10)	-	-	-
Interaffiliate transfers	5,295	(59,331)	22,435	86,588	(38,667)	(3,049)	(8,561)	(8,675)
Acquisition of affiliate	-	-	-	-	-	-	-	-
Other changes in net assets	36	(22)	-	(34)	-	-	-	-
Contribution for property and equipment	-	28	-	-	-	-	-	-
Net assets released from restrictions	-	2,645	-	-	432	-	-	-
Change in net assets without donor restrictions	97,511	9,957	(450)	83,538	(15,816)	(3,438)	(6,477)	(7,345)
Changes in net assets with donor restrictions:								
Contributions	-	46	-	34	285	-	-	-
Investment income	-	-	-	-	-	-	-	-
Net assets released from restrictions	-	(2,645)	-	-	(432)	-	-	-
Change in net assets with donor restrictions	-	(2,599)	-	34	(147)	-	-	-
Change in net assets	97,511	7,358	(450)	83,572	(15,963)	(3,438)	(6,477)	(7,345)
Net assets at beginning	376,235	358,718	(1,842)	-	148,602	7,200	20,584	40,216
Net assets at end	\$ 473,746	\$ 366,076	\$ (2,292)	\$ 83,572	\$ 132,639	\$ 3,762	\$ 14,107	\$ 32,871

Aspirus, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (Continued)

Year Ended June 30, 2020	Aspirus Ontonagon Hospital, Inc.	Aspirus VNA Home Health, Inc. and Subsidiary	Aspirus Extended Services, Inc.	Aspirus Buildings, Inc.	Aspirus Network, Inc.	Aspirus Health Foundation, Inc.	Aspirus Health Ventures, Inc.	Eliminations	Consolidated
	<i>(In Thousands)</i>								
Revenue in excess (deficiency) of expenses before noncontrolling interest (brought forward)	\$ 252	\$ (1,622)	\$ (600)	\$ 1,171	\$ 180	\$ (223)	\$ 10,974	\$ 437	\$ 169,131
Revenue in excess of expenses attributable to noncontrolling interest	-	-	-	-	-	-	-	(167)	(128)
Revenue in excess (deficiency) of expenses attributable to Aspirus, Inc.	252	(1,622)	(600)	1,171	180	(223)	10,974	604	169,259
Other changes in net assets without donor restrictions:									
Increase (decrease) in noncontrolling interest	-	-	-	-	-	-	-	(167)	(128)
Postretirement benefit adjustment	-	-	-	-	-	-	-	-	(202)
Interaffiliate transfers	(689)	706	260	1,326	(48)	-	2,700	(290)	-
Acquisition of affiliate	-	-	-	-	-	-	-	-	-
Other changes in net assets	-	-	-	-	-	-	(81)	-	(101)
Contribution for property and equipment	-	-	137	-	-	-	-	-	165
Net assets released from restrictions	-	-	-	-	-	475	-	-	3,552
Change in net assets without donor restrictions	(437)	(916)	(203)	2,497	132	252	13,593	147	172,545
Changes in net assets with donor restrictions:									
Contribution	4	-	-	-	-	97	-	-	466
Investment income	-	-	-	-	-	125	-	-	125
Net assets released from restrictions	-	-	-	-	-	(475)	-	-	(3,552)
Change in net assets with donor restrictions	4	-	-	-	-	(253)	-	-	(2,961)
Change in net assets	(433)	(916)	(203)	2,497	132	(1)	13,593	147	169,584
Net assets at beginning	3,207	3,693	3,186	2,249	1,190	25,235	21,901	(2,315)	1,008,059
Net assets at end	\$ 2,774	\$ 2,777	\$ 2,983	\$ 4,746	\$ 1,322	\$ 25,234	\$ 35,494	\$ (2,168)	\$ 1,177,643

See Independent Auditor's Report

Aspirus Medford Hospital & Clinics, Inc.

Financial Statements

Years Ended June 30, 2020 and 2019



WIPFLI

Independent Auditor's Report

Board of Directors
Aspirus Medford Hospital & Clinics, Inc.
Medford, Wisconsin

We have audited the accompanying financial statements of Aspirus Medford Hospital & Clinics, Inc., which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the 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 financial statements referred to above present fairly, in all material respects, the financial position of Aspirus Medford Hospital & Clinics, Inc. as of June 30, 2020 and 2019, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads "Wipfli LLP".

Wipfli LLP

October 14, 2020
Eau Claire, Wisconsin

Aspirus Medford Hospital & Clinics, Inc.

Balance Sheets

<i>June 30</i>	2020	2019
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 45,025,284	\$ 23,069,954
Patient accounts receivable - Net	9,478,711	11,875,104
Inventory	1,490,384	1,283,393
Prepaid expenses and other current assets	3,281,439	1,910,206
Estimated third-party payor settlements	72,966	5,611,600
Total current assets	59,348,784	43,750,257
Assets limited as to use	71,107,815	67,945,306
Property and equipment - Net	30,102,478	30,327,310
Other assets:		
Interest in net assets of Foundation	1,727,790	1,833,003
Other	68,344	4,797
Total other assets	1,796,134	1,837,800
TOTAL ASSETS	\$ 162,355,211	\$ 143,860,673

Aspirus Medford Hospital & Clinics, Inc.

Balance Sheets (Continued)

<i>June 30</i>	2020	2019
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Current maturities of long-term debt	\$ 675,000	\$ 280,000
Current maturities of finance lease obligation	50,868	-
Accounts payable:		
Trade	990,213	936,791
Construction	446,926	218,822
Accrued salaries and wages	3,802,101	3,475,470
Accrued interest payable	234,277	239,527
Other accrued liabilities	10,324,177	3,150,857
Total current liabilities	16,523,562	8,301,467
Long-term liabilities:		
Long-term debt - Less current maturities	13,667,788	14,391,481
Finance lease obligation - Less current maturities	192,437	-
Deferred compensation	2,658,945	2,585,899
Other long-term liabilities	345,406	36,797
Total long-term liabilities	16,864,576	17,014,177
Total liabilities	33,388,138	25,315,644
Net assets:		
Without donor restrictions	127,239,283	116,712,026
With donor restrictions	1,727,790	1,833,003
Total net assets	128,967,073	118,545,029
TOTAL LIABILITIES AND NET ASSETS	\$ 162,355,211	\$ 143,860,673

See accompanying notes to the financial statements.

Aspirus Medford Hospital & Clinics, Inc.

Statements of Operations and Changes in Net Assets

<i>Years Ended June 30</i>	2020	2019
Revenue:		
Net patient service revenue	\$ 78,630,119	\$ 78,531,465
Other operating revenue	8,405,994	8,676,786
Grant revenue	2,163,626	-
Total revenue	89,199,739	87,208,251
Expenses:		
Salaries and wages	32,362,894	31,085,884
Employee benefits	9,226,260	9,425,513
Supplies	11,840,680	12,502,983
Purchased services and other	20,680,342	20,910,256
Insurance and utilities	1,003,625	1,019,607
Depreciation	4,489,372	4,485,130
Interest	550,021	638,245
Total expenses	80,153,194	80,067,618
Income from operations	9,046,545	7,140,633
Nonoperating income (expense):		
Investment income	1,120,811	3,921,693
Contributions and other - Net	2,406	(149,801)
Total nonoperating income - Net	1,123,217	3,771,892
Revenue in excess of expenses	10,169,762	10,912,525

Aspirus Medford Hospital & Clinics, Inc.

Statements of Operations and Changes in Net Assets (Continued)

<i>Years Ended June 30</i>	2020	2019
Net assets without donor restrictions:		
Revenue in excess of expenses brought forward	\$ 10,169,762	\$ 10,912,525
Net assets released from restrictions	234,995	236,840
Contribution for property and equipment	122,500	-
Increase in net assets without donor restrictions	10,527,257	11,149,365
Net assets with donor restrictions:		
Change in interest in net assets of Foundation	129,782	76,364
Net assets released from restrictions	(234,995)	(236,840)
Increase in net assets with donor restrictions	(105,213)	(160,476)
Increase in net assets	10,422,044	10,988,889
Net assets at beginning	118,545,029	107,556,140
Net assets at end	\$ 128,967,073	\$ 118,545,029

See accompanying notes to the financial statements.

Aspirus Medford Hospital & Clinics, Inc.

Statements of Cash Flows

<i>Years Ended June 30</i>	2020	2019
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Increase in net assets	\$ 10,422,044	\$ 10,988,889
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	4,489,372	4,485,130
Amortization of deferred bond issuance costs and bond premium	(48,693)	(48,693)
Change in interest in net assets of Foundation	(129,782)	(76,364)
Bad debt	45,390	72,237
Net change in unrealized loss on trading securities	2,040,829	621,095
Net increase in deferred compensation	73,046	126,702
Changes in operating assets and liabilities:		
Patient accounts receivable	2,351,003	(1,603,238)
Inventory	(206,991)	(284,906)
Prepaid expenses and other assets	(1,366,436)	(978,675)
Estimated third-party payor settlements	5,538,634	(272,887)
Assets limited as to use, including net realized gain	(5,203,338)	(7,276,959)
Accounts payable - Trade	7,496,356	(140,922)
Accrued and other liabilities	292,032	674,236
Total adjustments	15,371,422	(4,703,244)
Net cash provided by operating activities	25,793,466	6,285,645

Aspirus Medford Hospital & Clinics, Inc.

Statements of Cash Flows (Continued)

<i>Years Ended June 30</i>	2020	2019
Cash flows from investing activities:		
Capital expenditures - Net	\$ (3,742,293)	\$ (4,328,397)
Distribution of interest in net assets of Foundation	234,995	236,840
Net cash used in investing activities	(3,507,298)	(4,091,557)
Net cash used in financing activities -		
Principal payments on long-term debt	(330,838)	(280,000)
Net increase in cash and cash equivalents	21,955,330	1,914,088
Cash and cash equivalents at beginning	23,069,954	21,155,866
Cash and cash equivalents at end	\$ 45,025,284	\$ 23,069,954
Supplemental cash flow information:		
Cash paid for interest	\$ 603,964	\$ 691,138
Property and equipment included in accounts payable	446,926	218,822
Property and equipment acquired under finance lease obligations	194,143	-

See accompanying notes to the financial statements.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Principal Business Activity

Aspirus Medford Hospital & Clinics, Inc. (the "Organization") promotes the delivery of health services in Taylor County, Wisconsin and the surrounding area. The Organization is composed of a critical access hospital ("CAH"), skilled nursing long-term care facility, assisted living facility, community-based residential facility, physician clinics, and a retail pharmacy. Memorial Member Association, Inc. and Aspirus, Inc. ("Aspirus"), both tax-exempt corporations, are each 50% corporate members of the Organization. Memorial Member Association, Inc. is a member organization that promotes health care in the communities which the Organization serves. Aspirus is a nonprofit health care system located in Wausau, Wisconsin.

Financial Statement Presentation

The Organization 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 in the preparation of financial statements in conformity with GAAP.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with GAAP requires management to make 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 and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash Equivalents

The Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited or restricted.

Investments, Assets Limited as to Use, and Investment Income

Investments are classified as trading securities, and accordingly investments designated as assets limited as to use are recorded at fair value in the accompanying balance sheets with the changes in fair value during the period included in revenue in excess of expenses in the accompanying statements of operations and changes in net assets, unless the changes in fair value are restricted by donor or law.

All investment income (including realized and unrealized gains and losses, interest, and dividends) is reported as nonoperating income and is included in revenue in excess of expenses unless the income is restricted by donor or law. Realized gains or losses are determined by specific identification.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Assets Limited as to Use

Assets limited as to use consist of investments designated by the Board of Directors for future capital improvements and funds held for deferred compensation. The funds designated by the Board of Directors remain under the control of the Board of Directors and may at the Board of Directors' discretion subsequently be used for other purposes.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The Organization measures fair value of its financial instruments using a three-tier hierarchy that prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's 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.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable is reported at the amount that reflects the consideration to which the Organization 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 Organization 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. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

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

Inventory

Inventory of supplies is valued at the lower of average cost or net realizable value.

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives range from 2 to 20 years for vehicles and movable equipment and 2 to 70 years for land improvements and buildings and fixed equipment.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property, Equipment, and Depreciation (Continued)

Finance leases are included in property and equipment and long-term liabilities in the accompanying balance sheets. Property and equipment under finance lease obligations are amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation on the accompanying statements of operations and changes in net assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions and are excluded from revenue in excess of expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The Organization periodically evaluates whether events and circumstances have occurred that may affect the carrying value of property and equipment. If such events or circumstances indicate the carrying value may not be recoverable, impairment is determined by comparing the carrying value with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Organization would recognize an impairment loss. During 2020 and 2019, the Organization determined that no evaluations of recoverability were necessary.

Asset Retirement Obligation

Management annually assesses its existing properties to determine if there is a need to recognize a liability for a conditional asset retirement, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. An asset retirement obligation represents the obligation to dispose of assets that are legally required to be removed at a future date. This obligation is recorded at the net present value using a risk-free interest rate and an inflationary rate. The liability will accrete over the term of the estimated life of the asset.

Interest in Net Assets of Foundation

Accounting guidance establishes standards of financial accounting and reporting for transactions in which an entity makes contributions to another entity or an entity that accepts contributions from a donor and agrees to use those assets on behalf of or transfer those assets and the return on those assets to another entity. The Organization and Aspirus Medford Foundation, Inc. (the "Foundation") are financially interrelated organizations, and accordingly the Organization recognizes its interest in the net assets of the Foundation and adjusts that interest for its share of the change in the net assets of the Foundation.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Bond Issuance Costs and Bond Premium

Bond issuance costs and original issue premium related to issuance of long-term debt are amortized on the straight-line method over the term of the related indebtedness. Amortization of bond issuance costs and original issue premium is included with interest expense in the accompanying statements of operations and changes in net assets.

Net Assets

Net assets without donor restrictions consist of investments and otherwise amounts that are available for use in carrying out the mission of the Organization not subject to donor-imposed stipulations and include 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 Organization has been limited by donors to a specific time period, purpose, or have been restricted by donors to be maintained by the Organization in perpetuity. Earnings on net assets with donor restricted endowment funds are recorded as net assets with donor restrictions until appropriated by the Organization's Board of Directors.

Revenue in Excess of Expenses

The statements of operations and changes in net assets include the classification revenue in excess of expenses which is considered the operating indicator. Changes in net assets, which are excluded from the operating indicator, include permanent transfer of assets to and from affiliates for other than goods and services, and contributions of long-lived assets including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets.

Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the Organization 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 Organization bills the patients and third-party payors several days after the services are performed 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 in relation to total expected (or actual) charges. Generally, performance obligations satisfied over time relate to patients receiving hospital inpatient acute care services, and nursing home post-acute care services. For these services the Organization 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 in our hospital, clinics, and nursing home, 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.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

Because the Organization's performance obligations relate to contracts with a duration of less than one year, the Organization 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 Organization 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 Organization used the following factors to develop portfolios: major payor classes and type of service (i.e. inpatient, outpatient). Using historical collection trends and other analysis, the Organization evaluated the accuracy of its estimates 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 Organization determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy, and implicit price concessions provided to patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization determines its estimate of implicit price concessions based on its historical collection experience for each patient portfolio based on payor class and service type.

The Organization 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:

- **Hospital - Medicare** - The Organization is designated as a CAH with reimbursement based upon a cost-reimbursement methodology for inpatient and outpatient services with the exception of certain lab and radiology services, which are reimbursed based on fee schedules. Professional services provided by physicians and other clinicians are reimbursed based upon prospectively determined fee schedules.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

- **Hospital - Medicaid** - The Organization is also designated as a CAH by the Medicaid program. Under legislation enacted by the State of Wisconsin (the "State"), eligible CAHs, including the Organization, are required to pay the State an annual assessment. The assessment is based on each hospital's gross inpatient revenue, as defined. The revenue generated from the assessment is to be used, in part, to increase overall reimbursement under the Wisconsin Medicaid program through the development of an access payment system. The Wisconsin Medicaid program pays a hospital-specific amount per discharge or visit for inpatient and outpatient services adjusted by patient acuity, determined based on prior hospital cost reports, plus an additional access payment on inpatient and outpatient services. Professional services provided by physicians and other clinicians in the hospital setting continue to be reimbursed on prospectively determined fee schedules.
- **Clinic - Medicare and Medicaid** - Certain professional services provided by physicians and other clinicians rendered to Medicare and Medicaid beneficiaries qualify for reimbursement as Medicare- and Medicaid-approved rural health clinic services. Qualifying services under the rural health clinic program are reimbursed on a cost-reimbursement methodology. Other professional services provided by physicians and other clinicians are reimbursed based upon prospectively determined fee schedules.
- **Nursing Home - Medicare** - The nursing home's reimbursement under the Medicare program for Part A services is based on a prospective payment system (PPS). Payments for services rendered vary according to a resident's acuity and care needs based on prospectively determined rates per day. Medicare pays the nursing home for Part B services based on predetermined fee schedules.
- **Nursing Home - Medicaid** - The nursing home's reimbursement under the Medicaid program is based on a schedule of prospectively determined daily rates determined by the State's Medicaid and Family Care programs. A rate is assigned to each nursing home resident based on the resident's ability to perform certain activities of daily living, on certain other clinical factors, and the costs of providing such care.
- **Others** - The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and fee schedules.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

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 Organization'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 Organization. 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 Organization has not been notified by the RAC of any potential significant reimbursement adjustments. In addition, the contracts the Organization has with third-party 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 Organization'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, or as years are settled or are no longer subject to such audits, reviews, and investigations. In 2020, the Organization recognized a decrease in net patient service revenue due to changes in prior year contractual allowances estimates of \$1,460,000.

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 expenses for the years ended June 30, 2020 and 2019 were not significant.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization 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 Organization expects to collect based on its collection history with those patients. The Organization's policy is to provide a 35% and 20% discount from established charges to uninsured patients in 2020 and 2019, respectively.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

The promised amount of consideration from patients and third-party payors have not been adjusted for the effects of a significant financing component due to the Organization'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 Organization 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 Organization otherwise would have recognized is one year or less in duration.

Charity Care

The Organization 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 Organization's charity care policy is calculated by multiplying the ratio of cost to gross charges for the Organization times the gross uncompensated charges associated with providing charity care.

Donor-Restricted Contributions

Contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net asset with donor restrictions if they are received with donor stipulations that limit the use of 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 accompanying statements of operations and changes in net assets as net assets released from restrictions.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions.

Unemployment Compensation

The Organization has elected reimbursement financing under provisions of the Wisconsin unemployment compensation laws. The Organization has obtained a letter of credit of \$350,000, which expires December 31, 2021, to meet state funding requirements as of June 30, 2020 and 2019.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The Organization is a nonprofit 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 Organization is also exempt from state income taxes on related income. The Organization is also engaged, to a limited extent, in certain activities subject to taxation as unrelated business income (UBI). Income taxes on UBI are not significant.

Subsequent Events

Subsequent events have been evaluated through October 14, 2020, which is the date the financial statements were issued.

Change in Accounting Policy

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

The standard did not have a material impact on the Organization's net assets or cash flows from operations and had an immaterial impact on the Organization's operating results. The most significant impact was the recognition of the ROU assets and lease obligations for operating leases.

As a result of the adoption of the new lease accounting guidance, the Organization recognized the following ROU assets and lease liabilities as of July 1, 2019:

ROU assets - Finance leases	\$	38,150
Finance lease obligation		(38,150)
ROU assets - Operating leases		68,344
Operating lease obligation		(68,344)

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Change in Accounting Policy (Continued)

In November 2016, the FASB issued ASU No. 2016-18, *Statements of Cash Flows - Restricted Cash* (Topic 230). The amendments in ASU No. 2016-18 require that a statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash and cash equivalents. This requires that a reconciliation be shown to reconcile the total cash and cash equivalents on the statement of cash flows to the related captions in the balance sheet. This ASU is effective for the Organization's year ended June 30, 2020, and has been adopted retrospectively for the year ended June 30, 2020. Adoption of this standard did not have a material impact on the Organization's financial statements.

New Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement* (Topic 820). This ASU improves the effectiveness of the notes to the financial statements through changes in the disclosure requirements for fair value measurement. This ASU is effective for fiscal year 2021 and will be applied using a retrospective approach.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other, Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for fiscal year 2022 and will be applied using a prospective approach.

Management is evaluating the impact the new accounting pronouncements will have on the Organization.

Note 2: COVID-19

Starting in March 2020, the nation in general, and healthcare-related entities specifically, have been faced with a global pandemic. As healthcare entities prepared for the crisis, operational changes were made to delay routine visits and elective procedures and reevaluate the entire care delivery model to care for patient needs, specifically those affected by COVID-19. The complete financial impact on the economy in general and healthcare-related entities specifically is undeterminable at this time; however, it was noted and is anticipated by the Organization that both operational performance and cash flows for healthcare-related entities has been and will be impacted in fiscal year 2020 as well as in future periods until the pandemic ends.

The federal and state governments, as well as other agencies, have been assisting many healthcare organizations to prevent significant financial constraints by providing supplemental payment programs in the forms of distributions which are intended to help in offsetting lost revenues as well as the cost of staffing, supplies, and equipment from treating patients impacted by or preparing for the pandemic's healthcare needs.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 2: COVID-19 (Continued)

During 2020, the Organization received \$7,017,024 in grant funding from the U.S. Department of Health and Human Services (HHS) Provider Relief Fund which was established as a result of the Coronavirus Aid, Relief, and Economic CARES Act. Based on the terms and conditions of the the grant, the Organization earns the grant by incurring COVID-19 expenses or by incurring lost revenues as a result of COVID-19. During 2020, the Organization recognized \$4,952,740 in grant related to this program. The Organization received other grants which were recognized in grant revenue during 2020 totaling \$99,342. As of June 30, 2020, the Organization recorded deferred revenue of \$4,952,740 for the amount of grants received but not earned, which is reported within other accrued liabilities in the accompanying balance sheet. Management is continuing to monitor compliance with the terms and conditions of the Provider Relief Fund as new guidance and clarification is released from HHS and other agencies. If the Organization is unable to attest to or comply with current and future terms and conditions as more information becomes available, the Organization's ability to retain some or all of the distributions received may be impacted.

In addition to the provider relief funds noted above, CMS offered an accelerated and advance payment program which gave healthcare providers the opportunity to receive an advance on future Medicare payments. The Organization received a non-interest-bearing Medicare Refundable Advance of \$6,104,090 in 2020. Repayment of the Medicare Refundable Advance is expected to begin 120 days after receipt of the advance with total repayment due no later than one year after receipt of the advance. The Organization recorded the amount owed to Medicare within the liability captioned estimated third-party payor settlements in the accompanying balance sheet at June 30, 2020.

Note 3: Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30:

	2020	2019
Patient accounts receivable	\$ 16,256,100	\$ 18,182,346
Less: Contractual adjustments and implicit price concessions	6,777,389	6,307,242
Patient accounts receivable - Net	\$ 9,478,711	\$ 11,875,104

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 4: Net Patient Service Revenue

The composition of net patient service revenue based on the geographic region the Organization operates in as outlined in Note 1, its lines of business, and timing of revenue recognition for the year ended June 30 are as follows:

	2020	2019
Service lines		
Hospital services	\$ 54,308,690	\$ 54,174,701
Clinic services	18,875,710	18,914,053
Care & Rehab (Nursing home)	4,172,615	4,377,522
Assisted Living	1,273,104	1,065,189
Totals	78,630,119	78,531,465
Timing of recognitions:		
At time services were rendered	69,662,638	69,778,460
Services transferred over time	8,967,481	8,753,005
Totals	\$ 78,630,119	\$ 78,531,465

Patient service revenue (net of contractual allowances, discounts, and implicit price concessions) consisted of the following for the year ended June 30:

	2020	2019
Medicare and Medicare Advantage plans	\$ 24,135,386	\$ 25,590,538
Medicaid and Medicaid HMO plans	9,483,683	9,200,156
Other third-party payors	42,695,131	41,015,837
Uninsured patients	2,315,919	2,724,934
Totals	\$ 78,630,119	\$ 78,531,465

Note 5: Community Care

The Organization provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community including the health of low-income patients. Consistent with the mission of the Organization, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources or to those who are underinsured.

The Organization has a community care policy which is generally based on federal poverty guidelines, and applications are completed by patients and/or their families. Patients who meet the criteria for community care are provided care without charge or at a reduced rate.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 5: Community Care (Continued)

The estimated cost of providing care to patients under the Organization's community care program aggregated approximately \$1,099,000 and \$691,000 in 2020 and 2019, respectively.

Other benefits for the community also include unpaid costs of treating the elderly, health screenings, community education through seminars and classes, and other health-related services.

Note 6: Liquidity

As of June 30, 2020, 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	\$ 45,025,284	\$ 23,069,954
Patient accounts receivable - Net	9,478,711	11,875,104
Assets limited as to use - Board designated for future capital improvements	68,448,870	65,359,407
Total financial assets and liquidity resources	\$ 122,952,865	\$ 100,304,465

As part of Organization's liquidity management, it invests cash in excess of daily requirements in a variety of investment vehicles. These funds, included in investments, are considered available for operational or capital needs, except for investment vehicles with restrictive redemption requirements. Occasionally, the Board of Directors designates a portion of operating surplus to be appropriated at its discretion for future operational initiatives and capital expenditures. Though these funds, at the discretion of the Board of Directors, could be released immediately, these funds are considered available under the Organization's liquidity management.

Note 7: Assets Limited as to Use

Assets limited as to use consisted of the following at June 30:

	2020	2019
Board designated for capital improvements and debt service requirements:		
Mutual funds	\$ 68,402,876	\$ 65,291,436
Interest receivable	45,994	67,971
Total Board designated for future capital improvements	68,448,870	65,359,407
Amounts held for deferred compensation - Mutual funds	2,658,945	2,585,899
Total assets limited as to use	\$ 71,107,815	\$ 67,945,306

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 7: 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 accompanying financial statements.

Investment income consisted of the following for the years ended June 30:

	2020	2019
Interest and dividend income	\$ 2,920,475	\$ 3,673,573
Net realized gain on sale of investments	241,165	869,215
Net change in unrealized loss on trading securities	(2,040,829)	(621,095)
Total investment income	\$ 1,120,811	\$ 3,921,693

Note 8: Fair Value Measurements

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Cash equivalents consist primarily of money market funds that are valued using a net asset value (NAV) of \$1.00. Mutual funds invested in fixed income securities - annuities are valued based on the underlying assets of the funds. Mutual funds invested in equity securities are valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

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 Organization's 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.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 8: Fair Value Measurements (Continued)

The following tables set forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis as of June 30:

	2020			
	Fair Value Measurements Using			Total Assets at
	Level 1	Level 2	Level 3	Fair Value
Cash equivalents (money market investment funds included in cash and cash equivalents in the accompanying balance sheets)	\$ 39,189,702	\$ -	\$ -	\$ 39,189,702
Mutual funds invested in fixed income securities:				
Intermediate-term bond funds	25,834,495	-	-	25,834,495
Other bond funds	15,539,799	-	-	15,539,799
Total mutual funds invested in fixed income securities	41,374,294	-	-	41,374,294
Mutual funds invested in equity securities:				
Large cap funds	15,953,950	-	-	15,953,950
Mid cap funds	2,922,083	-	-	2,922,083
Small cap funds	1,854,524	-	-	1,854,524
International funds	6,298,025	-	-	6,298,025
Total mutual funds invested in equity securities	27,028,582	-	-	27,028,582
Mutual funds - Equity and fixed income funds held for deferred compensation plans	2,658,945	-	-	2,658,945
Total assets in hierarchy table	\$ 110,251,523	\$ -	\$ -	\$ 110,251,523

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 8: Fair Value Measurements (Continued)

	2019			
	Fair Value Measurements Using			Total Assets at
	Level 1	Level 2	Level 3	Fair Value
Cash equivalents (money market investment funds included in cash and cash equivalents in the accompanying balance sheets)	\$ 18,002,500	\$ -	\$ -	\$ 18,002,500
Mutual funds invested in fixed income securities:				
Intermediate-term bond funds	30,990,599	-	-	30,990,599
Other bond funds	8,221,099	-	-	8,221,099
Total mutual funds invested in fixed income securities	39,211,698	-	-	39,211,698
Mutual funds invested in equity securities:				
Large cap funds	14,977,897	-	-	14,977,897
Mid cap funds	2,832,514	-	-	2,832,514
Small cap funds	1,958,064	-	-	1,958,064
International funds	6,311,262	-	-	6,311,262
Total mutual funds invested in equity securities	26,079,737	-	-	26,079,737
Mutual funds - Equity and fixed income funds held for deferred compensation plans	2,585,899	\$ -	\$ -	\$ 2,585,899
Total assets in hierarchy table	\$ 85,879,834	\$ -	\$ -	\$ 85,879,834

Reconciliation of the fair value hierarchy tables to the financial statements is as follows as of June 30:

	2020	2019
Cash and equivalents per balance sheet	\$ 45,025,284	\$ 23,069,954
Assets limited as to use per balance sheet	71,107,815	67,945,306
Less - Cash	(5,835,582)	(5,067,455)
Less - Interest receivable	(45,994)	(67,971)
Total from the fair value hierarchy tables	\$ 110,251,523	\$ 85,879,834

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 9: Property and Equipment

Property and equipment by majority categories consisted of the following at June 30:

	2020	2019
Land	\$ 227,478	\$ 227,478
Land improvements	2,875,871	2,964,885
Buildings and fixed equipment	49,127,378	47,653,670
Movable equipment	19,564,342	20,414,890
Vehicles	-	262,427
Total property and equipment	71,795,069	71,523,350
Less - Accumulated depreciation	42,459,590	42,094,124
Net depreciated value	29,335,479	29,429,226
Construction in progress	472,856	898,084
Property and equipment - Net	\$ 29,808,335	\$ 30,327,310

At June 30, 2020, construction in progress consisted of costs related to the renovation of various patient care departments. At June 30, 2020, commitments related to the completion of these projects totaled approximately \$3,107,000. These projects will be funded from operating cash flows, cash on hand, and investments.

Note 10: Interest in Net Assets of the Foundation

The Foundation was created to facilitate contributions, investments, and distribution of funds to be used toward the improvement of the health care facility and services provided by the Organization.

A summary of the internal financial information for the Foundation for the years ended June 30 is as follows:

	Unaudited	
	2020	2019
Assets	\$ 1,815,995	\$ 2,103,813
Liabilities	\$ 88,205	\$ 270,809
Net assets	\$ 1,727,790	\$ 1,833,004
Changes in net assets before contributions to the Organization	\$ 129,782	\$ 76,364
Less - Contributions to the Organization	234,995	236,840
Decrease in net assets	(105,213)	(160,476)
Net assets at beginning	1,833,003	1,993,479
Net assets at end	\$ 1,727,790	\$ 1,833,003

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 11: Long-Term Debt

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

	2020	2019
Wisconsin Health and Educational Facilities Authority (WHEFA) Revenue Bonds, Series 2013, maturing in 2035, amounts varying from \$280,000 in 2019 to \$1,150,000 in 2035, fixed interest rate ranging from 2% to 5%	\$ 13,655,000	\$ 13,935,000
Add - Unamortized original issue premium	819,423	877,435
Less - Deferred bond issuance costs	131,635	140,954
Subtotals	14,342,788	14,671,481
Less - Current maturities	675,000	280,000
Long-term maturities	\$ 13,667,788	\$ 14,391,481

Scheduled payments of principal on the long-term debt at June 30, 2020, including current maturities, are summarized as follows:

2020	\$ 675,000
2021	680,000
2022	730,000
2023	735,000
2024	785,000
Thereafter	10,050,000
Total	\$ 13,655,000

On April 1, 2013, the existing Obligated Group, hereafter referred to as the Aspirus, Inc. Obligated Group, debt structure was expanded to include certain other affiliated organizations of Aspirus through a Supplemental Master Trust Indenture, which amended a Master Trust Indenture dated February 29, 2012. The amendment allowed for the inclusion of certain affiliated organizations into the Aspirus, Inc. Obligated Group debt structure.

In April 2013, WHEFA issued \$90,560,000 of Revenue Bonds, Series 2013, for the benefit of the Aspirus, Inc. Obligated Group including the Organization. The proceeds from the Series 2013 Bonds were shared by four members of the Aspirus, Inc. Obligated Group including \$15,665,000 for the Organization to refinance existing debt. The Organization was also allocated a portion of the bond premium related to the debt in the amount of \$1,237,595.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 11: Long-Term Debt (Continued)

The Organization and other members of the Aspirus, Inc. Obligated Group are jointly and severally liable for payment obligations under the Supplemental Master Trust Indenture including prior existing or other outstanding debt of the Aspirus, Inc. Obligated Group pursuant to the loan agreements between the obligors and the Aspirus, Inc. Obligated Group. Management has determined that the credit risk is minimal at this point, but the Organization would be responsible for repayment of any additional debt of the other obligors if they were unable to pay beyond what is recorded on the Organization's financial statements. The total Aspirus, Inc. Obligated Group debt was \$293,759,000 as of June 30, 2020. The Aspirus, Inc. Obligated Group debt is payable solely from loan payments to be made by the Organization and other Aspirus, Inc. Obligated Group members pursuant to the debt agreements between WHEFA and the Aspirus, Inc. Obligated Group. The debt agreements of the Aspirus, Inc. Obligated Group also provide for various restrictive covenants.

Interest Expense

A summary of interest expense during the years ended June 30 is as follows:

	2020	2019
Total interest cost	\$ 598,714	\$ 686,938
Less - Amortization of original issue premium	58,012	58,012
Add - Amortization of deferred bond issuance costs	9,319	9,319
Total interest expense	\$ 550,021	\$ 638,245

Note 12: Net Assets with Donor Restrictions

Net assets with donor restrictions include assets set aside in accordance with donor restrictions as to time or use which are solely held by the Foundation and totaled \$1,727,790 and \$1,833,003 as of June 30, 2020 and 2019, respectively, including \$120,000 in both years restricted by the donor to be held in perpetuity.

Note 13: Malpractice Insurance

The Organization's professional liability insurance for claim losses of less than \$1,000,000 per claim and \$3,000,000 per year covers professional liability claims reported during a policy year ("claims made" coverage). The Organization is covered against losses in excess of these amounts through its mandatory participation in the Patients' Compensation Fund of the State of Wisconsin. The professional liability insurance policies are renewable annually and have been renewed by the insurance carrier for the period extending to July 1, 2021.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 13: Malpractice Insurance (Continued)

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the Organization. There exists the possibility of claims arising from services provided to patients through June 30, 2020 and 2019, which have not yet been asserted. The Organization has recorded liabilities of approximately \$50,000 and \$57,000 at June 30, 2020 and 2019, respectively, to cover claims, including unasserted claims, using historical experience and other relevant industry and hospital-specific factors. The liabilities are included in other accrued liabilities and other long-term liabilities in the accompanying balance sheets. The Organization has also recorded insurance receivables of approximately \$0 and \$7,000 for estimated expected recoveries from insurance related to these claims at June 30, 2020 and 2019, respectively. The receivables are included in prepaid expenses and other current assets and other assets in the accompanying balance sheets.

Note 14: Self-Funded Insurance

The Organization has self-funded health and dental plans, which provide benefits to employees, retirees, and their dependents. Health and dental costs are expensed as incurred. Health and dental expenses are based upon claims paid, reinsurance premiums, administration fees, and unpaid claims at year-end. The Organization buys reinsurance to cover catastrophic individual claims over \$400,000. The dental plan covers annual individual claims up to \$1,250.

Self-funded health care expense for the years ended June 30, 2020 and 2019, was approximately \$5,770,000 and \$5,285,000, respectively. An estimated amount of approximately \$425,000 and \$551,000 for claims outstanding has been recorded at June 30, 2020 and 2019, respectively, and is included in other accrued liabilities in the accompanying balance sheets. Self-funded dental expense for 2020 and 2019 was approximately \$138,000 and \$187,000, respectively. An additional amount included in other accrued liabilities of approximately \$15,500 and \$21,200 for claims outstanding has been recorded at both June 30, 2020 and 2019, respectively.

Note 15: Retirement Plans

The Organization participates in the Aspirus sponsored single qualified 403(b) defined contribution retirement plan is (the "Plan"), which covers eligible employees. The employer contribution is a 50.0% match on the first 6.0% of employee contributions made to the Plan and a 2.0% non-elective contribution based on eligible compensation. An additional 2.0% contribution on eligible earnings earned between the social security taxable wage base up to the IRS compensation limit is made for eligible employees. Retirement plan expense totaled approximately \$1,393,000 and \$1,358,000 for the years ended June 30, 2020 and 2019, respectively, for the defined contribution retirement plans described above.

The Organization participates in the Aspirus deferred compensation plan. Aspirus sponsors one active non-qualified deferred compensation 457(b) Plan covering eligible employees. All highly compensated employees are eligible to contribute to this Plan. Physicians and advanced practice providers receive a 6.0% contribution to the 457(b) on eligible compensation up to a maximum contribution of \$5,000 per eligible employee.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 15: Retirement Plans (Continued)

The Organization sponsors a nonqualified tax equalized annuity plan covering employed physicians. Physicians were eligible to participate in the plan after one year of service. The Organization could make an employer discretionary contribution to the plan for each plan year consisting of 5.0% of eligible wages up to 80.0% of the FICA maximum wage base and 7.4% of eligible wages above 80.0% of the FICA maximum wage base up to current IRS limitations. Participants in the plan were 100.0% vested immediately.

The Organization's expense related to the deferred compensation plans totaled approximately \$141,000 and \$157,000 for the years ended June 30, 2020 and 2019, respectively. An asset and a corresponding liability recorded for the deferred compensation plan, including unrealized gains and losses net of withdrawals, were approximately \$2,659,000 and \$2,586,000 as of June 30, 2020 and 2019, respectively.

Note 16: Functional Expenses

The Organization provides general health care services to residents within its geographic location. The accompanying statements of operations and changes in net assets present certain expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis. Employee benefits are allocated based on factors of either salary expense or actual employee expense. Overhead costs that include things such as professional services, office expenses, information technology, insurance, and other similar expenses are allocated on a variety of factors including revenues and departmental expense. Costs related to building and equipment usage include depreciation and interest and are allocated on a square footage or direct assignment basis. Expenses related to providing these services for the year ended June 30 are as follows:

	2020		
	Health Care	Management & General	Total
Salaries and wages	\$ 26,757,382	\$ 5,605,512	\$ 32,362,894
Employee benefits	7,249,206	1,977,054	9,226,260
Supplies	11,395,776	444,904	11,840,680
Purchased services and other	11,201,622	9,478,720	20,680,342
Insurance and utilities	95,955	907,670	1,003,625
Depreciation	3,249,903	1,239,469	4,489,372
Interest	18,438	531,583	550,021
Total	\$ 59,968,282	\$ 20,184,912	\$ 80,153,194

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 16: Functional Expenses (Continued)

	2019		
	Health Care	Management & General	Total
Salaries and wages	\$ 25,802,031	\$ 5,283,853	\$ 31,085,884
Employee benefits	7,559,859	1,865,654	9,425,513
Supplies	12,092,833	410,150	12,502,983
Purchased services and other	11,777,115	9,133,141	20,910,256
Insurance and utilities	85,569	934,038	1,019,607
Depreciation	3,098,238	1,386,892	4,485,130
Interest	21,481	616,764	638,245
Total	\$ 60,437,126	\$ 19,630,492	\$ 80,067,618

Note 17: Related-Party Transactions

The Organization purchased supplies and various contracted services from Aspirus and its Subsidiaries. In addition, the Organization provided leave management services to Aspirus and its Subsidiaries during the year ended June 30, 2018. The net amount of services provided to the Organization from Aspirus and its Subsidiaries totaled \$13,675,000 and \$13,075,000 for the years ended June 30, 2020 and 2019, respectively. The net amount due from the Organization to Aspirus and its subsidiaries was \$117,000 as of June 30, 2020. The net amount due to the Organization from Aspirus and its subsidiaries was \$335,000 as of June 30, 2019.

Prior to January 1, 2019, Aspirus, Inc. owned 50% of Aspirus Health Ventures, Inc. (AHV), formerly known as Arise Health Ventures, Inc. As of January 1, 2019, Aspirus, Inc. acquired the remaining 50% membership interest in AHV and therefore consolidates AHV as part of the consolidated financial statements for the year ending June 30, 2020. The Organization received approximately \$7,758,000 and \$7,747,000 for insurance payments from AHV for the years ended June 30, 2020 and 2019, respectively. AHV owed the Organization approximately \$330,000 and \$400,000 as of June 30, 2020 and 2019, respectively, which is included in patient accounts receivable - net in the accompanying balance sheets.

As of June 30, 2020 and 2019, the Foundation owed the Organization \$19,000 and \$174,000, respectively. The amounts due from related parties are recorded in prepaid expenses and other current assets, and the amounts due to related parties are recorded in other accrued liabilities on the accompanying balance sheets.

From time to time, the Organization may enter into various business transactions with members of the Board of Directors, members of various board committees, or organizations that employ board and/or committee members. Transactions are provided at fair value and follow the Organization's conflict of interest policies.

Aspirus Medford Hospital & Clinics, Inc.

Notes to Financial Statements

Note 18: Concentration of Credit Risk

Financial instruments that subject the Organization to possible credit risk consist principally of accounts receivable, cash deposits in excess of insured limits, and investments of surplus operating funds.

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

	2020	2019
Medicare and Medicare Advantage plans	27 %	28 %
Medicaid and Medicaid managed care plans	12 %	12 %
Other third-party payors	41 %	40 %
Uninsured patients	20 %	20 %
Totals	100 %	100 %

The Organization maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to \$250,000. Operating cash needs often require that amounts on deposit exceed FDIC limits. At June 30, 2020, the amount of the Organization's bank balances in excess of FDIC limits was approximately \$5,602,000. In addition, other investments held by financial institutions are uninsured.

Note 19: Commitments and Contingencies

The Organization may from time to time be involved in litigation and regulatory investigations that arise in the normal course of doing business. After consultation with legal counsel, management estimates that existing matters as of June 30, 2020, will be resolved without material adverse effect on the Organization's future financial position, results from operations, or cash flows.

Note 20: Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 classifications.

Langlade Hospital – Hotel Dieu of St. Joseph of Antigo, Wisconsin

Financial Statements

Years Ended June 30, 2020 and 2019

Independent Auditor's Report

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin
Antigo, Wisconsin

We have audited the accompanying financial statements of Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin, which comprise the balance sheets as of June 30, 2020 and 2019, and the related statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the 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 financial statements referred to above present fairly, in all material respects, the financial position of Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin as of June 30, 2020 and 2019, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads "Wipfli LLP".

Wipfli LLP

October 14, 2020
Eau Claire, Wisconsin

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Balance Sheets

<i>June 30</i>	2020	2019
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 81,493,742	\$ 37,711,920
Patient accounts receivable - Net	12,826,027	14,779,334
Inventory	1,843,790	2,133,295
Prepaid expenses and other current assets	5,105,956	1,422,821
Estimated third-party payor settlements	-	3,019,007
Total current assets	101,269,515	59,066,377
Investments	809,532	876,766
Assets limited as to use	91,166,673	99,015,335
Property and equipment - Net	49,079,722	52,327,811
Other assets:		
Interest in net assets of Community Health Foundation	503,544	514,701
Investment in unconsolidated affiliate	3,982,461	3,953,686
Other	3,600	-
Total other assets	4,489,605	4,468,387
TOTAL ASSETS	\$ 246,815,047	\$ 215,754,676

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Balance Sheets (Continued)

<i>June 30</i>	2020	2019
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Current maturities of long-term debt	\$ 535,000	\$ 510,000
Current maturities of finance lease obligation	54,349	-
Accounts payable - Trade	1,125,266	2,336,637
Accrued salaries and wages	2,816,145	2,959,570
Accrued interest payable	375,117	384,680
Estimated third-party payor settlements	4,730,451	-
Other accrued liabilities	10,534,959	1,810,081
Total current liabilities	20,171,287	8,000,968
Long-term liabilities:		
Long-term debt - Less current maturities	22,823,924	23,377,356
Finance lease obligation - Less current maturities	69,830	-
Deferred compensation	1,280,643	1,147,306
Other long-term liabilities	318,235	120,971
Total long-term liabilities	24,492,632	24,645,633
Total liabilities	44,663,919	32,646,601
Net assets:		
Without donor restrictions	201,647,584	182,593,374
With donor restrictions	503,544	514,701
Total net assets	202,151,128	183,108,075
TOTAL LIABILITIES AND NET ASSETS	\$ 246,815,047	\$ 215,754,676

See accompanying notes to financial statements.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Statements of Operations and Changes in Net Assets

<i>Years Ended June 30</i>	2020	2019
Revenue:		
Net patient service revenue	\$ 101,508,465	\$ 100,868,012
Other operating revenue	10,939,556	9,950,912
Grant revenue	196,242	-
Total revenue	112,644,263	110,818,924
Expenses:		
Salaries and wages	36,949,446	35,761,301
Employee benefits	9,539,919	10,081,371
Supplies	15,304,540	13,654,718
Purchased services and other	27,849,700	30,181,341
Insurance and utilities	985,609	1,112,596
Depreciation	4,893,659	5,084,187
Interest	986,104	1,009,804
Total expenses	96,508,977	96,885,318
Income from operations	16,135,286	13,933,606
Nonoperating income (expense):		
Investment income	2,881,004	5,600,059
Contributions and other - Net	17,920	(148,232)
Total nonoperating income - Net	2,898,924	5,451,827
Revenue in excess of expenses	19,034,210	19,385,433

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Statements of Operations and Changes in Net Assets (Continued)

<i>Years Ended June 30</i>	2020	2019
Net assets without donor restrictions:		
Revenue in excess of expenses brought forward	\$ 19,034,210	\$ 19,385,433
Net assets released from restrictions	20,000	25,118
Increase in net assets without donor restrictions	19,054,210	19,410,551
Net assets with donor restrictions:		
Net change in interest in net assets of Community Health Foundation	8,843	16,963
Net assets released from restrictions	(20,000)	(25,118)
Decrease in net assets with donor restrictions	(11,157)	(8,155)
Increase in net assets	19,043,053	19,402,396
Net assets at beginning	183,108,075	163,705,679
Net assets at end	\$ 202,151,128	\$ 183,108,075

See accompanying notes to financial statements.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Statements of Cash Flows

<i>Years Ended June 30</i>	2020	2019
Increase in cash and cash equivalents:		
Cash flows from operating activities:		
Increase in net assets	\$ 19,043,053	\$ 19,402,396
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	4,896,135	5,084,187
Amortization of deferred bond issuance costs and bond premium	(18,434)	(18,434)
Gain on sale of property and equipment	(2,476)	-
Bad debts	39,692	83,381
Net change in unrealized (gain) loss on trading securities	271,656	(2,460,685)
Net change in interest in net assets of Community Health Foundation	(8,843)	(16,963)
Net change in equity in investment in unconsolidated affiliate	(28,775)	(103,557)
Changes in operating assets and liabilities:		
Patient accounts receivable	1,913,615	(423,391)
Inventory	289,505	(261,712)
Prepaid expenses and other assets	(3,686,735)	(331,602)
Estimated third-party payor settlements	7,749,458	(1,414,172)
Investments and assets limited as to use, including net realized gain	7,644,240	(1,723,388)
Accounts payable - Trade	(1,211,371)	451,372
Accrued and other liabilities	8,902,491	876,755
Total adjustments	26,750,158	(258,209)
Net cash provided by operating activities	45,793,211	19,144,187
Cash flows from investing activities:		
Capital expenditures - Net	(1,330,843)	(1,678,005)
Distribution from unconsolidated affiliate	-	100,000
Distributions from Community Health Foundation	20,000	25,118
Net cash used in investing activities	(1,310,843)	(1,552,887)

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Statements of Cash Flows (Continued)

<i>Years Ended June 30</i>	2020	2019
Net cash used in financing activities -		
Principal payments on long-term debt and finance lease obligation	\$ (700,546)	\$ (485,000)
Net increase in cash and cash equivalents	43,781,822	17,106,300
Cash and cash equivalents at beginning	37,711,920	20,605,620
Cash and cash equivalents at end	\$ 81,493,742	\$ 37,711,920
Supplemental cash flow information:		
Cash paid for interest including amounts capitalized	\$ 1,014,101	\$ 1,035,513
Property and equipment acquired under finance lease obligations	314,725	-

See accompanying notes to financial statements.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Principal Business Activity

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin (the "Organization") is a nonstock, nonprofit corporation that is licensed to operate a critical access hospital (CAH). The Organization provides comprehensive medical, surgical, emergency, outpatient, and multispecialty physician services to residents of Langlade County and the surrounding area. The Organization also operates Pine Meadows, an independent living apartment complex and Rosalia Gardens, a resident certified community-based residential facility, as departments of the Organization. Pine Meadows and Rosalia Gardens are both located in Antigo, Wisconsin. The Organization conducts business under the name Aspirus Langlade Hospital.

The corporate members of the Organization are the Religious Hospitallers of St. Joseph Health Corporation ("RHSJHC") a nonprofit Catholic organization of sisters based in Montreal, Canada, and Aspirus, Inc. ("Aspirus"), a nonprofit health care system in Wausau, Wisconsin. The Organization also operates under the Canonical Sponsorship of Catholic Health International. RHSJHC and Aspirus appoint the Organization's Board of Trustees and delegate operational responsibility to the Organization's Board of Trustees. RHSJHC has a 55% interest in the Organization and Aspirus has a 45% interest in the Organization as of June 30, 2020 and 2019.

Financial Statement Presentation

The Organization 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 in the preparation of financial statements in conformity with GAAP.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with GAAP requires management to make 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 and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash Equivalents

The Organization considers all highly-liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited or restricted.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Investments, Assets Limited as to Use, and Investment Income

Investments are classified as trading securities, and accordingly investments, including investments designated as assets limited as to use, are recorded at fair value in the accompanying balance sheets with the changes in fair value during the period included in revenue in excess of expenses in the accompanying statements of operations and changes in net assets, unless the changes in fair value are restricted by donor or law.

Assets limited as to use represents investments designated by the Board of Trustees for future capital improvements and funds held for deferred compensation plan use. The funds designated by the Board of Trustees remain under the control of the Board of Trustees and may, at their direction, be subsequently used for other purposes.

All investment income (including realized and unrealized gains and losses, interest, and dividends) is reported as nonoperating income and is included in revenue in excess of expenses unless the income is restricted by donor or law. Realized gains or losses are determined by specific identification.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The Organization measures fair value of its financial instruments using a three-tier hierarchy that prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's 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.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable is reported at the amount that reflects the consideration to which the Organization 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 Organization 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. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

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

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Inventory

Inventory of supplies is valued at the lower of average cost or net realizable value.

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives range from 2 to 20 years for movable equipment and 2 to 70 years for land improvements, buildings, and fixed equipment.

Finance leases are included in property and equipment and long-term liabilities in the accompanying balance sheets. Property and equipment under finance lease obligations are amortized on the straight-line method over the lease term or the estimated useful life of the equipment, whichever period is shorter. Such amortization is included with depreciation on the accompanying statements of operations and changes in net assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions and are excluded from revenue in excess of expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed into service.

The Organization periodically evaluates whether events and circumstances have occurred that may affect the carrying value of the property and equipment. If such events or circumstances indicate the carrying values may not be recoverable, impairment is determined by comparing the carrying value with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Organization would recognize an impairment loss. During 2020 and 2019, the Organization determined that no evaluations of recoverability were necessary.

Interest in Net Assets of Community Health Foundation

Accounting guidance establishes standards of financial accounting and reporting for transactions in which an entity makes contributions to another entity or an entity that accepts contributions from a donor and agrees to use those assets on behalf of or transfer those assets and the return on those assets to another entity. The Organization and Memorial Hospital and Community Health Foundation, Inc. are financially interrelated organizations, and accordingly the Organization recognizes its interest in the net assets of the Community Health Foundation and adjusts that interest for its share of the change in the net assets of the Community Health Foundation.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Investment in Unconsolidated Affiliate

Investment in an unconsolidated affiliate are accounted for using the equity method.

Deferred Bond Issuance Costs and Bond Premium

Bond issuance costs and original issue premium related to issuance of long-term debt are being amortized on a straight-line basis over the term of the related indebtedness. Amortization of bond issuance costs and original issue premium is included with interest expense in the accompanying statements of operations and changes in net assets.

Net Assets

Net assets without donor restrictions consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of the Organization not subject to donor-imposed stipulations and include those expendable resources which have been designated for special use by the Board of Trustees. Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period, purpose, or with donor restrictions have been restricted by donors to be maintained by the Organization in perpetuity.

For the years presented, the Organization had no net assets with donor restrictions restricted by donors to be maintained in perpetuity.

Revenue in Excess of Expenses

The accompanying statements of operations and changes in net assets include the classification revenue in excess of expenses, which is considered the operating indicator. Changes in net assets without donor restrictions, which are excluded from the operating indicator, include permanent transfer of assets to and from affiliates for other than goods and services and contributions of long-lived assets including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets.

Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the Organization 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 Organization bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

Performance obligations are determined based on the nature of the services provided. Revenue from performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Generally, performance obligations satisfied over time relate to patients receiving hospital inpatient acute care services and hospice post-acute care services. For these services the Organization 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 in our hospital and clinics, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed. In the case of these outpatient services, recognition of the obligation over time yields the same result as recognizing the obligation at a point in time.

Because the Organization's performance obligations relate to contracts with a duration of less than one year, the Organization 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 Organization 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 Organization used the following factors to develop portfolios: major payor classes and type of service (i.e. inpatient, outpatient). Using historical collection trends and other analysis, the Organization evaluated the accuracy of its estimates 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 Organization determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy, and implicit price concessions provided to patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization determines its estimate of implicit price concessions based on its historical collection experience for each patient portfolio based on payor class and service type.

The Organization has agreements with third-party payors that provide for reimbursement at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

- *Hospital - Medicare* - The Organization is designated as a CAH with reimbursement based upon a cost-reimbursement methodology for inpatient and outpatient services with the exception of certain lab and radiology services, which are reimbursed based on fee schedules. Professional services provided by physicians and other clinicians are reimbursed based upon prospectively determined fee schedules.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

- *Hospital - Medicaid* - The Organization is also designated as a CAH by the Medicaid program. Under legislation enacted by the State of Wisconsin (the "State"), eligible CAHs, including the Organization, are required to pay the State an annual assessment. The assessment is based on each hospital's gross inpatient revenue, as defined. The revenue generated from the assessment is to be used, in part, to increase overall reimbursement under the Wisconsin Medicaid program through the development of an access payment system. The Wisconsin Medicaid program pays a hospital-specific amount per discharge or visit for inpatient and outpatient services adjusted by patient acuity, determined based on prior hospital cost reports, plus an additional access payment on inpatient and outpatient services. Professional services provided by physicians and other clinicians in the hospital setting continue to be reimbursed on prospectively determined fee schedules.
- *Clinic - Medicare and Medicaid* - Certain professional services provided by physicians and other clinicians rendered to Medicare and Medicaid beneficiaries qualify for reimbursement as Medicare- and Medicaid-approved rural health clinic services. Qualifying services under the rural health clinic program are reimbursed on a cost-reimbursement methodology. Other professional services provided by physicians and other clinicians are reimbursed based on prospectively determined fee schedules.
- *Others* - The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Organization under these agreements includes negotiated rates which are most commonly discounts from established charges.

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 Organization'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 Organization. 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 Organization has not been notified by the RAC of any potential significant reimbursement adjustments. In addition, the contracts the Organization has with third-party payors also provide for retroactive audit and review of claims.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue (Continued)

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization'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, 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 2020 and 2019.

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 expenses for the years ended June 30, 2020 and 2019 were not significant.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization 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 Organization expects to collect based on its collection history with those patients. The Organization's policy is to provide a 20% discount from established charges to uninsured patients. This policy did not change in 2020 and 2019.

The promised amount of consideration from patients and third-party payors have not been adjusted for the effects of a significant financing component due to the Organization'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 Organization 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 Organization otherwise would have recognized is one year or less in duration.

Charity Care

The Organization 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 Organization's charity care policy is calculated by multiplying the ratio of cost to gross charges for the Organization times the gross uncompensated charges associated with providing charity care.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Donor-Restricted Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as net asset 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 as net assets released from restrictions.

Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions.

Unemployment Compensation

The Organization has elected reimbursement financing under provisions of the Wisconsin unemployment compensation laws. The Organization has obtained a letter of credit of \$328,869, which expires December 31, 2020, to meet state funding requirements as of June 30, 2020 and 2019.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The Organization is a nonprofit 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 Organization is also exempt from state income taxes on related income. The Organization is also engaged, to a limited extent, in certain activities subject to taxation as unrelated business income (UBI). Income taxes on UBI are not significant.

Subsequent Events

Subsequent events have been evaluated through October 14, 2020, which is the date the financial statements were issued.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Change in Accounting Policies

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

The standard did not have a material impact on the Organization's net assets or cash flows from operations and had an immaterial impact on the Organization's operating results. The most significant impact was the recognition of the ROU assets and lease obligations for operating leases.

As a result of the adoption of the new lease accounting guidance, the Organization recognized the following ROU assets and lease liabilities as of July 1, 2019:

	2020
ROU assets - Finance leases	\$ 41,210
Finance lease obligation	41,210

In November 2016, the FASB issued ASU No. 2016-18, *Statements of Cash Flows - Restricted Cash* (Topic 230). The updates in this ASU are expected to change the presentation on the statement of cash flows that all cash and cash equivalents, including restricted cash equivalents, will be shown within the total cash and cash equivalents on the statement of cash flows. This will require a reconciliation be shown to reconcile the total cash and cash equivalents on the statement of cash flows to the related captions in the balance sheet. This ASU is effective for the Organization's year ending June 30, 2020. The adoption of this ASU did not materially impact the financial statements.

New Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement* (Topic 820). This ASU improves the effectiveness of the notes to the financial statements through changes in the disclosure requirements for fair value measurement. This ASU is effective for fiscal year 2021 and will be applied using a retrospective approach.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other, Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The ASU is effective for fiscal year 2022 and will be applied using a prospective approach.

Management is evaluating the impact the new accounting pronouncements will have on the Organization.

Note 2: COVID-19

Starting in March 2020, the nation in general, and healthcare-related entities specifically, have been faced with a global pandemic. As healthcare entities prepared for the crisis, operational changes were made to delay routine visits and elective procedures and reevaluate the entire care delivery model to care for patient needs, specifically those affected by COVID-19. The complete financial impact on the economy in general and healthcare-related entities specifically is undeterminable at this time; however, it was noted and is anticipated by the Organization that both operational performance and cash flows for healthcare-related entities has been and will be impacted in fiscal year 2020 as well as in future periods until the pandemic ends.

The federal and state governments, as well as other agencies, have been assisting many healthcare organizations to prevent significant financial constraints by providing supplemental payment programs in the forms of distributions which are intended to help in offsetting lost revenues as well as the cost of staffing, supplies, and equipment from treating patients impacted by or preparing for the pandemic's healthcare needs.

During 2020, the Organization received \$7,353,620 in grant funding from the U.S. Department of Health and Human Services (HHS) Provider Relief Fund which was established as a result of the Coronavirus Aid, Relief, and Economic CARES Act. Based on the terms and conditions of the the grant, the Organization earns the grant by incurring COVID-19 expenses or by incurring lost revenues as a result of COVID-19. During 2020, the Organization recognized approximately \$36,661 in grant revenue related to this program. The Organization received other grants which were recognized in grant revenue during 2020 totaling \$159,581. As of June 30, 2020, the Organization recorded deferred revenue of \$7,316,959 for the amount of grants received but not earned, which is reported within other accrued liabilities in the accompanying balance sheet. Management is continuing to monitor compliance with the terms and conditions of the Provider Relief Fund as new guidance and clarification is released from HHS and other agencies. If the Organization is unable to attest to or comply with current or future terms and conditions as more information becomes available, the Organization's ability to retain some or all of the distributions received may be impacted.

In addition to the provider relief funds noted above, CMS offered an accelerated and advance payment program which gave healthcare providers the opportunity to receive an advance on future Medicare payments. The Organization received a non-interest-bearing Medicare Refundable Advance of \$10,417,360 in 2020. Repayment of the Medicare refundable advance is expected to begin 120 days after receipt of the advance with total repayment due no later than one year after receipt of the advance. The Organization recorded the amount owed to Medicare within the liability captioned estimated third-party payor settlements in the accompanying balance sheet at June 30, 2020.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 3: Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30:

	2020	2019
Patient accounts receivable	\$ 22,980,277	\$ 26,569,136
Less: Contractual adjustments and implicit price concessions	10,154,250	11,789,802
Patient accounts receivable - Net	\$ 12,826,027	\$ 14,779,334

Note 4: Net Patient Service Revenue

The composition of net patient service revenue based on the geographic region the Organization operates in as outlined in Note 1, its lines of business, and timing of revenue recognition for the year ended June 30 are as follows:

	2020	2019
Service lines		
Hospital services	\$ 85,314,890	\$ 84,465,386
Clinic services	16,193,575	16,402,626
Totals	101,508,465	100,868,012
Timing of recognitions:		
At time services were rendered	84,637,939	81,996,869
Services transferred over time	16,870,526	18,871,143
Totals	\$ 101,508,465	\$ 100,868,012

Patient service revenue (net of contractual allowances, discounts, and implicit price concessions) consisted of the following for the year ended June 30:

	2020	2019
Medicare and Medicare Advantage plans	\$ 41,662,939	\$ 42,493,052
Medicaid and Medicaid HMO plans	7,984,958	9,577,839
Other third-party payors	51,216,697	48,522,818
Uninsured patients	643,871	274,303
Net patient service revenue	\$ 101,508,465	\$ 100,868,012

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 5: Community Care

The Organization provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community including the health of low-income patients. Consistent with the mission of the Organization, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources or to those who are underinsured.

The Organization has a community care policy which is generally based on federal poverty guidelines, and applications can be completed by patients and/or their families. Patients who meet the criteria for community care are provided care without charge or at a reduced rate.

The estimated cost of providing care to patients under the Organization's community care policy aggregated approximately \$1,478,000 and \$1,119,000 in 2020 and 2019, respectively.

Other benefits for the community also include unpaid costs of treating the elderly, health screenings, community education through seminars and classes, and other health-related services.

Note 6: Liquidity

As of June 30, 2020, 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 for the year ended June 30:

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 81,493,742	\$ 37,711,920
Patient accounts receivable - Net	12,826,027	14,779,334
Investments	809,532	876,766
Assets limited as to use - Board designated for future capital improvements	89,886,030	97,868,029
Total financial assets and liquidity resources	\$ 185,015,331	\$ 151,236,049

As part of Organization's liquidity management, it invests cash in excess of daily requirements in a variety of investment vehicles. These funds, included in investments, are considered available for operational or capital needs, except for investment vehicles with restrictive redemption requirements. Occasionally, the Board of Trustees designates a portion of operating surplus to be appropriated at its discretion for future operational initiatives and capital expenditures. Though these funds, at the discretion of the Board of Trustees, could be released immediately, these funds are considered available under the Organization's liquidity management.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 7: Investments, Assets Limited as to Use, and Investment Income

Investments

Investments consisted of the following at June 30:

	2020	2019
Certificates of deposit	\$ 809,532	\$ 795,157
Mutual funds invested in equity securities	-	81,609
Total investments	\$ 809,532	\$ 876,766

Assets Limited as to Use

Assets limited as to use consisted of the following at June 30:

	2020	2019
Board designated for future capital improvements:		
Cash equivalents	\$ -	\$ 10,566,232
Mutual funds invested in equity securities	39,232,555	39,964,399
Mutual funds invested in fixed income securities	40,736,666	38,155,186
Marketable equity securities	9,916,809	9,182,212
Total Board-designated for future capital improvements	89,886,030	97,868,029
For deferred compensation plans - Mutual funds invested in equity and fixed income securities	1,280,643	1,147,306
Total assets limited as to use	\$ 91,166,673	\$ 99,015,335

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 accompanying financial statements.

Investment income consisted of the following for the years ended June 30:

	2020	2019
Interest and dividend income	\$ 3,141,992	\$ 2,995,631
Net realized gain on sale of investments	10,668	143,743
Net change in unrealized gain (loss) on trading securities	(271,656)	2,460,685
Total investment income	\$ 2,881,004	\$ 5,600,059

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 8: Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value:

Cash equivalents consist primarily of money market funds that are valued using a net asset value (NAV) of \$1.00. Quoted market prices are used to determine the fair value in marketable equity securities which consist primarily of common stock traded in active markets. Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds invested in equity and fixed income securities held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while the Organization's 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 set forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis as of June 30:

	2020				Total Assets at Fair Value
	Fair Value Measurements Using				
	Level 1	Level 2	Level 3		
Marketable equity securities	\$ 9,916,809	\$ -	\$ -	\$ 9,916,809	
Mutual funds invested in equity securities:					
Mid cap funds	16,221,136	-	-	16,221,136	
Large cap funds	11,954,326	-	-	11,954,326	
International funds	11,057,093	-	-	11,057,093	
Total mutual funds invested in equity securities	39,232,555	-	-	39,232,555	
Mutual funds invested in fixed income securities:					
Intermediate-term bond funds	25,266,543	-	-	25,266,543	
Other funds	15,470,123	-	-	15,470,123	
Total mutual funds invested in fixed income securities	40,736,666	-	-	40,736,666	
Mutual funds - Equity and fixed income funds held for deferred compensation plan	1,280,643	-	-	1,280,643	
Total assets in the hierarchy table	\$ 91,166,673	\$ -	\$ -	\$ 91,166,673	

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 8: Fair Value Measurements (Continued)

	2019			Total Assets at Fair Value
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Cash equivalents	\$ 10,566,232	\$ -	\$ -	\$ 10,566,232
Marketable equity securities	9,182,212	-	-	9,182,212
Mutual funds invested in equity securities:				
Mid cap funds	15,699,405	-	-	15,699,405
Large cap funds	12,164,579	-	-	12,164,579
International funds	12,100,415	-	-	12,100,415
Other funds	81,609	-	-	81,609
Total mutual funds invested in equity securities	40,046,008	-	-	40,046,008
Mutual funds invested in fixed income securities:				
Intermediate-term bond funds	23,170,558	-	-	23,170,558
Other funds	14,984,628	-	-	14,984,628
Total mutual funds invested in fixed income securities	38,155,186	-	-	38,155,186
Mutual funds - Equity and fixed income funds held for deferred compensation plan	1,147,306	-	-	1,147,306
Total assets in the hierarchy table	\$ 99,096,944	\$ -	\$ -	\$ 99,096,944

Reconciliation of the fair value hierarchy tables to the financial statements is as follows as of June 30:

	2020	2019
Investments per balance sheets	\$ 809,532	\$ 876,766
Assets limited as to use per balance sheets	91,166,673	99,015,335
Less - Certificates of deposit	809,532	795,157
Totals from the fair value hierarchy tables	\$ 91,166,673	\$ 99,096,944

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 9: Property and Equipment

Property and equipment consisted of the following at June 30:

	2020	2019
Land	\$ 1,382,049	\$ 1,382,049
Land improvements	4,760,462	4,757,412
Buildings and fixed equipment	68,788,902	68,107,762
Movable equipment	27,118,407	27,052,870
Total property and equipment	102,049,820	101,300,093
Less - Accumulated depreciation	53,036,029	49,333,863
Net depreciated value	49,013,791	51,966,230
Construction in progress	65,931	361,581
Property and equipment - Net	\$ 49,079,722	\$ 52,327,811

Note 10: Interest in Net Assets of Community Health Foundation

The Community Health Foundation was created to facilitate contributions, investments, and distribution of funds to be used toward the improvement of the health care facility and services provided by the Organization. Distributions of \$20,000 and \$25,118 were made by the Community Health Foundation to the Organization for the years ended June 30, 2020 and 2019, respectively, from the funds designated for the benefit of the Organization.

The Organization's interest in net assets of the Community Health Foundation of \$503,544 and \$514,701 as of June 30, 2020 and 2019, respectively, is reported in the accompanying balance sheets.

A summary of the financial information for the Community Health Foundation for the years ended June 30 is as follows:

	2020	2019
Assets	\$ 3,145,772	\$ 3,168,596
Liabilities	\$ 168,022	\$ 168,022
Net assets	\$ 2,977,750	\$ 3,000,574

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 10: Interest in Net Assets of Community Health Foundation (Continued)

	2020	2019
Changes in net assets before contributions to the Organization	\$ (2,824)	\$ 228,833
Less - Contributions to the Organization	20,000	25,118
Increase (decrease) in net assets	(22,824)	203,715
Net assets at beginning	3,000,574	2,796,859
Net assets at end	\$ 2,977,750	\$ 3,000,574

The Organization provided limited amounts of office supplies and services to the Community Health Foundation for which the Community Health Foundation reimbursed the Organization. In addition, the Organization's employees provide a limited amount of time coordinating the activities of the Community Health Foundation. The Organization is not reimbursed by the Community Health Foundation for this service.

Note 11: Investment in Unconsolidated Affiliate

The Organization previously purchased a 25% interest from Aspirus Wausau Hospital, Inc. (AWH) in a joint venture, the Westwood Conference Center, LLC (Westwood), which owns and operates the Westwood Conference Center in Wausau, Wisconsin. This investment is accounted for under the equity method. In 2020 and 2019, the Organization received distributions from Westwood totaling \$0 and \$100,000, respectively.

The operating results of the investment recorded under the equity method are included in the accompanying statements of operations and changes in net assets under the classification other operating revenue.

Detail of the investment for the years ended June 30 is as follows:

	2020		2019	
	Investment	Change in Operating Results	Investment	Change in Operating Results
Westwood Conference Center	\$ 3,982,461	\$ 28,775	\$ 3,953,686	\$ 103,556

The following is a summary of the financial position of the Organization's investment accounted for under the equity method as of June 30:

	2020	2019
Assets	\$ 6,371,988	\$ 6,126,622
Liabilities	\$ 231,692	\$ 398,107
Equity	\$ 6,140,296	\$ 5,728,515

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Notes to Financial Statements

Note 12: Long-Term Debt

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

	2020	2019
Wisconsin Health and Educational Facilities Authority (WHEFA) Revenue Bonds, Series 2013, maturing in 2044, with payments varying from \$510,000 in 2019 to \$1,490,000 in 2044, fixed interest rates ranging from 2% to 5%	\$ 22,940,000	\$ 23,450,000
Add - Unamortized original issue premium	660,199	689,219
Less - Deferred bond issuance costs	241,275	251,861
Subtotals	23,358,924	23,887,358
Less - Current maturities	535,000	510,000
Totals	\$ 22,823,924	\$ 23,377,358

Scheduled payments of principal on the long-term debt at June 30, 2020, including current maturities, are summarized as follows:

2021	\$ 535,000
2022	565,000
2023	590,000
2024	620,000
2025	655,000
Thereafter	19,975,000
Total	\$ 22,940,000

In April 2013, WHEFA issued \$90,560,000 of Revenue Bonds, Series 2013, for the benefit of the Organization and certain affiliates of Aspirus, who collectively are known as the "Aspirus, Inc. Obligated Group." The Organization joined the Aspirus, Inc. Obligated Group as a member simultaneously with the issuance of the Series 2013 Bonds. The proceeds from the Series 2013 Bonds were shared among the members of the Aspirus, Inc. Obligated Group, including \$26,130,000 for the Organization to reimburse itself for the construction and equipping of the replacement hospital facility which opened in May 2012, and to pay certain expenses incurred in connection with the issuance. The Organization was also allocated a portion of the bond premium related to the debt in the amount of \$870,592.

The Series 2013 Bonds were issued pursuant to, and secured by, a Master Trust Indenture dated February 29, 2012, between WHEFA and the existing members of the Aspirus, Inc. Obligated Group which was amended to include the Organization as well as certain other affiliates of Aspirus through a Supplemental Master Trust Indenture dated April 1, 2013.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 12: Long-Term Debt (Continued)

The Organization and other members of the Aspirus, Inc. Obligated Group are jointly and severally liable for payment obligations under the Supplemental Master Trust Indenture including prior existing or other outstanding debt of the Aspirus, Inc. Obligated Group pursuant to the loan agreements between the obligors and the Aspirus, Inc. Obligated Group. Management has determined that the credit risk is minimal at this point; however, the Organization would be responsible for repayment of any additional debt of the other obligors if they were unable to pay beyond what is recorded on the Organization's financial statements. The total Aspirus, Inc. Obligated Group debt was \$293,759,000 as of June 30, 2020. The Aspirus, Inc. Obligated Group debt is payable solely from loan payments to be made by the Organization and other Aspirus, Inc. Obligated Group members pursuant to the debt agreements between WHEFA and the Aspirus, Inc. Obligated Group. The debt agreements of the Aspirus, Inc. Obligated Group also provide for various restrictive covenants.

A summary of interest expense during the years ended June 30 is as follows:

	2020	2019
Total interest cost	\$ 1,004,538	\$ 1,028,238
Less - Amortization of original issue premium	29,020	29,020
Add - Amortization of deferred bond issuance costs	10,586	10,586
Total interest expense	\$ 986,104	\$ 1,009,804

Note 13: Net Assets with Donor Restrictions

Net assets with donor restrictions relate solely to the interest in net assets of the Community Health Foundation at June 30, 2020 and 2019.

Note 14: Malpractice Insurance

The Organization's professional liability insurance for claim losses of less than \$1,000,000 per claim and \$3,000,000 per year covers professional liability claims reported during a policy year ("claims made" coverage). The Organization is covered against losses in excess of these amounts through its mandatory participation in the Patients' Compensation Fund of the State of Wisconsin. The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the period extending to July 1, 2021.

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the Organization. There exists the possibility of claims arising from services provided to patients through June 30, 2020 and 2019, which have not yet been asserted. The Organization has recorded liabilities of approximately \$50,000 at June 30, 2020 and 2019, to cover claims, including unasserted claims, using historical experience and other relevant industry and hospital-specific factors.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 15: Self-Funded Health Insurance

The Organization has self-funded health and dental insurance plans which provide benefits to employees, retirees, and their dependents. Health and dental costs are expensed as incurred. Health and dental expenses are based upon claims paid, reinsurance premiums, administration fees, and unpaid claims at year-end. The Organization buys reinsurance to cover catastrophic individual claims over \$300,000.

Self-funded health expense for the years ended June 30, 2020 and 2019, was approximately \$5,938,000 and \$5,718,000, respectively. A liability of approximately \$383,000 and \$500,000 for self-funded health claims outstanding has been recorded at June 30, 2020 and 2019, respectively, and is included in other accrued liabilities in the accompanying balance sheets. Self-funded dental expense for 2020 and 2019 was approximately \$188,000 and \$273,000, respectively.

Note 16: Retirement Plan

The Organization participates in the Aspirus single qualified 403(b) defined contribution retirement plan (the "Plan"), which covers eligible employees. The employer contribution is a 50.0% match on the first 6.0% of employee contributions made to the Plan and a 2.0% non-elective contribution based on eligible compensation. An additional 2.0% contribution on eligible earnings earned between the social security taxable wage base up to the IRS compensation limit is made for eligible employees. The Organization's total retirement expense under the plans totaled approximately \$1,576,000 and \$1,570,000 in 2020 and 2019, respectively.

Note 17: Deferred Compensation Plan

The Organization participates in the Aspirus deferred compensation plan. Aspirus sponsors one active non-qualified deferred compensation 457(b) Plan covering eligible employees. All highly compensated employees are eligible to contribute to this Plan. Physicians and advanced practice providers receive a 6.0% contribution to the 457(b) on eligible compensation up to a maximum contribution of \$5,000 per eligible employee.

The Organization also participates in Aspirus' 457(f) plan. Aspirus' 457(f) plan contributions vary from 2.5% to 17.0% of a participant's eligible compensation. The Organization's expense related to the deferred compensation plans totaled approximately \$115,000 and \$183,000 for the years ended June 30, 2020 and 2019, respectively. An asset and a corresponding liability for the deferred compensation plan, including unrealized gains and losses net of withdrawals, were \$1,280,643 and \$1,147,306 at June 30, 2020 and 2019, respectively.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 18: Functional Expenses

The Organization provides general health care services to residents within its geographic location. The accompanying statements of operations and changes in net assets present certain expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis. Employee benefits are allocated based on factors of either salary expense or actual employee expense. Overhead costs that include things such as professional services, office expenses, information technology, insurance, and other similar expenses are allocated on a variety of factors including revenues and departmental expense. Costs related to building and equipment usage include depreciation and interest and are allocated on a square footage or direct assignment basis. Expenses related to providing these services for the year ended June 30 are as follows:

	2020		
	Healthcare Services	Management & General	Total
Salaries and wages	\$ 30,477,293	\$ 6,472,153	\$ 36,949,446
Employee benefits	7,842,349	1,697,570	9,539,919
Supplies	14,418,644	885,896	15,304,540
Purchased services and other	10,543,265	17,306,435	27,849,700
Insurance and utilities	280,285	705,324	985,609
Depreciation	3,579,192	1,314,467	4,893,659
Interest	675,243	310,861	986,104
Total	\$ 67,816,271	\$ 28,692,706	\$ 96,508,977

	2019		
	Healthcare Services	Management & General	Total
Salaries and wages	\$ 28,802,715	\$ 6,958,586	\$ 35,761,301
Employee benefits	7,816,075	2,265,296	10,081,371
Supplies	12,799,045	855,673	13,654,718
Purchased services and other	13,048,659	17,132,682	30,181,341
Insurance and utilities	313,248	799,348	1,112,596
Depreciation	3,769,793	1,314,394	5,084,187
Interest	691,470	318,334	1,009,804
Total	\$ 67,241,005	\$ 29,644,313	\$ 96,885,318

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Notes to Financial Statements

Note 19: Related-Party Transactions

The Organization purchased supplies, employee healthcare, and various contracted services from Aspirus and its subsidiaries totaling approximately \$17,980,000 and \$15,661,000 for the years ended June 30, 2020 and 2019, respectively. Aspirus and its Subsidiaries owes the Organization approximately \$3,287,000 and \$577,000 as of June 30, 2020 and 2019, respectively. The amount owed to the Organization is a result of prepaying for services in 2020 and 2019. The amounts due from related parties are recorded in prepaid expenses and other current assets on the accompanying balance sheets.

Prior to January 1, 2019, Aspirus, Inc. owned 50% of Aspirus Health Ventures, Inc. (AHV), formerly known as Arise Health Ventures, Inc. As of January 1, 2019, Aspirus, Inc. acquired the remaining 50% membership interest in AHV and therefore consolidates AHV as part of the consolidated financial statements for the year ending June 30, 2019. The Organization received approximately \$7,490,000 and \$8,222,000 for insurance payments from AHV, for the years ended June 30, 2020 and 2019, respectively. Arise owed the Organization approximately \$332,000 and \$522,000 as of June 30, 2020 and 2019, respectively, which is included in patient accounts receivable - net in the accompanying balance sheets.

From time to time, the Organization may enter into various business transactions with members of the Board of Trustees, members of various board committees, or organizations that employ board and/or committee members. Transactions are provided at fair value and follow the Organization's conflict of interest policies.

Note 20: Concentration of Credit Risk

Financial instruments that subject the Organization to possible credit risk consist principally of accounts receivable, cash deposits in excess of insured limits, and investments.

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

	2020	2019
Medicare and Medicare Advantage plans	33 %	29 %
Medicaid and Medicaid managed care plans	11 %	9 %
Other third-party payors	37 %	42 %
Uninsured patients	19 %	20 %
Totals	100 %	100 %

The Organization maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to \$250,000. At June 30, 2020, approximately \$81,341,000 of the Organization's deposits with financial institutions exceeded FDIC limits.

In addition, management has entered into irrevocable standby letters of credit for its short- and long-term investments related to deposits in excess of these limits at one of these financial institutions. After considering the letters of credit, the amount of the Organization's cash and cash equivalents that are uninsured totaled approximately \$76,262,000 at June 30, 2020. In addition, the Organization's other investments are uninsured.

Langlade Hospital - Hotel Dieu of St. Joseph of Antigo, Wisconsin

Notes to Financial Statements

Note 20: Concentration of Credit Risk (Continued)

Collective Bargaining by Employees

The Organization is subject to a collective bargaining agreement with certain employees. The agreement expires December 31, 2020, and represents approximately 28% of employees as of June 30, 2020.

Note 21: Commitments and Contingencies

The Organization may from time to time be involved in litigation and regulatory investigations that arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2020, will be resolved without material adverse effect on the Organization's future financial position, results from operations, or cash flows.

Note 22: Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 classifications.