



Marshfield Clinic
Health System

Marshfield Clinic Health System

Continuing Disclosure Quarterly Report

Q2 Calendar Year 2022 – June 30, 2022



Marshfield Clinic Health System

CONTINUING DISCLOSURE QUARTERLY REPORT

Q2 Calendar Year 2022 – June 30, 2022

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I. INTRODUCTION

This report for the quarter ending June 30, 2022 (Q2 Calendar Year 2022) (the “*Quarterly Report*”). Marshfield Clinic Health System, Inc., (“*MCHS*”), is providing this filing for the benefit of bonds that are subject to the Master Continuing Disclosure Undertaking dated October 1, 2016, (the “2016 Undertaking”), the Continuing Disclosure Undertaking dated June 30, 2020 (the “2020 Undertaking”) and the Continuing Disclosure Undertaking dated February 10, 2022 (the “2022 Undertaking” and together with the 2016 Undertaking and the 2020 Undertaking the “*Disclosure Agreements*”).

References in this Quarterly Report to the “Master Indenture” refer to the Second Amended and Restated Master Trust Indenture dated as of October 1, 2016 between MCHS, as Obligated Group Agent, and The Bank of New York Mellon Trust Company, N.A., as Master Trustee (the “Master Trustee”), as supplemented and amended from time to time through the date hereof (the “Master Indenture”).

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

Certain statements in this Quarterly Report are not historical facts, but are forecasts and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Quarterly Report are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. All estimates, projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by this cautionary statement. Management has reviewed the prospective financial information and believes that the prospective financial information was prepared on a reasonable basis; however, this prospective information is subjective and should not be relied on as necessarily indicative of future results. The System specifically disclaims any obligation to: (i) include prospective financial information in any future quarterly report, (ii) include information in any future quarterly report with respect to months subsequent to the applicable quarterly period or (iii) update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Quarterly Report.

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

Additional information with respect to MCHS can be found on the Electronic Municipal Market Access (“*EMMA*”) system, located at <https://emma.msrb.org> using the CUSIPS in the table below.

Maturity Date	SERIES 2012B	SERIES 2016A	SERIES 2016B	SERIES 2017B	SERIES 2017C	SERIES 2020A	SERIES 2020B-1	SERIES 2020B-2	SERIES 2020C	SERIES 2022A
February 15, 2023		97712DTP1	97712DUP9		97712DZN9					
February 15, 2024		97712DTQ9	97712DUQ7		97712DZP4					
February 15, 2025		97712DTR7	97712DUR5		97712DZQ2					
February 15, 2026		97712DTS5	97712DUS3		97712DZR0	97712D6J0				
February 15, 2027		97712DTT3	97712DUT1		97712DZS8	97712D6K7				
February 15, 2028		97712DTU0	97712DUU8		97712DZT6	97712D6L5				
February 15, 2029		97712DTV8	97712DUV6		97712DZU3	97712D6M3				
February 15, 2030		97712DTW6	97712DUW4		97712DZV1					
February 15, 2031		97712DTX4	97712DUX2		97712DZW9	97712D6N1				
February 15, 2032		97712DTY2	97712DUY0		97712DZX7	97712D6P6				
February 15, 2033		97712DTZ9	97712DUZ7		97712DZY5	97712D6Q4				
February 15, 2034		97712DUA2	97712DVA1		97712DZZ2	97712D6R2				
February 15, 2035		97712DUB0	97712DVB9		97712DA22	97712D6S0				
February 15, 2036		97712DUC8	97712DVC7		97712DA30	97712D6T8				
February 15, 2037			97712DVD5		97712DA48	97712D6U5				
February 15, 2038						97712D6V3				
February 15, 2040	97710BY63 97710BZ54	97712DUF1								
February 15, 2042		97712DUD6			97712DA55					
February 15, 2046		97712DUE4								
February 15, 2046		97712DUG9								
February 15, 2047					97712DA63					
February 15, 2050				97712DZG4	97712DA71					
February 15, 2051								97712D6X9		
February 15, 2052							97712D6W1			
February 15, 2053									97712D6Y7	97712JES8

II. GENERAL SYSTEM OVERVIEW

MCHS is the parent corporation of a group of corporations and other organizations (collectively, the “System”). The System provides services throughout central, northern and western Wisconsin and a portion of the Upper Peninsula of Michigan.

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

The System operates a comprehensive ambulatory care network, including Marshfield Clinic, a multispecialty clinic serving Wisconsin for over 100 years. At the time of the filing, the System also operates eleven acute care facilities and owns and operates Security Health Plan of Wisconsin, Inc. (“SHP”) a health plan providing coverage to over 220,000 members throughout the state of Wisconsin as of June 30, 2022.

MCHS and certain of its affiliates (collectively, the “Obligated Group”) are jointly and severally obligated for the debt pertaining to this Quarterly Report. As of the date of this filing, the Obligated Group comprises the following members: MCHS, Marshfield Clinic, Flambeau Hospital, Inc. (“MMC-Park Falls”), Lakeview Medical Center, Inc. (“MMC-Rice Lake”), Marshfield Clinic Health System Foundation, Inc. (the “MCHS Foundation”), Beaver Dam Community Hospitals, Inc. (“MMC-Beaver Dam”), Memorial Hospital, Inc. Neillsville Wisconsin (“MMC-Neillsville”) and MCHS Hospitals, Inc. (“MCHS Hospitals”). SHP is not a member of the Obligated Group and MCHS does not expect to add it to the Obligated Group. Effective January 1, 2022, Family Health Center (“FHC”) is no longer a member of the Obligated Group. MMC-Dickinson, which was affiliated in February 2022, is currently not a part of the Obligated Group, but MCHS has been authorized to add them and will evaluate adding them at a future date.

References to “MCHS” are references only to the parent corporation and should not be read to include any of MCHS’ affiliates and subsidiaries. References to “Marshfield Clinic” are references only to Marshfield Clinic, Inc. and should not be read to include any of Marshfield Clinic’s affiliates or subsidiaries. References to “MMC” are references to Marshfield Medical Center, as further qualified by the campus location.

III. RECENT DEVELOPMENTS

Leadership Update

The following transitions are occurring in August with executive leadership for finance, operations and nursing at the System. Gordon Edwards, Chief Operations and Financial Officer is leaving the System in early September. Cathy Bukowski, current Vice President of Finance for the System assumed the role of interim Chief Financial Officer. Bukowski joined the System three years ago as the Vice President of Finance. On August 1, 2022, the System welcomed Kathy Bressler as the new Chief Operating Officer (“COO”), with oversight of the day-to-day care delivery operations across the System including hospitals and ambulatory services, as well as leading implementation of new programs, construction and new ventures. Bressler brings more than 20 years of senior executive experience to the System, including most recently serving as Chief Operating Officer/Chief Nursing Officer for CHI Health. The System has also named Jacquelyn

Frombach as Chief Nursing Executive, with responsibility for engaging the System's nursing staff to identify best practices, and foster innovation and change to support nurses and patients. Frombach has more than 20 years of nursing leadership experience across acute and ambulatory settings.

Major Capital Projects

Marshfield Medical Center-River Region ("MMC-River Region"), which consists of a 12-bed hospital addition to the System's existing cancer center and medical group practice in Stevens Point, Wisconsin, opened in May 2022. Medicare certification and enrollment in the program was effective June 30, 2022. In addition, MMC- River Region began construction of an acute care facility in Wisconsin Rapids. In July 2021, construction began on a replacement medical campus in Ladysmith, which is expected to be operational in the first quarter of 2023. Phase 2 of the Marshfield Medical Center remodel is underway, which includes a new skywalk to transport patients across the campus and a project to combine urgent care and emergency services which will be completed in the fourth quarter of 2022. The System has begun construction on the phase 2 of the MMC-Minocqua which will be completed in 2023.

One System (Cerner Electronic Medical Record) Implementation

The System is continuing its implementation of its One System EHR. Go-live activations are occurring across the System in waves by geographic region. The first wave went live in Q1 2022. As of the date of this filing and as discussed in the Management Discussion and Analysis herein, disruption to operations and productivity as a result of the activations is in line with expectations, but there has been greater disruption to reporting and revenue cycle billing and collections than anticipated and the realization of expected benefits from the system has been slower to materialize. Management is actively working with Cerner to adjust processes. Adjustments effects also have been made to the timing of the implementation of the waves to mitigate the financial impact while maintaining the System's mission of enriching the lives of our patients and the communities we serve, to align this strategic initiative with other stewardship efforts and provide more time for the Revenue Cycle to stabilize from the go-lives completed to-date. The MMC-Weston, River Region, Minocqua, and Park Falls are now scheduled to go live in Q4 2022 and the System's largest region, MMC and MMC-Neillsville in Q1 2023. The effect of the implementation on revenues, accounts receivable and statistics are discussed further below.

Defined Benefit Pension Plans

The System has two defined benefit pension plans related to the acquisition of MMC-Beaver Dam and MMC-Dickinson. The MMC-Dickinson pension plan was terminated as a part of its affiliation with the System in Q1 2022 with final settlement expected to occur by Q4 2022. The MMC-Beaver Dam pension plan has been terminated June 30, 2022 with the final settlement expected to occur in Q1 2023. As part of these terminations, the System is anticipating issuing a taxable debt to fund the unfunded pension obligations.

IV. MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion presents certain financial information and operating data of the System. The discussion includes information that is attributable to certain subsidiaries and affiliates that are not

members of the Obligated Group and are therefore not legally obligated to make any payments with respect to the Bonds covered under this Quarterly Report.

This discussion should be read together with the System's unaudited consolidated financial statements included in Section V of this Quarterly Report, as well as the audited consolidated financial statements of the System as of and for the calendar year ended December 31, 2021 and the 15 months ended December 31, 2020, available on the MSRB EMMA system, found at <https://emma.msrb.org/P21565156-P21209140-P21629921.pdf>.

Certain statements included in this Quarterly Report may constitute forward-looking statements that involve risks and uncertainties. As a result of known and unknown risks, uncertainties and other factors, actual results, performance and achievements may differ significantly from the results, performance and achievements discussed in the forward-looking statements. It is not anticipated that updates or revisions to any forward-looking statements will be made if or when changes occur to the expectations, events, conditions or circumstances on which such forward looking statements were based. The System specifically disclaims any obligation to: (i) include prospective financial information in any future quarterly report, (ii) include information in any future quarterly report with respect to months subsequent to the applicable quarterly period, or (iii) update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of this Quarterly Report.

QUARTERLY BANK FINANCIAL INFORMATION AND ONGOING EFFECTS OF PANDEMIC AND ECONOMIC HEADWINDS ON SYSTEM FINANCIAL RESULTS

The System is required by the terms of certain of its outstanding bank agreements (the "Bank Agreements") to provide quarterly reports demonstrating compliance with certain financial covenants, ratios and other financial and operating data to the banks ("Quarterly Bank Financial Information"). The terms of the System's Disclosure Agreements and Master Indenture do not require such financial covenants, ratios and information to be calculated or reported on a quarterly basis. The System, however, includes the Quarterly Financial Information, presented in this report under the heading "Key Financial Ratios" on a voluntary basis. The financial data presented is calculated at the System level, which data includes financial and operating data that is attributable to certain subsidiaries and affiliates that are not part of the Obligated Group and are therefore not legally obligated to make any payments with respect to the Bonds covered by this Quarterly Report.

For the quarter ended June 30, 2022, as presented under "Key Financial Ratios" and as discussed further under the heading "Analysis of Results of Operations for the Six Months Ended June 30, 2022," the System is showing a negative operating margin and losses and rising operating expenses greater than the rise in revenues. The negative financial results of the System are driven by a continuing convergence of factors, including additional costs related to contract labor and inflation pressures on wages and supplies, the effects of the One System EHR implementation that is causing an expected level of productivity disruptions reducing revenues, and additional operational costs to support the activations, and a higher net negative effect due to the pandemic.

MODIFICATIONS TO BANK AGREEMENTS

Among other financial covenants, the Bank Agreements require the Obligated Group to maintain a debt service coverage ratio of 1.2x, based on trailing 12-month financial information, tested quarterly. In anticipation of not achieving 1.2x debt service coverage for the quarter ended June 30, 2022, the Obligated Group and the banks executed amendments to all of the Bank Agreements (the “Bank Agreement Amendments”). Certain of the Bank Amendments provide that compliance with the debt service coverage ratio requirement will not be tested for the quarters ended June 30, 2022 and September 30, 2022. Other Bank Amendments provide that \$97,000,000 will be added back to “Income Available for Debt Service” for purposes of determining compliance with the debt service coverage ratio requirement for such quarters. Under the terms of the Bank Agreement Amendments, the Obligated Group will not be out of compliance with the debt service coverage ratio requirements set forth in any of the Bank Agreements for the quarter ended June 30, 2022. No assurance can be given as to the financial and operating results of MCHS for the quarter ending September 30, 2022 or for any future period.

The modifications of the Bank Agreements constitute a material event under the Disclosure Agreements and a separate filing will be made on EMMA as required by the Disclosure Agreements.

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KEY FINANCIAL RATIOS (calculated at the System level)

The following table sets forth key financial ratios of the System.

	For the Six Months Ended June 30,	
	<u>2022</u>	<u>2021</u>
Operating margin ⁽¹⁾	-2.6%	2.5%
Operating EBIDA Margin ⁽²⁾	2.2%	8.0%
Days cash on hand ⁽³⁾	153	215
Debt to capitalization ⁽⁴⁾	50.8%	45.2%
Maximum annual debt service coverage ratio ^{(5) (6) (7)}	1.3x	4.2x

⁽¹⁾ Operating margin of the System is calculated as fiscal year to date (income (loss) from operations) / (total revenues).

⁽²⁾ Operating EBIDA Margin of the System is calculated as fiscal year to date (income (loss) from operations plus interest plus depreciation and amortization) / (total revenues).

⁽³⁾ Days cash on hand of the System is calculated as (unrestricted cash) / (trailing twelve months operating expenses (excluding depreciation and interest))/365, in accordance with outstanding bank agreements, which calculations use certain defined terms from the Master Indenture. Excluding the remaining \$9.5 million at June 30, 2022 and \$91.6 million at June 30, 2021 in CMS Accelerated and Advance Payment Program included above, days cash on hand was 151 at June 30, 2022 and 203 at June 30, 2021.

⁽⁴⁾ Debt to capitalization of the System is calculated as (long-term debt) / (long-term debt plus total net assets without donor restrictions), in accordance with outstanding bank agreements, which calculations use certain defined terms from the Master Indenture.

⁽⁵⁾ Maximum annual debt service coverage ratio of the System is calculated quarterly as (trailing twelve months income available for debt service) / (maximum annual debt service), in accordance with the bank agreements. The calculation methodology is the same under the bank agreements and the Master Indenture except that under the Master Indenture coverage is calculated annually as of the end of each Fiscal Year, not quarterly.

⁽⁶⁾ Maximum annual debt service coverage ratio of the System does not include any principal payments under NMTC Financing because it is the expectation of all parties to unwind the transaction for a nominal fee at Year 7 (2026/2029). Maximum annual debt service coverage ratio is 1.3x for twelve months ended June 30, 2022 if the full debt service is included.

⁽⁷⁾ Under the Master Indenture, when calculating Income Available for Debt Service, gains and expenses that are "Extraordinary Items" are excluded. "Extraordinary Items" is defined by the Master Indenture to mean "the after-tax financial impact of significant events, transactions, or activities that are both unusual in nature and infrequent in occurrence. Such extraordinary events, transactions or activities include, but are not limited to, the following: (i) natural disasters (tornado, flood, fire), (ii) affiliation or asset acquisitions activities, including direct expenses incurred related to pre-affiliation or acquisition activities, such as, without limitation, legal fees, consultant fees and due diligence costs, as well as post affiliation or acquisition adjustments and (iii) insurance settlements." For the twelve months ended June 30, 2022, Income Available for Debt Service excluded \$67.4 million in expenses related to acquisitions and COVID-19 expenses, and excluded \$50.3 million in contribution from affiliation and COVID-19 revenue. For the twelve months ended June 30, 2021, Income Available for Debt Service excluded \$42.2 million in expenses related to acquisitions and COVID-19 expenses, and excluded \$67.2 million in COVID-19 revenue.

STATISTICAL MEASURES OF CLINICAL SERVICES

The following table sets forth statistical measures of clinical services provided by the System. Increase in Average Length of Stay due to increased COVID-19 hospitalizations and delays in discharging patients due to pandemic-related disruptions in other care settings in the community. As discussed above, the One System EHR implementation is causing disruptions in clinical statistical reporting. The figures below for 2022 could be adjusted in future quarters as reporting is stabilized.

	For the Six Months Ended June 30,	
	<u>2022</u>	<u>2021</u>
Patient Encounters ⁽¹⁾	1,852,264	1,844,663
Unique Patients ⁽²⁾	367,441	356,549
Beds in Service ⁽³⁾	660	572
Admissions ⁽³⁾	11,841	11,662
Patient Days ⁽³⁾	62,673	52,989
Average Length of Stay ⁽³⁾	5.3	4.5
Surgeries ⁽³⁾		
Inpatient	3,784	3,973
Outpatient ⁽⁴⁾	25,345	24,604
Radiology Examinations Performed or Interpreted by System Physicians	270,185	263,027
Prescriptions at System's Pharmacies	387,967	367,870
Emergency Department Visits ⁽³⁾	58,798	46,806

(1) An encounter is a single face-to-face visit between a patient and a System physician or other health care provider (such as a psychologist). A patient may have more than one encounter in a day.

(2) A unique patient is a patient who receives care from System resources regardless of location and provider type. Each patient is counted only once no matter how many different departments or location they may have had with appointments. The unique patient calculation is based on a rolling twelve-month time period.

(3) Hospitals included: MMC-Rice Lake, MMC (7/1/17), MMC-Eau Claire (7/23/18), MMC-Ladysmith (9/1/18), MMC-Neillsville (12/1/18), MMC-Beaver Dam (5/1/19), MMC-Minocqua (6/15/20), MMC-Park Falls (8/1/20), MMC-Weston (8/1/20) MMC-Dickinson (2/1/22) and MMC-River Region (5/13/22). Hospitals are included in statistics on their acquisition or opening date.

(4) Outpatient surgeries include the System's Ambulatory Surgery Centers and hospitals.

ANALYSIS OF RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2022

The following analysis compares the six months ended June 30, 2022 with the six months ended June 30, 2021. The System generated earnings before interest, depreciation and amortization (EBIDA) of \$33.1 million (+2.2% margin), in comparison to \$113.5 million in the prior year, a decrease of \$80.4 million. The System generated an operating loss of \$39.8 million (-2.6% margin), compared to an operating gain of \$35.5 million in the prior year, a decrease of \$75.4 million.

Operating performance produced negative margins in 2022 and also represents a decline from 2021 due to additional costs related to contract labor and inflation pressures on wages and supplies, the effects of the One System EHR implementation that is causing an expected level of productivity disruptions reducing

revenues and additional operational costs to support the activations, and a higher net negative effect due to the pandemic as explained further below. These negative factors were offset by cost efficiency improvements achieved through the System's Driving our Future program as well as management initiatives targeted at improving financial results and revenues related to finalization of prior years' settlements on government programs at both the health plan and in care delivery. Management is focused on implementing various initiatives aimed at improving financial results through increasing volumes, improved revenue cycle, labor management, service rationalization, and reducing costs.

Starting in late July 2021, COVID-19 cases began to rise in the area served by the System, which disrupted the delivery of care through February 2022 and resulted in some delay of non-emergent care, increased supply and labor costs related to care for the higher level of COVID-19 cases and an increase in the System's length of stay. The pandemic has significantly affected the availability of post-acute care services increasing length of stay even as inpatient COVID volumes have declined. The negative effect of the pandemic to the System's care delivery results was \$21.5 million (net of \$4.7 million of relief) in six months ended June 30, 2022, an increase of \$7.3 million over the negative effect of \$14.2 million (net of \$13.2 million of relief) in the six months ended June 30, 2021.

The System generated total revenues of \$1.5 billion compared to \$1.4 billion generated in the prior year, an increase of \$119.7 million (+8.4%) due to an increase in net medical services revenue and premium revenue as explained further below.

Net medical services revenue totaled \$812.8 million, representing an increase of \$67.6 million (+9.1%) primarily due to the addition of MMC-Dickinson and MMC-River Region as well as additional reimbursement related to the finalization of prior years' settlements on government programs at FHC, offset in part by the implementation of OneSystem.

Premium revenue totaled \$659.8 million, representing an increase of \$47.6 million (+7.8%) due primarily to an increase in members and an increase in Medicare Advantage premium per member as well as additional revenue related to the finalization of prior years' settlements related to SHP's risk corridor payments.

Other Operating revenues increased \$7.9 million (+54.4%) primarily due to the addition of MMC-Dickinson to the System.

Total operating expenses were \$1.6 billion, an increase of \$195.1 million (+14.1%). The increase in total expenses was primarily due to higher salaries, contract labor and benefits expense, One System EHR implementation operational activation support costs, and the addition of MMC-Dickinson and MMC-River Region to the System. Further details regarding certain expense categories are noted in the discussion below.

Salaries, contract labor and benefits expense continues to account for the most significant component of the System's total expenses, representing 44.3% and 42.4% of total expenses for the six months ended June 30, 2022 and 2021, respectively. The System's salaries, contract labor and benefits expenses increased \$112.0 million (+19.1%). The increase is attributable to wage inflation in the labor market, additional employees with MMC-Dickinson and MMC-River Region, an increase in contract labor and premium pay

related to staffing vacancies and additional operational support costs related to the One System EHR implementation. Salaries, contract labor and benefit costs that were capitalized were \$2.6 million compared to \$2.3 million in the prior year.

Consolidated medical claims expense increased \$24.6 million (+8.0%) which is slightly unfavorable to the 7.8% increase in consolidated premium revenue. Prior to intercompany eliminations, SHP's medical claims expense increased \$36.5 million (+6.8%), but improved as a percentage of premium, representing 87.0% of SHP's premium revenue, as compared to 87.8% during the same time frame in the prior year.

Supplies expense increased \$23.6 million (+9.3%) due primarily to the addition of MMC-Dickinson and MMC-River Region, inflation on supply costs, and increases in the cost of pharmaceuticals.

Purchased services expense increased \$26.8 million (+33.6%) due primarily to the addition of MMC-Dickinson and MMC-River Region to the System, along with consulting expenses supporting Revenue Cycle, One System EHR implementation, and Information Services initiatives.

Depreciation and amortization expense decreased by \$4.1 million (-7.1%) due to higher depreciation expense related to writing off several assets in the prior year.

Interest expense decreased by \$1.0 million (-4.9%). This decrease is due to higher capitalized interest and lower interest rates due to refinancing offset in part by the incurrence of additional debt in February 2022 and higher short-term interest rates. Capitalized interest was \$0.8 million compared to \$0.3 million in the prior year.

Other operating expenses increased by \$11.1 million (+23.8%). The increase is primarily due to an increase in software costs that are purchased as a Software-As-A-Service along with the addition of MMC-Dickinson and MMC-River Region.

Inherent contributions from affiliations increased \$9.0 million due to the addition of with MMC-Dickinson to the System in February 2022.

Non-operating (losses) gains, net decreased \$165.0 million (-372.7%), driven primarily by lower market values on the System's investment portfolios through June 30, 2022. Unrealized losses for the six months ended June 30, 2022 were \$156.6 million compared to unrealized gains of \$16.8 million for the six months ended June 30, 2021.

The System used \$63.9 million of cash from operations, as compared to \$67.0 million provided by operations in the prior year primarily related to operating losses in the six months ended June 30, 2022, as described above.

The System purchased \$91.0 million of property, plant and equipment, an increase of \$40.9 million (+81.7%) compared to purchases through the same period of the prior year. The increase is due to hospital construction projects in Ladysmith and Stevens Point as well as renovations on the Marshfield campus and

the capitalized costs to implement the One System EHR.

Liquidity, as measured by total cash, short-term investments, assets whose use is limited and investments, decreased by \$334.6 million (-19.8%) to \$1.4 billion. Accordingly, the System's unrestricted days of cash on hand decreased by 63 days, to 153 days. Excluding the remaining \$9.5 million in CMS Advanced Payment Program ("APP") at June 30, 2022 and \$91.6 million at June 30, 2021, days of cash on hand was 151 days compared to 203, respectively, a decrease of 52 days. The decrease is due to lower cash generated from operations, decrease in market value of investments, increase in average daily expenditures and an increase in capital projects funded by cash. The decrease in market value in the six months ended June 30, 2022 represents a decline of 15 days. The increase in rolling 12-month average daily expenditures is 10.9% from June 30, 2021 to June 30, 2022, due to cost inflation and overall growth of the organization. This increase in average daily expenditures represents approximately 21 days of cash.

The System has a highly liquid, conservative investment strategy with 65.5% of the portfolio allocated to fixed income investments at June 30, 2022 and 83.5% of its investment portfolio able to be liquidated daily under normal market conditions. At June 30, 2022, the System had \$170 million in lines of credit of which \$15 million is drawn and outstanding, with \$155 million available to be drawn.

Patient receivables increased \$32.0 million (+9.4%) reflecting the addition of MMC-Dickinson and MMC-River Region to the System and revenue cycle challenges related to the One System EHR implementation that has caused delays in billing and collections.

Other receivables increased \$26.6 million (+23.5%) due to the timing of receivables related to Medicare cost report settlements and the addition of MMC-Dickinson and MMC-River Region to the System.

Prepaid expenses and other, which include inventory balances, increased \$15.6 million (+18.0%) due to the addition of MMC-Dickinson and MMC-River Region to the System and increased inventory levels and cost of supplies.

Assets whose use is limited or restricted, current and long term, increased \$35.4 million (+11.3%) due primarily to the funds received by FHC in Q2 2022 related to prior years' government settlements and Ladysmith's New Market Tax Credit (NMTC) issued in December 2021.

Notes receivable from and investments in affiliates increased \$19.9 million (+103.3%) due to the leveraged loan for the NMTC Ladysmith debt incurred in December 2021 and the addition of MMC-Dickinson.

Accrued expenses increased \$37.7 million (+25.7%) mostly driven by the addition of MMC-Dickinson to the System in February 2022, reclassification of certain balances from Accounts Payable in 2022 and timing of paying One System EHR software development costs.

Deferred revenue decreased \$79.4 million (-63.7%) due primarily to the decrease in outstanding APP funds received during 2020 which the System began repaying in April 2021. Through June 30, 2022, the System has repaid \$98.8 million in APP funds.

Long-term debt increased by \$100.6 million. This increase is due to the issuance of the 2022A Bonds, NMTC Ladysmith, and the addition of MMC-Dickinson to the System, offset by regular principal payments on outstanding debt. The System's debt-to-capitalization ratio was 50.8%, as compared to 45.2% in the prior year. The increase in debt-to-capitalization ratio is due to the increase in Long-Term Debt with new issuance, coupled with a decrease in Net Assets without Donor Restrictions due to market value losses on investments and operating losses.

Other liabilities increased \$14.3 million (+10.4%) due to the addition of MMC-Dickinson to the System in February 2022 and its defined benefit pension liability offset by a decrease in deferred payroll taxes, MMC-Beaver Dam pension liability and deferred compensation. .

V. UNAUDITED FINANCIAL STATEMENTS

Certain financial information and operating data included in this Quarterly Report are that of the System. Such data includes financial and operating data that is attributable to certain members of the System that are not members of the Obligated Group and are therefore not legally obligated to make any payments with respect to obligations covered under this Quarterly Report (the "Non-Obligated Group Members").

MCHS and Marshfield Clinic, members of the Obligated Group, accounts for SHP and FHC using the equity method of accounting. Accordingly, the Obligated Group's assets and net assets on its balance sheet reflects MCHS's and Marshfield Clinic's ownership interest in SHP and FHC. Additionally, the Obligated Group's Statement of Operations includes SHP and FHC's operating results as equity earnings in revenue. In calculating the debt service coverage under the Master Indenture, income or loss from entities accounted for under the equity method is included. As of and for the six months ended June 30, 2022, the Obligated Group members, excluding MCHS's and Marshfield Clinic's equity method of accounting for SHP and FHC, represented approximately 66% of total System revenues, 85% of total System assets and 80% of total System net assets. These percentages are calculated net of applicable intercompany eliminations.

The unaudited consolidated financial statements as of and for the six months ended June 30, 2022 and 2021, include all adjustments that management considers necessary to present such information on a basis consistent with that of the audited consolidated financial statements. The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim reporting and, accordingly, do not include all of the disclosures required in annual financial statements. As such, these unaudited consolidated financial statements should be read in conjunction with the information included under Management's Discussion and Analysis included in this Quarterly Report and the audited consolidated financial statements as of and for the calendar year ended December 31, 2021 and the 15 months ended December 31, 2020, and the related notes. The audited consolidated financial statements are available on the MSRB system, found on EMMA at <https://emma.msrb.org/P21565156-P21209140-P21629921.pdf> .

MARSHFIELD CLINIC HEALTH SYSTEM, INC.

Consolidated Balance Sheets - Unaudited

June 30, 2022 and 2021

(Dollars in thousands)

Assets	UNAUDITED	
	Jun. 30, 2022	Jun. 30, 2021*
Current assets:		
Cash and cash equivalents	\$ 128,025	\$ 413,177
Short-term investments	1,533	199
Current portion of assets whose use is limited or restricted	98,597	33,827
Patient receivables, net	373,103	341,107
Other receivables	139,774	113,212
Prepaid expenses and other	102,446	86,813
Total current assets	<u>843,478</u>	<u>988,335</u>
Assets whose use is limited or restricted, net of current portion	249,844	279,165
Investments	873,897	960,140
Notes receivable from and investments in affiliates	39,191	19,281
Property, plant, and equipment, net	1,194,097	1,086,996
Other assets	131,102	129,913
Total assets	<u>\$ 3,331,609</u>	<u>\$ 3,463,830</u>

* Certain prior period figures have been restated to conform to current year presentation.

MARSHFIELD CLINIC HEALTH SYSTEM, INC.

Consolidated Balance Sheets - Unaudited

June 30, 2022 and 2021

(Dollars in thousands)

	UNAUDITED	
	Jun. 30, 2022	Jun. 30, 2021*
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 16,787	\$ 14,849
Medical claims payable	92,178	98,901
Accounts payable	109,604	114,604
Lines of credit	15,000	—
Accrued expenses	184,689	146,948
Deferred revenue	45,279	124,636
Total current liabilities	463,537	499,938
Long-term debt, less current portion and unamortized discount and premium	1,355,647	1,255,037
Other liabilities	151,189	136,925
Total liabilities	1,970,373	1,891,900
Net assets:		
Without donor restrictions	1,314,820	1,523,483
With donor restrictions	46,416	48,447
Total net assets	1,361,236	1,571,930
Total liabilities and net assets	\$ 3,331,609	\$ 3,463,830

* Certain prior period figures have been restated to conform to current period presentation.

MARSHFIELD CLINIC HEALTH SYSTEM, INC.

Consolidated Statements of Operations and Changes in Net Assets without Donor Restrictions - Unaudited
Six Months Ended June 31, 2022 and 2021
(Dollars in thousands)

	UNAUDITED	
	Jun. 30, 2022	Jun. 30, 2021*
Revenues:		
Net medical services revenue	\$ 812,815	\$ 745,229
Premium revenues	659,757	612,140
Grants and contracts	41,162	44,590
Other	22,456	14,544
Total operating revenues	<u>1,536,190</u>	<u>1,416,503</u>
Operating expenses:		
Salaries, contract labor and benefits	697,532	585,558
Medical claims expense	332,621	308,010
Supplies	276,199	252,587
Purchased and professional services	106,295	79,545
Depreciation and amortization	53,342	57,392
Interest	19,626	20,627
Facilities	32,837	30,764
Other operating expenses, net	57,584	46,495
Total operating expenses	<u>1,576,036</u>	<u>1,380,978</u>
(Loss)/Income from operations	<u>(39,846)</u>	<u>35,525</u>
Inherent contributions from affiliations	8,976	—
Nonoperating (losses) gains, net	<u>(120,706)</u>	<u>44,271</u>
Revenues and gains in (deficit) excess of expenses	<u>(151,576)</u>	<u>79,796</u>
Other changes in net assets without donor restrictions	1,136	711
(Decrease)/Increase in net assets without donor restrictions	<u>(150,440)</u>	<u>80,507</u>
Net assets without donor restrictions at beginning of period	1,465,260	1,442,976
Net assets without donor restrictions at end of period	<u>\$ 1,314,820</u>	<u>\$ 1,523,483</u>

* Certain prior period figures have been restated to conform to current period presentation.

MARSHFIELD CLINIC HEALTH SYSTEM, INC.
Consolidated Statements of Changes in Net Assets - Unaudited
Six Months Ended June 31, 2022 and 2021
(Dollars in thousands)

	UNAUDITED	
	Jun. 30, 2022	Jun. 30, 2021*
Without donor restrictions:		
Revenues and gains in (deficit) excess of expenses	\$ (151,576)	\$ 79,796
Other changes in net assets without donor restrictions	1,136	711
(Decrease)/Increase in net assets without donor restrictions	<u>(150,440)</u>	<u>80,507</u>
With donor restrictions:		
Contributions and investment return	5,045	3,219
Net change in unrealized gains and losses on restricted net assets	(5,859)	1,543
Net assets released from restrictions for property, plant, and equipment	(393)	(575)
Net assets released from restrictions for operations	<u>(2,625)</u>	<u>(1,566)</u>
(Decrease)/Increase in net assets with donor restrictions	<u>(3,832)</u>	<u>2,621</u>
(Decrease)/Increase in net assets	<u>(154,272)</u>	<u>83,128</u>
Net assets at beginning of the period	1,515,508	1,488,802
Net assets at the end of the period	<u>\$ 1,361,236</u>	<u>\$ 1,571,930</u>

* Certain prior period figures have been restated to conform to current period presentation.

MARSHFIELD CLINIC HEALTH SYSTEM, INC.

Consolidated Statements of Cash Flows - Unaudited

Six Months Ended June 31, 2022 and 2021

(Dollars in thousands)

	UNAUDITED	
	Jun. 30, 2022	Jun. 30, 2021*
Cash flows from operating activities:		
(Decrease)/Increase in net assets	\$ (154,272)	\$ 83,128
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Gain on extinguishment of debt	(459)	—
Inherent contributions from affiliations	(8,976)	—
Net realized and change in unrealized gains and losses on investments	133,691	(37,295)
Loss from equity-basis investments	839	338
Depreciation and amortization	53,342	57,392
Changes in assets and liabilities:		
Patient and other receivables	(66,703)	(59,643)
Prepaid expenses and other	(2,669)	7,721
Accounts payable and accrued expenses	27,903	40,908
Medical claims payable	(2,999)	(13,625)
Deferred revenue	(43,622)	(11,907)
Net cash (used) in provided by operating activities	<u>(63,925)</u>	<u>67,017</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(90,971)	(50,074)
Purchases and sales of assets whose use is limited, net	(22,381)	(19,385)
Change in note receivable and other noncurrent assets	(6)	260
Purchases and sales of investments, net	82,730	(11,403)
Cash acquired in inherent contributions	13,435	—
Net cash used in investing activities	<u>(17,193)</u>	<u>(80,602)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	121,075	—
Repayments on long-term debt	(52,315)	(11,195)
Payments for debt issuance costs	(1,720)	—
Proceeds (Repayments) from line of credit borrowing	15,000	(25,000)
Net cash provided by (used in) by financing activities	<u>82,040</u>	<u>(36,195)</u>
Net increase (decrease) in cash and cash equivalents	922	(49,780)
Cash, cash equivalents and restricted cash:		
Beginning of period	197,500	507,368
End of period	<u>\$ 198,422</u>	<u>\$ 457,588</u>
Supplementary information:		
Cash paid for interest, net of amounts capitalized	\$ 20,869	\$ 20,627
Restricted cash and cash equivalents held in assets whose use is limited included above are:	70,397	44,411

* Certain prior period figures have been restated to conform to current period presentation.

MARSHFIELD CLINIC HEALTH SYSTEM, INC.
Consolidating Balance Sheet Information - Unaudited
June 30, 2022
(Dollars in thousands)

		UNAUDITED			
Assets		Obligated Group	Security Health Plan	Eliminations/ Other	Total
Current assets:					
Cash and cash equivalents	\$	59,390	45,580	23,055	128,025
Short-term investments		732	801	—	1,533
Current portion of assets whose use is limited or restricted		43,354	2,180	53,063	98,597
Patient receivables, net		411,109	—	(38,006)	373,103
Other receivables		65,173	69,800	4,801	139,774
Prepaid expenses and other		92,694	3,108	6,644	102,446
Total current assets		672,452	121,469	49,557	843,478
Assets whose use is limited or restricted, net of current portion					
Investments		231,181	2,788	15,875	249,844
Notes receivable from and investments in affiliates		641,448	232,954	(505)	873,897
Property, plant, and equipment, net		328,664	—	(289,473)	39,191
Other assets		1,102,693	11,586	79,818	1,194,097
Total assets		125,075	2,967	3,060	131,102
	\$	3,101,513	371,764	(141,668)	3,331,609

MARSHFIELD CLINIC HEALTH SYSTEM, INC.
Consolidating Balance Sheet Information - Unaudited
June 30, 2022
(Dollars in thousands)

		UNAUDITED		
		Obligated Group	Security Health Plan	Eliminations/Other
Liabilities and Net Assets				Total
Current liabilities:				
Current portion of long-term debt	\$	15,255	—	1,532
Medical claims payable		2,083	146,345	(56,250)
Accounts payable		99,544	4,292	5,768
Lines of credit		15,000	—	—
Accrued expenses		148,559	23,489	12,641
Deferred revenue		15,953	25,026	4,300
Total current liabilities		296,394	199,152	(32,009)
Long-term debt, less current portion and unamortized discount and premium		1,330,577	—	25,070
Other liabilities		113,462	588	37,139
Total liabilities		1,740,433	199,740	30,200
Net assets:				
Without donor restrictions		1,315,226	172,024	(172,430)
With donor restrictions		45,854	—	562
Total net assets		1,361,080	172,024	(171,868)
Total liabilities and net assets	\$	3,101,513	371,764	(141,668)

MARSHFIELD CLINIC HEALTH SYSTEM, INC.
Consolidating Balance Sheet Information - Unaudited
June 30, 2021
(Dollars in thousands)

		UNAUDITED		
		Obligated	Security	Eliminations/
		Group	Health	Other
			Plan	
				Total
Assets				
Current assets:				
Cash and cash equivalents		\$ 363,285	39,863	10,029
Short-term Investments		1	198	—
Current portion of assets whose use is limited or restricted		33,827	—	—
Patient receivables		346,136	—	(5,029)
Other receivables		101,515	69,567	(57,870)
Prepaid expenses and other		83,932	2,880	1
Total current assets		928,696	112,508	(52,869)
Assets whose use is limited or restricted, net of current portion		272,063	7,102	—
Investments		671,520	288,620	—
Notes receivable from and investments in affiliates		248,814	—	(229,533)
Property, plant, and equipment, net		1,056,723	13,087	17,186
Other assets		126,420	3,493	—
Total assets		\$ 3,304,236	424,810	(265,216)

* Certain figures have been restated to conform to current period presentation.

MARSHFIELD CLINIC HEALTH SYSTEM, INC.
Consolidating Balance Sheet Information - Unaudited
June 30, 2021
(Dollars in thousands)

		UNAUDITED			
Liabilities and Net Assets		Obligated Group	Security Health Plan	Eliminations/ Other	Total
Current liabilities:					
Current portion of long-term debt	\$	14,095	—	754	14,849
Medical claims payable		13,491	139,530	(54,120)	98,901
Accounts payable		77,953	36,647	4	114,604
Lines of credit		—	—	—	—
Accrued expenses		145,120	1,510	318	146,948
Deferred revenue		96,830	27,806	—	124,636
Total current liabilities		347,489	205,493	(53,044)	499,938
Long-term debt, less current portion and unamortized discount and premium		1,248,582	—	6,455	1,255,037
Other liabilities		136,324	601	—	136,925
Total liabilities		1,732,395	206,094	(46,589)	1,891,900
Net assets:					
Without donor restrictions		1,523,394	218,716	(218,627)	1,523,483
With donor restrictions		48,447	—	—	48,447
Total net assets		1,571,841	218,716	(218,627)	1,571,930
Total liabilities and net assets	\$	3,304,236	424,810	(265,216)	3,463,830

* Certain figures have been restated to conform to current period presentation.

MARSHFIELD CLINIC HEALTH SYSTEM, INC.

Consolidating Statement of Operations and Changes in Net Assets without Donor Restrictions Information - Unaudited

Six Months Ended June 30, 2022

(Dollars in thousands)

UNAUDITED				
	Obligated Group	Security Health Plan	Eliminations/Other	Total
Revenues:				
Net medical services revenue	\$ 807,535	—	5,280	812,815
Premium revenues	231,245	659,628	(231,116)	659,757
Grants and contracts	33,381	—	7,781	41,162
Other	42,185	3,791	(23,520)	22,456
Total operating revenues	1,114,346	663,419	(241,575)	1,536,190
Expenses:				
Salaries, contract labor and benefits	632,860	21,349	43,323	697,532
Medical claims expense	70,818	573,775	(311,972)	332,621
Supplies	262,096	138	13,965	276,199
Purchased and professional services	77,830	16,152	12,313	106,295
Depreciation and amortization	49,417	1,089	2,836	53,342
Interest	19,257	—	369	19,626
Facilities	30,515	302	2,020	32,837
Other operating expenses	46,979	9,954	651	57,584
Shared services	(7,883)	7,769	114	—
Total operating expenses	1,181,889	630,528	(236,381)	1,576,036
(Loss) income from operations	(67,543)	32,891	(5,194)	(39,846)
Inherent contributions from affiliations	8,976	—	—	8,976
Nonoperating (losses), net	(92,956)	(26,626)	(1,124)	(120,706)
Revenues and gains in (deficit) excess of expenses	(151,523)	6,265	(6,318)	(151,576)
Other changes in net assets without donor restrictions	1,049	—	87	1,136
(Decrease) increase in net assets without donor restrictions	(150,474)	6,265	(6,231)	(150,440)
Net assets without donor restrictions at beginning of period	1,465,700	165,759	(166,199)	1,465,260
Net assets without donor restrictions at end of period	\$ 1,315,226	172,024	(172,430)	1,314,820

MARSHFIELD CLINIC HEALTH SYSTEM, INC.

Consolidating Statement of Operations and Changes in Net Assets without Donor Restrictions Information - Unaudited

Six Months Ended June 30, 2021

(Dollars in thousands)

UNAUDITED				
	Obligated Group	Security Health Plan	Eliminations/Other	Total
Revenues:				
Net medical services revenue	\$ 785,846	—	(40,617)	745,229
Premium revenues	255,721	611,997	(255,578)	612,140
Grants and contracts	44,590	—	—	44,590
Other	37,149	3,305	(25,910)	14,544
Total operating revenues	1,123,306	615,302	(322,105)	1,416,503
Expenses:				
Salaries, contract labor and benefits	568,255	17,977	(674)	585,558
Medical claims expense	69,320	537,259	(298,569)	308,010
Supplies	251,813	75	699	252,587
Purchased and professional services	67,380	14,508	(2,343)	79,545
Depreciation and amortization	55,566	1,358	468	57,392
Interest	20,507	—	120	20,627
Facilities	30,235	321	208	30,764
Other operating expenses	37,497	9,107	(109)	46,495
Shared services	(9,520)	9,520	—	—
Total operating expenses	1,091,053	590,125	(300,200)	1,380,978
Income (loss) from operations	32,253	25,177	(21,905)	35,525
Nonoperating gains (losses), net	46,143	(1,872)	—	44,271
Revenues and gains in excess (deficit) of expenses	78,396	23,305	(21,905)	79,796
Other changes in net assets without donor restrictions	2,022	—	(1,311)	711
Increase (decrease) in net assets without donor restrictions	80,418	23,305	(23,216)	80,507
Net assets without donor restrictions at beginning of period	1,442,976	195,411	(195,411)	1,442,976
Net assets without donor restrictions at end of period	\$ 1,523,394	218,716	(218,627)	1,523,483

* Certain figures have been restated to conform to current period presentation.