



Marshfield Clinic  
Health System

# Marshfield Clinic Health System Continuing Disclosure Quarterly Report

Q1 Calendar Year 2023 – March 31, 2023



# Marshfield Clinic Health System

## Continuing Disclosure Quarterly Report

Q4 Calendar Year 2023 – March 31, 2023

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## I. INTRODUCTION

This report for the quarter ending March 31, 2023 (Q1 Calendar Year 2023) (the “*Quarterly Report*”). Marshfield Clinic Health System, Inc., (“*MCHS*”), is providing this filing for the benefit of bonds that are subject to continuing disclosure undertakings (collectively, 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 tables. 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 tables below.

#### OUTSTANDING BONDS

MATURITY DATE	SERIES 2012 B
February 15, 2040	97710BY63
February 15, 2040	97710BZ54

MATURITY DATE	SERIES 2016A
February 15, 2023	97712DTP1
February 15, 2024	97712DTQ9
February 15, 2025	97712DTR7
February 15, 2026	97712DTS5
February 15, 2027	97712DTT3
February 15, 2028	97712DTU0
February 15, 2029	97712DTV8
February 15, 2030	97712DTW6
February 15, 2031	97712DTX4
February 15, 2032	97712DTY2
February 15, 2033	97712DTZ9
February 15, 2034	97712DUA2
February 15, 2035	97712DUB0
February 15, 2036	97712DUC8
February 15, 2040	97712DUF1
February 15, 2042	97712DUD6
February 15, 2046	97712DUE4

MATURITY DATE	SERIES 2016B
February 15, 2023	97712DUP9
February 15, 2024	97712DUQ7
February 15, 2025	97712DUR5
February 15, 2026	97712DUS3
February 15, 2027	97712DUT1
February 15, 2028	97712DUU8
February 15, 2029	97712DUV6
February 15, 2030	97712DUW4
February 15, 2031	97712DUX2
February 15, 2032	97712DUY0
February 15, 2033	97712DUZ7
February 15, 2034	97712DVA1
February 15, 2035	97712DVB9
February 15, 2036	97712DVC7
February 15, 2037	97712DVD5

<b>MATURITY DATE</b>	<b>SERIES 2017B</b>
February 15, 2050	97712DZG4

<b>MATURITY DATE</b>	<b>SERIES 2017C</b>
February 15, 2023	97712DZN9
February 15, 2024	97712DZP4
February 15, 2025	97712DZQ2
February 15, 2026	97712DZR0
February 15, 2027	97712DZS8
February 15, 2028	97712DZT6
February 15, 2029	97712DZU3
February 15, 2030	97712DZV1
February 15, 2031	97712DZW9
February 15, 2032	97712DZX7
February 15, 2033	97712DZY5
February 15, 2034	97712DZZ2
February 15, 2035	97712DA22
February 15, 2036	97712DA30
February 15, 2037	97712DA48
February 15, 2042	97712DA55
February 15, 2047	97712DA63
February 15, 2050	97712DA71

<b>MATURITY DATE</b>	<b>SERIES 2020A</b>
February 15, 2026	97712D6J0
February 15, 2027	97712D6K7
February 15, 2028	97712D6L5
February 15, 2029	97712D6M3
February 15, 2031	97712D6N1
February 15, 2032	97712D6P6
February 15, 2033	97712D6Q4
February 15, 2034	97712D6R2
February 15, 2035	97712D6S0
February 15, 2036	97712D6T8
February 15, 2037	97712D6U5
February 15, 2038	97712D6V3

<b>MATURITY DATE</b>	<b>SERIES 2020B-1</b>
February 15, 2050	97712D6W1

<b>MATURITY DATE</b>	<b>SERIES 2020B-2</b>
February 15, 2051	97712D6X9

<b>MATURITY DATE</b>	<b>SERIES 2020C</b>
February 15, 2053	97712D6Y7

<b>MATURITY DATE</b>	<b>SERIES 2022A</b>
February 15, 2053	97712JES8

<b>MATURITY DATE</b>	<b>SERIES 2022G</b>
November 1, 2027	57284PAB7 <sup>1</sup>

<b>MATURITY DATE</b>	<b>SERIES 2023B</b>
April 1, 2025	57284PAC5 <sup>1</sup>

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<sup>1</sup> Corporate CUSIP; filing obligations under the applicable continuing disclosure undertakings are satisfied by filings made on EMMA to the CUSIP numbers assigned to municipal obligations issued for the benefit of the Obligated Group that are subject to continuing disclosure undertakings.



## 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 233,000 members throughout the state of Wisconsin as of March 31, 2023.

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 and Family Health Center (“FHC”) are not members of the Obligated Group and MCHS does not expect to add them to the Obligated Group. In February 2022, Dickinson County Health System (“MMC-Dickinson”), affiliated with MCHS. MCHS Hospitals is the sole corporate member of MMC-Dickinson, although MMC- Dickinson is currently not a part of the Obligated Group. MCHS is authorized to add MMC-Dickinson to the Obligated Group and may do so 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

### Essentia

On October 12, 2022, MCHS and Essentia Health (“Essentia”) announced discussions to evaluate how the two organizations might combine to form an integrated regional health system. The System and Essentia entered into a non-binding memorandum of understanding (the “MOU”), which serves as the first step in the process of discussions that may lead to the execution of a definitive agreement to combine the two organizations. There can be no guarantee that the System and Essentia will reach a definitive agreement to combine the two organizations. If an agreement is reached to combine the two organizations, the terms of any definitive agreement may vary materially from the terms of the MOU, available on the MSRB EMMA system, found at <https://emma.msrb.org/P21619896-P21247934-P21672524.pdf>.

### \$120 million Taxable Bonds

On April 5, 2023, MCHS issued its Taxable Bonds, Series 2023 (Marshfield Clinic Health System Obligated Group) (the “Bonds”) pursuant to a Bond Trust Indenture, dated as of April 1, 2023, between MCHS and U.S. Bank Trust Company, National Association, as bond trustee. In connection with the initial purchase of the Bonds by Barclays Capital Inc., a “Disclosure Memorandum” was prepared to summarize the key terms of purchase and sale of the Bonds. MCHS filed an event notice on April 19, 2023 on EMMA that includes the complete Disclosure Memorandum, which can be found at <https://emma.msrb.org/P21696125-P21305066-P21736370.pdf> and is incorporated herein by reference.

### Major Capital Projects

Marshfield Medical Center-River Region (“MMC-River Region”) began construction of an acute care facility in Wisconsin Rapids, which is expected to be opened in the fourth quarter of 2023. In July 2021, construction began on a replacement medical campus in Ladysmith, which opened in March 2023. Phase 2 of the Marshfield Medical Center remodel is underway. The new skywalk to transport patients across the campus and a project to combine urgent care and emergency services were completed in March 2023. The System has begun construction on the phase 2 of the MMC-Minocqua which is expected to be completed in the second quarter of 2023. Construction has begun on a partial hospital replacement project at MMC-Park Falls and is expected to be completed in the third quarter of 2024.

### OneSystem (Oracle Cerner Electronic Health Record) Implementation

The System is continuing its implementation of its Oracle Cerner Electronic Health Record (“OneSystem EHR”). Go-live activations have occurred 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, although there has been greater disruption to reporting, revenue cycle billing and collections than anticipated. Management is actively working with Oracle Cerner to address technology and system interface issues. Revenue Cycle and Operational teams are working with Oracle Cerner and other consultants on optimizing workflows in OneSystem EHR and Soarian Financials. The conversion timeline had been extended to allow rework and recovery. The System’s largest region, MMC and MMC-Neillsville completed its go live in Q1 2023. MMC-Dickinson is scheduled to go-live in Q4 2023. The effect of the implementation on revenues, accounts receivable and statistics are discussed further below.

## **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 unaudited consolidated financial statements of



the System as of and for the calendar year ended December 31, 2022 and December 31, 2021, available on the MSRB EMMA system, found at <https://emma.msrb.org/P21712175-P21316435-P21748952.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, ONE SYSTEM EHR IMPLEMENTATION CHALLENGES 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 March 31, 2023, as presented under “Key Financial Ratios” and as discussed further under the heading “Analysis of Results of Operations for the Three Months Ended March 31, 2023,” 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 inflation pressures on wages and supplies, the effects of the One System EHR implementation that is causing an unexpected level of productivity disruptions reducing revenues and additional operational costs to support the activations.

### **MODIFICATIONS TO BANK AGREEMENTS**

On or about April 20, 2023, MCHS entered into a series of amendments to outstanding bank agreements (the “Bank Agreement Amendments”), which were entered to address ongoing financial and operating matters and amend provisions of the underlying bank agreements to ensure compliance by MCHS with financial covenants under the bank agreements. MCHS filed a material event notice on April 21, 2023 on EMMA that includes copies of the Bank Agreement Amendments, which can be found at <https://emma.msrb.org/P21696928-P21305648-P21736997.pdf>. Shortly after, it was discovered that certain of

the Bank Agreement Amendments inadvertently omitted provisions that certain additional obligations imposed on MCHS will not be applicable once the Marshfield Clinic Health System, Inc. Taxable Bonds, Series 2023 (Marshfield Clinic Health System Obligated Group) are no longer outstanding. An EMMA filing with the corrected Bank Agreement Amendments is expected to be filed shortly.

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## KEY FINANCIAL RATIOS (calculated at the System level)

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

	<b>For the Three Months Ended March 31,</b>	
	<b><u>2023</u></b>	<b><u>2022</u></b>
Operating margin <sup>(1)</sup>	-4.2%	-1.5%
Operating EBIDA Margin <sup>(2)</sup>	1.2%	3.4%
Days cash on hand <sup>(3)</sup>	143	174
Debt to capitalization <sup>(4)</sup>	58.2%	48.8%
Maximum annual debt service coverage ratio <sup>(5) (6) (7)</sup>	-0.9x	2.1x

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

<sup>(2)</sup> 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).

<sup>(3)</sup> 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 \$0.0 million at March 31, 2023 and \$36.9 million at March 31, 2022 in CMS Accelerated and Advance Payment Program included above, days cash on hand was 143 at March 31, 2023 and 170 at March 31, 2022.

<sup>(4)</sup> 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.

<sup>(5)</sup> 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.

<sup>(6)</sup> 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 -0.9x for twelve months ended March 31, 2023 if the full debt service is included.

<sup>(7)</sup> 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 March 31, 2023, Income Available for Debt Service excluded \$136.2 million in expenses related to acquisitions, goodwill impairment and COVID-19 expenses, and excluded \$10.3 million in contribution from affiliation and COVID-19 revenue. For the twelve months ended March 31, 2022, Income Available for Debt Service excluded \$70.4 million in expenses related to acquisitions and COVID-19 expenses, and excluded \$54.8 million in COVID-19 revenue.

## STATISTICAL MEASURES OF CLINICAL SERVICES

The following table sets forth statistical measures of clinical services provided by the System. Unique Patients and Prescriptions increased due to the addition of MMC-Dickinson and MMC-River Region. Prescriptions also increased due to increase at most Pharmacy locations. As discussed above, the One System EHR implementation is causing disruptions in clinical statistical reporting, which is affecting Patient Encounters. The figures below for 2023 could be adjusted in future quarters as reporting is stabilized.

	<b>For the Three Months Ended March 31,</b>	
	<b><u>2023</u></b>	<b><u>2022</u></b>
Patient Encounters <sup>(1)</sup>	494,432	518,833
Unique Patients <sup>(2)</sup>	353,157	319,308
Beds in Service <sup>(3)</sup>	660	648
Admissions <sup>(3)</sup>	5,745	5,701
Patient Days <sup>(3)</sup>	29,851	31,505
Average Length of Stay <sup>(3)</sup>	5.2	5.5
Surgeries <sup>(3)</sup>		
Inpatient	1,792	1,826
Outpatient <sup>(4)</sup>	12,928	12,197
Radiology Examinations Performed or Interpreted by System Physicians	131,149	131,986
Prescriptions at System's Pharmacies	215,118	189,187
Emergency Department Visits <sup>(3)</sup>	29,239	26,018

(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 THREE MONTHS ENDED MARCH 31, 2023

The following analysis compares the three months ended March 31, 2023 with the three months ended March 31, 2022. The System generated earnings before interest, depreciation and amortization (EBIDA) of \$9.4 million (+1.2% margin), in comparison to \$25.2 million in the prior year, a decrease of \$15.8 million. The System generated an operating loss of \$32.6 million (-4.2% margin), compared to an operating loss of \$11.3 million in the prior year, a decrease of \$21.3 million.

The System generated total revenues of \$779.7 million compared to \$747.4 million generated in the prior year, an increase of \$32.3 million (+4.3%) due to an increase in net medical services revenue and premium revenue as explained further below.

Premium revenue totaled \$359.3 million, representing an increase of \$35.3 million (+10.9%) due primarily to an increase in members and rate increases across product lines.

Grants and contracts revenues decreased \$4.6 million (-22.3%). The decrease was primarily driven by a higher level of COVID-19 Provider Relief Funds received three months ending March 31, 2022 compared to same time period in 2023.

Other revenues increased \$2.2 million (+24.9%) primarily due to the addition of MMC-Dickinson to the System.

Total operating expenses were \$812.3 million, an increase of \$53.7 million (+7.1%). The increase in total expenses was primarily due to higher medical claims expense, supplies, 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 41.5% and 44.8% of total expenses for the three months ended March 31, 2023 and 2022, respectively. The System's salaries, contract labor and benefits expenses decreased \$2.4 million (-0.7 %). The decrease is attributable to a reduction in contract labor, premium pay and overall full-time equivalent employee hours partially offset by additional employees with MMC-Dickinson and MMC-River Region. Salaries, contract labor and benefit costs that were capitalized were \$0.8 million compared to \$1.4 million during the same time frame in the prior year.

Consolidated medical claims expense increased \$25.7 million (+16.4%) which is unfavorable to the 10.9% increase in consolidated premium revenue. Prior to intercompany eliminations, SHP's medical claims expense increased \$27.4 million (+10.1%), although improved as a percentage of premium, representing 83.5% of SHP's premium revenue, as compared to 84.2% during the same time frame in the prior year.

Supplies expense increased \$14.8 million (+11.4%) due primarily to the addition of MMC-Dickinson and MMC-River Region, increases in the cost of pharmaceuticals and a reduction in 340b program.

Purchased services expense increased \$4.8 million (+9.7%) 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 increased sales commissions.

Interest expense increased by \$4.5 million (+45.7%). This increase is due to higher variable interest rates, the incurrence of additional debt in October 2022 and additional draws on lines of credit. Capitalized interest was \$0.6 million compared to \$0.5 million during the same time frame in the prior year.

Other operating expenses increased by \$5.2 million (+19.5%). The increase is primarily due to the One System EHR implementation along with the addition of MMC-Dickinson and MMC-River Region.

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

Non-operating gains (losses), net increased \$79.4 million (+172.4%), driven primarily by higher market values on the System's investment portfolios through March 31, 2023. Unrealized gains for the three months ended March 31, 2023 were \$27.9 million compared to unrealized losses of 77.1 million for the three months ended March 31, 2022.

The System provided \$44.9 million of cash from operations, as compared to \$43.7 million used in operations during the same time frame in the prior year primarily due to the increase in deferred revenue offset by net realized and change in unrealized gains and losses on investments.

The System purchased \$31.2 million of property, plant and equipment, a decrease of \$7.9 million (-20.2%) compared to purchases through the same period of the prior year. The decrease is due to initiatives to reduce capital projects to preserve liquidity.

Liquidity, as measured by total cash, short-term investments, assets whose use is limited and investments, decreased by \$145.5 million (-9.8%) to \$1.3 billion. Accordingly, the System's unrestricted days of cash on hand decreased by 31 days, to 143 days. Excluding funds from the CMS Advanced Payment Program ("APP") of \$0 at March 31, 2023 and \$36.9 million at March 31, 2022, days of cash on hand was 143 days compared to 170, respectively, a decrease of 27 days. The decrease is due to lower cash generated from operations, decrease in investments and an increase in average daily expenditures. The increase in rolling 12-month average daily expenditures is 10.8% from March 31, 2022 to March 31, 2023, due to cost inflation and overall growth of the organization. This increase in average daily expenditures represents approximately 17 days of cash.

The System has a highly liquid, conservative investment strategy with 60.3% of the portfolio allocated to fixed income investments at March 31, 2023 and 83.4% of its investment portfolio able to be liquidated daily under normal market conditions. At March 31, 2023, the System had \$180 million in lines of credit of which \$170 million is drawn and outstanding.

Patient receivables decreased \$33.6 million (-9.1%) due to write offs associated with revenue cycle challenges related to the One System EHR implementation that has caused delays in billing and collections and partially offset due to the addition of MMC-River Region to the System.

Other receivables increased \$17.5 million (+15.7%) due to the timing of receivables related to Medicare cost report settlements and reclassification of COVID Employee Retention Credits receivable.

Assets whose use is limited or restricted, current and long term, increased \$10.3 million (+3.1%) driven primarily by higher market values on donor restricted and board designated funds.

Other assets decreased by \$115.5 million due to the impairment of goodwill.

Medical claims payable increased \$19.2 million (+22.3%) due primarily to increased health plan membership and medical services utilization.



Accrued expenses increased \$34.6 million (+22.5%) mostly driven by annual retirement contributions and increased Health Plan reserves.

Deferred revenue increased \$14.6 million (+18.4%) due primarily to Medicare settlements offset by the decrease in outstanding APP funds.

Long-term debt increased by \$30.5 million. This increase is due to the issuance of the 2022G Taxable Bonds, offset by regular principal payments on outstanding debt. The System's debt-to-capitalization ratio was 58.2%, as compared to 48.8% 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 operating losses.

Other liabilities decreased \$42.1 million (-25.7%) due to the payoff of MMC-Dickinson and MMC-Beaver Dam defined benefit pension liability.

## **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 three months ended March 31, 2023, the Obligated Group members, excluding MCHS's and Marshfield Clinic's equity method of accounting for SHP and FHC, represented approximately 69% of total System revenues, 83% of total System assets and 73% of total System net assets. These percentages are calculated net of applicable intercompany eliminations.

The unaudited consolidated financial statements as of and for the three months ended March 31, 2023 and 2022, 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 unaudited consolidated financial statements as of and for the calendar year ended December 31, 2022 and December 31, 2021, and the related notes. The unaudited consolidated financial statements are available on the MSRB system, found on EMMA at <https://emma.msrb.org/P21712175-P21316435-P21748952.pdf>

**MARSHFIELD CLINIC HEALTH SYSTEM, INC.**

Consolidated Balance Sheets - Unaudited

March 31, 2023 and 2022

(Dollars in thousands)

	<b>Assets</b>	<b>UNAUDITED</b>	
		<b>Mar. 31, 2023</b>	<b>Mar. 31, 2022*</b>
Current assets:			
Cash and cash equivalents		\$ 148,466	\$ 173,140
Short-term investments		2,461	41,545
Current portion of assets whose use is limited or restricted		38,049	57,493
Patient receivables, net		336,375	369,965
Other receivables		128,755	111,297
Prepaid expenses and other		101,096	100,532
Total current assets		<u>755,202</u>	<u>853,972</u>
Assets whose use is limited or restricted, net of current portion		305,956	276,185
Investments		850,560	942,607
Notes receivable from and investments in affiliates		38,118	39,174
Property, plant, and equipment, net		1,241,388	1,171,557
Other assets		15,924	131,465
Total assets		<u>\$ 3,207,148</u>	<u>\$ 3,414,960</u>

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

**MARSHFIELD CLINIC HEALTH SYSTEM, INC.**

Consolidated Balance Sheets - Unaudited

March 31, 2023 and 2022

(Dollars in thousands)

	<b>UNAUDITED</b>	
	<b>Mar. 31, 2023</b>	<b>Mar. 31, 2022*</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 17,722	\$ 18,144
Medical claims payable	105,114	85,939
Accounts payable	86,521	94,603
Lines of credit	170,000	—
Accrued expenses	188,167	153,562
Deferred revenue	93,919	79,302
Total current liabilities	<u>661,443</u>	<u>431,550</u>
Long-term debt, less current portion and unamortized discount and premium	1,383,863	1,353,390
Other liabilities	121,693	163,784
Total liabilities	<u>2,166,999</u>	<u>1,948,724</u>
Net assets:		
Without donor restrictions	992,656	1,417,299
With donor restrictions	47,493	48,937
Total net assets	<u>1,040,149</u>	<u>1,466,236</u>
Total liabilities and net assets	<u>\$ 3,207,148</u>	<u>\$ 3,414,960</u>

\* 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  
Three Months Ended March 31, 2023 and 2022  
(Dollars in thousands)

	<b>UNAUDITED</b>	
	<b>Mar. 31, 2023</b>	<b>Mar. 31, 2022*</b>
Revenues:		
Net medical services revenue	\$ 393,264	\$ 393,829
Premium revenues	359,347	324,005
Grants and contracts	16,068	20,691
Other	11,050	8,847
Total operating revenues	<u>779,729</u>	<u>747,372</u>
Operating expenses:		
Salaries, contract labor and benefits	337,321	339,676
Medical claims expense	183,031	157,308
Supplies	145,051	130,225
Purchased and professional services	54,910	50,069
Depreciation and amortization	27,585	26,632
Interest	14,389	9,873
Facilities	17,926	17,973
Other operating expenses, net	32,130	26,889
Total operating expenses	<u>812,343</u>	<u>758,645</u>
(Loss) from operations	<u>(32,614)</u>	<u>(11,273)</u>
Inherent contributions from affiliations	—	8,976
Nonoperating gains (losses), net	33,337	(46,062)
Revenues and gains in excess (deficit) of expenses	<u>723</u>	<u>(48,359)</u>
Other changes in net assets without donor restrictions	108	374
Increase/(Decrease) in net assets without donor restrictions	<u>831</u>	<u>(47,985)</u>
Net assets without donor restrictions at beginning of period	991,825	1,465,284
Net assets without donor restrictions at end of period	<u>\$ 992,656</u>	<u>\$ 1,417,299</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  
Three Months Ended March 31, 2023 and 2022  
(Dollars in thousands)

	<b>UNAUDITED</b>	
	<b>Mar. 31, 2023</b>	<b>Mar. 31, 2022*</b>
Without donor restrictions:		
Revenues and gains in excess (deficit) of expenses	\$ 723	\$ (48,359)
Other changes in net assets without donor restrictions	108	374
Increase/(Decrease) in net assets without donor restrictions	<u>831</u>	<u>(47,985)</u>
With donor restrictions:		
Contributions and investment return	1,407	3,179
Net change in unrealized gains and losses on restricted net assets	1,124	(2,890)
Net assets released from restrictions for property, plant, and equipment	(79)	(263)
Net assets released from restrictions for operations	<u>(1,166)</u>	<u>(1,313)</u>
Increase/(Decrease) in net assets with donor restrictions	<u>1,286</u>	<u>(1,287)</u>
Increase/(Decrease) in net assets	2,117	(49,272)
Net assets at beginning of the period	<u>1,038,032</u>	<u>1,515,508</u>
Net assets at the end of the period	<u>\$ 1,040,149</u>	<u>\$ 1,466,236</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  
Three Months Ended March 31, 2023 and 2022  
(Dollars in thousands)

	<b>UNAUDITED</b>	
	<b>Mar. 31, 2023</b>	<b>Mar. 31, 2022*</b>
Cash flows from operating activities:		
Decrease in net assets	\$ 2,117	\$ (49,272)
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	(26,651)	51,180
Loss from equity-basis investments	—	539
Depreciation and amortization	27,585	26,632
Changes in assets and liabilities:		
Patient and other receivables	(25,459)	(35,088)
Prepaid expenses and other	1,261	(1,117)
Accounts payable and accrued expenses	3,780	(8,257)
Medical claims payable	(5,769)	(9,238)
Deferred revenue	67,990	(9,599)
Net cash provided by (used) in operating activities	<u>44,854</u>	<u>(43,655)</u>
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(31,209)	(39,093)
Purchases and sales of assets whose use is limited, net	(9,936)	9,629
Change in note receivable and other noncurrent assets	1,058	311
Purchases and sales of investments, net	(2,583)	39,270
Cash acquired in inherent contributions	—	13,435
Net cash (used in) provided by investing activities	<u>(42,670)</u>	<u>23,552</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	121,075
Repayments on long-term debt	(9,587)	(51,716)
Payments for debt issuance costs	—	(3,321)
Proceeds from line of credit borrowing	10,000	—
Net cash provided by financing activities	<u>413</u>	<u>66,038</u>
Net increase in cash and cash equivalents	2,597	45,935
Cash, cash equivalents and restricted cash:		
Beginning of period	190,842	197,500
End of period	<u>\$ 193,439</u>	<u>\$ 243,435</u>
Supplementary information:		
Cash paid for interest, net of amounts capitalized	\$ 25,300	\$ 20,664
Restricted cash and cash equivalents held in assets whose use is limited included above are:	44,973	70,295

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



**MARSHFIELD CLINIC HEALTH SYSTEM, INC.**  
Consolidating Balance Sheet Information - Unaudited  
March 31, 2023  
(Dollars in thousands)

		<b>UNAUDITED</b>			
<b>Assets</b>		<b>Obligated Group</b>	<b>Security Health Plan</b>	<b>Eliminations/ Other</b>	<b>Total</b>
Current assets:					
Cash and cash equivalents		\$ 15,512	110,257	22,697	148,466
Short-term investments		250	2,211	—	2,461
Current portion of assets whose use is limited or restricted		24,883	—	13,166	38,049
Patient receivables, net		337,495	—	(1,120)	336,375
Other receivables		85,509	103,080	(59,834)	128,755
Prepaid expenses and other		89,652	4,568	6,876	101,096
Total current assets		553,301	220,116	(18,215)	755,202
Assets whose use is limited or restricted, net of current portion		244,935	4,684	56,337	305,956
Investments		611,569	238,991	—	850,560
Notes receivable from and investments in affiliates		377,308	—	(339,190)	38,118
Property, plant, and equipment, net		1,150,483	10,523	80,382	1,241,388
Other assets		9,222	2,572	4,130	15,924
Total assets		\$ 2,946,818	476,886	(216,556)	3,207,148

**MARSHFIELD CLINIC HEALTH SYSTEM, INC.**  
Consolidating Balance Sheet Information - Unaudited  
March 31, 2023  
(Dollars in thousands)

<b>Liabilities and Net Assets</b>	<b>UNAUDITED</b>			<b>Total</b>
	<b>Obligated Group</b>	<b>Security Health Plan</b>	<b>Eliminations/ Other</b>	
Current liabilities:				
Current portion of long-term debt	\$ 16,935	—	787	17,722
Medical claims payable	21,569	161,717	(78,172)	105,114
Accounts payable	76,852	4,259	5,410	86,521
Lines of credit	170,000	—	—	170,000
Accrued expenses	135,163	43,799	9,205	188,167
Deferred revenue	1,229	84,102	8,588	93,919
Total current liabilities	421,748	293,877	(54,182)	661,443
Long-term debt, less current portion and unamortized discount and premium	1,365,412	—	18,451	1,383,863
Other liabilities	119,579	576	1,538	121,693
Total liabilities	1,906,739	294,453	(34,193)	2,166,999
Net assets:				
Without donor restrictions	992,586	182,433	(182,363)	992,656
With donor restrictions	47,493	—	—	47,493
Total net assets	1,040,079	182,433	(182,363)	1,040,149
Total liabilities and net assets	\$ 2,946,818	476,886	(216,556)	3,207,148

**MARSHFIELD CLINIC HEALTH SYSTEM, INC.**  
Consolidating Balance Sheet Information - Unaudited  
March 31, 2022  
(Dollars in thousands)

Assets	UNAUDITED			Total
	Obligated Group	Security Health Plan	Eliminations/ Other	
Current assets:				
Cash and cash equivalents	\$ 111,026	39,691	22,423	173,140
Short-term Investments	39,733	1,812	—	41,545
Current portion of assets whose use is limited or restricted	42,325	4,181	10,987	57,493
Patient receivables	342,402	—	27,563	369,965
Other receivables	102,050	61,555	(52,308)	111,297
Prepaid expenses and other	90,227	3,867	6,438	100,532
Total current assets	<u>727,763</u>	<u>111,106</u>	<u>15,103</u>	<u>853,972</u>
Assets whose use is limited or restricted, net of current portion	257,502	2,808	15,875	276,185
Investments	697,671	245,254	(318)	942,607
Notes receivable from and investments in affiliates	234,041	—	(194,867)	39,174
Property, plant, and equipment, net	1,078,643	11,989	80,925	1,171,557
Other assets	125,567	3,098	2,800	131,465
Total assets	<u>\$ 3,121,187</u>	<u>374,255</u>	<u>(80,482)</u>	<u>3,414,960</u>

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

**MARSHFIELD CLINIC HEALTH SYSTEM, INC.**  
Consolidating Balance Sheet Information - Unaudited  
March 31, 2022  
(Dollars in thousands)

Liabilities and Net Assets	UNAUDITED			
	Obligated Group	Security Health Plan	Eliminations/ Other	Total
Current liabilities:				
Current portion of long-term debt	\$ 16,606	—	1,538	18,144
Medical claims payable	18,972	134,375	(67,408)	85,939
Accounts payable	83,997	5,657	4,949	94,603
Lines of credit	—	—	—	—
Accrued expenses	112,022	26,479	15,061	153,562
Deferred revenue	44,269	30,282	4,751	79,302
Total current liabilities	275,866	196,793	(41,109)	431,550
Long-term debt, less current portion and unamortized discount and premium	1,331,521	—	21,869	1,353,390
Other liabilities	126,019	591	37,174	163,784
Total liabilities	1,733,406	197,384	17,934	1,948,724
Net assets:				
Without donor restrictions	1,338,844	176,871	(98,416)	1,417,299
With donor restrictions	48,937	—	—	48,937
Total net assets	1,387,781	176,871	(98,416)	1,466,236
Total liabilities and net assets	\$ 3,121,187	374,255	(80,482)	3,414,960

\* 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

Three Months Ended March 31, 2023

(Dollars in thousands)

	<b>UNAUDITED</b>			
	<b>Obligated Group</b>	<b>Security Health Plan</b>	<b>Eliminations/ Other</b>	<b>Total</b>
Revenues:				
Net medical services revenue	\$ 372,140	—	21,124	393,264
Premium revenues	147,508	359,289	(147,450)	359,347
Grants and contracts	12,224	—	3,844	16,068
Other	43,776	2,220	(34,946)	11,050
Total operating revenues	<u>575,648</u>	<u>361,509</u>	<u>(157,428)</u>	<u>779,729</u>
Expenses:				
Salaries, contract labor and benefits	299,995	12,096	25,230	337,321
Medical claims expense	48,002	300,129	(165,100)	183,031
Supplies	135,911	(20)	9,160	145,051
Purchased and professional services	39,184	9,570	6,156	54,910
Depreciation and amortization	25,413	465	1,707	27,585
Interest	14,585	—	(196)	14,389
Facilities	16,427	164	1,335	17,926
Other operating expenses	25,451	5,672	1,007	32,130
Shared services	(4,466)	4,392	74	—
Total operating expenses	<u>600,502</u>	<u>332,468</u>	<u>(120,627)</u>	<u>812,343</u>
(Loss) income from operations	(24,854)	29,041	(36,801)	(32,614)
Nonoperating gains, net	25,576	7,042	719	33,337
Revenues and gains in excess (deficit) of expenses	722	36,083	(36,082)	723
Other changes in net assets without donor restrictions	159	—	(51)	108
Increase (decrease) in net assets without donor restrictions	881	36,083	(36,133)	831
Net assets without donor restrictions at beginning of period	991,705	146,350	(146,230)	991,825
Net assets without donor restrictions at end of period	<u>\$ 992,586</u>	<u>182,433</u>	<u>(182,363)</u>	<u>992,656</u>

**MARSHFIELD CLINIC HEALTH SYSTEM, INC.**

Consolidating Statement of Operations and Changes in Net Assets without Donor Restrictions Information - Unaudited  
Three Months Ended March 31, 2022  
(Dollars in thousands)

	UNAUDITED			Total
	Obligated Group	Security Health Plan	Eliminations/ Other	
Revenues:				
Net medical services revenue	\$ 419,397	—	(25,568)	393,829
Premium revenues	91,062	323,940	(90,997)	324,005
Grants and contracts	17,399	—	3,292	20,691
Other	18,442	1,849	(11,444)	8,847
Total operating revenues	546,300	325,789	(124,717)	747,372
Expenses:				
Salaries, contract labor and benefits	309,812	11,003	18,861	339,676
Medical claims expense	28,255	272,696	(143,643)	157,308
Supplies	124,201	84	5,940	130,225
Purchased and professional services	38,008	8,057	4,004	50,069
Depreciation and amortization	24,802	557	1,273	26,632
Interest	9,729	—	144	9,873
Facilities	16,841	159	973	17,973
Other operating expenses	22,425	4,778	(314)	26,889
Shared services	(4,055)	4,055	—	—
Total operating expenses	570,018	301,389	(112,762)	758,645
(Loss) Income from operations	(23,718)	24,400	(11,955)	(11,273)
Inherent contributions from affiliations	8,976	—	—	8,976
Nonoperating gains, net	(32,046)	(13,288)	(728)	(46,062)
Revenues and gains in (deficit) excess of expenses	(46,788)	11,112	(12,683)	(48,359)
Other changes in net assets without donor restrictions	354	—	20	374
(Decrease) Increase in net assets without donor restrictions	(46,434)	11,112	(12,663)	(47,985)
Net assets without donor restrictions at beginning of period	1,385,278	165,759	(85,753)	1,465,284
Net assets without donor restrictions at end of period	\$ 1,338,844	176,871	(98,416)	1,417,299

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