

THEDACARE, INC. AND AFFILIATES
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020



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INDEPENDENT AUDITORS' REPORT

Board of Directors
ThedaCare, Inc. and Affiliates
Appleton, Wisconsin

Opinion

We have audited the accompanying consolidated financial statements of ThedaCare, Inc. and Affiliates, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ThedaCare, Inc. and Affiliates as of December 31, 2021 and 2020, and the results of their operations, changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General and the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of ThedaCare, Inc. and Affiliates and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ThedaCare, Inc. and Affiliates' ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ThedaCare, Inc. and Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ThedaCare, Inc. and Affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
ThedaCare, Inc. and Affiliates

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2022, on our consideration of the ThedaCare, Inc. and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purposes of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ThedaCare, Inc. and Affiliates' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ThedaCare, Inc. and Affiliates' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 22, 2022

THEDACARE, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

	(In Thousands)	
	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 118,341	\$ 76,346
Short-Term Investments	726,652	587,740
Patient Accounts Receivable	145,398	131,098
Other Accounts Receivable	10,415	8,566
Inventory	16,717	15,668
Prepaid Expenses and Other Assets	18,396	16,015
Total Current Assets	1,035,919	835,433
INVESTMENTS	172,484	164,443
ASSETS LIMITED AS TO USE		
Investments Held by Bond Trustee	54,201	83,465
Deferred Compensation Investments	10,439	9,941
Board-Designated Investments	3,579	2,950
Donor-Designated Investments	7,726	7,087
Total Assets Limited as to Use	75,945	103,443
LAND, BUILDINGS, AND EQUIPMENT, NET	498,510	468,743
OPERATING LEASE ASSETS	34,564	25,674
INVESTMENTS IN UNCONSOLIDATED AFFILIATES AND OTHER	25,058	11,601
Total Assets	\$ 1,842,480	\$ 1,609,337

See accompanying Notes to Consolidated Financial Statements.

THEDACARE, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2021 AND 2020

	(In Thousands)	
	2021	2020
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 10,163	\$ 11,053
Current Portion of Operating Lease Liability	8,098	8,601
Accounts Payable	37,739	35,996
Accrued and Other Liabilities	82,394	65,777
Estimated Third-Party Payor Settlements	9,051	5,728
Total Current Liabilities	147,445	127,155
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	326,901	338,053
Operating Lease Liability, Net of Current Portion	26,466	17,506
Deferred Employee Benefit Obligations	37,904	44,898
Other Noncurrent Liabilities	27,045	1,318
Total Noncurrent Liabilities	418,316	401,775
Total Liabilities	565,761	528,930
NET ASSETS		
Without Donor Restrictions	1,260,248	1,065,475
With Donor Restrictions	16,471	14,932
Total Net Assets	1,276,719	1,080,407
Total Liabilities and Net Assets	\$ 1,842,480	\$ 1,609,337

See accompanying Notes to Consolidated Financial Statements.

THEDACARE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	(In Thousands)	
	2021	2020
REVENUE		
Patient Service Revenue	\$ 1,086,420	\$ 939,107
Other Operating Revenue	58,939	79,972
Medicaid Assessment Program Revenue	14,820	12,200
Total Revenue	1,160,179	1,031,279
OPERATING EXPENSES		
Compensation and Benefits	558,392	489,962
Supplies and Services	482,406	448,904
Depreciation and Amortization	48,891	47,939
Interest Expense	11,563	12,139
Medicaid Assessment Program Expense	10,510	8,606
Total Operating Expenses	1,111,762	1,007,550
NET OPERATING INCOME	48,417	23,729
NONOPERATING INCOME (EXPENSE)		
Investment Income	132,624	91,248
Contributions (to) from the Community and Other	(381)	(2,179)
Net Periodic Benefit Cost Other than Service Cost	(3,290)	(8,160)
Total Nonoperating Income (Expense)	128,953	80,909
EXCESS OF REVENUE OVER EXPENSES	177,370	104,638
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Pension-Related Changes Other than Net Periodic Pension Cost	3,008	5,017
Net Assets Released from Restrictions for Capital	14,395	-
Total Other Changes in Net Assets Without Donor Restrictions	17,403	5,017
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 194,773	\$ 109,655

See accompanying Notes to Consolidated Financial Statements.

THEDACARE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	(In Thousands)	
	2021	2020
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Excess of Revenue Over Expenses	\$ 177,370	\$ 104,638
Pension-Related Changes Other than Net Periodic Pension Cost	3,008	5,017
Net Assets Released from Restrictions for Capital	14,395	-
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	194,773	109,655
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	15,161	1,553
Investment Income	773	263
Net Assets Released from Restrictions for Operations	-	(1,106)
Net Assets Released from Restrictions for Capital	(14,395)	-
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	1,539	710
CHANGE IN NET ASSETS	196,312	110,365
Net Assets - Beginning of Year	1,080,407	970,042
NET ASSETS - END OF YEAR	\$ 1,276,719	\$ 1,080,407

See accompanying Notes to Consolidated Financial Statements.

THEDACARE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	(In Thousands)	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 196,312	\$ 110,365
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	48,891	47,939
Amortization of Deferred Financing Costs and Bond Premium	(1,114)	(1,144)
Loss on Disposal of Equipment	510	1,170
Undistributed Equity in Net Gains of Unconsolidated Affiliates	(2,080)	(260)
Net Realized Gains on Investments and		
Assets Limited as to Use	(77,595)	(17,831)
Net Change in Unrealized Gains on Investments and		
Assets Limited as to Use	(40,055)	(61,807)
Pension-Related Changes Other than Net Periodic		
Pension Cost	(3,008)	(5,017)
Changes in Operating and Assets and Liabilities:		
Accounts Receivable	(16,149)	(2,571)
Inventory	(1,049)	(3,572)
Prepaid Expenses and Other	(2,577)	(619)
Other Assets	196	496
Operating Lease Assets	(8,890)	12,393
Accounts Payable	1,743	(16,839)
Accrued and Other Liabilities	16,617	5,370
Estimated Third-Party Payor Settlements	3,323	2,211
Operating Lease Liabilities	8,457	(12,451)
Deferred Employee Benefit Obligations and		
Other Noncurrent Liabilities	21,741	(35,199)
Net Cash Provided by Operating Activities	<u>145,273</u>	<u>22,634</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Land, Buildings, and Equipment	(79,168)	(51,513)
Proceeds from Sale of Equipment	-	318
Purchases of Investments and Assets Limited as to Use	(988,786)	(592,667)
Sales of Investments and Assets Limited as to Use	975,967	579,948
Payments for Purchase of Investments in		
Unconsolidated Affiliates	(11,377)	(5,000)
Net Cash Used by Investing Activities	<u>(103,364)</u>	<u>(68,914)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt	(10,928)	(21,382)
Proceeds from Issuance of Long-Term Debt	-	13,932
Net Cash Used by Financing Activities	<u>(10,928)</u>	<u>(7,450)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,981	(53,730)
Cash and Cash Equivalents - Beginning of Year	<u>108,937</u>	<u>162,667</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 139,918</u>	<u>\$ 108,937</u>

See accompanying Notes to Consolidated Financial Statements.

THEDACARE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020

	(In Thousands)	
	2021	2020
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash and Cash Equivalents - Unrestricted	\$ 118,341	\$ 76,346
Cash and Cash Equivalents - Held by Bond Trustee	21,577	32,591
	\$ 139,918	\$ 108,937
 Cash Paid for Interest, Net of Capitalized Interest Paid of \$-0- for 2021 and 2020	 \$ 12,877	 \$ 13,470
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Purchases of Capital Assets Included in Accounts Payable	\$ 3,702	\$ 136

See accompanying Notes to Consolidated Financial Statements.

THEDACARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Entity and Principles of Consolidation

ThedaCare, Inc. and Affiliates (ThedaCare) provide comprehensive medical, surgical, emergency, outpatient, nursing home, home care, hospice, and clinical services to residents in and around the Fox Valley area in Wisconsin. The consolidated financial statements of ThedaCare include the accounts and operations of:

- ThedaCare Regional Medical Center-Neenah (TCN); ThedaCare Regional Medical Center-Appleton (TCA); ThedaCare Medical Center-New London (TCNL); ThedaCare Medical Center-Waupaca (TCW); ThedaCare Medical Center-Shawano (TCS); ThedaCare Medical Center-Berlin (TCB), and ThedaCare Medical Center-Wild Rose (TCWR) (collectively the Hospitals).
- Over 350 primary care and specialist physicians and advanced practice clinicians providing physician services in over 30 clinic locations throughout Northeast Wisconsin (the Clinics).
- The Heritage operates a 136-unit retirement center and an 18-unit assisted living center.
- Peabody Manor operates a 58-bed skilled nursing facility.
- Juliette Manor operates a 50-bed skilled nursing facility.
- ThedaCare Behavioral Health Services provides one-on-one counseling, group therapy, outpatient day programs, inpatient care, and medication management, and Alcohol and Other Drug Abuse (AODA) recovery programs for individuals needing behavioral health services.
- ThedaCare at Home provides home health and hospice services, durable medical equipment, and nursing and related home health services, including infusion therapy and respiratory care services.
- ThedaCare at Work provides comprehensive occupational medical, counseling, and training services.
- ThedaCare ACO and ThedaCare Core ACO participate in several risk-sharing arrangements with third-party payors.
- ThedaCare Family of Foundations, Inc. is a nonstock, nonprofit corporation organized and operated exclusively for charitable, scientific, and educational purposes. Its primary function is to raise support for ThedaCare's affiliates.

All intercompany balances and transactions have been eliminated in consolidation.

THEDACARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

ThedaCare follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernment entities.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Changes in estimates related to self-funded health insurance and workers' compensation insurance are reported in compensation and benefits expense in the accompanying consolidated statements of operations.

Cash Equivalents

ThedaCare considers all highly liquid short-term investments with a maturity of three months or less when acquired to be cash equivalents, with the exception of cash equivalents held as short-term investments in the investment portfolio.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount that reflects the consideration to which ThedaCare expects to be entitled in exchange for providing patient care. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. ThedaCare bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statements. ThedaCare does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying consolidated balance sheets at net realizable value based on certain assumptions. For third-party payors, including Medicare, Medicaid, Managed Care and Commercial payors, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For uninsured patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for a portion of the bill), the net realizable value is determined using estimates of historical collection experience. These estimates are adjusted for expected recoveries and any anticipated changes in trends, including significant changes in payor mix, economic conditions or trends in federal and state governmental health care coverage.

THEDACARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Accounts Receivable

Other accounts receivable includes various receivables not related to patient service revenue and are stated at the amount management expects to collect from outstanding balances.

Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or net realizable value.

Assets Limited as to Use

Assets limited as to use include assets the board of trustees have designated for replacement and expansion of facilities, over which the board retains control and may at its discretion subsequently use for other purposes, assets set aside to fund donor designations, assets held by a trustee under revenue bond indenture agreements, and assets held to fund deferred compensation plans.

Investments

ThedaCare's investments include money market, fixed income and equity securities, which are carried at fair value, based on quoted market prices, and are classified as trading securities. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. In addition, ThedaCare invests in limited partnerships, limited liability partnerships, and limited liability companies that hold interests in hedge funds, private equity funds, real estate funds, and other commingled funds (collectively alternative investments) which are recorded at net asset value (NAV) as a practical expedient to fair value. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in nonoperating income (expense) unless the income or loss is restricted by donor or law. Realized gains and losses are determined by specific identification.

Fair Value of Measurements

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

THEDACARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost or, if donated, at fair value at the date of donation. Items of an ordinary maintenance or repair nature are charged directly to expense as incurred, and major renewals or improvements that extend the useful life of the buildings or equipment are capitalized. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Cost and related accumulated depreciation for property sold or otherwise retired are removed from the accounts, and gains or losses on disposition are included in nonoperating income (expense). Assets under capital leases are amortized over the shorter of the lease period or the life of the asset.

Depreciation and amortization are computed using the straight-line method. Estimated useful lives used for depreciation and amortization purposes are:

Land Improvements	5 to 25 Years
Buildings and Improvements	10 to 40 Years
Equipment	3 to 15 Years
Computer Software	3 to 5 Years

Bond Issuance Costs and Bond Premium

ThedaCare amortizes bond issuance costs and bond premium over the terms of the bonds. The amortization is calculated using the effective interest method. Amortization is included with interest expense in the accompanying consolidated statements of operations.

Intangible Assets

Intangible assets included patient relationships and other intangible assets which were amortized at the end of 2020. Amortization expense totaled \$-0- and \$521 in 2021 and 2020, respectively.

Long-Lived Assets

ThedaCare periodically evaluates the carrying value of property and equipment for impairment by comparing the carrying value of the property and equipment with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, ThedaCare would recognize an impairment loss at that time. No impairment losses were recognized in 2021 or 2020.

Net Assets

Net assets without donor restriction consist of investments and otherwise unrestricted amounts that are not subject to donor-imposed stipulations. Net assets with donor restrictions are those whose use by ThedaCare has been limited by donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, when the stipulated purpose for which the resource has been fulfilled, or both.

THEDACARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Service Revenue

ThedaCare recognizes patient service revenue at the amount that reflects the consideration to which ThedaCare expects to be entitled in exchange for providing patient care.

Charity Care

ThedaCare provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because collection is not pursued on amounts determined to qualify as charity care, these amounts are not included in patient service revenue.

The estimated cost of providing care to patients under ThedaCare's charity care policy is calculated by multiplying the ratio of cost-to-gross charges by the gross uncompensated charity care charges. The estimated costs to provide care to patients under ThedaCare's charity care policy were \$5,584 and \$4,400 for 2021 and 2020, respectively.

Other Operating Revenue

Other operating revenue consists of rental income, equity in unconsolidated affiliates' earnings, cafeteria and vending proceeds, medical records, risk-sharing revenue, HHS provider relief funds grants, foundation contributions without donor restrictions, and various other revenue. Included in rental income are amounts from residential units, an assisted living center, and various other entities occupying hospital and clinic space.

Provider Relief Funds

Due to the Coronavirus pandemic, the U.S. Department of Health and Human Services (HHS) made available emergency relief grant funds to health care providers through the CARES Act Provider Relief Fund (PRF). Total grant funds approved and received by ThedaCare for the years ended December 31, 2021 and 2020 was \$46,385 and \$45,156. The grant funds are subject to certain restrictions on eligible expenses or uses, reporting requirements, and will be subject to audit. As of December 31, 2021 and 2020, ThedaCare recognized \$20,425 and \$45,156 as other operating revenue in the consolidated statements of operations, and \$25,960 and \$-0- as other noncurrent liabilities in the consolidated balance sheets, respectively. Management believes the amounts have been recognized appropriately as of December 31, 2021.

Medicaid Assessment Program Revenue

Wisconsin state regulations require eligible hospitals to pay the state an annual assessment. The assessment period is the state's fiscal year, which runs from July 1 through June 30. The assessment is based on each hospital's gross revenue, as defined. The revenue generated from the assessment is to be used, in part, to increase overall reimbursement under the Wisconsin Medicaid program.

THEDACARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Operating Income

The accompanying consolidated statements of operations include the intermediate subtotal net operating income. Nonoperating income (expense) includes investment income, contributions net of related expenses, net periodic benefit cost other than service cost, and nonrecurring gains and losses, which management views as outside of normal operating activities.

Excess of Revenue Over Expenses

The accompanying consolidated statements of operations and changes in net assets include excess of revenue over expenses, which is considered the performance indicator. Changes in net assets without donor restrictions, which are excluded from the operating indicator, include changes in pension obligation other than net periodic pension cost, permanent transfer of assets to and from affiliates for other than goods and services, contributions of long-lived assets, and net assets released from donor restrictions for purchases of land, buildings, and equipment.

Unconditional Promises to Give and Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Contributions are considered available for unrestricted uses unless specifically restricted by the donor. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The consolidated entities are nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. The consolidated entities are also exempt from state income taxes on related income.

Reclassifications

Certain items in the prior year consolidated financial statements have been reclassified to conform with the current year basis of presentation. These reclassifications had no effect on the overall net assets of ThedaCare.

THEDACARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

ThedaCare has evaluated subsequent events for potential recognition and/or disclosure through April 22, 2022, the date the consolidated financial statements were issued.

NOTE 2 UNCONSOLIDATED AFFILIATES

ThedaCare accounts for its investments in the following unconsolidated affiliates under the equity method of accounting:

- *Gold Cross Ambulance Service, Inc.* – ThedaCare owns 50% of Gold Cross Ambulance Service, Inc., a nonprofit corporation formed by area hospitals to provide ambulance services.
- *Premium Healthcare, Inc.* – ThedaCare owns 50% of Premium Healthcare, Inc., a corporation formed to assist in the administration of contracts on behalf of health care providers and to develop and implement systems of utilization management and quality control for services of health care providers.
- *Mosaic Family Health, Inc.* – ThedaCare owns 50% of Mosaic Family Health, Inc. which operates a physician residency program.
- *Catalpa Health, Inc.* – ThedaCare owns 15% of Catalpa Health, Inc. which operates a mental health clinic.

The total investment related to these affiliates in the accompanying consolidated balance sheets was \$8,136 and \$6,110 as of December 31, 2021 and 2020, respectively. Included in other operating revenue are undistributed equity in net gains of these affiliates of \$2,026 and \$260 for the years ended December 31, 2021 and 2020, respectively.

A summary of certain estimated financial data for ThedaCare's unconsolidated affiliates under the equity method of accounting as of and for the years ended December 31 is as follows:

	2021	2020
Total Assets	<u>\$ 22,724</u>	<u>\$ 20,823</u>
Net Assets	<u>\$ 19,918</u>	<u>\$ 16,200</u>
Operating and Total Revenue	<u>\$ 22,825</u>	<u>\$ 21,105</u>
Excess (Deficit) of Revenue over Expenses	<u>\$ 1,313</u>	<u>\$ (1,360)</u>

THEDACARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 UNCONSOLIDATED AFFILIATES (CONTINUED)

ThedaCare also has investments in unconsolidated affiliates accounted for under the cost method. During the year ended December 31, 2020, ThedaCare purchased shares in B. Well Connected Inc., an integrated health management platform company, at a cost of \$3,925, and Panda Health, Inc., a healthcare digital innovation organization, at a cost of \$1,000, both of which are accounted for under the cost method. During the year ended December 31, 2021, ThedaCare made an additional investment in B. Well Connected, Inc. of \$2,000 and in Panda Health, Inc. of \$500. ThedaCare also invested \$4,400 in Encircle Realco which owns, manages and operates certain real property. Additionally, during the year ended December 31, 2021, ThedaCare purchased shares in Zealth, Inc., who provides healthcare software solutions, at a cost of \$1,500, and Qventus, who provides assistance in automated patient flow, at a cost of \$3,000, both of which are accounted for under the cost method. The total carrying value of all affiliates accounted for under the cost method was \$16,922 and \$5,491 at December 31, 2021 and 2020, respectively.

NOTE 3 PATIENT SERVICE REVENUE

Patient service revenue is reported at the amount that reflects the consideration to which ThedaCare expects to be paid for providing patient care. These amounts, representing transaction price, are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, ThedaCare bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. ThedaCare believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in our outpatient Clinics or in their homes (home care). ThedaCare measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and ThedaCare does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, ThedaCare has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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NOTE 3 PATIENT SERVICE REVENUE (CONTINUED)

ThedaCare uses a portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on the historical collection trends and other analysis, ThedaCare believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The opening and closing contract balances were as follows:

	Patient Accounts Receivable
Balance as of January 1, 2019	\$ 128,878
Balance as of December 31, 2020	131,098
Balance as of December 31, 2021	145,398

ThedaCare determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with ThedaCare's policy, and/or implicit price concessions provided to uninsured patients. Estimated contractual adjustments and discounts are based on contractual agreements, its discount policy (or policies), and historical experience. Estimated implicit price concessions are based on its historical collection experience with this class of patients.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge ThedaCare's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon ThedaCare. In addition, the contracts ThedaCare has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. During 2021 and 2020, successful appeals, cost report settlements, and other adjustments pertaining to prior year estimates of variables resulted in a decrease in patient service revenue of \$2,516 and \$624, respectively.

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NOTE 3 PATIENT SERVICE REVENUE (CONTINUED)

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. ThedaCare also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. ThedaCare estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

ThedaCare provides care to patients regardless of their ability to pay. Therefore, ThedaCare has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balance (for example, copays, and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amount ThedaCare expects to collect based on its collection history with those patients.

Patients who meet ThedaCare's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The composition of patient service revenue recognized in the period by type of service is as follows:

	2021	2020
Hospitals	\$ 792,662	\$ 687,871
Ancillary Services	34,976	28,387
Medical Specialties	45,212	37,125
Surgical Specialties	29,436	24,089
Primary Care	117,611	96,743
Post Acute	57,219	55,952
TCAW	9,304	8,940
Patient Service Revenue	<u>\$ 1,086,420</u>	<u>\$ 939,107</u>

Medicare and Medicaid revenue as a percentage of patient service revenue was approximately 42.5% and 43.4% in 2021 and 2020, respectively.

The composition of patient service revenue by major payor sources for the years ended December 31 is as follows:

	2021	2020
Medicare, Medicaid, Health Maintenance Organization Plans, and Other Third-Party Payors	\$ 1,069,609	\$ 923,682
Uninsured Patients	16,811	15,425
Patient Service Revenue	<u>\$ 1,086,420</u>	<u>\$ 939,107</u>

THEDACARE, INC. AND AFFILIATES
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NOTE 4 REIMBURSEMENT ARRANGEMENTS WITH THIRD-PARTY PAYORS

Agreements are maintained with third-party payors that provide for reimbursement at amounts that vary from ThedaCare's established rates. A summary of the basis of reimbursement with major third-party payors follows:

Government Payors

TCN and TCA

- *Medicare* – Inpatient hospital acute care services are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed primarily on a prospective payment methodology based on a patient classification system.
- *Medicaid* – Inpatient and outpatient services are reimbursed primarily based on prospectively determined rates.

TCNL, TCW, TCS, TCB, and TCWR

These hospitals operate as critical access hospitals (CAH). Under the CAH designation, inpatient and outpatient hospital services rendered to Medicare and Medicaid beneficiaries are paid based on a cost- reimbursement methodology.

Physician Clinics

Clinics are reimbursed by Medicare based on federally established fixed fee schedules. Medicaid reimbursement is based on the lower of each clinic's cost or a specified rate per visit.

Other Providers

Nursing home, behavioral health, and home health and hospice services are reimbursed by Medicare and Medicaid based on fee schedules or prospectively determined rates per day or episode of care.

Other Payors

ThedaCare has entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determined daily rates.

Accounting for Contractual Arrangements

Certain Medicare services are reimbursed at tentative rates, with final settlements determined after audit of the related annual cost reports. The cost reports have been audited by Medicare fiscal intermediaries for TCNL and TCWR through December 31, 2018, for TCW through December 31, 2017, for TCA, TCN and TCS through December 31, 2016 and for TCB through December 31, 2014.

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NOTE 4 REIMBURSEMENT ARRANGEMENTS WITH THIRD-PARTY PAYORS (CONTINUED)

Accountable Care Organizations

ThedaCare participates in several risk-sharing arrangements with third-party payors through Accountable Care Organization (ACO) models. Generally, these arrangements reward ThedaCare through additional reimbursement for meeting certain patient-quality measures and reducing costs. However, some arrangements also include a sharing of losses, as defined in the respective agreement, if certain quality measures or cost savings are not met. Accruals from these arrangements are typically based on data provided by the third-party payor. As part of certain of these risk-sharing arrangements, ThedaCare was required to obtain an annual letter of credit for \$1,614, which expired December 31, 2021. No amounts were drawn on the letter of credit. During 2021 and 2020, ThedaCare recorded revenue of \$13,535 and \$9,418, respectively, related to the ACO arrangements. These amounts are included in other operating revenue in the accompanying consolidated statements of operations.

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Violations by health care providers of laws and regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services.

CMS uses recovery audit contractors (RACs) as part of its efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that may have been made to health care providers and not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, CMS makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The provider will then have an opportunity to appeal the adjustment before final settlement of the claim is made.

NOTE 5 LIQUIDITY AND AVAILABILITY

ThedaCare invests cash in excess of short-term requirements in investments. As of December 31, 2021 and 2020, ThedaCare has working capital of \$1,030,199 and \$841,038, respectively.

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NOTE 5 LIQUIDITY AND AVAILABILITY (CONTINUED)

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	<u>2021</u>	<u>2020</u>
Financial Assets at Year-End:		
Cash and Cash Equivalents	\$ 118,341	\$ 76,346
Short-Term Investments	726,652	587,740
Patient Accounts Receivables, Net	145,398	131,098
Other Accounts Receivables	10,415	8,566
Investments	172,484	164,443
Total Financial Assets Available Within One Year	<u>\$ 1,173,290</u>	<u>\$ 968,193</u>

NOTE 6 INVESTMENTS AND FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value, including assets held in ThedaCare's defined benefit retirement plans (see Note 10).

- Money market funds are measured using \$1 as NAV.
- Mutual funds are valued at the daily closing price as reported by the fund. These funds are registered with the U.S. Securities and Exchange Commission and are required to publish their daily NAV and to transact at that price.
- Alternative investments are reported using their NAV as a practical expedient, or using the Family of Foundations' proportional share of the underlying investments as reported by the investment issuer. These funds are made up of several underlying managers, each of whom manages their own portfolio. Fair value is determined based on the fair value of the underlying investments. In substantiating the reasonableness of the pricing of alternative investments, management evaluates a variety of factors including recently executed transactions, economic conditions, industry and market developments, and overall credit ratings. In accordance with ASC 820-10, *Fair Value Measurements and Disclosures*, alternative investments that are measured using NAV as a practical expedient have not been classified in the fair value hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Family of Foundations believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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NOTE 6 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of December 31:

	2021			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 51,307	\$ -	\$ -	\$ 51,307
Mutual Funds:				
Equities	349,174	-	-	349,174
Fixed Income	270,098	-	-	270,098
Marketable Equity Securities	74,108	-	-	74,108
Alternative Investments Using NAV as Practical Expedient:				
Funds of Funds	-	-	-	88,823
Private Equity	-	-	-	37,838
Real Estate	-	-	-	82,156
Total	<u>\$ 744,687</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 953,504</u>

	2020			
	Level 1	Level 2	Level 3	Total
Money Market Funds	\$ 63,627	\$ -	\$ -	\$ 63,627
Mutual Funds:				
Equities	288,371	-	-	288,371
Fixed Income	198,824	-	-	198,824
Marketable Equity Securities	77,967	-	-	77,967
Alternative Investments Using NAV as Practical Expedient:				
Funds of Funds	-	-	-	82,695
Private Equity	-	-	-	44,416
Real Estate	-	-	-	67,135
Total	<u>\$ 628,789</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 823,035</u>

The following table sets forth additional disclosures of ThedaCare's alternative investments as of December 31, 2021:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Lockup Period
Alternative Investments:		\$ 12,386			
Funds of Funds (a)	\$ 88,823		Ranges from Quarterly to Every Two Years, Depending on the Terms of the Fund.	Ranges from 30-Day Notice to 180-Day Notice, Depending on the Terms of the Fund.	Fair Value of \$1,997 Subject to a 1-Year Lockup, \$9,255 Subject to a 8-Year Lockup; \$37,977 Subject to a 10-Year Lockup; \$12,328 Subject to an 11-Year Lockup; \$60,288 Subject to a 12-Year Lockup
Real Estate (b)	82,156				
Private Equity (c)	37,838				

- (a) This class invests primarily in offshore partnerships and seeks superior absolute returns with low correlation to global equity and fixed income markets.
- (b) This class seeks predictable returns from a targeted portfolio of income-producing real estate.
- (c) This class seeks significant value appreciation of their portfolio companies through active management strategies or by investing in funds that invest in future capital companies.

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NOTE 6 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Investments were classified in the accompanying consolidated balance sheets as of December 31 as follows:

	2021	2020
Short-Term Investments	\$ 726,652	\$ 587,740
Investments	172,484	164,443
Assets Limited as to Use	75,945	103,443
Total	<u>\$ 975,081</u>	<u>\$ 855,626</u>

Investment return is comprised of and classified as follows in the consolidated financial statements for the years ended December 31:

	2021	2020
Interest Income and Dividends	\$ 15,747	\$ 11,873
Net Realized Gains on Investment and Assets Limited as to Use	77,595	17,831
Net Change in Unrealized Gains on Investments and Assets Limited as to Use	40,055	61,807
Total Investment Return	<u>\$ 133,397</u>	<u>\$ 91,511</u>
Without Donor Restriction - Investment Income	\$ 132,624	\$ 91,248
Total Donor Restricted Investment Income	773	263
Total Investment Return	<u>\$ 133,397</u>	<u>\$ 91,511</u>

NOTE 7 LAND, BUILDINGS, AND EQUIPMENT

A summary of land, buildings, and equipment and the related accumulated depreciation and amortization is as follows at December 31:

	2021	2020
Land and Improvements	\$ 44,595	\$ 41,893
Buildings and Improvements	517,093	502,212
Equipment	316,381	344,288
Construction in Progress	54,361	32,512
Buildings and Equipment under Finance Leases	3,472	8,996
Total Land, Buildings, and Equipment	935,902	929,901
Less: Accumulated Depreciation and Amortization	(437,392)	(461,158)
Land, Buildings, and Equipment, Net	<u>\$ 498,510</u>	<u>\$ 468,743</u>

Accumulated amortization on buildings and equipment under finance leases at December 31, 2021 and 2020 was \$694 and \$5,071, respectively.

Depreciation and amortization expense on land, buildings, and equipment for 2021 and 2020 was \$48,891 and \$47,939, respectively.

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NOTE 7 LAND, BUILDINGS, AND EQUIPMENT (CONTINUED)

At December 31, 2021 and 2020, construction in progress is primarily related to an Orthopedic, Spine, and Pain Center Hospital as well as to other general construction projects and major equipment purchases. At December 31, 2021, ThedaCare had commitments totaling \$55,855 related to the various projects.

NOTE 8 LONG-TERM DEBT

Long-term debt is summarized as follows at December 31:

<u>Description</u>	<u>2021</u>	<u>2020</u>
2020 Equipment Security Note, fixed interest at 1.89%, due in installments through 2027, used to pay off Series 2010 Bonds and 2019 Credit Agreement.	\$ 12,053	\$ 13,933
WHEFA Revenue Bonds, Series 2012, interest at 2.37%, due in installments beginning in 2021 continuing through 2030.	45,820	49,745
WHEFA Revenue Bonds, Series 2014A, variable rate (1.29% at December 31, 2021), due in installments through 2024.	4,900	6,536
WHEFA Revenue Bonds, Series 2015, interest at 3.00% to 5.00%, due in installments through 2044.	112,200	114,525
WHEFA Revenue Bonds, Series 2019, interest at 3.13% to 5.00%, due in installments through 2044.	140,790	140,790
Note payable to Cancer Specialists of NE Wisconsin Equipment Leasing, LLC, interest at 5.00%, due in installments through 2021.	-	328
Total Long-Term Debt	315,763	325,857
Plus: Unamortized Original Issue Bond Premium	19,691	20,930
Less: Bond Issuance Costs	<u>(1,465)</u>	<u>(1,590)</u>
Subtotal	333,989	345,197
Less: Current Portion	<u>(10,004)</u>	<u>(10,093)</u>
Long-Term Debt, Net of Current Portion	<u>\$ 323,985</u>	<u>\$ 335,104</u>

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NOTE 8 LONG-TERM DEBT (CONTINUED)

The loans and related agreements with WHEFA and the credit agreement provide, among other things, that ThedaCare and the Hospitals (the Obligated Group) are jointly and severally liable for the debt service on all obligations issued thereunder. Under the terms of the agreements, various amounts are being held on deposit with a trustee for bond redemption, interest payments, and certain construction expenditures. In addition, the master trust indenture requires the Obligated Group to maintain certain financial ratios and places restrictions on various activities such as the transfer of assets and incurrence of additional indebtedness.

Scheduled payments on all long-term debt as of December 31, 2021 are as follows:

<u>Year Ending December 31,</u>	<u>Bonds and Notes Payable</u>
2022	\$ 10,004
2023	10,241
2024	10,488
2025	9,112
2026	9,375
Thereafter	266,543
Total	<u>\$ 315,763</u>

NOTE 9 LEASES

ThedaCare leases primarily consist of space for health care facilities, health care equipment, and various other office equipment from third parties. ThedaCare determines if an arrangement is a lease at contract inception. Operating and finance lease assets and liabilities are recognized based on the present value of the lease payments over the lease term at the commencement date. Because most of ThedaCare's leases do not provide an implicit rate of return, ThedaCare used an imputed interest rate to calculate the present value of payments.

Most leases include one or more options to renew, with renewal terms that can extend the lease term another five years. The exercise of such lease renewal options is at ThedaCare's sole discretion. For purposes of calculating lease liabilities, lease terms include options to extend or terminate the lease when it is reasonably certain that ThedaCare will exercise the option.

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NOTE 9 LEASES (CONTINUED)

Lease assets and liabilities are as follows:

<u>Assets:</u>	<u>2021</u>	<u>2020</u>
Operating Lease Assets	\$ 34,564	25,674
Financing Lease Assets	2,778	4,759
Total Assets	<u>\$ 37,342</u>	<u>\$ 30,433</u>
<u>Liabilities:</u>	<u>2021</u>	<u>2020</u>
Current:		
Operating Leases	\$ 8,098	\$ 8,601
Financing Leases	159	960
Noncurrent:		
Operating Leases	26,466	17,506
Financing Leases	2,916	2,949
Total Liabilities	<u>\$ 37,639</u>	<u>\$ 30,016</u>

ThedaCare's leases costs under ASC 842 for the years ended December 31 are as follows:

	<u>2021</u>	<u>2020</u>
Operating Lease Cost	\$ 12,408	\$ 11,261
Finance Lease Cost:		
Amortization of Lease Assets	754	1,788
Interest on Lease Liabilities	162	182
Total Lease Cost	<u>\$ 13,324</u>	<u>\$ 13,231</u>

As of December 31, 2021 the maturity of lease obligations consisted of the following:

<u>Maturity Schedule</u>	<u>Operating Leases</u>	<u>Finance Leases</u>
2022	\$ 9,194	\$ 309
2023	6,611	315
2024	5,539	321
2025	2,817	328
2026	2,228	334
Thereafter	13,162	2,536
Total Lease Payments	<u>39,551</u>	<u>4,143</u>
Less: Imputed Interest	(4,987)	(1,068)
Less: Current Portion	(8,098)	(159)
Long-Term Lease Liabilities	<u>\$ 26,466</u>	<u>\$ 2,916</u>

At December 31, 2021 and 2020 the weighted average remaining lease term was 1.83 and 2.50 years for operating leases and 12.00 and 3.67 years for finance leases. At December 31, 2021 and 2020 the weighted average discount rate was 3.60% for operating leases and 5.00% for finance leases.

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NOTE 10 DEFERRED EMPLOYEE BENEFIT OBLIGATIONS AND PENSION PLANS

Defined Contribution Plans

ThedaCare offers a defined contribution 403(b) savings plan in which substantially all employees may participate. For employees age 19 and over, the plan includes a 75% match on the first 4% of eligible wages contributed to the plan by employees, plus a discretionary employer contribution to employees who meet a minimum-hours requirement and are employed as of the last day of the plan year (December 31).

Total defined contribution expense was \$20,909 and \$12,689 during 2021 and 2020, respectively.

Deferred Compensation

ThedaCare provides certain executive compensation plans that vest over a one- to five-year period. Related liabilities are \$10,439 and \$9,941 at December 31, 2021 and 2020, respectively. Liabilities are included in deferred employee benefit obligations in the accompanying consolidated balance sheet. Related assets are included in assets limited as to use (Note 6).

Pension and Other Postretirement Benefits

The ThedaCare Pension Plan, which was frozen in 2009, is a defined benefit pension plan that covered all full- and many part-time employees of ThedaCare who had completed one year of service and attained the age of 21. ThedaCare funds contributions to the Plan based on actuarial computations using the projected unit credit method. Benefits are based on years of service and the employee's average compensation for the five highest consecutive years of service. The anticipated required contribution for ThedaCare's pension plan for the year ending December 31, 2022 is \$18,000.

Based on improved funding and investments, ThedaCare's frozen defined benefit pension plan is approaching 100% funded status. The ThedaCare Board has approved termination of the frozen defined benefit pension plan. ThedaCare has engaged advisors to assure they have a complaint process abiding by the regulatory parameters. ThedaCare has submitted an Internal Revenue Service determination letter in March 2022.

ThedaCare also provides certain benefits to eligible employees after their retirement date. Such benefits include life insurance and the additional claims cost in excess of standard premiums for medical and dental benefits. ThedaCare funds benefit costs on a pay-as-you-go basis. The contribution for ThedaCare's other postretirement benefits for the year ending December 31, 2022 is anticipated to be \$175.

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NOTE 10 DEFERRED EMPLOYEE BENEFIT OBLIGATIONS AND PENSION PLANS (CONTINUED)

Pension and Other Postretirement Benefits (Continued)

Information regarding the benefit obligations and assets of the pension and postretirement benefit plans as of and for the years ended December 31 is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
Actuarial Present Value of Benefit Obligations - Accumulated Benefit Obligation	\$ 239,124	\$ 258,544	\$ 889	\$ 984
Change in Projected Benefit Obligation:				
Projected Benefit Obligation at Beginning	\$ 258,544	\$ 246,708	\$ 984	\$ 4,328
Settlement (Gain) or Loss	557	(1,191)	-	-
Interest Cost	6,239	7,730	22	31
Plan Amendments	-	-	-	(3,237)
Actuarial (Gains) Losses	(5,495)	26,003	58	117
Benefits Paid	(20,721)	(20,706)	(175)	(255)
Projected Benefit Obligation at End of Measurement Period	239,124	258,544	889	984
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Measurement Period	224,574	186,353	-	-
Actual Return on Plan Assets	999	25,927	-	-
Employer Contributions	17,000	33,000	175	255
Benefits Paid	(20,721)	(20,706)	(175)	(255)
Fair Value of Plan Assets at End of Measurement Period	221,852	224,574	-	-
Funded Status at End of Measurement Period	\$ (17,272)	\$ (33,970)	\$ (889)	\$ (984)

Components of net periodic benefit cost and other amounts recognized in changes in unrestricted net assets are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
Amounts Recognized in the Consolidated Balance Sheets Consist of the Following - Long- Term Deferred Employee Benefit Obligations	\$ 17,272	\$ 33,970	\$ 889	\$ 984
Amounts Recognized in Unrestricted Net Assets - Net Actuarial Loss (Gain)	68,984	73,373	(2,146)	(3,527)

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NOTE 10 DEFERRED EMPLOYEE BENEFIT OBLIGATIONS AND PENSION PLANS (CONTINUED)

Pension and Other Postretirement Benefits (Continued)

Components of net periodic benefit cost and other amounts recognized in changes in unrestricted net assets are as follows at December 31:

	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
Net Periodic Benefit Cost:				
Service Cost	\$ -	\$ -	\$ -	\$ -
Interest Cost on Projected Benefit Obligation	6,239	7,730	22	31
Expected Loss on Plan Assets	(10,758)	(7,401)	-	-
Amortization of Net Losses	5,210	5,602	(244)	(306)
Amortization of Prior Service Cost (Credit)	-	-	(1,079)	(1,079)
Settlement/Curtailment Charge	4,000	3,966	-	-
Net Periodic Benefit Cost	4,691	9,897	(1,301)	(1,354)
Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets:				
Net Actuarial (Gain) Loss Arising				
During the Period	821	6,287	57	117
Amortization of Net Actuarial Loss	(5,210)	(9,568)	244	306
Prior Service Cost (Credit)	-	-	-	(3,237)
Amortization of Prior Service Cost	-	-	1,079	1,079
Total Other Changes in Plan Assets and Benefit Obligations	(4,389)	(3,281)	1,380	(1,735)
Total Recognized in Net Periodic Benefit Cost and Unrestricted Net Assets	\$ 302	\$ 6,616	\$ 79	\$ (3,089)

The estimated net actuarial loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost during 2022 will be \$4,969.

The following weighted average assumptions were used to estimate the benefit obligation at December 31 and the net periodic benefit cost for the years ended December 31:

	Pension Benefits		Other Postretirement Benefits	
	2021	2020	2021	2020
Discount Rate (Benefit Obligation)	2.80 %	2.50 %	2.80 %	2.50 %
Discount Rate (Benefit Cost)	2.50	3.25	2.50	3.25
Assumed Rate of Return on Plan Assets (Benefit Cost)	5.25	5.25	N/A	N/A

For 2021 and 2020, ThedaCare used the MP-2021 and MP-2020 mortality tables, respectively, to develop the pension benefit obligation.

To develop the expected long-term rate of return on asset assumptions, ThedaCare considered the historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the pension portfolio. This resulted in the selection of long-term rate of return on asset assumptions of 5.25% for 2021 and 2020.

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NOTE 10 DEFERRED EMPLOYEE BENEFIT OBLIGATIONS AND PENSION PLANS (CONTINUED)

Pension and Other Postretirement Benefits (Continued)

For postretirement benefit obligation measurement purposes, an 8.0% annual rate of increase in the per capita cost of covered health care benefits is assumed for 2021. The rate is assumed to decrease by 0.5% per year to 4.5% in 2029 and remain at that level thereafter.

The assumed health care cost trend assumption has a significant effect on the amounts reported for the postretirement benefit obligation. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

The following estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

<u>Year Ending December 31,</u>	<u>Pension Benefits</u>	<u>Postretirement Benefits</u>
2022	\$ 16,753	\$ 120
2023	16,595	105
2024	16,740	95
2025	15,876	90
2026	15,543	85
2027 through 2031	69,436	330

Plan Assets

The pension fund is managed in accordance with the documents, policies, applicable laws, and regulations of the pension investment policy. The pension investment policy includes specific guidelines for quality, asset concentration, asset mix, asset allocations, and performance expectations. The pension funds are reviewed for compliance with the pension investment policy by the finance committee.

The asset mix was as follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Fixed Income Mutual Funds (Includes Cash and Cash Equivalents Maintained to Meet Anticipated Plan Expenses and Distributions)	100 %	82 %
Equity Mutual Funds	-	18
Total	<u>100 %</u>	<u>100 %</u>

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NOTE 10 DEFERRED EMPLOYEE BENEFIT OBLIGATIONS AND PENSION PLANS (CONTINUED)

Plan Assets (Continued)

The fair values of pension plan assets by asset category at December 31 were as follows:

	2021			Totals
	Level 1	Level 2	Level 3	
Money Market Funds	\$ 15,825	\$ -	\$ -	\$ 15,825
Fixed Income Mutual Funds	206,027	-	-	206,027
Total	\$ 221,852	\$ -	\$ -	\$ 221,852
	2020			
	Level 1	Level 2	Level 3	Totals
Money Market Funds	\$ 8,335	\$ -	\$ -	\$ 8,335
Domestic Equity Mutual Funds	32,436	-	-	32,436
International Equity Mutual Funds	7,232	-	-	7,232
Fixed Income Mutual Funds	176,571	-	-	176,571
Total	\$ 224,574	\$ -	\$ -	\$ 224,574

NOTE 11 UNEMPLOYMENT COMPENSATION

ThedaCare has elected to pay for unemployment compensation benefits on a reimbursement basis and filed letters of credit in the aggregate amount of \$9,327 at December 31, 2021 and 2020 with the Wisconsin Department of Industry, Labor, and Human Relations.

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NOTE 12 NET ASSETS CLASSIFICATION

Net assets with donor restrictions were available for the following purposes at December 31:

<u>Subject to Expenditure for Specific Purpose</u>	<u>2021</u>	<u>2020</u>
Capital Expenditures or Programs:		
Peabody Heritage Fund	\$ 1,122	\$ 1,118
Aylward Surgery Center	906	906
Cancer Care Fund	877	83
Nurse/Clinical Education Fund	864	859
Berlin Area Children's Fund	530	829
Oncology Fund	408	408
ThedaCare Rural Initiative Fund	344	-
Urology	338	267
Breast Cancer Center	232	229
Campaign Fund	230	230
FOCUS Fund	221	240
AVS/Endowment Earnings	218	158
Peabody Endowment Earnings Fund	180	92
ThedaStar	174	172
Appleton Medical Center	168	168
Shattuck	168	-
Cancer Research	155	-
Therapy Fund	131	82
Cancer Center	125	161
Helping Hand Cancer Fund	124	122
Collaborative Care	106	106
Wild Rose Facilities Improvement Fund	101	100
Shawano Facilities Improvement Fund	100	100
Various	2,316	2,251
Total	<u>10,138</u>	<u>8,681</u>
 <u>Not Subject to Appropriation or Expenditure</u>		
Shattuck Fund	3,124	3,124
John G. and Mary Alsted Strange Memorial Fund	1,000	1,000
Children's Endowment	425	425
Peabody Heritage Endowment	299	299
Patricia Ann High Cancer Fund	233	160
TC Endowment Fund	208	208
Dianne Bergstrom Nursing Scholarship Endowment	200	190
Auxiliary Volunteer Service Scholarship	184	184
Boldt Family Fund	149	149
Nursing Fund	100	100
Various	411	412
Total	<u>6,333</u>	<u>6,251</u>
 Total Net Assets With Donor Restrictions	 <u>\$ 16,471</u>	 <u>\$ 14,932</u>

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NOTE 13 ENDOWMENT FUNDS

The endowment funds include both donor-restricted endowment funds and funds designated by the board of trustees to function as endowments. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

ThedaCare is subject to the Wisconsin Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, ThedaCare considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. ThedaCare has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

Additionally, in accordance with UPMIFA, ThedaCare considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of ThedaCare and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of ThedaCare
- The investment policy of ThedaCare

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NOTE 13 ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law (Continued)

ThedaCare's endowment net asset composition by type of fund is as follows at December 31:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted	\$ -	\$ 7,726	\$ 7,726
Board Designated	3,579	-	3,579
Total Funds	<u>\$ 3,579</u>	<u>\$ 7,726</u>	<u>\$ 11,305</u>

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor Restricted	\$ -	\$ 7,087	\$ 7,087
Board Designated	2,950	-	2,950
Total Funds	<u>\$ 2,950</u>	<u>\$ 7,087</u>	<u>\$ 10,037</u>

The changes in endowment by net asset class for ThedaCare were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets at December 31, 2019	\$ 2,714	\$ 6,891	\$ 9,605
Investment Return - Investment Income	315	218	533
Contributions	-	5	5
Release of Board-Designated Endowment	(79)	-	(79)
Appropriation of Endowment Assets for Expenditure	-	(27)	(27)
Endowment Net Assets at December 31, 2020	<u>2,950</u>	<u>7,087</u>	<u>10,037</u>
Investment Return - Investment Income	657	640	1,297
Contributions	-	15	15
Release of Board-Designated Endowment	(28)	-	(28)
Appropriation of Endowment Assets for Expenditure	-	(16)	(16)
Endowment Net Assets at December 31, 2021	<u>\$ 3,579</u>	<u>\$ 7,726</u>	<u>\$ 11,305</u>

Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires ThedaCare to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2021 and 2020.

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NOTE 13 ENDOWMENT FUNDS (CONTINUED)

Return Objectives and Risk Parameters

ThedaCare has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

ThedaCare has a policy of appropriating for distribution each year 5% rate of return to be based on a three-year rolling average at year-end. In establishing this policy, ThedaCare considered the long-term expected return on its endowment.

NOTE 14 MALPRACTICE INSURANCE

ThedaCare has professional liability insurance for claim losses of less than \$1,000 per claim and \$3,000 per year for claims incurred during a policy year regardless of when claims are reported (occurrence coverage). ThedaCare is insured against losses in excess of these amounts through its mandatory participation in the Patients' Compensation Fund of the state of Wisconsin. The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the annual period extending through June 1, 2022.

NOTE 15 SELF-FUNDED INSURANCE

ThedaCare sponsors self-funded health and dental plans, which provide medical and dental benefits to its employees and their dependents. Health and dental costs are expensed as incurred. Health and dental expense includes claims paid, reinsurance premiums, administration fees, and unpaid claims at year-end. Self-funded health and dental expense for the years ended December 31, 2021 and 2020 was \$56,718 and \$41,737, respectively. A liability of \$6,145 and \$5,579 for claims outstanding has been recorded at December 31, 2021 and 2020, respectively.

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NOTE 15 SELF-FUNDED HEALTH INSURANCE (CONTINUED)

ThedaCare is also self-insured for workers' compensation claims for claims under \$1,000. ThedaCare is insured by a third-party for workers' compensation claims in excess of \$1,000. Workers' compensation claims are expensed as incurred, and expense includes claims paid and unpaid claims at year-end. ThedaCare has filed a letter of credit in the amount of \$2,600 with the state related to the self-insured workers' compensation plan. A liability of \$3,828 and \$3,678 for workers' compensation claims outstanding has been recorded at December 31, 2021 and 2020, respectively.

NOTE 16 FUNCTIONAL EXPENSES

ThedaCare provides general health care and other services to residents within its geographic locations including hospital, ambulatory, and retirement center services. Expenses related to providing these services were as follows for the years ended December 31:

	2021				
	Hospital Services	Ambulatory Services	Post Acute Services	General and Administrative	Total Expenses
Compensation and Benefits	\$ 206,358	\$ 178,349	\$ 38,031	\$ 135,654	\$ 558,392
Supplies and Services	276,946	60,183	23,206	122,071	482,406
Depreciation and Amortization	29,171	6,089	2,421	11,210	48,891
Interest Expense	-	31	-	11,532	11,563
Medicaid Assessment Program Expenses	10,510	-	-	-	10,510
Total	<u>\$ 522,985</u>	<u>\$ 244,652</u>	<u>\$ 63,658</u>	<u>\$ 280,467</u>	<u>\$ 1,111,762</u>
	2020				
	Hospital Services	Ambulatory Services	Post Acute Services	General and Administrative	Total Expenses
Compensation and Benefits	\$ 186,323	\$ 159,387	\$ 34,666	\$ 109,586	\$ 489,962
Supplies and Services	255,306	71,002	19,383	103,213	448,904
Depreciation and Amortization	29,233	6,998	2,312	9,396	47,939
Interest Expense	31	77	-	12,031	12,139
Medicaid Assessment Program Expenses	8,606	-	-	-	8,606
Total	<u>\$ 479,499</u>	<u>\$ 237,464</u>	<u>\$ 56,361</u>	<u>\$ 234,226</u>	<u>\$ 1,007,550</u>

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. This includes the split between hospital services, ambulatory services and post-acute services, which is allocated based on a percent of total departmental revenue.

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NOTE 17 CONCENTRATION OF CREDIT RISK

Financial instruments that expose credit risk consist principally of cash deposits in excess of insured limits in financial institutions, investments which are uninsured, and accounts receivable.

Cash – ThedaCare maintains its cash in bank deposit accounts. Amounts on deposit exceeded the Federal Deposit Insurance Corporation insured limits at December 31, 2021. Management regularly monitors ThedaCare’s cash balances along with the financial condition of the financial institutions to minimize this potential risk.

Accounts Receivable – ThedaCare grants credit without collateral to its patients, most of whom are local residents of the Fox Valley area of Wisconsin and insured under third-party payor agreements. The mix of receivables from patients and third-party payors are approximately as follows at December 31:

	2021	2020
Medicare	38 %	41 %
Commercial Programs	38	36
Self-Pay	12	12
Medicaid	12	11
Totals	100 %	100 %

NOTE 18 COMMITMENTS AND CONTINGENCIES

Litigation

ThedaCare is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on ThedaCare’s future financial position or results of operations.

COVID-19 Pandemic

The COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the ThedaCare, COVID-19 may impact various parts of its fiscal year 2022 operations and financial results including but not limited to additional costs for emergency preparedness, disease control and containment, potential shortages of health care personnel, or loss of revenue due to reductions in certain revenue streams. Management believes ThedaCare is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of December 31, 2021.

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