

**Exhibit 12-A**

Gundersen's Previous Five (5) Fiscal Years Audited Financial Statements

See attached.

*Consolidated Financial Statements  
for Years Ended December 31, 2021 and 2020*

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Gundersen Health System  
Years Ended December 31, 2021 and 2020  
With Reports of Independent Auditors

Ernst & Young LLP



# Gundersen Health System

## Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2021 and 2020

### Contents

Report of Independent Auditors .....	1
Consolidated Financial Statements	
Consolidated Balance Sheets .....	3
Consolidated Statements of Operations .....	4
Consolidated Statements of Changes in Net Assets .....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	8
Supplementary Information	
Report of Independent Auditors on Supplementary Information .....	46
Consolidating Balance Sheet .....	47
Consolidating Statement of Operations .....	48
Consolidating Statement of Changes in Net Assets.....	49
Consolidating Balance Sheet – Critical Access Hospitals .....	50
Consolidating Statement of Operations – Critical Access Hospitals .....	51
Consolidating Statement of Changes in Net Assets – Critical Access Hospitals .....	52





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## Report of Independent Auditors

The Board of Trustees and Board of Governors  
Gundersen Health System

### **Opinion**

We have audited the consolidated financial statements of Gundersen Health System (the Company), 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 (collectively referred to as the consolidated financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company 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.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 of material misstatement, whether due to fraud or error.

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's 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 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, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 the Company's 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 the Company's 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.

*Ernst & Young LLP*

April 22, 2022

## Gundersen Health System

### Consolidated Balance Sheets (Dollars in Thousands)

	December 31	
	2021	2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 301,225	\$ 314,578
Investments	880,366	806,116
Current portion of investments whose use is limited	1,226	1,433
Patient accounts receivable	180,275	161,236
Other current assets	87,147	110,806
Total current assets	1,450,239	1,394,169
Investments whose use is limited	50,107	51,820
Property and equipment, net	661,345	674,020
Right-of-use assets – operating leases	12,207	14,828
Investment in unconsolidated entities	71,456	64,788
Other noncurrent assets	24,368	23,531
Total assets	\$ 2,269,722	\$ 2,223,156
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 24,331	\$ 27,284
Accrued payroll	71,794	89,235
Accrued liabilities	70,190	70,488
Current maturities of long-term debt	12,682	12,474
Current operating lease obligations	2,559	3,444
Other current liabilities	56,574	50,311
Total current liabilities	238,130	253,236
Long-term debt, net of current maturities	390,508	399,408
Long-term operating lease obligations	9,892	11,588
Obligation under swap contracts	22,069	30,586
Other noncurrent liabilities	23,636	64,239
Total liabilities	684,235	759,057
Net assets:		
Without donor restrictions	1,541,356	1,424,315
With donor restrictions	44,131	39,784
Total net assets	1,585,487	1,464,099
Total liabilities and net assets	\$ 2,269,722	\$ 2,223,156

*See accompanying notes.*

## Gundersen Health System

### Consolidated Statements of Operations (Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Operating revenue:		
Net patient service revenue	<b>\$ 1,068,370</b>	\$ 892,479
Capitation revenue	<b>417,115</b>	405,848
Other revenue	<b>52,352</b>	79,307
Total operating revenue and gains	<b>1,537,837</b>	1,377,634
Operating expenses:		
Salaries, wages, and benefits	<b>855,998</b>	787,574
Supplies	<b>256,824</b>	218,110
Capitation services	<b>147,771</b>	150,116
Depreciation and amortization	<b>69,250</b>	65,571
Facilities	<b>39,453</b>	38,425
Purchased services	<b>62,842</b>	65,294
Interest	<b>16,822</b>	17,376
Other operating expenses	<b>58,135</b>	57,419
Total operating expenses	<b>1,507,095</b>	1,399,885
Operating income (loss)	<b>30,742</b>	(22,251)
Nonoperating gains (losses):		
Investment gains, net	<b>74,191</b>	85,227
Contribution from business combination	-	18,174
Unrealized gain (loss) on interest rate swap contracts	<b>8,517</b>	(4,563)
Gain from unconsolidated entities	<b>4,551</b>	1,858
Other nonoperating (losses) gains, net	<b>(1,840)</b>	253
	<b>85,419</b>	100,949
Revenue in excess of expenses	<b>\$ 116,161</b>	\$ 78,698

*See accompanying notes.*

## Gundersen Health System

### Consolidated Statements of Changes in Net Assets (Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
Net assets without donor restrictions:		
Revenue in excess of expenses	<b>\$ 116,161</b>	\$ 78,698
Net assets released from restrictions to purchase property and equipment	<b>744</b>	1,098
Other changes	<b>136</b>	17
Increase in net assets without donor restrictions	<b>117,041</b>	79,813
Net assets with donor restrictions:		
Contributions	<b>4,000</b>	3,441
Investment return	<b>4,705</b>	4,015
Net assets released from restriction	<b>(4,184)</b>	(4,311)
Other changes	<b>(174)</b>	(357)
Increase in net assets with donor restrictions	<b>4,347</b>	2,788
Increase in net assets	<b>121,388</b>	82,601
Net assets at beginning of year	<b>1,464,099</b>	1,381,498
Net assets at end of year	<b>\$ 1,585,487</b>	\$ 1,464,099

*See accompanying notes.*

# Gundersen Health System

## Consolidated Statements of Cash Flows (Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating activities</b>		
Increase in net assets	\$ 121,388	\$ 82,601
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	69,250	65,571
Unrealized (gains) losses on swap contracts	(8,517)	4,563
Unrealized gains on investments, net	(9,458)	(60,291)
Change in equity of consolidated affiliates	–	(814)
Gain from unconsolidated entities	(5,201)	(180)
Contribution of net assets received on acquisition	–	(18,174)
Other	119	1,405
Restricted contributions	(4,000)	(3,441)
Changes in operating assets and liabilities:		
Patient accounts receivable	(19,039)	30,098
Other current assets	28,725	(5,479)
Accounts payable, accrued, and other current liabilities	(16,761)	32,491
Unearned revenue	(30,663)	72,123
Other noncurrent assets and liabilities	(8,494)	9,416
Net cash provided by operating activities	117,349	209,889
<b>Investing activities</b>		
Purchases of property and equipment, net	(55,646)	(77,505)
Purchases of investments, net	(85,539)	(8,806)
Investment in unconsolidated entities	(1,561)	(2,300)
Cash received upon sale of affiliate	–	5,000
Other	(5,000)	2
Net cash used in investing activities	(147,746)	(83,609)
<b>Financing activities</b>		
Proceeds from issuance of bonds or long-term debt	118,478	36,712
Debt issuance cost	(1,166)	(136)
Principal payments on long-term debt	(11,354)	(13,761)
Principal payments on refinancing	(115,580)	–
Restricted contributions	4,000	3,441
Net cash (used in) provided by financing activities	(5,622)	26,256
Net (decrease) increase in cash and cash equivalents	(36,019)	152,536
Cash and cash equivalents at beginning of year	345,713	193,177
Cash and cash equivalents at end of year	\$ 309,694	\$ 345,713

# Gundersen Health System

## Consolidated Statements of Cash Flows (continued) (Dollars in Thousands)

	Year Ended December 31	
	2021	2020
<b>Reconciliation of cash and cash equivalents and restricted cash to the consolidated balance sheets</b>		
Cash and cash equivalents	\$ 301,225	\$ 314,578
Restricted cash included in investments	8,469	31,135
Cash and cash equivalents at end of year	<u>\$ 309,694</u>	<u>\$ 345,713</u>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid, net of capitalized interest	\$ 17,334	\$ 16,740
Capital assets acquired with capital lease obligation	<u>\$ 931</u>	<u>\$ 807</u>

*See accompanying notes.*

# Gundersen Health System

## Notes to Consolidated Financial Statements (Dollars in Thousands)

December 31, 2021

### 1. Organization and Basis of Presentation

Gundersen Lutheran Health System, Inc. (Gundersen), located in La Crosse, Wisconsin, is the parent of Gundersen Lutheran Health System (the System), an integrated health care system that provides comprehensive medical care to patients primarily in Wisconsin, as well as in Iowa and Minnesota, by operating hospitals, clinics, health plans, long-term care facilities, ambulance services, a foundation, and an energy-producing company, in addition to providing medical and health/wellness education and community outreach, and conducting medical education and clinically based research.

The System operates under the name Gundersen Health System and consists of Gundersen and its wholly controlled affiliates, which are as follows at December 31, 2021:

#### *Obligated Group*

- Gundersen Clinic, Ltd.
- Gundersen Lutheran Medical Center, Inc.
- Gundersen Lutheran Administrative Services, Inc.
- Gundersen Lutheran Medical Foundation, Inc.

#### *Non-Obligated Group*

##### *Critical Access Hospitals*

- Tri-County Memorial Hospital, Inc.
- St. Joseph's Health Services, Inc.
- Memorial Hospital of Boscobel
- Palmer Lutheran Health Center, Inc.
- Moundview Memorial Hospital and Clinics
- Saint Elizabeth's Hospital of Wabasha, Inc. (effective September 1, 2020)

##### *Other Entities*

- Tweeten Lutheran Healthcare Center, Inc.
- Harmony Community Healthcare, Inc.
- Community Housing of La Crosse, Inc.
- Lutheran Housing of La Crosse, Inc.
- Tri-State Ambulance, Inc.
- Tri-State Regional Ambulance, Inc.
- Gundersen Lutheran Envision, LLC
- Gundersen Lutheran Credentialing Services, Inc.
- Gundersen Lutheran Health System, Inc.



# Gundersen Health System

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### **1. Organization and Basis of Presentation (continued)**

Gundersen Clinic, Ltd. (the Clinic); Gundersen Lutheran Medical Center, Inc. (the Hospital); Gundersen Lutheran Administrative Services, Inc. (GLAS); and Gundersen Lutheran Medical Foundation, Inc. are members of Gundersen Obligated Group, which holds most of the System's long-term debt (see Note 11).

As part of its overall strategy, the System has affiliated with several critical access hospitals (CAHs) that enable highly trained physicians to provide comprehensive inpatient, outpatient, and clinical care services to patients in their communities.

Effective September 1, 2020, the System acquired Saint Elizabeth's Hospital of Wabasha, Inc. (SEMC) from another health system. The System recognized a nonoperating gain of \$18,174 on the consolidated statement of operations, equal to the fair value of the assets acquired less liabilities assumed. SEMC is a not-for-profit CAH that operates a 25-bed hospital, 2 physician clinics, a 100-bed skilled nursing facility, and a 40-bed residential care apartment complex. Revenues from SEMC included on the consolidated statements of operations for the period September 1, 2020 through December 31, 2020, were \$13,401.

### **2. Summary of Significant Accounting Policies**

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time that the estimates were made, actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions, and short-term investments with original maturities of 90 days or less from the date of purchase. The System maintains cash and cash equivalents on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation and thereby expose the System to potential risk of loss in the event the financial institution becomes insolvent. No losses have been incurred to date, and management does not consider the credit risk to be significant to the System.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 2. Summary of Significant Accounting Policies (continued)

#### Patient Accounts Receivable

The collection of receivables from third-party payers and patients is the System's primary source of cash for operations. The primary collection risks relate to uninsured patient accounts and patient deductibles and coinsurance on insurers' accounts. Patient receivables, including the portion for which a third-party payer is responsible, are carried at net realizable value, determined by the original charge for the service provided less an estimate made for contractual adjustments or discounts provided to third-party payers. Patient receivables due directly from patients are carried on the accompanying consolidated balance sheets at the original charge for the service provided less amounts covered by third-party payers, allowances for other discounts, and an allowance for price concessions. The System does not charge interest on past-due receivables. Receivables are written off after collection efforts have been followed in accordance with the System's policies. The System grants credit without collateral to patients, most of whom are local residents and are insured under third-party payer agreements.

Accounts receivable are reduced by an allowance for price concessions. The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections of revenues and accounts receivable as a primary source of information in estimating the collectability of our accounts receivable. Management updates the hindsight analysis at least quarterly. Changes in estimates have not resulted in material adjustments to valuations of accounts receivable or period-to-period comparisons of results of operations.

At December 31, 2021 and 2020, amounts due from Medicare represented 17.3% and 10.9%, respectively, of the System's net patient accounts receivable.

#### Investments and Investments Whose Use Is Limited

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value on the consolidated balance sheets. Investments in equity and debt securities are classified as trading, and accordingly, all gains and losses are recorded as nonoperating investment return, to the extent not restricted by donor or law. The System accounts for investment transactions on a settlement-date basis.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Summary of Significant Accounting Policies (continued)**

Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Unrestricted investments are classified as current assets since they are available for operations. Certain investments are limited as to use under the terms of a bond indenture, state insurance regulations, unemployment fund agreements, collateral posted against swap valuations, and internal designation for medical education by the Board of Trustees and Board of Governors, who, at their discretion, can change these designations in the future.

Investments include alternative investments and other investments that are valued based on the net asset value (NAV) of the investments, as further discussed in the Fair Value Measurement note. Investments include interests in real estate funds with liquidity ranging from 95 to 125 days in these funds.

Values of some of the underlying investments may be based on estimates that require varying degrees of judgment, and consequently, these estimates may differ from the values at which investments may be sold. Values of the real estate funds are based on the fair value of the underlying real estate and reflect any net contributions to the investee and an ownership interest share of realized and unrealized investment income and expenses.

#### **Investments in Unconsolidated Entities**

Investments in entities in which the System has the ability to exercise significant influence over operating and financial policies, but does not have operational control, are recorded under the equity method of accounting, except for the investment in Recombinetics (see Note 6) that the System recorded under the fair-value method of accounting. These equity and fair-value method investments are recorded as investments in unconsolidated entities on the consolidated balance sheets.

#### **Inventories, Supplies, and Materials**

Inventories, supplies, and materials are valued at the lower of cost (average-cost method) or net realizable value and included in other current assets on the consolidated balance sheets.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 2. Summary of Significant Accounting Policies (continued)

##### Property and Equipment

Property and equipment are stated at cost, if purchased, or at fair value on the date received, if donated, less accumulated depreciation. Works of art, collections, and similar assets are stated at fair market value at date of donation whether individual items or in a collection. During periods of construction, interest costs are capitalized to the respective property accounts.

Depreciation is computed by the straight-line method, including amortization of capital leased assets, over the following estimated useful lives:

Land improvements	5–15 years
Buildings	30–40 years
Building additions and improvements	10–25 years
Equipment and furniture	3–15 years

The System assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of an asset's carrying value unlikely. An impairment loss is indicated when the estimated total undiscounted future net cash flows are less than the carrying amounts. The loss recognized is the difference between the fair value and the carrying amount.

The System capitalizes expenditures for additions and improvements, while replacements, maintenance, and repairs that do not improve the useful lives of the assets are expensed as incurred. The System also capitalizes interest on the financing of major capital, including projects financed with tax-exempt borrowings.

##### Software Costs

Capitalized computer software costs include internally developed software. Costs incurred in developing and installing internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 2. Summary of Significant Accounting Policies (continued)

#### Derivative Financial Instruments

The System uses interest rate swap contracts as part of its risk management strategy to manage exposure to fluctuations in interest rates related to its variable rate debt. All derivative instruments are recorded at fair value on the consolidated balance sheets, with the changes in the fair values recorded in nonoperating gains (losses) on the consolidated statements of operations. The System uses pricing models that take into account the present value of estimated future cash flows and credit valuation adjustments.

#### Insurance

The provision for estimated self-insured professional liability, workers' compensation, and health care claims includes estimates of the ultimate costs for both reported and incurred but not reported claims. The accrual for self-insured professional liability, workers' compensation, and health care claims represents the estimated ultimate cost for both asserted and unasserted claims.

#### Debt Issuance Costs

Debt issuance costs are amortized over the period the related debt obligation is outstanding using the straight-line method, which approximates the effective interest rate method.

#### Leases

The System leases property and equipment under finance and operating leases. The System determines whether an arrangement is a lease at inception. For leases with terms greater than 12 months, the System records the related right-of-use assets and lease liabilities at the present value of lease payments over the term. Leases may include rental escalation clauses and options to extend or terminate the lease that are factored into the determination of lease payments when appropriate. The System does not separate lease and non-lease components of contracts. As most of the System's leases do not provide an implicit rate, the System uses the risk-free rate for a period comparable to the lease term based on the information available at the commencement date in determining the present value of lease payments.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

Operating leases are included in right-of-use assets, current operating lease obligations, and long-term operating lease obligations on the consolidated balance sheets. Operating lease expense is recognized on a straight-line basis over the lease term and is included in supplies, facilities, and purchased services on the consolidated statements of operations.

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

#### **Donated Assets and Services**

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When the terms of a donor restriction are met, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as net assets released from restriction. Donor contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

No amounts have been reflected in the consolidated financial statements for donated services. The System pays for most services requiring specific expertise; however, many individuals volunteer their time and perform a variety of tasks that assist the System with various programs.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Net Assets**

Resources are classified as without donor restrictions and with donor restrictions based on the absence or existence of donor-imposed restrictions.

Net assets without donor restrictions are those whose use by the System has not been limited by donors and are available for general operating use. These consist of net assets that are board-designated funds (endowments) and non-board-designated funds. These are made up of investments and other unrestricted amounts that are available for use in carrying out the mission of the System.

Net assets with donor restrictions are those assets whose use has been limited by donors to a specific purpose or time period, or those assets for which donors require the principal of the gift to be maintained in perpetuity in order to provide a permanent source of income. The primary purposes of these funds are for education, research, community and affiliate programs, and building and equipment.

#### **Net Patient Service Revenue**

Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payers several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System 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 in the System's hospitals receiving inpatient acute care services or patients receiving services in the System's outpatient centers or in their homes (home

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Summary of Significant Accounting Policies (continued)**

care). The System measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the System's patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the System does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (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.

The System has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.



# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### 2. Summary of Significant Accounting Policies (continued)

Agreements with third-party payers typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payers follows:

- **Medicare.** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- **Medicaid.** Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- **Other.** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payers also provide for retroactive audit and review of claims.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

Settlements with third-party payers 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 payer, correspondence from the payer, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, or investigations. Adjustments arising from a change in the transaction price were not significant in 2021 or 2020.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System 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. For the years ended December 31, 2021 and 2020, changes in estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not material.

Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense, which was not material in 2021 or 2020.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, co-pays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients. Patients who meet the System'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.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Capitation and Premium Revenue**

The Clinic and the Hospital provide health care services to enrollees of the health plans under a capitation arrangement, under which they are paid primarily on a capitated basis determined as a percentage of the member premium. Risk is transferred to the Clinic and Hospital under a provider reimbursement agreement. Capitation revenue is recognized in the year in which health care coverage is provided. Although the majority of services are provided to the health plans' enrollees by the Hospital and Clinic, certain services are provided by out-of-network providers on a contracted fee-for-service basis. A reserve is recorded for out-of-network care rendered but not reported as of each year-end.

#### **Charity and Uncompensated Care**

The System provides health care services to patients who meet certain criteria under its charity care policies without charge or at amounts less than established rates. The System maintains records to identify and monitor the level of community care provided. These records include the amount of costs incurred for services and supplies furnished under the charity care policy. Since the System does not pursue collection of these amounts, they are not reported as patient revenue.

The cost of providing charity care, which has been estimated by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients, is estimated to be \$4,150 and \$4,510 for 2021 and 2020, respectively.

#### **Performance Indicator**

The performance indicator is revenue in excess of expenses. Changes in net assets without donor restrictions, which are excluded from revenue in excess of expenses, consistent with industry practice, include net assets released from restrictions to purchase property and equipment.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Income Tax**

The System qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, with the exception of Gundersen Lutheran Envision, LLC, which is a for-profit entity.

At December 31, 2021 and 2020, net deferred tax assets of \$7,545 and \$7,948, respectively, which primarily are related to net operating loss carryforwards, have valuation allowances of \$7,545 and \$7,948, respectively, recorded against them due to the uncertainty of realizing those benefits in the future. At December 31, 2021, the System's federal net operating loss carryforwards were approximately \$28,300, and the state net operating loss carryforwards were approximately \$26,300, which will expire between 2030 and 2039.

The System has reviewed its tax positions for all open years and has concluded that no liabilities exist for uncertain tax positions. The System's income tax returns are no longer subject to examination for 2016 and prior years.

#### **New Accounting Standards Not Yet Adopted**

In June 2016, the FASB issued Accounting Standards Update No. (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU affects loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and other financial assets that have the contractual right to receive cash. This ASU is effective for the System beginning January 1, 2022. The System is currently evaluating the effects of this standard on its consolidated financial statements.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires not-for-profit entities to present contributed nonfinancial assets as a separate line item on the statement of operations and changes in net assets, apart from contributions of cash and other financial assets. This ASU is effective for the System beginning January 1, 2022, and adoption of this standard is to be applied on a retrospective basis. The System is currently evaluating the effects of this standard on its consolidated financial statements.

### **3. COVID-19**

In March 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) a pandemic. The Centers for Disease Control and Prevention confirmed its spread to the United States and it was declared a national public health emergency, followed by several state emergency declarations, and the Centers for Medicare & Medicaid Services (CMS) issued guidance regarding elective procedures. Several national and international travel restrictions were put in place and the governors in the states in which the System has operations issued executive orders postponing nonessential or elective surgeries. Gundersen Health System has and expects to continue to experience an effect in operations as a result of the COVID-19 pandemic. The System experienced a reduction in volumes as elective surgeries and nonessential visits were postponed. Additional supplies, such as personal protective equipment, were consumed and COVID-19 testing sites were established at clinic locations and newly purchased and leased properties. The System took measures to respond to anticipated revenue shortfalls, including deferring strategic initiatives and announcing temporary salary and staff reductions. By June 2020, elective surgeries and nonessential visits were resuming and staff members were being transitioned back. The System will continue to take actions to mitigate the effect of the pandemic.

The System was well prepared and ready to treat patients with COVID-19. The System has resumed safely caring for all patients across the organization.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

#### **3. COVID-19 (continued)**

On March 27, 2020, the federal government enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which provides, among other funding sources, relief funds to hospitals and other health care providers in response to COVID-19. The funds are to be used to support health-care-related expenses or lost revenue attributable to the pandemic. Beginning in April 2020, the System received an aggregate of federal CARES Act funding of approximately \$19,400 and \$54,400 for the years ended December 31, 2021 and 2020, respectively. Approximately \$14,400 and \$49,100 was recognized as other operating revenue for the years ended December 31, 2021 and 2020, respectively. The remaining government payments received will be recognized in operations as other operating revenue in future periods, subject to complying with related terms and conditions and ongoing regulatory clarifications.

In order to increase cash flow to providers of services and suppliers impacted by the COVID-19 pandemic, CMS expanded the current Accelerated and Advance Payment Program (the Program). Beginning in April 2020, CMS provided advance funding that aggregated to a total of approximately \$68,100 to the System as of December 31, 2020, included in other current and other noncurrent liabilities, with repayment to occur based upon terms and conditions of the Program, as amended. The recoupment allows providers 29 months after receipt of the advances to pay back the funds in full before interest would begin to accrue. In 2021, approximately \$37,200 in CMS advance payments were recouped through claims in 2021, leaving approximately \$30,900 in other current liabilities and other noncurrent liabilities for the year ended December 31, 2021.

The CARES Act also allows for deferred payment of the employer portion of certain payroll taxes between March 27, 2020 and December 31, 2020, with 50% due December 31, 2021, and the remaining 50% due December 31, 2022. As of December 31, 2021, the System had deferred payroll tax payments of \$10,141 included in accrued payroll. As of December 31, 2020, the System had deferred payroll tax payments of \$18,432, of which \$9,216 is included in accrued payroll and \$9,216 included in other noncurrent liabilities on the accompanying consolidated balance sheet.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 4. Available Resources and Liquidity

Financial assets available for general expenditure, such as operating expenses, and purchase of property and equipment, within one year of the balance sheet date, comprise the following at December 31:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 301,215	\$ 314,568
Short-term investments	879,870	805,496
Investments whose use is limited – current	1,226	1,433
Patient accounts receivable	180,275	161,236
Other receivables	27,786	59,202
Third-party reimbursement program receivables	3,193	836
	<u>\$ 1,393,565</u>	<u>\$ 1,342,771</u>

The System considers all cash and cash equivalents, short-term investments, and unrestricted investments to be financial assets available and free from restriction to meet cash needs for operating activities of the System within one year of December 31, 2021 and 2020. The System has long-term investments whose use is limited and cannot be liquidated within one year. The System has cash and cash equivalents included in long-term investments whose use is limited and cannot be liquidated within one year, and are not reflected in the amounts above.

#### 5. Health Plans

The System has an ownership interest of 20.53% in Quartz Holding Company and 16.37% in Quartz Health Plan Corporation as of December 31, 2021 and 2020.

Gundersen has recorded its equity interest in the joint venture, an investment of \$35,833 and \$33,314 as of December 31, 2021 and 2020, respectively. Nonoperating gains on its consolidated statements of operations for the years ended December 31, 2021 and 2020, were \$2,519 and \$3,365, respectively.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 5. Health Plans (continued)

The following is a summary of the operating results and balance sheet information of the health plans as of and for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Total revenue	\$ 2,073,200	\$ 1,949,797
Net income	13,295	33,514
Total assets	222,974	216,279
Stockholder's equity	180,970	167,676

#### 6. Investment in Recombinetics

Effective August 20, 2018, the System became a lead investor in Recombinetics, a gene-editing firm, in exchange for shares of preferred Series A Stock, common stock, and warrants. As of December 31, 2021 and 2020, the System has an undiluted ownership of 25.5% and 25.6%, respectively. The purpose of this transaction was to prepare for future medical advances, such as regenerative medicine, while maintaining the System as an industry leader in patient experience and care. The System has elected the fair-value option to account for the System's equity interest in Recombinetics and recorded its investment at \$30,007 as of December 31, 2021 and 2020, which is a Level 3 fair value measurement.

On April 13, 2021, the System entered into a \$7,000 note purchase agreement with Recombinetics. As of December 31, 2021, \$5,000 was disbursed and outstanding on the note. The balance matures April 13, 2022, including interest at the Federal Reserve Primary Credit rate plus 500 basis points. Principle and accrued interest are included in other current assets on the consolidated balance sheet.

#### 7. Patient Care Service Revenue

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



## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 7. Patient Care Service Revenue (continued)

The composition of patient care service revenue by primary payer for the years ended December 31 is as follows:

	<b>2021</b>	<b>2020</b>
Medicare	\$ 342,734	\$ 282,275
Medicaid	112,029	79,466
Commercial insurers	585,946	510,313
Uninsured	17,022	10,445
Other	10,639	9,980
	<b>\$ 1,068,370</b>	<b>\$ 892,479</b>

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

The composition of patient care service revenue based on the System's lines of business and method of reimbursement for the years ended December 31 is as follows:

	<b>2021</b>	<b>2020</b>
Service lines:		
Hospital inpatient services	\$ 172,593	\$ 181,216
Outpatient services	731,116	579,024
Retail sales	136,932	109,103
Residential care	19,307	15,294
Ambulatory	8,422	7,842
	<b>\$ 1,068,370</b>	<b>\$ 892,479</b>
Method of reimbursement:		
Fee for service	\$ 931,438	\$ 783,376
Other	136,932	109,103
	<b>\$ 1,068,370</b>	<b>\$ 892,479</b>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 8. Investments, Including Investments Whose Use Is Limited, and Investment Return

The composition of cash equivalents, and investments, including investments whose use is limited, at December 31 is as follows:

	2021		2020
Cash equivalents	\$ 8,468	\$	31,135
Certificates of deposit	40,334		40,287
Common stock	54,945		18,649
Foreign stock	22,789		–
Equity mutual funds	347,057		353,731
Equity mutual funds – foreign	–		15,782
Asset-backed securities	11,047		–
U.S. government and agencies obligations	132,344		64,036
Municipal bonds	651		793
Corporate bonds	125,473		129,620
Foreign corporate bonds	44,711		39,793
Residential mortgage-backed securities	22		60,668
Fixed-income mutual funds	70,426		45,995
Alternative investments	73,432		58,880
Total investments	\$ 931,699	\$	859,369

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 8. Investments, Including Investments Whose Use Is Limited, and Investment Return (continued)

At December 31, certain investments are limited as to use for the following purposes:

	2021	2020
Restricted by donors	\$ 33,027	\$ 27,515
Minimum funding required by Wisconsin Office of the Commissioner of Insurance	10,362	11,165
Collateral posted against insurance claims	676	900
Minimum funding required by Wisconsin Unemployment Reserve Fund	4,512	4,568
Collateral posted against swap valuations ( <i>Note 13</i> )	1,300	7,791
Principal and interest payments under a bond indenture	881	891
Held for future capital expenditures under a bond indenture	44	–
Board designated for medical education and capital improvements	388	307
U.S. Department of Housing and Urban Development restricted reserves	132	105
Restricted for tenant deposits	11	11
	\$ 51,333	\$ 53,253

Investment return on investments, including those whose use is limited, consists of the following:

	2021	2020
Dividends and interest	\$ 21,129	\$ 19,614
Net realized gains	48,309	9,337
Net change in unrealized gains	9,458	60,291
	\$ 78,896	\$ 89,242

Investment return is reported on the consolidated statements of operations and changes in net assets as follows:

	2021	2020
Nonoperating gains, net	\$ 74,191	\$ 85,227
Net assets with donor restrictions	4,705	4,015
	\$ 78,896	\$ 89,242

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 9. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy in ASC Topic 820, *Fair Value Measurement*, are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.
- Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:
  - Quoted prices for similar assets and liabilities in active markets
  - Quoted prices for identical or similar assets or liabilities in markets that are not active
  - Observable inputs other than quoted prices that are used in the valuation of the asset or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means
- Level 3 – Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management’s own assumption about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

NAV – Gundersen Health System invests in funds for which the NAV per share represents the fair value of the investment held. Risks and redemption restrictions for these investments are similar to the alternative investments. Management opted to use the NAV per share, or its equivalent, as a practical expedient for the fair value of the interest in certain funds. Valuations provided by the respective fund’s management consider variables, such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 9. Fair Value Measurements (continued)

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level of input that is significant to the fair value measurement in its entirety.

The following table presents the financial instruments measured at fair value on a recurring basis at December 31, 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 7,629	\$ 839	\$ –	\$ 8,468
Certificates of deposit	–	40,334	–	40,334
Common stock	54,945	–	–	54,945
Foreign stock	22,789	–	–	22,789
Equity mutual funds	58,039	289,018	–	347,057
Asset-backed securities	11,047	–	–	11,047
U.S. government and agencies obligations	132,202	142	–	132,344
Municipal bonds	651	–	–	651
Corporate bonds	–	125,473	–	125,473
Foreign corporate bonds	–	44,711	–	44,711
Residential mortgage-backed securities	–	22	–	22
Fixed-income mutual funds	34,069	36,357	–	70,426
Investments measured at fair value	<u>\$ 321,371</u>	<u>\$ 536,896</u>	<u>\$ –</u>	<u>858,267</u>
Investments recorded as NAV				<u>73,432</u>
Total investments, including investments whose use is limited				<u>\$ 931,699</u>
Investments in unconsolidated entities – fair value (Note 6)	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 30,007</u>	<u>\$ 30,007</u>
<b>Liabilities</b>				
Obligation under swap contracts	<u>\$ –</u>	<u>\$ 22,069</u>	<u>\$ –</u>	<u>\$ 22,069</u>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 9. Fair Value Measurements (continued)

The following table presents the financial instruments measured at fair value on a recurring basis at December 31, 2020, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 30,306	\$ 829	\$ –	\$ 31,135
Certificates of deposit	–	40,287	–	40,287
Common stock	18,649	–	–	18,649
Equity mutual funds	90,004	263,727	–	353,731
Equity mutual funds – foreign	15,782	–	–	15,782
U.S. government and agencies obligations	63,884	152	–	64,036
Municipal bonds	793	–	–	793
Corporate bonds	–	129,620	–	129,620
Foreign corporate bonds	–	39,793	–	39,793
Residential mortgage-backed securities	–	60,668	–	60,668
Fixed-income mutual funds	14,642	31,353	–	45,995
Investments measured at fair value	<u>\$ 234,060</u>	<u>\$ 566,429</u>	<u>\$ –</u>	<u>800,489</u>
Investments recorded as NAV				<u>58,880</u>
Total investments, including investments whose use is limited				<u>\$ 859,369</u>
Investments in unconsolidated entities – fair value (Note 6)	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 30,007</u>	<u>\$ 30,007</u>
<b>Liabilities</b>				
Obligation under swap contracts	<u>\$ –</u>	<u>\$ 30,586</u>	<u>\$ –</u>	<u>\$ 30,586</u>

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses are reasonable estimates of fair value due to the short-term nature of these financial instruments.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

#### **9. Fair Value Measurements (continued)**

Through the System's investments accounted for on an equity basis, the System is indirectly involved in investment activities, such as securities lending, short sales of securities, options, warrants, trading in futures and forward contracts, and other derivative products. Derivatives are used to maintain asset mix or adjust portfolio risk exposure. While these financial instruments may contain varying degrees of risk, the System's risk is limited to its capital balance in each investment.

The fair value for obligations under swap contracts is determined through the use of widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flow of each derivative. The analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, such as interest rate curves. In addition, credit value adjustments are included to reflect both the System's nonperformance risk and the respective counterparty's nonperformance risk.

The fair value of investments in unconsolidated entities where the fair value option was elected (Level 3) is primarily determined using techniques consistent with both the market and income approaches, based on the System's estimates and assumption in the absence of observable market data. The market approach considers comparable company, comparable transaction, and company-specific information, including, but not limited to, restrictions on disposition and the current financial position and operating results. The income approach considers the projected operating performance of the investee. The System purchased its interest in August 2018, and there have been no realized or unrealized gains or losses recognized for the years ended December 31, 2021 or 2020.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 10. Property and Equipment

At December 31, property and equipment consist of the following:

	<b>2021</b>	<b>2020</b>
Land and land improvements	\$ 41,333	\$ 39,068
Buildings and building improvements	856,309	845,547
Equipment and furniture	382,053	385,746
Capitalized software	48,973	49,472
Finance leases	7,553	6,622
	<b>1,336,221</b>	1,326,455
Less accumulated depreciation and amortization	<b>702,359</b>	668,091
Property and equipment – net	<b>633,862</b>	658,364
Construction-in-progress	<b>27,483</b>	15,656
	<b>\$ 661,345</b>	\$ 674,020

Accumulated amortization of leased equipment was \$5,891 and \$4,797 at December 31, 2021 and 2020, respectively.



## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 11. Long-Term Debt and Finance Lease Obligations

At December 31, long-term debt consists of the following:

	2021		2020
<b>Obligated Group</b>			
Wisconsin Health and Educational Facilities Authority (WHEFA)			
Bonds:			
Series 2021A, public bonds, fixed rate (3.00% to 5.00%), maturing 2026 through 2039	\$ 99,550	\$	–
Series 2020, direct placement, fixed rate (5.00%), maturing 2026	22,495		22,495
Series 2016, direct placement, variable rate (average 2021 annual interest rate 0.88% and 2020 of 1.32%), maturing 2041	40,000		40,000
Series 2015, direct placement, variable rate (average 2021 interest rate 1.39%), maturing 2025	5,050		6,230
Series 2012, public bonds, fixed rate (3.10% to 5.00%), maturing 2022 through 2044	68,455		68,645
Series 2011A, fixed rate bonds (1.00% to 5.25%)	–		115,580
Series 2009A, direct placement, variable rate (average 2021 interest rate 0.53% and 2020 of 0.89%), maturing 2033	36,905		38,415
Series 2009B, direct placement, variable rate (average 2021 interest rate 0.63% and 2020 of 0.99%), maturing 2033	24,075		25,785
Series 2008B, direct placement (average 2021 interest rate 0.48% and 2020 of 0.84%), maturing 2033	55,725		59,775
	<b>352,255</b>		376,925
Non-obligated group	<b>30,232</b>		32,386
	<b>382,487</b>		409,311
Finance lease obligations	1,749		2,238
Unamortized premium	20,913		3,499
	<b>405,149</b>		415,048
Total long-term debt and finance lease obligations			
Less current maturities	12,682		12,474
Less unamortized financing costs	1,959		3,166
	<b>\$ 390,508</b>	\$	399,408

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **11. Long-Term Debt and Finance Lease Obligations (continued)**

In August 2021, the Obligated Group entered into a Second Amended and Restated Master Trust Indenture with a bank, acting as trustee, in connection with the issuance of the WHEFA series 2021 bond. Each Obligated Group member is jointly and severally liable for the payment of all obligations issued under the Second Amended and Restated Master Trust Indenture, which are secured ratably by a pledge of the unrestricted receivables of the Obligated Group. The Second Amended and Restated Master Trust Indenture contains, among other things, provisions placing restrictions on additional debt, asset transfers, and liens and requires the maintenance of a debt service coverage ratio. Additional covenants, including liquidity and capitalization, are included in other loan agreements relating to the obligations.

In July 2021, WHEFA issued Series 2021A bonds in a par amount of \$99,550 to refinance the outstanding amount on the 2011A bonds.

In 2020, WHEFA issued Series 2020 bonds in a par amount of \$22,495. The proceeds were used for new construction and equipment.

In 2016, WHEFA issued Series 2016 bonds in the amount of \$40,000, through a direct placement with a bank, to refinance the Series 2011B bonds.

In 2015, WHEFA issued Series 2015 bonds in the aggregate amount of \$12,000. The bonds are subject to mandatory tender in 2025. The proceeds were used to finance new construction. These bonds are secured with a first mortgage on real estate.

In 2012, WHEFA issued Series 2012 bonds in an aggregate par amount of \$70,000. The proceeds have been used to finance new construction.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **11. Long-Term Debt and Finance Lease Obligations (continued)**

In 2009, WHEFA issued Series 2009A and Series 2009B bonds in the aggregate amount of \$78,715. The proceeds of those bonds were used to refund the Series 2003B and Series 2003C bonds. In March 2011, a tender of the Series 2009A and 2009B bonds resulted in direct bank placements. In March 2015, the Series 2009A and Series 2009B bonds were extended to 2020 and 2021, respectively. In January 2019, the Series 2009A and 2009B bonds were refinanced and the maturity was extended to 2024 and 2025, respectively.

In 2008, WHEFA issued Series 2008A and Series 2008B bonds in the aggregate amount of \$89,300. In 2010, a tender of the Series 2008A and Series 2008B bonds resulted in bank direct placements. In 2011, the Series 2008A bonds were refunded with proceeds of the Series 2011A bonds and Series 2011B bonds. In 2015, the Series 2008B bonds were extended to 2019. In 2019, the Series 2008B bonds were refinanced and the maturity was extended to 2023.

Included in non-obligated group total, in June 2019, St. Joseph's Health Services, Inc. issued Series 2019A Health Care Facilities Revenue Bonds in the aggregate of \$25,000, bearing interest at 3.27%. The bonds are payable with 24 months of interest-only payments during the construction period, then 18 years with monthly payments of principal and interest with a maturity date of June 15, 2039. The bonds are collateralized by a mortgage on St. Joseph's Health Services, Inc. facilities. During 2021, all drawdowns were closed and refinanced into a mortgage loan.

Total interest paid was \$17,424 and \$17,401 during the years ended December 31, 2021 and 2020, respectively. Capitalized interest cost was \$90 and \$661 during the years ended December 31, 2021 and 2020, respectively.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 11. Long-Term Debt and Finance Lease Obligations (continued)

At December 31, 2021, the aggregate maturities and sinking fund requirements of the System's long-term debt, for each of the five subsequent years and thereafter, are as follows:

2022	\$	10,467
2023		10,729
2024		11,127
2025		11,563
2026		10,873
Thereafter		327,728
	\$	<u>382,487</u>

#### 12. Leases

The System has operating and finance leases for medical office buildings, administrative offices, warehouses, network information systems, office equipment, and medical/surgical equipment. The leases have remaining lease terms of less than 1 year to 17 years, some of which may include an option to extend.

Rent and lease expense, included in supplies, facilities, and purchased services on the accompanying consolidated statements of operations and changes in net assets, amounted to \$9,606 and \$9,531 for the years ended December 31, 2021 and 2020, respectively.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 12. Leases (continued)

Other information related to leases was as follows for the years ended December 31:

##### Supplemental cash flow information

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 3,878	\$ 4,142
Operating cash flows from finance leases	1,420	1,580
Financing cash flows from finance leases	102	147
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 1,325	\$ 2,387
Finance leases	931	807
Weighted average remaining lease term (in years):		
Operating leases	8.29	8.29
Finance leases	3.16	2.26
Weighted average discount rate:		
Operating leases	2.47%	2.53%
Finance leases	3.54	4.32

Future minimum lease payments relating to noncancelable operating and financing obligations for each of the next five years and thereafter are as follows:

	Operating	Finance
Year ending December 31:		
2022	\$ 2,816	\$ 722
2023	1,914	515
2024	1,368	361
2025	1,256	206
2026	1,105	44
Thereafter	5,417	—
Total lease payments	13,876	1,848
Less interest	1,425	99
Present value of lease liabilities	\$ 12,451	\$ 1,749

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 13. Derivative Financial Instruments

The System uses interest rate swap contracts as part of its risk management strategy to manage exposure to fluctuations in interest rates related to its variable rate debt. All derivative instruments are recorded at fair value as noncurrent liabilities on the consolidated balance sheets, and the (decrease) increase of fair value of \$(8,517) and \$4,563 for 2021 and 2020, respectively, is recorded in nonoperating gains (losses) on the consolidated statements of operations. The net settlement paid on the System's interest rate swaps was \$5,119 and \$4,829 for 2021 and 2020, respectively, which were recorded as interest expense. At December 31, the System's interest rate swap liability was as follows:

	<b>2021</b>		<b>2020</b>
Notional amount \$33,000, fixed annual rate 3.50%, variable interest equal to 67.00% of one-month LIBOR	<b>\$ 3,543</b>	\$	4,947
Notional amount \$40,470, fixed annual rate 3.26%, variable interest equal to 67.00% of one-month LIBOR	<b>3,048</b>		4,555
Notional amount \$44,750, fixed annual rate 3.28%, variable interest equal to 67.00% of one-month LIBOR	<b>6,442</b>		8,657
Notional amount \$60,725, fixed annual rate 3.79%, variable interest equal to 67.00% of one-month LIBOR	<b>9,036</b>		12,427
	<b>\$ 22,069</b>	\$	30,586

Derivative transactions contain credit risk in the event the parties are unable to meet the terms of the contract; credit risk is generally limited to the fair value due from counterparties on outstanding contracts. At December 31, 2021 and 2020, the counterparties had a Standard & Poor's credit quality rating of A+.

Collateral posted by the System was \$1,300 and \$7,791 at December 31, 2021 and 2020, respectively, and is recorded in investments whose use is limited on the consolidated balance sheets. The System aggregates interest rate swap transactions for determining amount of collateral to be delivered to each swap counterparty.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 14. Retirement Plans

The System maintains various plans, including a defined contribution plan, a 401(k) plan, and a 403(a) plan. The plans cover substantially all of the System's employees. Total retirement plan expense for 2021 and 2020 was \$71,511 and \$66,318, respectively. The System contributes matching funding on a monthly basis, with the remainder contributed annually. At December 31, 2021 and 2020, the liability for employer contributions of \$52,441 and \$49,838, respectively, is included in accrued liabilities on the consolidated balance sheets.

#### 15. Insurance

The System's facilities are either self-insured or have purchased claims-made insurance coverage for Wisconsin professional liability with base limits of insurance coverage (\$1,000 per event and \$3,000 aggregate limit at December 31, 2021 and 2020).

In addition, under the Gundersen Clinic, Ltd. Professional Liability Insurance Plan, self-insured limits are in place per physician/certified registered nurse anesthetist (\$1,000 per occurrence and \$3,000 aggregate at December 31, 2021 and 2020). The System has established a professional liability insurance plan and irrevocable trust as required by Wisconsin statutes. The funding requirements of the plan are established annually based on third-party actuarial calculations, as prescribed by the Commissioner of Insurance for the State of Wisconsin. All professional liability claims or judgments occurring in Wisconsin in excess of the base level of coverage are paid from the Injured Patients and Families Compensation Fund, which insures all claims incurred regardless of when the claim is filed. The Injured Patients and Families Compensation Fund has no upper limit on losses.

The System has purchased professional liability insurance on a claims-made basis to cover Iowa and Minnesota risks. In addition, the System has purchased \$40 million of umbrella and excess coverage to minimize exposure for all entities.

The liability for professional and general liability, workers' compensation, and employee health insurance claims is based on actual claims to date and a projection of the estimated future liability for such claims and incurred-but-not-reported losses. At December 31, 2021 and 2020, the total recorded liability was \$26,218 and \$24,129, respectively, of which a current portion of \$9,681 and \$9,450, respectively, is included in accrued liabilities and the noncurrent portion of \$16,537 and \$14,679, respectively, is included in other noncurrent liabilities on the consolidated balance sheets. At December 31, 2021 and 2020, the estimated receivable related to insurance recoveries of \$505 and \$518, respectively, is included in other current assets on the consolidated balance sheets.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **16. Commitments and Contingencies**

The System is a defendant in legal proceedings arising in the ordinary course of business. Although the outcome of these proceedings cannot be determined, management of the System considers it unlikely that the disposition of these proceedings will have a material adverse effect on the consolidated financial position or operations of the System. However, there can be no assurance that this will be the case.

The System has entered into an agreement with the city of La Crosse in conjunction with the city's establishment of Tax Incremental Financing District No. 14 (TIF 14). The agreement creates property tax incentives for taxable development on the La Crosse campus by the System and other developers. The benefit that the System derives from participation in TIF 14 depends on the size of future development over the next five years.

#### **17. Compliance With Laws and Regulations**

The health care industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretation and include matters such as licensure, accreditation, reimbursement for patient services, and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government health care programs. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by health care providers. These investigations may result in settlements involving fines and penalties as well as repayment of improper reimbursement. The System has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of instances of noncompliance.

While management believes that the System is in material compliance with fraud and abuse laws and regulations as well as other applicable government laws and regulations, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in reimbursement from the Medicare program, including a reduction of funding levels, could have a material adverse effect on the System.

#### **18. Net Assets**

The System receives donations from individuals and organizations to support certain programs and services. When specific purposes are needed for donations, the donations are included in net assets with donor restriction and are released when the specific purpose is met.



## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 18. Net Assets (continued)

Net assets with donor restrictions consisted of the following at December 31:

	<b>2021</b>	<b>2020</b>
Subject to expenditures for specific purpose:		
Education	\$ 4,689	\$ 3,572
Research	6,604	5,237
Community and affiliate programs	2,296	2,103
Building and equipment	953	914
Patient care	3,236	2,768
Split interest agreements	–	544
Subject to the passage of time:		
Time restrictions for future periods	106	95
Subject to organization spending policy and appropriation:		
Education	10,498	9,796
Research	7,292	7,205
Community and affiliate programs	3,948	3,380
Patient care	4,509	4,170
	<b>\$ 44,131</b>	<b>\$ 39,784</b>

Net assets without donor restrictions consisted of the following at December 31:

	<b>2021</b>	<b>2020</b>
Operating	\$ 1,497,685	\$ 1,386,730
Board designated:		
Quasi-endowment funds	43,671	37,585
	<b>\$ 1,541,356</b>	<b>\$ 1,424,315</b>

As of December 31, 2021 and 2020, the System's endowments consist of \$69,918 and \$62,137, respectively, of individual donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Gundersen Health System

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**18. Net Assets (continued)**

The endowment net asset composition by type of fund consisted of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Without donor restrictions:		
Board-designated endowment funds	\$ 43,671	\$ 37,585
With donor restrictions:		
Donor-restricted endowment funds	26,247	24,552
	<u>\$ 69,918</u>	<u>\$ 62,137</u>

The changes in endowment net assets are as follows:

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Balance at December 31, 2019	\$ 32,247	\$ 23,757	\$ 56,004
Unrealized gain	3,955	435	4,390
Investment return, net	1,520	(7)	1,513
Contributions	267	444	711
Transfers between endowment funds	65	(74)	(9)
Appropriations for expenditures	(469)	(3)	(472)
Balance at December 31, 2020	37,585	24,552	62,137
Unrealized (loss) gain	(4,565)	378	(4,187)
Investment return, net	10,773	152	10,925
Contributions	257	501	758
Transfers from non-endowment funds	542	671	1,213
Appropriations for expenditures	(921)	(7)	(928)
Balance at December 31, 2021	<u>\$ 43,671</u>	<u>\$ 26,247</u>	<u>\$ 69,918</u>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **18. Net Assets (continued)**

The state of Wisconsin has enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which, together with other relevant state laws, guides the System's investment policies for restricted funds. UPMIFA requires the System to exercise ordinary and prudent care in good faith in its discretion to invest and appropriate some or all of the net appreciation or depreciation of investments. In the absence of a relevant law or donor stipulations, fiduciary responsibility to exercise ordinary care and prudence does not extend to donor stipulations to the earnings or losses on investments.

#### **19. Related-Party Transactions**

The Clinic and the Hospital have an agreement with Quartz Health Solutions, Inc. to provide health care services to the GLAS insured enrollees. The Clinic and the Hospital are paid on a capitated basis. Reinsurance contracts exist for medical and hospital expenses at \$1,150 and \$1,000 stop loss deductible per covered person for the years ended December 31, 2021 and 2020, respectively. Once the stop loss deductible has been exceeded based on the accumulation, specific claims will be reimbursed at 50% of the amount that is over the specific deductible for Gundersen facility claims and at 100% for non-Gundersen facility claims.

Capitation revenue, net of capitation services expense to other providers, recorded by the System earned under the agreement with Quartz totaled \$269,344 and \$255,732 for the years ended December 31, 2021 and 2020, respectively.

At December 31, 2021 and 2020, amounts due from Quartz were \$4,901 and \$42,279, respectively, and are included in other current assets on the consolidated balance sheets.

Under the terms of an administrative services agreement with Quartz, Gundersen provides certain general and administrative services necessary for Quartz's operations at amounts that are intended to approximate cost. The cost of these services to Quartz was \$918 and \$895 for the years ended December 31, 2021 and 2020, respectively. Amounts due from Quartz as of December 31, 2021 and 2020, related to the administrative services agreement were \$161 and \$163, respectively, and are included in other current assets on the consolidated balance sheets.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 20. Functional Expenses

The System provides general health care services and medical education and research. The following table presents expenses related to providing these services for the years ended December 31:

	2021				
	Health Care Services	Medical Education and Research	General and Administration	Non-Health Care Services	Total
Salaries and benefits	\$ 779,688	\$ 16,300	\$ 59,864	\$ 146	\$ 855,998
Supplies	255,990	564	264	6	256,824
Capitation services	147,771	-	-	-	147,771
Depreciation and amortization	57,869	207	11,124	50	69,250
Facilities	34,691	147	4,210	405	39,453
Purchased services	52,368	5,449	4,986	39	62,842
Interest	16,785	-	-	37	16,822
Other operating expenses	37,079	1,194	19,308	554	58,135
Totals	<u>\$ 1,382,241</u>	<u>\$ 23,861</u>	<u>\$ 99,756</u>	<u>\$ 1,237</u>	<u>\$ 1,507,095</u>
	2020				
	Health Care Services	Medical Education and Research	General and Administration	Non-Health Care Services	Total
Salaries and benefits	\$ 715,313	\$ 15,318	\$ 56,452	\$ 491	\$ 787,574
Supplies	216,795	509	674	132	218,110
Capitation services	150,116	-	-	-	150,116
Depreciation and amortization	54,596	184	10,223	568	65,571
Facilities	32,880	135	4,188	1,222	38,425
Purchased services	54,033	5,216	5,138	907	65,294
Interest	17,321	-	-	55	17,376
Other operating expenses	34,825	910	21,220	464	57,419
Totals	<u>\$ 1,275,879</u>	<u>\$ 22,272</u>	<u>\$ 97,895</u>	<u>\$ 3,839</u>	<u>\$ 1,399,885</u>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **21. Subsequent Events**

The System has evaluated events and transactions that have occurred subsequent to December 31, 2021 through April 22, 2022, the date on which the accompanying consolidated financial statements were issued.

During this period, there were no subsequent events requiring recognition in the consolidated financial statements, and there were no non-recognized subsequent events requiring disclosure, except for the following:

In January 2022, the WHEFA bond series 2008B, 2009A, 2009B, and 2016 (for which the Obligated Group is the conduit borrower) were privately placed with new banks. In addition, the terms of the WHEFA bond series 2016 were amended. In each case, this resulted in enhanced terms.

In February 2022, Tri-County Memorial Hospital, Inc. borrowed the proceeds of the WHEFA 2022 bonds in the amount of \$40 million to finance hospital construction and renovation in Whitehall, Wisconsin.

In February 2022, the Obligated Group entered into a Forward Bond Purchase Agreement with a bank to refinance the outstanding WHEFA 2012 bond series on November 15, 2022.

In February 2022, the System made an additional capital contribution of \$7,000 to Quartz Health Plan Corporation and \$2,420 to Quartz Health Benefit Plans Corporation, which is a wholly owned subsidiary of Quartz Holding Company.

# Supplementary Information



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## Report of Independent Auditors on Supplementary Information

The Board of Trustees and Board of Governors  
Gundersen Health System

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Ernst & Young LLP*

April 22, 2022

# Gundersen Health System

## Consolidating Balance Sheet (Dollars in Thousands)

December 31, 2021

	Obligated Group	CAH	Others	Eliminations	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 209,861	\$ 84,089	\$ 7,275	\$ –	\$ 301,225
Investments	867,892	10,660	1,814	–	880,366
Current portion of investments whose use is limited	1,190	–	36	–	1,226
Patient accounts receivable	150,501	27,322	2,452	–	180,275
Current portion of notes receivable	3,514	–	–	(3,514)	–
Other current assets	85,877	5,160	500	(4,390)	87,147
<b>Total current assets</b>	<b>1,318,835</b>	<b>127,231</b>	<b>12,077</b>	<b>(7,904)</b>	<b>1,450,239</b>
Investments whose use is limited	47,960	2,040	107	–	50,107
Notes receivable, net of current portion	525	–	–	(525)	–
Property and equipment, net	584,473	70,605	6,267	–	661,345
Right-of-use assets – operating leases	11,850	2,372	27	(2,042)	12,207
Investment in unconsolidated entities	34,080	–	37,376	–	71,456
Investment in consolidated entities	–	–	3,145	(3,145)	–
Other noncurrent assets	20,169	3,645	554	–	24,368
<b>Total assets</b>	<b>\$ 2,017,892</b>	<b>\$ 205,893</b>	<b>\$ 59,553</b>	<b>\$ (13,616)</b>	<b>\$ 2,269,722</b>
<b>Liabilities and net assets</b>					
Current liabilities:					
Accounts payable	\$ 22,384	\$ 5,507	\$ 1,063	\$ (4,623)	\$ 24,331
Accrued payroll	64,659	6,385	750	–	71,794
Accrued liabilities	68,258	1,383	316	233	70,190
Current maturities of long-term debt	10,871	4,325	1,000	(3,514)	12,682
Current operating lease obligations	2,326	651	26	(444)	2,559
Other current liabilities	32,235	24,009	330	–	56,574
<b>Total current liabilities</b>	<b>200,733</b>	<b>42,260</b>	<b>3,485</b>	<b>(8,348)</b>	<b>238,130</b>
Long-term debt, net of current maturities	361,876	28,806	351	(525)	390,508
Long-term operating lease obligations	9,764	1,736	–	(1,608)	9,892
Obligation under swap contracts	22,069	–	–	–	22,069
Other noncurrent liabilities	19,609	4,009	18	–	23,636
<b>Total liabilities</b>	<b>614,051</b>	<b>76,811</b>	<b>3,854</b>	<b>(10,481)</b>	<b>684,235</b>
Net assets:					
Without donor restrictions	1,362,784	126,053	55,654	(3,135)	1,541,356
With donor restrictions	41,057	3,029	45	–	44,131
<b>Total net assets</b>	<b>1,403,841</b>	<b>129,082</b>	<b>55,699</b>	<b>(3,135)</b>	<b>1,585,487</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,017,892</b>	<b>\$ 205,893</b>	<b>\$ 59,553</b>	<b>\$ (13,616)</b>	<b>\$ 2,269,722</b>



# Gundersen Health System

## Consolidating Statement of Operations (Dollars in Thousands)

Year Ended December 31, 2021

	Obligated Group	CAH	Others	Eliminations	Total
Operating revenue:					
Net patient service revenue	\$ 892,509	\$ 182,398	\$ 14,474	\$ (21,011)	\$ 1,068,370
Capitation revenue	420,013	–	–	(2,898)	417,115
Other revenue	69,190	7,573	2,401	(26,812)	52,352
Total operating revenue and gains	1,381,712	189,971	16,875	(50,721)	1,537,837
Operating expenses:					
Salaries, wages, and benefits	758,611	106,097	11,607	(20,317)	855,998
Supplies	234,147	21,924	800	(47)	256,824
Capitation services	163,415	–	–	(15,644)	147,771
Depreciation and amortization	60,699	7,476	1,075	–	69,250
Facilities	33,378	5,397	1,417	(739)	39,453
Purchased services	50,082	18,835	1,350	(7,425)	62,842
Interest	15,727	1,152	60	(117)	16,822
Other operating expenses	50,678	12,118	2,048	(6,709)	58,135
Total operating expenses	1,366,737	172,999	18,357	(50,998)	1,507,095
Operating (loss) income	14,975	16,972	(1,482)	277	30,742
Nonoperating gains (losses):					
Investment gains, net	73,682	590	36	(117)	74,191
Unrealized loss on interest rate swap contracts	8,517	–	–	–	8,517
Gain from unconsolidated entities	–	32	4,519	–	4,551
Other nonoperating gains, net	(1,923)	239	1,505	(1,661)	(1,840)
	80,276	861	6,060	(1,778)	85,419
Revenue in excess of expenses	\$ 95,251	\$ 17,833	\$ 4,578	\$ (1,501)	\$ 116,161

# Gundersen Health System

## Consolidating Statement of Changes in Net Assets (Dollars in Thousands)

Year Ended December 31, 2021

	<b>Obligated Group</b>	<b>CAH</b>	<b>Others</b>	<b>Eliminations</b>	<b>Total</b>
Net assets without donor restrictions:					
Revenue in excess of expenses	\$ 95,251	\$ 17,833	\$ 4,578	\$ (1,501)	\$ 116,161
Net assets released from restrictions to purchase property and equipment	244	500	-	-	744
Other changes	(15,047)	13,911	1,872	(600)	136
Increase in net assets without donor restrictions	80,448	32,244	6,450	(2,101)	117,041
Net assets with donor restrictions:					
Contributions	3,706	294	-	-	4,000
Investment return	4,631	74	-	-	4,705
Net assets released from restriction	(4,181)	(3)	-	-	(4,184)
Other changes	-	(180)	6	-	(174)
Increase in net assets with donor restrictions	4,156	185	6	-	4,347
Increase in net assets	84,604	32,429	6,456	(2,101)	121,388
Net assets at beginning of year	1,319,237	96,653	49,243	(1,034)	1,464,099
Net assets at end of year	<u>\$ 1,403,841</u>	<u>\$ 129,082</u>	<u>\$ 55,699</u>	<u>\$ (3,135)</u>	<u>\$ 1,585,487</u>

# Gundersen Health System

## Consolidating Balance Sheet Critical Access Hospitals (CAH) (Dollars in Thousands)

December 31, 2021

	St. Joseph's Health Services, Inc.	Memorial Hospital of Boscobel	Tri-County Memorial Hospital, Inc.	Palmer Lutheran Health Center, Inc.	Moundview Memorial Hospital and Clinics	Saint Elizabeth's Hospital of Wabasha, Inc.	Total
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 20,613	\$ 17,719	\$ 13,195	\$ 18,102	\$ 12,231	\$ 2,229	\$ 84,089
Investments	–	4,719	1,056	4,885	–	–	10,660
Patient accounts receivable	4,070	2,291	3,831	5,546	2,142	9,442	27,322
Other current assets	875	717	549	1,135	488	1,396	5,160
Total current assets	25,558	25,446	18,631	29,668	14,861	13,067	127,231
Investments whose use is limited	108	–	–	792	1,140	–	2,040
Property and equipment, net	33,647	6,640	6,063	7,580	5,556	11,119	70,605
Right-of-use assets – operating leases	153	53	61	2,055	17	33	2,372
Other noncurrent assets	1,170	924	79	711	761	–	3,645
Total assets	\$ 60,636	\$ 33,063	\$ 24,834	\$ 40,806	\$ 22,335	\$ 24,219	\$ 205,893
<b>Liabilities and net assets</b>							
Current liabilities:							
Accounts payable	\$ 1,412	\$ 586	\$ 197	\$ 1,422	\$ 67	\$ 1,823	\$ 5,507
Accrued payroll	922	844	1,219	1,170	558	1,672	6,385
Accrued liabilities	10	–	695	237	438	3	1,383
Current maturities of long-term debt	665	–	393	935	61	2,271	4,325
Current operating lease obligations	108	46	27	449	10	11	651
Other current liabilities	4,383	3,802	2,858	8,323	3,484	1,159	24,009
Total current liabilities	7,500	5,278	5,389	12,536	4,618	6,939	42,260
Long-term debt, net of current maturities	23,705	–	525	4,525	51	–	28,806
Long-term operating lease obligations	48	7	34	1,616	8	23	1,736
Other noncurrent liabilities	–	7	589	3,354	–	59	4,009
Total liabilities	31,253	5,292	6,537	22,031	4,677	7,021	76,811
Net assets:							
Without donor restrictions	29,026	26,859	17,875	18,064	17,031	17,198	126,053
With donor restrictions	357	912	422	711	627	–	3,029
Total net assets	29,383	27,771	18,297	18,775	17,658	17,198	129,082
Total liabilities and net assets	\$ 60,636	\$ 33,063	\$ 24,834	\$ 40,806	\$ 22,335	\$ 24,219	\$ 205,893

# Gundersen Health System

## Consolidating Statement of Operations Critical Access Hospitals (CAH) *(Dollars in Thousands)*

Year Ended and Period December 31, 2021

	<b>St. Joseph's Health Services, Inc.</b>	<b>Memorial Hospital of Boscobel</b>	<b>Tri-County Memorial Hospital, Inc.</b>	<b>Palmer Lutheran Health Center, Inc.</b>	<b>Moundview Memorial Hospital and Clinics</b>	<b>Saint Elizabeth's Hospital of Wabasha, Inc.</b>	<b>Total</b>
Operating revenue:							
Net patient service revenue	\$ 31,147	\$ 25,689	\$ 25,873	\$ 36,914	\$ 21,322	\$ 41,453	\$ 182,398
Other revenue	591	1,348	1,486	1,078	856	2,214	7,573
Total operating revenue and gains	31,738	27,037	27,359	37,992	22,178	43,667	189,971
Operating expenses:							
Salaries, wages, and benefits	16,230	12,128	16,416	18,571	13,658	29,094	106,097
Supplies	3,466	2,645	3,249	4,783	2,617	5,164	21,924
Depreciation and amortization	2,460	923	763	804	637	1,889	7,476
Facilities	924	823	718	1,410	610	912	5,397
Purchased services	2,674	4,756	1,702	4,950	1,666	3,087	18,835
Interest	765	67	44	218	7	51	1,152
Other operating expenses	1,712	1,971	2,016	2,297	1,256	2,866	12,118
Total operating expenses	28,231	23,313	24,908	33,033	20,451	43,063	172,999
Operating income	3,507	3,724	2,451	4,959	1,727	604	16,972
Nonoperating gains:							
Investment gains, net	136	211	26	61	150	6	590
Other nonoperating gains, net	156	-	32	-	79	4	271
	292	211	58	61	229	10	861
Revenue in excess of expenses	\$ 3,799	\$ 3,935	\$ 2,509	\$ 5,020	\$ 1,956	\$ 614	\$ 17,833

# Gundersen Health System

## Consolidating Statement of Changes in Net Assets Critical Access Hospitals (CAH) *(Dollars in Thousands)*

Year Ended and Period December 31, 2021

	St. Joseph's Health Services, Inc.	Memorial Hospital of Boscobel	Tri-County Memorial Hospital, Inc.	Palmer Lutheran Health Center, Inc.	Moundview Memorial Hospital and Clinics	Saint Elizabeth's Hospital of Wabasha, Inc.	Total
Net assets without donor restrictions:							
Revenue in excess of expenses	\$ 3,799	\$ 3,935	\$ 2,509	\$ 5,020	\$ 1,956	\$ 614	\$ 17,833
Net assets released from restrictions to purchase property and equipment	500	-	-	-	-	-	500
Other changes	983	3,556	1,741	4,199	3,432	-	13,911
Increase in net assets without donor restrictions	5,282	7,491	4,250	9,219	5,388	614	32,244
Net assets with donor restrictions:							
Contributions	-	-	294	-	-	-	294
Investment return	-	-	-	-	74	-	74
Net assets released from restriction	-	-	(3)	-	-	-	(3)
Other changes	(466)	141	-	169	(24)	-	(180)
(Decrease) increase in net assets with donor restrictions	(466)	141	291	169	50	-	185
Increase in net assets	4,816	7,632	4,541	9,388	5,438	614	32,429
Net assets at beginning of year	24,567	20,139	13,756	9,387	12,220	16,584	96,653
Net assets at end of year	<u>\$ 29,383</u>	<u>\$ 27,771</u>	<u>\$ 18,297</u>	<u>\$ 18,775</u>	<u>\$ 17,658</u>	<u>\$ 17,198</u>	<u>\$ 129,082</u>

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*Consolidated Financial Statements  
for Years Ended December 31, 2020 and 2019*

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Gundersen Health System  
Years Ended December 31, 2020 and 2019  
With Reports of Independent Auditors

Ernst & Young LLP





# Gundersen Health System

## Consolidated Financial Statements and Supplementary Information

Years Ended December 31, 2020 and 2019

### Contents

Report of Independent Auditors .....	1
Consolidated Financial Statements	
Consolidated Balance Sheets .....	3
Consolidated Statements of Operations .....	4
Consolidated Statements of Changes in Net Assets .....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	8
Supplementary Information	
Report of Independent Auditors on Supplementary Information .....	46
Consolidating Balance Sheet .....	47
Consolidating Statement of Operations .....	48
Consolidating Statement of Changes in Net Assets.....	49
Consolidating Balance Sheet – Critical Access Hospitals .....	50
Consolidating Statement of Operations – Critical Access Hospitals .....	51
Consolidating Statement of Changes in Net Assets – Critical Access Hospitals .....	52



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## Report of Independent Auditors

The Board of Trustees and Board of Governors  
Gundersen Health System

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Gundersen Health System, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Tri-County Memorial Hospital, Inc.; St. Joseph's Health Services, Inc.; Memorial Hospital of Boscobel; Moundview Memorial Hospital and Clinics; Palmer Lutheran Health Center, Inc.; Tweeten Lutheran Healthcare Center, Inc.; and Harmony Community Healthcare, Inc., wholly controlled affiliates, which statements reflect total assets of \$165,638 as of December 31, 2019, and total operating revenue of \$139,834 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to amounts included for Gundersen Health System for 2019, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express



no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, based on our audit, and for 2019, the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gundersen Health System at December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

April 23, 2021

## Gundersen Health System

### Consolidated Balance Sheets (Dollars in Thousands)

	December 31	
	2020	2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 314,578	\$ 172,589
Investments	806,116	732,421
Current portion of investments whose use is limited	1,433	1,476
Patient accounts receivable	161,236	184,871
Other current assets	110,806	103,656
Total current assets	1,394,169	1,195,013
Investments whose use is limited	51,820	45,828
Notes receivable, net of current portion	–	1,277
Property and equipment, net	674,020	653,467
Right-of-use assets – operating leases	14,828	16,246
Investment in unconsolidated entities	64,788	62,307
Other noncurrent assets	23,531	23,341
Total assets	\$ 2,223,156	\$ 1,997,479
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 27,284	\$ 24,969
Accrued payroll	89,235	62,824
Accrued liabilities	70,488	67,673
Current maturities of long-term debt	12,474	12,170
Current operating lease obligations	3,444	3,243
Other current liabilities	50,311	11,897
Total current liabilities	253,236	182,776
Long-term debt, net of current maturities	399,408	376,090
Long-term operating lease obligations	11,588	13,003
Obligation under swap contracts	30,586	26,023
Other noncurrent liabilities	64,239	18,089
Total liabilities	759,057	615,981
Net assets:		
Without donor restrictions	1,424,315	1,344,502
With donor restrictions	39,784	36,996
Total net assets	1,464,099	1,381,498
Total liabilities and net assets	\$ 2,223,156	\$ 1,997,479

*See accompanying notes.*

## Gundersen Health System

### Consolidated Statements of Operations (Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Operating revenue:		
Net patient service revenue	\$ 892,479	\$ 950,381
Capitation revenue	405,848	382,816
Other revenue	79,307	32,606
Total operating revenue and gains	1,377,634	1,365,803
Operating expenses:		
Salaries, wages, and benefits	787,574	755,319
Supplies	218,110	200,123
Capitation services	150,116	129,582
Depreciation and amortization	65,571	60,203
Facilities	38,425	38,329
Purchased services	65,294	59,576
Interest	17,376	17,495
Other operating expenses	57,419	57,795
Total operating expenses	1,399,885	1,318,422
Operating (loss) income	(22,251)	47,381
Nonoperating gains (losses):		
Investment gains, net	85,227	100,213
Contribution from business combination	18,174	-
Unrealized loss on interest rate swap contracts	(4,563)	(5,189)
Loss on consolidated entities	-	(199)
Gain from unconsolidated entities	1,858	4,935
Other nonoperating gains, net	253	219
	100,949	99,979
Revenue in excess of expenses	\$ 78,698	\$ 147,360

*See accompanying notes.*

## Gundersen Health System

### Consolidated Statements of Changes in Net Assets (Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
Net assets without donor restrictions:		
Revenue in excess of expenses	\$ 78,698	\$ 147,360
Net assets released from restrictions to purchase property and equipment	1,098	1,318
Other changes	17	163
Increase in net assets without donor restrictions	<b>79,813</b>	148,841
Net assets with donor restrictions:		
Contributions	3,441	5,022
Investment return	4,015	4,688
Net assets released from restriction	(4,311)	(5,566)
Other changes	(357)	554
Increase in net assets with donor restrictions	<b>2,788</b>	4,698
Increase in net assets	<b>82,601</b>	153,539
Net assets at beginning of year	<b>1,381,498</b>	1,227,959
Net assets at end of year	<b>\$ 1,464,099</b>	\$ 1,381,498

*See accompanying notes.*

# Gundersen Health System

## Consolidated Statements of Cash Flows (Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating activities</b>		
Increase in net assets	\$ 82,601	\$ 153,539
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	65,571	60,203
Unrealized losses on swap contracts	4,563	5,189
Unrealized gains on investments, net	(60,291)	(73,981)
Change in equity of consolidated affiliates	(814)	-
(Gain) loss from unconsolidated entities	(180)	(4,935)
Contribution of net assets received on acquisition	(18,174)	-
Loss on write-down of note receivable	1,405	425
Restricted contributions	(3,441)	(5,022)
Changes in operating assets and liabilities:		
Patient accounts receivable	30,098	(7,028)
Other current assets	(5,479)	146
Accounts payable, accrued, and other current liabilities	32,491	12,045
Unearned revenue	72,123	768
Other noncurrent assets and liabilities	9,416	(4,825)
Net cash provided by operating activities	<b>209,889</b>	<b>136,524</b>
<b>Investing activities</b>		
Purchases of property and equipment, net	(77,505)	(123,344)
Purchases of investments, net	(19,353)	(33,445)
Investment in unconsolidated entities	(2,300)	-
Increase in assets limited as to use	10,547	5,218
Cash received upon sale of affiliate	5,000	-
Other	2	158
Net cash used in investing activities	<b>(83,609)</b>	<b>(151,413)</b>
<b>Financing activities</b>		
Proceeds from issuance of bonds or long-term debt	36,712	11,519
Principal payments on long-term debt	(13,897)	(13,642)
Restricted contributions	3,441	5,022
Net cash provided by financing activities	<b>26,256</b>	<b>2,899</b>
Net increase (decrease) in cash and cash equivalents	<b>152,536</b>	<b>(11,990)</b>
Cash and cash equivalents at beginning of year	<b>193,177</b>	<b>205,167</b>
Cash and cash equivalents at end of year	<b>\$ 345,713</b>	<b>\$ 193,177</b>

# Gundersen Health System

## Consolidated Statements of Cash Flows (continued) (Dollars in Thousands)

	Year Ended December 31	
	2020	2019
<b>Reconciliation of cash and cash equivalents and restricted cash to the consolidated balance sheets</b>		
Cash and cash equivalents	\$ 314,578	\$ 172,589
Restricted cash included in investments	31,135	20,588
Cash and cash equivalents at end of year	<u>\$ 345,713</u>	<u>\$ 193,177</u>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid, net of capitalized interest	\$ 16,740	\$ 17,504
Capital assets acquired with capital lease obligation	<u>\$ 807</u>	<u>\$ 371</u>

*See accompanying notes.*



# Gundersen Health System

## Notes to Consolidated Financial Statements (Dollars in Thousands)

December 31, 2020

### 1. Organization and Basis of Presentation

Gundersen Lutheran Health System, Inc. (Gundersen), located in La Crosse, Wisconsin, is the parent of Gundersen Lutheran Health System (the System), an integrated health care system that provides comprehensive medical care to patients primarily in Wisconsin, as well as in Iowa and Minnesota, by operating hospitals, clinics, health plans, long-term care facilities, ambulance services, a foundation, and an energy-producing company, in addition to providing medical and health/wellness education and community outreach, and conducting medical education and clinically based research.

The System operates under the name Gundersen Health System and consists of Gundersen and its wholly controlled affiliates, which are as follows at December 31, 2020:

#### *Obligated Group*

- Gundersen Clinic, Ltd.
- Gundersen Lutheran Medical Center, Inc.
- Gundersen Lutheran Administrative Services, Inc.
- Gundersen Lutheran Medical Foundation, Inc.

#### *Non-Obligated Group*

##### *Critical Access Hospitals*

- Tri-County Memorial Hospital, Inc.
- St. Joseph's Health Services, Inc.
- Memorial Hospital of Boscobel
- Palmer Lutheran Health Center, Inc.
- Moundview Memorial Hospital and Clinics
- Saint Elizabeth's Hospital of Wabasha, Inc. (effective September 1, 2020)

##### *Other Entities*

- Tweeten Lutheran Healthcare Center, Inc.
- Harmony Community Healthcare, Inc.
- Community Housing of La Crosse, Inc.
- Lutheran Housing of La Crosse, Inc.
- Tri-State Ambulance, Inc.
- Tri-State Regional Ambulance, Inc.
- Gundersen Lutheran Envision, LLC
- Gundersen Lutheran Credentialing Services, Inc.
- Gundersen Lutheran Health System, Inc.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **1. Organization and Basis of Presentation (continued)**

Gundersen Clinic, Ltd. (the Clinic); Gundersen Lutheran Medical Center, Inc. (the Hospital); Gundersen Lutheran Administrative Services, Inc. (GLAS); and Gundersen Lutheran Medical Foundation, Inc. are members of Gundersen Obligated Group, which holds most of the System's long-term debt (see Note 12).

As part of its overall strategy, the System has affiliated with several critical access hospitals (CAHs) that enable highly trained physicians to provide comprehensive inpatient, outpatient, and clinical care services to patients in their communities.

Effective September 1, 2020, the System acquired Saint Elizabeth's Hospital of Wabasha, Inc. (SEMC) from another health system. The System recognized a nonoperating gain of \$18,174 on the consolidated statement of operations, equal to the fair value of the assets acquired less liabilities assumed. SEMC is a not-for-profit CAH that operates a 25-bed hospital, 2 physician clinics, a 100-bed skilled nursing facility, and a 40-bed residential care apartment complex. Revenues from SEMC included on the consolidated statements of operations from the period September 1, 2020 through December 31, 2020, were \$13,401.

### **2. Summary of Significant Accounting Policies**

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time that the estimates were made, actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions, and short-term investments with original maturities of 90 days or less from the date of purchase. The System maintains cash and cash equivalents on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation and thereby expose the System to potential risk of loss in the event the financial institution becomes insolvent. No losses have been incurred to date, and management does not consider the credit risk to be significant to the System.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Patient Accounts Receivable**

The collection of receivables from third-party payers and patients is the System's primary source of cash for operations. The primary collection risks relate to uninsured patient accounts and patient deductibles and coinsurance on insurers' accounts. Patient receivables, including the portion for which a third-party payer is responsible, are carried at net realizable value, determined by the original charge for the service provided less an estimate made for contractual adjustments or discounts provided to third-party payers. Patient receivables due directly from patients are carried on the accompanying consolidated balance sheets at the original charge for the service provided less amounts covered by third-party payers, allowances for other discounts, and an allowance for price concessions. The System does not charge interest on past-due receivables. Receivables are written off after collection efforts have been followed in accordance with the System's policies.

Accounts receivable are reduced by an allowance for price concessions. In evaluating the collectability of accounts receivable, the System analyzes its past history and identifies trends for each of its major payer sources to estimate the appropriate allowance. The analysis is performed using a hindsight calculation that utilizes write-off data for all payer classes during a determined time period to calculate the allowance for price concessions at a point in time. The System grants credit without collateral to patients, most of whom are local residents and are insured under third-party payer agreements.

At December 31, 2020 and 2019, amounts due from Medicare represented 10.9% and 12.4%, respectively, of the System's net patient accounts receivable.

#### **Investments and Investments Whose Use Is Limited**

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value on the consolidated balance sheets. Investments in equity and debt securities are classified as trading, and accordingly, all gains and losses are recorded as nonoperating investment return, to the extent not restricted by donor or law. The System accounts for investment transactions on a settlement-date basis.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Unrestricted investments are classified as current assets since they are available for operations. Certain investments are limited as to use under the terms of a bond indenture, state insurance regulations, unemployment fund agreements, collateral posted against swap valuations, and internal designation for medical education by the Board of Trustees and Board of Governors, who, at their discretion, can change these designations in the future.

Investments include alternative investments and other investments that are valued based on the net asset value (NAV) of the investments, as further discussed in the Fair Value Measurement note. Investments include interests in real estate funds with liquidity ranging from 95 to 125 days in these funds.

Values of some of the underlying investments may be based on estimates that require varying degrees of judgment, and consequently, these estimates may differ from the values at which investments may be sold. Values of the real estate funds are based on the fair value of the underlying real estate and reflect any net contributions to the investee and an ownership interest share of realized and unrealized investment income and expenses.

#### **Investments in Unconsolidated Entities**

Investments in entities in which the System has the ability to exercise significant influence over operating and financial policies, but does not have operational control, are recorded under the equity method of accounting, except for the investment in Recombinetics (see Note 6) that the System recorded under the fair-value method of accounting. These equity and fair-value method investments are recorded as investments in unconsolidated entities on the consolidated balance sheets.

#### **Inventories, Supplies, and Materials**

Inventories, supplies, and materials are valued at the lower of cost (first-in, first-out method) or net realizable value and included in other current assets on the consolidated balance sheets.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 2. Summary of Significant Accounting Policies (continued)

#### Property and Equipment

Property and equipment are stated at cost, if purchased, or at fair value on the date received, if donated, less accumulated depreciation. Works of art, collections, and similar assets are stated at fair market value at date of donation whether individual items or in a collection. During periods of construction, interest costs are capitalized to the respective property accounts.

Depreciation is computed by the straight-line method, including amortization of capital leased assets, over the following estimated useful lives:

Land improvements	5–15 years
Buildings	30–40 years
Building additions and improvements	10–25 years
Equipment and furniture	3–15 years

The System assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of an asset's carrying value unlikely. An impairment loss is indicated when the estimated total undiscounted future net cash flows are less than the carrying amounts. The loss recognized is the difference between the fair value and the carrying amount.

The System capitalizes expenditures for additions and improvements, while replacements, maintenance, and repairs that do not improve the useful lives of the assets are expensed as incurred. The System also capitalizes interest on the financing of major capital, including projects financed with tax-exempt borrowings.

#### Software Costs

Capitalized computer software costs include internally developed software. Costs incurred in developing and installing internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Derivative Financial Instruments**

The System uses interest rate swap contracts as part of its risk management strategy to manage exposure to fluctuations in interest rates related to its variable rate debt. All derivative instruments are recorded at fair value on the consolidated balance sheets, with the changes in the fair values recorded in nonoperating gains (losses) on the consolidated statements of operations. The System uses pricing models that take into account the present value of estimated future cash flows and credit valuation adjustments.

#### **Insurance**

The provision for estimated self-insured professional liability, workers' compensation, and health care claims includes estimates of the ultimate costs for both reported and incurred but not reported claims. The accrual for self-insured professional liability, workers' compensation, and health care claims represents the estimated ultimate cost for both asserted and unasserted claims.

#### **Debt Issuance Costs**

Debt issuance costs are amortized over the period the related debt obligation is outstanding using the straight-line method, which approximates the effective interest rate method.

#### **Leases**

The System leases property and equipment under finance and operating leases. The System determines whether an arrangement is a lease at inception. For leases with terms greater than 12 months, the System records the related right-of-use assets and lease liabilities at the present value of lease payments over the term. Leases may include rental escalation clauses and options to extend or terminate the lease that are factored into the determination of lease payments when appropriate. The System does not separate lease and non-lease components of contracts. As most of the System's leases do not provide an implicit rate, the System uses the risk-free rate for a period comparable to the lease term based on the information available at the commencement date in determining the present value of lease payments.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

Operating leases are included in right-of-use assets, current operating lease obligations, and long-term operating lease obligations on the consolidated balance sheet. Operating lease expense is recognized on a straight-line basis over the lease term and is included in supplies, facilities, and purchased services on the consolidated statements of operations.

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

#### **Donated Assets and Services**

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When the terms of a donor restriction are met, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as net assets released from restriction. Donor contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

No amounts have been reflected in the consolidated financial statements for donated services. The System pays for most services requiring specific expertise; however, many individuals volunteer their time and perform a variety of tasks that assist the System with various programs.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Net Assets**

Resources are classified as without donor restrictions and with donor restrictions based on the absence or existence of donor-imposed restrictions.

Net assets without donor restrictions are those whose use by the System has not been limited by donors and are available for general operating use. These consist of net assets that are board-designated funds (endowments) and non-board-designated funds. These are made up of investments and other unrestricted amounts that are available for use in carrying out the mission of the System.

Net assets with donor restrictions are those assets whose use has been limited by donors to a specific purpose or time period, or those assets for which donors require the principal of the gift to be maintained in perpetuity in order to provide a permanent source of income. The primary purposes of these funds are for education, research, community and affiliate programs, and building and equipment.

#### **Net Patient Service Revenue**

Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payers several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System 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 in the System's hospitals receiving inpatient acute care services or patients receiving services in the System's outpatient centers or in their homes (home



## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Summary of Significant Accounting Policies (continued)**

care). The System measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the System's patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the System does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (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.

The System has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### 2. Summary of Significant Accounting Policies (continued)

Agreements with third-party payers typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payers follows:

- **Medicare.** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- **Medicaid.** Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- **Other.** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payers also provide for retroactive audit and review of claims.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

Settlements with third-party payers 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 payer, correspondence from the payer, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, or investigations. Adjustments arising from a change in the transaction price were not significant in 2020 or 2019.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System 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. For the years ended December 31, 2020 and 2019, changes in estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not material.

Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense, which was not material in 2020 or 2019.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, co-pays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients. Patients who meet the System'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.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

##### **Capitation and Premium Revenue**

The Clinic and the Hospital provide health care services to enrollees of the health plans under a capitation arrangement, under which they are paid primarily on a capitated basis determined as a percentage of the member premium. Risk is transferred to the Clinic and Hospital under a provider reimbursement agreement. Capitation revenue is recognized in the year in which health care coverage is provided. Although the majority of services are provided to the health plans' enrollees by the Hospital and Clinic, certain services are provided by out-of-network providers on a contracted fee-for-service basis. A reserve is recorded for out-of-network care rendered but not reported as of each year-end.

##### **Charity and Uncompensated Care**

The System provides health care services to patients who meet certain criteria under its charity care policies without charge or at amounts less than established rates. The System maintains records to identify and monitor the level of community care provided. These records include the amount of costs incurred for services and supplies furnished under the charity care policy. Since the System does not pursue collection of these amounts, they are not reported as patient revenue.

##### **Reclassification of Prior Year Presentation**

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

##### **Performance Indicator**

The performance indicator is revenue in excess of expenses. Changes in net assets without donor restrictions, which are excluded from revenue in excess of expenses, consistent with industry practice, include net assets released from restrictions to purchase property and equipment.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 2. Summary of Significant Accounting Policies (continued)

##### Income Tax

The System qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, with the exception of Gundersen Lutheran Envision, LLC, which is a for-profit entity.

At December 31, 2020 and 2019, net deferred tax assets of \$7,948 and \$6,900, respectively, which primarily are related to net operating loss carryforwards, have valuation allowances of \$7,948 and \$6,900, respectively, recorded against them due to the uncertainty of realizing those benefits in the future. At December 31, 2020, the System's federal net operating loss carryforwards were approximately \$29,800, and the state net operating loss carryforwards were approximately \$27,900, which will expire between 2029 and 2038.

The System has reviewed its tax positions for all open years and has concluded that no liabilities exist for uncertain tax positions. The System's income tax returns are no longer subject to examination for 2015 and prior years.

##### Recent Adopted Accounting Standards

In August 2018, the FASB issued Accounting Standards Update No. (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 intends to improve the effectiveness of disclosures in the notes to the financial statements by modifying disclosure requirements for fair value measurements. On January 1, 2020, this ASU was adopted by the System. The adoption of this ASU resulted in no material impact to the System's consolidated financial statements.

##### New Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU affects loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and other financial assets that have the contractual right to receive cash. This ASU is effective for the System beginning January 1, 2022. The System is currently evaluating the effects of this standard on its consolidated financial statements.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Consolidated Nonfinancial Assets*. This ASU requires not-for-profit entities to present contributed nonfinancial assets as a separate line item on the statement of operations and changes in net assets, apart from contributions of cash and other financial assets. This ASU is effective for the System beginning January 1, 2022, and adoption of this standard is to be applied on a retrospective basis. The System is currently evaluating the effects of this standard on its consolidated financial statements.

### **3. COVID-19**

In March 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) a pandemic. The Centers for Disease Control and Prevention confirmed its spread to the United States and it was declared a national public health emergency, followed by several state emergency declarations, and the Centers for Medicare & Medicaid Services (CMS) issued guidance regarding elective procedures. Several national and international travel restrictions were put in place and the governors in the states in which the System has operations issued executive orders postponing nonessential or elective surgeries. Gundersen Health System has and expects to continue to experience an effect in operations as a result of the COVID-19 pandemic. The System experienced a reduction in volumes as elective surgeries and nonessential visits were postponed. Additional supplies, such as personal protective equipment, were consumed and COVID-19 testing sites were established at clinic locations and newly purchased and leased properties. The System took measures to respond to anticipated revenue shortfalls, including deferring strategic initiatives and announcing temporary salary and staff reductions. By June 2020, elective surgeries and nonessential visits were resuming and staff members were being transitioned back. The System will continue to take actions to mitigate the effect of the pandemic.

The System was well prepared and ready to treat patients with COVID-19. The System has resumed safely caring for all patients across the organization. As the duration of the pandemic is unknown, the outcome and ultimate effect of COVID-19 on the financial statements cannot be determined at this time.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **3. COVID-19 (continued)**

On March 27, 2020, the federal government enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which provides, among other funding sources, relief funds to hospitals and other health care providers in response to COVID-19. The funds are to be used to support health-care-related expenses or lost revenue attributable to the pandemic. Beginning in April 2020, the System received an aggregate of approximately \$54,400 of federal CARES Act funding as of December 31, 2020, of which approximately \$49,100 was recognized as other operating revenue for the year ended December 31, 2020. The remaining government payments received will be recognized in operations as other operating revenue in future periods, subject to complying with related terms and conditions and ongoing regulatory clarifications.

In order to increase cash flow to providers of services and suppliers impacted by the COVID-19 pandemic, CMS expanded the current Accelerated and Advance Payment Program (the Program). Beginning in April 2020, CMS provided advance funding that aggregated to a total of approximately \$68,100 to the System as of December 31, 2020, included in other current and other noncurrent liabilities, with repayment to occur based upon terms and conditions of the Program. In October 2020, a bill was signed into law that changed the original Medicare loan repayment terms for health care providers allowing recoupment to begin one year after the Medicare Accelerated and Advance Payment Program loan was issued, an extension from 120 days under previous law. The recoupment allows providers 29 months after receipt of the advances to pay back the funds in full before interest would begin to accrue.

The CARES Act also allows for deferred payment of the employer portion of certain payroll taxes between March 27, 2020 and December 31, 2020, with 50% due December 31, 2021, and the remaining 50% due December 31, 2022. As of December 31, 2020, the System had deferred payroll tax payments of \$18,432 of which \$9,216 is included in accrued payroll and \$9,216 is included in other noncurrent liabilities on the accompanying consolidated balance sheet.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 4. Available Resources and Liquidity

Financial assets available for general expenditure, such as operating expenses, and purchase of property and equipment, within one year of the balance sheet date, comprise the following at December 31:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 314,568	\$ 172,585
Short-term investments	805,496	731,513
Investments whose use is limited – current	1,433	1,476
Patient accounts receivable	161,236	184,871
Other receivables	59,202	50,939
Third-party reimbursement program receivables	836	5,155
	<u>\$ 1,342,771</u>	<u>\$ 1,146,539</u>

The System considers all cash and cash equivalents, short-term investments, and unrestricted investments to be financial assets available and free from restriction to meet cash needs for operating activities of the System within one year of December 31, 2020 and 2019. The System has long-term investments whose use is limited and cannot be liquidated within one year. The System has cash and cash equivalents included in long-term investments whose use is limited and cannot be liquidated within one year, and are not reflected in the amounts above. During 2020, the System entered into a revolving credit agreement with a financial institution and had an unused balance of \$75,000 as of December 31, 2020.

#### 5. Health Plans

The System has an ownership interest of 20.53% in Quartz Holding Company and 16.37% in Quartz Health Plan Corporation as of December 31, 2020.

Gundersen has recorded its equity interest in the joint venture, an investment of \$33,314 and \$29,949 as of December 31, 2020 and 2019, respectively. Nonoperating gains on its consolidated statements of operations for the years ended December 31, 2020 and 2019, were \$3,365 and \$3,677, respectively.



## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 5. Health Plans (continued)

The following is a summary of the operating results and balance sheet information of the health plans as of and for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Total revenue	\$ 1,949,797	\$ 1,800,230
Net income	33,514	17,912
Total assets	216,279	200,962
Stockholder's equity	167,676	145,881

#### 6. Investment in Recombinetics

Effective August 20, 2018, the System became a lead investor in Recombinetics, a gene-editing firm, in exchange for shares of preferred Series A Stock, common stock, and warrants. As of December 31, 2020 and 2019, the System has an undiluted ownership of 25.6% and 25.7%, respectively. The purpose of this transaction was to prepare for future medical advances, such as regenerative medicine, while maintaining the System as an industry leader in patient experience and care. The System has elected the fair-value option to account for the System's equity interest in Recombinetics and recorded its investment at \$30,007 as of December 31, 2020 and 2019, which is a Level 3 fair value measurement.

#### 7. Patient Care Service Revenue

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

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 7. Patient Care Service Revenue (continued)

The composition of patient care service revenue by primary payer for the years ended December 31 is as follows:

	<b>2020</b>	<b>2019</b>
Medicare	\$ 282,120	\$ 278,832
Medicaid	67,589	68,473
Commercial insurers	481,566	553,350
Uninsured	9,760	11,949
Other	51,444	37,777
	<b>\$ 892,479</b>	<b>\$ 950,381</b>

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

The composition of patient care service revenue based on the System's lines of business and method of reimbursement for the years ended December 31 is as follows:

	<b>2020</b>	<b>2019</b>
Service lines:		
Hospital inpatient services	\$ 181,216	\$ 270,293
Outpatient services	579,024	570,051
Retail sales	109,103	88,429
Residential care	15,294	13,064
Ambulatory	7,842	8,544
	<b>\$ 892,479</b>	<b>\$ 950,381</b>
Method of reimbursement:		
Fee for service	\$ 783,376	\$ 863,551
Other	109,103	86,830
	<b>\$ 892,479</b>	<b>\$ 950,381</b>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 8. Charity Care

The cost of providing charity care, which has been estimated by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients, is estimated to be \$4,510 and \$4,680 for 2020 and 2019, respectively.

#### 9. Investments, Including Investments Whose Use Is Limited, and Investment Return

The composition of cash equivalents and investments at December 31 is as follows:

	2020	2019
Cash equivalents	\$ 31,135	\$ 20,588
Certificates of deposit	40,287	36,423
Common stock	18,649	14,504
Equity mutual funds	353,731	235,230
Equity mutual funds – foreign	15,782	103,813
U.S. government and agencies obligations	64,036	92,110
Municipal bonds	793	772
Corporate bonds	129,620	153,810
Foreign corporate bonds	39,793	–
Residential mortgage-backed securities	60,668	91,017
Fixed-income mutual funds	45,995	1,545
Alternative investments	58,880	29,913
Total investments	\$ 859,369	\$ 779,725

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 9. Investments, Including Investments Whose Use Is Limited, and Investment Return (continued)

At December 31, certain investments are limited as to use for the following purposes:

	<b>2020</b>	<b>2019</b>
Restricted by donors	\$ 27,515	\$ 24,017
Minimum funding required by Wisconsin Office of the Commissioner of Insurance	<b>11,165</b>	11,342
Collateral posted against insurance claims	<b>900</b>	900
Minimum funding required by Wisconsin Unemployment Reserve Fund	<b>4,568</b>	4,504
Collateral posted against swap valuations ( <i>Note 14</i> )	<b>7,791</b>	4,517
Principal and interest payments under a bond indenture	<b>891</b>	1,625
Board designated for medical education and capital improvements	<b>307</b>	257
HUD restricted reserves	<b>105</b>	131
Restricted for tenant deposits	<b>11</b>	11
	<b>\$ 53,253</b>	<b>\$ 47,304</b>

Investment return on investments, including those whose use is limited, consists of the following:

	<b>2020</b>	<b>2019</b>
Dividends and interest	\$ 19,614	\$ 23,944
Net realized gains	<b>9,337</b>	6,976
Net change in unrealized gains	<b>60,291</b>	73,981
	<b>\$ 89,242</b>	<b>\$ 104,901</b>

Investment return is reported on the consolidated statements of operations and changes in net assets as follows:

	<b>2020</b>	<b>2019</b>
Nonoperating gains, net	\$ 85,227	\$ 100,213
Net assets with donor restrictions	<b>4,015</b>	4,688
	<b>\$ 89,242</b>	<b>\$ 104,901</b>

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### 10. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy in ASC Topic 820, *Fair Value Measurement*, are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.
- Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:
  - Quoted prices for similar assets and liabilities in active markets
  - Quoted prices for identical or similar assets or liabilities in markets that are not active
  - Observable inputs other than quoted prices that are used in the valuation of the asset or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means
- Level 3 – Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management’s own assumption about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.
- NAV – Gundersen Health System invests in funds for which the NAV per share represents the fair value of the investment held. Risks and redemption restrictions for these investments are similar to the alternative investments. Management opted to use the NAV per share, or its equivalent, as a practical expedient for the fair value of the interest in certain funds. Valuations provided by the respective fund’s management consider variables, such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 10. Fair Value Measurements (continued)

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level of input that is significant to the fair value measurement in its entirety.

The following table presents the financial instruments measured at fair value on a recurring basis at December 31, 2020, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 30,306	\$ 829	\$ –	\$ 31,135
Certificates of deposit	–	40,287	–	40,287
Common stock	18,649	–	–	18,649
Equity mutual funds	90,004	263,727	–	353,731
Equity mutual funds – foreign	15,782	–	–	15,782
U.S. government and agencies obligations	63,884	152	–	64,036
Municipal bonds	793	–	–	793
Corporate bonds	–	129,620	–	129,620
Foreign corporate bonds	–	39,793	–	39,793
Residential mortgage-backed securities	–	60,668	–	60,668
Fixed-income mutual funds	14,642	31,353	–	45,995
Investments measured at fair value	<u>\$ 234,060</u>	<u>\$ 566,429</u>	<u>\$ –</u>	<u>800,489</u>
Investments recorded as NAV				<u>58,880</u>
Total investments, including investments whose use is limited				<u>\$ 859,369</u>
Investments in unconsolidated entities – fair value (Note 6)	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 30,007</u>	<u>\$ 30,007</u>
<b>Liabilities</b>				
Obligation under swap contracts	<u>\$ –</u>	<u>\$ 30,586</u>	<u>\$ –</u>	<u>\$ 30,586</u>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 10. Fair Value Measurements (continued)

The following table presents the financial instruments measured at fair value on a recurring basis at December 31, 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 19,727	\$ 861	\$ –	\$ 20,588
Certificates of deposit	–	36,423	–	36,423
Common stock	14,504	–	–	14,504
Equity mutual funds	235,230	–	–	235,230
Equity mutual funds – foreign	103,813	–	–	103,813
U.S. government and agencies obligations	91,803	307	–	92,110
Municipal bonds	772	–	–	772
Corporate bonds	–	125,334	–	125,334
Residential mortgage-backed securities	–	91,017	–	91,017
Fixed-income mutual funds	1,545	–	–	1,545
Investments measured at fair value	<u>\$ 467,394</u>	<u>\$ 253,942</u>	<u>\$ –</u>	<u>721,336</u>
Investments recorded as NAV				<u>58,389</u>
Total investments, including investments whose use is limited				<u>\$ 779,725</u>
Investments in unconsolidated entities – fair value (Note 6)	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 30,007</u>	<u>\$ 30,007</u>
<b>Liabilities</b>				
Obligation under swap contracts	<u>\$ –</u>	<u>\$ 26,023</u>	<u>\$ –</u>	<u>\$ 26,023</u>

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses are reasonable estimates of fair value due to the short-term nature of these financial instruments. The carrying value of pledges (Level 2) approximates its fair value at December 31, 2020 and 2019.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **10. Fair Value Measurements (continued)**

Through the System's investments accounted for on an equity basis, the System is indirectly involved in investment activities, such as securities lending, short sales of securities, options, warrants, trading in futures and forward contracts, and other derivative products. Derivatives are used to maintain asset mix or adjust portfolio risk exposure. While these financial instruments may contain varying degrees of risk, the System's risk is limited to its capital balance in each investment.

At December 31, 2020 and 2019, the fair value of fixed-interest long-term debt (Level 2), based on quoted market prices for the same or similar instruments, was \$190,720 and \$197,711, respectively, and compared with its carrying value of \$184,225 and \$187,840, respectively. Fair value of variable rate long-term debt (Level 2) approximated its carrying value.

The fair value for obligation under swap contracts is determined through the use of widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flow of each derivative. The analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, such as interest rate curves. In addition, credit value adjustments are included to reflect both the System's nonperformance risk and the respective counterparty's nonperformance risk.

The fair value of investments in unconsolidated entities where the fair value option was elected (Level 3) is primarily determined using techniques consistent with both the market and income approaches, based on the System's estimates and assumption in the absence of observable market data. The market approach considers comparable company, comparable transaction, and company-specific information, including, but not limited to, restrictions on disposition and the current financial position and operating results. The income approach considers the projected operating performance of the System. The System purchased its interest in August 2018, and there have been no realized or unrealized gains or losses recognized for the years ended December 31, 2020 or 2019.



## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 11. Property and Equipment

At December 31, property and equipment consist of the following:

	<b>2020</b>	<b>2019</b>
Land and land improvements	\$ 39,068	\$ 38,033
Buildings and building improvements	845,547	769,503
Equipment and furniture	385,746	368,374
Capitalized software	49,472	45,726
Finance leases	6,622	5,800
	<b>1,326,455</b>	1,227,436
Less accumulated depreciation and amortization	<b>668,091</b>	630,892
Property and equipment – net	<b>658,364</b>	596,544
Construction-in-progress	<b>15,656</b>	56,923
	<b>\$ 674,020</b>	\$ 653,467

Accumulated amortization of leased equipment was \$4,797 and \$3,717 at December 31, 2020 and 2019, respectively.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 12. Long-Term Debt and Finance Lease Obligations

At December 31, long-term debt consists of the following:

	<u>2020</u>	<u>2019</u>
<b>Obligated Group</b>		
Wisconsin Health and Educational Facilities Authority (WHEFA) Bonds:		
Series 2020, fixed rate bonds (5.00%), maturing 2026	\$ 22,495	\$ –
Series 2016 (Gundersen Lutheran), adjustable direct placement bonds, principal due starting in 2026 (average annual interest rate in 2020 of 1.32% and 2019 of 2.70%)	40,000	40,000
Series 2015, interest fixed at 2.63% first 5 years then adjustable, maturing in varying amounts through 2026	6,230	7,380
Series 2012, fixed rate bonds (2.00% to 5.00%), maturing in varying amounts through 2044	68,645	68,830
Series 2011A, fixed rate bonds (1.00% to 5.25%), maturing in varying amounts through 2039	115,580	119,010
Series 2009A, adjustable direct placement bonds (average annual interest rate in 2020 of 0.89% and 2019 of 2.24%), maturing in varying amounts through 2033	38,415	39,890
Series 2009B, adjustable direct placement bonds (average annual interest rate in 2020 of 0.99% and 2019 of 2.34%), maturing in varying amounts through 2033	25,785	27,415
Series 2008B, adjustable direct placement bonds (average annual interest rate in 2020 of 0.84% and 2019 of 2.19%), maturing in varying amounts through 2033	59,775	61,400
	<u>376,925</u>	363,925
Non-obligated group	32,386	23,286
	<u>409,311</u>	387,211
Finance lease obligations	2,238	3,012
Unamortized premium	3,499	1,392
	<u>415,048</u>	391,615
Total long-term debt and finance lease obligations	12,474	12,170
Less current maturities	3,166	3,355
Less unamortized financing costs	<u>\$ 399,408</u>	<u>\$ 376,090</u>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **12. Long-Term Debt and Finance Lease Obligations (continued)**

In September 2011, the System entered into a Restated Master Trust Indenture with a bank that established an Obligated Group (see Note 1). Each Obligated Group member is jointly and severally liable for the payment of all obligations issued under the Restated Master Trust Indenture, which are secured ratably by a pledge of the unrestricted receivables of the Obligated Group. The Restated Master Trust Indenture contains, among other things, provisions placing restrictions on additional debt, asset transfers, and liens and requires the maintenance of a debt service coverage ratio. Additional covenants, including liquidity and capitalization, are included in other loan agreements relating to the obligations.

In March 2020, WHEFA issued Series 2020 bonds on behalf of the Obligated Group in a par amount of \$22,495, which bear interest at fixed rates. The proceeds have been used for new construction and to acquire equipment.

In February 2016, WHEFA issued Series 2016 bonds in the amount of \$40,000 through a direct placement with a bank to refinance the Series 2011B bonds at a variable interest rate, which adjusts monthly as a percentage of the 30-day London Interbank Offered Rate (LIBOR). The bonds are subject to mandatory tender following an initial period, which ends in February 2026, at which time the outstanding principal plus accrued interest will become due.

In December 2015, WHEFA issued Series 2015 bonds on behalf of the Obligated Group in the aggregate amount of \$12,000, bearing interest fixed at an annual rate of 2.63% for the first five years. Interest will reset at a fixed rate for the remaining term of the bonds. The principal is payable through 2026. The proceeds have been used to finance new construction. These bonds are secured with a first mortgage on real estate.

In September 2012, WHEFA issued Series 2012 bonds on behalf of the Obligated Group in an aggregate par amount of \$70,000, which bear interest at fixed rates. The bonds are subject to optional, mandatory, extraordinary redemption, and purchase in lieu of redemption prior to maturity. The proceeds have been used to finance new construction.

In September 2011, WHEFA issued Series 2011A bonds on behalf of the Obligated Group. The Series 2011A bonds were issued in an aggregate par amount of \$162,430 and bear interest at fixed rates.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 12. Long-Term Debt and Finance Lease Obligations (continued)

In May 2009, WHEFA issued Series 2009A and Series 2009B bonds on behalf of GLAS in the aggregate amount of \$78,715. The proceeds of those bonds were used to refund the Series 2003B and Series 2003C bonds. In March 2011, the Obligated Group caused a tender of the Series 2009A and 2009B bonds, which were placed directly with a bank. In March 2015, the Series 2009A and Series 2009B bonds were extended to March 2, 2020 and March 2, 2021, respectively. In January 2019, the Series 2009A and 2009B bonds were refinanced and the maturity was extended to January 2, 2024 and January 2, 2025, respectively.

In May 2008, WHEFA issued Series 2008A and Series 2008B bonds on behalf of GLAS in the aggregate amount of \$89,300, bearing interest at a variable rate. In August 2010, the Obligated Group caused a tender of the Series 2008A and Series 2008B bonds, which were placed directly with a bank. Under the terms of the agreement with the bank, GLAS was required to purchase the Series 2008A bonds from the bank in August 2013. In September 2011, the Series 2008A bonds were refunded with proceeds of the Series 2011A bonds and Series 2011B bonds. In March 2015, the Series 2008B bonds were extended to March 1, 2019. In January 2019, the Series 2008B bonds were refinanced and the maturity was extended to January 2, 2023.

Included in Non-obligated group total, in June 2019, St. Joseph's Health Services, Inc. was issued Series 2019A Health Care Facilities Revenue Bonds in the aggregate of \$25,000, bearing interest at 3.27%. The bonds are payable with 24 months of interest-only payments during the construction period, then 18 years with monthly payments of principal and interest with a maturity date of June 15, 2039. The bonds are collateralized by a mortgage on St. Joseph's Health Services, Inc. facilities. As of December 31, 2020 and 2019, St. Joseph's Health Services, Inc. has drawn down \$23,228 and \$11,520, respectively. Additional disbursements are scheduled to be made during 2021 for the purpose of funding the new hospital and medical clinic.

Total interest paid was \$17,401 and \$17,804 during the years ended December 31, 2020 and 2019, respectively. Capitalized interest cost was \$661 and \$300 during the years ended December 31, 2020 and 2019, respectively.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 12. Long-Term Debt and Finance Lease Obligations (continued)

At December 31, 2020, the aggregate maturities and sinking fund requirements of the System's long-term debt, for each of the five subsequent years and thereafter, are as follows:

2021	\$	11,014
2022		12,141
2023		12,343
2024		12,707
2025		13,185
Thereafter		347,921
	\$	<u>409,311</u>

On July 8, 2020, the System entered into a revolving credit agreement with a financial institution. The Credit Agreement includes a \$75,000 revolving credit that has a maturity date of July 6, 2021. For revolving commitments, the System's interest rate is adjusted LIBOR plus an applicable margin of 1.25%. The pricing is subject to maintenance of current rating on long-term, unenhanced debt of the Obligated Group. The revolving credit is secured by a pledge of unrestricted receivables of the Obligated Group.

In addition to paying interest on outstanding principal, the System is subject to a commitment fee to the lenders under the revolving credit with respect to the unutilized commitments thereunder at a rate equal to 0.25% per annum.

At December 31, 2020, no amounts were borrowed under the revolving credit agreement. As of and during the 12 months ended December 31, 2020, there were no borrowings under the revolving credit agreement.

#### 13. Leases

The System has operating and finance leases for medical office buildings, administrative offices, warehouses, network information systems, office equipment, and medical/surgical equipment. The leases have remaining lease terms of less than 1 year to 18 years, some of which may include an option to extend.

Rent and lease expense, included in supplies, facilities, and purchased services on the accompanying consolidated statements of operations and changes in net assets, amounted to \$9,531 and \$10,234 for the years ended December 31, 2020 and 2019, respectively.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 13. Leases (continued)

Other information related to leases was as follows for the year ended December 31:

##### Supplemental cash flow information

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 4,142	\$ 3,769
Operating cash flows from finance leases	1,580	1,378
Financing cash flows from finance leases	147	170
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 2,387	\$ 956
Finance leases	807	371
Weighted average remaining lease term (in years):		
Operating leases	8.29	8.87
Finance leases	2.26	2.34
Weighted average discount rate:		
Operating leases	2.53%	2.68%
Finance leases	4.32	4.48

Future minimum lease payments relating to noncancelable operating and financing obligations for each of the next five years and thereafter are as follows:

	Operating	Finance
Year ending December 31:		
2021	\$ 3,752	\$ 1,361
2022	2,562	522
2023	1,634	314
2024	1,205	160
2025	1,157	5
Thereafter	6,474	-
Total lease payments	16,784	2,362
Less interest	1,752	124
Present value of lease liabilities	\$ 15,032	\$ 2,238

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 14. Derivative Financial Instruments

The System uses interest rate swap contracts as part of its risk management strategy to manage exposure to fluctuations in interest rates related to its variable rate debt. All derivative instruments are recorded at fair value as noncurrent liabilities on the consolidated balance sheets, and the change in fair value of \$4,563 and \$5,189 for 2020 and 2019, respectively, is recorded in nonoperating gains (losses) on the consolidated statements of operations. At December 31, the System's interest rate swap liability was as follows:

	2020	2019
Notional amount \$33,000, fixed annual rate 3.50%, variable interest equal to 67.00% of the one-month LIBOR	\$ 4,947	\$ 4,201
Notional amount \$40,470, fixed annual rate 3.26%, variable interest equal to 67.00% of the one-month LIBOR	4,555	3,854
Notional amount \$44,750, fixed annual rate 3.28%, variable interest equal to 67.00% of the one-month LIBOR	8,657	7,083
Notional amount \$60,725, fixed annual rate 3.79%, variable interest equal to 67.00% of the one-month LIBOR	12,427	10,885
	\$ 30,586	\$ 26,023

Derivative transactions contain credit risk in the event the parties are unable to meet the terms of the contract; credit risk is generally limited to the fair value due from counterparties on outstanding contracts. At December 31, 2020 and 2019, the counterparties had a Standard & Poor's credit quality rating of A+.

Collateral posted by the System was \$7,791 and \$4,517 at December 31, 2020 and 2019, respectively, which is recorded in investments whose use is limited on the consolidated balance sheets.

#### 15. Retirement Plans

The System maintains various plans, including a defined contribution plan, a 401(k) plan, and a 403(a) plan. The plans cover substantially all of the System's employees. Total retirement plan expense for 2020 and 2019 was \$66,318 and \$68,770, respectively. The System contributes matching funding on a monthly basis, with the remainder contributed annually. At December 31, 2020 and 2019, the liability for employer contributions of \$49,838 and \$49,380, respectively, is included in accrued liabilities on the consolidated balance sheets.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **16. Insurance**

The System's facilities are either self-insured or have purchased claims-made insurance coverage for Wisconsin professional liability up to base limits of insurance coverage (\$1,000 per event and \$3,000 aggregate limit at December 31, 2020 and 2019).

In addition, under the Wisconsin professional liability, self-insured limits are in place per physician/certified registered nurse anesthetist (\$1,000 per occurrence and \$3,000 aggregate at December 31, 2020 and 2019). The System has established a professional liability insurance plan and irrevocable trust as required by Wisconsin statutes. The funding requirements of the plan are established annually based on third-party actuarial calculations, as prescribed by the Commissioner of Insurance for the State of Wisconsin. All professional liability claims or judgments occurring in Wisconsin in excess of the base level of coverage are paid from the Injured Patients and Families Compensation Fund, which insures all claims incurred regardless of when the claim is filed. The Injured Patients and Families Compensation Fund has no upper limit on losses.

The System has purchased professional liability insurance on a claims-made basis to cover Iowa and Minnesota risks. In addition, the System has purchased umbrella and excess coverage to minimize exposure for all entities.

The liability for professional and general liability, workers' compensation, and employee health insurance claims is based on actual claims to date and a projection of the estimated future liability for such claims and incurred-but-not-reported losses. At December 31, 2020 and 2019, the total recorded liability was \$24,129 and \$23,899, respectively, of which a current portion of \$9,450 and \$9,964, respectively, is included in accrued liabilities and the noncurrent portion of \$14,679 and \$13,935, respectively, is included in other noncurrent liabilities on the consolidated balance sheets. At December 31, 2020 and 2019, the estimated receivable related to insurance recoveries of \$518 and \$586, respectively, is included in other current assets on the consolidated balance sheets.



## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **17. Commitments and Contingencies**

The System is a defendant in legal proceedings arising in the ordinary course of business. Although the outcome of these proceedings cannot be determined, management of the System considers it unlikely that the disposition of these proceedings will have a material adverse effect on the consolidated financial position or operations of the System. However, there can be no assurance that this will be the case.

The System has entered into an agreement with the city of La Crosse in conjunction with the city's establishment of Tax Incremental Financing District No. 14 (TIF 14). The agreement creates property tax incentives for taxable development on the La Crosse campus by the System and other developers. The benefit that the System derives from participation in TIF 14 depends on the size of future development over the next 16 years.

#### **18. Compliance With Laws and Regulations**

The health care industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretation and include matters such as licensure, accreditation, reimbursement for patient services, and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government health care programs. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by health care providers. These investigations may result in settlements involving fines and penalties as well as repayment of improper reimbursement. The System has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of instances of noncompliance.

While management believes that the System is in material compliance with fraud and abuse laws and regulations as well as other applicable government laws and regulations, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in reimbursement from the Medicare program, including a reduction of funding levels, could have a material adverse effect on the System.

#### **19. Net Assets**

The System receives donations from individuals and organizations to support certain programs and services. When specific purposes are needed for donations, the donations are included in net assets with donor restriction and are released when the specific purpose is met.

Gundersen Health System

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**19. Net Assets (continued)**

Net assets with donor restrictions consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Subject to expenditures for specific purpose:		
Education	\$ 3,572	\$ 2,294
Research	5,237	4,144
Community and affiliate programs	2,103	1,897
Building and equipment	914	2,635
Patient care	2,768	1,659
Split interest agreements	544	519
Subject to the passage of time:		
Time restrictions for future periods	95	92
Subject to organization spending policy and appropriation:		
Education	9,796	9,679
Research	7,205	7,044
Community and affiliate programs	3,380	3,084
Patient care	4,170	3,949
	<u>\$ 39,784</u>	<u>\$ 36,996</u>

Net assets without donor restrictions consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Operating	\$ 1,386,730	\$ 1,312,255
Board designated:		
Quasi-endowment funds	37,585	32,247
	<u>\$ 1,424,315</u>	<u>\$ 1,344,502</u>

As of December 31, 2020 and 2019, the System's endowments consist of \$62,137 and \$56,004, respectively, of individual donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Gundersen Health System

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**19. Net Assets (continued)**

The endowment net asset composition by type of fund consisted of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Without donor restrictions:		
Board-designated endowment funds	\$ 37,585	\$ 32,247
With donor restrictions:		
Donor-restricted endowment funds	24,552	23,757
	<u>\$ 62,137</u>	<u>\$ 56,004</u>

The changes in endowment net assets are as follows:

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Balance at December 31, 2018	\$ 25,064	\$ 21,531	\$ 46,595
Unrealized gain	5,049	926	5,975
Investment return, net	653	(141)	512
Contributions	32	1,354	1,386
Transfers between endowment funds	(87)	87	–
Transfers from non-endowment funds	1,556	–	1,556
Appropriations for expenditures	(20)	–	(20)
Balance at December 31, 2019	32,247	23,757	56,004
Unrealized gain	3,955	435	4,390
Investment return, net	1,520	(7)	1,513
Contributions	267	444	711
Transfers from non-endowment funds	65	(74)	(9)
Appropriations for expenditures	(469)	(3)	(472)
Balance at December 31, 2020	<u>\$ 37,585</u>	<u>\$ 24,552</u>	<u>\$ 62,137</u>

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **19. Net Assets (continued)**

The state of Wisconsin has enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which, together with other relevant state laws, guides the System's investment policies for restricted funds. UPMIFA requires the System to exercise ordinary and prudent care in good faith in its discretion to invest and appropriate some or all of the net appreciation or depreciation of investments. In the absence of a relevant law or donor stipulations, fiduciary responsibility to exercise ordinary care and prudence does not extend to donor stipulations to the earnings or losses on investments.

### **20. Related-Party Transactions**

The Clinic and the Hospital have an agreement with Quartz to provide health care services to the GLAS insured enrollees. The Clinic and the Hospital are paid on a capitated basis. Reinsurance contracts exist for medical and hospital expenses in excess of 50% of discounted billed charges of \$1,000 and \$750 per enrollee per contract year for the years ended December 31, 2020 and 2019, respectively. Capitation revenue, net of capitation services expense to non-Gundersen providers, recorded by the Clinic and the Hospital earned under the agreement with Quartz totaled \$247,585 and \$245,882 for the years ended December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, amount due to Quartz was \$0. At December 31, 2020 and 2019, amounts due from Quartz were \$42,279 and \$40,289, respectively, and are included in other current assets on the consolidated balance sheets.

Under the terms of an administrative services agreement with Quartz, Gundersen provides certain general and administrative services necessary for Quartz's operations at amounts that are intended to approximate cost. The cost of these services to Quartz was \$895 and \$1,841 for the years ended December 31, 2020 and 2019, respectively. Amounts due from Quartz as of December 31, 2020 and 2019, related to the administrative services agreement were \$163 and \$183, respectively, and are included in other current assets on the consolidated balance sheets.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 21. Functional Expenses

The System provides general health care services and medical education and research. The following table presents expenses related to providing these services for the years ended December 31:

	2020				
	Health Care Services	Medical Education and Research	General and Administration	Non-Health Care Services	Total
Salaries and benefits	\$ 715,313	\$ 15,318	\$ 56,452	\$ 491	\$ 787,574
Supplies	216,795	509	674	132	218,110
Capitation services	150,116	-	-	-	150,116
Depreciation and amortization	54,596	184	10,223	568	65,571
Facilities	32,880	135	4,188	1,222	38,425
Purchased services	54,033	5,216	5,138	907	65,294
Interest	17,321	-	-	55	17,376
Other operating expenses	34,825	910	21,220	464	57,419
<b>Totals</b>	<b>\$ 1,275,879</b>	<b>\$ 22,272</b>	<b>\$ 97,895</b>	<b>\$ 3,839</b>	<b>\$ 1,399,885</b>

	2019				
	Health Care Services	Medical Education and Research	General and Administration	Non-Health Care Services	Total
Salaries and benefits	\$ 687,135	\$ 15,007	\$ 52,763	\$ 414	\$ 755,319
Supplies	196,261	728	2,908	226	200,123
Capitation services	129,582	-	-	-	129,582
Depreciation and amortization	51,215	164	8,026	798	60,203
Facilities	33,701	154	3,146	1,328	38,329
Purchased services	47,512	5,256	5,874	934	59,576
Interest	17,246	4	182	63	17,495
Other operating expenses	38,835	1,280	17,105	575	57,795
<b>Totals</b>	<b>\$ 1,201,487</b>	<b>\$ 22,593</b>	<b>\$ 90,004</b>	<b>\$ 4,338</b>	<b>\$ 1,318,422</b>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **22. Subsequent Events**

The System has evaluated events and transactions that have occurred subsequent to December 31, 2020 through April 23, 2021, the date on which the accompanying consolidated financial statements were issued.

During this period, there were no subsequent events requiring recognition in the consolidated financial statements, and there were no non-recognized subsequent events requiring disclosure, except for the following:

On March 17, 2021, the System canceled the revolving credit of \$75,000 with the financial institution.

# Supplementary Information



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## Report of Independent Auditors on Supplementary Information

The Board of Trustees and Board of Governors  
Gundersen Health System

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Ernst & Young LLP*

April 23, 2021



# Gundersen Health System

## Consolidating Balance Sheet (Dollars in Thousands)

December 31, 2020

	Obligated Group	CAH	Others	Eliminations	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 231,129	\$ 76,298	\$ 7,151	\$ –	\$ 314,578
Investments	797,900	6,425	1,791	–	806,116
Current portion of investments whose use is limited	1,399	–	34	–	1,433
Patient accounts receivable	135,438	23,123	2,675	–	161,236
Current portion of notes receivable	1,660	–	–	(1,660)	–
Other current assets	122,502	6,055	(187)	(17,564)	110,806
<b>Total current assets</b>	<b>1,290,028</b>	<b>111,901</b>	<b>11,464</b>	<b>(19,224)</b>	<b>1,394,169</b>
Investments whose use is limited	49,832	1,906	82	–	51,820
Notes receivable, net of current portion	1,529	–	–	(1,529)	–
Property and equipment, net	597,436	69,669	6,915	–	674,020
Right-of-use assets – operating leases	14,576	639	55	(442)	14,828
Investment in unconsolidated entities	32,679	–	32,109	–	64,788
Investment in consolidated entities	–	–	1,041	(1,041)	–
Other noncurrent assets	20,127	2,856	548	–	23,531
<b>Total assets</b>	<b>\$ 2,006,207</b>	<b>\$ 186,971</b>	<b>\$ 52,214</b>	<b>\$ (22,236)</b>	<b>\$ 2,223,156</b>
<b>Liabilities and net assets</b>					
Current liabilities:					
Accounts payable	\$ 25,730	\$ 7,614	\$ (163)	\$ (5,897)	\$ 27,284
Accrued payroll	79,644	8,317	1,274	–	89,235
Accrued liabilities	65,787	16,222	146	(11,667)	70,488
Current maturities of long-term debt	11,007	2,997	130	(1,660)	12,474
Current operating lease obligations	3,393	445	29	(423)	3,444
Other current liabilities	43,691	6,373	247	–	50,311
<b>Total current liabilities</b>	<b>229,252</b>	<b>41,968</b>	<b>1,663</b>	<b>(19,647)</b>	<b>253,236</b>
Long-term debt, net of current maturities	368,057	31,767	1,113	(1,529)	399,408
Long-term operating lease obligations	11,383	205	26	(26)	11,588
Obligation under swap contracts	30,586	–	–	–	30,586
Other noncurrent liabilities	47,692	16,378	169	–	64,239
<b>Total liabilities</b>	<b>686,970</b>	<b>90,318</b>	<b>2,971</b>	<b>(21,202)</b>	<b>759,057</b>
Net assets:					
Without donor restrictions	1,282,336	93,809	49,204	(1,034)	1,424,315
With donor restrictions	36,901	2,844	39	–	39,784
<b>Total net assets</b>	<b>1,319,237</b>	<b>96,653</b>	<b>49,243</b>	<b>(1,034)</b>	<b>1,464,099</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,006,207</b>	<b>\$ 186,971</b>	<b>\$ 52,214</b>	<b>\$ (22,236)</b>	<b>\$ 2,223,156</b>

# Gundersen Health System

## Consolidating Statement of Operations (Dollars in Thousands)

Year Ended December 31, 2020

	Obligated Group	CAH	Others	Eliminations	Total
Operating revenue:					
Net patient service revenue	\$ 763,222	\$ 130,202	\$ 14,948	\$ (15,893)	\$ 892,479
Capitation revenue	408,623	–	–	(2,775)	405,848
Other revenue	80,980	11,568	4,311	(17,552)	79,307
Total operating revenue and gains	1,252,825	141,770	19,259	(36,220)	1,377,634
Operating expenses:					
Salaries, wages, and benefits	709,499	71,207	11,193	(4,325)	787,574
Supplies	201,752	15,461	897	–	218,110
Capitation services	161,037	–	–	(10,921)	150,116
Depreciation and amortization	58,369	5,562	1,640	–	65,571
Facilities	31,588	4,718	2,126	(7)	38,425
Purchased services	49,028	27,951	3,707	(15,392)	65,294
Interest	16,856	526	72	(78)	17,376
Other operating expenses	55,806	5,571	1,625	(5,583)	57,419
Total operating expenses	1,283,935	130,996	21,260	(36,306)	1,399,885
Operating (loss) income	(31,110)	10,774	(2,001)	86	(22,251)
Nonoperating gains (losses):					
Investment gains, net	85,001	256	49	(79)	85,227
Contribution from business combination	–	18,174	–	–	18,174
Unrealized loss on interest rate swap contracts	(4,563)	–	–	–	(4,563)
Loss on consolidated entities	–	–	(3,472)	3,472	–
Gain from unconsolidated entities	–	–	1,858	–	1,858
Other nonoperating gains, net	–	147	106	–	253
	80,438	18,577	(1,459)	3,393	100,949
Revenue in excess of (less than) expenses	\$ 49,328	\$ 29,351	\$ (3,460)	\$ 3,479	\$ 78,698

# Gundersen Health System

## Consolidating Statement of Changes in Net Assets (Dollars in Thousands)

Year Ended December 31, 2020

	<b>Obligated Group</b>	<b>CAH</b>	<b>Others</b>	<b>Eliminations</b>	<b>Total</b>
Net assets without donor restrictions:					
Revenue in excess of (less than) expenses	\$ 49,328	\$ 29,351	\$ (3,460)	\$ 3,479	\$ 78,698
Net assets released from restrictions to purchase property and equipment	369	729	–	–	1,098
Other changes	(702)	24	1,045	(350)	17
Increase (decrease) in net assets without donor restrictions	48,995	30,104	(2,415)	3,129	79,813
Net assets with donor restrictions:					
Contributions	3,413	28	–	–	3,441
Investment return	3,967	48	–	–	4,015
Net assets released from restriction	(4,301)	(10)	–	–	(4,311)
Other changes	–	(358)	1	–	(357)
Increase (decrease) in net assets with donor restrictions	3,079	(292)	1	–	2,788
Increase (decrease) in net assets	52,074	29,812	(2,414)	3,129	82,601
Net assets at beginning of year	1,267,163	66,841	51,657	(4,163)	1,381,498
Net assets at end of year	\$ 1,319,237	\$ 96,653	\$ 49,243	\$ (1,034)	\$ 1,464,099

# Gundersen Health System

## Consolidating Balance Sheet Critical Access Hospitals (CAH) (Dollars in Thousands)

December 31, 2020

	St. Joseph's Hospital & Clinic	Memorial Hospital of Boscobel	Tri-County Memorial Hospital, Inc.	Palmer Lutheran Health Center, Inc.	Moundview Memorial Hospital and Clinics	Saint Elizabeth's Hospital of Wabasha, Inc.	Total
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 11,238	\$ 21,602	\$ 12,538	\$ 15,074	\$ 12,491	\$ 3,355	\$ 76,298
Investments	-	518	1,051	4,856	-	-	6,425
Patient accounts receivable	2,845	2,509	3,896	3,578	2,158	8,137	23,123
Other current assets	1,414	779	848	1,315	338	1,361	6,055
<b>Total current assets</b>	<b>15,497</b>	<b>25,408</b>	<b>18,333</b>	<b>24,823</b>	<b>14,987</b>	<b>12,853</b>	<b>111,901</b>
Investments whose use is limited	107	-	-	790	1,009	-	1,906
Property and equipment, net	34,630	6,083	5,022	6,713	5,575	11,646	69,669
Right-of-use assets – operating leases	151	134	7	270	27	50	639
Other noncurrent assets	1,520	788	3	541	-	4	2,856
<b>Total assets</b>	<b>\$ 51,905</b>	<b>\$ 32,413</b>	<b>\$ 23,365</b>	<b>\$ 33,137</b>	<b>\$ 21,598</b>	<b>\$ 24,553</b>	<b>\$ 186,971</b>
<b>Liabilities and net assets</b>							
Current liabilities:							
Accounts payable	\$ 1,246	\$ 748	\$ 308	\$ 1,497	\$ 205	\$ 3,610	\$ 7,614
Accrued payroll	1,285	984	1,653	1,552	833	2,010	8,317
Accrued liabilities	977	3,166	1,902	5,324	4,771	82	16,222
Current maturities of long-term debt	-	318	414	937	58	1,270	2,997
Current operating lease obligations	79	81	7	241	10	27	445
Other current liabilities	449	1,588	879	979	1,635	843	6,373
<b>Total current liabilities</b>	<b>4,036</b>	<b>6,885</b>	<b>5,163</b>	<b>10,530</b>	<b>7,512</b>	<b>7,842</b>	<b>41,968</b>
Long-term debt, net of current maturities	22,918	2,459	918	5,360	112	-	31,767
Long-term operating lease obligations	74	52	-	38	17	24	205
Other noncurrent liabilities	309	2,878	3,528	7,822	1,738	103	16,378
<b>Total liabilities</b>	<b>27,337</b>	<b>12,274</b>	<b>9,609</b>	<b>23,750</b>	<b>9,379</b>	<b>7,969</b>	<b>90,318</b>
Net assets:							
Without donor restrictions	23,744	19,368	13,624	8,845	11,644	16,584	93,809
With donor restrictions	824	771	132	542	575	-	2,844
<b>Total net assets</b>	<b>24,568</b>	<b>20,139</b>	<b>13,756</b>	<b>9,387</b>	<b>12,219</b>	<b>16,584</b>	<b>96,653</b>
<b>Total liabilities and net assets</b>	<b>\$ 51,905</b>	<b>\$ 32,413</b>	<b>\$ 23,365</b>	<b>\$ 33,137</b>	<b>\$ 21,598</b>	<b>\$ 24,553</b>	<b>\$ 186,971</b>

# Gundersen Health System

## Consolidating Statement of Operations Critical Access Hospitals (CAH) (Dollars in Thousands)

Year Ended and Period December 31, 2020

	St. Joseph's Hospital & Clinic	Memorial Hospital of Boscobel	Tri-County Memorial Hospital, Inc.	Palmer Lutheran Health Center, Inc.	Moundview Memorial Hospital and Clinics	Saint Elizabeth's Hospital of Wabasha, Inc.*	Total
Operating revenue:							
Net patient service revenue	\$ 21,740	\$ 22,576	\$ 23,898	\$ 30,123	\$ 18,800	\$ 13,065	\$ 130,202
Other revenue	4,031	2,134	3,147	1,001	919	336	11,568
Total operating revenue and gains	25,771	24,710	27,045	31,124	19,719	13,401	141,770
Operating expenses:							
Salaries, wages, and benefits	12,463	9,596	13,616	12,310	13,030	10,192	71,207
Supplies	2,534	2,741	3,016	4,084	1,519	1,567	15,461
Depreciation and amortization	1,806	863	689	882	680	642	5,562
Facilities	908	871	751	1,453	536	199	4,718
Purchased services	6,062	6,481	3,282	8,889	1,284	1,953	27,951
Interest	-	156	58	254	50	8	526
Other operating expenses	517	830	1,642	1,459	688	435	5,571
Total operating expenses	24,290	21,538	23,054	29,331	17,787	14,996	130,996
Operating income (loss)	1,481	3,172	3,991	1,793	1,932	(1,595)	10,774
Nonoperating gains:							
Investment gains, net	53	26	30	21	126	-	256
Contribution from business combination	-	-	-	-	-	18,174	18,174
Other nonoperating gains, net	-	-	-	-	143	4	147
	53	26	30	21	269	18,178	18,577
Revenue in excess of expenses	\$ 1,534	\$ 3,198	\$ 4,021	\$ 1,814	\$ 2,201	\$ 16,583	\$ 29,351

\*Saint Elizabeth's Hospital of Wabasha, Inc. is for the period 9/1/2020-12/31/2020.

## Gundersen Health System

### Consolidating Statement of Changes in Net Assets Critical Access Hospitals (CAH) (Dollars in Thousands)

Year Ended and Period December 31, 2020

	St. Joseph's Hospital & Clinic	Memorial Hospital of Boscobel	Tri-County Memorial Hospital, Inc.	Palmer Lutheran Health Center, Inc.	Moundview Memorial Hospital and Clinics	Saint Elizabeth's Hospital of Wabasha, Inc.*	Total
Net assets without donor restrictions:							
Revenue in excess of expenses	\$ 1,534	\$ 3,198	\$ 4,021	\$ 1,814	\$ 2,201	\$ 16,583	\$ 29,351
Net assets released from restrictions to purchase property and equipment	729	-	-	-	-	-	729
Other changes	(1)	-	-	-	24	1	24
Increase in net assets without donor restrictions	2,262	3,198	4,021	1,814	2,225	16,584	30,104
Net assets with donor restrictions:							
Contributions	-	-	28	-	-	-	28
Investment return	-	-	-	-	48	-	48
Net assets released from restriction	-	-	(10)	-	-	-	(10)
Other changes	(578)	181	-	63	(24)	-	(358)
(Decrease) increase in net assets with donor restrictions	(578)	181	18	63	24	-	(292)
Increase in net assets	1,684	3,379	4,039	1,877	2,249	16,584	29,812
Net assets at beginning of year	22,883	16,760	9,717	7,510	9,971	-	66,841
Net assets at end of year	\$ 24,567	\$ 20,139	\$ 13,756	\$ 9,387	\$ 12,220	\$ 16,584	\$ 96,653

\*Saint Elizabeth's Hospital of Wabasha, Inc. is for the period 9/1/2020-12/31/2020.

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*Consolidated Financial Statements  
for Years Ended December 31, 2018 and 2017*



CONSOLIDATED FINANCIAL STATEMENTS AND  
UNIFORM GUIDANCE REPORTS AND SCHEDULES

Gundersen Health System  
Years Ended December 31, 2018 and 2017  
With Reports of Independent Auditors

Ernst & Young LLP



# Gundersen Health System

## Consolidated Financial Statements and Uniform Guidance Reports and Schedules

Years Ended December 31, 2018 and 2017

### Contents

Report of Independent Auditors .....	1
Consolidated Financial Statements	
Consolidated Balance Sheets .....	3
Consolidated Statements of Operations .....	4
Consolidated Statements of Changes in Net Assets .....	5
Consolidated Statements of Cash Flows .....	6
Notes to Consolidated Financial Statements .....	7
Supplementary Information	
DHS Cost Reimbursement Award Schedule .....	44
Schedule of Expenditures of Federal and State of Wisconsin Awards .....	45
Notes to Schedule of Expenditures of Federal and State of Wisconsin Awards .....	48
Internal Control and Compliance Reports and Schedule	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	49
Report of Independent Auditors on Compliance for the Major Federal and State of Wisconsin Programs and Report on Internal Control Over Compliance Required by the Uniform Guidance and <i>State of Wisconsin Single Audit Guidelines</i> .....	51
Schedule of Findings and Questioned Costs .....	54



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## Report of Independent Auditors

The Board of Trustees and Board of Governors  
Gundersen Health System

We have audited the accompanying consolidated financial statements of Gundersen Health System, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, 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.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Tri-County Memorial Hospital, Inc.; St. Joseph's Health Services, Inc.; Memorial Hospital of Boscobel; Moundview Memorial Hospital and Clinics; and Palmer Lutheran Health Center, Inc., wholly controlled affiliates, which statements reflect total assets constituting 4.9% and 4.7% in 2018 and 2017, respectively, and total operating revenue constituting 8.7% and 8.1% in 2018 and 2017, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Tri-County Memorial Hospital, Inc.; St. Joseph's Health Services, Inc.; Memorial Hospital of Boscobel; Moundview Memorial Hospital and Clinics; and Palmer Lutheran Health Center, Inc., is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Tri-County Memorial Hospital, Inc.; St. Joseph's Health Services, Inc.; Memorial Hospital of Boscobel; Moundview Memorial Hospital and Clinics; and Palmer Lutheran Health Center, Inc., were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

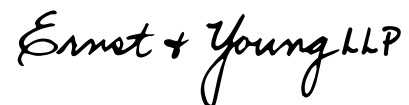
In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gundersen Health System at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying DHS Cost Reimbursement Award Schedule, as required by *State of Wisconsin Department of Health Services Audit Guide October 2018 Revision*, and Schedule of Expenditures of Federal and State of Wisconsin Awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and *State of Wisconsin Single Audit Guidelines*, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated April 30, 2019, on our consideration of Gundersen Health System's 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 purpose 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 Gundersen Health System's 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 Gundersen Health System's internal control over financial reporting and compliance.



April 30, 2019, except for the DHS cost reimbursement award schedule and the schedule of expenditures of federal and state of Wisconsin awards, for which the date is June 28, 2019

## Gundersen Health System

### Consolidated Balance Sheets (Dollars in Thousands)

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 189,797	\$ 237,088
Investments	624,409	647,288
Current portion of investments whose use is limited	7,170	7,352
Patient accounts receivable	177,843	176,533
Other current assets	103,809	53,568
Total current assets	1,103,028	1,121,829
Investments whose use is limited	37,840	39,598
Notes receivable, net of current portion	1,702	1,684
Property and equipment, net	589,952	585,799
Investment in unconsolidated entities	60,249	29,344
Other noncurrent assets	20,602	19,015
Total assets	\$ 1,813,373	\$ 1,797,269
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 28,338	\$ 24,657
Accrued payroll	62,435	61,752
Accrued liabilities	60,990	67,891
Current maturities of long-term debt and capital lease obligations	11,951	11,653
Other current liabilities	2,787	1,405
Total current liabilities	166,501	167,358
Long-term debt and capital lease obligations, net of current maturities	378,061	389,563
Obligation under swap contracts	20,834	25,971
Other noncurrent liabilities	20,018	17,571
Total liabilities	585,414	600,463
Net assets:		
Without donor restrictions	1,195,661	1,166,624
With donor restrictions	32,298	30,182
Total net assets	1,227,959	1,196,806
Total liabilities and net assets	\$ 1,813,373	\$ 1,797,269

*See accompanying notes.*

## Gundersen Health System

### Consolidated Statements of Operations (Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Operating revenue:		
Net patient revenue	\$ 906,368	\$ 858,767
Capitation revenue	366,198	306,493
Other revenue	30,478	31,822
Total operating revenue and gains	<b>1,303,044</b>	1,197,082
Operating expenses:		
Salaries, wages, and benefits	722,920	676,541
Supplies	189,624	162,282
Capitation services	109,241	88,976
Depreciation and amortization	63,094	62,431
Facilities	39,433	38,220
Purchased services	56,548	52,137
Interest	18,431	18,070
Other operating expenses	58,030	54,598
Total operating expenses	<b>1,257,321</b>	1,153,255
Operating income	<b>45,723</b>	43,827
Nonoperating gains (losses):		
Investment (losses) gains, net	(16,635)	69,660
Contribution from business combination	-	9,441
Unrealized gain on interest rate swap contracts	5,137	3,417
Loss from unconsolidated entities	(1,630)	(470)
Other nonoperating losses, net	(3,866)	(1,279)
	<b>(16,994)</b>	80,769
Revenue in excess of expenses	<b>\$ 28,729</b>	\$ 124,596

*See accompanying notes.*

## Gundersen Health System

### Consolidated Statements of Changes in Net Assets (Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
Net assets without donor restrictions:		
Revenue in excess of expenses	\$ 28,729	\$ 124,596
Net assets released from restrictions to purchase property and equipment	373	973
Other changes	(65)	209
Increase in net assets without donor restrictions	<b>29,037</b>	125,778
Net assets with donor restrictions:		
Contributions	6,502	5,222
Investment return	(1,326)	2,966
Net assets released from restriction	(4,090)	(5,842)
Contribution from business combination	-	571
Other changes	1,030	162
Increase in net assets with donor restrictions	<b>2,116</b>	3,079
Increase in net assets	<b>31,153</b>	128,857
Net assets at beginning of year	<b>1,196,806</b>	1,067,949
Net assets at end of year	<b>\$ 1,227,959</b>	\$ 1,196,806

*See accompanying notes.*

# Gundersen Health System

## Consolidated Statements of Cash Flows (Dollars in Thousands)

	<b>Year Ended December 31</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Increase in net assets	\$ 31,153	\$ 128,857
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	63,094	62,431
Unrealized gain on swap contracts	(5,137)	(3,417)
Unrealized losses (gains) on investments, net	47,750	(42,509)
Loss from unconsolidated entities	1,630	470
Contribution from business combination	-	(10,012)
Restricted contributions	(6,502)	(5,222)
Loss on sale of assets	4,134	619
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,129)	(7,935)
Other current assets	(50,421)	(5,337)
Accounts payable, accrued, and other current liabilities	(1,157)	(13,896)
Other noncurrent assets and liabilities	(177)	6,278
Net cash provided by operating activities	<b>83,238</b>	<b>110,327</b>
<b>Investing activities</b>		
Purchases of property and equipment, net	(71,381)	(62,090)
Purchases of investments, net	(22,932)	(24,101)
Investment in unconsolidated entities	(32,535)	(374)
Cash received upon acquisition of affiliate	-	4,655
Other	962	1,102
Net cash used in investing activities	<b>(125,886)</b>	<b>(80,808)</b>
<b>Financing activities</b>		
Principal payments on long-term debt and capital lease obligations	(11,145)	(10,417)
Restricted contributions	6,502	5,222
Net cash used in financing activities	<b>(4,643)</b>	<b>(5,195)</b>
Net (decrease) increase in cash and cash equivalents	(47,291)	24,324
Cash and cash equivalents at beginning of year	237,088	212,764
Cash and cash equivalents at end of year	<b>\$ 189,797</b>	<b>\$ 237,088</b>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid, net of capitalized interest	<b>\$ 18,185</b>	<b>\$ 17,910</b>
Capital assets acquired with capital lease obligation	<b>\$ 526</b>	<b>\$ 524</b>

*See accompanying notes.*



# Gundersen Health System

## Notes to Consolidated Financial Statements (Dollars in Thousands)

December 31, 2018

### 1. Organization and Basis of Presentation

Gundersen Lutheran Health System, Inc. (Gundersen), located in La Crosse, Wisconsin, is the parent of Gundersen Lutheran Health System (the System), an integrated health care system that provides comprehensive medical care to patients primarily in Wisconsin, as well as in Iowa and Minnesota, by operating hospitals, clinics, health plans, long-term care facilities, ambulance services, a foundation, and an energy-producing company, in addition to providing medical and health/wellness education and community outreach, and conducting medical education and clinically based research.

The System operates under the name Gundersen Health System and consists of Gundersen and its wholly controlled affiliates, which are as follows at December 31, 2018:

#### *Obligated Group*

- Gundersen Clinic, Ltd.
- Gundersen Lutheran Medical Center, Inc.
- Gundersen Lutheran Administrative Services, Inc.
- Gundersen Lutheran Medical Foundation, Inc.

#### *Non-Obligated Group*

##### *Critical Access Hospitals*

- Tri-County Memorial Hospital, Inc.
- St. Joseph's Health Services, Inc.
- Memorial Hospital of Boscobel
- Palmer Lutheran Health Center, Inc.
- Moundview Memorial Hospital and Clinics (effective October 1, 2017)

##### *Other Entities*

- Tweeten Lutheran Healthcare Center, Inc.
- Harmony Community Healthcare, Inc.
- Community Housing of La Crosse, Inc.
- Lutheran Housing of La Crosse, Inc.
- Tri-State Ambulance, Inc.
- Tri-State Regional Ambulance, Inc.
- Gundersen Lutheran Envision, LLC
- Gundersen Lutheran Credentialing Services, Inc.
- Gundersen Lutheran Health System, Inc.
- Degen Berglund, Inc.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **1. Organization and Basis of Presentation (continued)**

Gundersen Clinic, Ltd. (the Clinic); Gundersen Lutheran Medical Center, Inc. (the Hospital); Gundersen Lutheran Administrative Services, Inc. (GLAS); and Gundersen Lutheran Medical Foundation, Inc. are members of Gundersen Obligated Group, which holds most of the System's long-term debt (see Note 11).

As part of its overall strategy, the System has affiliated with a number of critical access hospitals (CAHs) that enable highly trained physicians to provide comprehensive inpatient, outpatient, and clinical care services to patients in their communities.

### **2. Summary of Significant Accounting Policies**

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time that the estimates were made, actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions, and short-term investments with original maturities of 90 days or less from the date of purchase. The System maintains cash and cash equivalents on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation and thereby expose the System to potential risk of loss in the event the financial institution becomes insolvent. No losses have been incurred to date, and management does not consider the credit risk to be significant to the System.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Patient Accounts Receivable**

The collection of receivables from third-party payors and patients is the System's primary source of cash for operations. The primary collection risks relate to uninsured patient accounts and patient deductibles and coinsurance on insurers' accounts. Patient receivables, including the portion for which a third-party payor is responsible, are carried at net realizable value, determined by the original charge for the service provided less an estimate made for contractual adjustments or discounts provided to third-party payors. Patient receivables due directly from patients are carried on the accompanying consolidated balance sheets at the original charge for the service provided less amounts covered by third-party payors, allowances for other discounts, and an allowance for price concessions. The System does not charge interest on past-due receivables. Receivables are written off after collection efforts have been followed in accordance with the System's policies.

Accounts receivable are reduced by an allowance for price concessions. In evaluating the collectability of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources to estimate the appropriate allowance. The analysis is performed using a hindsight calculation that utilizes write-off data for all payor classes during a determined time period to calculate the allowance for price concessions at a point in time. The System grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements.

At December 31, 2018 and 2017, amounts due from Medicare represented 15% and 23%, respectively, of the System's net patient accounts receivable.

#### **Investments and Investments Whose Use Is Limited**

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value on the consolidated balance sheets. Investments in equity and debt securities are classified as trading, and accordingly, all gains and losses are recorded as nonoperating investment return, to the extent not restricted by donor or law. The System accounts for investment transactions on a settlement-date basis.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Unrestricted investments are classified as current assets since they are available for operations. Certain investments are limited as to use under the terms of a bond indenture, state insurance regulations, unemployment fund agreements, collateral posted against swap valuations, and internally designated for medical education by the Board of Trustees and Board of Governors, who, at their discretion, can change these designations in the future.

Investments in companies that hold interests in real estate funds are recorded using the equity method of accounting, with the change in value of these investments recorded as investment return on the consolidated statements of operations and changes in net assets. The System generally has liquidity ranging from 95 to 125 days in these funds. The value of each real estate fund is determined by the investment manager or general partner of the respective fund.

Values of some of the underlying investments in the real estate funds may be based on estimates that require varying degrees of judgment, and consequently, these estimates may differ from the values at which investments may be sold. Values of the real estate funds are based on the fair value of the underlying real estate and reflect any net contributions to the investee and an ownership interest share of realized and unrealized investment income and expenses.

#### **Investments in Unconsolidated Entities**

Investments in entities in which the System has the ability to exercise significant influence over operating and financial policies, but does not have operational control, are recorded under the equity method of accounting, except for the investment in Recombinetics (see Note 5) that the System recorded under the fair-value method of accounting. These equity and fair-value method investments are recorded as investments in unconsolidated entities on the consolidated balance sheets.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 2. Summary of Significant Accounting Policies (continued)

##### **Inventories, Supplies, and Materials**

Inventories, supplies, and materials are valued at the lower of cost (first-in, first-out method) or market value and included in other current assets on the consolidated balance sheets.

##### **Property and Equipment**

Property and equipment are stated at cost, if purchased, or at fair value on the date received, if donated, less accumulated depreciation. During periods of construction, interest costs are capitalized to the respective property accounts.

Depreciation is computed by the straight-line method, including amortization of capital leased assets, over the following estimated useful lives:

Land improvements	5–15 years
Building	30–40 years
Building additions and improvements	10–25 years
Equipment and furniture	3–15 years

The System assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of an asset's carrying value unlikely. An impairment loss is indicated when the estimated total undiscounted future net cash flows is less than the carrying amounts. The loss recognized is the difference between the fair value and the carrying amount.

The System capitalizes expenditures for additions and improvements, while replacements, maintenance, and repairs that do not improve the useful lives of the assets are expensed as incurred. The System also capitalizes interest on the financing of major capital, including projects financed with tax-exempt borrowings.

##### **Software Costs**

Capitalized computer software costs include internally developed software. Costs incurred in developing and installing internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 2. Summary of Significant Accounting Policies (continued)

#### Derivative Financial Instruments

The System uses interest rate swap contracts as part of its risk management strategy to manage exposure to fluctuations in interest rates related to its variable rate debt. All derivative instruments are recorded at fair value on the consolidated balance sheets, with the changes in the fair values recorded in nonoperating gains (losses) on the consolidated statements of operations. The System uses pricing models that take into account the present value of estimated future cash flows and credit valuation adjustments.

#### Insurance

The provision for estimated self-insured professional liability, workers' compensation, and health care claims includes estimates of the ultimate costs for both reported and incurred but not reported claims. The accrual for self-insured professional liability, workers' compensation, and health care claims represents the estimated ultimate cost for both asserted and unasserted claims.

#### Debt Issuance Costs

Debt issuance costs are amortized over the period the related debt obligation is outstanding using the straight-line method, which approximates the effective interest rate method.

#### Donated Assets and Services

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When the terms of a donor restriction are met, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as net assets released from restriction. Donor contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

No amounts have been reflected in the consolidated financial statements for donated services. The System pays for most services requiring specific expertise; however, many individuals volunteer their time and perform a variety of tasks that assist the System with various programs.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Net Assets**

Resources are classified as without donor restrictions and with donor restrictions based on the absence or existence of donor-imposed restrictions.

Net assets without donor restrictions are those whose use by the System has not been limited by donors and are available for general operating use. These consist of net assets that are board-designated funds (endowments) and non-board-designated funds. These are made up of investments and other unrestricted amounts that are available for use in carrying out the mission of the System.

Net assets with donor restrictions are those assets whose use has been limited by donors to a specific purpose or time period, or those assets for which donors require the principal of the gift to be maintained in perpetuity in order to provide a permanent source of income. The primary purpose of these funds is for education, research, community and affiliate programs, and building and equipment.

#### **Net Patient Service Revenue**

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

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System 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 in the System's hospitals receiving inpatient acute care services or patients receiving services in the System's outpatient centers or in their homes (home care). The System measures the performance obligation from admission into the hospital, or the

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the System's patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the System does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (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.

The System has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The System 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 the System's policy, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.



# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### 2. Summary of Significant Accounting Policies (continued)

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicare.** Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- **Medicaid.** Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- **Other.** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2018.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System 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. For the years ended December 31, 2018 and 2017, changes in estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years was not material.

Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, co-pays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients. Patients who meet the System'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.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Capitation and Premium Revenue**

The Clinic and the Hospital provide health care services to enrollees of the health plans under a capitation arrangement, under which they are paid primarily on a capitated basis determined as a percentage of the member premium. Risk is transferred to the Clinic and Hospital under a provider reimbursement agreement. Capitation revenue is recognized in the year in which health care coverage is provided. Although the majority of services are provided to the health plans' enrollees by the Hospital and Clinic, certain services are provided by out-of-network providers on a contracted fee-for-service basis. A reserve is recorded for out-of-network care rendered but not reported as of each year-end.

#### **Charity and Uncompensated Care**

The System provides health care services to patients who meet certain criteria under their charity care policies without charge or at amounts less than established rates. The System maintains records to identify and monitor the level of community care provided. These records include the amount of costs incurred for services and supplies furnished under the charity care policy. Since the System does not pursue collection of these amounts, they are not reported as patient revenue.

#### **Reclassification of Prior Year Presentation**

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

#### **Performance Indicator**

The performance indicator is revenue in excess of expenses. Changes in net assets without donor restrictions, which are excluded from revenue in excess of expenses, consistent with industry practice, include net assets released from restrictions to purchase property and equipment.

#### **Income Tax**

The System qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code), with the exception of Gundersen Health Plan, Inc. and Gundersen Health Plan Minnesota, Inc., which are tax-exempt organizations under 501(c)(4) of the Code, and Degen Berglund, Inc. and Gundersen Lutheran Envision, LLC, which are for-profit entities.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

### 2. Summary of Significant Accounting Policies (continued)

At December 31, 2018 and 2017, net deferred tax assets of \$7,574 and \$5,036, respectively, which primarily are related to net operating loss carryforwards, have valuation allowances of \$6,300 and \$4,000, respectively, recorded against them due to the uncertainty of realizing those benefits in the future. At December 31, 2018, the System's federal net operating loss carryforwards were approximately \$30,291, and the state net operating loss carryforwards were approximately \$27,785, which will expire between 2027 and 2036.

The System has reviewed its tax positions for all open years and has concluded that no liabilities exist for uncertain tax positions. The System's income tax returns are no longer subject to examination for 2014 and prior years.

The Tax Cuts and Jobs Act (Act) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21%. For tax-exempt entities, the Act requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income, pay an excise tax on remuneration above certain thresholds that is paid to executives by the organization, and report income or loss from unrelated business activities on an activity-by-activity basis, among other provisions. Regulations necessary to implement certain aspects of the Act are expected to be promulgated by the Internal Revenue Services (IRS) in 2019. At December 31, 2018, the System made a reasonable estimate of the tax effects of the enactment of the Act. Certain regulatory guidance provides for a measurement period of up to one year during which the accounting for the tax effects of the Act may be completed. The System may record further adjustments in future periods upon obtaining, preparing, or analyzing additional information about facts and circumstances that existed as of the date of enactment that would have affected the income tax effects initially reported. The System will continue to revise and refine the calculations as additional IRS guidance is issued.

### Recent Adopted Accounting Standards

In August 2016, the FASB issued Accounting Standards Update No. (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments set forth the FASB's improvements to net asset clarification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The System adopted ASU 2016-14 in its consolidated financial statements effective December 31, 2018, applying it retrospectively to all periods presented. The impact of adoption changes the classification of net assets on the consolidated balance sheets and consolidated

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 2. Summary of Significant Accounting Policies (continued)

statements of operations and changes in net assets from three classes of net assets to two classes of net assets. The System also added disclosure for the liquidity and availability of financial assets at the balance sheet date to meet cash needs for general expenditures within one year and disaggregated functional expense classifications by their natural expense classifications. The impact of adopting ASU 2016-14 had no impact to total operating revenue and gains, revenues in excess of expenses, or total net assets.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The System adopted ASU 2014-09 on January 1, 2018, using the modified retrospective method of transition. The System performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for net patient service revenue, the System performed an analysis into the application of the portfolio approach as the practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for uncollectible accounts and presented as a reduction to net patient service revenue on the consolidated statements of operations and changes in net assets is treated as a price concession that reduces the transaction price, which is reported as net patient service revenue. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The impact of adopting ASU 2014-09 was not material to total operating revenue and gains, revenues in excess of expenses, or total net assets.

### Not Yet Adopted Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheets. ASU 2016-02 will require disclosures to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for the System beginning January 1, 2019 and will be applied using a modified retrospective approach. The System is currently in the process of evaluating its lease contracts as well as certain service contracts that may include embedded leases. Additionally, the System is finalizing its analysis of certain key assumptions that will be utilized at the transition date, including the incremental borrowing rate.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Summary of Significant Accounting Policies (continued)**

The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases, which will have a material impact on the consolidated balance sheet and significant incremental disclosures in the financial statement footnotes. The transition adjustment is not expected to have a material impact on the consolidated statement of operations.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 intends to clarify and improve current accounting guidance to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. ASU 2018-08 is effective for the System for annual reporting periods beginning after June 15, 2018, for contributions received and after December 15, 2018, for contributions made, and interim periods beginning after December 31, 2019, with early adoption permitted. The System is currently assessing the impact that ASU 2018-08 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 adds and clarifies guidance in the presentation of changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents on the statement of cash flows. ASU 2016-18 does not provide a definition of restricted cash and is effective January 1, 2019. The System is still evaluating the impact of this guidance on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 intends to improve the effectiveness of disclosures in the notes to the financial statements by modifying disclosure requirements for fair value measurements. ASU 2018-13 is effective for the System for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. The System is currently assessing the impact that ASU 2018-13 will have on its consolidated financial statements and will adopt the provisions upon the effective date.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 3. Available Resources and Liquidity

Financial assets available for general expenditure, such as operating expenses, and purchase of property and equipment, within one year of the balance sheet date, comprise the following at December 31:

	<u>2018</u>
Cash and cash equivalents	\$ 189,793
Short-term investments	624,409
Investments whose use is limited – current	7,170
Patient accounts receivable	177,843
Accrued interest receivable	11
Other receivables	63,725
Third-party reimbursement program receivables	3,868
	<u>\$ 1,066,819</u>

The System considers all cash and cash equivalents, short-term investments and unrestricted investments to be financial assets available and free from restriction to meet cash needs for operating activities of the System within one year of December 31, 2018. The System has long-term investments whose use is limited and cannot be liquidated within one year. These cash and cash equivalents are not reflected in the amounts above.

#### 4. Health Plans

During 2016, the System transferred its 100% ownership interest in the health plans to University Health Care, Inc. in exchange for a 25% ownership interest in each of the following health plans: Unity Health Plans Insurance Corporation (Unity) and SPWI TPA, Inc. (d/b/a Quartz), a third-party administrator.

Effective June 30, 2017, the ownership interest percentage in the health plans was changed from 25.00% to 20.53% due to the joining of Unity Point Health to the joint venture at which time the System invested an additional \$374 of paid-in capital to the joint venture. In May 2018, Gundersen invested an additional \$2,528 of paid-in capital to the joint venture to maintain its ownership interest percentage.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 4. Health Plans (continued)

Gundersen has recorded its equity interest in the joint venture, an investment of \$26,272 and \$22,624, as of December 31, 2018 and 2017, respectively. Nonoperating losses on its consolidated statements of operations for the years ended December 31, 2018 and 2017, were \$2,528 and \$334, respectively.

The following is a summary of the operating results and balance sheet information of the health plans, Unity and Quartz, as of and for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Total revenue	\$ 1,798,744	\$ 1,440,379
Net income (loss)	6,435	(13,433)
Total assets	175,279	140,990
Stockholder's equity	127,970	110,199

#### 5. Investment in Recombinetics

Effective August 20, 2018, the System became a lead investor in Recombinetics, a gene-editing firm, in exchange for shares of preferred Series A Stock, common stock, and warrants. As of December 31, 2018, the System has an undiluted ownership of 19.2%. The purpose of this transaction was to prepare for future medical advances, such as regenerative medicine, while maintaining the System as an industry leader in patient experience and care. The System has elected the fair-value option to account for the System's equity interest in Recombinetics.

#### 6. Patient Care Service Revenue

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



## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 6. Patient Care Service Revenue (continued)

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

	2018	2017
Medicare	\$ 308,960	\$ 281,201
Medicaid	70,079	62,733
Commercial insurers	499,497	458,304
Uninsured	19,432	15,981
Other	8,400	40,548
	\$ 906,368	\$ 858,767

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

The composition of patient care service revenue based the System's lines of business, method of reimbursement, and timing of revenue recognition for the years ended December 31 is as follows:

	2018	2017
Service lines:		
Hospital inpatient	\$ 236,795	\$ 246,161
Hospital outpatient	563,855	510,562
Retail sales	85,220	81,265
Residential care	12,230	12,444
Ambulatory	8,268	8,335
	\$ 906,368	\$ 858,767
Method of reimbursement:		
Fee for service	\$ 821,147	\$ 792,088
Other	85,221	66,679
	\$ 906,368	\$ 858,767
Timing of revenue and recognition:		
Services performed over time	\$ 791,539	\$ 748,334
At time services were rendered	114,829	110,433
	\$ 906,368	\$ 858,767

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 7. Charity Care

The cost of providing charity care, which has been estimated by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients, is estimated to be \$4,600 and \$5,000 for 2018 and 2017, respectively.

#### 8. Investments, Including Investments Whose Use Is Limited, and Investment Return

The composition of cash equivalents and investments at December 31 is as follows (in thousands):

	2018	2017
Cash equivalents	\$ 15,370	\$ 19,057
Certificates of deposit	35,978	34,227
Common stock	11,134	13,797
Foreign stock	–	29
Equity mutual funds	196,714	251,327
Equity mutual funds – foreign	63,357	44,063
Fixed-income securities:		
U.S. government and agencies obligations	75,544	64,984
Municipal bonds	1,089	1,064
Corporate bonds	152,605	151,600
Residential mortgage-backed securities	85,507	84,846
Fixed-income mutual funds	3,345	1,833
Alternative investments – real estate funds	28,776	27,411
Total investments	\$ 669,419	\$ 694,238

Gundersen Health System

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

**8. Investments, Including Investments Whose Use Is Limited, and Investment Return (continued)**

At December 31, certain investments are limited as to use for the following purposes:

	<u>2018</u>	<u>2017</u>
Restricted by donors	\$ 22,044	\$ 20,079
Minimum funding required by Wisconsin Office of the Commissioner of Insurance	11,125	10,707
Collateral posted against insurance claims	900	1,500
Minimum funding required by Wisconsin Unemployment Reserve Fund	4,147	4,083
Collateral posted against swap valuations (Note 12)	950	4,656
Principal and interest payments under a bond indenture	1,715	1,707
Board designated for medical education and capital improvements	3,958	3,961
HUD restricted reserves	160	243
Restricted for tenant deposits	11	14
	<u>\$ 45,010</u>	<u>\$ 46,950</u>

Investment return on investments, including those whose use is limited, consists of the following:

	<u>2018</u>	<u>2017</u>
Dividends and interest	\$ 22,264	\$ 18,090
Net realized gains	7,525	12,027
Net change in unrealized gains	(47,750)	42,509
	<u>\$ (17,961)</u>	<u>\$ 72,626</u>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 8. Investments, Including Investments Whose Use Is Limited, and Investment Return (continued)

Investment return is reported on the consolidated statements of operations and changes in net assets as follows:

	2018	2017
Nonoperating (losses) gains, net	\$ (16,635)	\$ 69,660
Net assets with donor restrictions	(1,326)	2,966
	\$ (17,961)	\$ 72,626

#### 9. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy in ASC Topic 820, *Fair Value Measurement*, are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.
- Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:
  - Quoted prices for similar assets and liabilities in active markets
  - Quoted prices for identical or similar assets or liabilities in markets that are not active
  - Observable inputs other than quoted prices that are used in the valuation of the asset or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 9. Fair Value Measurements (continued)

- Level 3 – Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management’s own assumption about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level of input that is significant to the fair value measure in its entirety.

The following table presents the financial instruments measured at fair value on a recurring basis at December 31, 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 14,035	\$ 1,335	\$ –	\$ 15,370
Certificates of deposit	–	35,978	–	35,978
Common stock	11,134	–	–	11,134
Equity mutual funds	196,714	–	–	196,714
Equity mutual funds – foreign	63,357	–	–	63,357
Fixed-income securities:				
U.S. government and agencies obligations	75,117	427	–	75,544
Municipal bonds	1,089	–	–	1,089
Corporate bonds	–	152,605	–	152,605
Fixed-income mutual funds	3,345	–	–	3,345
Residential mortgage-backed securities	–	85,507	–	85,507
Investments measured at fair value	<u>\$ 364,791</u>	<u>\$ 275,852</u>	<u>\$ –</u>	<u>\$ 640,643</u>
Investments recorded on an equity basis				<u>28,776</u>
Total investments, including investments whose use is limited				<u>\$ 669,419</u>
Investments in unconsolidated entities – fair value (see Note 5 for more detail)	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 30,007</u>	<u>\$ 30,007</u>
<b>Liabilities</b>				
Obligation under swap contracts	<u>\$ –</u>	<u>\$ 20,834</u>	<u>\$ –</u>	<u>\$ 20,834</u>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 9. Fair Value Measurements (continued)

The following table presents the financial instruments measured at fair value on a recurring basis at December 31, 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Cash equivalents	\$ 17,557	\$ 1,500	\$ —	\$ 19,057
Certificates of deposit	—	34,227	—	34,227
Common stock	13,797	—	—	13,797
Foreign stock	29	—	—	29
Equity mutual funds	251,327	—	—	251,327
Equity mutual funds – foreign	44,063	—	—	44,063
Fixed-income securities:				
U.S. government and agencies obligations	57,400	7,584	—	64,984
Municipal bonds	1,064	—	—	1,064
Corporate bonds	—	151,600	—	151,600
Fixed-income mutual funds	1,461	372	—	1,833
Residential mortgage-backed securities	—	84,846	—	84,846
Investments measured at fair value	<u>\$ 386,698</u>	<u>\$ 280,129</u>	<u>\$ —</u>	<u>\$ 666,827</u>
Investments recorded on an equity basis				<u>27,411</u>
Total investments, including investments whose use is limited				<u>\$ 694,238</u>
<b>Liabilities</b>				
Obligation under swap contracts	<u>\$ —</u>	<u>\$ 25,971</u>	<u>\$ —</u>	<u>\$ 25,971</u>

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses are reasonable estimates of fair value due to the short-term nature of these financial instruments. The carrying value of pledges (Level 2) approximates its fair value at December 31, 2018 and 2017.

Through the System's investments accounted for on an equity basis, the System is indirectly involved in investment activities, such as securities lending, short sales of securities, options, warrants, trading in futures and forward contracts, and other derivative products. Derivatives are used to maintain asset mix or adjust portfolio risk exposure. While these financial instruments may contain varying degrees of risk, the System's risk is limited to its capital balance in each investment.

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **9. Fair Value Measurements (continued)**

At December 31, 2018 and 2017, the fair value of fixed interest long-term debt (Level 2), based on quoted market prices for the same or similar instruments, was \$197,805 and \$197,610, respectively, compared with its carrying value of \$202,619 and \$212,947, respectively. Fair value of variable rate long-term debt (Level 2) approximated its carrying value.

The fair value for obligation under swap contracts is determined through the use of widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flow of each derivative. The analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, such as interest rate curves. In addition, credit value adjustments are included to reflect both the System's nonperformance risk and the respective counterparty's nonperformance risk.

The fair value of investments in unconsolidated entities where the fair value option was elected (Level 3) is primarily determined using techniques consistent with both the market and income approaches, based on the System's estimates and assumption in the absence of observable market data. The market approach considers comparable company, comparable transaction, and company-specific information, including, but not limited to, restrictions on disposition and the current financial position and operating results. The income approach considers the projected operating performance of the System. The System purchased its interest in August 2018, and there have been no realized or unrealized gains or losses recognized during the period ended December 31, 2018.

Gundersen Health System

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**10. Property and Equipment**

At December 31, property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 37,122	\$ 30,152
Buildings and building improvements	729,476	699,198
Equipment and furniture	348,727	326,654
Capitalized software	36,645	31,725
Capitalized leases	13,341	12,926
	<u>1,165,311</u>	<u>1,100,655</u>
Less accumulated depreciation and amortization	<u>607,489</u>	<u>553,764</u>
Property and equipment – net	557,822	546,891
Construction-in-progress	32,130	38,908
	<u>\$ 589,952</u>	<u>\$ 585,799</u>

Accumulated amortization of leased equipment was \$10,626 and \$9,162 at December 31, 2018 and 2017, respectively.



## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 11. Long-Term Debt and Capital Lease Obligations

At December 31, long-term debt consists of the following:

	<b>2018</b>		<b>2017</b>
<b>Obligated Group</b>			
Wisconsin Health and Educational Facilities Authority (WHEFA) Bonds:			
Series 2016 (Gundersen Lutheran), adjustable direct placement bonds, principal due starting in 2026 (average annual interest rate in 2018 of 2.44% and 2017 of 1.42%)	\$ 40,000	\$	40,000
Series 2015, interest fixed at 2.63% first 5 years then adjustable, maturing in varying amounts through 2026	8,500		9,590
Series 2012, fixed rate bonds (2.00% to 5.00%), maturing in varying amounts through 2044	69,010		69,185
Series 2011A, fixed rate bonds (1.00% to 5.25%), maturing in varying amounts through 2039	123,795		128,425
Series 2009A, adjustable direct placement bonds (average annual interest rate in 2018 of 2.24% and 2017 of 1.27%), maturing in varying amounts through 2033	41,305		42,550
Series 2009B, adjustable direct placement bonds (average annual interest rate in 2018 of 2.34% and 2017 of 1.34%), maturing in varying amounts through 2033	28,995		30,660
Series 2008B, adjustable direct placement bonds (average annual interest rate in 2018 of 2.15% and 2017 of 1.19%), maturing in varying amounts through 2033	61,400		61,400
	<b>373,005</b>		381,810
Non-obligated group	<b>14,812</b>		16,571
	<b>387,817</b>		398,381
Capital lease obligations	4,019		4,834
Unamortized premium	1,536		1,697
	<b>393,372</b>		404,912
Total long-term debt and capital lease obligations	<b>11,951</b>		11,653
Less current maturities	3,360		3,696
Less unamortized financing costs	-		-
	<b>\$ 378,061</b>	\$	389,563

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **11. Long-Term Debt and Capital Lease Obligations (continued)**

In September 2011, the System entered into a Restated Master Trust Indenture with a bank that established an Obligated Group (see Note 1). Each Obligated Group member is jointly and severally liable for the payment of all obligations issued under the Restated Master Trust Indenture, which are secured ratably by a pledge of the unrestricted receivables of the Obligated Group. The Restated Master Trust Indenture contains, among other things, provisions placing restrictions on additional debt, asset transfers, and liens and requires the maintenance of a debt service coverage ratio. Additional covenants, including liquidity and capitalization, are included in other loan agreements relating to the obligations.

In February 2016, WHEFA issued Series 2016 bonds in the amount of \$40,000 through a direct placement with a bank to refinance the Series 2011B bonds at a variable interest rate, which adjusts monthly as a percentage of the 30-day London Interbank Offered Rate (LIBOR). The bonds are subject to mandatory tender following an initial period, which ends in February 2026, at which time the outstanding principal plus accrued interest will become due.

In December 2015, WHEFA issued Series 2015 bonds on behalf of the Obligated Group in the aggregate amount of \$12,000, bearing interest fixed at an annual rate of 2.63% for the first five years. Interest will reset at a fixed rate for the remaining term of the bonds. The principal is payable through 2026. The proceeds have been used to finance new construction. These bonds are secured with a first mortgage on real estate.

In September 2012, WHEFA issued Series 2012 bonds on behalf of the Obligated Group in an aggregate par amount of \$70,000 that bear interest at fixed rates. The bonds are subject to optional, mandatory, extraordinary redemption, and purchase in lieu of redemption prior to maturity. The proceeds have been used to finance new construction.

In September 2011, WHEFA issued Series 2011A bonds on behalf of the Obligated Group. The Series 2011A bonds were issued in an aggregate par amount of \$162,430 and bear interest at fixed rates.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 11. Long-Term Debt and Capital Lease Obligations (continued)

In May 2009, WHEFA issued Series 2009A and Series 2009B bonds on behalf of GLAS in the aggregate amount of \$78,715. The proceeds of those bonds were used to refund the Series 2003B and Series 2003C bonds. In March 2011, the Obligated Group caused a tender of the Series 2009A and 2009B bonds, which were placed directly with a bank. In March 2015, the Series 2009A and Series 2009B bonds were extended to March 2, 2020 and March 2, 2021, respectively. In January 2019, the Series 2009A and 2009B bonds were refinanced and the maturity was extended to January 2, 2024 and January 2, 2025, respectively.

In May 2008, WHEFA issued Series 2008A and Series 2008B bonds on behalf of GLAS in the aggregate amount of \$89,300 bearing interest at a variable rate. In August 2010, the Obligated Group caused a tender of the Series 2008A and Series 2008B bonds, which were placed directly with a bank. Under the terms of the agreement with the bank, GLAS was required to purchase the Series 2008A bonds from the bank in August 2013. In September 2011, the Series 2008A bonds were refunded with proceeds of the Series 2011A bonds and Series 2011B bonds. In March 2015, the Series 2008B bonds were extended to March 1, 2019. In January 2019, the Series 2008B bonds were refinanced and the maturity was extended to January 2, 2023.

Total interest paid was \$18,292 and \$17,939 during the years ended December 31, 2018 and 2017, respectively. Capitalized interest cost was \$107 and \$29 during the years ended December 31, 2018 and 2017, respectively.

At December 31, 2018, the aggregate maturities and sinking fund requirements of the System's long-term debt, for each of the five subsequent years and thereafter, are as follows:

2019	\$	10,651
2020		11,135
2021		12,150
2022		12,047
2023		12,262
Thereafter		329,572
	\$	<u>387,817</u>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 11. Long-Term Debt and Capital Lease Obligations (continued)

At December 31, 2018, future commitments under capital leases are as follows:

2019	\$	1,453
2020		1,442
2021		1,086
2022		258
2023		67
Thereafter		—
		4,306
Amount representing interest		287
Present value of minimum lease payments		4,019
Current portion		1,300
Long-term portion	\$	2,719

#### 12. Derivative Financial Instruments

The System uses interest rate swap contracts as part of its risk management strategy to manage exposure to fluctuations in interest rates related to its variable rate debt. All derivative instruments are recorded at fair value as noncurrent liabilities on the consolidated balance sheets, and the decrease in fair value of \$5,137 and \$3,417 for 2018 and 2017, respectively, is recorded in nonoperating gains (losses) on the consolidated statements of operations. At December 31, the System's interest rate swap liability was as follows:

	2018		2017
Notional amount \$33,000, fixed annual rate 3.50%, variable interest equal to 67.00% of the one-month LIBOR	\$ 3,375	\$	4,262
Notional amount \$40,470, fixed annual rate 3.26%, variable interest equal to 67.00% of the one-month LIBOR	3,108		4,063
Notional amount \$44,750, fixed annual rate 3.28%, variable interest equal to 67.00% of the one-month LIBOR	5,280		6,530
Notional amount \$60,725 annual rate 3.79%, variable interest equal to 67.00% of the one-month LIBOR	9,071		11,116
	\$ 20,834	\$	25,971

# Gundersen Health System

## Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

### **12. Derivative Financial Instruments (continued)**

Collateral posted by the System was \$950 and \$4,656 at December 31, 2018 and 2017, respectively.

Derivative transactions contain credit risk in the event the parties are unable to meet the terms of the contract; credit risk is generally limited to the fair value due from counterparties on outstanding contracts. At December 31, 2018, the counterparties had a Standard & Poor's credit quality rating of AA-, which was upgraded from the BBB+ at December 31, 2017.

### **13. Retirement Plans**

The System maintains various plans, including a defined contribution plan, a 401(k) plan, and a 403(a) plan. The plans cover substantially all of the System's employees. Total retirement plan expense for 2018 and 2017 was \$59,584 and \$59,258, respectively. The System contributes matching funding on a monthly basis, with the remainder contributed annually. At December 31, 2018 and 2017, the liability for employer contributions of \$42,405 and \$44,114, respectively, is included in accrued liabilities on the consolidated balance sheets.

### **14. Insurance**

The System's facilities are either self-insured or have purchased claims-made insurance coverage for Wisconsin professional liability up to base limits of insurance coverage (\$1,000 per claim and \$3,000 annually at December 31, 2018 and 2017).

In addition, under the Wisconsin professional liability, self-insured limits are in place per physician/certified registered nurse anesthetist (CRNA) (\$1,000 per physician/CRNA per claim and \$3,000 annually per physician/CRNA at December 31, 2018 and 2017). The System has established a professional liability insurance plan and irrevocable trust as required by Wisconsin statutes. The funding requirements of the plan are established annually based on third-party actuarial calculations, as prescribed by the Commissioner of Insurance for the State of Wisconsin. All professional liability claims or judgments occurring in Wisconsin in excess of the base level of coverage are paid from the Injured Patients and Families Compensation Fund, which insures all claims incurred regardless of when the claim is filed. The Injured Patients and Families Compensation Fund has no upper limit on losses.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 14. Insurance (continued)

The System has purchased professional liability insurance on a claims-made basis to cover Iowa and Minnesota risks. In addition, the System has purchased umbrella and excess coverage to minimize exposure for all entities.

The System maintains self-insurance programs for health care costs of its active employees. In addition, the System is insured for workers' compensation exposures under an incurred loss retrospective rating plan.

The liability for professional and general liability, workers' compensation, and employee health insurance claims is based on actual claims to date and a projection of the estimated future liability for such claims and incurred-but-not-reported losses. At December 31, 2018 and 2017, the total recorded liability was \$20,744 and \$18,474, respectively, of which a current portion of \$6,927 and \$5,902, respectively, is included in accrued liabilities and the noncurrent portion of \$13,817 and \$12,572, respectively, is included in other noncurrent liabilities on the consolidated balance sheets. At December 31, 2018 and 2017, the estimated receivable related to insurance recoveries of \$480 and \$472, respectively, is included in other current assets on the consolidated balance sheets.

#### 15. Commitments and Contingencies

The System has leases for equipment and satellite office facilities that are classified as operating leases. Rental expense under these operating leases totaled \$10,557.

Future commitments under noncancelable operating leases with initial or remaining terms in excess of one year in effect as of December 31, 2018, for each of the five subsequent years and thereafter are as follows:

2019	\$	5,271
2020		3,774
2021		2,647
2022		2,003
2023		1,813
Thereafter		8,729
	\$	<u>24,237</u>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

#### **15. Commitments and Contingencies (continued)**

The System is a defendant in legal proceedings arising in the ordinary course of business. Although the outcome of these proceedings cannot be determined, management of the System considers it unlikely that the disposition of these proceedings will have a material adverse effect on the consolidated financial position or operations of the System. However, there can be no assurance that this will be the case.

The System has entered into an agreement with the city of La Crosse in conjunction with the city's establishment of Tax Incremental Financing District No. 14 (TIF 14). The agreement creates property tax incentives for taxable development on the La Crosse campus by the System and other developers. The benefit that the System derives from participation in TIF 14 depends on the size of future development over the next 18 years.

#### **16. Compliance With Laws and Regulations**

The health care industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretation and include matters such as licensure, accreditation, reimbursement for patient services, and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government health care programs. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by health care providers. These investigations may result in settlements involving fines and penalties as well as repayment of improper reimbursement. The System has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of instances of noncompliance.

While management believes that the System is in material compliance with fraud and abuse laws and regulations as well as other applicable government laws and regulations, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in reimbursement from the Medicare program, including a reduction of funding levels, could have a material adverse effect on the System.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 17. Net Assets

The System receives donations from individuals and organizations to support certain program and services. When specific purposes are needed for donations, the donations are included in the net assets with donor restriction and are released when the specific purpose is met.

Net assets with donor restrictions consisted of the following at December 31:

	<b>2018</b>	<b>2017</b>
Subject to expenditures for specific purpose:		
Education	\$ 920	\$ 1,236
Research	2,978	3,144
Community and affiliate programs	1,141	1,055
Building and equipment	3,523	3,024
Patient care	1,612	1,502
Split interest agreements	500	486
Subject to the passage of time:		
Time restrictions for future periods	93	98
Subject to organization spending policy and appropriation:		
Education	9,116	6,651
Research	6,239	6,204
Community and affiliate programs	2,726	2,817
Patient care	3,450	3,965
	\$ 32,298	\$ 30,182

Net assets without donor restrictions consisted of the following at December 31:

	<b>2018</b>	<b>2017</b>
Operating	\$ 1,170,597	\$ 1,136,238
Board-designated:		
Quasi-endowment funds	25,064	30,386
	\$ 1,195,661	\$ 1,166,624



## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### 17. Net Assets (continued)

As of December 31, 2018 and 2017, the System's endowments consist of \$46,595 and \$50,023, respectively, of individual donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The endowment net asset composition by type of fund consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Without donor restrictions:		
Board-designated endowment funds	\$ 25,064	\$ 30,386
With donor restrictions:		
Donor-restricted endowment funds	<u>21,531</u>	<u>19,637</u>
	<u>\$ 46,595</u>	<u>\$ 50,023</u>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 17. Net Assets (continued)

The changes in endowment net assets are as follows:

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
Balance at December 31, 2016	\$ 25,957	\$ 17,840	\$ 43,797
Unrealized gain	3,060	125	3,185
Investment return, net	1,172	543	1,715
Contributions	176	724	900
Transfer from non-endowment funds	759	405	1,164
Appropriations for expenditures	(738)	—	(738)
Balance at December 31, 2017	30,386	19,637	50,023
Unrealized loss	<b>(1,983)</b>	<b>(808)</b>	<b>(2,791)</b>
Investment return, net	<b>704</b>	<b>(43)</b>	<b>661</b>
Contributions	<b>22</b>	<b>725</b>	<b>747</b>
Transfers between endowment funds	<b>(2,024)</b>	<b>2,024</b>	—
Transfers from non-endowment funds	<b>154</b>	—	<b>154</b>
Appropriations for expenditures	<b>(2,195)</b>	<b>(4)</b>	<b>(2,199)</b>
Balance at December 31, 2018	<b>\$ 25,064</b>	<b>\$ 21,531</b>	<b>\$ 46,595</b>

The state of Wisconsin has enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which, together with other relevant state laws, guides the System's investment policies for restricted funds. UPMIFA requires the System to exercise ordinary and prudent care in good faith in its discretion to invest and appropriate some or all of the net appreciation or depreciation of investments. In the absence of a relevant law or donor stipulations, fiduciary responsibility to exercise ordinary care and prudence does not extend to donor stipulations to the earnings and losses on investments.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **18. Related-Party Transactions**

The Clinic and the Hospital have an agreement with the health plans to provide health care services to the health plans' insured enrollees. The Clinic and the Hospital are paid on a capitated basis. Reinsurance contracts exist for medical and hospital expenses in excess of \$700 per enrollee per contract year. Capitation revenue recorded by the Clinic and the Hospital earned under the agreement with the health plans totaled \$248,606 and \$208,163 for the years ended December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, amounts due to the health plans were \$0 and \$4,755, respectively, and are included in other current liabilities on the consolidated balance sheets. At December 31, 2018 and 2017, amounts due from the health plans were \$47,665 and \$3,800, respectively, and are included in other current assets on the consolidated balance sheets.

Under the terms of an administrative services agreement with Quartz, Gundersen provides certain general and administrative services necessary for Quartz's operations at amounts that are intended to approximate cost. The cost of these services to Quartz was \$4,655 and \$4,297 for the years ended December 31, 2018 and 2017, respectively. Amounts due from Quartz as of December 31, 2018 and 2017, related to the administrative services agreement were \$1,393 and \$1,617, respectively, and are included in other current assets on the consolidated balance sheets.

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 19. Functional Expenses

The System provides general health care services and medical education and research. The following table presents expenses related to providing these services for the years ended December 31:

	2018				
	Health Care Services	Medical Education and Research	General and Administration	Non-Health Care Services	Total
Salaries and Benefits	\$ 680,900	\$ 13,748	\$ 27,804	\$ 468	\$ 722,920
Supplies	185,491	821	3,078	234	189,624
Capitation services	109,241	-	-	-	109,241
Depreciation and amortization	53,122	166	8,276	1,530	63,094
Facilities	35,530	215	1,797	1,891	39,433
Purchased services	45,363	4,872	5,317	996	56,548
Interest	18,184	-	170	77	18,431
Other operating expenses	45,965	1,466	10,216	383	58,030
Totals	<u>\$ 1,173,796</u>	<u>\$ 21,288</u>	<u>\$ 56,658</u>	<u>\$ 5,579</u>	<u>\$ 1,257,321</u>
	2017				
	Health Care Services	Medical Education and Research	General and Administration	Non-Health Care Services	Total
Salaries and benefits	\$ 640,536	\$ 13,129	\$ 22,351	\$ 525	\$ 676,541
Supplies	159,563	813	1,842	64	162,282
Capitation services	88,976	-	-	-	88,976
Depreciation and amortization	52,831	171	7,980	1,449	62,431
Facilities	34,535	235	1,921	1,529	38,220
Purchased services	41,472	4,063	5,210	1,392	52,137
Interest	17,840	-	151	79	18,070
Other operating expenses	43,108	1,426	9,106	958	54,598
Totals	<u>\$ 1,078,861</u>	<u>\$ 19,837</u>	<u>\$ 48,561</u>	<u>\$ 5,996</u>	<u>\$ 1,153,255</u>

## Gundersen Health System

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **20. Subsequent Events**

The System has evaluated events and transactions that have occurred subsequent to December 31, 2018, through April 30, 2019, the date on which the accompanying consolidated financial statements were issued.

During this period, there were no subsequent events requiring recognition in the consolidated financial statements, and there were no non-recognized subsequent events requiring disclosure, except that on January 3, 2019, the System refinanced the WHEFA Bonds Series 2008B, 2009A, and 2009B for an additional four, five, and six years, respectively.

## Supplementary Information

Gundersen Health System

DHS Cost Reimbursement Award Schedule

Year Ended December 31, 2018

Gundersen Health System's settlement of State of Wisconsin Department of Health Services (DHS) cost reimbursement awards presented in the Schedule of Expenditures of Federal and State of Wisconsin Awards for the year ended December 31, 2018 are summarized below.

DHS identification number/CARS profile	93.994	435.128010	435.128011	435.128011	435.128011	146.64 RFA-GME-2017	RFA#G-211 OPIB-14	RFA#G-211 OPIB-14	146.615
Award identifying number	DHSP0000032865	36885	39831	36885	39831				
Award amount	\$ 79,900	\$ 8,062	\$ 8,062	\$ 1,776	\$ 1,776	\$ 89,384	\$ 75,000	\$ 75,000	\$ 50,000
Award period	1/1/18-3/31/18	7/1/17-6/30/18	7/1/18-6/30/19	7/1/18-6/30/19	7/1/18-6/30/19	7/1/18-6/30/19	7/1/18-6/30/19	7/1/18-6/30/19	7/1/18-6/30/19
Period of award within audit period	1/1/18-3/31/18	1/1/18-6/30/18	7/1/18-12/31/18	7/1/18-12/31/18	7/1/18-12/31/18	7/1/18-12/31/18	7/1/18-12/31/18	7/1/18-12/31/18	7/1/18-12/31/18
Expenditures reported to DHS for payment	79,900	1,926	4,623	179	262	89,384	27,361	46,777	28,274
Program expenses:									
Employee salaries and wages	57,151	1,557	3,591	-	-	62,247	20,954	32,292	21,121
Employee fringe benefits	3,833	124	267	-	-	22,264	5,194	11,926	6,333
Payroll taxes	16,616	245	765	-	-	4,873	1,213	2,559	820
Professional services	2,300	-	-	-	-	-	-	-	-
Supplies	-	-	-	179	262	-	-	-	-
Total operating costs of award	\$ 79,900	\$ 1,926	\$ 4,623	\$ 179	\$ 262	\$ 89,384	\$ 27,361	\$ 46,777	\$ 28,274
Total allowable costs	\$ 79,900	\$ 1,926	\$ 4,623	\$ 179	\$ 262	\$ 89,384	\$ 27,361	\$ 46,777	\$ 28,274

# Gundersen Health System

## Schedule of Expenditures of Federal and State of Wisconsin Awards

Year Ended December 31, 2018

<u>Federal Agency/Pass-Through Entity/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures of Federal Awards</u>	<u>Expenditures to Subrecipients</u>
Research and Development Cluster:				
United States Department of Defense:				
Military Medical Research and Development	12.420		\$ 392,346	\$ -
Total United States Department of Defense			392,346	-
United States Department of Health and Human Services:				
Marshfield Clinic Research Foundation:				
Cancer Treatment Research	93.395	42575	293,940	-
Cancer Treatment Research	93.395	42581	12,181	-
Cancer Treatment Research	93.395	425970	25,617	-
Cancer Treatment Research	93.395	425980	170,085	-
Mayo Clinic:			501,823	-
Cancer Treatment Research	93.395	GUN-194321/ PO#65555040	2,000	-
			503,823	-
Total Research and Development Cluster			896,169	-
United States Department of Health and Human Services (continued):				
Grants for Primary Care Training and Enhancement	93.884		246,932	31,592
Wisconsin Child Abuse and Neglect Prevention Board:				
Community-Based Child Abuse Prevention Grants	93.590	433001-G18-0001174- 000-03	14,929	-
Great Lakes Hemophilia Foundation:				
Blood Disorder Program: Prevention, Surveillance, and Research	93.080	6NU27DD001155- 03-00/ATHN2015001- VW-3-565	4,780	-
Blood Disorder Program: Prevention, Surveillance, and Research	93.080	6NU27DD001155- 04-02/ATHN2015001- VW-3-565	467	-
			5,247	-
Maternal and Child Health Federal Consolidated Programs	93.110	H30MC24052	17,058	-
Wisconsin Division of Public Health, Department of Health Services:				
Maternal and Child Health Services Block Grant to the States	93.994	DHSP0000032865	79,900	-
211 Wisconsin, Inc.:				
Opioid STR	93.788	435200-G-19-11607- 2013766692-990	37,841	-



# Gundersen Health System

## Schedule of Expenditures of Federal and State of Wisconsin Awards (continued)

<u>Federal Agency/Pass-Through Entity/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures of Federal Awards</u>	<u>Expenditures to Subrecipients</u>
United States Department of Health and Human Services (continued):				
Board of Regents of the University of Wisconsin System:				
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	803K106	\$ 12,000	\$ -
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	740K504	30,858	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	821K811	65,612	-
			<u>96,470</u>	<u>-</u>
Total United States Department of Health and Human Services			1,014,200	31,592
United States Department of Justice:				
Wisconsin Department of Justice:				
Crime Victim Assistance	16.575	2016-VO-01-12412	269,867	-
Crime Victim Assistance	16.575	2017-VO-01-13101	87,078	-
Minnesota Department of Public Safety:				
Crime Victim Assistance	16.575	A-CVS-2018-GHS- 00125	91,683	-
Total Crime Victim Assistance			<u>448,628</u>	<u>-</u>
Total United States Department of Justice			448,628	-
United States Department of Housing and Urban Development:				
Supportive Housing for the Elderly	14.157		851,461	-
Section 8 Project-Based Cluster/Section 8 Housing Assistance Payments Program	14.195		233,956	-
Total United States Department of Housing and Urban Development			1,085,417	-
United States Department of Agriculture:				
Wisconsin Department of Public Instruction:				
Child Nutrition Cluster/Summer Food Service Program for Children	10.559	2019-326837-SFSP- 586	12,767	-
Total United States Department of Agriculture			<u>12,767</u>	<u>-</u>
Total expenditures of federal awards			<u>\$ 2,953,358</u>	<u>\$ 31,592</u>

## Gundersen Health System

### Schedule of Expenditures of Federal and State of Wisconsin Awards (continued)

<u>State Grantor/Program Title</u>	<u>State of Wisconsin ID Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures of State of Wisconsin Awards</u>
Wisconsin Division of Public Health, Department of Health Services:			
Congenital Disorders/Newborn Screening Program	435.128010	36885	\$ 1,926
Congenital Disorders/Newborn Screening Program	435.128010	39831	4,623
			<u>6,549</u>
Congenital Disorders/Newborn Screening Program	435.128011	36885	179
Special Dietary Treatment Product	435.128011	39831	262
			<u>441</u>
New Graduate Medical Education Program	146.64 RFA- GME-2017	Not available	89,384
General Surgery Residency Program	RFA#G-211 OPIB-14	Not available	74,138
Advanced Practice Clinicians Training Grant	146.615	Not available	<u>28,274</u>
Total Wisconsin Division of Public Health, Department of Health Services			198,786
Wisconsin Department of Justice:			
Sexual Assault Victim Services Grant	455.505	2018-SV-01-12641	<u>27,862</u>
Total expenditures of state of Wisconsin awards			<u>\$ 226,648</u>

*See accompanying notes to schedule of expenditures of federal and state of Wisconsin awards.*

# Gundersen Health System

## Notes to Schedule of Expenditures of Federal and State of Wisconsin Awards

Year Ended December 31, 2018

### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal and state of Wisconsin awards (the Schedule) includes the federal and state of Wisconsin award activity of Gundersen Health System under programs of the federal government (federal awards) and the State of Wisconsin (state awards) for the year ended December 31, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State of Wisconsin Single Audit Guidelines*. Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the preparation of the basic consolidated financial statements. Since the Schedule presents only a selected portion of the activities of Gundersen Health System, it is not intended to and does not present the consolidated financial position, revenues and expenses, changes in net assets, or cash flows of Gundersen Health System.

### **2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Gundersen Health System did not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

### **3. Loan Balances**

Included in amounts shown on the Schedule are loans under CFDA 14.157. The Schedule reflects the outstanding balance of the loans at January 1, 2018. The outstanding balance of the remaining loans at December 31, 2018 is \$762,929.

# Internal Control and Compliance Reports and Schedule



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## Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees, the Board of Governors,  
Chief Executive Officer, and Chief Financial Officer  
Gundersen Health System

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Gundersen Health System, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 30, 2019. Our report makes reference to other auditors who audited the financial statements of Tri-County Memorial Hospital, Inc.; St. Joseph's Health Services, Inc.; Memorial Hospital of Boscobel; Moundview Memorial Hospital and Clinics; and Palmer Lutheran Health Center, Inc. as described in our report on Gundersen Health System's consolidated financial statements. The financial statements of Tri-County Memorial Hospital, Inc.; St. Joseph's Health Services, Inc.; Memorial Hospital of Boscobel; Moundview Memorial Hospital and Clinics; and Palmer Lutheran Health Center, Inc. were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Gundersen Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gundersen Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of Gundersen Health System's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Gundersen Health System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst + Young LLP*

April 30, 2019



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## Report of Independent Auditors on Compliance for the Major Federal and State of Wisconsin Programs and Report on Internal Control Over Compliance Required by the Uniform Guidance and *State of Wisconsin Single Audit Guidelines*

The Board of Trustees, the Board of Governors,  
Chief Executive Officer, and Chief Financial Officer  
Gundersen Health System

### **Report on Compliance for the Major Federal and State of Wisconsin Programs**

We have audited Gundersen Health System's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* and *State of Wisconsin Single Audit Guidelines* that could have a direct and material effect on Gundersen Health System's major federal and state of Wisconsin programs for the year ended December 31, 2018. Gundersen Health System's major federal and state of Wisconsin programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal and state of Wisconsin programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Gundersen Health System's major federal and state of Wisconsin programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and *State of Wisconsin Single Audit Guidelines*. Those standards and the Uniform Guidance and *State of Wisconsin Single Audit Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state of Wisconsin program occurred. An audit includes examining, on a test basis, evidence about Gundersen Health System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal and state of Wisconsin programs. However, our audit does not provide a legal determination of Gundersen Health System's compliance.

### ***Opinion on the Major Federal and State of Wisconsin Programs***

In our opinion, Gundersen Health System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal and state of Wisconsin programs for the year ended December 31, 2018.

### **Report on Internal Control Over Compliance**

Management of Gundersen Health System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Gundersen Health System's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal and state of Wisconsin programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal and state of Wisconsin programs and to test and report on internal control over compliance in accordance with the Uniform Guidance and *State of Wisconsin Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gundersen Health System's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state of Wisconsin program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state of Wisconsin program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state of Wisconsin program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.





The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and *State of Wisconsin Single Audit Guidelines*. Accordingly, this report is not suitable for any other purpose.

*Ernst + Young LLP*

June 28, 2019

Gundersen Health System

Schedule of Findings and Questioned Costs

Year Ended December 31, 2018

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?            Yes   X   No

Significant deficiency(ies) identified?            Yes   X   None reported

Noncompliance material to financial statements noted?

           Yes   X   No

**Federal Awards**

Internal control over major federal program:

Material weakness(es) identified?            Yes   X   No

Significant deficiency(ies) identified?            Yes   X   None reported

Type of auditor’s report issued on compliance for major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

           Yes   X   No

Gundersen Health System

Schedule of Findings and Questioned Costs (continued)

**Section I – Summary of Auditor’s Results (continued)**

Identification of major federal program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.157	Supportive Housing for the Elderly

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X  Yes   No

**State of Wisconsin Awards**

Internal control over major state program:

Material weakness(es) identified?

Yes  X  No

Significant deficiency(ies) identified?

Yes  X  None reported

Type of auditor’s report issued on compliance for state of Wisconsin major program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) and *State of Wisconsin Single Audit Guidelines*?

Yes  X  No

Identification of major state of Wisconsin program:

<u>State of Wisconsin ID Number</u>	<u>Name of State of Wisconsin Program</u>
146.64 RFA-GME-2017	New Graduate Medical Education Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$250,000

Auditee qualified as low-risk auditee?

X  Yes   No

Gundersen Health System

Schedule of Findings and Questioned Costs (continued)

**Section II – Financial Statement Findings**

None identified.

**Section III – Federal Award Findings and Questioned Costs**

None identified.

**Section IV – State of Wisconsin Award Findings and Questioned Costs**

None identified.

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