



**FROEDTERT HEALTH, INC. AND AFFILIATES**

Consolidated Financial Statements and Schedules

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

## FROEDTERT HEALTH, INC. AND AFFILIATES

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KPMG LLP  
Suite 1050  
833 East Michigan Street  
Milwaukee, WI 53202-5337

## Independent Auditors' Report

The Board of Directors  
Froedtert Health, Inc.:

We have audited the accompanying consolidated financial statements of Froedtert Health, Inc. and Affiliates (FH), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, 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 consolidated financial statements in accordance 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Network Health, Inc., FH's investment in which is accounted for by use of the equity method (see note 11 to the consolidated financial statements) for the year ended June 30, 2017 and 2016. The accompanying June 30, 2017 and 2016 consolidated financial statements of FH include its equity investment in Network Health, Inc. of \$80.3 million and \$92.7 million as of June 30, 2017 and 2016, respectively, and its equity losses, impairment, and purchase price adjustment in Network Health, Inc. of \$12.4 million and \$35.6 million for the years ended June 30, 2017 and 2016, respectively. The financial statements of Network Health, Inc. were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Network Health, 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Froedtert Health, Inc. and Affiliates as of June 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

## **Other Matter**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is 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 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 themselves or to the consolidated 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.

*KPMG LLP*

Milwaukee, Wisconsin  
September 22, 2017

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Consolidated Balance Sheets

June 30, 2017 and 2016

(In thousands)

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 135,830	62,747
Assets whose use is limited	7,130	6,139
Patient accounts receivable, net of estimated uncollectibles of approximately \$29,647 in 2017 and \$28,267 in 2016	252,549	230,086
Other receivables	16,578	14,716
Inventories	30,415	26,243
Collateral held for securities loaned	274,795	332,610
Prepays and other	17,697	16,207
Total current assets	734,994	688,748
Investments	1,451,312	1,348,294
Assets whose use is limited or restricted	210,446	122,718
Investments in unconsolidated affiliates	119,699	131,859
Property, plant, and equipment, net	1,092,830	946,298
Other assets, net	8,564	12,786
Total assets	\$ 3,617,845	3,250,703
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current installments of long-term debt	\$ 12,285	11,127
Accounts payable	67,516	74,299
Accrued expenses	211,251	173,888
Payable under securities lending agreement	274,795	332,768
Estimated settlements to third-party payors	12,832	15,125
Total current liabilities	578,679	607,207
Long-term debt, less current installments	794,713	668,120
Other long-term liabilities	115,846	153,084
Total liabilities	1,489,238	1,428,411
Net assets:		
Unrestricted	2,111,306	1,802,622
Noncontrolling interest in consolidated joint ventures	4,611	3,024
Total unrestricted	2,115,917	1,805,646
Temporarily restricted	12,322	16,278
Permanently restricted	368	368
Total net assets	2,128,607	1,822,292
Total liabilities and net assets	\$ 3,617,845	3,250,703

See accompanying notes to consolidated financial statements.

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Consolidated Statements of Operations

Years ended June 30, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Net patient service revenue:		
Net patient service revenue before provision for bad debts	\$ 2,153,486	2,002,000
Provision for bad debts	<u>50,029</u>	<u>19,922</u>
Net patient service revenue	2,103,457	1,982,078
Other operating revenue	<u>56,989</u>	<u>30,677</u>
Total revenue	<u>2,160,446</u>	<u>2,012,755</u>
Expenses:		
Salaries	781,213	703,748
Fringe benefits	191,649	173,130
Supplies	452,013	409,987
Contract services	109,617	110,712
Affiliate support	103,362	109,938
Depreciation and amortization	102,181	88,780
Interest	32,021	31,261
Other	<u>271,056</u>	<u>240,634</u>
Total expenses	<u>2,043,112</u>	<u>1,868,190</u>
Operating revenue in excess of expenses	<u>117,334</u>	<u>144,565</u>
Nonoperating gains (losses):		
Investment income	75,164	34,508
Change in net unrealized gains and losses on trading securities	91,965	(44,822)
Change in fair value of interest rate swaps	13,879	(13,535)
Loss on early extinguishment of debt	<u>(10,626)</u>	<u>—</u>
Total nonoperating gains (losses), net	<u>170,382</u>	<u>(23,849)</u>
Revenue and gains in excess of expenses and losses	287,716	120,716
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on other-than-trading securities	—	36
Contributions and net assets released from restrictions for property, plant, and equipment	6,717	948
Change in accrued pension benefits other than net periodic benefit costs	15,097	(20,704)
Other	<u>741</u>	<u>(67)</u>
Increase in unrestricted net assets	310,271	100,929
Unrestricted net assets at beginning of year	<u>1,805,646</u>	<u>1,704,717</u>
Unrestricted net assets at end of year	\$ <u>2,115,917</u>	\$ <u>1,805,646</u>

See accompanying notes to consolidated financial statements.

**FROEDTERT HEALTH, INC. AND AFFILIATES**  
Consolidated Statements of Changes in Net Assets  
Years ended June 30, 2017 and 2016  
(In thousands)

	<b>Unrestricted net assets</b>	<b>Temporarily restricted net assets</b>	<b>Permanently restricted net assets</b>	<b>Total</b>
Balance, June 30, 2015	\$ 1,704,717	14,687	368	1,719,772
Revenue and gains in excess of expenses and losses	120,716	—	—	120,716
Change in net unrealized gains and losses on investments	—	(237)	—	(237)
Change in net unrealized gains and losses on other-than-trading securities	36	—	—	36
Restricted contributions	—	3,044	—	3,044
Restricted investment return	—	205	—	205
Net assets released from restrictions for operations	—	(489)	—	(489)
Contributions and net assets released from restrictions for property, plant, and equipment	948	(948)	—	—
Change in accrued pension benefits other than net periodic benefit costs	(20,704)	—	—	(20,704)
Other	(67)	16	—	(51)
Change in net assets	<u>100,929</u>	<u>1,591</u>	<u>—</u>	<u>102,520</u>
Balance, June 30, 2016	<u>1,805,646</u>	<u>16,278</u>	<u>368</u>	<u>1,822,292</u>
Revenue and gains in excess of expenses and losses	287,716	—	—	287,716
Change in net unrealized gains and losses on investments	—	504	—	504
Restricted contributions	—	2,310	—	2,310
Restricted investment return	—	437	—	437
Net assets released from restrictions for operations	—	(607)	—	(607)
Contributions and net assets released from restrictions for property, plant, and equipment	6,717	(6,717)	—	—
Change in accrued pension benefits other than net periodic benefit costs	15,097	—	—	15,097
Other	741	117	—	858
Change in net assets	<u>310,271</u>	<u>(3,956)</u>	<u>—</u>	<u>306,315</u>
Balance, June 30, 2017	<u>\$ 2,115,917</u>	<u>12,322</u>	<u>368</u>	<u>2,128,607</u>

See accompanying notes to consolidated financial statements.

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 306,315	102,520
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	101,276	88,039
Provision for bad debts	50,029	19,922
Loss on disposal of property, plant, and equipment	265	337
Loss on impairment of assets	500	16,293
Loss on early extinguishment of debt	10,626	—
Income and distributions from equity interests in unconsolidated affiliates, net	11,810	16,524
Restricted contributions and investment return	(3,251)	(3,012)
Net assets released from restrictions for operations	607	489
Realized and unrealized gains and losses on unrestricted investments, net	(135,441)	40,687
Change in fair value of interest rate swap agreements	(13,879)	13,535
Change in accrued pension benefits other than net periodic benefit costs	(15,097)	20,704
Changes in assets and liabilities:		
Patient accounts receivable	(72,492)	(55,255)
Estimated settlements to third-party payors	(2,293)	(3,239)
Accounts payable and accrued expenses	25,946	11,174
Other receivables	(1,862)	(10,239)
Inventories	(4,172)	(2,773)
Other assets and liabilities	(5,709)	5,384
Net cash provided by operating activities	<u>253,178</u>	<u>261,090</u>
Cash flows from investing activities:		
Net additions to property, plant, and equipment	(216,359)	(195,976)
Proceeds from sales of property, plant, and equipment	959	8
Purchases of investments and assets whose use is limited or restricted	(845,694)	(827,391)
Proceeds from sales or maturities of investments and assets whose use is limited or restricted	789,240	700,324
Additional capital contributions in unconsolidated affiliates	(150)	(23,000)
Net cash used in investing activities	<u>(272,004)</u>	<u>(346,035)</u>
Cash flows from financing activities:		
Repayments of long-term debt	(261,178)	(10,229)
Payments for deferred financing costs	(2,227)	—
Proceeds from issuance of long-term debt	352,670	—
Restricted contributions and investment return	3,251	3,012
Net assets released from restrictions for operations	(607)	(489)
Net cash provided by (used in) financing activities	<u>91,909</u>	<u>(7,706)</u>
Net change in cash and cash equivalents	73,083	(92,651)
Cash and cash equivalents:		
Beginning of year	62,747	155,398
End of year	<u>\$ 135,830</u>	<u>62,747</u>
Noncash transactions:		
Assets acquired through capital lease obligations	\$ 28,500	23,254

See accompanying notes to consolidated financial statements.

## FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

### (1) Organization and Summary of Significant Accounting Policies

Froedtert Health, Inc. (FH) is a nonstock, not-for-profit corporation organized to support and carry out the missions of Froedtert Memorial Lutheran Hospital, Inc. (FMLH); Community Memorial Hospital of Menomonee Falls, Inc. (CMH); St. Joseph's Community Hospital of West Bend, Inc. (SJH); Froedtert & the Medical College of Wisconsin Community Physicians (CP); Progressive Physician Network, Inc. (PPN); Inception Health, LLC (Inception); QHS 1, Inc. (QHS 1); Exceedent, LLC (Exceedent); Wisconsin Diagnostic Laboratories, LLC (WDL), and Hart's Mills Insurance Company, SPC (Hart's Mills). FH is the sole shareholder of Hart's Mills, the sole member of Inception and the sole corporate member of FMLH, CMH, SJH, PPN, Exceedent, and QHS 1.

FMLH owns and operates an acute care hospital with 655 approved beds (of which 553 are currently staffed), clinics, and related operations in Wauwatosa, Wisconsin. FMLH is the sole corporate member of Froedtert Hospital Foundation, Inc. (Froedtert Foundation), which is a supporting organization of FMLH. The purpose of Froedtert Foundation is to raise money and to accept contributions for the purpose of developing philanthropic support for FMLH. Froedtert Foundation solicits, allocates, and dispenses funds exclusively for the maintenance, benefit, and support of FMLH programs, services, education, and capital improvements in accordance with priorities set by the Froedtert Foundation's board of directors and donor restrictions. Froedtert Surgery Center, LLC (FSC) is a Wisconsin limited liability company created as a joint venture among FMLH, the Medical College of Wisconsin (MCW), and Advanced Healthcare S.C. (Advanced) to provide ambulatory surgery services. FMLH has a 50% ownership in FSC.

CMH owns and operates an acute care hospital with 237 approved beds (of which 202 are currently staffed) in Menomonee Falls, Wisconsin. Community Memorial Foundation of Menomonee Falls, Inc. (Community Memorial Foundation) is a separate Wisconsin not-for-profit corporation whose primary purpose is to raise money and to accept contributions for the purpose of developing philanthropic support for CMH. Community Memorial Foundation solicits, allocates, and dispenses funds for the maintenance, benefit, and support of CMH programs, services, education, and capital improvements in accordance with priorities set by the Community Memorial Foundation's board of directors and donor restrictions. CMH is also the sole corporate member of Community Outpatient Health Services of Menomonee Falls, Inc. (COHS). COHS is a primary care clinic for the indigent.

SJH owns and operates an acute care hospital with 70 approved and staffed beds in West Bend, Wisconsin. SJH is the sole corporate member of St. Joseph's Community Foundation, Inc. (St. Joseph's Foundation), which is a supporting organization of SJH. The purpose of St. Joseph's Foundation is to raise money and to accept contributions for the purpose of developing philanthropic support for SJH and CP. St. Joseph's Foundation solicits, allocates, and dispenses funds for the maintenance, benefit, and support of SJH and CP programs, services, education, and capital improvements in accordance with priorities set by the St. Joseph's Foundation's board of directors and donor restrictions. SJH is also the sole member of West Bend Surgery Center, LLC (WBSC), an ambulatory surgery center in West Bend, Wisconsin.

CP is a joint clinical practice group between FH and MCW designed to provide clinical integration and coordinated patient care at community clinics located throughout the service area. FH and MCW are the corporate members of CP.

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

PPN is an independent practice association, which contracts with health plans and other third-party payors to arrange for the provision of healthcare services by its physician members. PPN serves to support a network of healthcare professionals engaged in developing reproducible clinical and administrative processes that clinically integrate such professionals in a manner, which improves patient health, enhances patient experiences, and reduces or controls the cost of healthcare in such professionals' shared communities.

Inception is a limited liability company organized to provide digital health services including electronic ICU monitoring, telestroke, and virtual clinic services.

Exceedent is a limited liability company organized to provide employers with solutions to their health care benefit administration.

QHS 1 is organized to hold and manage investments in healthcare related organizations.

FH wholly owns Hart's Mills, an offshore insurance captive insurance company.

Waukesha Surgery Center, LLC (WSC) is a Wisconsin limited liability company created as a joint venture between FH and Aspen Investors, LLC to provide ambulatory surgery services in Pewaukee, Wisconsin. FH has a 56% ownership in WSC.

FH has a 60% ownership interest in Froedtert Health Hometown Pharmacy, LLP (FHHP), which owns and operates a retail pharmacy selling prescriptions and over-the-counter medications and related products in West Bend, Wisconsin. In 2013, FH became 50% owner in both FHHP-Sussex (Sussex), LLC and FHHP-Kewaskum (Kewaskum), LLC, which own and operate retail pharmacies in Sussex and Kewaskum, Wisconsin, respectively. The Sussex partnership was subsequently dissolved in fiscal year 2016.

The accompanying consolidated financial statements include the accounts of FH, FMLH, Froedtert Foundation, FSC, CMH, Community Memorial Foundation, COHS, SJH, St. Joseph's Foundation, WBSC, CP, PPN, Inception, QHS 1, WDL, FHHP, Sussex, Kewaskum, Exceedent, Hart's Mills, and WSC. Drexel Town Square Surgery Center, LLC (Drexel) was formed during fiscal year 2017 and will become operational in fiscal year 2018.

At June 30, 2017, FH, FMLH, Froedtert Foundation, CMH, Community Memorial Foundation, SJH, and St. Joseph's Foundation are members of the obligated group (Obligated Group) for the purposes of the issuance of revenue bonds (note 6). The Obligated Group consisted only of these members and exclude all other FH affiliates. Total combined assets of the FH affiliates, which are not members of the Obligated Group, were \$180,074 at June 30, 2017. Total combined net assets of the same entities were \$90,767 at June 30, 2017 and total combined revenue and gains in excess of expenses and losses were \$(2,068) for the year ended June 30, 2017.

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The significant accounting policies of FH are as follows:

#### **(a) Principles of Consolidation**

The consolidated financial statements of FH have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. All significant intercompany accounts and transactions have been eliminated in consolidation.

#### **(b) Net Assets**

Net assets are classified as either permanently or temporarily restricted when the use of the assets is limited by outside parties or as unrestricted net assets when outside parties place no restrictions on the use of the assets or when the assets arise as a result of the operations of FH.

Unconditional promises to give cash and other assets to FH are reported at fair value at the date the promise is received. Pledges receivable to be collected after one year are discounted using a risk-free interest rate at the time the pledge is made. 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 either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as operating revenue in the consolidated statements of operations if restricted for operating purposes and as an increase to unrestricted net assets if restricted to purchase property, plant, and equipment. Gifts for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions that are met within the same reporting period, are reported as other operating revenue. FH's temporarily restricted net assets are restricted for future construction or specific operations of FMLH, CMH, and SJH. The permanently restricted net assets are endowment funds held by Froedtert Foundation and St. Joseph's Foundation, the principal of which may not be expended.

#### **(c) Assets Whose Use is Limited or Restricted**

Assets whose use is limited or restricted include assets set aside by management for executive compensation agreements, affiliate support, program development and physician recruitment, community health initiatives, assets held by trustees under debt agreements, assets held under swap collateral posting requirements, and assets whose use is restricted by donors. Assets whose use is limited are reported as unrestricted net assets. Assets whose use is restricted by donors are reported as temporarily restricted or permanently restricted net assets.

#### **(d) Revenue and Gains in Excess of Expenses and Losses**

The consolidated statements of operations include revenue and gains in excess of expenses and losses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue and expenses. Transactions incidental to the provision of healthcare services are reported as gains and losses. Changes in unrestricted net assets that are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include changes in net unrealized gains and losses on other-than-trading securities, contributions of property, plant, and equipment (including assets acquired using contributions that by donor restrictions

## FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

were to be used for the purpose of acquiring such assets), changes in accrued pension benefits other than net periodic benefit costs, and other.

### **(e) Net Patient Service Revenue**

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

### **(f) Investments and Investment Income**

Investments, including assets whose use is limited or restricted, with readily determinable fair values, are stated at fair value generally based upon quoted market prices. Money market accounts and fixed income securities with a maturity of three months or less are included in cash and cash equivalents within the consolidated balance sheets. Fixed income securities purchased with a maturity greater than three months but less than twelve months are included in investments on the consolidated balance sheets. Realized gains and losses and interest and dividends on funds held under debt agreements, to the extent not capitalized, are classified as other operating revenue within the consolidated statements of operations. Realized gains and losses, unrealized gains and losses on trading securities, and interest and dividends on long-term investments are classified as nonoperating gains and losses in the consolidated statements of operations. Unrealized gains and losses are included in revenue and gains in excess of expenses and losses as management considers all investments to be trading securities, other than investments held in certain project funds, which are considered other-than-trading securities.

FH invests in various investment securities including U.S. government securities, marketable equity securities, fixed income securities, money market funds, mutual funds, and certain alternative investments. Alternative investments are comprised of a commingled low volatility equity fund, a commingled U.S. real estate fund, and a commingled hedge fund of funds.

The low volatility equity fund is organized as a limited liability corporation (LLC) and invests primarily in marketable global equity securities with an investment objective to achieve a volatility level considerably less than the global equity market as defined by the MSCI World Index. Redemptions can be made on any business day with 30 calendar days' prior written notice.

The U.S. real estate fund is organized as a LLC and is a core return, fully specified, open-end commingled equity real estate fund diversified by property type and location designed to provide a stable, income driven rate of return over the long term with potential for growth of net investment income and appreciation of value. Redemptions can be made with written notice quarterly and are generally paid, if cash is available, shortly after the end of the next calendar quarter.

The hedge fund of funds is organized as a limited partnership with an investment objective to generate a superior absolute and risk adjusted rate of return, with low performance volatility and low correlation with global equity and fixed-income markets, over a full market cycle and to preserve capital during challenging market environments. The hedge fund of funds general partner seeks to achieve the investment objectives by allocating the assets to the discretionary investment authority of a diverse

## FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

group of third-party investment management firms that employ a wide range of alternative investment strategies in general categories, which include credit, relative value, multi-strategy, equity, event driven, macro, commodities, and portfolio hedging strategies. Redemptions can be made quarterly with 70 days' prior written notice, subject to certain liquidity restrictions.

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 investment securities, it is reasonably possible that changes in the values of FH's investments could occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Investments in joint ventures in which 20% to 50% interest is held are accounted for using the equity method of accounting. Investments in joint ventures with less than a 20% interest and for which FH does not exercise significant control are accounted for using the cost method. Investments in which greater than 50% interest is held are consolidated with the recording of a noncontrolling interest in consolidated joint venture within unrestricted net assets.

Investments accounted for under the equity method are recorded initially at cost and subsequently adjusted for FH's share of the net income or loss and cash contributions and distributions to or from these entities and are recorded within investments in unconsolidated affiliates within the consolidated balance sheets. FH's proportionate share of the net income or loss of these companies is included in other operating revenue in the consolidated statements of operations.

### **(g) Inventories**

Inventories are stated at cost, which is not in excess of market value.

### **(h) Property, Plant, and Equipment**

Property, plant, and equipment are recorded at cost. FH depreciates buildings, building improvements, land improvements, equipment, and software over the estimated useful lives of the assets (25 to 40, 15 to 20, 10 to 25, 5 to 10, and 3 to 10 years, respectively) using the straight-line method. Buildings and equipment under capital leases are recorded at the net present value of future minimum lease payments and are amortized using the straight-line method over the lease term.

Gifts of long-lived assets with explicit restrictions by donors that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

### **(i) Long-Lived Assets**

FH periodically assesses the recoverability of long-lived assets (including property, plant, and equipment) when indications of potential impairment, based on estimated, undiscounted future cash flows exist. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining whether there is an impairment of the asset. An impairment of \$500 was recorded in 2017 and is included in other operating revenue within the

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

consolidated statements of operations related to FH's investment in an unconsolidated affiliate. An impairment of \$16,293 was recorded in 2016 and is included in other operating revenue within the consolidated statements of operations related to FH's investment in Network Health, Inc., an unconsolidated affiliate (note 11). Other than these impairments, FH does not believe that there are any factors or circumstances indicating impairment of its long-lived assets for the years ended June 30, 2017 and 2016.

#### **(j) Costs of Borrowing**

Bond issuance costs are deferred and amortized over the shorter of the term of the related indebtedness or related liquidity facility and are included in long-term debt in the consolidated balance sheets. In the event any of the Variable Rate Demand Bonds are converted into Bank Bonds, the bond issuance costs associated with those bonds would be amortized over the relevant accelerated period. FH adopted Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*, in 2017 and applied changes retrospectively to 2016. The adoption of ASU No. 2015-03 resulted in the reclass of \$4,646 and \$4,156 of debt issuance costs from other assets to long-term debt as of June 30, 2017 and 2016, respectively.

Bond issue costs and the original issue premium or discount are deferred and amortized using the declining-balance method over the term of the debt. Expenses incurred on the issuance of variable rate debt are deferred and amortized using the straight-line method over the term of the underlying note for each issue.

Net interest costs, the associated premium or discount, and deferred financing costs incurred on borrowed funds during the period of construction are capitalized as a component of the cost of significant construction projects.

#### **(k) Cash and Cash Equivalents**

For purposes of the consolidated statements of cash flows, cash and cash equivalents include highly liquid investments purchased with a maturity at date of purchase of three months or less, excluding assets whose use is limited or restricted.

#### **(l) Income Taxes**

FH and its affiliates, except FSC, WBSC, PPN, WDL, FHHP, Sussex, Kewaskum, WSC, Inception, Exceedent, Drexel, and Hart's Mills, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. WBSC, Inception, Exceedent, and Drexel are limited liability companies and are treated as disregarded entities for income tax purposes. Income and losses are passed through to their members. FSC, WDL, WSC, FHHP, Sussex, and Kewaskum are limited liability companies and are treated as partnerships for income tax purposes. Income and losses are passed through to their members. PPN is a nonstock corporation and earnings are subject to income tax. Hart's Mills is treated as a controlled foreign corporation and not as a separate entity for tax purposes.

FH applies ASC Topic 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC Topic 740 prescribes a more-likely than-not

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recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under ASC Topic 740, tax positions are evaluated for recognition, derecognition, and measurement using consistent criteria and provide more information about the uncertainty in income tax assets and liabilities. As of June 30, 2017 and 2016, FH does not have an asset or liability recorded for unrecognized tax positions.

#### **(m) Derivative Instruments**

FH accounts for derivatives and hedging activities in accordance with ASC Topic 815, *Derivatives and Hedging*, which requires that all derivative instruments be recorded as either assets or liabilities in the consolidated balance sheet at their respective fair values.

For hedging relationships, FH formally documents the hedging relationship and its risk management objective and strategy for undertaking the hedge, the hedging instrument, the item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities in the consolidated balance sheet.

FH's interest rate swap agreements do not meet the criteria to qualify for hedge accounting treatment. FH continues to carry all of its derivatives at fair value and recognizes changes in their fair value as nonoperating gains and losses in the consolidated statements of operations.

#### **(n) Use of Estimates**

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

#### **(o) New Accounting Pronouncements**

In April 2015, the Financial Accounting Standards Board issued ASU No. 2015-03. ASU 2015-03 required that cost related to a recognized debt liability be presented as a direct reduction of the debt liability in the balance sheet similar to premiums and discounts. ASU 2015-03 is effective for nonpublic business entities for annual reporting periods beginning after December 15, 2015 with retrospective application and disclosure. FH adopted ASU No. 2015-03 in 2017 and applied changes retrospectively to 2016.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The requirements of this statement are effective for FH for the year ending June 30, 2019. FH expects to record a decrease in net patient service revenue

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and a corresponding decrease in the provision for uncollectible accounts upon adoption of the standard.

In November 2016, FASB issued ASU 2016-18, *Restricted Cash, a consensus of the FASB Emerging Issues Task Force*. ASU 2016-18 requires an entity to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents when reconciling beginning and ending balances on the statement of cash flows. ASU 2016-18 is effective for nonpublic business entities for annual reporting periods beginning after December 15, 2018, with retrospective application and disclosure. Early adoption of ASU 2016-18 is permitted. The requirements of this statement are effective for FH for the year ending June 30, 2020. FH has not evaluated the impact of this statement.

In August 2016, FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 represents phase 1 of FASB's Not-for-Profit financial reporting project and reduces the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information in liquidity, retains the option to present the cash flow statement on a direct or indirect method as well as includes various other additional disclosure requirements. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017 with retrospective application. Early adoption of ASU 2016-14 is permitted. The requirements of this statement are effective for FH for the year ending June 30, 2019. FH has not evaluated the impact of this statement.

In February 2016, FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires entities to recognize all leased assets as assets on the balance sheet with a corresponding liability resulting in a gross up of the balance sheet. Entities will also be required to present additional disclosures regarding the nature and extent of leasing activities. ASU 2016-02 is effective for nonpublic business entities for the annual reporting period beginning after December 31, 2018. The requirements of this statement are effective for FH for the year ending June 30, 2020. FH has not evaluated the impact of this statement.

#### **(p) Reclassifications**

Certain 2016 amounts have been reclassified to conform to the 2017 consolidated financial statement presentation. Deferred financing costs were reclassified from a separate line item in the consolidated financial statements to a net presentation with long-term debt, less current installments in 2016 in accordance with the adoption and retrospective application of ASU 2015-03 in note 1(o).

#### **(2) Fair Value Measurements**

FH applies the provisions of ASC Subtopic 820, which defines fair value 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 a measurement date. These provisions describe a fair value hierarchy that includes three levels of inputs to be used to measure fair value. The three levels are defined as follows as interpreted for use by FH:

- Level 1 – Inputs into fair value methodology are based on quoted market prices in active markets. Securities typically priced using level 1 inputs include listed equities and exchange-traded mutual funds.

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- Level 2 – Inputs into the fair value methodology are based on quoted prices for similar items, broker-dealer quotes, or models using market interest rates or yield curves. The inputs are generally seen as observable in active markets for similar items for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument. Securities typically priced using level 2 inputs include government bonds and other fixed income securities.
- Level 3 – Inputs into the fair value methodology are unobservable and significant to the fair value measurement.

FH follows the provisions of ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 amends ASC Topic 820, *Fair Value Measurement*, to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient.

The following methods and assumptions were used by FH in estimating the fair value of its financial instruments:

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, patient and other receivables, accounts payable, accrued expenses, and estimated settlements to third-party payors.
- Assets limited as to use, collateral held for securities loaned, and long-term investments: U.S. government securities, marketable equity securities, fixed income securities, money market funds, and mutual funds are measured using quoted market prices; other observable inputs such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets at the reporting date multiplied by the quantity held. The carrying value equals fair value.
- Alternative investments are reported at the NAV reported by the fund manager. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, FH has concluded, as a practical expedient, that the NAV approximates fair value.
- Interest rate swaps: The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and FH. The carrying value equals fair value.

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The following table represents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2017:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 135,830	135,830	—	—
Collateral held for securities loaned	274,795	—	274,795	—
Investments, excluding interest receivable of \$2,758:				
U.S. government securities	162,508	—	162,508	—
Marketable equity securities	701,781	701,781	—	—
Fixed income securities	179,558	—	179,558	—
Money market funds and mutual funds	172,513	172,513	—	—
Investments measured at NAV <sup>1</sup>				
Alternative investments:				
Low volatility equity fund	93,050	—	—	—
Real estate fund	114,326	—	—	—
Hedge fund of funds	24,818	—	—	—
Assets whose use is limited or restricted, excluding interest receivable of \$128 and pledges receivable of \$263:				
Cash and cash equivalents	6,792	6,792	—	—
U.S. government securities	8,757	—	8,757	—
Marketable equity securities	46,389	46,389	—	—
Fixed income securities	12,609	—	12,609	—
Money market funds and mutual funds	124,844	124,844	—	—
Investments measured at NAV <sup>1</sup>				
Alternative investments:				
Low volatility equity fund	5,013	—	—	—
Real estate fund	6,162	—	—	—
Hedge fund of funds	1,336	—	—	—
Swap collateral and other	5,283	—	5,007	276
Total assets	<u>\$ 2,076,364</u>	<u>1,188,149</u>	<u>643,234</u>	<u>276</u>
<b>Liabilities:</b>				
Payable under securities lending agreement	\$ 274,795	—	274,795	—
Interest rate swap agreements	28,340	—	28,340	—
Total liabilities	<u>\$ 303,135</u>	<u>—</u>	<u>303,135</u>	<u>—</u>

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The following table represents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2016:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 62,747	62,747	—	—
Collateral held for securities loaned	332,610	—	332,610	—
Investments, excluding interest receivable of \$2,884:				
U.S. government securities	207,111	—	207,111	—
Marketable equity securities	572,424	572,424	—	—
Fixed income securities	190,514	—	190,514	—
Money market funds and mutual funds	164,558	164,558	—	—
Investments measured at NAV <sup>1</sup>				
Alternative investments:				
Low volatility equity fund	86,384	—	—	—
Real estate fund	104,066	—	—	—
Hedge fund of funds	20,353	—	—	—
Assets whose use is limited or restricted, excluding interest receivable of \$156 and pledges receivable of \$515:				
Cash and cash equivalents	4,277	4,277	—	—
U.S. government securities	12,653	—	12,653	—
Marketable equity securities	40,653	40,653	—	—
Fixed income securities	14,223	—	14,223	—
Money market funds and mutual funds	24,467	24,467	—	—
Investments measured at NAV <sup>1</sup>				
Alternative investments:				
Low volatility equity fund	5,277	—	—	—
Real estate fund	6,357	—	—	—
Hedge fund of funds	1,242	—	—	—
Swap collateral and other	19,037	—	18,550	487
<b>Total assets</b>	<b>\$ 1,868,953</b>	<b>869,126</b>	<b>775,661</b>	<b>487</b>

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	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Liabilities:				
Payable under securities lending agreement	\$ 332,768	—	332,768	—
Interest rate swap agreements	42,219	—	42,219	—
Total liabilities	\$ 374,987	—	374,987	—

<sup>1</sup> Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

The following table is a rollforward of assets whose use is limited that were classified by FH within Level 3 of the fair value hierarchy as defined above:

	<u>2017</u>	<u>2016</u>
Fair value at beginning of year	\$ 487	889
Gains (losses) and investment income, net	21	(402)
Purchases, issuances, and write-offs, net	(232)	—
Fair value at end of year	\$ 276	487

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. FH evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the year ended June 30, 2017, there were no significant transfers in or out of Levels 1, 2, or 3.

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**(3) Investments and Assets Whose Use is Limited or Restricted**

Investments and assets whose use is limited or restricted are summarized as follows:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
At fair value:		
U.S. government securities	\$ 162,508	207,111
Marketable equity securities	701,781	572,424
Fixed income securities	179,558	190,514
Money market funds and mutual funds	172,513	164,558
Alternative investments:		
Low volatility equity fund	93,050	86,384
Real estate fund	114,326	104,066
Hedge fund of funds	24,818	20,353
Total investments at fair value	1,448,554	1,345,410
At cost:		
Interest receivable	2,758	2,884
Total investments	\$ 1,451,312	1,348,294
At fair value:		
Cash and cash equivalents	\$ 6,792	4,277
U.S. government securities	8,757	12,653
Marketable equity securities	46,389	40,653
Fixed income securities	12,609	14,223
Money market funds and mutual funds	124,844	24,467
Alternative investments:		
Low volatility equity fund	5,013	5,277
Real estate fund	6,162	6,357
Hedge fund of funds	1,336	1,242
Swap collateral and other	5,283	19,037
Total assets whose use is limited at fair value	217,185	128,186
At cost:		
Interest receivable	128	156
Pledges receivable	263	515
Total assets whose use is limited or restricted	\$ 217,576	128,857

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Assets whose use is limited or restricted are summarized as follows:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
Assets whose use is limited or restricted:		
Under debt agreements (note 6)	\$ 100,016	—
Swap collateral (note 7)	4,989	18,430
By management:		
For executive compensation agreements	27,173	23,182
For program development and physician recruitment	42,853	48,839
For community health initiatives	14,596	14,645
For other	10,820	6,177
By donors	12,690	16,646
Other	4,439	938
Total assets whose use is limited or restricted	<u>\$ 217,576</u>	<u>128,857</u>

Assets whose use is limited or restricted are classified as current assets to the extent they are available to meet current liabilities.

The composition of investment return on FH's cash and cash equivalents, investments, and assets whose use is limited or restricted is as follows:

	<b>Year ended June 30</b>	
	<b>2017</b>	<b>2016</b>
Interest and dividends on investments	\$ 32,893	31,435
Net realized gains and losses on sale of investments	43,476	4,099
Change in net unrealized gains and losses on investments	92,469	(45,023)
Total investment return	<u>\$ 168,838</u>	<u>(9,489)</u>

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Investment returns are included in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2017 and 2016:

	<b>Year ended June 30</b>	
	<b>2017</b>	<b>2016</b>
Other operating revenue:		
Interest and dividend income	\$ 740	691
Nonoperating gains and losses – investment income	75,164	34,508
Nonoperating gains and losses – change in unrealized gains and losses on investments	91,965	(44,822)
Other changes in unrestricted net assets – change in net unrealized gains and losses on investments	—	36
Other changes in temporarily restricted investments:		
Restricted investment income	437	205
Change in net unrealized gains and losses on investments	504	(237)
Interest earnings offset against capitalized interest cost	28	130
Total investment return	\$ 168,838	(9,489)

FH has a securities lending agreement with a financial institution whereby fixed income and equity securities are loaned to third parties in exchange for cash collateral that exceeds the market value of the securities loaned. Collateral is marked to market daily to reflect changes in fair value of the securities loaned. The fair market value of the securities loaned under this arrangement was \$268,662 and \$325,305 at June 30, 2017 and 2016, respectively. The fair market value of the collateral received under this arrangement was \$274,795 and \$332,610 at June 30, 2017 and 2016, respectively. The collateral held is comprised of cash and cash equivalents, U.S. government securities, and fixed income securities. Under the terms of the securities lending agreement, FH is not entitled to the unrealized gains on the invested collateral and as such has not recognized unrealized gains in the accompanying consolidated financial statements. The unrealized gains (losses) on the invested collateral as of June 30, 2017 and 2016 was \$157 and (\$158), respectively, and is included as nonoperating gains and losses on the consolidated statements of operations. The fair value of collateral was 102.3% of the fair value of securities loaned at June 30, 2017 and 2016.

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**(4) Property, Plant, and Equipment**

Property, plant, and equipment are summarized as follows:

	June 30	
	2017	2016
Land and land improvements	\$ 21,406	16,985
Leasehold improvements	198,186	155,894
Buildings	833,238	762,880
Fixed equipment	154,308	141,726
Movable equipment	621,094	563,740
Construction in progress	158,135	116,190
Total property, plant, and equipment	1,986,367	1,757,415
Less accumulated depreciation and amortization	893,537	811,117
Property, plant, and equipment, net	\$ 1,092,830	946,298

Construction in progress at June 30, 2017 primarily relates to a commitment for physician clinic buildings under capital lease and various facility renovation and software projects and equipment at the hospital and clinic campuses. Contractually committed costs for renovation and software projects totaled \$153,640 at June 30, 2017. During the year ended June 30, 2017, FH capitalized \$287 of net interest cost, which is comprised of \$315 of interest cost plus \$28 of investment gains on unexpended bond proceeds. During the year ended June 30, 2016, FH capitalized \$1,609 of net interest cost, which is comprised of \$1,739 of interest cost plus \$130 of investment gains on unexpended bond proceeds. Construction in progress of \$8,495 and \$3,861 was included in accounts payable in the accompanying consolidated balance sheets as of June 30, 2017 and 2016, respectively.

**(5) Land Lease Agreement**

In 1980, FMLH entered into a land lease agreement with Milwaukee County to lease the land on which the hospital resides. The lease terms are for FMLH to pay one dollar annually through 2030, and a mutually agreed-upon amount in years 2031 through 2079. If the parties cannot mutually agree upon an amount, the annual rent will be determined as fair market value of the leased land times 10%. In December 1995, FMLH purchased certain assets of John L. Doyne Hospital (Doyne). As part of the purchase, FMLH entered into an amendment to the original land lease agreement to include the land previously used by Doyne. The lease payments on the new land lease are calculated as one dollar plus 5.25% of FMLH's annual operating cash flow, as defined in the agreement, for each of the years through 2020 and one dollar annually in years 2021 to 2079. The lease agreements are accounted for as operating leases. Lease expense has been recognized in accordance with the terms of the lease agreements amounting to \$8,985 and \$8,123 for the years ended June 30, 2017 and 2016, respectively. Cumulative amounts recognized under the lease agreements since the leases' inception in 1995 are \$111,399 through June 30, 2017. Payments under the lease agreements are made in the year subsequent to the year in which they relate.

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**(6) Long-Term Debt**

Long-term debt is summarized as follows:

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
Revenue bonds, Series 2009C – annual principal payments range from \$3,035 to \$3,125, plus interest each year through 2019. Interest rate at 5.00% (effective rate of interest of 4.82% in 2017 and 5.12% in 2016, partially legally defeased April 20, 2017)	\$ 6,160	167,900
Revenue bonds, Series 2012A – due in sinking fund installments ranging from \$265 to \$35,965 plus interest each year through 2042, ranging from 4.00% to 5.00% (effective rate of interest of 4.60% in 2017 and 2016)	152,010	152,575
Revenue bonds, Series 2013A – annual principal payments range from \$2,665 to \$3,005 in 2023 with a balloon payment of \$62,765 in 2024. Interest rates variable based on market conditions (1.36% at June 30, 2017, effective rate of interest 3.91% in 2017 and 3.93% in 2016)	79,910	82,670
Revenue bonds, Series 2013B – (effective rate of interest 3.67% in 2017, refunded April 20, 2017)	—	82,670
Revenue bonds, Series 2015A – principal payments due in sinking fund installments ranging from \$31,820 to \$34,870 from 2043 to 2045. Interest rate is fixed at 4.686% (effective rate of interest of 4.72% in both 2017 and 2016)	100,000	100,000
Revenue bonds, Series 2017A – annual principal payments range from \$2,600 to \$22,490, plus interest each year through 2048, ranging from 3.00% to 5.00% (effective rate of interest 4.10% in 2017)	254,190	—
Revenue bonds, Series 2017B – principal payments due in sinking fund installments ranging from \$26,060 to \$27,280 from 2046 to 2048. Interest rate is variable based on market conditions (1.35% at June 30, 2017, effective rate of interest 3.84% in 2017)	80,000	—
Capital lease obligations	111,087	84,142
Other	364	461
<b>Total debt</b>	<b>783,721</b>	<b>670,418</b>

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	<u>June 30</u>	
	<u>2017</u>	<u>2016</u>
Less:		
Current installments of long-term debt	\$ 12,285	11,127
Unamortized bond premiums and debt issuance costs, net	<u>(23,277)</u>	<u>(8,829)</u>
Total long-term debt	<u>\$ 794,713</u>	<u>668,120</u>

In April 2017, Wisconsin Health and Educational Facilities Authority (WHEFA) issued \$254,190 of Series 2017A revenue bonds and \$80,000 of Series 2017B variable rate revenue bonds on behalf of the Obligated Group. The Series 2017B bonds were issued as a private placement with a national bank. The proceeds from the Series 2017A Bonds were used to legally defease a portion of the Series 2009C bonds, refund the Series 2013B bonds, and to finance certain Obligated Group projects. These transactions resulted in a loss on early extinguishment of debt of \$10,626, which is included in nonoperating gains and losses in the 2017 consolidated statement of operations.

On March 18, 2015, FH issued \$100,000 of Series 2015A fixed rate taxable revenue bonds on behalf of the Obligated Group. The proceeds of the Series 2015A bonds were used by FH and certain of its affiliates for general corporate purposes. The 2015A bonds mature April 1, 2045.

On December 11, 2013, WHEFA issued \$90,048 of Series 2013A and \$90,048 of Series 2013B variable rate revenue bonds on behalf of the Obligated Group. The Series 2013A and 2013B bonds were issued as private placements each with a respective national bank. The proceeds from the Series 2013A and Series 2013B bonds were used to refund the Series 2009A and 2009B bonds. The 2013A private placement matures in 2024. The 2013B bonds were refunded with the 2017A bonds.

On October 11, 2012, WHEFA issued \$155,100 of Series 2012A revenue bonds on behalf of the Obligated Group. The proceeds from the Series 2012A bonds were used to legally defease the Series 2003 Bonds, refund the Series 2001 Bonds, and to finance certain Obligated Group projects.

On October 22, 2009, WHEFA issued \$187,390 of Series 2009C revenue bonds on behalf of the Obligated Group. The proceeds from the Series 2009C bonds were used to refund the Series 2005 and 2005D bonds and to finance certain of the Obligated Group projects. \$158,765 of the 2009C bonds were legally defeased with the Series 2017A bonds.

Pursuant to the terms of the bond trust indentures, each Obligated Group member is jointly and severally liable for the guaranty of principal and interest on the revenue bonds issued by WHEFA and by FH (2015A) on behalf of the Obligated Group. The Master Trust Indenture related to the Series 2009C, 2012A, 2013A, 2015A, 2017A, and 2017B bonds and the continuing covenant agreements related to the 2013A and 2017B bonds also place limits on the incurrence of additional borrowings and requires that the Obligated Group satisfy certain measures of financial performance as long as the bonds are outstanding.

Cash payments for interest, net of amounts capitalized, and monthly swap settlements were \$32,585 and \$26,517 for the years ended June 30, 2017 and 2016, respectively.

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Scheduled principal maturities on long-term debt and capital lease obligations for each of the next five years and thereafter are as follows:

2018	\$	12,285
2019		12,961
2020		13,654
2021		14,443
2022		15,303
Thereafter		<u>715,075</u>
	\$	<u><u>783,721</u></u>

FH has entered into capital leases for certain medical office space through the year 2032. The capital lease obligations were \$111,087 and \$84,142 at June 30, 2017 and 2016, respectively.

Future minimum lease payments under capital leases at June 30, 2017 are as follows:

2018	\$	9,483
2019		10,847
2020		11,064
2021		11,285
2022		11,527
Thereafter		<u>124,933</u>
Total minimum lease payments		179,139
Less amounts representing interest ranging from 3.37% to 11.03%		<u>68,052</u>
Present value of net minimum lease payments	\$	<u><u>111,087</u></u>

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(Dollars in thousands)

### **(7) Derivative Instruments and Hedging Activities**

The derivative instruments used by FH are interest rate swap agreements that are used to convert variable rate interest on the long-term debt to fixed rate interest. The variable interest rate on the debt generally exposes FH to variability in cash flow in rising or declining interest rate environments. In converting variable rate interest to a fixed rate, the interest rate swap effectively reduces the variability of the cash flow of the debt.

#### **(a) Objectives and Strategies**

FH, at times, uses variable rate debt to finance its operations. The debt obligations expose FH to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, management entered into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk.

By using derivative financial instruments to hedge exposures to changes in interest rates, FH exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes FH, which creates credit risk for FH. When the fair value of a derivative contract is negative, FH owes the counterparty, and therefore, it does not pose credit risk. FH minimizes the credit risk in derivative instruments by entering into transactions with high quality counterparties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

#### **(b) Risk Management Policies**

FH assesses market risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. FH maintains risk management control systems to monitor market risk attributable to both the outstanding or forecasted debt obligations, as well as the offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on future cash flows.

FH does not use derivative instruments for speculative investment purposes.

#### **(c) Transactions**

Consistent with the objectives set forth above, the Obligated Group's interest rate swap agreements are matched to its Series 2009A and Series 2009B bonds, which were refunded by the Series 2013A and Series 2013B revenue bonds. Under the terms of the interest rate swap agreements, the Obligated Group pays a fixed rate on the bonds and receives a variable rate of interest equal to the three-month LIBOR index, reset weekly.

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The fair value of the interest rate swaps of \$28,340 and \$42,219 is included in other long-term liabilities in the consolidated balance sheets at June 30, 2017 and 2016, respectively. The change in fair value of the interest rate swaps of \$13,879 and \$(13,535) is included in nonoperating gains and losses in the consolidated statements of operations for the years ended June 30, 2017 and 2016, respectively.

The interest rate swap agreements for the Obligated Group at June 30, 2017 consist of the following:

Type	Original notional amount	Maturity date	Fixed pay rate	Variable pay rates at June 30	
				2017	2016
2009A bonds*	\$ 94,050	April 1, 2035	3.366 %	1.249 %	0.659 %
2009B bonds*	94,050	April 1, 2035	3.366	1.249	0.659

\* The Series 2009A and Series 2009B bonds were refunded by the Series 2013A and Series 2013B revenue bonds, as noted above. The Series 2013B revenue bonds were subsequently refunded by the Series 2017A bonds.

Cash paid for monthly settlement under the interest rate swap agreements was \$4,444 and \$5,129 and is included within interest expense in the consolidated statements of operations. No cash was received under the interest rate swap agreements during the years ended June 30, 2017 and 2016. FH posted collateral as required under the interest rate swap agreements of \$4,989 and \$18,430 as of June 30, 2017 and 2016, respectively.

**(8) Net Patient Service Revenue**

A summary of the basis of reimbursement with major third-party payors is as follows:

Medicare – Inpatient acute care, most outpatient, and defined capital costs for services rendered to Medicare beneficiaries are paid at prospectively determined rates per case. These rates vary according to a payment classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, medical education, and certain organ acquisition costs related to Medicare beneficiaries are paid based upon cost reimbursement methods, established fee screens, or a combination thereof. FMLH, CMH, and SJH are reimbursed for cost reimbursement items at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The FMLH cost reports have been audited by the Medicare fiscal intermediary through June 30, 2013. The CMH cost reports have been audited by the Medicare fiscal intermediary through June 30, 2015. The SJH cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011, in addition to the June 30, 2013 and June 30, 2014 period.

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed primarily based upon prospectively determined rates.

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Wisconsin's Economic Recovery Act includes a tax assessment on hospital and ambulatory surgery center revenues. Funds collected under the tax are used to increase federal funding for the Wisconsin Medicaid program. FH recognized \$50,738 and \$49,666 of increased Medicaid reimbursement and \$40,311 and \$37,540 of tax expense as a result of the law for the years ended June 30, 2017 and 2016, respectively. The Medicaid reimbursement and tax assessment expense are recorded in net patient service revenue and other expense, respectively, in the 2017 and 2016 consolidated statements of operations.

There are various other proposals at the federal and state levels that could, among other things, reduce reimbursement rates, modify reimbursement methods, or increase managed care penetration, including Medicare and Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

The percentage of net patient service revenue applicable to services provided to Medicare and Medicaid patients was 37% and 36%, respectively, for the years ended June 30, 2017 and 2016. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. FH believes it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations may be subject to future government review and interpretation. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from the Medicare and Medicaid programs.

FH has received notices from the Medicare program requiring that they provide Medicare with documentation for claims to carry out the Recovery Audit Contract (RAC) program. FH is responding to these requests. Review of claims through the RAC program may result in a liability to the Medicare program and could have an adverse impact on FH's net patient service revenue.

FH, FMLH, CMH, SJH, and CP also have entered into reimbursement agreements with certain commercial insurance carriers and managed care organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

For the years ended June 30, 2017 and 2016, the consolidated statements of operations include a decrease of \$3,089 and an increase of \$4,176, respectively, in net patient service revenue for changes in prior year estimates related to third-party contractual allowances and retroactive settlements with third-party payors.

The Medical Electronic Health Record (EHR) Incentive Program (the Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. FH accounts for the Program using International Accounting Standards 20 (IAS20), *Accounting for Government Grants and Disclosures of Government Assistance*. FH applies the "ratable recognition" approach, which states that the grant income can be recognized ratably over the entire "EHR" reporting period once the "reasonable assurance" income recognition threshold of IAS20 is met. For the years ended June 30, 2017 and 2016, FH recognized \$2,369

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and \$3,726, respectively, as other revenue related to Medicare and Medicaid EHR incentives, which have been received or are expected to be received based on certifications prepared by management under the appropriate guidelines for modified stage 2 attestation at CMH FMLH, and SJH.

Patients' accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients' accounts receivable, FH analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, FH analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), FH records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Write-offs associated with self-pay patients were \$46,621 in 2017 and \$29,033 in 2016. FH has made no significant changes to its uninsured discount and charity care policies in fiscal year 2017.

FH recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, FH recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of FH's uninsured patients will be unable or unwilling to pay for the services provided. Thus, FH records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (before the provision for bad debts), is recognized in the period from these major payor sources, as follows:

	<b>2017</b>	<b>2016</b>
Medicare	\$ 613,756	551,394
Medicaid	186,043	168,346
Managed care/contracted payor	1,115,607	1,082,030
Self-pay	43,092	14,921
Other	194,988	185,309
Net patient service revenue before provision for bad debts	\$ 2,153,486	2,002,000

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**(9) Concentration of Credit Risk**

FH grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of accounts receivable from patients and third-party payors as of June 30, 2017 and 2016 is as follows:

	June 30	
	2017	2016
Medicare	26 %	24 %
Medicaid	9	8
Managed care/contracted payor	43	45
Self-pay	17	16
Other	5	7
	100 %	100 %

**(10) Charity Care**

FH provides uncompensated care based on the cost of providing care to patients, in accordance with established policies. FH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because FH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. FH applies the provisions of ASU 2010-23, *Measuring Charity Care for Disclosure*, which requires that cost be used as the measurement basis for charity care disclosure purposes and that cost can be identified as direct and indirect costs of providing charity care. The amount of cost incurred for services and supplies furnished under FH's charity care policy was \$11,097 and \$9,088 for the years ended June 30, 2017 and 2016, respectively.

**(11) Related Organizations and Other Significant Transactions**

**(a) The Medical College of Wisconsin, Inc. (MCW)**

FH and MCW continue to pursue opportunities to enhance operational and clinical integration that provides coordinated patient care in the communities served. This led to the creation of CP, a joint clinical practice group to serve patients at community clinics in the service area. It also led to a Mission Related Funds Flow Agreement (Funds Flow Agreement) that summarizes the economic relationship that supports the joint missions of both organizations.

*(i) Froedtert & the Medical College of Wisconsin Community Physicians (CP)*

FH is the controlling member of CP, a physician organization formed by the combination of MCW physicians and FH physicians. CP is not a member of the Obligated Group. The financial position and results of operations of CP are included in these financial statements as of and for the years ended June 30, 2017 and 2016.

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### (ii) *Funds Flow Agreement*

FH and MCW have a Funds Flow Agreement that provides a formalized structure of the economic relationships that support the joint missions of both organizations. The Funds Flow Agreement provides for payment of Fixed Contracted Services Payments for professional services agreements, medical directorships, graduate medical education support, nonclinical support, and other services.

The Funds Flow Agreement also provides for a Variable Performance Payment that is based on the operating income of FH. The Variable Performance Payment provides funding for the shared academic mission and additional venues in support of education, research, and community engagement.

Affiliate support relating to the Funds Flow Agreement made to MCW amounted to \$91,588 and \$98,244 for the years ended June 30, 2017 and 2016, respectively. Amounts accrued relating to the Variable Performance Payment were \$4,285 and \$5,201 in accounts payable on the consolidated balance sheets at June 30, 2017 and June 30, 2016, respectively. Also accrued under the Funds Flow Agreement was \$38,567 and \$43,638, which is included in other long-term liabilities on the consolidated balance sheets at June 30, 2017 and 2016, respectively.

### (b) *Unconsolidated Affiliates*

#### (i) *Network Health, Inc.*

In November 2014, FH completed a transaction to acquire a 50% ownership interest in Network Health, Inc. (NHI), a 130,000 member (including self-insured members) Wisconsin-based health insurance company, which markets insurance products and related services to employers and individuals in eastern Wisconsin. NHI is the sole corporate member of Network Health Plan (NHP), which engages in the business of health insurance to groups and individuals and Network Health Insurance Corporation (NHIC), which provides health insurance to groups, individuals, and Medicare beneficiaries. NHI had previously been solely owned by Ministry Health Care (doing business as Ascension Wisconsin), an unrelated entity. The investment was funded with unrestricted cash and investments, and is accounted for by FH under the equity method.

The carrying amount of the investment in NHI was \$80,336 and \$92,700 at June 30, 2017 and 2016, respectively. The excess of the carrying amount over FH's share of the equity of NHI was \$3,372 at both June 30, 2017 and 2016, and has been allocated, within the investment in unconsolidated affiliates account, to goodwill. During 2016, FH management determined that its investment in NHI was impaired due to recurring losses. As such, an impairment charge of \$16,293 was taken against goodwill and is included in other operating revenue in the consolidated statements of operations for the year ended June 30, 2016.

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FH recorded a loss in the consolidated statements of operations related to its investment in NHI of \$12,365 and \$35,582 for the years ended June 30, 2017 and 2016, respectively. The 2017 loss is comprised of \$14,365 of FH's 50% share of NHI's net losses for the year ended June 30, 2017, and a reserve adjustment of \$(2,000) for premium deficiency reserve estimate recorded at year-end for the estimate of exposure through June 30, 2017. The 2016 loss is comprised of the impairment charge of \$16,293, \$8,092 of FH's 50% share of NHI's net losses for the year ended June 30, 2016, a reserve of \$8,197 for premium deficiency reserve estimate recorded at year-end for the estimate of exposure through June 30, 2016, and \$3,000 related to purchase price adjustments in NHI. Incremental capital contributions of \$0 and \$17,500 were made during fiscal years ended June 30, 2017 and 2016, respectively.

Beginning January 1, 2015, NHI provided third party health claims administration services, wellness program administration, and software services for FH's self-insured health benefit plan. FH paid NHI \$5,858 and \$4,425 relating to such services for the twelve months ended June 30, 2017 and 2016, respectively. These payments are included in fringe benefits, contract services, and other expense in the accompanying consolidated statements of operations.

The following information regarding NHI, including the tables below, is unaudited.

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
	(unaudited)	
Current assets	\$ 194,995	178,767
Current liabilities	197,369	164,365
Working capital	(2,374)	14,402
Property and equipment, net	12,468	10,598
Other long-term assets	167,004	180,826
Long-term liabilities	—	—
Net assets	<u>\$ 177,098</u>	<u>205,826</u>

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Investment in NHI advances FH's accountable care strategy and movement toward population health. Partnering with a provider-based health plan expands the health system's scope and scale in terms of efficient, cost-effective care delivery. The unaudited table below is intended to show the combined results of FH and NHI for the year ended June 30, 2017 as a healthcare enterprise, with recognition of Ascension Wisconsin's equity position.

(Unaudited)	Froedtert Health Enterprise			Less other NHI equity interests and adjustments (unaudited)	FH Combined illustrative statement of operations (unaudited)
	FH Delivery System * (unaudited)	NHI Insurance Products and Services ** (unaudited)	Combined Health Enterprise (unaudited)		
Net patient service revenue	\$ 2,103,457	—	2,103,457	—	2,103,457
Premiums, net	—	805,788	805,788	(402,894)	402,894
Other operating revenue	69,353	—	69,353	1,999	71,352
<b>Total revenue</b>	<b>2,172,810</b>	<b>805,788</b>	<b>2,978,598</b>	<b>(400,895)</b>	<b>2,577,703</b>
Salaries and fringe benefits	972,862	—	972,862	—	972,862
General and administrative	—	125,358	125,358	(62,679)	62,679
Medical benefits and supplies	452,013	699,771	1,151,784	(349,886)	801,898
Contract services and affiliate support	212,979	—	212,979	—	212,979
Depreciation and interest	134,202	4,923	139,125	(2,462)	136,663
Premium taxes and other assessments	—	3,624	3,624	(1,812)	1,812
Other	271,056	—	271,056	—	271,056
<b>Total expenses</b>	<b>2,043,112</b>	<b>833,676</b>	<b>2,876,788</b>	<b>(416,839)</b>	<b>2,459,949</b>
Operating revenue in excess of expenses	129,698	(27,888)	101,810	15,944	117,754
Income tax expense	—	(1,003)	(1,003)	502	(501)
Nonoperating gains, net	170,382	163	170,545	(82)	170,463
Revenue and gains in excess of expenses and losses	\$ <b>300,080</b>	<b>(28,728)</b>	<b>271,352</b>	<b>16,364</b>	<b>287,716</b>

\* Fiscal year ended June 30, 2017 before insurance operations.

\*\* Trailing twelve months ended June 30, 2017.

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(ii) *Other Unconsolidated Affiliates*

The following represents summary financial data (unaudited) for all unconsolidated affiliates, excluding NHI:

	<b>2017</b>	<b>2016</b>
	(unaudited)	
Current assets	\$ 85,100	89,924
Current liabilities	(17,111)	(28,217)
Working capital	67,989	61,707
Property and equipment, net	38,711	40,726
Other long-term assets	59,203	57,948
Long-term liabilities	(22,251)	(23,131)
Net assets	\$ 143,652	137,250
Revenues	\$ 189,791	199,208
Expenses	(139,850)	(144,553)
Excess of revenues over expenses	\$ 49,941	54,655

(c) *Noncontrolling Interest in Consolidated Joint Ventures*

FH applies the guidance under ASC Topic 810, *Consolidation*, for the presentation of noncontrolling interests, reporting it as a separate component of net assets and including a schedule reconciling beginning and ending balances of controlling and noncontrolling interests of net assets in the notes to the consolidated financial statements.

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Changes in unrestricted net assets attributable to FH and to noncontrolling interest in consolidated joint ventures are as follows:

	<u>Total</u>	<u>Controlling interest</u>	<u>Non controlling interest</u>
Balance, June 30, 2015	\$ 1,704,717	1,701,866	2,851
Revenue and gains in excess of expenses and losses	120,716	120,255	461
Changes in net unrealized gains and losses on other-than-trading securities	36	36	—
Contributions and net assets released from restrictions for property, plant, and equipment	948	948	—
Change in accrued pension benefits other than net periodic benefit costs	(20,704)	(20,704)	—
Other	<u>(67)</u>	<u>221</u>	<u>(288)</u>
Changes in net assets	<u>100,929</u>	<u>100,756</u>	<u>173</u>
Balance, June 30, 2016	<u>1,805,646</u>	<u>1,802,622</u>	<u>3,024</u>
Revenue and gains in excess of expenses and losses	287,716	287,345	371
Changes in net unrealized gains and losses on other-than-trading securities	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	6,717	6,717	—
Change in accrued pension benefits other than net periodic benefit costs	15,097	15,097	—
Other	<u>741</u>	<u>(475)</u>	<u>1,216</u>
Changes in net assets	<u>310,271</u>	<u>308,684</u>	<u>1,587</u>
Balance, June 30, 2017	\$ <u><u>2,115,917</u></u>	<u><u>2,111,306</u></u>	<u><u>4,611</u></u>

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### (12) Employee Benefit Plans

#### **(a) Defined Contribution Plans**

FMLH previously sponsored a defined contribution pension plan and a 403(b) thrift plan covering substantially all FMLH employees, which were frozen effective December 31, 2007. Sponsorship of the defined contribution pension plan and 403(b) thrift plan was transferred to FH effective January 1, 2014. Community Health Care Services of Menomonee Falls, Inc. (CHCS) previously sponsored a 403(b) thrift plan and a 401(a) plan, which were frozen effective December 31, 2007. Sponsorship of the CHCS 401(a) plan was transferred to FH and effective January 1, 2011 renamed the Froedtert Health, Inc. 401 (a) Retirement Plan (FH Retirement Plan).

FH sponsors the Froedtert Health 403(b) Plan (FH 403(b) Plan), covering substantially all FH employees. The FH 403(b) Plan provides a nonelective employer contribution, which varies based on employee's service from 3% of pay for employees with less than 10 years of service to 5% of pay for employees with 26 or more years of service. The nonelective employer contribution is also provided for those employees that no longer qualify for future service in the CMH defined benefit plan. It also provides a matching employer contribution of 50% of the first 5% of pay deferred by an employee. FH's nonelective and matching contributions to these plans are made annually and each pay period, respectively. FH's pension expense for the plan was \$32,237 and \$27,581 for the years ended June 30, 2017 and 2016, respectively.

#### **(b) Defined Benefit Plans**

FMLH has a defined benefit plan (the FMLH Plan), sponsored by FH, that covers certain former Milwaukee County employees who became employees of FMLH. FMLH and WDL are responsible for funding 10% of the FMLH Plan, with Milwaukee County funding 90%. FMLH has recorded the difference between the projected benefit obligation and the fair market value of plan. There is a corresponding long-term receivable from Milwaukee County for their portion of the unfunded projected benefit obligation of \$7,170 and \$11,409 at June 30, 2017 and 2016, respectively, included in other assets, net on the consolidated balance sheets. FMLH's pension expense for the FMLH Plan was \$484 and \$(112) for the years ended June 30, 2017 and 2016, respectively.

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Data relative to the FMLH Plan for the years ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Change in pension benefit obligation:		
Projected benefit obligation at beginning of year	\$ 72,148	64,018
Service cost	853	824
Interest cost	2,657	2,839
Actuarial loss	1,157	1,818
Change in mortality assumption	(1,238)	(1,239)
Change in discount rate	(1,526)	6,786
Expenses paid	(351)	(346)
Benefits paid	<u>(3,161)</u>	<u>(2,552)</u>
Projected benefit obligation at end of year	<u>70,539</u>	<u>72,148</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	56,642	58,395
Actual return on plan assets	7,719	(307)
Employer contributions	627	1,452
Expenses paid	(351)	(346)
Benefits paid	<u>(3,161)</u>	<u>(2,552)</u>
Fair value of plan assets at end of year	<u>61,476</u>	<u>56,642</u>
Funded status	\$ <u><u>(9,063)</u></u>	\$ <u><u>(15,506)</u></u>
	<u>2017</u>	<u>2016</u>
Accumulated benefit obligation	\$ 65,517	66,391

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	<u>2017</u>	<u>2016</u>
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to unrestricted net assets:		
Prior service cost	\$ —	—
Accumulated loss	11,367	18,670
Unrecognized pension costs	<u>\$ 11,367</u>	<u>18,670</u>
Net periodic pension cost is comprised of the following:		
Service cost	\$ 853	824
Interest cost on projected benefit obligation	2,657	2,839
Expected return on plan assets	(3,610)	(3,770)
Net amortization and deferral	—	—
Recognized actuarial loss	1,587	127
Net periodic pension cost	<u>\$ 1,487</u>	<u>20</u>

	<u>2017</u>	<u>2016</u>
Assumptions used:		
Discount rate for measurement of pension obligation	3.93 %	3.76 %
Discount rate for determining net periodic pension cost	3.76	4.53
Rate of increase in compensation levels	3.25	3.25
Expected return of plan assets	6.50	6.50

The long-term rate of return on assets reflects historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the pension portfolio. FMLH's investment strategy is of a long-term nature and is intended to ensure that funds are available to pay benefits as they become due and to maximize total return at an appropriate level of investment risk.

As of June 30, 2017 and 2016, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the FMLH Plan.

The employer contribution for the FMLH Plan for the year ending June 30, 2018 is estimated to be \$563. The benefits expected to be paid in each year from 2018 through 2022 are expected to be \$3,223, \$3,375, \$3,528, \$3,678, and \$3,830, respectively. The aggregate benefits to be paid in the five years from 2023 through 2027 are expected to be \$20,821. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2017.

The amount that will be recorded as net periodic benefit cost in fiscal year 2018 is estimated to be \$244.

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The asset allocation of the pension plan at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Equity securities	70 %	59 %
Debt securities	30	38
Cash and cash equivalents	—	3
Total	<u>100 %</u>	<u>100 %</u>

FMLH intends to provide an appropriate range of investment options consistent with a liability driven investments strategy to better hedge against interest rate risk and reduce funded status volatility. Investment options will allow for construction of a portfolio consistent with funded status of the plan. For funded status levels up to 90%, asset allocation is targeted as follows:

<u>Asset class</u>	<u>Target percentage</u>
Equity securities	50%–70%
Debt securities	30%–50%
Other	— %

The allocation to duration-matched debt securities is successively increased as funded status levels begin to exceed the 90% level.

CMH has a noncontributory, defined benefit pension plan (the CMH Plan), sponsored by FH, which covers substantially all employees of CMH who work at least 1,000 hours in a 12-consecutive month period. CMH funds the amount calculated by the CMH Plan's consulting actuary to meet the minimum Employee Retirement Income Security Act funding requirements. The CMH Plan uses the projected-unit-credit-cost actuarial method. The CMH Plan amortizes prior service cost on a straight-line basis over the average remaining service period of employees expected to receive benefits under the CMH Plan. Actuarial gains or losses are deferred to the extent that, as of the beginning of the year, the unrecognized net gain or loss does not exceed 10% of the greater of the projected benefit obligation or the fair value of plan assets. If recognition is required, the excess gain or loss is amortized in the same manner as the prior service cost.

Effective December 31, 2007, the CMH Plan no longer accepted new participants. No additional benefits will accrue for participants who have not attained age 40 or those with less than five years of vesting service as of December 31, 2007. Participation in a defined contribution plan was offered to participants who were affected by this change.

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

Data relative to the CMH Plan for the years ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Change in pension benefit obligation:		
Projected benefit obligation at beginning of year	\$ 140,287	124,462
Service cost	2,505	2,818
Interest cost	5,302	5,685
Actuarial loss (gain)	2,068	(1,701)
Change in mortality assumption	(2,038)	(2,051)
Change in discount rate	(2,443)	14,894
Expenses paid	(594)	(474)
Plan settlements <sup>1</sup>	(9,008)	—
Benefits paid	<u>(3,869)</u>	<u>(3,346)</u>
Projected benefit obligation at end of year	<u>132,210</u>	<u>140,287</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	98,517	94,450
Actual return on plan assets	11,730	(476)
Employer contributions	5,803	8,363
Expenses paid	(594)	(474)
Plan settlements <sup>1</sup>	(9,008)	—
Benefits paid	<u>(3,869)</u>	<u>(3,346)</u>
Fair value of plan assets at end of year	<u>102,579</u>	<u>98,517</u>
Funded status	\$ <u><u>(29,631)</u></u>	\$ <u><u>(41,770)</u></u>
	<u>2017</u>	<u>2016</u>
Accumulated benefit obligation	\$ 122,284	131,715

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to unrestricted net assets:		
Prior service cost	\$ —	21
Accumulated loss	<u>33,886</u>	<u>46,224</u>
Unrecognized pension costs	<u>\$ 33,886</u>	<u>46,245</u>
Net periodic pension cost is comprised of the following:		
Service cost	\$ 2,505	2,818
Interest cost	5,302	5,685
Expected return on plan assets	(6,526)	(6,161)
Net amortization and deferral	21	42
Recognized actuarial loss	2,303	2,393
Recognized settlement loss <sup>1</sup>	<u>2,418</u>	<u>—</u>
Net periodic pension cost	<u>\$ 6,023</u>	<u>4,777</u>
Assumptions used:		
Discount rate for measurement of pension obligation	3.99 %	3.86 %
Discount rate for determining net periodic pension cost:		
Fiscal year 2016	—	4.63
July 1, 2016 to November 30, 2016	3.86	—
December 1, 2016 to June 30, 2017	4.40	—
Rate of increase in compensation levels	3.00–6.00	3.00–6.00
Expected return of plan assets	6.50	6.50

<sup>1</sup> During FY 2017, the CMH Plan offered deferred vested participants a lump sum settlement option (the program) which resulted in \$9,008 of lump sum payments. As a result of the program and in accordance with ASC 715 settlement accounting, a re-measurement of the CMH plan occurred as of November 30, 2016, resulting in a \$2,418 settlement loss, which is recorded in fringe benefits expense in the 2017 consolidated statement of operations.

The long-term rate of return on assets reflects historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the pension portfolio. CMH's investment strategy is of a long-term nature and is intended to ensure that funds are available to pay benefits as they become due and to maximize the investments' total return at an appropriate level of investment risk.

As of June 30, 2017 and 2016, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the CMH Plan.

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The minimum employer contributions for the CMH Plan for the year ending June 30, 2018 are estimated to be \$4,578. The benefits expected to be paid in each year from 2018 through 2022 are \$4,394, \$4,864, \$5,379, \$5,820, and \$6,315, respectively. The aggregate benefits to be paid in the five years from 2023 through 2027 are \$37,515. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2017.

The amount that will be recorded as net periodic benefit cost in fiscal year 2018 is estimated to be \$3,672.

The asset allocation of the CMH Plan at June 30 is as follows:

	<u>2017</u>	<u>2016</u>
Equity securities	57 %	59 %
Debt securities	41	39
Other	2	2
Total	<u>100 %</u>	<u>100 %</u>

CMH intends to provide an appropriate range of investment options consistent with a liability driven investments strategy to better hedge against interest rate risk and reduce funded status volatility. Investment options will allow for construction of a portfolio consistent with funded status of the plan. For funded status levels up to 90%, asset allocation is targeted as follows:

<u>Asset class</u>	<u>Target percentage</u>
Equity securities	50%–70%
Debt securities	30%–50%
Other	— %

The allocation to duration-matched debt securities is successively increased as funded status levels begin to exceed the 90% level.

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(i) *Fair Value Measurements*

The following methods and assumptions were used by FH in estimating the fair value of its financial instruments of the FMLH and CMH defined benefit plans (the Plans):

- Fair values of the Plans' investments are estimated based on prices provided by its investment managers and its custodian bank. Fair values for cash and cash equivalents, corporate stocks, pooled equity funds, international equity funds, U.S. government securities, corporate and foreign bonds, and annuity contracts are measured using quoted market prices; other observable inputs such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets at the reporting date multiplied by quantity held.

(ii) *Fair Value Hierarchy*

The Plans apply the provisions of ASC Subtopic No. 715-20-50, *Defined Benefit Plans – Disclosure*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Subtopic No. 715-20-50 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The following table presents the Plans' fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2017:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Plan assets:				
Collateral for securities loaned	\$ 56,955	—	56,955	—
Investments:				
Cash and short-term investments consisting of money market funds	4,602	4,602	—	—
Corporate stocks	56,167	56,167	—	—
Pooled equity funds	25,298	25,298	—	—
International equity funds	17,724	17,724	—	—
Marketable limited partnerships	129	129	—	—
Corporate and foreign bonds	33,371	—	33,371	—
U.S. government securities	24,933	—	24,933	—
Annuity contract	1,831	—	—	1,831
Total	<u>\$ 221,010</u>	<u>103,920</u>	<u>115,259</u>	<u>1,831</u>
Liabilities:				
Payable under securities lending agreement	\$ 56,955	—	56,955	—

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The following table is a rollforward of the Plan's assets and liabilities that were classified by FH within Level 3 of the fair value hierarchy as defined above:

Fair value at June 30, 2016	\$	1,982
Gains/losses and investment income, net		84
Purchases, issuances, and write-offs, net		—
Contributions and disbursements, net		<u>(235)</u>
Fair value at June 30, 2017	\$	<u><u>1,831</u></u>

The following table presents the Plans' fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Plan assets:				
Collateral for securities loaned	\$ 69,495	—	69,495	—
Investments:				
Cash and short-term investments consisting of money market funds	3,694	3,694	—	—
Corporate stocks	53,250	53,250	—	—
Pooled equity funds	23,222	23,222	—	—
International equity funds	14,695	14,695	—	—
Corporate and foreign bonds	34,085	—	34,085	—
U.S. government securities	24,231	—	24,231	—
Annuity contract	1,982	—	—	1,982
Total	\$ <u>224,654</u>	<u>94,861</u>	<u>127,811</u>	<u>1,982</u>
Liabilities:				
Payable under securities lending agreement	\$ 69,495	—	69,495	—

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The following table is a rollforward of the Plan's assets and liabilities that were classified by FH within Level 3 of the fair value hierarchy as defined above:

Fair value at June 30, 2016	\$	2,425
Gains/losses and investment income, net		(1)
Purchases, issuances, and write-offs, net		—
Contributions and disbursements, net		<u>(442)</u>
Fair value at June 30, 2017	\$	<u><u>1,982</u></u>

FH has a securities lending agreement with a financial institution whereby fixed income and equity securities are loaned to third parties in exchange for cash collateral that exceeds the market value of the securities loaned. Collateral is marked to market daily to reflect changes in fair value of the securities loaned. The fair market value of the securities loaned under this arrangement was \$55,687 and \$67,901 at June 30, 2017 and 2016, respectively. The fair market value of the collateral received under this arrangement was \$56,955 and \$69,495 at June 30, 2017 and 2016, respectively. Under the terms of the securities lending agreement, FH is not entitled to the unrealized gains on the invested collateral and as such has not recognized the unrealized gains at June 30, 2017 and 2016. The fair value of collateral was 102.3% and 102.4% of the fair value of securities loaned at June 30, 2017 and 2016, respectively.

### **(c) Postretirement Medical Plan**

FMLH has an unfunded postretirement medical plan (the FMLH Medical Plan), sponsored by FH, that covers certain former Milwaukee County employees who became employees of FMLH. These employees had less than 15 years of vesting service and were not vested in Milwaukee County's postretirement medical benefit plan. FMLH is responsible for providing the postretirement benefit coverage for this population if they achieve 15 years of vesting service (Milwaukee County and Froedtert combined) and they retire from FMLH.

The projected benefit obligation at June 30, 2017 and 2016 using a discount rate of 3.96% and 3.80% was \$4,649 and \$4,762, respectively, of which \$222 and \$204, respectively, are included in short-term liabilities and \$4,427 and \$4,558, respectively, are included in other long-term liabilities on the consolidated balance sheets.

### **(13) Professional Liability Insurance**

FMLH, CMH, SJH, and CP have professional liability insurance for claim losses of less than \$1,000 per claim and \$3,000 per year for professional liability claims incurred during a policy year, regardless of when the claim is reported (insurance provided on an occurrence basis). Coverage under this insurance policy includes a deductible of \$25 per claim prior to July 1, 2014 and a deductible of \$250 after July 1, 2014. Effective July 1, 2016, FH established a risk financing captive (Harts Mills) and the limit for professional liability deductible was raised to \$1,000. Losses in excess of these amounts are covered through the FMLH, CMH, SJH, and CP mandatory participation in the Injured Patients' and Families Compensation

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

Fund of the State of Wisconsin. WDL has professional liability insurance for claim losses of less than \$3,000 per claim and \$5,000 per year for professional liability claims incurred during a policy year, regardless of when the claim is reported (insurance provided on an occurrence basis). WDL is not covered under the Injured Patients' and Families Compensation Fund of the State of Wisconsin, but does carry additional excess umbrella coverage for professional liability claims. FH applies the provisions of ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a healthcare entity should not net insurance recoveries against a related malpractice claim liability or similar liability and which is consistent with the guidelines in ASC Subtopic 210-20, *Balance Sheet – Offsetting*. FH has recorded an estimated insurance recovery of \$50 and \$677 at June 30, 2017 and 2016, respectively, and a related insurance liability of \$50 and \$575 at June 30, 2017 and 2016, respectively.

#### (14) Commitments and Contingencies

##### (a) Leases

FH and its affiliates lease equipment and office space under the terms of various operating leases. Rent expense for these leases was \$17,719 and \$17,358 for the years ended June 30, 2017 and 2016, respectively, included in the consolidated statements of operations.

Future minimum operating lease payments, excluding the land lease with Milwaukee County (note 5), that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2017 are as follows:

2018	\$	11,505
2019		10,612
2020		10,393
2021		7,980
2022		7,556
Thereafter		34,749

FMLH has agreed to lease certain space to MCW through the year 2025 under an operating lease that calls for a base rent and additional rent allocated for the expenses incurred. Rental income of \$5,279 and \$4,956 for space leased to MCW is included in other operating revenue for the years ended June 30, 2017 and 2016, respectively, in the consolidated statements of operations. Also included in other operating revenue for the years ended June 30, 2017 and 2016 was a total of \$1,137 and \$1,332, respectively, for certain other leased space to MCW.

##### (b) Health Insurance

FH has a self-insured health plan that covers substantially all liability for health costs associated with claims for employees up to certain limits under a commercial stop-loss agreement. Effective January 1, 2017, Harts Mills began to cover claims in excess of \$250 and a commercial stop loss agreement is in place for claims that exceed \$1,000. Provisions for self-insured health claims include the ultimate cost of claims reported and claims incurred but not reported as of the consolidated balance sheet dates. Included in other accrued expenses at June 30, 2017 and 2016 are estimated amounts payable for health insurance claims incurred as of such dates of \$6,776 and \$6,677, respectively.

## FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

### **(c) Litigation**

FH is subject to various legal proceedings and claims that are incidental to its normal business activities. In the opinion of FH, the amount of ultimate liability with respect to these actions will not materially affect the consolidated operations or net assets of FH.

### **(d) Regulatory Investigation and Other**

The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of health care providers. FH is subject to these regulatory efforts. Additionally, the laws and regulations governing the Medicare, Medicaid, and other government health care programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for FH and other health care organizations. Recently the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. FH maintains a system-wide compliance program and conducts audits and other activities to identify potential compliance issues, including overpayments by governmental payors. Compliance reviews may result in liabilities to government healthcare programs, which could have an adverse impact on FH net patient service revenue.

### **(e) Purchase of Chilled Water and Steam Services**

In March 2016, FMLH entered into a contract with Milwaukee Regional Medical Center Thermal Service, Inc. (Thermal) for purchase of chilled water and steam services. The agreement requires FMLH to purchase all of its steam and chilled water through Thermal at a rate that is determined at least annually by an Operations Committee; of which FMLH is a member. The thirty year term of the agreement contains a limited termination right after 6.5 years and is noncancelable thereafter for the term of the agreement. Amounts paid under the agreement in fiscal 2017 and 2016 were \$9,082 and \$959, respectively.

## **(15) Subsequent Events**

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, FH evaluated subsequent events after the consolidated balance sheet date of June 30, 2017 through September 22, 2017, which was the date the consolidated financial statements were issued.

In July 2017, FH signed an affiliation agreement with United Hospital System, Inc. (UHS), a not-for-profit corporation located in Kenosha, Wisconsin. The terms of the agreement call for a \$60,000 capital contribution to be paid in installments through December 2020 in exchange for a twenty-five percent equity ownership interest in UHS, certain governance rights, and certain commitments of UHS. The two organizations will share a common electronic health record platform and adhere to common patient care quality protocols. The transaction is expected to close and become effective on October 1, 2017.

## FROEDTERT HEALTH, INC. AND AFFILIATES

## Consolidating Balance Sheet Information

June 30, 2017

(In thousands)

<b>Assets</b>	<b>Froedtert Memorial Lutheran Hospital</b>	<b>Froedtert Hospital Foundation</b>	<b>Froedtert Surgery Center</b>	<b>Eliminations and consolidating entries</b>	<b>Consolidated Froedtert Memorial Lutheran Hospital</b>
Current assets:					
Cash and cash equivalents	\$ 24,572	955	4,956	—	30,483
Assets whose use is limited	—	—	—	—	—
Patient accounts receivable, net of estimated uncollectibles of \$29,647	188,116	—	1,065	—	189,181
Other receivables	6,384	400	72	(2,070)	4,786
Inventories	16,030	—	209	—	16,239
Collateral held for securities loaned	—	—	—	—	—
Prepays and other	5,657	—	38	—	5,695
Total current assets	<u>240,759</u>	<u>1,355</u>	<u>6,340</u>	<u>(2,070)</u>	<u>246,384</u>
Investments	—	14,742	—	—	14,742
Assets whose use is limited or restricted	24,979	11,343	—	(24,979)	11,343
Investments in unconsolidated affiliates	3,606	—	—	(3,497)	109
Property, plant, and equipment, net	674,093	—	1,552	—	675,645
Other assets, net	7,170	—	—	—	7,170
Total assets	<u>\$ 950,607</u>	<u>27,440</u>	<u>7,892</u>	<u>(30,546)</u>	<u>955,393</u>
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Current installments of long-term debt	\$ 69	—	—	—	69
Accounts payable	30,688	2,379	556	(2,070)	31,553
Accrued expenses	41,748	82	342	—	42,172
Payable under securities lending agreement	—	—	—	—	—
Estimated settlements to third-party payors	8,343	—	—	—	8,343
Total current liabilities	<u>80,848</u>	<u>2,461</u>	<u>898</u>	<u>(2,070)</u>	<u>82,137</u>
Long-term debt, less current installments	295	—	—	—	295
Other long-term liabilities	13,490	—	—	—	13,490
Total liabilities	<u>94,633</u>	<u>2,461</u>	<u>898</u>	<u>(2,070)</u>	<u>95,922</u>
Net assets (deficit):					
Unrestricted:					
Unrestricted	828,995	15,769	6,994	(6,994)	844,764
Noncontrolling interests in consolidated joint ventures	—	—	—	3,497	3,497
Total unrestricted	<u>828,995</u>	<u>15,769</u>	<u>6,994</u>	<u>(3,497)</u>	<u>848,261</u>
Temporarily restricted	26,613	8,844	—	(24,613)	10,844
Permanently restricted	366	366	—	(366)	366
Total net assets	<u>855,974</u>	<u>24,979</u>	<u>6,994</u>	<u>(28,476)</u>	<u>859,471</u>
Total liabilities and net assets	<u>\$ 950,607</u>	<u>27,440</u>	<u>7,892</u>	<u>(30,546)</u>	<u>955,393</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 1

Consolidating Balance Sheet Information

June 30, 2017

(In thousands)

<b>Assets</b>	<b>Community Memorial Hospital</b>	<b>Community Memorial Foundation</b>	<b>Community Outpatient Health Services</b>	<b>Eliminations and consolidating entries</b>	<b>Consolidated Community Memorial Hospital</b>
Current assets:					
Cash and cash equivalents	\$ 3,411	2,007	—	—	5,418
Assets whose use is limited	—	—	—	—	—
Patient accounts receivable, net of estimated uncollectibles of \$29,647	21,146	—	—	—	21,146
Other receivables	11,116	—	315	(336)	11,095
Inventories	4,065	—	—	—	4,065
Collateral held for securities loaned	—	—	—	—	—
Prepays and other	487	3	—	—	490
Total current assets	40,225	2,010	315	(336)	42,214
Investments	—	3,145	—	—	3,145
Assets whose use is limited or restricted	—	3,168	—	—	3,168
Investments in unconsolidated affiliates	13,160	—	—	(7,934)	5,226
Property, plant, and equipment, net	104,453	—	—	—	104,453
Deferred financing costs and other assets, net	—	—	—	—	—
Total assets	\$ 157,838	8,323	315	(8,270)	158,206
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Current installments of long-term debt	\$ —	—	—	—	—
Accounts payable	23,698	389	9	(336)	23,760
Accrued expenses	5,214	—	1	—	5,215
Payable under securities lending agreement	—	—	—	—	—
Estimated settlements to third-party payors	1,222	—	—	—	1,222
Total current liabilities	30,134	389	10	(336)	30,197
Long-term debt, less current installments	—	—	—	—	—
Other long-term liabilities	29,631	—	—	—	29,631
Total liabilities	59,765	389	10	(336)	59,828
Net assets (deficit):					
Unrestricted:					
Unrestricted	97,021	6,882	305	(6,882)	97,326
Noncontrolling interests in consolidated joint ventures	—	—	—	—	—
Total unrestricted	97,021	6,882	305	(6,882)	97,326
Temporarily restricted	1,052	1,052	—	(1,052)	1,052
Permanently restricted	—	—	—	—	—
Total net assets	98,073	7,934	305	(7,934)	98,378
Total liabilities and net assets	\$ 157,838	8,323	315	(8,270)	158,206

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 1

Consolidating Balance Sheet Information

June 30, 2017

(In thousands)

<b>Assets</b>	<b>St. Joseph's Community Hospital</b>	<b>St. Joseph's Community Foundation</b>	<b>Eliminations and consolidating entries</b>	<b>Consolidated St. Joseph's Community Hospital</b>
Current assets:				
Cash and cash equivalents	\$ 12,455	581	—	13,036
Assets whose use is limited	—	—	—	—
Patient accounts receivable, net of estimated uncollectibles of \$29,647	14,714	—	—	14,714
Other receivables	582	103	(414)	271
Inventories	2,543	—	—	2,543
Collateral held for securities loaned	—	—	—	—
Prepays and other	164	—	—	164
Total current assets	<u>30,458</u>	<u>684</u>	<u>(414)</u>	<u>30,728</u>
Investments	—	29,767	—	29,767
Assets whose use is limited or restricted	150	8,849	—	8,999
Investments in unconsolidated affiliates	20	—	—	20
Property, plant, and equipment, net	71,041	—	—	71,041
Deferred financing costs and other assets, net	—	—	—	—
Total assets	<u>\$ 101,669</u>	<u>39,300</u>	<u>(414)</u>	<u>140,555</u>
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Current installments of long-term debt	\$ —	—	—	—
Accounts payable	2,905	416	(414)	2,907
Accrued expenses	2,426	—	—	2,426
Payable under securities lending agreement	—	—	—	—
Estimated settlements to third-party payors	2,735	—	—	2,735
Total current liabilities	<u>8,066</u>	<u>416</u>	<u>(414)</u>	<u>8,068</u>
Long-term debt, less current installments	—	—	—	—
Other long-term liabilities	1,946	—	—	1,946
Total liabilities	<u>10,012</u>	<u>416</u>	<u>(414)</u>	<u>10,014</u>
Net assets (deficit):				
Unrestricted:				
Unrestricted	91,507	38,606	—	130,113
Noncontrolling interests in consolidated joint ventures	—	—	—	—
Total unrestricted	<u>91,507</u>	<u>38,606</u>	<u>—</u>	<u>130,113</u>
Temporarily restricted	150	276	—	426
Permanently restricted	—	2	—	2
Total net assets	<u>91,657</u>	<u>38,884</u>	<u>—</u>	<u>130,541</u>
Total liabilities and net assets	<u>\$ 101,669</u>	<u>39,300</u>	<u>(414)</u>	<u>140,555</u>

## FROEDTERT HEALTH, INC. AND AFFILIATES

## Consolidating Balance Sheet Information

June 30, 2017

(In thousands)

Assets	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Current assets:						
Cash and cash equivalents	\$ 26,552	21,053	20,379	18,909	—	135,830
Assets whose use is limited	—	—	4,285	2,845	—	7,130
Patient accounts receivable, net of estimated uncollectibles of \$29,647	23,346	3,154	—	1,008	—	252,549
Other receivables	4,472	5,173	65,422	2,007	(76,648)	16,578
Inventories	950	—	5,763	855	—	30,415
Collateral held for securities loaned	—	—	274,795	—	—	274,795
Prepays and other	48	631	10,175	494	—	17,697
Total current assets	55,368	30,011	380,819	26,118	(76,648)	734,994
Investments	—	—	1,403,658	—	—	1,451,312
Assets whose use is limited or restricted	—	1,594	185,342	—	—	210,446
Investments in unconsolidated affiliates	—	—	111,602	3,622	(880)	119,699
Property, plant, and equipment, net	37,276	5,711	193,221	5,483	—	1,092,830
Other assets, net	402	—	3,142	697	(2,847)	8,564
Total assets	\$ 93,046	37,316	2,277,784	35,920	(80,375)	3,617,845
<b>Liabilities and Net Assets</b>						
Current liabilities:						
Current installments of long-term debt	\$ —	—	12,216	—	—	12,285
Accounts payable	13,496	3,736	48,109	20,595	(76,640)	67,516
Accrued expenses	29,314	5,727	118,659	7,746	(8)	211,251
Payable under securities lending agreement	—	—	274,795	—	—	274,795
Estimated settlements to third-party payors	532	—	—	—	—	12,832
Total current liabilities	43,342	9,463	453,779	28,341	(76,648)	578,679
Long-term debt, less current installments	—	—	794,418	2,847	(2,847)	794,713
Other long-term liabilities	3,075	797	66,907	—	—	115,846
Total liabilities	46,417	10,260	1,315,104	31,188	(79,495)	1,489,238
Net assets (deficit):						
Unrestricted:						
Unrestricted	46,629	27,056	962,680	3,626	(888)	2,111,306
Noncontrolling interests in consolidated joint ventures	—	—	—	1,106	8	4,611
Total unrestricted	46,629	27,056	962,680	4,732	(880)	2,115,917
Temporarily restricted	—	—	—	—	—	12,322
Permanently restricted	—	—	—	—	—	368
Total net assets	46,629	27,056	962,680	4,732	(880)	2,128,607
Total liabilities and net assets	\$ 93,046	37,316	2,277,784	35,920	(80,375)	3,617,845

(1) Other Consolidated Affiliates include the entities of Froedtert Health Hometown Pharmacy, Progressive Physician Network, Inception Health, QHS 1, Exceedent, Integrated Holdings, Waukesha Surgery Center, and Harts Mills.

See accompanying independent auditors' report.

## FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2017

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Net patient service revenue:					
Net patient service revenue before provision for bad debts	\$ 1,554,017	—	9,252	—	1,563,269
Provision for bad debts	36,946	—	180	—	37,126
Net patient service revenue	1,517,071	—	9,072	—	1,526,143
Other operating revenue	30,245	1,284	—	(600)	30,929
Total revenue	1,547,316	1,284	9,072	(600)	1,557,072
Expenses:					
Salaries	349,602	—	1,926	—	351,528
Fringe benefits	91,985	—	823	—	92,808
Supplies	321,441	—	2,398	—	323,839
Contract services	120,169	—	738	—	120,907
Affiliate support	127,517	—	—	—	127,517
Depreciation and amortization	54,101	—	333	—	54,434
Interest	17,248	—	—	—	17,248
Other	116,278	2,756	1,953	(149)	120,838
Corporate allocations	228,175	—	—	—	228,175
Total expenses	1,426,516	2,756	8,171	(149)	1,437,294
Operating revenue in excess (deficient) of expenses	120,800	(1,472)	901	(451)	119,778
Nonoperating gains and losses:					
Investment income	—	687	—	—	687
Change in net unrealized gains and losses on trading securities	—	897	—	—	897
Change in fair value of interest rate swaps	—	—	—	—	—
Loss on early extinguishment of debt	—	—	—	—	—
Revenue and gains in excess of expenses and losses	120,800	112	901	(451)	121,362
Other changes in unrestricted net assets:					
Transfers (to) from affiliates	(19,839)	(2,161)	—	—	(22,000)
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	3,867	2,030	—	—	5,897
Change in accrued pension benefits other than net periodic benefit costs	2,738	—	—	—	2,738
Forgiveness of receivable from Foundation	—	951	—	—	951
Other	(12)	(100)	1	—	(111)
Increase (decrease) in unrestricted net assets	107,554	832	902	(451)	108,837
Unrestricted net assets (deficit) at beginning of year	721,441	14,937	6,092	(3,046)	739,424
Unrestricted net assets (deficit) at end of year	\$ 828,995	15,769	6,994	(3,497)	848,261

**FROEDTERT HEALTH, INC. AND AFFILIATES**  
Consolidating Statement of Operations Information  
Year ended June 30, 2017  
(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Net patient service revenue:					
Net patient service revenue before provision for bad debts	\$ 207,548	—	—	—	207,548
Provision for bad debts	4,117	—	—	—	4,117
Net patient service revenue	203,431	—	—	—	203,431
Other operating revenue	22,817	2,124	512	(428)	25,025
Total revenue	226,248	2,124	512	(428)	228,456
Expenses:					
Salaries	77,298	—	107	(115)	77,290
Fringe benefits	20,687	—	—	—	20,687
Supplies	57,593	—	179	—	57,772
Contract services	11,349	—	1	—	11,350
Affiliate support	20,344	—	—	—	20,344
Depreciation and amortization	11,792	—	—	—	11,792
Interest	2,203	—	—	—	2,203
Other	14,494	632	223	(313)	15,036
Corporate allocations	15,662	—	—	—	15,662
Total expenses	231,422	632	510	(428)	232,136
Operating revenue in excess (deficient) of expenses	(5,174)	1,492	2	—	(3,680)
Nonoperating gains and losses:					
Investment income	—	326	—	—	326
Change in net unrealized gains and losses on trading securities	—	392	—	—	392
Change in fair value of interest rate swaps	—	—	—	—	—
Loss on early extinguishment of debt	—	—	—	—	—
Revenue and gains in excess of expenses and losses	(5,174)	2,210	2	—	(2,962)
Other changes in unrestricted net assets:					
Transfers (to) from affiliates	820	(820)	—	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	—	820	—	—	820
Change in accrued pension benefits other than net periodic benefit costs	12,359	—	—	—	12,359
Forgiveness of receivable from Foundation	—	—	—	—	—
Other	2,198	1	(1)	(2,211)	(13)
Increase (decrease) in unrestricted net assets	10,203	2,211	1	(2,211)	10,204
Unrestricted net assets at beginning of year	86,818	4,671	304	(4,671)	87,122
Unrestricted net assets at end of year	\$ 97,021	6,882	305	(6,882)	97,326

**FROEDTERT HEALTH, INC. AND AFFILIATES**  
Consolidating Statement of Operations Information  
Year ended June 30, 2017  
(In thousands)

Schedule 2

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Net patient service revenue:				
Net patient service revenue before provision for bad debts	\$ 144,483	—	—	144,483
Provision for bad debts	2,493	—	—	2,493
Net patient service revenue	141,990	—	—	141,990
Other operating revenue	3,217	212	—	3,429
Total revenue	145,207	212	—	145,419
Expenses:				
Salaries	37,513	101	—	37,614
Fringe benefits	9,757	—	—	9,757
Supplies	29,298	31	—	29,329
Contract services	5,504	—	—	5,504
Affiliate support	23,060	—	—	23,060
Depreciation and amortization	6,860	—	—	6,860
Interest	2,446	—	—	2,446
Other	9,958	384	—	10,342
Corporate allocations	9,577	—	—	9,577
Total expenses	133,973	516	—	134,489
Operating revenue in excess (deficient) of expenses	11,234	(304)	—	10,930
Nonoperating gains and losses:				
Investment income	—	1,912	—	1,912
Change in net unrealized gains and losses on trading securities	—	2,318	—	2,318
Change in fair value of interest rate swaps	—	—	—	—
Loss on early extinguishment of debt	—	—	—	—
Revenue and gains in excess of expenses and losses	11,234	3,926	—	15,160
Other changes in unrestricted net assets:				
Transfers (to) from affiliates	7	(7)	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	—	—	—	—
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Forgiveness of receivable from Foundation	(125)	125	—	—
Other	—	—	—	—
Increase (decrease) in unrestricted net assets	11,116	4,044	—	15,160
Unrestricted net assets at beginning of year	80,391	34,562	—	114,953
Unrestricted net assets at end of year	\$ 91,507	38,606	—	130,113

**FROEDTERT HEALTH, INC. AND AFFILIATES**  
 Consolidating Statement of Operations Information  
 Year ended June 30, 2017  
 (In thousands)

	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Net patient service revenue:						
Net patient service revenue before provision for bad debts	\$ 214,585	20,046	—	7,667	(4,112)	2,153,486
Provision for bad debts	5,771	474	—	48		50,029
Net patient service revenue	208,814	19,572	—	7,619	(4,112)	2,103,457
Other operating revenue	15,696	51,356	411,632	15,181	(496,259)	56,989
Total revenue	224,510	70,928	411,632	22,800	(500,371)	2,160,446
Expenses:						
Salaries	166,956	23,092	119,548	8,079	(2,894)	781,213
Fringe benefits	30,808	7,519	141,210	1,018	(112,158)	191,649
Supplies	19,184	14,854	3,180	4,482	(627)	452,013
Contract services	21,658	10,254	24,928	1,854	(86,838)	109,617
Affiliate support	(66,263)	—	(1,297)	1	—	103,362
Depreciation and amortization	5,898	2,161	20,286	750	—	102,181
Interest	—	—	10,100	100	(76)	32,021
Other	30,680	9,801	100,377	12,997	(29,015)	271,056
Corporate allocations	15,589	—	—	—	(269,003)	—
Total expenses	224,510	67,681	418,332	29,281	(500,611)	2,043,112
Operating revenue in excess (deficient) of expenses	—	3,247	(6,700)	(6,481)	240	117,334
Nonoperating gains and losses:						
Investment income	—	(9)	72,249	(1)	—	75,164
Change in net unrealized gains and losses on trading securities	—	—	88,358	—	—	91,965
Change in fair value of interest rate swaps	—	—	13,879	—	—	13,879
Loss on early extinguishment of debt	—	—	(10,626)	—	—	(10,626)
Revenue and gains in excess of expenses and losses	—	3,238	157,160	(6,482)	240	287,716
Other changes in unrestricted net assets:						
Transfers (to) from affiliates	—	—	13,204	8,796	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	—	—	—	—	—	6,717
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—	—	15,097
Forgiveness of receivable from Foundation	—	—	(951)	—	—	—
Other	—	—	(36)	1,171	(270)	741
Increase (decrease) in unrestricted net assets	—	3,238	169,377	3,485	(30)	310,271
Unrestricted net assets (deficit) at beginning of year	46,629	23,818	793,303	1,247	(850)	1,805,646
Unrestricted net assets at end of year	\$ 46,629	27,056	962,680	4,732	(880)	2,115,917

(1) Other Consolidated Affiliates include the entities of Froedtert Health Hometown Pharmacy, Progressive Physician Network, Inception Health, QHS 1, Exceedent, Integrated Holdings, Waukesha Surgery Center, and Harts Mills.

See accompanying independent auditors' report.

## FROEDTERT HEALTH, INC. AND AFFILIATES

## Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2017

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital	
Unrestricted net assets:						Un
Revenue in excess of expenses and losses	\$ 120,800	112	901	(451)	121,362	
Transfers (to) from affiliates	(19,839)	(2,161)	—	—	(22,000)	
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—	
Net assets released from restrictions for property, plant, and equipment	3,867	2,030	—	—	5,897	
Change in accrued pension benefits other than net periodic benefit costs	2,738	—	—	—	2,738	
Forgiveness of receivable from Foundation	—	951	—	—	951	
Other	(12)	(100)	1	—	(111)	
Increase (decrease) in unrestricted net assets	107,554	832	902	(451)	108,837	
Unrestricted net assets at beginning of year	721,441	14,937	6,092	(3,046)	739,424	Un
Unrestricted net assets at end of year	\$ 828,995	15,769	6,994	(3,497)	848,261	Un
Temporarily restricted net assets:						Te
Change in net unrealized gains and losses on investments	\$ —	461	—	—	461	
Restricted contributions	2,000	190	—	—	2,190	
Restricted investment income	—	437	—	—	437	
Net assets released from restrictions for operations	—	(555)	—	—	(555)	
Net assets released from restrictions for property, plant, and equipment	(3,867)	(2,030)	—	—	(5,897)	
Change in beneficial interest in foundations	(563)	—	—	563	—	
Other	—	102	—	—	102	
Increase (decrease) in temporarily restricted net assets	(2,430)	(1,395)	—	563	(3,262)	
Temporarily restricted net assets at beginning of year	29,043	10,239	—	(25,176)	14,106	Te
Temporarily restricted net assets at end of year	\$ 26,613	8,844	—	(24,613)	10,844	Te
Permanently restricted net assets:						Pe
Permanently restricted net assets at beginning of year	\$ 366	366	—	(366)	366	
Permanently restricted net assets at end of year	\$ 366	366	—	(366)	366	

## FROEDTERT HEALTH, INC. AND AFFILIATES

## Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2017

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Unrestricted net assets:					
Revenue in excess of expenses and losses	\$ (5,174)	2,210	2	—	(2,962)
Transfers (to) from affiliates	820	(820)	—	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	—	820	—	—	820
Change in accrued pension benefits other than net periodic benefit costs	12,359	—	—	—	12,359
Forgiveness of receivable from Foundation	—	—	—	—	—
Other	2,198	1	(1)	(2,211)	(13)
Increase (decrease) in unrestricted net assets	10,203	2,211	1	(2,211)	10,204
Unrestricted net assets at beginning of year	86,818	4,671	304	(4,671)	87,122
Unrestricted net assets at end of year	<u>\$ 97,021</u>	<u>6,882</u>	<u>305</u>	<u>(6,882)</u>	<u>97,326</u>
Temporarily restricted net assets:					
Change in net unrealized gains and losses on investments	\$ —	—	—	—	—
Restricted contributions	—	120	—	—	120
Restricted investment income	—	—	—	—	—
Net assets released from restrictions for operations	—	(40)	—	—	(40)
Net assets released from restrictions for property, plant, and equipment	—	(820)	—	—	(820)
Change in beneficial interest in foundations	(726)	—	—	726	—
Other	—	14	—	—	14
Increase (decrease) in temporarily restricted net assets	(726)	(726)	—	726	(726)
Temporarily restricted net assets at beginning of year	1,778	1,778	—	(1,778)	1,778
Temporarily restricted net assets at end of year	<u>\$ 1,052</u>	<u>1,052</u>	<u>—</u>	<u>(1,052)</u>	<u>1,052</u>
Permanently restricted net assets:					
Permanently restricted net assets at beginning of year	\$ —	—	—	—	—
Permanently restricted net assets at end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

## FROEDTERT HEALTH, INC. AND AFFILIATES

## Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2017

(In thousands)

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Unrestricted net assets:				
Revenue in excess of expenses and losses	\$ 11,234	3,926	—	15,160
Transfers (to) from affiliates	7	(7)	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	—	—	—	—
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Forgiveness of receivable from Foundation	(125)	125	—	—
Other	—	—	—	—
Increase (decrease) in unrestricted net assets	11,116	4,044	—	15,160
Unrestricted net assets at beginning of year	80,391	34,562	—	114,953
Unrestricted net assets at end of year	\$ 91,507	38,606	—	130,113
Temporarily restricted net assets:				
Change in net unrealized gains and losses on investments	\$ 43	—	—	43
Restricted contributions	—	—	—	—
Restricted investment income	—	—	—	—
Net assets released from restrictions for operations	(5)	(7)	—	(12)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—
Change in beneficial interest in foundations	—	—	—	—
Other	—	1	—	1
Increase (decrease) in temporarily restricted net assets	38	(6)	—	32
Temporarily restricted net assets at beginning of year	112	282	—	394
Temporarily restricted net assets at end of year	\$ 150	276	—	426
Permanently restricted net assets:				
Permanently restricted net assets at beginning of year	\$ —	2	—	2
Permanently restricted net assets at end of year	\$ —	2	—	2

**FROEDTERT HEALTH, INC. AND AFFILIATES**  
 Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2017

(In thousands)

	<b>F&amp;MCW Community Physicians</b>	<b>Wisconsin Diagnostic Laboratories</b>	<b>Froedtert Health (Parent Only)</b>	<b>Other Consolidated Affiliates (1)</b>	<b>Eliminations and consolidating entries</b>	<b>Consolidated Froedtert Health, Inc.</b>
Unrestricted net assets:						
Revenue in excess of expenses and losses	\$ —	3,238	157,160	(6,482)	240	287,716
Transfers (to) from affiliates	—	—	13,204	8,796	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	6,717
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—	—	15,097
Forgiveness of receivable from Foundation	—	—	(951)	—	—	—
Other	—	—	(36)	1,171	(270)	741
Increase (decrease) in unrestricted net assets	—	3,238	169,377	3,485	(30)	310,271
Unrestricted net assets at beginning of year	46,629	23,818	793,303	1,247	(850)	1,805,646
Unrestricted net assets at end of year	<u>\$ 46,629</u>	<u>27,056</u>	<u>962,680</u>	<u>4,732</u>	<u>(880)</u>	<u>2,115,917</u>
Temporarily restricted net assets:						
Change in net unrealized gains and losses on investments	\$ —	—	—	—	—	504
Restricted contributions	—	—	—	—	—	2,310
Restricted investment income	—	—	—	—	—	437
Net assets released from restrictions for operations	—	—	—	—	—	(607)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	(6,717)
Change in beneficial interest in foundations	—	—	—	—	—	—
Other	—	—	—	—	—	117
Increase (decrease) in temporarily restricted net assets	—	—	—	—	—	(3,956)
Temporarily restricted net assets at beginning of year	—	—	—	—	—	16,278
Temporarily restricted net assets at end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,322</u>
Permanently restricted net assets:						
Permanently restricted net assets at beginning of year	\$ —	—	—	—	—	368
Permanently restricted net assets at end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>368</u>

(1) Other Consolidated Affiliates include the entities of Froedtert Health Hometown Pharmacy, Progressive Physician Network, Inception Health, QHS 1, Exceedent, Integrated Holdings, Waukesha Surgery Center, and Harts Mills.

See accompanying independent auditors' report.