



FROEDTERT HEALTH, INC. AND AFFILIATES
Consolidated Financial Statements and Schedules
June 30, 2019 and 2018
(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.:

Report on the Financial Statements

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, 2019 and 2018, and the related consolidated statements of operations and changes in net assets without donor restrictions, 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 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, 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1(o) to the consolidated financial statements, in 2019 FH adopted new accounting guidance for Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) and ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements 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 the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States 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 17, 2019

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Balance Sheets

June 30, 2019 and 2018

(In thousands)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 132,403	127,201
Assets whose use is limited	4,030	6,382
Patient accounts receivable	292,423	280,144
Other receivables	14,594	15,259
Inventories	39,576	36,108
Collateral held for securities loaned	301,373	310,985
Prepays and other	23,221	24,026
Total current assets	807,620	800,105
Investments	1,683,050	1,535,560
Assets whose use is limited or restricted	100,936	152,729
Investments in unconsolidated affiliates	217,855	192,262
Property, plant, and equipment, net	1,333,399	1,240,780
Other assets, net	12,284	3,553
Total assets	\$ 4,155,144	3,924,989
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 14,730	13,914
Accounts payable	90,623	56,574
Accrued expenses	258,795	245,337
Payable under securities lending agreement	301,373	310,985
Estimated settlements to third-party payors	9,242	14,190
Total current liabilities	674,763	641,000
Long-term debt, less current installments	784,974	801,144
Other long-term liabilities	125,815	111,540
Total liabilities	1,585,552	1,553,684
Net assets:		
Net assets without donor restrictions	2,547,372	2,354,999
Noncontrolling interest in consolidated joint ventures	6,094	2,198
Total net assets without donor restrictions	2,553,466	2,357,197
Net assets with donor restrictions	16,126	14,108
Total net assets	2,569,592	2,371,305
Total liabilities and net assets	\$ 4,155,144	3,924,989

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Years ended June 30, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Revenue:		
Net patient service revenue	\$ 2,477,505	2,298,183
Other operating revenue	84,997	82,854
Total revenue	<u>2,562,502</u>	<u>2,381,037</u>
Expenses:		
Salaries	932,596	846,701
Fringe benefits	217,493	213,910
Supplies	573,515	514,418
Contract services	129,087	116,826
Affiliate support	123,455	118,738
Depreciation and amortization	128,489	119,622
Interest	32,204	32,413
Other	311,414	276,519
Total expenses	<u>2,448,253</u>	<u>2,239,147</u>
Operating revenue in excess of expenses	<u>114,249</u>	<u>141,890</u>
Nonoperating gains (losses):		
Investment return	95,928	84,922
Change in fair value of interest rate swaps	(12,904)	6,541
Community health initiatives	(250)	(650)
Total nonoperating gains, net	<u>82,774</u>	<u>90,813</u>
Revenue and gains in excess of expenses and losses	197,023	232,703
Other changes in net assets without donor restrictions:		
Change in net unrealized gains and losses on other-than-trading securities	(23)	(226)
Contributions and net assets released from restrictions for property, plant, and equipment	323	980
Change in accrued pension benefits other than net periodic benefit costs	(5,895)	9,746
Contributed capital from minority partners in consolidated affiliates	4,860	—
Investment in ambulatory surgery center from noncontrolling interest	—	(2,000)
Other	(19)	77
Increase in net assets without donor restrictions	<u>196,269</u>	<u>241,280</u>
Net assets without donor restrictions at beginning of year	<u>2,357,197</u>	<u>2,115,917</u>
Net assets without donor restrictions at end of year	<u>\$ 2,553,466</u>	<u>2,357,197</u>

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES
Consolidated Statements of Changes in Net Assets
Years ended June 30, 2019 and 2018
(In thousands)

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Balance, June 30, 2017	\$ 2,115,917	12,690	2,128,607
Revenue and gains in excess of expenses and losses	232,703	—	232,703
Investment return	—	512	512
Change in net unrealized gains and losses on investments of other-than-trading securities	(226)	—	(226)
Restricted contributions	—	2,449	2,449
Net assets released from restrictions for operations	—	(583)	(583)
Contributions and net assets released from restrictions for property, plant, and equipment	980	(980)	—
Change in accrued pension benefits other than net periodic benefit costs	9,746	—	9,746
Investment in ambulatory surgery center from noncontrolling interest	(2,000)	—	(2,000)
Other	77	20	97
Change in net assets	<u>241,280</u>	<u>1,418</u>	<u>242,698</u>
Balance, June 30, 2018	<u>2,357,197</u>	<u>14,108</u>	<u>2,371,305</u>
Revenue and gains in excess of expenses and losses	197,023	—	197,023
Investment return	—	466	466
Change in net unrealized gains and losses on investments of other-than-trading securities	(23)	—	(23)
Restricted contributions	—	3,064	3,064
Net assets released from restrictions for operations	—	(1,210)	(1,210)
Contributions and net assets released from restrictions for property, plant, and equipment	323	(323)	—
Change in accrued pension benefits other than net periodic benefit costs	(5,895)	—	(5,895)
Contributed capital from minority partners in consolidated affiliates	4,860	—	4,860
Other	(19)	21	2
Change in net assets	<u>196,269</u>	<u>2,018</u>	<u>198,287</u>
Balance, June 30, 2019	<u>\$ 2,553,466</u>	<u>16,126</u>	<u>2,569,592</u>

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 198,287	242,698
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	126,783	118,001
Loss on disposal of property, plant, and equipment	366	263
Contributed capital from minority partners in consolidated affiliates	(4,860)	—
Income from equity interests in unconsolidated affiliates	(30,552)	(24,955)
Distributions from equity interests in unconsolidated affiliates	10,707	9,570
Restricted contributions and investment return	(3,530)	(2,961)
Net assets released from restrictions for operations	1,210	583
Realized and unrealized gains and losses on unrestricted investments, net	(53,435)	(48,091)
Change in fair value of interest rate swap agreements	12,904	(6,541)
Change in accrued pension benefits other than net periodic benefit costs	5,895	(9,746)
Changes in assets and liabilities:		
Patient accounts receivable	(12,279)	(27,261)
Estimated settlements to third-party payors	(4,948)	1,358
Accounts payable and accrued expenses	47,507	23,781
Other receivables	665	1,319
Inventories	(3,468)	(5,693)
Other assets and liabilities	(12,936)	4,316
Net cash provided by operating activities	<u>278,316</u>	<u>276,641</u>
Cash flows from investing activities:		
Net additions to property, plant, and equipment	(221,115)	(245,854)
Proceeds from sales of property, plant, and equipment	7	114
Purchases of trading securities	(850,563)	(760,640)
Proceeds from sales or maturities of trading securities	833,143	880,631
Purchases of alternative investments	(66,843)	(102,920)
Proceeds of sales of alternative investments	44,353	5,237
Investment in ambulatory surgery centers	(262)	(7,000)
Cash received from acquisition of ambulatory surgery center	—	579
Additional capital contributions in unconsolidated affiliates	(5,000)	(45,000)
Net cash used in investing activities	<u>(266,280)</u>	<u>(274,853)</u>
Cash flows from financing activities:		
Repayments of long-term debt	(14,014)	(12,795)
Contributed capital from minority partners in consolidated affiliates	4,860	—
Restricted contributions and investment return	3,530	2,961
Net assets released from restrictions for operations	(1,210)	(583)
Net cash used in financing activities	<u>(6,834)</u>	<u>(10,417)</u>
Net change in cash and cash equivalents	5,202	(8,629)
Cash and cash equivalents:		
Beginning of year	127,201	135,830
End of year	\$ <u>132,403</u>	<u>127,201</u>
Noncash transactions:		
Assets acquired through capital lease obligations	\$ —	21,938

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Noncash transactions associated with acquisitions:		
Patient accounts receivable	\$ —	334
Prepays and other	—	1,832
Property, plant, and equipment, net	—	5,731
Accounts payable and accrued expenses	—	(379)
Long-term debt	—	(275)

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(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); Inception Health, LLC (Inception); QHS 1, Inc. (QHS 1); Exceedent, LLC (Exceedent); Wisconsin Diagnostic Laboratories, LLC (WDL), Waukesha Surgery Center, LLC (WSC), 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, Exceedent, and QHS 1.

FMLH owns and operates an acute care hospital with 655 approved beds (of which 607 are currently staffed – unaudited), 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 and the Medical College of Wisconsin (MCW) to provide ambulatory surgery services. On February 26, 2018, FMLH purchased an additional 20% of FSC for \$2,000. FMLH currently has a 70% ownership in FSC. The purchase resulted in a decrease in noncontrolling interest in consolidated joint ventures of \$2,000 for the year ended June 30, 2018.

CMH owns and operates an acute care hospital with 237 approved beds (of which 202 are currently staffed – unaudited) 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. Menomonee Falls Ambulatory Surgery Center, LLC (MFASC) is a Wisconsin limited liability company created as a joint venture among CMH and Advanced Healthcare S.C. (Advanced) to provide ambulatory surgery services. During fiscal year 2018, CMH and QHS 1 bought from Advanced its interest in MFASC for \$5,000, which created \$1,550 of goodwill. MFASC is wholly owned as of June 30, 2018.

FROEDTERT HEALTH, INC. AND AFFILIATES

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June 30, 2019 and 2018

(Dollars in thousands)

SJH owns and operates an acute care hospital with 70 approved and staffed beds (unaudited) 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.

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 healthcare benefit administration.

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

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

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 FHHP-Kewaskum (Kewaskum), LLC, which owns and operates a retail pharmacy in Kewaskum, Wisconsin.

FH has a 51% ownership interest in Drexel Town Square Surgery Center, LLC (DSC) created as a joint venture between FH and MCW to provide ambulatory surgery services in Oak Creek, Wisconsin. DSC began operations during fiscal year 2018.

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 net assets without donor restrictions.

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 and changes in net assets without donor restrictions.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

The accompanying consolidated financial statements include the accounts of FH, FMLH, Froedtert Foundation, FSC, CMH, Community Memorial Foundation, COHS, MFASC, SJH, St. Joseph's Foundation, WBSC, CP, Inception, QHS 1, WDL, FHHP, Kewaskum, Exceedent, Hart's Mills, WSC, and DSC.

At June 30, 2019, 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 7). The Obligated Group consisted only of these members and excludes all other FH affiliates. Total combined assets of the FH affiliates, which are not members of the Obligated Group, were \$215,281 at June 30, 2019. Total combined net assets of the same entities were \$113,093 at June 30, 2019 and total combined revenue and gains deficient of expenses and losses were \$(2,568) for the year ended June 30, 2019.

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 with donor restrictions are those whose use by FH has been limited by donors to a specific time period or purpose and those that are required to be maintained in perpetuity. Unconditional promises to give cash and other assets to FH are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as restricted 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as operating revenue in the consolidated statements of operations and changes in net assets without donor restrictions if restricted for operating purposes and as an increase to net assets without donor restrictions, if restricted for 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.

(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 net assets without donor restrictions. Assets whose use is restricted by donors are reported as net assets with donor restrictions.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

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

The consolidated statements of operations and changes in net assets without donor restrictions 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 net assets without donor restrictions 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 were to be used for the purpose of acquiring such assets), changes in accrued pension benefits other than net periodic benefit costs, change in noncontrolling interest and other.

(e) Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which FH expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (managed care and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred on a pro-rata basis in relation to total charges for the applicable performance obligation. Performance obligations satisfied over time relate to inpatient acute care services. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and FH does not believe it is required to provide additional goods or services to the patient. Performance obligations for patients that are in house at period end generally complete within days or possibly weeks of period end and are estimated on a pro-rata basis.

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

(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 and changes in net assets without donor restrictions. Realized gains and losses,

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

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 and changes in net assets without restrictions. 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, two commingled U.S. real estate funds, a commingled hedge fund of funds, a commingled international emerging markets fund, and an international small cap equity fund.

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 A 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 U.S. real estate fund B is organized as a limited partnership and is a perpetual-life, open-ended commingled fund with the objective and purpose of creating a high-quality, low-risk, diversified portfolio of stabilized, income producing investments. Redemptions can be made with written notice quarterly and are paid if cash is available.

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 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.

International equity fund A is organized as a commingled trust fund with an investment objective to provide long-term total return in excess of that achieved by the MSCI Emerging Markets Index. Redemptions can be made monthly with 10 business days prior written notice.

International equity fund B is organized as a separate series of a series LLC with an investment objective to seek long-term capital appreciation and a return in excess of that achieved by the MSCI EAFE Small Cap Index. Redemptions can be made monthly with 10 business days prior written notice.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

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.

(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. No impairments were recorded in 2019 or 2018.

(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.

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.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

(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, WDL, FHHP, Sussex, Kewaskum, WSC, Inception, Exceedent, MFASC, DSC, 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, and Exceedent are limited liability companies and are treated as disregarded entities for tax purposes. Income and losses are passed through to their members. FSC, WDL, DSC, FHHP, Kewaskum, and MFASC are limited liability companies and are treated as partnerships for tax purposes. Income and losses are passed through to their members. WSC was treated as a partnership for tax purposes until FH acquired the entire entity at which time it has been treated as a disregarded entity for tax purposes. 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*. ASC Topic 740 prescribes a more-likely than-not 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, 2019 and 2018, 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.

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 and changes in net assets without donor restrictions.

(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.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

(o) New Accounting Pronouncements

FH adopted ASU No. 2014-09, *Revenue from Contracts with Customers* (ASC 606) effective July 1, 2018 using a full retrospective approach. The standard requires an entity to recognize revenue when the entity transfers control of promised goods and services to the customer. Revenue is recognized in an amount that reflects the consideration an entity expects to receive in exchange for those goods and services. An entity is also required to disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of ASC 606 resulted in changes to the presentation and disclosure of revenue related to uninsured or underinsured patients. Prior to the adoption of ASC 606, FH presented a separate provision for bad debts related to self-pay patients, as well as co-pays and deductibles owed by patients with insurance. Under ASC 606, the estimated uncollectible amounts due from these patients are generally considered a direct reduction to net operating revenues and, correspondingly, result in a material reduction in the amounts presented separately as provision for bad debts. As such, the 2018 provision for bad debts of \$61,433 has been reclassified and presented as a reduction to net patient services revenue for 2019 presentation. FH also assessed the impact of the new standard on various reimbursement programs that represent variable consideration and concluded that accounting for these programs under the new standard is substantially consistent with the historical accounting practices. ASC 606 did not materially impact the financial position, results of operations, or cash flows of FH and there was no cumulative effect of a change in accounting principle recorded related to the adoption.

ASU No. 2016-14, *Not-for-Profit Entities* (ASC 958), was adopted by FH effective June 30, 2019 with retroactive application. ASU No. 2016-14 changed the means by which a not-for-profit entity classifies and presents net assets on the face of the financial statements and presents information in the financial statements and notes regarding the entity's liquidity, financial performance, expenses, and cash flows. This ASU changes the way the FH reports classes of net assets, from the previously required three classes to two. As a result of this adoption, June 30, 2018 temporarily restricted net assets of \$13,740 and permanently restricted net assets of \$368 have been combined for presentation as net assets with donor restrictions. The standard did not have a material effect on the consolidated financial statements.

ASU No. 2016-02, *Leases*, requires lessees to recognize leases on the face of the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of operations. FH will adopt ASU No. 2016-02 on July 1, 2019 and its implementation will result in recognition of ROU assets of approximately \$143,500 and a corresponding financing obligation of the same amount as part of the adoption.

(p) Reclassifications

Reclassifications were made in accordance with newly adopted accounting standards. To be consistent with classifications adopted for the year ended June 30, 2019, certain balances on the consolidated financial statements for the year ended June 30, 2018 have been reclassified with no effect on revenue or expenses.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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(Dollars in thousands)

(2) Fair Value Measurements

FH applies the provisions of ASC Topic 820, *Fair Value Measurement*, 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.
- 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.

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.

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

The following table represents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2019:

	<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>
Assets:				
Cash and cash equivalents	\$ 132,403	132,403	—	—
Collateral held for securities loaned	301,373	—	301,373	—
Investments, excluding interest receivable of \$3.556:				
U.S. government securities	254,115	—	254,115	—
Marketable equity securities/ mutual funds	643,807	643,807	—	—
Fixed income securities	198,212	—	198,212	—
Money market funds/ fixed income mutual funds	201,044	201,044	—	—
Investments measured at NAV ¹ alternative investments:				
Low volatility equity fund	112,012	—	—	—
Real estate fund A	134,518	—	—	—
Real estate fund B	59,836	—	—	—
International fund A	29,588	—	—	—
International fund B	19,726	—	—	—
Hedge fund of funds	26,636	—	—	—
Assets whose use is limited or restricted, excluding interest receivable of \$122 and pledges receivable of \$445:				
Cash and cash equivalents	4,341	4,341	—	—
U.S. government securities	10,333	—	10,333	—
Marketable equity securities/ mutual funds	37,406	37,406	—	—
Fixed income securities	11,922	—	11,922	—
Money market funds/ fixed income mutual funds	24,562	24,562	—	—

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

	<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>
Investments measured at NAV ¹ alternative investments:				
Low volatility equity fund	\$ 4,555	—	—	—
Real estate fund A	5,470	—	—	—
Real estate fund B	2,433	—	—	—
International fund A	1,203	—	—	—
International fund B	802	—	—	—
Hedge fund of funds	1,083	—	—	—
Other	289	—	20	269
Total assets	\$ <u>2,217,669</u>	<u>1,043,563</u>	<u>775,975</u>	<u>269</u>
Liabilities:				
Payable under securities lending agreement	\$ 301,373	—	301,373	—
Interest rate swap agreements	34,703	—	34,703	—
Total liabilities	\$ <u>336,076</u>	<u>—</u>	<u>336,076</u>	<u>—</u>

The following table represents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2018:

	<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>
Assets:				
Cash and cash equivalents	\$ 127,201	127,201	—	—
Collateral held for securities loaned	310,985	—	310,985	—
Investments, excluding interest receivable of \$2,956:				
U.S. government securities	204,182	—	204,182	—
Marketable equity securities/ mutual funds	621,992	621,992	—	—
Fixed income securities	184,745	—	184,745	—
Money market funds/ fixed income mutual funds	177,195	177,195	—	—

FROEDTERT HEALTH, INC. AND AFFILIATES

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June 30, 2019 and 2018

(Dollars in thousands)

	<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>
Investments measured at NAV ¹ alternative investments:				
Low volatility equity fund	\$ 104,235	—	—	—
Real estate fund A	124,111	—	—	—
Real estate fund B	47,595	—	—	—
Core plus fixed income fund	41,907	—	—	—
Hedge fund of funds	26,642	—	—	—
Assets whose use is limited or restricted, excluding interest receivable of \$132 and pledges receivable of \$216:				
Cash and cash equivalents	4,667	4,667	—	—
U.S. government securities	10,663	—	10,663	—
Marketable equity securities/ mutual funds	43,458	43,458	—	—
Fixed income securities	51,160	—	51,160	—
Money market funds/ fixed income mutual funds	30,538	30,538	—	—
Investments measured at NAV ¹ alternative investments:				
Low volatility equity fund	5,444	—	—	—
Real estate fund A	6,482	—	—	—
Real estate fund B	2,486	—	—	—
Core plus fixed income	2,188	—	—	—
Hedge fund of funds	1,391	—	—	—
Swap collateral and other	286	—	19	267
Total assets	<u>\$ 2,129,553</u>	<u>1,005,051</u>	<u>761,754</u>	<u>267</u>
Liabilities:				
Payable under securities lending agreement	\$ 310,985	—	310,985	—
Interest rate swap agreements	21,799	—	21,799	—
Total liabilities	<u>\$ 332,784</u>	<u>—</u>	<u>332,784</u>	<u>—</u>

¹ 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.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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(Dollars in thousands)

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>2019</u>	<u>2018</u>
Fair value at beginning of year	\$ 267	276
Gains (losses) and investment income, net	2	(9)
Purchases, issuances, and write-offs, net	<u>—</u>	<u>—</u>
Fair value at end of year	<u>\$ 269</u>	<u>267</u>

For the year ended June 30, 2019, there were no significant transfers in or out of Levels 1, 2, or 3.

(3) Cash and Cash Equivalents, Assets Whose Use is Limited or Restricted, and Investments

As of June 30, cash and cash equivalents and investments, including assets whose use is limited or restricted, consist of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 136,744	131,868
Fixed income	704,311	661,787
Equity securities	681,213	665,450
Alternative investments	<u>398,151</u>	<u>362,767</u>
	<u>\$ 1,920,419</u>	<u>1,821,872</u>

FH's investment policy goal is to maximize total return while preserving principal. The organization maintains 15 to 20 days of cash on deposit at area banks invested in cash equivalents or other highly liquid funds. All such deposits are readily available to meet daily operational needs. The remainder of FH's funds are invested according to its investment policy, which is monitored by the FH Investment Committee and reviewed by the Board of Directors on a periodic basis. An independent advisor assists with the selection of fund managers, monitors portfolio allocations, advises on routine investment decisions, and reports results to the Investment Committee on a quarterly basis. Approximately, 87% of long-term investments can be liquidated within one month and 100% within one year.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

As of June 30, unrestricted financial assets, reduced by amounts that are considered to be illiquid within one year, consist of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 132,403	127,201
Patient accounts receivable	292,423	280,144
Long-term investments	1,683,050	1,535,560
Less: assets with liquidity over one year	<u>—</u>	<u>—</u>
	<u>\$ 2,107,876</u>	<u>1,942,905</u>

(4) Investments and Assets Whose Use is Limited or Restricted

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

	<u>June 30</u>	
	<u>2019</u>	<u>2018</u>
Assets whose use is limited or restricted:		
Under debt agreements	\$ —	44,225
By management:		
For executive compensation agreements	32,128	30,081
For program development and physician recruitment	32,938	44,121
For community health initiatives	13,598	13,897
For other	5,535	7,400
By donors	16,126	14,108
Other	<u>4,641</u>	<u>5,279</u>
Total assets whose use is limited or restricted	<u>\$ 104,966</u>	<u>159,111</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:

	<u>Year ended June 30</u>	
	<u>2019</u>	<u>2018</u>
Interest and dividends on investments	\$ 46,173	39,193
Net realized gains and losses on sale of investments	36,977	46,997
Change in net unrealized gains and losses on investments	<u>16,531</u>	<u>1,114</u>
Total investment return	<u>\$ 99,681</u>	<u>87,304</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

Investment returns are included in the accompanying consolidated statements of operations and changes in net assets without restrictions for the years ended June 30, 2019 and 2018:

	Year ended June 30	
	2019	2018
Other operating revenue:		
Interest and dividend income	\$ 2,972	1,472
Nonoperating gains and losses – investment return	95,928	84,922
Other changes in net assets without donor restrictions – change in net unrealized gains and losses on investments of nontrading securities	(23)	(226)
Other changes in net assets with donor restrictions – Investment return	466	512
Interest earnings offset against capitalized interest cost	338	624
Total investment return	\$ 99,681	87,304

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 \$295,956 and \$304,439 at June 30, 2019 and 2018, respectively. The fair market value of the collateral received under this arrangement was \$301,373 and \$310,985 at June 30, 2019 and 2018, 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 fair value of collateral was 101.8% and 102.2% of the fair value of securities loaned at June 30, 2019 and 2018, respectively.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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(Dollars in thousands)

(5) Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows:

	June 30	
	2019	2018
Land and land improvements	\$ 31,390	28,307
Building and leasehold improvements	361,652	315,179
Buildings	1,047,062	936,128
Fixed equipment	177,962	166,538
Movable equipment	742,701	700,029
Construction in progress	99,463	99,355
Total property, plant, and equipment	2,460,230	2,245,536
Less accumulated depreciation and amortization	1,126,831	1,004,756
Property, plant, and equipment, net	\$ 1,333,399	1,240,780

Construction in progress at June 30, 2019 primarily relates to facility expansion, facility renovation, and equipment at the hospitals and clinic campuses. Contractually committed costs remaining for expansion and renovation projects totaled approximately \$66,612 at June 30, 2019.

(6) 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 as of June 30, 2019 and will be assessed in accordance with ASU No. 2016-02 as discussed in note 1(o). Lease expense has been recognized in accordance with the terms of the lease agreements amounting to \$9,891 and \$9,526 for the years ended June 30, 2019 and 2018, respectively. Cumulative amounts recognized under the lease agreements since the leases' inception in 1995 are \$130,816 through June 30, 2019. Payments under the lease agreements are made in the year subsequent to the year in which they relate.

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

(7) Long-Term Debt

Long-term debt is summarized as follows:

	June 30	
	2019	2018
Revenue bonds, Series 2009C – the remaining principal payment is \$3,125, plus interest paid off 2019. Interest rate at 5.00% (effective rate of interest of 5.82% in 2018)	\$ —	3,125
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 both 2019 and 2018)	151,040	151,500
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 (2.31% at June 30, 2019, effective rate of interest 3.96% in 2019 and 3.92% in 2018)	74,080	77,045
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 2019 and 2018)	100,000	100,000
Revenue bonds, Series 2017A – annual principal payments range from \$5,600 to \$22,490, plus interest each year through 2048, ranging from 4.00% to 5.00% (effective rate of interest 4.26% in both 2019 and 2018)	248,655	251,255
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 (2.777% at June 30, 2019, effective rate of interest 2.76% in 2019 and 3.77% in 2018)	80,000	80,000
Capital lease obligations	124,902	129,664
Other	448	550
Total debt	779,125	793,139
Less:		
Current installments of long-term debt	14,730	13,914
Unamortized bond premiums and debt issuance costs, net	(20,579)	(21,919)
Total long-term debt	\$ 784,974	801,144

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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 \$35,223 and \$36,093 for the years ended June 30, 2019 and 2018, respectively.

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

2020	\$	14,730
2021		15,568
2022		16,462
2023		17,370
2024		78,037
Thereafter		<u>636,958</u>
	\$	<u><u>779,125</u></u>

FH has entered into capital leases for certain medical office space through the year 2038. Included with property, plant, and equipment, net are \$136,771 and \$137,048 at June 30, 2019 and 2018, respectively, of assets held under capital leases and \$33,365 and \$25,958 of related accumulated amortization at June 30, 2019 and 2018, respectively. The capital lease obligations were \$124,902 and \$129,664 at June 30, 2019 and 2018, respectively.

Future minimum lease payments under capital leases at June 30, 2019 are as follows:

2020	\$	12,356
2021		12,603
2022		12,874
2023		13,136
2024		13,398
Thereafter		<u>116,705</u>
Total minimum lease payments		181,072
Less amounts representing interest ranging from 2.67% to 11.03%		<u>56,170</u>
Present value of net minimum lease payments	\$	<u><u>124,902</u></u>

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

FH has an outstanding guaranty for payment of certain debt of another corporation. The debt guaranty is for an amount up to \$10,000 as of June 30, 2019. FH has not been required to make any payments or accruals related to this guaranty as of June 30, 2019.

(8) 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) Interest Rate Swap Agreements

Consistent with the objectives set forth above, the Obligated Group's interest rate swap agreements are currently matched to its Series 2013A and Series 2017B bonds. In April 2018, FH restructured its hedging position by novating the 2013B swap to match the terms of the Series 2017B bonds. The original swap agreement was transferred to a new counterparty and restructured to match the Series 2017B bonds and subject to the forward starting element.

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 sixty eight percent of the three-month LIBOR index for the Series 2013A bonds and seventy percent of the one-month LIBOR index for the Series 2017B bonds. The swap agreement matched to the Series 2017B bonds does not become effective until January 1, 2021, and therefore, no cash payments or receipts are due or receivable prior to January 1, 2021, at which time the cash flow hedge will begin.

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The interest rate swap agreements for the Obligated Group at June 30, 2019 and 2018 consist of the following:

Associated series	Original notional amount	Maturity date	Fixed pay rate	Variable pay rates at June 30	
				2019	2018
2013A bonds	\$ 94,050	April 1, 2035	3.366 %	2.424 %	2.326 %
2017B bonds	80,000	April 1, 2048	2.917	—	—

The fair value of the interest rate swaps of \$34,703 and \$21,799 is included in other long-term liabilities in the consolidated balance sheets at June 30, 2019 and 2018, respectively. The change in fair value of the interest rate swaps of \$(12,904) and \$6,541 is included in nonoperating gains and losses in the consolidated statements of operations and changes in net assets without donor restrictions for the years ended June 30, 2019 and 2018, respectively.

Cash paid for monthly settlement under the interest rate swap agreements was \$1,245 and \$3,206 for the fiscal years ended June 30, 2019 and 2018, respectively, and is included within interest expense in the consolidated statements of operations and changes in net assets without donor restrictions. No cash was received under the interest rate swap agreements for the years ended June 30, 2019 or 2018. No swap collateral posting was required at June 30, 2019 or 2018, respectively.

(9) Net Assets With Donor Restrictions

Net assets with donor restrictions have been restricted by donors for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Capital	\$ 3,934	3,891
Education and research	1,397	408
Patient care	477	594
Other	10,318	9,215
	<u>\$ 16,126</u>	<u>14,108</u>

In addition, FH holds net assets with donor restrictions that are permanently endowed and only the income is available for designated purposes. Income on the following endowments is restricted for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Education and research	\$ 366	366
Other	2	2
	<u>\$ 368</u>	<u>368</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

(10) Net Patient Service Revenue

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

Medicare – 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, 2015. The CMH cost reports have been audited by the Medicare fiscal intermediary through June 30, 2016. The SJH cost reports have been audited by the Medicare fiscal intermediary through June 30, 2016.

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

Wisconsin's Economic Recovery Act includes a tax assessment on hospital revenues. Funds collected under the tax are used to increase federal funding for the Wisconsin Medicaid program. FH recognized \$49,164 and \$50,782 of increased Medicaid reimbursement and \$44,632 and \$41,611 of tax expense as a result of the law for the years ended June 30, 2019 and 2018, respectively. The Medicaid reimbursement and tax assessment expense are recorded in net patient service revenue and other expense, respectively, in the 2019 and 2018 consolidated statements of operations and changes in net assets without donor restrictions.

Other – 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.

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

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Settlements with third-party payers for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. During 2019 and 2018, changes to prior year variable consideration resulted in a decrease of net patient service revenue of \$1,886 and \$175, respectively, due to appeals, cost report settlements, and other adjustments to prior year.

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

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

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.

Net patient service revenue net of explicit allowances and discounts (but before implicit price concessions) recognized in the period by major payer at June 30 is as follows:

	June 30	
	2019	2018
Medicare	30 %	29 %
Medicaid	8	8
Managed care/contracted payor	51	51
Self-pay	2	2
Other	9	10
	<u>100 %</u>	<u>100 %</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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(Dollars in thousands)

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

	<u>2019</u>	<u>2018</u>
Hospital Inpatient	\$ 1,036,228	984,973
Hospital outpatient	953,654	883,321
Physician clinics	242,790	230,861
Ambulatory surgery centers	22,304	18,305
Other	<u>222,529</u>	<u>180,723</u>
	<u>\$ 2,477,505</u>	<u>2,298,183</u>

(11) 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, 2019 and 2018 is as follows:

	<u>June 30</u>	
	<u>2019</u>	<u>2018</u>
Medicare	26 %	26 %
Medicaid	8	8
Managed care/contracted payor	44	44
Self-pay	17	17
Other	<u>5</u>	<u>5</u>
	<u>100 %</u>	<u>100 %</u>

(12) 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. The estimated amount of cost incurred for services and supplies furnished under FH's charity care policy was \$11,588 and \$10,943 for the years ended June 30, 2019 and 2018, respectively.

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

(13) Functional Expenses

FH provides healthcare services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets without donor restrictions as of June 30, 2019 are as follows:

<u>2019</u>	<u>Healthcare Services</u>	<u>General and administration</u>	<u>Total</u>
Salaries and fringe benefits	\$ 1,002,003	148,086	1,150,089
Supplies and contract services	636,973	65,629	702,602
Depreciation and amortization	114,850	13,639	128,489
Interest	27,479	4,725	32,204
Affiliate support and other	321,681	77,075	398,756
Utilities	28,710	7,403	36,113
	<u>\$ 2,131,696</u>	<u>316,557</u>	<u>2,448,253</u>
<hr/>			
<u>2018</u>			
Total	\$ 1,950,917	288,230	2,239,147

(14) 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, 2019 and 2018.

(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.

FROEDTERT HEALTH, INC. AND AFFILIATES

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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 \$109,482 and \$103,621 for the years ended June 30, 2019 and 2018, respectively. Amounts accrued relating to the Variable Performance Payment were \$3,293 and \$4,512 in accounts payable on the consolidated balance sheets at June 30, 2019 and 2018, respectively. Also, accrued under the Funds Flow Agreement was \$29,644 and \$40,608, which is included in other long-term liabilities on the consolidated balance sheets at June 30, 2019 and 2018, respectively.

(b) Unconsolidated Affiliates

(i) Network Health, Inc.

FH has a 50% ownership interest in Network Health, Inc. (NHI), a 120,000 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 (MHIC), which provides health insurance to groups, individuals, and Medicare beneficiaries. The ownership interest is co-owned with Ministry Health (doing business as Ascension Wisconsin) and is accounted for by FH under the equity method of accounting.

The carrying amount of the investment in NHI was \$99,666 and \$86,701 at June 30, 2019 and 2018, respectively. The excess of the carrying amount over FH's share of the equity of NHI was \$3,372 at both June 30, 2019 and 2018 and has been allocated, within the investment in unconsolidated affiliates account, to goodwill.

FH recorded other revenue in the consolidated statements of operations and changes in net assets without donor restrictions related to its investment in NHI of \$12,965 and \$6,365 for the years ended June 30, 2019 and 2018, respectively. The 2019 other revenue is comprised of \$14,965 of FH's 50% share of NHI's net gains for the year ended June 30, 2019 and a reserve adjustment of \$(2,000) for the change in premium deficiency reserve estimate adjustment recorded at year-end for the estimate of exposure through June 30, 2019. The 2018 other revenue is comprised of \$552 of FH's 50% share of NHI's net gains for the year ended June 30, 2018 and a reserve adjustment of \$5,813 for premium deficiency reserve estimate recorded at year-end for the estimate of exposure through June 30, 2018.

NHI provided third party health claims administration services, wellness program administration, and software services for FH's self-insured health benefit plan during the first six months of fiscal year 2018. FH paid NHI \$2,205 relating to such services for the twelve months ended June 30, 2018. These payments are included in fringe benefits, contract services, and other expense in the accompanying consolidated statements of operations and changes in net assets without donor restrictions.

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

	June 30	
	2019	2018
Current assets	\$ 159,780	224,166
Current liabilities	169,158	228,519
Working capital	(9,378)	(4,353)
Property and equipment, net	10,122	10,782
Other long-term assets	207,389	171,773
Long-term liabilities	—	—
Net assets	<u>\$ 208,133</u>	<u>178,202</u>

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 following unaudited table is intended to show the combined results of FH and NHI for the year ended June 30, 2019 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	\$ 2,477,505	—	2,477,505	—	2,477,505
Premiums, net	—	935,143	935,143	(467,572)	467,571
Other operating revenue	72,033	—	72,033	(2,002)	70,031
Total revenue	<u>2,549,538</u>	<u>935,143</u>	<u>3,484,681</u>	<u>(469,574)</u>	<u>3,015,107</u>
Salaries and fringe benefits	1,150,089	—	1,150,089	—	1,150,089
General and administrative	—	103,452	103,452	(51,726)	51,726
Medical benefits and supplies	573,515	798,437	1,371,952	(399,219)	972,733
Contract services and affiliate support	252,542	—	252,542	—	252,542
Depreciation and interest	160,693	5,556	166,249	(2,778)	163,471
Premium taxes and other assessments	—	4,289	4,289	(2,145)	2,144
Other	311,414	—	311,414	—	311,414
Total expenses	<u>2,448,253</u>	<u>911,734</u>	<u>3,359,987</u>	<u>(455,868)</u>	<u>2,904,119</u>
Operating revenue in excess of expenses	101,285	23,409	124,694	(13,706)	110,988

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(Dollars in thousands)

(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)		
Income tax expense	\$ —	(3,529)	(3,529)	1,765	(1,764)
Nonoperating gains, net	82,774	10,051	92,825	(5,026)	87,799
Revenue and gains in excess of expenses and losses	\$ 184,059	29,931	213,990	(16,967)	197,023

* Fiscal year ended June 30, 2019 before insurance operations.

** Trailing twelve months ended June 30, 2019.

(ii) *Affiliation Agreement with United Hospital System, Inc.*

In October 2017, FH entered into an affiliation agreement with United Hospital System, Inc. (United); a not-for-profit corporation located in Kenosha, Wisconsin. The terms of the agreement called for FH to make a \$60,000 capital contribution to be paid in installments through December 2020 in exchange for certain governance rights and other commitments of United. In accordance with the agreement, FH contributed \$5,000 and \$45,000 in fiscal years 2019 and 2018, respectively. Remaining amounts due of \$10,000 has been recorded as follows in accordance with the agreement: current amount due in fiscal year 2020 of \$5,000 is included in accrued expenses in the consolidated balance sheet at June 30, 2019. Amounts due in fiscal year 2021 of \$5,000 is included in other long-term liabilities in the consolidated balance sheet at June 30, 2019. The governance rights include FH becoming a voting member and obtaining a 25% equity ownership interest in United. FH has recorded equity income related to the affiliation of \$3,496 and \$4,224 for the years ended June 30, 2019 and 2018, respectively. FH recorded its 25% share of United's change in accrued pension benefits other than net periodic benefit costs of \$5,486 for the year ended June 30, 2019 in the consolidated statements of operations and changes in net assets without donor restrictions. The carrying amount of the investment in United was \$73,206 and 64,224 at June 30, 2019 and 2018, respectively.

The agreement also calls for United to adopt Froedtert & MCW care quality protocols and best practices. The two organizations will share an electronic health records system that FH will implement under a separate contractual agreement.

United has changed its name to Froedtert South and operates under the external brand name of Froedtert & the Medical College of Wisconsin health network. United continues to operate as a locally led organization and retains its current health system departments, administrative services, medical group leadership, and credentialing.

FROEDTERT HEALTH, INC. AND AFFILIATES

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June 30, 2019 and 2018

(Dollars in thousands)

(iii) Other Unconsolidated Affiliates

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

	2019	2018
Current assets	\$ 223,215	254,010
Current liabilities	(44,746)	(51,591)
Working capital	178,469	202,419
Property and equipment, net	299,067	273,982
Other long-term assets	198,987	172,217
Long-term liabilities	(93,195)	(98,964)
Net assets	\$ 583,328	549,654
Revenues	\$ 483,938	483,468
Expenses	(429,471)	(431,542)
Excess of revenues over expenses	\$ 54,467	51,926

(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.

FROEDTERT HEALTH, INC. AND AFFILIATES

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Changes in net assets without donor restrictions attributable to FH and to noncontrolling interest in consolidated joint ventures are as follows:

	<u>Total</u>	<u>Controlling interest</u>	<u>Noncontrolling interest</u>
Balance, June 30, 2017	\$ 2,115,917	2,111,306	4,611
Revenue and gains in excess of expenses and losses	232,703	233,287	(584)
Changes in net unrealized gains and losses on other-than-trading securities	(226)	(226)	—
Contributions and net assets released from restrictions for property, plant, and equipment	980	980	—
Change in accrued pension benefits other than net periodic benefit costs	9,746	9,746	—
Investment in ambulatory surgery center from noncontrolling interest	(2,000)	—	(2,000)
Other	77	(94)	171
Changes in net assets	<u>241,280</u>	<u>243,693</u>	<u>(2,413)</u>
Balance, June 30, 2018	2,357,197	2,354,999	2,198
Revenue and gains in excess of expenses and losses	197,023	197,747	(724)
Changes in net unrealized gains and losses on other-than-trading securities	(23)	(23)	—
Contributions and net assets released from restrictions for property, plant, and equipment	323	323	—
Change in accrued pension benefits other than net periodic benefit costs	(5,895)	(5,895)	—
Investment in ambulatory surgery center from noncontrolling interest	4,860	—	4,860
Other	(19)	221	(240)
Changes in net assets	<u>196,269</u>	<u>192,373</u>	<u>3,896</u>
Balance, June 30, 2019	\$ <u>2,553,466</u>	<u>2,547,372</u>	<u>6,094</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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(Dollars in thousands)

(15) Employee Benefit Plans

(a) Defined Contribution Plans

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 \$36,335 and \$35,035 for the years ended June 30, 2019 and 2018, 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 \$2,057 and \$2,437 at June 30, 2019 and 2018, respectively, included in other assets, net on the consolidated balance sheets. FMLH's pension expense for the FMLH Plan was \$(115) and \$68 for the years ended June 30, 2019 and 2018, respectively.

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Data relative to the FMLH Plan for the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Change in pension benefit obligation:		
Projected benefit obligation at beginning of year	\$ 66,344	70,539
Service cost	676	819
Interest cost	2,766	2,709
Actuarial loss (gain)	1,758	(1,176)
Change in mortality assumption	(194)	(591)
Change in discount rate	5,738	(2,798)
Expenses paid	(209)	(239)
Benefits paid	<u>(3,139)</u>	<u>(2,919)</u>
Projected benefit obligation at end of year	<u>73,740</u>	<u>66,344</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	63,651	61,476
Actual return on plan assets	7,699	4,770
Employer contributions	3,432	563
Expenses paid	(209)	(239)
Benefits paid	<u>(3,139)</u>	<u>(2,919)</u>
Fair value of plan assets at end of year	<u>71,434</u>	<u>63,651</u>
Funded status	\$ <u><u>(2,306)</u></u>	\$ <u><u>(2,693)</u></u>
	<u>2019</u>	<u>2018</u>
Accumulated benefit obligation	\$ 70,629	62,936

FROEDTERT HEALTH, INC. AND AFFILIATES

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	<u>2019</u>	<u>2018</u>
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to net assets without donor restrictions:		
Prior service cost	\$ —	—
Accumulated loss	<u>8,656</u>	<u>5,317</u>
Unrecognized pension costs	<u>\$ 8,656</u>	<u>5,317</u>
Net periodic pension cost is comprised of the following:		
Service cost	\$ 676	819
Interest cost on projected benefit obligation	2,766	2,709
Expected return on plan assets	(3,736)	(3,895)
Net amortization and deferral	—	—
Recognized actuarial loss	<u>—</u>	<u>610</u>
Net periodic pension cost	<u>\$ (294)</u>	<u>243</u>
	<u>2019</u>	<u>2018</u>
Assumptions used:		
Discount rate for measurement of pension obligation	3.58 %	4.28 %
Discount rate for determining net periodic pension cost	4.28	3.93
Rate of increase in compensation levels	3.25	3.25
Expected return of plan assets	5.80	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, 2019 and 2018, 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, 2020 is estimated to be \$1,418. The benefits expected to be paid in each year from 2020 through 2024 are expected to be \$3,716, \$3,835, \$3,958, \$4,080, and \$4,182, respectively. The aggregate benefits to be paid in the five years from 2025 through 2029 are expected to be \$21,858. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2019.

The amount that will be recorded as net periodic benefit cost in fiscal year 2020 is estimated to be \$(628).

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The asset allocation of the pension plan at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Equity securities	37 %	46 %
Debt securities	63	54
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.

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(Dollars in thousands)

Data relative to the CMH Plan for the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Change in pension benefit obligation:		
Projected benefit obligation at beginning of year	\$ 129,930	132,210
Service cost	2,513	2,765
Interest cost	5,494	5,187
Actuarial loss	3,799	1,200
Change in mortality assumption	(355)	(990)
Change in discount rate	12,572	(5,657)
Expenses paid	(128)	(401)
Benefits paid	<u>(4,695)</u>	<u>(4,384)</u>
Projected benefit obligation at end of year	<u>149,130</u>	<u>129,930</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	108,709	102,579
Actual return on plan assets	10,911	6,337
Employer contributions	6,799	4,578
Expenses paid	(129)	(401)
Benefits paid	<u>(4,695)</u>	<u>(4,384)</u>
Fair value of plan assets at end of year	<u>121,595</u>	<u>108,709</u>
Funded status	\$ <u><u>(27,535)</u></u>	\$ <u><u>(21,221)</u></u>
	<u>2019</u>	<u>2018</u>
Accumulated benefit obligation	\$ 137,794	121,579
	<u>2019</u>	<u>2018</u>
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to net assets without donor restrictions:		
Prior service cost	\$ —	—
Accumulated loss	<u>37,139</u>	<u>26,382</u>
Unrecognized pension costs	\$ <u><u>37,139</u></u>	\$ <u><u>26,382</u></u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
Net periodic pension cost is comprised of the following:		
Service cost	\$ 2,513	2,765
Interest cost	5,494	5,188
Expected return on plan assets	(7,119)	(6,658)
Net amortization and deferral	—	—
Recognized actuarial loss	1,468	2,377
	<u>1,468</u>	<u>2,377</u>
Net periodic pension cost	\$ <u>2,356</u>	<u>3,672</u>
Assumptions used:		
Discount rate for measurement of pension obligation	3.64 %	4.31 %
Discount rate for determining net periodic pension cost:	4.31 %	3.99 %
Rate of increase in compensation levels	3.00–6.00 %	3.00–6.00 %
Expected return of plan assets	6.40 %	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. 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, 2019 and 2018, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the CMH Plan.

The minimum employer contributions for the CMH Plan for the year ending June 30, 2020 are estimated to be \$5,474. The benefits expected to be paid in each year from 2020 through 2024 are \$5,412, \$5,894, \$6,433, \$6,961, and \$7,369, respectively. The aggregate benefits to be paid in the five years from 2025 through 2029 are \$42,328. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2019.

The amount that will be recorded as net periodic benefit cost in fiscal year 2020 is estimated to be \$3,910.

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

	<u>2019</u>	<u>2018</u>
Equity securities	57 %	59 %
Debt securities	41	39
Other	2	2
	<u>2</u>	<u>2</u>
Total	<u>100 %</u>	<u>100 %</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

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:

Asset class	Target percentage
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.

(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.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

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, 2019:

	<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	\$ 92,953	—	92,953	—
Investments:				
Cash and short-term investments consisting of money market funds	\$ 2,919	2,919	—	—
Corporate stocks	57,154	57,154	—	—
Pooled equity funds	23,656	23,656	—	—
International equity funds	14,652	14,652	—	—
Marketable limited partnerships	103	103	—	—
Corporate and foreign bonds	57,071	—	57,071	—
U.S. government securities	35,551	—	35,551	—
Annuity contract	1,923	—	—	1,923
Total investments	\$ <u>193,029</u>	<u>98,484</u>	<u>92,622</u>	<u>1,923</u>
Liabilities:				
Payable under securities lending agreement	\$ 92,953	—	92,953	—

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, 2018	\$ 1,834
Gains/losses and investment income, net	192
Purchases, issuances, and write-offs, net	—
Contributions and disbursements, net	<u>(103)</u>
Fair value at June 30, 2019	\$ <u><u>1,923</u></u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

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, 2018:

	<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	\$ 73,306	—	73,306	—
Investments:				
Cash and short-term investments consisting of money market funds	\$ 4,181	4,181	—	—
Corporate stocks	54,270	54,270	—	—
Pooled equity funds	23,835	23,835	—	—
International equity funds	14,423	14,423	—	—
Marketable limited partnerships	146	146	—	—
Corporate and foreign bonds	40,777	—	40,777	—
U.S. government securities	32,894	—	32,894	—
Annuity contract	1,834	—	—	1,834
Total investments	\$ <u>172,360</u>	<u>96,855</u>	<u>73,671</u>	<u>1,834</u>
Liabilities:				
Payable under securities lending agreement	\$ 73,306	—	73,306	—

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, 2017	\$ 1,831
Gains/losses and investment income, net	(41)
Purchases, issuances, and write-offs, net	—
Contributions and disbursements, net	44
Fair value at June 30, 2018	\$ <u>1,834</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

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

\$91,400 and \$71,824 at June 30, 2019 and 2018, respectively. The fair market value of the collateral received under this arrangement was \$92,953 and \$73,306 at June 30, 2019 and 2018, 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, 2019 and 2018. The fair value of collateral was 101.7% and 102.1% of the fair value of securities loaned at June 30, 2019 and 2018, 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, 2019 and 2018 using a discount rate of 3.59% and 4.29% was \$4,119 and \$3,971, respectively, of which \$187 and \$202, respectively, are included in short-term liabilities and \$3,932 and \$3,769, respectively, are included in other long-term liabilities on the consolidated balance sheets.

(16) 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 \$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, CP, and WDL mandatory participation in the Injured Patients' and Families Compensation Fund of the State of Wisconsin. 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 \$8,940 and \$475 at June 30, 2019 and 2018, respectively, and a related insurance liability of \$9,440 and \$475 at June 30, 2019 and 2018, respectively.

(17) 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 \$15,648 and \$16,112 for the years ended June 30, 2019 and 2018, respectively, included in the consolidated statements of operations and changes in net assets without donor restrictions.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

Future minimum operating lease payments, excluding the land lease with Milwaukee County (note 6), that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2019 are as follows:

2020	\$	9,959
2021		8,778
2022		8,406
2023		8,191
2024		7,226
Thereafter		25,311

(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, Hart's 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, 2019 and 2018 are estimated amounts payable for health insurance claims incurred as of such dates of \$13,776 and \$14,776, respectively.

(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 healthcare providers. FH is subject to these regulatory efforts. Additionally, the laws and regulations governing the Medicare, Medicaid, and other government healthcare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for FH and other healthcare 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.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

(Dollars in thousands)

(18) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, FH evaluated events and transactions through September 17, 2019, the date the consolidated financial statements were issued, noting no subsequent events other than those previously disclosed requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2019

(In thousands)

Assets	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Current assets:					
Cash and cash equivalents	\$ 2,975	99	6,097	—	9,171
Assets whose use is limited	—	—	—	—	—
Patient accounts receivable	212,368	—	2,946	—	215,314
Other receivables	2,174	323	620	(252)	2,865
Inventories	19,893	—	202	—	20,095
Collateral held for securities loaned	—	—	—	—	—
Prepays and other	8,066	—	47	—	8,113
Total current assets	245,476	422	9,912	(252)	255,558
Investments	—	16,414	—	—	16,414
Assets whose use is limited or restricted	25,896	9,454	—	(25,896)	9,454
Investments in unconsolidated affiliates	40	—	—	—	40
Property, plant, and equipment, net	821,890	—	2,245	—	824,135
Other assets, net	10,387	—	—	—	10,387
Total assets	\$ 1,103,689	26,290	12,157	(26,148)	1,115,988
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	\$ 41	—	—	—	41
Accounts payable	35,873	261	1,044	(252)	36,926
Accrued expenses	49,333	133	402	—	49,868
Payable under securities lending agreement	—	—	—	—	—
Estimated settlements to third-party payors	6,571	—	—	—	6,571
Total current liabilities	91,818	394	1,446	(252)	93,406
Long-term debt, less current installments	216	—	—	—	216
Other long-term liabilities	15,271	—	—	—	15,271
Total liabilities	107,305	394	1,446	(252)	108,893
Net assets (deficit):					
Without donor restrictions:					
Without donor restrictions	964,869	16,523	10,711	(3,213)	988,890
Noncontrolling interests in consolidated joint ventures	—	—	—	3,213	3,213
Total without donor restrictions	964,869	16,523	10,711	—	992,103
With donor restrictions	31,515	9,373	—	(25,896)	14,992
Total net assets	996,384	25,896	10,711	(25,896)	1,007,095
Total liabilities and net assets	\$ 1,103,689	26,290	12,157	(26,148)	1,115,988

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2019

(In thousands)

Assets	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Menomonee Falls Ambulatory Surgery Center	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Current assets:						
Cash and cash equivalents	\$ 19	800	—	1,169	—	1,988
Assets whose use is limited	—	—	—	—	—	—
Patient accounts receivable	30,138	—	—	397	—	30,535
Other receivables	1,909	—	358	—	(1,014)	1,253
Inventories	5,616	—	—	270	—	5,886
Collateral held for securities loaned	—	—	—	—	—	—
Prepays and other	685	2	—	51	—	738
Total current assets	<u>38,367</u>	<u>802</u>	<u>358</u>	<u>1,887</u>	<u>(1,014)</u>	<u>40,400</u>
Investments	—	5,919	—	—	—	5,919
Assets whose use is limited or restricted	8,801	2,671	—	—	(8,801)	2,671
Investments in unconsolidated affiliates	—	—	—	—	—	—
Property, plant, and equipment, net	99,960	—	—	5,529	—	105,489
Deferred financing costs and other assets, net	—	—	—	1,550	—	1,550
Total assets	<u>\$ 147,128</u>	<u>9,392</u>	<u>358</u>	<u>8,966</u>	<u>(9,815)</u>	<u>156,029</u>
Liabilities and Net Assets						
Current liabilities:						
Current installments of long-term debt	\$ —	—	—	66	—	66
Accounts payable	217	590	10	2,661	(1,014)	2,464
Accrued expenses	6,755	1	—	89	—	6,845
Payable under securities lending agreement	—	—	—	—	—	—
Estimated settlements to third-party payors	873	—	—	—	—	873
Total current liabilities	<u>7,845</u>	<u>591</u>	<u>10</u>	<u>2,816</u>	<u>(1,014)</u>	<u>10,248</u>
Long-term debt, less current installments	—	—	—	124	—	124
Other long-term liabilities	27,535	—	—	—	—	27,535
Total liabilities	<u>35,380</u>	<u>591</u>	<u>10</u>	<u>2,940</u>	<u>(1,014)</u>	<u>37,907</u>
Net assets (deficit):						
Without donor restrictions:						
Without donor restrictions	111,034	8,087	348	6,026	(8,087)	117,408
Noncontrolling interests in consolidated joint ventures	—	—	—	—	—	—
Total without donor restrictions	<u>111,034</u>	<u>8,087</u>	<u>348</u>	<u>6,026</u>	<u>(8,087)</u>	<u>117,408</u>
With donor restrictions	714	714	—	—	(714)	714
Total net assets	<u>111,748</u>	<u>8,801</u>	<u>348</u>	<u>6,026</u>	<u>(8,801)</u>	<u>118,122</u>
Total liabilities and net assets	<u>\$ 147,128</u>	<u>9,392</u>	<u>358</u>	<u>8,966</u>	<u>(9,815)</u>	<u>156,029</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2019

(In thousands)

Assets	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Current assets:				
Cash and cash equivalents	\$ 4,285	1,650	—	5,935
Assets whose use is limited	—	—	—	—
Patient accounts receivable	18,295	—	—	18,295
Other receivables	680	97	(650)	127
Inventories	2,709	—	—	2,709
Collateral held for securities loaned	—	—	—	—
Prepays and other	221	—	—	221
Total current assets	<u>26,190</u>	<u>1,747</u>	<u>(650)</u>	<u>27,287</u>
Investments				
Assets whose use is limited or restricted	—	30,764	—	30,764
Investments in unconsolidated affiliates	150	9,386	—	9,536
Property, plant, and equipment, net	20	—	—	20
Deferred financing costs and other assets, net	68,035	—	—	68,035
Total assets	<u>\$ 94,395</u>	<u>41,897</u>	<u>(650)</u>	<u>135,642</u>
	Liabilities and Net Assets			
Current liabilities:				
Current installments of long-term debt	\$ —	—	—	—
Accounts payable	6,993	653	(650)	6,996
Accrued expenses	3,365	—	—	3,365
Payable under securities lending agreement	—	—	—	—
Estimated settlements to third-party payors	1,735	—	—	1,735
Total current liabilities	<u>12,093</u>	<u>653</u>	<u>(650)</u>	<u>12,096</u>
Long-term debt, less current installments	—	—	—	—
Other long-term liabilities	1,131	—	—	1,131
Total liabilities	<u>13,224</u>	<u>653</u>	<u>(650)</u>	<u>13,227</u>
Net assets (deficit):				
Without donor restrictions:				
Without donor restrictions	81,021	40,974	—	121,995
Noncontrolling interests in consolidated joint ventures	—	—	—	—
Total without donor restrictions	<u>81,021</u>	<u>40,974</u>	<u>—</u>	<u>121,995</u>
With donor restrictions	150	270	—	420
Total net assets	<u>81,171</u>	<u>41,244</u>	<u>—</u>	<u>122,415</u>
Total liabilities and net assets	<u>\$ 94,395</u>	<u>41,897</u>	<u>(650)</u>	<u>135,642</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2019

(In thousands)

Assets	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Exceedent	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Current assets:							
Cash and cash equivalents	\$ 17	17,397	14,158	78,899	4,838	—	132,403
Assets whose use is limited	—	—	736	3,294	—	—	4,030
Patient accounts receivable	25,896	4,178	—	(2,674)	879	—	292,423
Other receivables	2,382	25,425	2	50,035	3,258	(70,753)	14,594
Inventories	1,725	—	—	8,302	859	—	39,576
Collateral held for securities loaned	—	—	—	301,373	—	—	301,373
Prepays and other	218	440	26	12,392	1,073	—	23,221
Total current assets	30,238	47,440	14,922	451,621	10,907	(70,753)	807,620
Investments	—	—	—	1,617,475	12,478	—	1,683,050
Assets whose use is limited or restricted	—	1,600	—	75,370	2,305	—	100,936
Investments in unconsolidated affiliates	—	—	—	211,972	6,747	(924)	217,855
Property, plant, and equipment, net	43,539	4,539	804	281,210	5,648	—	1,333,399
Other assets, net	231	500	—	2,370	92	(2,846)	12,284
Total assets	\$ 74,008	54,079	15,726	2,640,018	38,177	(74,523)	4,155,144
Liabilities and Net Assets							
Current liabilities:							
Current installments of long-term debt	\$ —	—	—	14,623	—	—	14,730
Accounts payable	359	2,368	13,114	75,719	23,430	(70,753)	90,623
Accrued expenses	29,019	3,737	1,406	153,317	11,238	—	258,795
Payable under securities lending agreement	—	—	—	301,373	—	—	301,373
Estimated settlements to third-party payors	63	—	—	—	—	—	9,242
Total current liabilities	29,441	6,105	14,520	545,032	34,668	(70,753)	674,763
Long-term debt, less current installments	—	—	—	784,634	2,158	(2,158)	784,974
Other long-term liabilities	1,959	1,988	—	78,619	—	(688)	125,815
Total liabilities	31,400	8,093	14,520	1,408,285	36,826	(73,599)	1,585,552
Net assets (deficit):							
Without donor restrictions							
Without donor restrictions	42,608	45,986	1,206	1,231,733	(1,530)	(924)	2,547,372
Noncontrolling interests in consolidated joint ventures	—	—	—	—	2,881	—	6,094
Total net assets without donor restrictions	42,608	45,986	1,206	1,231,733	1,351	(924)	2,553,466
With donor restrictions	—	—	—	—	—	—	16,126
Total net assets	42,608	45,986	1,206	1,231,733	1,351	(924)	2,569,592
Total liabilities and net assets	\$ 74,008	54,079	15,726	2,640,018	38,177	(74,523)	4,155,144

(1) Other Consolidated Affiliates include the entities of Froedtert Health Hometown Pharmacy, Drexel Surgery Center, Inception Health, QHS 1, Integrated Holdings, Waukesha Surgery Center, and Hart's Mills.

See accompanying independent auditors' report.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Year ended June 30, 2019

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Revenue:					
Net patient service revenue	\$ 1,785,700	—	11,004	—	1,796,704
Other operating revenue	27,460	1,216	—	(1,093)	27,583
Total revenue	<u>1,813,160</u>	<u>1,216</u>	<u>11,004</u>	<u>(1,093)</u>	<u>1,824,287</u>
Expenses:					
Salaries	421,664	—	2,498	—	424,162
Fringe benefits	107,059	—	617	—	107,676
Supplies	397,523	—	2,917	—	400,440
Contract services	153,439	—	819	(39)	154,219
Affiliate support	162,371	—	57	—	162,428
Depreciation and amortization	65,446	—	328	—	65,774
Interest	15,720	—	—	—	15,720
Other	127,655	1,707	1,735	(1,054)	130,043
Corporate allocations	253,485	—	—	—	253,485
Total expenses	<u>1,704,362</u>	<u>1,707</u>	<u>8,971</u>	<u>(1,093)</u>	<u>1,713,947</u>
Operating revenue in excess (deficient) of expenses	108,798	(491)	2,033	—	110,340
Nonoperating gains and losses:					
Investment return	—	902	107	—	1,009
Change in fair value of interest rate swaps	—	—	—	—	—
Community health initiatives	—	—	—	—	—
Revenue and gains in excess of expenses and losses	<u>108,798</u>	<u>411</u>	<u>2,140</u>	<u>—</u>	<u>111,349</u>
Other changes in net assets without donor restrictions:					
Transfers (to) from affiliates	(44,469)	182	1	—	(44,286)
Change in net unrealized gains and losses on other-than-trading securities	224	—	—	—	224
Contributions and net assets released from restriction for property, plant, and equipment	225	—	—	—	225
Change in accrued pension benefits other than net periodic benefit costs	(624)	—	—	—	(624)
Forgiveness of receivable from Foundation	—	—	—	—	—
Other	—	—	—	—	—
Increase in net assets without donor restrictions	<u>64,154</u>	<u>593</u>	<u>2,141</u>	<u>—</u>	<u>66,888</u>
Net assets without donor restrictions at beginning of year	900,715	15,930	8,570	—	925,215
Net assets without donor restrictions at end of year	<u>\$ 964,869</u>	<u>16,523</u>	<u>10,711</u>	<u>—</u>	<u>992,103</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Year ended June 30, 2019

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Menomonee Falls Ambulatory Surgery Center	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Net patient service revenue:						
Net patient service revenue	\$ 260,126	—	—	4,017	—	264,143
Other operating revenue	45,846	1,342	561	24	(2,425)	45,348
Total revenue	305,972	1,342	561	4,041	(2,425)	309,491
Expenses:						
Salaries	97,489	—	130	2,580	(1,841)	98,358
Fringe benefits	23,517	—	—	394	—	23,911
Supplies	93,181	—	124	801	—	94,106
Contract services	16,343	—	—	501	—	16,844
Affiliate support	23,548	—	—	—	—	23,548
Depreciation and amortization	12,641	—	—	574	—	13,215
Interest	2,020	—	—	12	—	2,032
Other	17,915	975	288	587	(584)	19,181
Corporate allocations	19,033	—	—	—	—	19,033
Total expenses	305,687	975	542	5,449	(2,425)	310,228
Operating revenue in excess (deficient) of expenses	285	367	19	(1,408)	—	(737)
Nonoperating gains and losses:						
Investment return	—	429	—	—	—	429
Change in fair value of interest rate swaps	—	—	—	—	—	—
Loss on early extinguishment of debt	—	—	—	—	—	—
Revenue and gains in excess of expenses and losses	285	796	19	(1,408)	—	(308)
Other changes in net assets without donor restrictions:						
Transfers (to) from affiliates	552	(251)	—	—	(545)	(244)
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	(10,757)	—	—	—	—	(10,757)
Forgiveness of receivable from Foundation	—	—	—	—	—	—
Other	(1)	—	1	—	—	—
Increase in net assets without donor restrictions	(9,921)	545	20	(1,408)	(545)	(11,309)
Net assets without donor restrictions at beginning of year	120,955	7,542	328	7,434	(7,542)	128,717
Net assets without donor restrictions at end of year	\$ 111,034	8,087	348	6,026	(8,087)	117,408

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Year ended June 30, 2019

(In thousands)

	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	\$ 150,201	—	—	150,201
Other operating revenue	2,909	192	—	3,101
Total revenue	<u>153,110</u>	<u>192</u>	<u>—</u>	<u>153,302</u>
Expenses:				
Salaries	44,483	108	—	44,591
Fringe benefits	10,819	—	—	10,819
Supplies	36,546	47	—	36,593
Contract services	7,168	—	—	7,168
Affiliate support	26,173	—	—	26,173
Depreciation and amortization	6,398	—	—	6,398
Interest	2,358	—	—	2,358
Other	11,418	345	—	11,763
Corporate allocations	9,836	—	—	9,836
Total expenses	<u>155,199</u>	<u>500</u>	<u>—</u>	<u>155,699</u>
Operating revenue in excess (deficient) of expenses	(2,089)	(308)	—	(2,397)
Nonoperating gains and losses:				
Investment return	—	2,193	—	2,193
Change in fair value of interest rate swaps	—	—	—	—
Loss on early extinguishment of debt	—	—	—	—
Revenue and gains in excess of expenses and losses	(2,089)	1,885	—	(204)
Other changes in net assets without donor restrictions:				
Transfers (to) from affiliates	1,214	(239)	—	975
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	—	98	—	98
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Forgiveness of receivable from Foundation	(134)	134	—	—
Other	—	—	—	—
Increase in net assets without donor restrictions	(1,009)	1,878	—	869
Net assets without donor restrictions at beginning of year	82,030	39,096	—	121,126
Net assets without donor restrictions at end of year	<u>\$ 81,021</u>	<u>40,974</u>	<u>—</u>	<u>121,995</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets Without Donor Restrictions

Year ended June 30, 2019

(In thousands)

	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Exceedent	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Revenue:							
Net patient service revenue before implicit price concessions	\$ 242,793	17,210	—	—	6,954	(500)	2,477,505
Other operating revenue	16,106	61,477	7,245	517,869	15,723	(609,455)	84,997
Total revenue	258,899	78,687	7,245	517,869	22,677	(609,955)	2,562,502
Expenses:							
Salaries	198,074	25,658	3,998	135,925	5,610	(3,780)	932,596
Fringe benefits	37,288	8,061	940	161,442	1,176	(133,820)	217,493
Supplies	20,642	16,052	119	2,300	5,017	(1,754)	573,515
Contract services	23,700	9,191	—	32,193	3,454	(117,682)	129,087
Affiliate support	(90,171)	—	—	1,449	28	—	123,455
Depreciation and amortization	7,603	1,593	186	32,398	1,322	—	128,489
Interest	—	—	—	12,070	66	(42)	32,204
Other	43,296	8,517	7,369	129,321	13,963	(52,039)	311,414
Corporate allocations	18,467	—	—	—	—	(300,821)	—
Total expenses	258,899	69,072	12,612	507,098	30,636	(609,938)	2,448,253
Operating revenue in excess (deficient) of expenses	—	9,615	(5,367)	10,771	(7,959)	(17)	114,249
Nonoperating gains and losses:							
Investment return	—	—	158	91,575	564	—	95,928
Change in fair value of interest rate swaps	—	—	—	(12,904)	—	—	(12,904)
Community health initiatives	—	—	—	(250)	—	—	(250)
Revenue and gains in excess of expenses and losses	—	9,615	(5,209)	89,192	(7,395)	(17)	197,023
Other changes net assets without donor restrictions:							
Transfers (to) from affiliates	9,106	2	5,251	23,937	5,259	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	(247)	—	—	(23)
Contributions and net assets released from restriction for property, plant, and equipment	—	—	—	—	—	—	323
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	5,486	—	—	(5,895)
Contributed capital from minority partners in consolidated affiliates	—	—	—	—	4,860	—	4,860
Other	—	—	—	(19)	—	—	(19)
Increase (decrease) in net assets without donor restrictions	9,106	9,617	42	118,349	2,724	(17)	196,269
Net assets without donor restrictions at beginning of year	33,502	36,369	1,164	1,113,383	(1,372)	(907)	2,357,197
Net assets without donor restrictions at end of year	\$ 42,608	45,986	1,206	1,231,732	1,352	(924)	2,553,466

(1) Other Consolidated Affiliates include the entities of Froedtert Health Hometown Pharmacy, Drexel Surgery Center, Inception Health, QHS 1, Integrated Holdings, Waukesha Surgery Center, and Hart's Mills.

See accompanying independent auditors' report.

FROEDTERT HEALTH, INC. AND AFFILIATES
Consolidating Statement of Changes in Net Assets Information
Year ended June 30, 2019
(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Net assets without donor restrictions:					
Revenue in excess of expenses and losses	\$ 108,798	411	2,140	—	111,349
Transfers (to) from affiliates	(44,469)	182	1	—	(44,286)
Change in net unrealized gains and losses on other-than-trading securities	224	—	—	—	224
Net assets released from restrictions for property, plant, and equipment	225	—	—	—	225
Change in accrued pension benefits other than net periodic benefit costs	(624)	—	—	—	(624)
Forgiveness of receivable from Foundation	—	—	—	—	—
Contributed capital from minority partners in consolidated affiliates	—	—	—	—	—
Other	—	—	—	—	—
Increase (decrease) in net assets without donor restrictions	64,154	593	2,141	—	66,888
Net assets without donor restrictions at beginning of year	900,715	15,930	8,570	—	925,215
Net assets without donor restrictions at end of year	<u>\$ 964,869</u>	<u>16,523</u>	<u>10,711</u>	<u>—</u>	<u>992,103</u>
Net assets with donor restrictions:					
Investment return	\$ —	466	—	—	466
Restricted contributions	2,300	610	—	—	2,910
Net assets released from restrictions for operations	(300)	(811)	—	—	(1,111)
Net assets released from restrictions for property, plant, and equipment	(225)	—	—	—	(225)
Change in beneficial interest in foundations	858	—	—	(858)	—
Other	—	—	—	—	—
Increase (decrease) in net assets with donor restrictions	2,633	265	—	(858)	2,040
Net assets with donor restrictions at beginning of year	28,882	9,108	—	(25,038)	12,952
Net assets with donor restrictions at end of year	<u>\$ 31,515</u>	<u>9,373</u>	<u>—</u>	<u>(25,896)</u>	<u>14,992</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2019

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	MFASC	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Net assets without donor restrictions:						
Revenue in excess of expenses and losses	\$ 285	796	19	(1,408)	—	(308)
Transfers (to) from affiliates	552	(251)	—	—	(545)	(244)
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	(10,757)	—	—	—	—	(10,757)
Forgiveness of receivable from Foundation	—	—	—	—	—	—
Contributed capital from minority partners in consolidated affiliates	—	—	—	—	—	—
Other	(1)	—	1	—	—	—
Increase (decrease) in net assets without donor restrictions	(9,921)	545	20	(1,408)	(545)	(11,309)
Net assets without donor restrictions at beginning of year	120,955	7,542	328	7,434	(7,542)	128,717
Net assets without donor restrictions at end of year	\$ 111,034	8,087	348	6,026	(8,087)	117,408
Net assets with donor restrictions:						
Investment return	\$ —	—	—	—	—	—
Restricted contributions	—	154	—	—	—	154
Net assets released from restrictions for operations	—	(71)	—	—	—	(71)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	—
Change in beneficial interest in foundations	107	—	—	—	(107)	—
Other	—	24	—	—	—	24
Increase (decrease) in net assets with donor restrictions	107	107	—	—	(107)	107
Net assets with donor restrictions at beginning of year	607	607	—	—	(607)	607
Net assets with donor restrictions at end of year	\$ 714	714	—	—	(714)	714

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2019

(In thousands)

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Net assets without donor restrictions:				
Revenue in excess of expenses and losses	\$ (2,089)	1,885	—	(204)
Transfers (to) from affiliates	1,214	(239)	—	975
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	—	98	—	98
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Forgiveness of receivable from Foundation	(134)	134	—	—
Contributed capital from minority partners in consolidated affiliates	—	—	—	—
Other	—	—	—	—
	<u>(1,009)</u>	<u>1,878</u>	<u>—</u>	<u>869</u>
Increase (decrease) in net assets without donor restrictions				
Net assets without donor restrictions at beginning of year	<u>82,030</u>	<u>39,096</u>	<u>—</u>	<u>121,126</u>
Net assets without donor restrictions at end of year	<u>\$ 81,021</u>	<u>40,974</u>	<u>—</u>	<u>121,995</u>
Net assets with donor restrictions:				
Investment return	\$ —	—	—	—
Restricted contributions	—	—	—	—
Net assets released from restrictions for operations	(10)	(18)	—	(28)
Net assets released from restrictions for property, plant, and equipment	—	(98)	—	(98)
Change in beneficial interest in foundations	—	—	—	—
Other	(3)	—	—	(3)
	<u>(13)</u>	<u>(116)</u>	<u>—</u>	<u>(129)</u>
Increase (decrease) in net assets with donor restrictions				
Net assets with donor restrictions at beginning of year	<u>163</u>	<u>386</u>	<u>—</u>	<u>549</u>
Net assets with donor restrictions at end of year	<u>\$ 150</u>	<u>270</u>	<u>—</u>	<u>420</u>

FROEDTERT HEALTH, INC. AND AFFILIATES
 Consolidating Statement of Changes in Net Assets Information
 Year ended June 30, 2019
 (In thousands)

	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Exceedent	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Net assets without donor restrictions:							
Revenue in excess of expenses and losses	\$ —	9,615	(5,209)	89,192	(7,395)	(17)	197,023
Transfers (to) from affiliates	9,106	2	5,251	23,937	5,259	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	(247)	—	—	(23)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	—	323
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	5,486	—	—	(5,895)
Forgiveness of receivable from Foundation	—	—	—	—	—	—	—
Contributed capital from minority partners in consolidated affiliates	—	—	—	—	4,860	—	4,860
Other	—	—	—	(19)	—	—	(19)
Increase (decrease) in net assets without donor restrictions	9,106	9,617	42	118,349	2,724	(17)	196,269
Net assets (deficits) without donor restrictions at beginning of year	33,502	36,369	1,164	1,113,383	(1,372)	(907)	2,357,197
Net assets (deficits) without donor restrictions at end of year	<u>\$ 42,608</u>	<u>45,986</u>	<u>1,206</u>	<u>1,231,732</u>	<u>1,352</u>	<u>(924)</u>	<u>2,553,466</u>
Net assets with donor restrictions:							
Investment return	\$ —	—	—	—	—	—	466
Restricted contributions	—	—	—	—	—	—	3,064
Net assets released from restrictions for operations	—	—	—	—	—	—	(1,210)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	—	(323)
Change in beneficial interest in foundations	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	21
Increase (decrease) in net assets with donor restrictions	—	—	—	—	—	—	2,018
Net assets with donor restrictions at beginning of year	—	—	—	—	—	—	14,108
Net assets with donor restrictions at end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16,126</u>

(1) Other Consolidated Affiliates include the entities of Froedtert Health Hometown Pharmacy, Drexel Surgery Center, Inception Health, QHS 1, Integrated Holdings, Waukesha Surgery Center, and Hart's Mills.

See accompanying independent auditors' report.