



FROEDTERT HEALTH, INC. AND AFFILIATES
Consolidated Financial Statements and Schedules
June 30, 2020 and 2019
(With Independent Auditors' Report Thereon)

FROEDTERT HEALTH, INC. AND AFFILIATES

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KPMG LLP
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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, 2020 and 2019, 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, 2020 and 2019, 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 described in notes 1(o) and 1(p) to the consolidated financial statements, in 2020, Froedtert Health, Inc. adopted Accounting Standards Codification Topic 842, *Leases* and Accounting Standards Update 2016-18, *Restricted Cash*. 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 30, 2020

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Balance Sheets

June 30, 2020 and 2019

(In thousands)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 311,572	132,403
Assets whose use is limited	3,994	4,030
Patient accounts receivable	302,652	292,423
Other receivables	17,101	14,594
Inventories and supplies	44,636	39,576
Collateral held for securities loaned	212,055	301,373
Prepays and other	25,970	23,221
Total current assets	917,980	807,620
Investments	1,697,839	1,683,050
Assets whose use is limited or restricted	113,259	100,936
Investments in unconsolidated affiliates	235,258	217,855
Property, plant, and equipment, net	1,551,825	1,333,399
Other assets, net	3,142	12,284
Total assets	\$ 4,519,303	4,155,144
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 9,739	14,730
Current portion of lease liabilities	15,868	—
Accounts payable	88,623	90,623
Accrued expenses	261,694	258,795
Payable under securities lending agreement	212,055	301,373
Estimated settlements to third-party payors	19,900	9,242
Medicare accelerated payment program advance	173,356	—
Total current liabilities	781,235	674,763
Long-term debt, less current installments	653,952	784,974
Long-term lease liabilities	230,971	—
Other long-term liabilities	156,834	125,815
Total liabilities	1,822,992	1,585,552
Net assets:		
Net assets without donor restrictions	2,674,502	2,547,372
Noncontrolling interest in consolidated joint ventures	9,183	6,094
Total net assets without donor restrictions	2,683,685	2,553,466
Net assets with donor restrictions	12,626	16,126
Total net assets	2,696,311	2,569,592
Total liabilities and net assets	\$ 4,519,303	4,155,144

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, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Revenue:		
Patient service revenue	\$ 2,558,502	2,477,505
Other operating revenue	<u>152,174</u>	<u>84,997</u>
Total revenue	<u>2,710,676</u>	<u>2,562,502</u>
Expenses:		
Salaries	947,265	932,596
Fringe benefits	238,893	217,640
Supplies	628,596	573,515
Contract services	124,135	129,087
Affiliate support	142,530	123,455
Depreciation and amortization	131,681	128,489
Interest	34,637	32,204
Other	<u>298,576</u>	<u>311,414</u>
Total expenses	<u>2,546,313</u>	<u>2,448,400</u>
Operating revenue in excess of expenses	<u>164,363</u>	<u>114,102</u>
Nonoperating gains (losses):		
Investment return	8,409	95,928
Change in fair value of interest rate swaps	(24,886)	(12,904)
Community health initiatives	(5,689)	(250)
Other components of pension cost	<u>(7,663)</u>	<u>147</u>
Total nonoperating (losses) gains, net	<u>(29,829)</u>	<u>82,921</u>
Revenue and gains in excess of expenses and losses	134,534	197,023
Other changes in net assets without donor restrictions:		
Change in net unrealized gains and losses on other-than-trading securities	1,007	(23)
Contributions and net assets released from restrictions for property, plant, and equipment	1,517	323
Change in accrued pension benefits other than net periodic benefit costs	(10,482)	(5,895)
Contributed capital from minority partners in consolidated affiliates	3,667	4,860
Other	<u>(24)</u>	<u>(19)</u>
Increase in net assets without donor restrictions	130,219	196,269
Net assets without donor restrictions at beginning of year	<u>2,553,466</u>	<u>2,357,197</u>
Net assets without donor restrictions at end of year	<u>\$ 2,683,685</u>	<u>2,553,466</u>

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2020 and 2019

(In thousands)

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Balance, June 30, 2018	\$ 2,357,197	14,108	2,371,305
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>
Revenue and gains in excess of expenses and losses	134,534	—	134,534
Investment return	—	65	65
Change in net unrealized gains and losses on investments of other-than-trading securities	1,007	—	1,007
Restricted contributions	—	4,653	4,653
Net assets released from restrictions for operations	—	(6,721)	(6,721)
Contributions and net assets released from restrictions for property, plant, and equipment	1,517	(1,517)	—
Change in accrued pension benefits other than net periodic benefit costs	(10,482)	—	(10,482)
Contributed capital from minority partners in consolidated affiliates	3,667	—	3,667
Other	(24)	20	(4)
Change in net assets	<u>130,219</u>	<u>(3,500)</u>	<u>126,719</u>
Balance, June 30, 2020	<u>\$ 2,683,685</u>	<u>12,626</u>	<u>2,696,311</u>

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 126,719	198,287
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	130,166	126,783
Loss on disposal of property, plant, and equipment	190	366
Contributed capital from minority partners in consolidated affiliates	(3,667)	(4,860)
Income from equity interests in unconsolidated affiliates	(34,383)	(30,552)
Distributions from equity interests in unconsolidated affiliates	11,931	10,707
Restricted contributions and investment return	(3,215)	(3,530)
Net assets released from restrictions for operations	6,721	1,210
Realized and unrealized gains and losses on unrestricted investments, net	36,794	(53,435)
Operating lease payments	(8,087)	—
Change in fair value of interest rate swap agreements	24,886	12,904
Change in accrued pension benefits other than net periodic benefit costs	10,482	5,895
Changes in assets and liabilities:		
Patient accounts receivable	(10,229)	(12,279)
Estimated settlements to third-party payors	10,658	(4,948)
Medicare accelerated payment program advance	173,356	—
Accounts payable and accrued expenses	(2,000)	47,507
Other receivables	(2,507)	665
Inventories	(5,060)	(3,468)
Other assets and liabilities	(195)	(12,936)
Net cash provided by operating activities	<u>462,560</u>	<u>278,316</u>
Cash flows from investing activities:		
Net additions to property, plant, and equipment	(197,412)	(221,115)
Proceeds from sales of property, plant, and equipment	—	7
Purchases of trading securities	(799,649)	(850,563)
Proceeds from sales or maturities of trading securities	711,846	833,143
Purchases of alternative investments	(22,179)	(66,843)
Proceeds of sales of alternative investments	46,112	44,353
Investment in ambulatory surgery centers	—	(262)
Additional capital contributions in unconsolidated affiliates	(5,000)	(5,000)
Net cash used in investing activities	<u>(266,282)</u>	<u>(266,280)</u>
Cash flows from financing activities:		
Repayments of long-term debt and finance leases	(17,270)	(14,014)
Contributed capital from minority partners in consolidated affiliates	3,667	4,860
Restricted contributions and investment return	3,215	3,530
Net assets released from restrictions for operations	(6,721)	(1,210)
Net cash used in financing activities	<u>(17,109)</u>	<u>(6,834)</u>
Net change in cash and cash equivalents	179,169	5,202
Cash and cash equivalents:		
Beginning of year	<u>132,403</u>	<u>127,201</u>
End of year	\$ <u>311,572</u>	\$ <u>132,403</u>
Non cash transactions –		
Property, plant and equipment included for ASC Topic 842 Leasing standard adoption	\$ 138,019	—
Property, plant and equipment included for purchase of land from Milwaukee County	15,185	—

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(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), Froedtert Health ASC Enterprise, LLC (ASC), Froedtert Health Pharmacy Solutions, LLC (Pharmacy), and Hart's Mills Insurance Company, SPC (Hart's Mills). FH is the sole shareholder of Hart's Mills, the sole member of Inception, ASC, Pharmacy and the sole corporate member of FMLH, CMH, SJH, Exceedent, and QHS 1.

FMLH owns and operates an acute care hospital with 783 approved beds (of which 689 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. The ownership interest in FSC was transferred to ASC effective July 1, 2019.

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. CMH is also wholly owned by Menomonee Falls Ambulatory Surgery Center, LLC (MFASC) through June 30, 2019. The ownership interest in MFASC was transferred to ASC effective July 1, 2019.

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 was also the sole member of West Bend Surgery Center, LLC (WBSC), an ambulatory surgery center in West Bend, Wisconsin, through June 30, 2019. The ownership interest in WBSC was transferred to ASC effective July 1, 2019.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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.

Pharmacy was organized during fiscal year 2020 to hold and manage the home infusion, retail pharmacy, and pharmacy benefit management business of FH.

ASC holds the ownership interest in FSC (70%), MFASC (100%), WBSC (100%), and Drexel Town Square Surgery Center, LLC (DSC) (51%).

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.

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.

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

At June 30, 2020 and 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 \$309,628 and \$ 215,281 at June 30, 2020 and 2019, respectively. Total combined net assets of the same entities were \$127,342 and 113,093 at June 30, 2020 and 2019 and total combined revenue and gains deficient of expenses and losses were \$(2,138) and \$(2,568) for the years ended June 30, 2020 and 2019, respectively.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

The significant accounting policies of FH are as follows:

(a) Principles of Consolidation

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

(b) Net Assets

Net assets 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. Short-term highly liquid restricted cash equivalents and investments are classified as assets whose use is limited and not as cash and cash equivalents in the consolidated balance sheets. Cash equivalents held as investments are treated as investing activities for cash flow reporting.

(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.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

(e) Patient Service Revenue

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. Certain money market accounts and fixed income securities purchased with a maturity 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, 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.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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.

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 and supplies

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

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

(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 accounted for as right-of-use (ROU) assets under finance and operating leases are recorded at the present value of unpaid lease payments at the lease commencement date 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 2020 or 2019.

(j) Long-Term Debt – 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.

(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, collateral held for securities loaned and investments.

(l) Income Taxes

FH and its affiliates, except ASC, FSC, WBSC, WDL, Inception, Exceedent, MFASC, DSC, Pharmacy, 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. ASC, WBSC, Inception, Exceedent, and Pharmacy are limited liability

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companies and are treated as disregarded entities for tax purposes. Income and losses are passed through to their members. FSC, WDL, DSC, and MFASC are limited liability companies and are treated as partnerships for tax purposes. Income and losses are passed through to their members. Hart's Mills is treated as a controlled foreign corporation and not as a separate entity for tax purposes.

FH applies Accounting Standards Codification (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, 2020 and 2019, 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.

(o) Leases

ASC Topic 842, *Leases (ASC 842)*, was adopted by FH effective July 1, 2019 using a modified retrospective transition approach, without adjustment to the prior period comparative financial information. ASC Topic 842 requires lessees to recognize leases on the consolidated balance sheet and disclose key information about leasing arrangements. The new standard establishes a ROU model that requires a lessee to recognize a ROU asset and lease liability on the consolidated balance sheet for all leases. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statement of operations and changes in net assets without donor restrictions. In adopting and applying the standard, FH elected to adopt the package of practical expedients, including not reassessing past lease accounting, not reassessing previously capitalized initial direct costs as well as electing the short-term lease exemption. FH recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term. As of July 1, 2019, FH recorded ROU assets of \$138,019 and a corresponding leasing obligation of the same amount.

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Operating and finance lease ROU assets are presented within property, plant, and equipment, net on the consolidated balance sheets. The current portion and long-term portion of operating and finance lease liabilities are presented as current portion of lease liabilities and long-term lease liabilities on the consolidated balance sheets.

FH determines if an arrangement is or contains a lease at contract inception. FH recognizes a ROU asset and a lease liability at the lease commencement date if the lease period exceeds one year. Leases less than one year are expensed monthly as incurred.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at amortized cost using the effective-interest method.

Key estimates and judgments include how FH determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term, and (3) lease payments.

FH uses a risk-free discount rate determined using a period comparable with that of the lease term, as an accounting policy election for all leases.

The lease term for all of FH's leases includes the non-cancellable period of the lease plus any additional periods covered by either FH's option to extend (or not to terminate) the lease that FH is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments;
- Variable lease payments that depend on an index or rate;
- Amounts expected to be payable under a FH-provided residual value guarantee; and
- The exercise price of a System option to purchase the underlying asset if FH is reasonably certain to exercise the option.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

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For finance leases, the ROU asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to FH or FH is reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is amortized over the useful life of the underlying asset. Amortization of the ROU asset is recognized and presented separately from the interest expense on the lease liability.

FH monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

(p) New Accounting Pronouncements

FH adopted Financial Accounting Standards Board Accounting Standards Update No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07), effective July 1, 2019. This new guidance requires that the service cost component be reported in the same line items as compensation costs arising from services rendered by the pertinent employees during the period. The other components of net pension benefit costs are required to be presented separately from the service cost component and outside of a subtotal of income from operations. This new guidance resulted in \$7,523 of net periodic pension benefit cost to be reported as a component of nonoperating gains (losses) within the 2020 consolidated statements of operations and changes in net assets without donor restrictions. Prior to the classification, \$7,523 was included in the salary expense. This guidance was retrospectively applied to the 2019 consolidated statements of operations and changes to net assets without donor restrictions and \$(147) was reclassified from fringe benefits to other components of net periodic pension cost for the year ended June 30, 2019.

FH adopted ASU No. 2018-08, *Clarifying the Scope and Accounting for Contributions Received and Made*, effective July 1, 2019. ASU No. 2018-08 clarifies and improves the scope and the accounting guidance to determine when a transaction should be accounted for as an exchange transaction or a contribution and how to determine whether a contribution is conditional. The adoption of ASU No. 2018-08 did not have a material effect on the consolidated financial statements.

FH adopted ASU No. 2016-18, *Restricted Cash*, effective July 1, 2019. ASU No. 2016-18 addresses classification and presentation of changes in restricted cash on the statement of cash flows and requires an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash. The adoption of ASU No. 2016-18 did not have an effect on the consolidated financial statements.

(q) Reclassifications

Reclassifications were made in accordance with newly adopted accounting standards as otherwise disclosed.

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(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, Medicare accelerated payment program advance, 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 net asset value (NAV) reported by the fund manager. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, FH has concluded, as a practical expedient, that the NAV approximates fair value.
- Interest rate swaps: The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and FH. The carrying value equals fair value.

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The following table represents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2020:

	<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	\$ 311,572	311,572	—	—
Collateral held for securities loaned	212,055	—	212,055	—
Investments, excluding interest receivable of \$3.540:				
U.S. government securities	216,098	—	216,098	—
Marketable equity securities/ mutual funds	619,800	619,800	—	—
Fixed income securities	264,646	—	264,646	—
Money market funds/ fixed income mutual funds	251,594	251,594	—	—
Investments measured at NAV ¹ alternative investments:				
Low volatility equity fund	84,309	—	—	—
Real estate fund A	120,001	—	—	—
Real estate fund B	71,500	—	—	—
International fund A	19,613	—	—	—
International fund B	19,227	—	—	—
Hedge fund of funds	27,511	—	—	—
Assets whose use is limited or restricted, excluding interest receivable of \$138 and pledges receivable of \$498:				
Cash and cash equivalents	4,880	4,880	—	—
U.S. government securities	9,788	—	9,788	—
Marketable equity securities/ mutual funds	39,346	39,346	—	—
Fixed income securities	16,390	—	16,390	—
Money market funds/ fixed income mutual funds	30,412	30,412	—	—

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	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments measured at NAV ¹				
alternative investments:				
Low volatility equity fund	\$ 3,818	—	—	—
Real estate fund A	5,435	—	—	—
Real estate fund B	3,238	—	—	—
International fund A	888	—	—	—
International fund B	871	—	—	—
Hedge fund of funds	1,246	—	—	—
Other	305	—	21	284
Total assets	<u>\$ 2,334,543</u>	<u>1,257,604</u>	<u>718,998</u>	<u>284</u>
Liabilities:				
Payable under securities lending agreement	\$ 212,055	—	212,055	—
Interest rate swap agreements	59,589	—	59,589	—
Total liabilities	<u>\$ 271,644</u>	<u>—</u>	<u>271,644</u>	<u>—</u>

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

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	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
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	<u>289</u>	<u>—</u>	<u>20</u>	<u>269</u>
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	<u>34,703</u>	<u>—</u>	<u>34,703</u>	<u>—</u>
Total liabilities	\$ <u>336,076</u>	<u>—</u>	<u>336,076</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.

For the year ended June 30, 2020, there were no transfers in or out of Levels 1, 2, or 3 and no significant level 3 activity.

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(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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 316,452	136,744
Fixed income	567,218	439,863
U.S. Government Securities	225,886	264,448
Equity securities	659,146	681,213
Alternative investments	<u>357,962</u>	<u>398,151</u>
	<u>\$ 2,126,664</u>	<u>1,920,419</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.

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 311,572	132,403
Patient accounts receivable	302,652	292,423
Long-term investments	1,697,839	1,683,050
Less: assets with liquidity over one year	<u>—</u>	<u>—</u>
	<u>\$ 2,312,063</u>	<u>2,107,876</u>

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(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>2020</u>	<u>2019</u>
Assets whose use is limited or restricted:		
By management:		
For executive compensation agreements	\$ 35,424	32,128
For program development and physician recruitment	42,937	32,938
For community health initiatives	9,648	13,598
For other	11,024	5,535
By donors	12,626	16,126
Other	5,594	4,641
	<u>117,253</u>	<u>104,966</u>
Total assets whose use is limited or rest	\$ <u>117,253</u>	<u>104,966</u>

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>2020</u>	<u>2019</u>
Interest and dividends on investments	\$ 48,813	46,173
Net realized gains and losses on sale of investments	5,564	36,977
Change in net unrealized gains and losses on investments	(42,723)	16,531
	<u>11,654</u>	<u>99,681</u>
Total investment return	\$ <u>11,654</u>	<u>99,681</u>

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Investment returns are included in the accompanying consolidated statements of operations and changes in net assets without restrictions for the years ended June 30, 2020 and 2019:

	Year ended June 30	
	2020	2019
Other operating revenue:		
Interest and dividend income	\$ 2,173	2,972
Nonoperating gains and losses – investment return	8,409	95,928
Other changes in net assets without donor restrictions – change in net unrealized gains and losses on investments of nontrading securities	1,007	(23)
Other changes in net assets with donor restrictions – Investment return	65	466
Interest earnings offset against capitalized interest cost	—	338
Total investment return	\$ 11,654	99,681

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 \$207,765 and \$295,956 at June 30, 2020 and 2019, respectively. The fair market value of the collateral received under this arrangement was \$212,055 and \$301,373 at June 30, 2020 and 2019, 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 102.1% and 101.8% of the fair value of securities loaned at June 30, 2020 and 2019, respectively.

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(5) Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows:

	June 30	
	2020	2019
Land and land improvements	\$ 47,336	31,390
Building and leasehold improvements	380,622	361,652
Buildings	997,652	1,047,062
Fixed equipment	194,175	177,962
Movable equipment	794,239	742,701
Finance lease ROU assets	152,502	—
Operating lease ROU assets	122,288	—
Construction in progress	122,742	99,463
Total property, plant, and equipment	2,811,556	2,460,230
Less accumulated depreciation and amortization	1,259,731	1,126,831
Property, plant, and equipment, net	\$ 1,551,825	1,333,399

At July 1, 2019, existing capital lease buildings of \$136,771 were reclassified to finance lease ROU assets as part of the ASC Topic 842, *Leases*, adoption.

Construction in progress at June 30, 2020 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 \$73,758 at June 30, 2020.

(6) Leases

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. Lease expense has been recognized in accordance with the terms of the lease agreements amounting to \$9,891 for the year ended June 30, 2019. Cumulative amounts recognized under the lease agreements since the leases' inception in 1995 are \$130,816 through June 30, 2019. In April 2020, the lease was terminated and FMLH purchased the land with two purchase price installment payments to be paid December 31, 2020 (first payment) and 2021 (second payment), respectively. The first payment is calculated similar to previous land lease payments as 5.25% of certain fiscal year 2020 operating cash

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flow. The second payment is calculated as 5.25% of certain fiscal year 2021 operating cash flow multiplied times 50%. As a result of the purchase, FMLH recorded land of \$15,507, which includes the first payment, an estimate of contingent consideration for the second payment, an estimate for assumed liabilities, and certain closing costs post purchase.

FH leases equipment, medical office space, and other office space under terms of various operating and finance leases. The terms of certain of the lease agreements contain lease escalation clauses, allow for renewal of the leases, and require FH to pay operating costs in addition to minimum base rent. The components of lease cost for the year ended June 30, 2020 were as follows:

Operating lease cost	\$	10,455
Finance lease cost:		
Amortization of ROU assets		9,802
Interest on lease liabilities		<u>7,371</u>
Total finance lease cost		17,173
Variable lease cost		8,784
Short-term lease cost		<u>5,883</u>
Total lease cost	\$	<u><u>42,295</u></u>
Operating leases:		
Equipment and office space	\$	122,288
Accumulated amortization		<u>(9,380)</u>
Property, plant, and equipment, net	\$	<u><u>112,908</u></u>
Current portion of lease liabilities	\$	7,807
Long-term lease liabilities		<u>105,867</u>
Total operating lease liabilities	\$	<u><u>113,674</u></u>
Finance leases:		
Equipment and office space	\$	152,502
Accumulated amortization		<u>(43,167)</u>
Property, plant, and equipment, net	\$	<u><u>109,335</u></u>
Current portion of lease liabilities	\$	8,061
Long-term lease liabilities		<u>125,104</u>
Total finance lease liabilities	\$	<u><u>133,165</u></u>

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Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flow from operating leases	\$ 8,087
Operating cash flow from finance leases	7,371
Financing cash flow from finance lease	7,486
ROU assets obtained in exchange for lease obligations:	
Operating leases	—
Finance leases	—
Reductions to ROU assets resulting from reductions to lease obligations:	
Operating leases	606
Finance leases	—
Weighted average remaining term:	
Operating leases	13.4 years
Finance leases	12.5 years
Weighted average discount rate:	
Operating leases	2.04 %
Finance leases	2.84 %

FH used a risk-free discount rate determined using a period comparable with that of the lease term, as an accounting policy election for all leases.

Maturities of lease liabilities under noncancellable leases as of June 30, 2020 are as follows:

	<u>Operating leases</u>	<u>Finance leases</u>
2021	\$ 10,149	15,152
2022	9,910	14,611
2023	10,041	14,744
2024	10,175	15,027
2025	10,137	15,316
Thereafter	<u>82,518</u>	<u>109,040</u>
Total undiscounted lease payments	132,930	183,890
Less imputed interest	<u>(19,256)</u>	<u>(50,725)</u>
Total lease liabilities	<u>\$ 113,674</u>	<u>133,165</u>

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Prior to the adoption of ASC Topic 842, aggregate future minimum lease payments, excluding the land lease with Milwaukee County, required under operating lease agreements in effect on June 30, 2019 were as follows:

2020		\$	9,959
2021			8,778
2022			8,406
2023			8,191
2024			7,226
Thereafter			25,311
		\$	67,871

(7) Long-Term Debt

Long-term debt is summarized as follows:

	June 30	
	2020	2019
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 2020 and 2019)	\$ 150,645	151,040
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 (0.93% at June 30, 2020, effective rate of interest 5.11% in 2020 and 3.96% in 2019)	71,415	74,080
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 2020 and 2019)	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 4.28% in 2020 and 4.26% in 2019)	242,355	248,655
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 (0.93% at June 30, 2020, effective rate of interest 2.13% in 2020 and 2.76% in 2019)	80,000	80,000

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	<u>June 30</u>	
	<u>2020</u>	<u>2019</u>
Capital leases prior to adoption of ASC Topic 842	\$ —	124,902
Other	339	448
	<u>644,754</u>	<u>779,125</u>
Unamortized bond premiums and debt issuance costs, net	18,937	20,579
Total	663,691	799,704
Current installments of long-term debt	9,739	14,730
Total long-term debt	<u>\$ 653,952</u>	<u>784,974</u>

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 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 \$35,297 and \$35,223 for the years ended June 30, 2020 and 2019, respectively.

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

2021	\$ 9,739
2022	10,002
2023	10,242
2024	70,191
2025	7,550
Thereafter	<u>555,967</u>
	<u>\$ 663,691</u>

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, 2020. FH has not been required to make any payments or accruals related to this guaranty as of June 30, 2020.

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(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 68% of the three-month LIBOR index for the Series 2013A bonds and 70% 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, 2020 and 2019 consist of the following:

Associated series	Original notional amount	Maturity Date	Fixed pay rate	Variable pay rates at June 30	
				2020	2019
2013A Bonds	\$ 94,050	April 1, 2035	3.37 %	0.317 %	2.424 %
2017B Bonds	80,000	April 1, 2048	2.92	—	—

The fair value of the interest rate swaps of \$59,589 and \$34,703 is included in other long-term liabilities in the consolidated balance sheets at June 30, 2020 and 2019, respectively. The change in fair value of the interest rate swaps of \$(24,886) and \$(12,904) 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, 2020 and 2019, respectively.

Cash paid for monthly settlement under the interest rate swap agreements was \$1,670 and \$1,245 for the fiscal years ended June 30, 2020 and 2019, 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, 2020 or 2019. No swap collateral posting was required at June 30, 2020 or 2019, 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:

	2020	2019
Capital	\$ 310	3,934
Education and research	1,642	1,397
Patient care	507	477
Other	10,167	10,318
	<u>\$ 12,626</u>	<u>16,126</u>

(10) 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

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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, 2016. The CMH cost reports have been audited by the Medicare fiscal intermediary through June 30, 2017. The SJH cost reports have been audited by the Medicare fiscal intermediary through June 30, 2017.

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 \$54,404 and \$49,164 of increased Medicaid reimbursement and \$47,802 and \$44,632 of tax expense as a result of the law for the years ended June 30, 2020 and 2019, respectively. The Medicaid reimbursement and tax assessment expense are recorded in patient service revenue and other expense, respectively, in the 2020 and 2019 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.

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 (i.e., new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. During 2020 and 2019, changes to prior year variable consideration resulted in a decrease of patient service revenue of \$2,000 and \$1,886, 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

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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 (e.g., 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.

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:

	<u>2020</u>	<u>2019</u>
Medicare	29 %	30 %
Medicaid	8	8
Managed care/contracted payor	49	51
Self-pay	1	2
Other	13	9
	<u>100 %</u>	<u>100 %</u>

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

	<u>2020</u>	<u>2019</u>
Hospital Inpatient	\$ 1,118,442	1,036,228
Hospital outpatient	913,426	953,654
Physician clinics	232,214	242,790
Ambulatory surgery centers	20,525	22,304
Other	273,895	222,529
	<u>\$ 2,558,502</u>	<u>2,477,505</u>

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(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, 2020 and 2019 is as follows:

	June 30	
	2020	2019
Medicare	25 %	26 %
Medicaid	10	8
Managed care/contracted payor	44	44
Self-pay	15	17
Other	6	5
	100 %	100 %

(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 \$10,828 and \$11,588 for the years ended June 30, 2020 and 2019, respectively.

(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, 2020 and 2019 are as follows:

2020	Healthcare services	General and administration	Total
Salaries and fringe benefits	\$ 1,030,043	156,115	1,186,158
Supplies and contract services	672,592	80,139	752,731
Depreciation and amortization	116,223	15,458	131,681
Interest	29,913	4,724	34,637
Affiliate support and other	336,021	74,999	411,020
Utilities	22,599	7,487	30,086
	\$ 2,207,391	338,922	2,546,313

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2019	Healthcare services	General and administration	Total
Salaries and fringe benefits	\$ 1,002,003	148,233	1,150,236
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>316,704</u>	<u>2,448,400</u>

(14) Related Organizations and Other Significant Transactions

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

FH and The Medical College of Wisconsin, Inc (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 Froedtert & the Medical College of Wisconsin Community Physicians (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

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, 2020 and 2019.

(ii) Funds Flow Agreement

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

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

Affiliate support relating to the Funds Flow Agreement made to MCW amounted to \$117,615 and \$109,482 for the years ended June 30, 2020 and 2019, respectively. Amounts accrued relating to the Variable Performance Payment were \$3,923 and \$3,293 in accounts payable on the consolidated balance sheets at June 30, 2020 and 2019, respectively. Also, accrued under the

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Funds Flow Agreement was \$38,643 and \$29,644, which is included in other long-term liabilities on the consolidated balance sheets at June 30, 2020 and 2019, respectively.

(b) *Unconsolidated Affiliates*

(i) *Network Health, Inc.*

FH has a 50% ownership interest in Network Health, Inc. (NHI), a Wisconsin-based health insurance company having approximately 120,000 members (including self-insured members), 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 \$117,880 and \$99,666 at June 30, 2020 and 2019, respectively. The excess of the carrying amount over FH's share of the equity of NHI was \$3,372 at both June 30, 2020 and 2019 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 \$18,214 and \$12,965 for the years ended June 30, 2020 and 2019, respectively. The 2020 other revenue is comprised of \$16,214 of FH's 50% share of NHI's net gains for the year ended June 30, 2020 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, 2020. 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 following information regarding NHI, including the tables below, is unaudited.

	June 30	
	2020	2019
Current assets	\$ 223,415	159,780
Current liabilities	210,510	169,158
Working capital	12,905	(9,378)
Property and equipment, net	8,562	10,122
Other long-term assets	219,093	207,389
Long-term liabilities	—	—
Net assets	\$ 240,560	208,133

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Investment in NHI advances FH's accountable care strategy and movement toward population health. Partnering with a provider-based health plan expands the health system's scope and scale in terms of efficient, cost-effective care delivery. The following unaudited table is intended to show the combined results of FH and NHI for the year ended June 30, 2020 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	\$ 2,558,502	—	2,558,502	—	2,558,502
Premiums, net	—	868,175	868,175	(434,088)	434,087
Other operating revenue	133,960	—	133,960	2,100	136,060
Total revenue	<u>2,692,462</u>	<u>868,175</u>	<u>3,560,637</u>	<u>(431,988)</u>	<u>3,128,649</u>
Salaries and fringe benefits	1,186,158	—	1,186,158	—	1,186,158
General and administrative	—	106,185	106,185	(53,093)	53,092
Medical benefits and supplies	628,596	720,502	1,349,098	(360,251)	988,847
Contract services and affiliate support	266,665	—	266,665	—	266,665
Depreciation and interest	166,318	5,150	171,468	(2,575)	168,893
Premium taxes and other assessments	—	4,407	4,407	(2,203)	2,204
Other	298,576	—	298,576	—	298,576
Total expenses	<u>2,546,313</u>	<u>836,244</u>	<u>3,382,557</u>	<u>(418,122)</u>	<u>2,964,435</u>
Operating revenue in excess of expenses	146,149	31,931	178,080	(13,866)	164,214
Income tax expense	—	(11,187)	(11,187)	5,594	(5,593)
Nonoperating gains, net	(29,829)	11,485	(18,344)	(5,743)	(24,087)
Revenue and gains in excess of expenses and losses	<u>\$ 116,320</u>	<u>32,229</u>	<u>148,549</u>	<u>(14,015)</u>	<u>134,534</u>

* Fiscal year ended June 30, 2020 before insurance operations.

** Trailing twelve months ended June 30, 2020.

(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 in both fiscal years 2020 and 2019. The remaining amount due of \$5,000 is included in accrued expenses in the consolidated balance

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sheet at June 30, 2020. The governance rights include FH becoming a voting member and obtaining a 25% equity ownership interest in United. FH has recorded equity (loss) income related to the affiliation of \$(3,103) and \$3,496 for the years ended June 30, 2020 and 2019, respectively. FH recorded its 25% share of United's change in accrued pension benefits other than net periodic benefit costs of \$(5,049) and \$5,486 for the years ended June 30, 2020 and 2019, respectively, in the consolidated statements of operations and changes in net assets without donor restrictions. The carrying amount of the investment in United was \$66,061 and \$73,206 at June 30, 2020 and 2019, 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.

(iii) Other Unconsolidated Affiliates

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

	June 30	
	2020	2019
Current assets	\$ 219,312	223,215
Current liabilities	(52,126)	(44,746)
Working capital	167,186	178,469
Property and equipment, net	304,482	299,067
Other long-term assets	205,856	198,987
Long-term liabilities	(108,475)	(93,195)
Net assets	\$ 569,049	583,328
Revenues	\$ 453,315	483,938
Expenses	(418,091)	(429,471)
Excess of revenues over expenses	\$ 35,224	54,467

(c) Noncontrolling Interest in Consolidated Joint Ventures

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

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Changes in 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, 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	<u>(19)</u>	<u>221</u>	<u>(240)</u>
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>
Revenue and gains in excess of expenses and losses	134,534	135,112	(578)
Changes in net unrealized gains and losses on other-than-trading securities	1,007	1,007	—
Contributions and net assets released from restrictions for property, plant, and equipment	1,517	1,517	—
Change in accrued pension benefits other than net periodic benefit costs	(10,482)	(10,482)	—
Investment in ambulatory surgery center from noncontrolling interest	3,667	—	3,667
Other	<u>(24)</u>	<u>(24)</u>	<u>—</u>
Changes in net assets	<u>130,219</u>	<u>127,130</u>	<u>3,089</u>
Balance, June 30, 2020	\$ <u><u>2,683,685</u></u>	<u><u>2,674,502</u></u>	<u><u>9,183</u></u>

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(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 2.5% of pay for employees with less than 5 years of service to 4.5% 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 6% 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 \$43,029 and \$36,335 for the years ended June 30, 2020 and 2019, 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 \$1,460 and \$2,057 at June 30, 2020 and 2019, respectively, included in other assets, net on the consolidated balance sheets. FMLH's pension expense for the FMLH Plan was \$100 and \$(115) for the years ended June 30, 2020 and 2019, respectively.

In April of 2020, an annuity contract was purchased for \$6,724 to transfer the pension benefit obligation to a third party for 78 participants with monthly benefits of one thousand dollars or less. In accordance with ASC Topic 715 settlement accounting, a re-measurement of the FMLH plan occurred as of April 30, 2020, resulting in a \$819 settlement loss, which is recorded in non-operating gains (losses) in the 2020 consolidated statement of operations and changes in net assets without donor restrictions.

Data relative to the FMLH Plan for the years ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Change in pension benefit obligation:		
Projected benefit obligation at beginning of year	\$ 73,740	66,344
Service cost	678	676
Interest cost	2,507	2,766
Plan settlements	(6,724)	—
Actuarial (gain) loss	(752)	1,758
Change in mortality assumption	(849)	(194)
Change in discount rate	7,135	5,738

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	<u>2020</u>	<u>2019</u>
Expenses paid	\$ (402)	(209)
Benefits paid	<u>(3,258)</u>	<u>(3,139)</u>
Projected benefit obligation at end of year	<u>72,075</u>	<u>73,740</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	71,434	63,651
Actual return on plan assets	8,407	7,699
Employer contributions	1,095	3,432
Plan settlements	(6,724)	—
Expenses paid	(402)	(209)
Benefits paid	<u>(3,258)</u>	<u>(3,139)</u>
Fair value of plan assets at end of year	<u>70,552</u>	<u>71,434</u>
Funded status	\$ <u><u>(1,523)</u></u>	<u><u>(2,306)</u></u>
	<u>2020</u>	<u>2019</u>
Accumulated benefit obligation	\$ 69,159	70,629
	<u>2020</u>	<u>2019</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>8,727</u>	<u>8,656</u>
Unrecognized pension costs	\$ <u><u>8,727</u></u>	<u><u>8,656</u></u>
Net periodic pension cost comprises the following:		
Service cost	\$ 678	676
Interest cost on projected benefit obligation	2,506	2,766
Expected return on plan assets	(3,967)	(3,736)
Net amortization and deferral	203	—
Recognized settlement loss	<u>819</u>	<u>—</u>
Net periodic pension cost	\$ <u><u>239</u></u>	<u><u>(294)</u></u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

	<u>2020</u>	<u>2019</u>
Assumptions used:		
Discount rate for measurement of pension obligation	2.76 %	3.58 %
Discount rate for determining net periodic pension cost:		
Fiscal year 2019	—	4.28
July 1, 2019 to April 30, 2020	3.58	—
May 1, 2020 to June 30, 2020	3.05	—
Rate of increase in compensation levels	3.25	3.25
Expected return of plan assets:		
Fiscal year 2019	—	5.80
July 1, 2019 to April 30, 2020	5.80	—
May 1, 2020 to June 30, 2020	4.85	—

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, 2020 and 2019, 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 ended June 30, 2020 is estimated to be \$1,292. The benefits expected to be paid in each year from 2021 through 2025 are expected to be \$3,436, \$3,556, \$3,672, \$3,769, and \$3,852, respectively. The aggregate benefits to be paid in the five years from 2026 through 2030 are expected to be \$19,921. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2020.

The amount that will be recorded as net periodic benefit cost in fiscal year 2021 is estimated to be \$(569).

The asset allocation of the pension plan at June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Equity securities	33 %	37 %
Debt securities	67	63
Total	<u>100 %</u>	<u>100 %</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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.

In April of 2020, an annuity contract was purchased for \$21,143 to transfer the pension benefit obligation to a third party for 390 participants with monthly benefits of one thousand dollars or less. In accordance with ASC Topic 715 settlement accounting, a re-measurement of the CMH plan occurred as of April 30, 2020, resulting in a \$6,469 settlement loss, which is recorded in non-operating gains (losses) in the 2020 consolidated statement of operations and changes in net assets without donor restrictions.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

Data relative to the CMH Plan for the years ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Change in pension benefit obligation:		
Projected benefit obligation at beginning of year	\$ 149,130	129,930
Service cost	3,141	2,513
Interest cost	5,175	5,494
Plan settlements	(21,143)	—
Actuarial (gain) loss	(1,180)	3,799
Change in mortality assumption	(991)	(355)
Change in discount rate	16,054	12,572
Expenses paid	(824)	(128)
Benefits paid	(4,937)	(4,695)
	<u>144,425</u>	<u>149,130</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	121,595	108,709
Actual return on plan assets	6,215	10,911
Employer contributions	3,775	6,799
Plan settlements	(21,143)	—
Expenses paid	(824)	(129)
Benefits paid	(4,937)	(4,695)
	<u>104,681</u>	<u>121,595</u>
Fair value of plan assets at end of year	104,681	121,595
Funded status	\$ <u>(39,744)</u>	<u>(27,535)</u>
	<u>2020</u>	<u>2019</u>
Accumulated benefit obligation	\$ 134,386	137,794

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

	<u>2020</u>	<u>2019</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>42,665</u>	<u>37,139</u>
Unrecognized pension costs	<u>\$ 42,665</u>	<u>37,139</u>
Net periodic pension cost is comprised of the following:		
Service cost	\$ 3,141	2,513
Interest cost	5,175	5,494
Expected return on plan assets	(7,329)	(7,119)
Recognized settlement loss	6,469	—
Recognized actuarial loss	<u>3,002</u>	<u>1,468</u>
Net periodic pension cost	<u>\$ 10,458</u>	<u>2,356</u>
Assumptions used:		
Discount rate for measurement of pension obligation	2.86 %	3.64 %
Discount rate for determining net periodic pension cost:		
Fiscal year 2019	— %	4.31 %
July 1, 2019 to April 30, 2020	3.64	—
May 1, 2020 to June 30, 2020	3.13	—
Rate of increase in compensation levels	3.00–6.00%	3.00–6.00%
Expected return of plan assets:		
Fiscal year 2019	— %	6.40 %
July 1, 2019 to April 30, 2020	6.40	—
May 1, 2020 to June 30, 2020	6.00	—

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, 2020 and 2019, 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 ended June 30, 2020 are estimated to be \$7,968. The benefits expected to be paid in each year from 2021 through 2025 are \$4,186, \$4,747, \$5,324, \$5,773, and \$6,219, respectively. The aggregate benefits to be paid in the five years from 2026 through 2030 are \$37,130. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2020.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

The amount that will be recorded as net periodic benefit cost in fiscal year 2021 is estimated to be \$3,676.

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

	2020	2019
Equity securities	64 %	57 %
Debt securities	34	41
Other	2	2
Total	100 %	100 %

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 is subject to a de-risking glide path where duration-matched securities are 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.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

(ii) *Fair Value Hierarchy*

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

The following table presents the Plans' fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2020:

	<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	\$ 51,117	—	51,117	—
Investments:				
Short-term investments consisting of money market funds	\$ 3,733	3,733	—	—
Corporate stocks	51,031	51,031	—	—
Pooled equity funds	23,194	23,194	—	—
International equity funds	15,051	15,051	—	—
Marketable limited partnerships	66	66	—	—
Corporate and foreign bonds	49,108	—	49,108	—
U.S. government securities	31,053	—	31,053	—
Annuity contract	1,997	—	—	1,997
Total investments	<u>\$ 175,233</u>	<u>93,075</u>	<u>80,161</u>	<u>1,997</u>
Liabilities:				
Payable under securities lending agreement	\$ 51,117	—	51,117	—

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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

Fair value at June 30, 2019	\$	1,923
Gains/losses and investment income, net		329
Purchases, issuances, and write-offs, net		—
Contributions and disbursements, net		<u>(255)</u>
Fair value at June 30, 2020	\$	<u><u>1,997</u></u>

The following table presents the Plans' fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 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:				
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	<u>1,923</u>	<u>—</u>	<u>—</u>	<u>1,923</u>
Total investments	\$ <u><u>193,029</u></u>	<u><u>98,484</u></u>	<u><u>92,622</u></u>	<u><u>1,923</u></u>
Liabilities:				
Payable under securities lending agreement	\$ 92,953	—	92,953	—

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

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

Fair value at June 30, 2018	\$	1,834
Gains/losses and investment income, net		192
Purchases, issuances, and write-offs, net		—
Contributions and disbursements, net		(103)
Fair value at June 30, 2019	\$	<u>1,923</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 \$50,192 and \$91,400 at June 30, 2020 and 2019, respectively. The fair market value of the collateral received under this arrangement was \$51,117 and \$92,953 at June 30, 2020 and 2019, 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, 2020 and 2019. The fair value of collateral was 101.8% and 101.7% of the fair value of securities loaned at June 30, 2020 and 2019, 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, 2020 and 2019 using a discount rate of 2.76% and 3.59% was \$4,226 and \$4,119, respectively, of which \$184 and \$187, respectively, are included in short-term liabilities and \$4,042 and \$3,932, 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 has recorded an estimated insurance recovery of \$110 and \$8,940 at June 30, 2020 and 2019, respectively, and a related insurance liability of \$110 and \$9,440 at June 30, 2020 and 2019, respectively.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

(17) Commitments and Contingencies

(a) 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, 2020 and 2019 are estimated amounts payable for health insurance claims incurred as of such dates of \$12,126 and \$13,776, respectively.

(b) 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.

(c) 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.

(18) COVID 19

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient activity and related revenues for most services were significantly impacted starting in mid-March as various policies were implemented by federal, state and local governments in response to the COVID-19 pandemic that caused many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective surgical procedures by health care facilities. While some of these restrictions have since been eased across the U.S. and most states have lifted moratoriums on nonemergent procedures, certain restrictions remain in place with some state and local governments re-imposing restrictions due to increasing rates of COVID-19 cases. While patient activity and revenues experienced gradual improvement beginning in the latter part of April and continuing through fiscal year-end.

FH's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. Precautionary steps to enhance operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to the business, include the following:

- Implemented certain cost reduction initiatives;

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

- Reduced certain planned projects and capital expenditures;
- Assessing the various Federal stimulus options available to FH as noted below.

In March 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law providing temporary and limited relief to hospitals during the COVID-19 outbreak, appropriation were made for hospitals to cover expenses and lost revenue associated with the treatment of COVID-19 patients, expanding the Medicare Advanced and Accelerated payment program, providing employee retention tax credits to employers affected by COVID-19, eliminating the 2% reduction in Medicare payments from sequestration through 2020, creating an add-on payment for inpatient hospitals treating COVID-19 patients, and delaying a reduction in Medicaid funding for Medicare disproportionate share hospitals.

As of June 30, 2020, FH received \$65,868 in general distributions related to the CARES Act. These funds are not subject to repayment, provided FH is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as other income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on analysis of the compliance and reporting requirements of the CARES Act and the impact of the pandemic on operating results through the end of the second quarter, FH has recorded \$65,868 as other operating revenue in the consolidated statements of operations and changes in net assets without donor restrictions.

In addition, FH received \$173,356 of accelerated Medicare payments under the Medicare Advanced Payment Program (APP). APP allows eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. After 120 days of receipt (preliminarily beginning in August 2020), claims for services provided to Medicare beneficiaries will be applied against the advance payment balance. Any unapplied advance payment amounts must be paid in full within one year from receipt of the advance payments for acute care hospitals and within 210 days for other health care providers. As of June 30, 2020, FH has recorded the APP payments contract liability as a current liability on the consolidated balance sheets.

The extent of the COVID-19 pandemic's adverse impact on operating results and financial condition of FH has been and will continue to be driven by many factors, most of which are beyond FH's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines on patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure. Because of these and other uncertainties, FH cannot estimate the length or severity of the impact of the pandemic on the business and the results of its operations.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2020 and 2019

(Dollars in thousands)

On September 19, 2020, the Department of Health and Human Services provided Post-Payment Notice of Reporting Requirements for providers that received funding under the CARES Act. The provisions within this notice provide new guidance on healthcare related expenses attributable to COVID-19 and “lost revenue” which are now defined as the negative change in year-over-year net patient care operating income, net of healthcare related expenses attributable to Coronavirus. The guidance is considered a Type II subsequent event and are therefore not reflected as of June 30, 2020. Management is in the process of evaluating the impact of this new guidance.

(19) 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 30, 2020, 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

Schedule 1

Consolidating Balance Sheet Information

June 30, 2020

(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	\$ 2,740	1,794	—	—	4,534
Assets whose use is limited	—	—	—	—	—
Patient accounts receivable	228,579	—	—	—	228,579
Other receivables	29,286	237	—	(619)	28,904
Inventories	19,079	—	—	—	19,079
Collateral held for securities loaned	—	—	—	—	—
Prepays and other	7,267	—	—	—	7,267
Total current assets	286,951	2,031	—	(619)	288,363
Investments	—	13,704	—	—	13,704
Assets whose use is limited or restricted	25,514	9,272	—	(23,268)	11,518
Investments in unconsolidated affiliates	2,723	—	—	—	2,723
Property, plant, and equipment, net	919,904	—	—	—	919,904
Other assets, net	1,460	—	—	—	1,460
Total assets	\$ 1,236,552	25,007	—	(23,887)	1,237,672
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	\$ 44	—	—	—	44
Current portion of lease liabilities	3,308	—	—	—	3,308
Accounts payable	33,511	1,629	—	(619)	34,521
Accrued expenses	53,037	110	—	—	53,147
Payable under securities lending agreement	—	—	—	—	—
Estimated settlements to third-party payors	151,892	—	—	—	151,892
Total current liabilities	241,792	1,739	—	(619)	242,912
Long-term debt, less current installments	172	—	—	—	172
Long-term lease liabilities	41,585	—	—	—	41,585
Other long-term liabilities	10,166	—	—	—	10,166
Total liabilities	293,715	1,739	—	(619)	294,835
Net assets (deficit):					
Without donor restrictions:					
Without donor restrictions	917,323	14,072	—	—	931,395
Noncontrolling interests in consolidated joint ventures	—	—	—	—	—
Total without donor restrictions	917,323	14,072	—	—	931,395
With donor restrictions	25,514	9,196	—	(23,268)	11,442
Total net assets	942,837	23,268	—	(23,268)	942,837
Total liabilities and net assets	\$ 1,236,552	25,007	—	(23,887)	1,237,672

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 1

Consolidating Balance Sheet Information

June 30, 2020

(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	\$ 8	626	—	—	—	634
Assets whose use is limited	—	—	—	—	—	—
Patient accounts receivable	26,401	—	—	—	—	26,401
Other receivables	6,954	—	360	—	(454)	6,860
Inventories	3,806	—	—	—	—	3,806
Collateral held for securities loaned	—	—	—	—	—	—
Prepays and other	593	29	—	—	—	622
Total current assets	37,762	655	360	—	(454)	38,323
Investments	—	5,965	—	—	—	5,965
Assets whose use is limited or restricted	8,703	2,679	—	—	(8,703)	2,679
Investments in unconsolidated affiliates	—	—	—	—	—	—
Property, plant, and equipment, net	91,387	—	—	—	—	91,387
Deferred financing costs and other assets, net	—	—	—	—	—	—
Total assets	\$ 137,852	9,299	360	—	(9,157)	138,354
Liabilities and Net Assets						
Current liabilities:						
Current installments of long-term debt	\$ —	—	—	—	—	—
Current portion of lease liabilities	126	—	—	—	—	126
Accounts payable	1,466	595	12	—	(454)	1,619
Accrued expenses	6,300	1	—	—	—	6,301
Payable under securities lending agreement	—	—	—	—	—	—
Estimated settlements to third-party payors	21,780	—	—	—	—	21,780
Total current liabilities	29,672	596	12	—	(454)	29,826
Long-term debt, less current installments	—	—	—	—	—	—
Long-term lease liabilities	—	—	—	—	—	—
Other long-term liabilities	39,744	—	—	—	—	39,744
Total liabilities	69,416	596	12	—	(454)	69,570
Net assets (deficit):						
Without donor restrictions:						
Without donor restrictions	67,696	7,963	348	—	(7,963)	68,044
Noncontrolling interests in consolidated joint ventures	—	—	—	—	—	—
Total without donor restrictions	67,696	7,963	348	—	(7,963)	68,044
With donor restrictions	740	740	—	—	(740)	740
Total net assets	68,436	8,703	348	—	(8,703)	68,784
Total liabilities and net assets	\$ 137,852	9,299	360	—	(9,157)	138,354

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 1

Consolidating Balance Sheet Information

June 30, 2020

(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	\$ 29	1,397	—	1,426
Assets whose use is limited	—	—	—	—
Patient accounts receivable	17,022	—	—	17,022
Other receivables	666	92	(480)	278
Inventories	1,954	—	—	1,954
Collateral held for securities loaned	—	—	—	—
Prepays and other	96	—	—	96
Total current assets	19,767	1,489	(480)	20,776
Investments	—	30,943	—	30,943
Assets whose use is limited or restricted	174	9,279	—	9,453
Investments in unconsolidated affiliates	20	—	—	20
Property, plant, and equipment, net	56,830	—	—	56,830
Deferred financing costs and other assets, net	—	—	—	—
Total assets	<u>\$ 76,791</u>	<u>41,711</u>	<u>(480)</u>	<u>118,022</u>
Liabilities and Net Assets				
Current liabilities:				
Current installments of long-term debt	\$ —	—	—	—
Current portion of lease liabilities	104	—	—	104
Accounts payable	780	483	(480)	783
Accrued expenses	4,776	—	—	4,776
Payable under securities lending agreement	—	—	—	—
Estimated settlements to third-party payors	13,228	—	—	13,228
Total current liabilities	18,888	483	(480)	18,891
Long-term debt, less current installments	—	—	—	—
Long-term lease liabilities	—	—	—	—
Other long-term liabilities	1,140	—	—	1,140
Total liabilities	<u>20,028</u>	<u>483</u>	<u>(480)</u>	<u>20,031</u>
Net assets (deficit):				
Without donor restrictions:				
Without donor restrictions	56,589	40,958	—	97,547
Noncontrolling interests in consolidated joint ventures	—	—	—	—
Total without donor restrictions	56,589	40,958	—	97,547
With donor restrictions	174	270	—	444
Total net assets	<u>56,763</u>	<u>41,228</u>	<u>—</u>	<u>97,991</u>
Total liabilities and net assets	<u>\$ 76,791</u>	<u>41,711</u>	<u>(480)</u>	<u>118,022</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2020

(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.
Assets							
Current assets:							
Cash and cash equivalents	\$ 17	34,567	13,256	228,649	28,489	—	311,572
Assets whose use is limited	—	—	402	3,592	—	—	3,994
Patient accounts receivable	19,791	5,209	—	(2,348)	7,998	—	302,652
Other receivables	2,307	17,752	2	75,022	15,578	(129,602)	17,101
Inventories	634	1,940	—	9,291	7,932	—	44,636
Collateral held for securities loaned	—	—	—	212,055	—	—	212,055
Prepays and other	470	339	75	15,418	1,683	—	25,970
Total current assets	23,219	59,807	13,735	541,679	61,680	(129,602)	917,980
Investments	—	—	—	1,634,219	13,008	—	1,697,839
Assets whose use is limited or restricted	—	1,603	—	84,417	3,589	—	113,259
Investments in unconsolidated affiliates	—	—	—	226,199	7,247	(931)	235,258
Property, plant, and equipment, net	86,152	7,201	691	361,050	28,610	—	1,551,825
Other assets, net	146	—	—	2,332	2,050	(2,846)	3,142
Total assets	\$ 109,517	68,611	14,426	2,849,896	116,184	(133,379)	4,519,303
Liabilities and Net Assets							
Current liabilities:							
Current installments of long-term debt	\$ —	—	—	9,625	67	—	9,736
Current portion of lease liabilities	2,378	801	—	8,893	258	—	15,868
Accounts payable	779	3,433	12,847	84,176	80,067	(129,602)	88,623
Accrued expenses	25,427	4,830	470	149,547	17,196	—	261,694
Payable under securities lending agreement	—	—	—	212,055	—	—	212,055
Estimated settlements to third-party payors	6,356	—	—	—	—	—	193,256
Total current liabilities	34,940	9,064	13,317	464,296	97,588	(129,602)	781,232
Long-term debt, less current installments	—	—	—	653,727	2,214	(2,158)	653,955
Long-term lease liabilities	19,532	2,745	—	167,109	—	—	230,971
Other long-term liabilities	2,071	801	—	103,600	—	(688)	156,834
Total liabilities	56,543	12,610	13,317	1,388,732	99,802	(132,448)	1,822,992
Net assets (deficit):							
Without donor restrictions:							
Without donor restrictions	52,974	56,001	1,109	1,461,164	16,382	(931)	2,683,685
Noncontrolling interests in consolidated joint ventures	—	—	—	—	—	—	—
Total net assets without donor restrictions	52,974	56,001	1,109	1,461,164	16,382	(931)	2,683,685
With donor restrictions	—	—	—	—	—	—	12,626
Total net assets	52,974	56,001	1,109	1,461,164	16,382	(931)	2,696,311
Total liabilities and net assets	\$ 109,517	68,611	14,426	2,849,896	116,184	(133,379)	4,519,303

(1) Other consolidated affiliates include the entities of Froedtert Health ASC Enterprise LLC, Froedtert Health Pharmacy Solutions LLC, Froedtert Health Hometown Pharmacy, THP Froedtert Health Venture LLC (Neighborhood Hospitals), Inception Health, QHS 1, Integrated Holdings, and Hart's Mills.

See accompanying independent auditors' report.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information

Year ended June 30, 2020

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Revenue:					
Patient service revenue	\$ 1,827,806	—	—	—	1,827,806
Other operating revenue	80,822	1,307	—	—	82,129
Total revenue	1,908,628	1,307	—	—	1,909,935
Expenses:					
Salaries	433,166	—	—	—	433,166
Fringe benefits	122,709	—	—	—	122,709
Supplies	411,498	—	—	—	411,498
Contract services	139,350	—	—	—	139,350
Affiliate support	169,293	—	—	—	169,293
Depreciation and amortization	71,083	—	—	—	71,083
Interest	18,279	—	—	—	18,279
Other	123,508	2,109	—	—	125,617
Corporate allocations	280,505	—	—	—	280,505
Total expenses	1,769,391	2,109	—	—	1,771,500
Operating revenue in excess (deficient) of expenses	139,237	(802)	—	—	138,435
Nonoperating gains and losses:					
Investment return	—	82	—	—	82
Change in fair value of interest rate swaps	—	—	—	—	—
Community health initiatives	(1,737)	—	—	—	(1,737)
Other components of pension cost	—	—	—	—	—
Revenue and gains in excess of expenses and losses	137,500	(720)	—	—	136,780
Other changes in net assets without donor restrictions:					
Transfers (to) from affiliates	(186,564)	(1,771)	(10,711)	—	(199,046)
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	1,354	40	—	—	1,394
Change in accrued pension benefits other than net periodic benefit costs	167	—	—	—	167
Forgiveness of receivable from Foundation	—	—	—	—	—
Other	(3)	—	—	—	(3)
Increase in net assets without donor restrictions	(47,546)	(2,451)	(10,711)	—	(60,708)
Net assets without donor restrictions at beginning of year	964,869	16,523	10,711	—	992,103
Net assets without donor restrictions at end of year	\$ 917,323	14,072	—	—	931,395

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information

Year ended June 30, 2020

(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
Revenue:						
Patient service revenue	\$ 260,790	—	—	—	—	260,790
Other operating revenue	42,425	985	655	—	(714)	43,351
Total revenue	303,215	985	655	—	(714)	304,141
Expenses:						
Salaries	92,982	—	145	—	(145)	92,982
Fringe benefits	25,867	—	—	—	—	25,867
Supplies	88,124	—	228	—	—	88,352
Contract services	17,467	—	1	—	—	17,468
Affiliate support	25,339	—	—	—	—	25,339
Depreciation and amortization	11,882	—	—	—	—	11,882
Interest	2,139	—	—	—	—	2,139
Other	17,765	943	281	—	(569)	18,420
Corporate allocations	20,396	—	—	—	—	20,396
Total expenses	301,961	943	655	—	(714)	302,845
Operating revenue in excess (deficient) of expenses	1,254	42	—	—	—	1,296
Nonoperating gains and losses:						
Investment return	—	47	—	—	—	47
Change in fair value of interest rate swaps	—	—	—	—	—	—
Community health initiatives	—	—	—	—	—	—
Other components of pension cost	—	—	—	—	—	—
Revenue and gains in excess of expenses and losses	1,254	89	—	—	—	1,343
Other changes in net assets without donor restrictions:						
Transfers (to) from affiliates	(39,096)	(212)	—	(6,026)	124	(45,210)
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	123	—	—	—	—	123
Change in accrued pension benefits other than net periodic benefit costs	(5,600)	—	—	—	—	(5,600)
Forgiveness of receivable from Foundation	—	—	—	—	—	—
Other	(20)	—	—	—	—	(20)
Increase in net assets without donor restrictions	(43,339)	(123)	—	(6,026)	124	(49,364)
Net assets without donor restrictions at beginning of year	111,034	8,087	348	6,026	(8,087)	117,408
Net assets without donor restrictions at end of year	\$ 67,695	7,964	348	—	(7,963)	68,044

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 2

Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information

Year ended June 30, 2020

(In thousands)

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Revenue:				
Patient service revenue	\$ 145,113	—	—	145,113
Other operating revenue	5,932	225	—	6,157
Total revenue	<u>151,045</u>	<u>225</u>	<u>—</u>	<u>151,270</u>
Expenses:				
Salaries	43,154	119	—	43,273
Fringe benefits	11,322	—	—	11,322
Supplies	37,386	54	—	37,440
Contract services	7,321	—	—	7,321
Affiliate support	26,288	—	—	26,288
Depreciation and amortization	5,548	—	—	5,548
Interest	2,344	—	—	2,344
Other	8,883	312	—	9,195
Corporate allocations	10,759	—	—	10,759
Total expenses	<u>153,005</u>	<u>485</u>	<u>—</u>	<u>153,490</u>
Operating revenue in excess (deficient) of expenses	(1,960)	(260)	—	(2,220)
Nonoperating gains and losses:				
Investment return	—	241	—	241
Change in fair value of interest rate swaps	—	—	—	—
Community health initiatives	—	—	—	—
Other components of pension cost	—	—	—	—
Revenue and gains in excess of expenses and losses	<u>(1,960)</u>	<u>(19)</u>	<u>—</u>	<u>(1,979)</u>
Other changes in net assets without donor restrictions:				
Transfers (to) from affiliates	(22,472)	—	—	(22,472)
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	—	—	—	—
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Forgiveness of receivable from Foundation	—	—	—	—
Other	—	3	—	3
Increase in net assets without donor restrictions	<u>(24,432)</u>	<u>(16)</u>	<u>—</u>	<u>(24,448)</u>
Net assets without donor restrictions at beginning of year	81,021	40,974	—	121,995
Net assets without donor restrictions at end of year	<u>\$ 56,589</u>	<u>40,958</u>	<u>—</u>	<u>97,547</u>

FROEDTERT HEALTH, INC. AND AFFILIATES
 Consolidating Statement of Operations and Changes in Net Assets Without Donor Restrictions Information
 Year ended June 30, 2020
 (In thousands)

	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Exceedent	Froedtert Health (Parent Only)	ASC	Drexel ASC	WSC	Pharmacy	Neighb Hosp	FHHP	IH	Int Hold	QHS1	Harts Mills	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Revenue:																	
Patient service revenue	\$ 232,214	19,306	—	—	20,525	—	—	49,785	—	2,963	—	—	—	—	73,273	—	2,558,502
Other operating revenue	22,554	61,406	5,051	567,942	942	—	—	411	—	—	3,613	—	—	14,087	19,053	(655,469)	152,174
Total revenue	254,768	80,712	5,051	567,942	21,467	—	—	50,196	—	2,963	3,613	—	—	14,087	92,326	(655,469)	2,710,676
Expenses:																	
Salaries	196,597	26,479	1,875	141,187	7,439	—	—	5,701	14	296	4,339	—	—	—	17,789	(6,083)	947,265
Fringe benefits	39,489	8,095	518	184,036	1,494	—	—	1,413	1	—	1,006	—	—	—	3,914	(157,057)	238,893
Supplies	20,404	14,899	162	6,943	5,168	—	—	43,755	—	2,692	106	—	—	—	51,621	(2,623)	628,596
Contract services	15,357	10,250	—	36,147	1,515	—	—	1,679	44	—	2,658	—	—	—	5,896	(107,654)	124,135
Affiliate support	(82,617)	—	—	3,330	897	—	—	—	—	—	—	—	—	—	897	—	142,530
Depreciation and amortization	7,250	2,431	135	30,582	2,489	—	—	59	—	91	131	—	—	—	2,770	—	131,681
Interest	—	34	—	11,817	14	—	—	—	—	10	—	—	—	—	24	—	34,637
Other	39,088	8,508	3,621	124,227	5,075	—	—	129	1	201	1,434	—	—	14,244	21,064	(51,194)	298,576
Corporate allocations	19,200	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(330,860)
Total expenses	254,768	70,696	6,311	538,169	24,091	—	—	52,736	60	3,190	9,674	—	—	14,244	103,995	(655,461)	2,546,313
Operating revenue in excess (deficient) of expenses	—	10,016	(1,260)	29,773	(2,624)	—	—	(2,540)	(60)	(227)	(6,061)	—	—	(157)	(11,669)	(8)	164,363
Nonoperating gains and losses:																	
Investment return	—	—	163	7,263	126	—	—	—	—	—	—	—	—	487	613	—	8,409
Change in fair value of interest rate swaps	—	—	—	(24,886)	—	—	—	—	—	—	—	—	—	—	—	—	(24,886)
Community health initiatives	—	—	—	(3,952)	—	—	—	—	—	—	—	—	—	—	—	—	(5,689)
Other components of pension cost	—	—	—	(7,663)	—	—	—	—	—	—	—	—	—	—	—	—	(7,663)
Revenue and gains in excess of expenses and losses	—	10,016	(1,097)	535	(2,498)	—	—	(2,540)	(60)	(227)	(6,061)	—	—	330	(11,056)	(8)	134,534
Other changes net assets without donor restrictions:																	
Transfers (to) from affiliates	10,367	—	1,000	232,937	27,024	(5,285)	(146)	—	—	—	—	—	—	831	22,424	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	1,007	—	—	—	—	—	—	—	—	—	—	—	—	1,007
Contributions and net assets released from restriction for property, plant, and equipment	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,517
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	(5,049)	—	—	—	—	—	—	—	—	—	—	—	—	(10,482)
Contributed capital from minority partners in consolidated affiliates	—	—	—	3,667	—	—	—	—	—	—	—	—	—	—	3,667	—	3,667
Other	—	(1)	—	1	(2)	—	—	—	1	(1)	(2)	—	—	—	(4)	—	(24)
Increase (decrease) in net assets without donor restrictions	10,367	10,015	(97)	229,431	28,191	(5,285)	(146)	(2,540)	(59)	(228)	(6,063)	—	—	1,161	15,031	(8)	130,219
Net assets without donor restrictions at beginning of year	42,608	45,986	1,206	1,231,732	—	5,285	146	—	—	703	(12,011)	55	876	6,298	1,352	(924)	2,553,466
Net assets without donor restrictions at end of year	\$ 52,975	56,001	1,109	1,461,163	28,191	—	—	(2,540)	(59)	475	(18,074)	55	876	7,459	16,383	(932)	2,683,685

(1) Other consolidated affiliates include the entities of Froedtert Health ASC Enterprise LLC, Froedtert Health Pharmacy Solutions LLC, Froedtert Health Hometown Pharmacy, THP Froedtert Health Venture LLC (Neighborhood Hospitals), Inception Health, QHS 1, Integrated Holdings, 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, 2020

(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	\$ 137,500	(720)	—	—	136,780
Transfers (to) from affiliates	(186,564)	(1,771)	(10,711)	—	(199,046)
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	1,354	40	—	—	1,394
Change in accrued pension benefits other than net periodic benefit costs	167	—	—	—	167
Forgiveness of receivable from Foundation	—	—	—	—	—
Contributed capital from minority partners in consolidated affiliates	—	—	—	—	—
Other	(3)	—	—	—	(3)
Increase (decrease) in net assets without donor restrictions	(47,546)	(2,451)	(10,711)	—	(60,708)
Net assets without donor restrictions at beginning of year	964,869	16,523	10,711	—	992,103
Net assets without donor restrictions at end of year	\$ 917,323	14,072	—	—	931,395
Net assets with donor restrictions:					
Investment return	\$ —	34	—	—	34
Restricted contributions	4,150	340	—	—	4,490
Net assets released from restrictions for operations	(6,169)	(511)	—	—	(6,680)
Net assets released from restrictions for property, plant, and equipment	(1,354)	(40)	—	—	(1,394)
Change in beneficial interest in foundations	(2,628)	—	—	2,628	—
Other	—	—	—	—	—
Increase (decrease) in net assets with donor restrictions	(6,001)	(177)	—	2,628	(3,550)
Net assets with donor restrictions at beginning of year	31,515	9,373	—	(25,896)	14,992
Net assets with donor restrictions at end of year	\$ 25,514	9,196	—	(23,268)	11,442

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2020

(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	\$ 1,254	89	—	—	—	1,343
Transfers (to) from affiliates	(39,096)	(212)	—	(6,026)	124	(45,210)
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	123	—	—	—	—	123
Change in accrued pension benefits other than net periodic benefit costs	(5,600)	—	—	—	—	(5,600)
Forgiveness of receivable from Foundation	—	—	—	—	—	—
Contributed capital from minority partners in consolidated affiliates	—	—	—	—	—	—
Other	(20)	—	—	—	—	(20)
Increase (decrease) in net assets without donor restrictions	(43,339)	(123)	—	(6,026)	124	(49,364)
Net assets without donor restrictions at beginning of year	111,034	8,087	348	6,026	(8,087)	117,408
Net assets without donor restrictions at end of year	\$ 67,695	7,964	348	—	(7,963)	68,044
Net assets with donor restrictions:						
Investment return	\$ —	—	—	—	—	—
Restricted contributions	—	163	—	—	—	163
Net assets released from restrictions for operations	—	(34)	—	—	—	(34)
Net assets released from restrictions for property, plant, and equipment	—	(123)	—	—	—	(123)
Change in beneficial interest in foundations	26	—	—	—	(26)	—
Other	—	20	—	—	—	20
Increase (decrease) in net assets with donor restrictions	26	26	—	—	(26)	26
Net assets with donor restrictions at beginning of year	714	714	—	—	(714)	714
Net assets with donor restrictions at end of year	\$ 740	740	—	—	(740)	740

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2020

(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	\$ (1,960)	(19)	—	(1,979)
Transfers (to) from affiliates	(22,472)	—	—	(22,472)
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	—	—	—	—
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Forgiveness of receivable from Foundation	—	—	—	—
Contributed capital from minority partners in consolidated affiliates	—	—	—	—
Other	—	3	—	3
Increase (decrease) in net assets without donor restrictions	(24,432)	(16)	—	(24,448)
Net assets without donor restrictions at beginning of year	81,021	40,974	—	121,995
Net assets without donor restrictions at end of year	\$ 56,589	40,958	—	97,547
Net assets with donor restrictions:				
Investment return	\$ 31	—	—	31
Restricted contributions	—	—	—	—
Net assets released from restrictions for operations	(7)	—	—	(7)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—
Change in beneficial interest in foundations	—	—	—	—
Other	—	—	—	—
Increase (decrease) in net assets with donor restrictions	24	—	—	24
Net assets with donor restrictions at beginning of year	150	270	—	420
Net assets with donor restrictions at end of year	\$ 174	270	—	444

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2020

(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	\$ —	10,016	(1,097)	535	(11,056)	(8)	134,534
Transfers (to) from affiliates	10,367	—	1,000	232,937	22,424	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	1,007	—	—	1,007
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	—	1,517
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	(5,049)	—	—	(10,482)
Forgiveness of receivable from Foundation	—	—	—	—	—	—	—
Contributed capital from minority partners in consolidated affiliates	—	—	—	—	3,667	—	3,667
Other	—	(1)	—	1	(4)	—	(24)
Increase (decrease) in net assets without donor restrictions	10,367	10,015	(97)	229,431	15,031	(8)	130,219
Net assets (deficits) without donor restrictions at beginning of year	42,608	45,986	1,206	1,231,732	1,352	(924)	2,553,466
Net assets (deficits) without donor restrictions at end of year	\$ 52,975	56,001	1,109	1,461,163	16,383	(932)	2,683,685
Net assets with donor restrictions:							
Investment return	\$ —	—	—	—	—	—	65
Restricted contributions	—	—	—	—	—	—	4,653
Net assets released from restrictions for operations	—	—	—	—	—	—	(6,721)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	—	(1,517)
Change in beneficial interest in foundations	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	20
Increase (decrease) in net assets with donor restrictions	—	—	—	—	—	—	(3,500)
Net assets with donor restrictions at beginning of year	—	—	—	—	—	—	16,126
Net assets with donor restrictions at end of year	\$ —	—	—	—	—	—	12,626

(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.