FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Financial Statements and Schedules

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

FROEDTERT HEALTH, INC. AND AFFILIATES

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

Independent Auditors' Report

The board of directors
Froedtert Health, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Froedtert Health, Inc. and Affiliates (FH), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Network Health, Inc., FH's investment in which is accounted for by use of the equity method (note 11 to the consolidated financial statements) for the years ended June 30, 2018 and 2017. The accompanying June 30, 2018 and 2017 consolidated financial statements of FH include its equity investment in Network Health, Inc. of $86.7 million and $80.3 million as of June 30, 2018 and 2017, respectively, and its equity gains (losses) in Network Health, Inc. of $6.4 million and $(12.4 million) for the years ended June 30, 2018 and 2017, respectively. The financial statements of Network Health, Inc. were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Network Health, Inc., is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Froedtert Health, Inc. and Affiliates as of June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Milwaukee, Wisconsin
September 24, 2018

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Balance Sheets

June 30, 2018 and 2017

(In thousands)

Assets		**2018**	**2017**
Current assets:			
Cash and cash equivalents	$	127,201	135,830
Assets whose use is limited		6,382	7,130
Patient accounts receivable, net of estimated uncollectibles of approximately $38,782 in 2018 and $29,647 in 2017		280,144	252,549
Other receivables		15,259	16,578
Inventories		36,108	30,415
Collateral held for securities loaned		310,985	274,795
Prepaids and other		24,026	17,697
Total current assets		800,105	734,994
Investments		1,535,560	1,451,312
Assets whose use is limited or restricted		152,729	210,446
Investments in unconsolidated affiliates		192,262	119,699
Property, plant, and equipment, net		1,240,780	1,092,830
Other assets, net		3,553	8,564
Total assets	$	3,924,989	3,617,845
Liabilities and Net Assets			
Current liabilities:			
Current installments of long-term debt	$	13,914	12,285
Accounts payable		56,574	67,516
Accrued expenses		245,337	211,251
Payable under securities lending agreement		310,985	274,795
Estimated settlements to third-party payors		14,190	12,832
Total current liabilities		641,000	578,679
Long-term debt, less current installments		801,144	794,713
Other long-term liabilities		111,540	115,846
Total liabilities		1,553,684	1,489,238
Net assets:			
Unrestricted		2,354,999	2,111,306
Noncontrolling interest in consolidated joint ventures		2,198	4,611
Total unrestricted		2,357,197	2,115,917
Temporarily restricted		13,740	12,322
Permanently restricted		368	368
Total net assets		2,371,305	2,128,607
Total liabilities and net assets	$	3,924,989	3,617,845

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended June 30, 2018 and 2017

(In thousands)

	2018	2017
Net patient service revenue:		
Net patient service revenue before provision for bad debts	$ 2,359,616	2,153,486
Provision for bad debts	61,433	50,029
Net patient service revenue	2,298,183	2,103,457
Other operating revenue	82,854	56,989
Total revenue	2,381,037	2,160,446
Expenses:		
Salaries	846,701	781,213
Fringe benefits	213,910	191,649
Supplies	514,418	452,013
Contract services	116,991	109,617
Affiliate support	118,738	103,362
Depreciation and amortization	119,622	102,181
Interest	32,413	32,021
Other	276,519	271,056
Total expenses	2,239,312	2,043,112
Operating revenue in excess of expenses	141,725	117,334
Nonoperating gains (losses):		
Investment income	83,767	75,164
Change in net unrealized gains and losses on trading securities	1,320	91,965
Change in fair value of interest rate swaps	6,541	13,879
Community health initiatives	(650)	—
Loss on early extinguishment of debt	—	(10,626)
Total nonoperating gains, net	90,978	170,382
Revenue and gains in excess of expenses and losses	232,703	287,716
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on other-than-trading securities	(226)	—
Contributions and net assets released from restrictions for property, plant, and equipment	980	6,717
Change in accrued pension benefits other than net periodic benefit costs	9,746	15,097
Investment in ambulatory surgery center from noncontrolling interest	(2,000)	—
Other	77	741
Increase in unrestricted net assets	241,280	310,271
Unrestricted net assets at beginning of year	2,115,917	1,805,646
Unrestricted net assets at end of year	$ 2,357,197	2,115,917

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2018 and 2017

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance, June 30, 2016	$ 1,805,646	16,278	368	1,822,292
Revenue and gains in excess of expenses and losses	287,716	—	—	287,716
Change in net unrealized gains and losses on investments	—	504	—	504
Restricted contributions	—	2,310	—	2,310
Restricted investment return	—	437	—	437
Net assets released from restrictions for operations	—	(607)	—	(607)
Contributions and net assets released from restrictions for property, plant, and equipment	6,717	(6,717)	—	—
Change in accrued pension benefits other than net periodic benefit costs	15,097	—	—	15,097
Other	741	117	—	858
Change in net assets	310,271	(3,956)	—	306,315
Balance, June 30, 2017	2,115,917	12,322	368	2,128,607
Revenue and gains in excess of expenses and losses	232,703	—	—	232,703
Change in net unrealized gains and losses on investments	—	20	—	20
Change in net unrealized gains and losses on investments of other-than-trading securities	(226)	—	—	(226)
Restricted contributions	—	2,449	—	2,449
Restricted investment return	—	492	—	492
Net assets released from restrictions for operations	—	(583)	—	(583)
Contributions and net assets released from restrictions for property, plant, and equipment	980	(980)	—	—
Change in accrued pension benefits other than net periodic benefit costs	9,746	—	—	9,746
Investment in ambulatory surgery center from noncontrolling interest	(2,000)	—	—	(2,000)
Other	77	20	—	97
Change in net assets	241,280	1,418	—	242,698
Balance, June 30, 2018	$ 2,357,197	13,740	368	2,371,305

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	242,698	306,315
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		118,001	101,276
Provision for bad debts		61,433	50,029
Loss on disposal of property, plant, and equipment		263	265
Loss on impairment of assets		—	500
Loss on early extinguishment of debt		—	10,626
Income and distributions from equity interests in unconsolidated affiliates, net		(15,385)	11,810
Restricted contributions and investment return		(2,961)	(3,251)
Net assets released from restrictions for operations		583	607
Realized and unrealized gains and losses on unrestricted investments, net		(48,091)	(135,441)
Change in fair value of interest rate swap agreements		(6,541)	(13,879)
Change in accrued pension benefits other than net periodic benefit costs		(9,746)	(15,097)
Changes in assets and liabilities:			
Patient accounts receivable		(88,694)	(72,492)
Estimated settlements to third-party payors		1,358	(2,293)
Accounts payable and accrued expenses		23,781	25,946
Other receivables		1,319	(1,862)
Inventories		(5,693)	(4,172)
Other assets and liabilities		4,316	(5,709)
Net cash provided by operating activities		276,641	253,178
Cash flows from investing activities:			
Net additions to property, plant, and equipment		(245,854)	(216,359)
Proceeds from sales of property, plant, and equipment		114	959
Purchases of investments and assets whose use is limited or restricted		(863,560)	(845,694)
Proceeds from sales or maturities of investments and assets whose use is limited or restricted		885,868	789,240
Investment in ambulatory surgery centers		(7,000)	—
Cash received from acquisition of ambulatory surgery center		579	—
Additional capital contributions in unconsolidated affiliates		(45,000)	(150)
Net cash used in investing activities		(274,853)	(272,004)
Cash flows from financing activities:			
Repayments of long-term debt		(12,795)	(261,178)
Payments for deferred financing costs		—	(2,227)
Proceeds from issuance of long-term debt		—	352,670
Restricted contributions and investment return		2,961	3,251
Net assets released from restrictions for operations		(583)	(607)
Net cash provided by (used in) financing activities		(10,417)	91,909
Net change in cash and cash equivalents		(8,629)	73,083
Cash and cash equivalents:			
Beginning of year		135,830	62,747
End of year	$	127,201	135,830
Noncash transactions:			
Assets acquired through capital lease obligations	$	21,938	28,500

(Continued)

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

	2018	2017
Noncash transactions associated with acquisitions:		
Patient accounts receivable	$ 334	—
Prepaids and other	1,832	—
Property, plant, and equipment, net	5,731	—
Accounts payable and accrued expenses	(379)	—
Long-term debt	(275)	—

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

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

FMLH owns and operates an acute care hospital with 655 approved beds (of which 604 are currently staffed), clinics, and related operations in Wauwatosa, Wisconsin. FMLH is the sole corporate member of Froedtert Hospital Foundation, Inc. (Froedtert Foundation), which is a supporting organization of FMLH. The purpose of Froedtert Foundation is to raise money and to accept contributions for the purpose of developing philanthropic support for FMLH. Froedtert Foundation solicits, allocates, and dispenses funds exclusively for the maintenance, benefit, and support of FMLH programs, services, education, and capital improvements in accordance with priorities set by the Froedtert Foundation's board of directors and donor restrictions. Froedtert Surgery Center, LLC (FSC) is a Wisconsin limited liability company created as a joint venture among FMLH and the Medical College of Wisconsin (MCW) to provide ambulatory surgery services. On February 26, 2018, FMLH purchased an additional 20% of FSC for $2,000. FMLH currently has a 70% ownership in FSC. The purchase resulted in a decrease in noncontrolling interest in consolidated joint ventures of $2,000 for the year ended June 30, 2018.

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

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

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

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

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

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

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

Waukesha Surgery Center, LLC (WSC) is a Wisconsin limited liability company created as a joint venture between FH and Aspen Investors, LLC to provide ambulatory surgery services in Pewaukee, Wisconsin. FH has a 75% ownership in WSC.

FH has a 60% ownership interest in Froedtert Health Hometown Pharmacy, LLP (FHHP), which owns and operates a retail pharmacy selling prescriptions and over-the-counter medications and related products in West Bend, Wisconsin. In 2013, FH became 50% owner in FHHP-Kewaskum (Kewaskum), LLC, which owns and operates a retail pharmacy in Kewaskum, Wisconsin.

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

At June 30, 2018, FH, FMLH, Froedtert Foundation, CMH, Community Memorial Foundation, SJH, and St. Joseph's Foundation are members of the obligated group (Obligated Group) for the purposes of the issuance of revenue bonds (note 6). The Obligated Group consisted only of these members and excludes all other FH affiliates. Total combined assets of the FH affiliates, which are not members of the Obligated Group, were $190,403 at June 30, 2018. Total combined net assets of the same entities were $91,182 at June 30, 2018 and total combined revenue and gains deficient of expenses and losses were $(1,216) for the year ended June 30, 2018.

The significant accounting policies of FH are as follows:

(a) Principles of Consolidation

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

(b) Net Assets

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

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

(c) Assets Whose Use is Limited or Restricted

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

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

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

(Continued)

(e) Net Patient Service Revenue

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

(f) Investments and Investment Income

Investments, including assets whose use is limited or restricted, with readily determinable fair values, are stated at fair value generally based upon quoted market prices. Money market accounts and fixed income securities with a maturity of three months or less are included in cash and cash equivalents within the consolidated balance sheets. Fixed income securities purchased with a maturity greater than three months but less than twelve months are included in investments on the consolidated balance sheets. Realized gains and losses and interest and dividends on funds held under debt agreements, to the extent not capitalized, are classified as other operating revenue within the consolidated statements of operations and changes in unrestricted net assets. 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 unrestricted net assets. 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, and a core plus fixed income fund.

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

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

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

The core plus fixed income fund is organized as a separate series of a series investment trust with an investment objective to create a high level of income with reasonable risk through investment in income producing securities. The investment manager uses a global, flexible approach allowing tactical changes among a variety of income producing asset classes, including debt, equity, preferred, convertible, and real estate investment trust securities. Redemptions can be made two times each month with five business days prior notice, subject to certain restrictions.

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.

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

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

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

(g) Inventories

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

(h) Property, Plant, and Equipment

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

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

(i) Long-Lived Assets

FH periodically assesses the recoverability of long-lived assets (including property, plant, and equipment) when indications of potential impairment, based on estimated, undiscounted future cash flows exist. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining whether there is an impairment of the asset. No impairments were recorded in 2018. An impairment of $500 was recorded in 2017 and is included in other operating revenue within the consolidated statements of operations and changes in unrestricted net assets related to FH's investment in an unconsolidated affiliate. Other than this impairment, FH does not believe that there are any factors or circumstances indicating impairment of its long-lived assets for the years ended June 30, 2018 and 2017.

(j) Costs of Borrowing

Bond issuance costs are deferred and amortized over the shorter of the term of the related indebtedness or related liquidity facility and are included in long-term debt in the consolidated balance sheets. In the event any of the Variable Rate Demand Bonds are converted into Bank Bonds, the bond issuance costs associated with those bonds would be amortized over the relevant accelerated period. FH applies the provisions of Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs,* in 2018 and records debt issuance costs as a component of long-term debt.

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

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

(k) Cash and Cash Equivalents

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

(l) Income Taxes

FH and its affiliates, except FSC, WBSC, WDL, FHHP, Sussex, Kewaskum, WSC, Inception, Exceedent, Drexel, and Hart's Mills, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. WBSC, Inception, Exceedent, and Drexel are limited liability companies and are treated as disregarded entities for income tax purposes. Income and losses are passed through to their members. FSC, WDL, WSC, FHHP, Kewaskum, and MFASC are limited liability companies and are treated as partnerships for income 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 ASC Topic 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC Topic 740 prescribes a more-likely than-not 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, 2018 and 2017, FH does not have an asset or liability recorded for unrecognized tax positions.

(m) Derivative Instruments

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

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

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

(n) Use of Estimates

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

(o) New Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The requirements of this statement are effective for FH for the year ending June 30, 2019. As of July 1, 2018, FH will record a decrease in net patient service revenue before provision for bad debts and a corresponding decrease in the provision for bad debts in the consolidated statements of operations and changes in unrestricted net assets upon adoption of the standard.

In November 2016, FASB issued ASU 2016-18, *Restricted Cash, a consensus of the FASB Emerging Issues Task Force*. ASU 2016-18 requires an entity to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents when reconciling beginning and ending balances on the statement of cash flows. ASU 2016-18 is effective for nonpublic business entities for annual reporting periods beginning after December 15, 2018, with retrospective application and disclosure. Early adoption of ASU 2016-18 is permitted. The requirements of this statement are effective for FH for the year ending June 30, 2020. FH is currently evaluating the impact of this statement.

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

In February 2016, FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires entities to recognize all leased assets as assets on the balance sheet with a corresponding liability resulting in a gross up of the balance sheet. Entities will also be required to present additional disclosures regarding the nature and extent of leasing activities. ASU 2016-02 is effective for nonpublic business entities for the annual reporting period beginning after December 31, 2018. The requirements of this statement are effective for FH for the year ending June 30, 2020. FH is currently evaluating the impact of this statement.

(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.

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

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

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

(Dollars in thousands)

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

		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:					
Cash and cash equivalents	$	127,201	127,201	—	—
Collateral held for securities loaned		310,985	—	310,985	—
Investments, excluding interest receivable of $2,956:					
U.S. government securities		204,182	—	204,182	—
Marketable equity securities		621,992	621,992	—	—
Fixed income securities		184,745	—	184,745	—
Money market funds and mutual funds		177,195	177,195	—	—
Investments measured at NAV[1] alternative investments:					
Low volatility equity fund		104,235	—	—	—
Real estate fund A		124,111	—	—	—
Real estate fund B		47,595	—	—	—
Core plus fixed income fund		41,907	—	—	—
Hedge fund of funds		26,642	—	—	—
Assets whose use is limited or restricted, excluding interest receivable of $132 and pledges receivable of $216:					
Cash and cash equivalents		4,667	4,667	—	—
U.S. government securities		10,663	—	10,663	—
Marketable equity securities		43,458	43,458	—	—
Fixed income securities		51,160	—	51,160	—
Money market funds and mutual funds		30,538	30,538	—	—

(Continued)

(Dollars in thousands)

		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments measured at NAV[1] alternative investments:					
Low volatility equity fund	$	5,444	—	—	—
Real estate fund A		6,482	—	—	—
Real estate fund B		2,486	—	—	—
Core plus fixed income		2,188	—	—	—
Hedge fund of funds		1,391	—	—	—
Swap collateral and other		286	—	19	267
Total assets	$	2,129,553	1,005,051	761,754	267
Liabilities:					
Payable under securities lending agreement	$	310,985	—	310,985	—
Interest rate swap agreements		21,799	—	21,799	—
Total liabilities	$	332,784	—	332,784	—

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

		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:					
Cash and cash equivalents	$	135,830	135,830	—	—
Collateral held for securities loaned		274,795	—	274,795	—
Investments, excluding interest receivable of $2,758:					
U.S. government securities		162,508	—	162,508	—
Marketable equity securities		701,781	701,781	—	—
Fixed income securities		179,558	—	179,558	—
Money market funds and mutual funds		172,513	172,513	—	—

(Dollars in thousands)

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

[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.

(Dollars in thousands)

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

		2018	2017
Fair value at beginning of year	$	276	487
Gains (losses) and investment income, net		(9)	21
Purchases, issuances, and write-offs, net		—	(232)
Fair value at end of year	$	267	276

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. FH evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the year ended June 30, 2018, there were no significant transfers in or out of Levels 1, 2, or 3.

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

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

		June 30	
		2018	2017
At fair value or NAV:			
U.S. government securities	$	204,182	162,508
Marketable equity securities		621,992	701,781
Fixed income securities		184,745	179,558
Money market funds and mutual funds		177,195	172,513
Alternative investments:			
Low volatility equity fund		104,235	93,050
Real estate fund A		124,111	114,326
Real estate fund B		47,595	—
Core plus fixed income fund		41,907	—
Hedge fund of funds		26,642	24,818
Total investments at fair value or NAV		1,532,604	1,448,554
At cost:			
Interest receivable		2,956	2,758
Total investments	$	1,535,560	1,451,312

(Continued)

(Dollars in thousands)

		June 30	
		2018	2017
At fair value or NAV:			
Cash and cash equivalents	$	4,667	6,792
U.S. government securities		10,663	8,757
Marketable equity securities		43,458	46,389
Fixed income securities		51,160	12,609
Money market funds and mutual funds		30,538	124,844
Alternative investments:			
Low volatility equity fund		5,444	5,013
Real estate fund A		6,482	6,162
Real estate fund B		2,486	—
Core plus fixed income fund		2,188	—
Hedge fund of funds		1,391	1,336
Swap collateral and other		286	5,283
Total assets whose use is limited at fair value or NAV		158,763	217,185
At cost:			
Interest receivable		132	128
Pledges receivable		216	263
Total assets whose use is limited or restricted	$	159,111	217,576

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

		June 30	
		2018	2017
Assets whose use is limited or restricted:			
Under debt agreements (note 6)	$	44,225	100,016
Swap collateral (note 7)		—	4,989
By management:			
For executive compensation agreements		30,081	27,173
For program development and physician recruitment		44,121	42,853
For community health initiatives		13,897	14,596
For other		7,400	10,820
By donors		14,108	12,690
Other		5,279	4,439
Total assets whose use is limited or restricted	$	159,111	217,576

(Dollars in thousands)

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

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

		Year ended June 30	
		2018	**2017**
Interest and dividends on investments	$	39,193	32,893
Net realized gains and losses on sale of investments		46,997	43,476
Change in net unrealized gains and losses on investments		1,114	92,469
Total investment return	$	87,304	168,838

Investment returns are included in the accompanying consolidated statements of operations and changes in unrestricted net assets for the years ended June 30, 2018 and 2017:

		Year ended June 30	
		2018	**2017**
Other operating revenue:			
Interest and dividend income	$	1,307	740
Nonoperating gains and losses – investment income		83,767	75,164
Nonoperating gains and losses – change in unrealized gains and losses on investments		1,320	91,965
Other changes in unrestricted net assets – change in net unrealized gains and losses on investments of nontrading securities		(226)	—
Other changes in temporarily restricted investments:			
Restricted investment income		492	437
Change in net unrealized gains and losses on investments		20	504
Interest earnings offset against capitalized interest cost		624	28
Total investment return	$	87,304	168,838

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 $304,439 and $268,662 at June 30, 2018 and 2017, respectively. The fair market value of the collateral received under this arrangement was $310,985 and $274,795 at June 30, 2018 and 2017, 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 102.2% and 102.3% of the fair value of securities loaned at June 30, 2018 and 2017, respectively.

(Dollars in thousands)

(4) Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows:

		June 30	
		2018	2017
Land and land improvements	$	28,307	21,406
Building and leasehold improvements		315,179	198,186
Buildings		936,128	833,238
Fixed equipment		166,538	154,308
Movable equipment		700,029	621,094
Construction in progress		99,355	158,135
Total property, plant, and equipment		2,245,536	1,986,367
Less accumulated depreciation and amortization		1,004,756	893,537
Property, plant, and equipment, net	$	1,240,780	1,092,830

Construction in progress at June 30, 2018 primarily relates to a commitment for facility expansion, facility renovation, and equipment at the hospitals and clinic campuses. Contractually committed costs for expansion and renovation projects totaled $67,725 at June 30, 2018. During the year ended June 30, 2018, FH capitalized $2,928 of net interest cost, which is comprised of $3,552 of interest cost less $624 of investment gains on unexpended bond proceeds. During the year ended June 30, 2017, FH capitalized $287 of net interest cost, which is comprised of $315 of interest cost less $28 of investment gains on unexpended bond proceeds. Construction in progress of $2,479 and $8,495 was included in accounts payable in the accompanying consolidated balance sheets as of June 30, 2018 and 2017, respectively.

(5) Land Lease Agreement

In 1980, FMLH entered into a land lease agreement with Milwaukee County to lease the land on which the hospital resides. The lease terms are for FMLH to pay one dollar annually through 2030 and a mutually agreed-upon amount in years 2031 through 2079. If the parties cannot mutually agree upon an amount, the annual rent will be determined as fair market value of the leased land times 10%. In December 1995, FMLH purchased certain assets of John L. Doyne Hospital (Doyne). As part of the purchase, FMLH entered into an amendment to the original land lease agreement to include the land previously used by Doyne. The lease payments on the new land lease are calculated as one dollar plus 5.25% of FMLH’s annual operating cash flow, as defined in the agreement, for each of the years through 2020 and one dollar annually in years 2021 to 2079. The lease agreements are accounted for as operating leases. Lease expense has been recognized in accordance with the terms of the lease agreements amounting to $9,526 and $8,985 for the years ended June 30, 2018 and 2017, respectively. Cumulative amounts recognized under the lease agreements since the leases' inception in 1995 are $120,925 through June 30, 2018. Payments under the lease agreements are made in the year subsequent to the year in which they relate.

(Dollars in thousands)

(6) Long-Term Debt

Long-term debt is summarized as follows:

	June 30	
	2018	**2017**
Revenue bonds, Series 2009C – the remaining principal payment is $3,125, plus interest through 2019. Interest rate at 5.00% (effective rate of interest of 5.82% in 2018 and 4.82% in 2017, partially legally defeased April 20, 2017)	$ 3,125	6,160
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 2018 and 2017)	151,500	152,010
Revenue bonds, Series 2013A – annual principal payments range from $2,665 to $3,005 in 2023 with a balloon payment of $62,765 in 2024. Interest rates variable based on market conditions (1.999% at June 30, 2018, effective rate of interest 3.92% in 2018 and 3.91% in 2017)	77,045	79,910
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 2018 and 2017)	100,000	100,000
Revenue bonds, Series 2017A – annual principal payments range from $2,600 to $22,490, plus interest each year through 2048, ranging from 3.00% to 5.00% (effective rate of interest 4.26% in 2018 and 4.10% in 2017)	251,255	254,190
Revenue bonds, Series 2017B – principal payments due in sinking fund installments ranging from $26,060 to $27,280 from 2046 to 2048. Interest rate is variable based on market conditions (2.405% at June 30, 2018, effective rate of interest 3.77% in 2018 and 3.84% in 2017)	80,000	80,000

(Dollars in thousands)

		June 30	
		2018	**2017**
Capital lease obligations	$	129,664	111,087
Other		550	364
Total debt		793,139	783,721
Less:			
Current installments of long-term debt		13,914	12,285
Unamortized bond premiums and debt issuance costs, net		(21,919)	(23,277)
Total long-term debt	$	801,144	794,713

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

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

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

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

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

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

(Dollars in thousands)

Cash payments for interest, net of amounts capitalized, and monthly swap settlements were $36,093 and $32,585 for the years ended June 30, 2018 and 2017, respectively.

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

2019	$	13,914
2020		14,650
2021		15,485
2022		16,396
2023		17,357
Thereafter		715,337
	$	793,139

FH has entered into capital leases for certain medical office space through the year 2038. Included with property, plant, and equipment, net are $137,048 and $114,754 at June 30, 2018 and 2017, respectively, of assets held under capital leases and $25,958 and $20,124 of related accumulated amortization at June 30, 2018 and 2017, respectively. The capital lease obligations were $129,664 and $111,087 at June 30, 2018 and 2017, respectively.

Future minimum lease payments under capital leases at June 30, 2018 are as follows:

2019	$	12,113
2020		12,356
2021		12,603
2022		12,874
2023		13,136
Thereafter		130,263
Total minimum lease payments		193,345
Less amounts representing interest ranging from 2.67% to 11.03%		63,681
Present value of net minimum lease payments	$	129,664

(Continued)

(7) Derivative Instruments and Hedging Activities

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

(a) Objectives and Strategies

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

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

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

(b) Risk Management Policies

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

FH does not use derivative instruments for speculative investment purposes.

(c) Interest Rate Swap Agreements

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

Under the terms of the interest rate swap agreements, the Obligated Group pays a fixed rate on the bonds and receives a variable rate of interest equal to the sixty eight percent of the three-month LIBOR index for the Series 2013A bonds and seventy percent of the one-month LIBOR index for the

(Dollars in thousands)

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.

The interest rate swap agreements for the Obligated Group at June 30, 2018 and 2017 consist of the following:

Associated series		Original notional amount	Maturity date	Fixed pay rate	Variable pay rates at June 30 2018	Variable pay rates at June 30 2017
2013A bonds	$	94,050	April 1, 2035	3.366%	2.326%	1.249%
2013B bonds		94,050	April 1, 2035	3.366	—	1.249
2017B bonds		80,000	April 1, 2048	2.917	—	—

The fair value of the interest rate swaps of $21,799 and $28,340 is included in other long-term liabilities in the consolidated balance sheets at June 30, 2018 and 2017, respectively. The change in fair value of the interest rate swaps of $6,541 and $13,879 is included in nonoperating gains and losses in the consolidated statements of operations and changes in unrestricted net assets for the years ended June 30, 2018 and 2017, respectively.

Cash paid for monthly settlement under the interest rate swap agreements was $3,206 and $4,444 for the fiscal years ended June 30, 2018 and 2017, respectively, and is included within interest expense in the consolidated statements of operations and changes in unrestricted net assets. No cash was received under the interest rate swap agreements for the years ended June 30, 2018 or 2017. No swap collateral posting was required at June 30, 2018 under the swap agreements. FH posted collateral as required under the interest rate swap agreements of $4,989 as of June 30, 2017.

(8) Net Patient Service Revenue

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

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

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 and ambulatory surgery center revenues. Funds collected under the tax are used to increase federal funding for the Wisconsin Medicaid program. FH recognized $50,782 and $50,738 of increased Medicaid reimbursement and $41,611 and $40,311 of tax expense as a result of the law for the years ended June 30, 2018 and 2017, respectively. The Medicaid reimbursement and tax assessment expense are recorded in net patient service revenue and other expense, respectively, in the 2018 and 2017 consolidated statements of operations and changes in unrestricted net assets.

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

The percentage of net patient service revenue applicable to services provided to Medicare and Medicaid patients was 37% for both years ended June 30, 2018 and 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. FH believes it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations may be subject to future government review and interpretation. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from the Medicare and Medicaid programs.

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

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

For the years ended June 30, 2018 and 2017, the consolidated statements of operations and changes in unrestricted net assets include a decrease of $175 and $847, respectively, in net patient service revenue for changes in prior year estimates related to third-party contractual allowances and retroactive settlements with third-party payors.

The Medical Electronic Health Record (EHR) Incentive Program (the Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. FH accounts for the Program using International Accounting Standards 20 (IAS20), *Accounting for Government Grants and Disclosures of Government Assistance*. FH applies the "ratable recognition" approach, which states that the grant income can be recognized ratably over the entire "EHR" reporting period once the "reasonable assurance" income recognition threshold of IAS20 is met. For the years ended June 30, 2018 and 2017, FH recognized $450

(Continued)

(Dollars in thousands)

and $2,369, respectively, as other revenue related to Medicare and Medicaid EHR incentives, which have been received or are expected to be received based on certifications prepared by management under the appropriate guidelines for modified stage 2 attestation at CMH, FMLH, and SJH.

Patients’ accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients’ accounts receivable, FH analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, FH analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), FH records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Write-offs associated with self-pay patients were $52,310 in 2018 and $46,621 in 2017. FH has made no significant changes to its uninsured discount and charity care policies in fiscal year 2018.

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

		2018	2017
Medicare	$	694,491	613,756
Medicaid		187,679	186,043
Managed care/contracted payor		1,211,076	1,115,607
Self-pay		43,984	43,092
Other		222,386	194,988
Net patient service revenue before provision for bad debts	$	2,359,616	2,153,486

(Dollars in thousands)

(9) Concentration of Credit Risk

FH grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of accounts receivable from patients and third-party payors as of June 30, 2018 and 2017 is as follows:

	June 30	
	2018	**2017**
Medicare	26 %	26 %
Medicaid	8	9
Managed care/contracted payor	44	43
Self-pay	17	17
Other	5	5
	100 %	100 %

(10) Charity Care

FH provides uncompensated care based on the cost of providing care to patients, in accordance with established policies. FH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because FH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. FH applies the provisions of ASU 2010-23, *Measuring Charity Care for Disclosure*, which requires that cost be used as the measurement basis for charity care disclosure purposes and that cost can be identified as direct and indirect costs of providing charity care. The amount of cost incurred for services and supplies furnished under FH's charity care policy was $10,943 and $11,097 for the years ended June 30, 2018 and 2017, respectively.

(11) Related Organizations and Other Significant Transactions

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

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

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

FH is the controlling member of CP, a physician organization formed by the combination of MCW physicians and FH physicians. CP is not a member of the Obligated Group. The financial position and results of operations of CP are included in these financial statements as of and for the years ended June 30, 2018 and 2017.

(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 $103,621 and $91,588 for the years ended June 30, 2018 and 2017, respectively. Amounts accrued relating to the Variable Performance Payment were $4,512 and $4,285 in accounts payable on the consolidated balance sheets at June 30, 2018 and 2017, respectively. Also accrued under the Funds Flow Agreement was $40,608 and $38,567, which is included in other long-term liabilities on the consolidated balance sheets at June 30, 2018 and 2017, respectively.

(b) Unconsolidated Affiliates

(i) Network Health, Inc.

FH has a 50% ownership interest in Network Health, Inc. (NHI), a 120,000 member (including self-insured members) Wisconsin-based health insurance company, which markets insurance products and related services to employers and individuals in eastern Wisconsin. NHI is the sole corporate member of Network Health Plan (NHP), which engages in the business of health insurance to groups and individuals and Network Health Insurance Corporation (MHIC), which provides health insurance to groups, individuals, and Medicare beneficiaries. The ownership interest is co-owned with Ministry Health (doing business as Ascension Wisconsin) and is accounted for by FH under the equity method of accounting.

The carrying amount of the investment in NHI was $86,701 and $80,336 at June 30, 2018 and 2017, respectively. The excess of the carrying amount over FH's share of the equity of NHI was $3,372 at both June 30, 2018 and 2017 and has been allocated, within the investment in unconsolidated affiliates account, to goodwill.

FH recorded a gain (loss) in the consolidated statements of operations and changes in unrestricted net assets related to its investment in NHI of $6,365 and $(12,365) for the years ended June 30, 2018 and 2017, respectively. The 2018 gain is comprised of $552 of FH's 50% share of NHI's net gains for the year ended June 30, 2018 and a reserve adjustment of $5,813 for the change in premium deficiency reserve estimate adjustment recorded at year-end for the estimate of exposure through June 30, 2018. The 2017 loss is comprised of $(14,365) of FH's 50% share of NHI's net losses for the year ended June 30, 2017 and a reserve adjustment of $2,000 for premium deficiency reserve estimate recorded at year-end for the estimate of exposure through June 30, 2017.

(Continued)

(Dollars in thousands)

NHI provided third party health claims administration services, wellness program administration, and software services for FH's self-insured health benefit plan during the first six months of fiscal year 2018 and fiscal year 2017. FH paid NHI $2,205 and $5,858 relating to such services for the twelve months ended June 30, 2018 and 2017, respectively. These payments are included in fringe benefits, contract services, and other expense in the accompanying consolidated statements of operations and changes in unrestricted net assets.

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

		June 30	
		2018	2017
Current assets	$	224,166	194,995
Current liabilities		228,519	197,369
Working capital		(4,353)	(2,374)
Property and equipment, net		10,782	12,468
Other long-term assets		171,773	167,004
Long-term liabilities		—	—
Net assets	$	178,202	177,098

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, 2018 as a healthcare enterprise, with recognition of Ascension Wisconsin's equity position.

		Froedtert Health Enterprise				
(Unaudited)		FH Delivery System * (unaudited)	NHI Insurance Products and Services ** (unaudited)	Combined Health Enterprise (unaudited)	Less other NHI equity interests and adjustments (unaudited)	FH Combined illustrative statement of operations (unaudited)
Net patient service revenue	$	2,298,183	—	2,298,183	—	2,298,183
Premiums, net		—	860,339	860,339	(430,170)	430,169
Other operating revenue		76,489	—	76,489	5,812	82,301
Total revenue		2,374,672	860,339	3,235,011	(424,358)	2,810,653

(Dollars in thousands)

(Unaudited)		Froedtert Health Enterprise: FH Delivery System * (unaudited)	Froedtert Health Enterprise: NHI Insurance Products and Services ** (unaudited)	Froedtert Health Enterprise: Combined Health Enterprise (unaudited)	Less other NHI equity interests and adjustments (unaudited)	FH Combined illustrative statement of operations (unaudited)
Salaries and fringe benefits	$	1,060,611	—	1,060,611	—	1,060,611
General and administrative		—	102,895	102,895	(51,448)	51,447
Medical benefits and supplies		514,418	748,533	1,262,951	(374,267)	888,684
Contract services and affiliate support		235,729	—	235,729	—	235,729
Depreciation and interest		152,035	5,427	157,462	(2,714)	154,748
Premium taxes and other assessments		—	3,389	3,389	(1,695)	1,694
Other		276,519	—	276,519	—	276,519
Total expenses		2,239,312	860,244	3,099,556	(430,124)	2,669,432
Operating revenue in excess of expenses		135,360	95	135,455	5,766	141,221
Income tax expense		—	817	817	(409)	408
Nonoperating gains, net		90,978	192	91,170	(96)	91,074
Revenue and gains in excess of expenses and losses	$	226,338	1,104	227,442	5,261	232,703

* Fiscal year ended June 30, 2018 before insurance operations.

** Trailing twelve months ended June 30, 2018.

(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 $45,000 in fiscal year 2018. Remaining amounts due of $15,000 has been recorded as follows in accordance with the agreement: current amount due in fiscal year 2019 of $5,000 is included in accrued expenses in the consolidated balance sheet at June 30, 2018. Amounts due in fiscal year 2020 of $5,000 and fiscal year 2021 of $5,000 are included in other long-term liabilities in the consolidated balance sheet at June 30, 2018. The governance rights include FH becoming a voting member and obtaining a twenty-five percent equity ownership interest in United. Since October 2017, FH has recorded $4,224 of equity income related to the affiliation. The carrying amount of the investment in United was $64,224 at June 30, 2018.

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.

(Continued)

(Dollars in thousands)

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:

		2018	2017
Current assets	$	254,010	85,100
Current liabilities		(51,591)	(17,111)
Working capital		202,419	67,989
Property and equipment, net		273,982	38,711
Other long-term assets		172,217	59,203
Long-term liabilities		(98,964)	(22,251)
Net assets	$	549,654	143,652
Revenues	$	483,468	189,791
Expenses		(431,542)	(139,850)
Excess of revenues over expenses	$	51,926	49,941

(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.

(Dollars in thousands)

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

	Total	Controlling interest	Noncontrolling interest
Balance, June 30, 2016	$ 1,805,646	1,802,622	3,024
Revenue and gains in excess of expenses and losses	287,716	287,345	371
Changes in net unrealized gains and losses on other-than-trading securities	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	6,717	6,717	—
Change in accrued pension benefits other than net periodic benefit costs	15,097	15,097	—
Other	741	(475)	1,216
Changes in net assets	310,271	308,684	1,587
Balance, June 30, 2017	2,115,917	2,111,306	4,611
Revenue and gains in excess of expenses and losses	232,703	233,287	(584)
Changes in net unrealized gains and losses on other-than-trading securities	(226)	(226)	—
Contributions and net assets released from restrictions for property, plant, and equipment	980	980	—
Change in accrued pension benefits other than net periodic benefit costs	9,746	9,746	—
Investment in ambulatory surgery center from noncontrolling interest	(2,000)	—	(2,000)
Other	77	(94)	171
Changes in net assets	241,280	243,693	(2,413)
Balance, June 30, 2018	$ 2,357,197	2,354,999	2,198

(12) Employee Benefit Plans

(a) Defined Contribution Plans

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

FH sponsors the Froedtert Health 403(b) Plan (FH 403(b) Plan), covering substantially all FH employees. The FH 403(b) Plan provides a nonelective employer contribution, which varies based on employee's service from 3% of pay for employees with less than 10 years of service to 5% of pay for employees with 26 or more years of service. The nonelective employer contribution is also provided for those employees that no longer qualify for future service in the CMH defined benefit plan. It also provides a matching employer contribution of 50% of the first 5% of pay deferred by an employee. FH's nonelective and matching contributions to these plans are made annually and each pay period, respectively. FH's pension expense for the plan was $35,035 and $32,237 for the years ended June 30, 2018 and 2017, respectively.

(b) Defined Benefit Plans

FMLH has a defined benefit plan (the FMLH Plan), sponsored by FH, that covers certain former Milwaukee County employees who became employees of FMLH. FMLH and WDL are responsible for funding 10% of the FMLH Plan, with Milwaukee County funding 90%. FMLH has recorded the difference between the projected benefit obligation and the fair market value of plan. There is a corresponding long-term receivable from Milwaukee County for their portion of the unfunded projected benefit obligation of $2,437 and $7,170 at June 30, 2018 and 2017, respectively, included in other assets, net on the consolidated balance sheets. FMLH's pension expense for the FMLH Plan was $68 and $484 for the years ended June 30, 2018 and 2017, respectively.

(Continued)

(Dollars in thousands)

Data relative to the FMLH Plan for the years ended June 30, 2018 and 2017 is as follows:

		2018	2017
Change in pension benefit obligation:			
Projected benefit obligation at beginning of year	$	70,539	72,148
Service cost		819	853
Interest cost		2,709	2,657
Actuarial (gain) loss		(1,176)	1,157
Change in mortality assumption		(591)	(1,238)
Change in discount rate		(2,798)	(1,526)
Expenses paid		(239)	(351)
Benefits paid		(2,919)	(3,161)
Projected benefit obligation at end of year		66,344	70,539
Change in plan assets:			
Fair value of plan assets at beginning of year		61,476	56,642
Actual return on plan assets		4,770	7,719
Employer contributions		563	627
Expenses paid		(239)	(351)
Benefits paid		(2,919)	(3,161)
Fair value of plan assets at end of year		63,651	61,476
Funded status	$	(2,693)	(9,063)

		2018	2017
Accumulated benefit obligation	$	62,936	65,517

(Dollars in thousands)

		2018	2017
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to unrestricted net assets:			
Prior service cost	$	—	—
Accumulated loss		5,317	11,367
Unrecognized pension costs	$	5,317	11,367
Net periodic pension cost is comprised of the following:			
Service cost	$	819	853
Interest cost on projected benefit obligation		2,709	2,657
Expected return on plan assets		(3,895)	(3,610)
Net amortization and deferral		—	—
Recognized actuarial loss		610	1,587
Net periodic pension cost	$	243	1,487

	2018	2017
Assumptions used:		
Discount rate for measurement of pension obligation	4.28 %	3.93 %
Discount rate for determining net periodic pension cost	3.93	3.76
Rate of increase in compensation levels	3.25	3.25
Expected return of plan assets	5.80	6.50

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

As of June 30, 2018 and 2017, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the FMLH Plan.

The employer contribution for the FMLH Plan for the year ending June 30, 2019 is estimated to be $3,432. The benefits expected to be paid in each year from 2019 through 2023 are expected to be $3,408, $3,552, $3,684, $3,816, and $3,940, respectively. The aggregate benefits to be paid in the five years from 2024 through 2028 are expected to be $20,975. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2018.

The amount that will be recorded as net periodic benefit cost in fiscal year 2019 is estimated to be $(293).

(Dollars in thousands)

The asset allocation of the pension plan at June 30, 2018 and 2017 is as follows:

	2018	2017
Equity securities	46 %	70 %
Debt securities	54	30
Total	100 %	100 %

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:

Asset class	Target percentage
Equity securities	50%–70%
Debt securities	30%–50%
Other	— %

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

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.

(Dollars in thousands)

Data relative to the CMH Plan for the years ended June 30, 2018 and 2017 is as follows:

	2018	2017
Change in pension benefit obligation:		
Projected benefit obligation at beginning of year	$ 132,210	140,287
Service cost	2,765	2,505
Interest cost	5,187	5,302
Actuarial loss	1,200	2,068
Change in mortality assumption	(990)	(2,038)
Change in discount rate	(5,657)	(2,443)
Expenses paid	(401)	(594)
Plan settlements[1]	—	(9,008)
Benefits paid	(4,384)	(3,869)
Projected benefit obligation at end of year	129,930	132,210
Change in plan assets:		
Fair value of plan assets at beginning of year	102,579	98,517
Actual return on plan assets	6,337	11,730
Employer contributions	4,578	5,803
Expenses paid	(401)	(594)
Plan settlements[1]	—	(9,008)
Benefits paid	(4,384)	(3,869)
Fair value of plan assets at end of year	108,709	102,579
Funded status	$ (21,221)	(29,631)

	2018	2017
Accumulated benefit obligation	$ 121,579	122,284

	2018	2017
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to unrestricted net assets:		
Prior service cost	$ —	—
Accumulated loss	26,382	33,886
Unrecognized pension costs	$ 26,382	33,886

(Continued)

(Dollars in thousands)

		2018	2017
Net periodic pension cost is comprised of the following:			
Service cost	$	2,765	2,505
Interest cost		5,188	5,302
Expected return on plan assets		(6,658)	(6,526)
Net amortization and deferral		—	21
Recognized actuarial loss		2,377	2,303
Recognized settlement loss[1]		—	2,418
Net periodic pension cost	$	3,672	6,023
Assumptions used:			
Discount rate for measurement of pension obligation		4.31 %	3.99 %
Discount rate for determining net periodic pension cost:			
Fiscal year 2018		3.99 %	— %
July 1, 2016 to November 30, 2016		—	3.86
December 1, 2016 to June 30, 2017		—	4.40
Rate of increase in compensation levels		3.00–6.00	3.00–6.00
Expected return of plan assets		6.50	6.50

[1] During fiscal year 2017, the CMH Plan offered deferred vested participants a lump sum settlement option (the program) which resulted in $9,008 of lump sum payments. As a result of the program and in accordance with ASC Topic 715 settlement accounting, a re-measurement of the CMH plan occurred as of November 30, 2016, resulting in a $2,418 settlement loss, which is recorded in fringe benefits expense in the 2017 consolidated statements of operations and changes in unrestricted net assets.

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, 2018 and 2017, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the CMH Plan.

The minimum employer contributions for the CMH Plan for the year ending June 30, 2019 are estimated to be $6,798. The benefits expected to be paid in each year from 2019 through 2023 are $4,899, $5,401, $5,862, $6,376, and $6,868, respectively. The aggregate benefits to be paid in the five years from 2024 through 2028 are $39,380. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2018.

(Dollars in thousands)

The amount that will be recorded as net periodic benefit cost in fiscal year 2019 is estimated to be $2,356.

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

	2018	2017
Equity securities	59 %	57 %
Debt securities	39	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 to duration-matched debt securities is successively increased as funded status levels begin to exceed the 90% level.

(i) Fair Value Measurements

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

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

(ii) Fair Value Hierarchy

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

(Dollars in thousands)

The following table presents the Plans' fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2018:

		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Plan assets:					
Collateral for securities loaned	$	73,306	—	73,306	—
Investments:					
Cash and short-term investments consisting of money market funds	$	4,181	4,181	—	—
Corporate stocks		54,270	54,270	—	—
Pooled equity funds		23,835	23,835	—	—
International equity funds		14,423	14,423	—	—
Marketable limited partnerships		146	146	—	—
Corporate and foreign bonds		40,777	—	40,777	—
U.S. government securities		32,894	—	32,894	—
Annuity contract		1,834	—	—	1,834
Total investments	$	172,360	96,855	73,671	1,834
Liabilities:					
Payable under securities lending agreement	$	73,306	—	73,306	—

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

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

(Dollars in thousands)

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

		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Plan assets:					
Collateral for securities loaned	$	56,955	—	56,955	—
Investments:					
Cash and short-term investments consisting of money market funds	$	4,602	4,602	—	—
Corporate stocks		56,167	56,167	—	—
Pooled equity funds		25,298	25,298	—	—
International equity funds		17,724	17,724	—	—
Marketable limited partnerships		129	129	—	—
Corporate and foreign bonds		33,371	—	33,371	—
U.S. government securities		24,933	—	24,933	—
Annuity contract		1,831	—	—	1,831
Total investments	$	164,055	103,920	58,304	1,831
Liabilities:					
Payable under securities lending agreement	$	56,955	—	56,955	—

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

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

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 $71,824 and $55,687 at June 30, 2018 and 2017, respectively. The fair market value of the collateral received under this arrangement was $73,306 and $56,955 at June 30, 2018 and 2017, 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, 2018 and 2017. The fair value of collateral was 102.1% and 102.3% of the fair value of securities loaned at June 30, 2018 and 2017, 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, 2018 and 2017 using a discount rate of 4.29% and 3.96% was $3,971 and $4,649, respectively, of which $202 and $222, respectively, are included in short-term liabilities and $3,769 and $4,427, respectively, are included in other long-term liabilities on the consolidated balance sheets.

(13) Professional Liability Insurance

FMLH, CMH, SJH, and CP have professional liability insurance for claim losses of less than $1,000 per claim and $3,000 per year for professional liability claims incurred during a policy year, regardless of when the claim is reported (insurance provided on an occurrence basis). Coverage under this insurance policy includes a deductible of $25 per claim prior to July 1, 2014 and a deductible of $250 after July 1, 2014. Effective July 1, 2016, FH established a risk financing captive (Harts Mills) and the limit for professional liability deductible was raised to $1,000. Losses in excess of these amounts are covered through the FMLH, CMH, SJH, and CP mandatory participation in the Injured Patients' and Families Compensation Fund of the State of Wisconsin. WDL has professional liability insurance for claim losses of less than $3,000 per claim and $5,000 per year for professional liability claims incurred during a policy year, regardless of when the claim is reported (insurance provided on an occurrence basis). WDL is not covered under the Injured Patients' and Families Compensation Fund of the State of Wisconsin, but does carry additional excess umbrella coverage for professional liability claims. FH applies the provisions of ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a healthcare entity should not net insurance recoveries against a related malpractice claim liability or similar liability and which is consistent with the guidelines in ASC Subtopic 210-20, *Balance Sheet – Offsetting*. FH has recorded an estimated insurance recovery of $475 and $50 at June 30, 2018 and 2017, respectively, and a related insurance liability of $475 and $50 at June 30, 2018 and 2017, respectively.

(Dollars in thousands)

(14) Commitments and Contingencies

(a) Leases

FH and its affiliates lease equipment and office space under the terms of various operating leases. Rent expense for these leases was $16,112 and $17,719 for the years ended June 30, 2018 and 2017, respectively, included in the consolidated statements of operations and changes in unrestricted net assets.

Future minimum operating lease payments, excluding the land lease with Milwaukee County (note 5), that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2018 are as follows:

2019	$	9,874
2020		9,588
2021		7,159
2022		6,719
2023		6,704
Thereafter		25,635

FMLH has agreed to lease certain space to MCW through the year 2025 under an operating lease that calls for a base rent and additional rent allocated for the expenses incurred. Rental income of $4,812 and $5,279 for space leased to MCW is included in other operating revenue for the years ended June 30, 2018 and 2017, respectively, in the consolidated statements of operations and changes in unrestricted net assets. Also included in other operating revenue for the years ended June 30, 2018 and 2017 was a total of $526 and $1,137, respectively, for certain other leased space to MCW.

(b) Health Insurance

FH has a self-insured health plan that covers substantially all liability for health costs associated with claims for employees up to certain limits under a commercial stop-loss agreement. Effective January 1, 2017, 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, 2018 and 2017 are estimated amounts payable for health insurance claims incurred as of such dates of $14,776 and $6,776, respectively.

(c) Litigation

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

(d) Regulatory Investigation and Other

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

(15) 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 24, 2018, the date the consolidated financial statements were issued, noting no subsequent events requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements.

Schedule 1

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2018

(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	$	2,312	845	6,345	—	9,502
Assets whose use is limited		—	—	—	—	—
Patient accounts receivable, net of estimated uncollectibles of $29,978		204,732	—	1,127	—	205,859
Other receivables		5,346	235	—	(88)	5,493
Inventories		17,769	—	337	—	18,106
Collateral held for securities loaned		—	—	—	—	—
Prepaids and other		6,595	—	47	—	6,642
Total current assets		236,754	1,080	7,856	(88)	245,602
Investments		—	15,518	—	—	15,518
Assets whose use is limited or restricted		25,038	9,237	—	(25,038)	9,237
Investments in unconsolidated affiliates		40	—	—	—	40
Property, plant, and equipment, net		749,908	—	1,489	—	751,397
Other assets, net		2,437	—	—	—	2,437
Total assets	$	1,014,177	25,835	9,345	(25,126)	1,024,231
Liabilities and Net Assets						
Current liabilities:						
Current installments of long-term debt	$	38	—	—	—	38
Accounts payable		21,349	674	509	(88)	22,444
Accrued expenses		45,080	123	266	—	45,469
Payable under securities lending agreement		—	—	—	—	—
Estimated settlements to third-party payors		11,436	—	—	—	11,436
Total current liabilities		77,903	797	775	(88)	79,387
Long-term debt, less current installments		257	—	—	—	257
Other long-term liabilities		6,420	—	—	—	6,420
Total liabilities		84,580	797	775	(88)	86,064
Net assets (deficit):						
Unrestricted:						
Unrestricted		900,715	15,930	8,570	(2,571)	922,644
Noncontrolling interests in consolidated joint ventures		—	—	—	2,571	2,571
Total unrestricted		900,715	15,930	8,570	—	925,215
Temporarily restricted		28,516	8,742	—	(24,672)	12,586
Permanently restricted		366	366	—	(366)	366
Total net assets		929,597	25,038	8,570	(25,038)	938,167
Total liabilities and net assets	$	1,014,177	25,835	9,345	(25,126)	1,024,231

(Continued)

Schedule 1

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2018

(In thousands)

Assets	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Menomonee Falls Ambulatory Surgery Center	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Current assets:						
Cash and cash equivalents	$ 19	1,712	—	1,086	—	2,817
Assets whose use is limited	—	—	—	—	—	—
Patient accounts receivable, net of estimated uncollectibles of $4,275	27,386	—	—	369	—	27,755
Other receivables	164	7	338	—	(358)	151
Inventories	5,642	—	—	189	—	5,831
Collateral held for securities loaned	—	—	—	—	—	—
Prepaids and other	538	1	—	82	—	621
Total current assets	33,749	1,720	338	1,726	(358)	37,175
Investments	—	4,109	—	—	—	4,109
Assets whose use is limited or restricted	—	2,779	—	—	—	2,779
Investments in unconsolidated affiliates	10,586	—	—	—	(8,149)	2,437
Property, plant, and equipment, net	106,518	—	—	5,648	—	112,166
Deferred financing costs and other assets, net	—	—	—	1,550	—	1,550
Total assets	$ 150,853	8,608	338	8,924	(8,507)	160,216
Liabilities and Net Assets						
Current liabilities:						
Current installments of long-term debt	$ —	—	—	66	—	66
Accounts payable	728	460	11	906	(358)	1,747
Accrued expenses	6,919	(1)	(1)	329	—	7,246
Payable under securities lending agreement	—	—	—	—	—	—
Estimated settlements to third-party payors	423	—	—	—	—	423
Total current liabilities	8,070	459	10	1,301	(358)	9,482
Long-term debt, less current installments	—	—	—	189	—	189
Other long-term liabilities	21,221	—	—	—	—	21,221
Total liabilities	29,291	459	10	1,490	(358)	30,892
Net assets (deficit):						
Unrestricted:						
Unrestricted	120,955	7,542	328	7,434	(7,542)	128,717
Noncontrolling interests in consolidated joint ventures	—	—	—	—	—	—
Total unrestricted	120,955	7,542	328	7,434	(7,542)	128,717
Temporarily restricted	607	607	—	—	(607)	607
Permanently restricted	—	—	—	—	—	—
Total net assets	121,562	8,149	328	7,434	(8,149)	129,324
Total liabilities and net assets	$ 150,853	8,608	338	8,924	(8,507)	160,216

(Continued)

Schedule 1

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2018

(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	$ 5,302	990	—	6,292
Assets whose use is limited	—	—	—	—
Patient accounts receivable, net of estimated uncollectibles of $2,536	16,352	—	—	16,352
Other receivables	177	87	(46)	218
Inventories	2,338	—	—	2,338
Collateral held for securities loaned	—	—	—	—
Prepaids and other	261	—	—	261
Total current assets	24,430	1,077	(46)	25,461
Investments	—	29,124	—	29,124
Assets whose use is limited or restricted	163	9,329	—	9,492
Investments in unconsolidated affiliates	20	—	—	20
Property, plant, and equipment, net	67,248	—	—	67,248
Deferred financing costs and other assets, net	—	—	—	—
Total assets	$ 91,861	39,530	(46)	131,345
Liabilities and Net Assets				
Current liabilities:				
Current installments of long-term debt	$ —	—	—	—
Accounts payable	2,985	48	(46)	2,987
Accrued expenses	2,944	—	—	2,944
Payable under securities lending agreement	—	—	—	—
Estimated settlements to third-party payors	2,331	—	—	2,331
Total current liabilities	8,260	48	(46)	8,262
Long-term debt, less current installments	—	—	—	—
Other long-term liabilities	1,408	—	—	1,408
Total liabilities	9,668	48	(46)	9,670
Net assets (deficit):				
Unrestricted:				
Unrestricted	82,030	39,096	—	121,126
Noncontrolling interests in consolidated joint ventures	—	—	—	—
Total unrestricted	82,030	39,096	—	121,126
Temporarily restricted	163	384	—	547
Permanently restricted	—	2	—	2
Total net assets	82,193	39,482	—	121,675
Total liabilities and net assets	$ 91,861	39,530	(46)	131,345

(Continued)

Schedule 1

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2018

(In thousands)

Assets		F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Exceedent	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Current assets:								
Cash and cash equivalents	$	16	13,693	11,310	80,080	3,491	—	127,201
Assets whose use is limited		—	—	1,970	4,412	—	—	6,382
Patient accounts receivable, net of estimated uncollectibles of $1,993		26,167	3,347	—	—	664	—	280,144
Other receivables		7,347	20,964	2	40,146	7,132	(66,194)	15,259
Inventories		936	—	—	8,044	853	—	36,108
Collateral held for securities loaned		—	—	—	310,985	—	—	310,985
Prepaids and other		182	511	21	14,847	941	—	24,026
Total current assets		34,648	38,515	13,303	458,514	13,081	(66,194)	800,105
Investments		—	—	—	1,478,929	7,880	—	1,535,560
Assets whose use is limited or restricted		—	1,597	—	127,912	1,712	—	152,729
Investments in unconsolidated affiliates		—	—	—	186,375	4,297	(907)	192,262
Property, plant, and equipment, net		35,932	4,975	987	261,284	6,791	—	1,240,780
Other assets, net		317	—	—	2,664	105	(3,520)	3,553
Total assets	$	70,897	45,087	14,290	2,515,678	33,866	(70,621)	3,924,989
Liabilities and Net Assets								
Current liabilities:								
Current installments of long-term debt	$	—	—	—	13,810	—	—	13,914
Accounts payable		431	2,144	10,793	58,324	23,891	(66,187)	56,574
Accrued expenses		34,632	4,668	2,333	139,117	8,935	(7)	245,337
Payable under securities lending agreement		—	—	—	310,985	—	—	310,985
Estimated settlements to third-party payors		—	—	—	—	—	—	14,190
Total current liabilities		35,063	6,812	13,126	522,236	32,826	(66,194)	641,000
Long-term debt, less current installments		—	—	—	800,698	2,412	(2,412)	801,144
Other long-term liabilities		2,332	1,906	—	79,361	—	(1,108)	111,540
Total liabilities		37,395	8,718	13,126	1,402,295	35,238	(69,714)	1,553,684
Net assets (deficit):								
Unrestricted:								
Unrestricted		33,502	36,369	1,164	1,113,383	(999)	(907)	2,354,999
Noncontrolling interests in consolidated joint ventures		—	—	—	—	(373)	—	2,198
Total unrestricted		33,502	36,369	1,164	1,113,383	(1,372)	(907)	2,357,197
Temporarily restricted		—	—	—	—	—	—	13,740
Permanently restricted		—	—	—	—	—	—	368
Total net assets		33,502	36,369	1,164	1,113,383	(1,372)	(907)	2,371,305
Total liabilities and net assets	$	70,897	45,087	14,290	2,515,678	33,866	(70,621)	3,924,989

(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.

Schedule 2

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Unrestricted Net Assets Information

Year ended June 30, 2018

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Net patient service revenue:					
Net patient service revenue before provision for bad debts	$ 1,694,731	—	9,598	—	1,704,329
Provision for bad debts	44,235	—	180	—	44,415
Net patient service revenue	1,650,496	—	9,418	—	1,659,914
Other operating revenue	31,098	1,193	—	(1,388)	30,903
Total revenue	1,681,594	1,193	9,418	(1,388)	1,690,817
Expenses:					
Salaries	373,906	—	2,034	—	375,940
Fringe benefits	103,852	—	863	—	104,715
Supplies	365,527	—	2,168	—	367,695
Contract services	132,710	—	739	—	133,449
Affiliate support	146,262	—	40	—	146,302
Depreciation and amortization	60,173	—	235	—	60,408
Interest	16,323	—	—	—	16,323
Other	118,675	2,603	1,764	(840)	122,202
Corporate allocations	230,035	—	—	—	230,035
Total expenses	1,547,463	2,603	7,843	(840)	1,557,069
Operating revenue in excess (deficient) of expenses	134,131	(1,410)	1,575	(548)	133,748
Nonoperating gains and losses:					
Investment income	—	774	—	—	774
Change in net unrealized gains and losses on trading securities	—	5	—	—	5
Change in fair value of interest rate swaps	—	—	—	—	—
Community health initiatives	—	—	—	—	—
Revenue and gains in excess of expenses and losses	134,131	(631)	1,575	(548)	134,527
Other changes in unrestricted net assets:					
Transfers (to) from affiliates	(59,025)	793	—	—	(58,232)
Change in net unrealized gains and losses on other-than-trading securities	(227)	—	1	—	(226)
Contributions and net assets released from restriction for property, plant, and equipment	376	—	—	—	376
Change in accrued pension benefits other than net periodic benefit costs	2,242	—	—	—	2,242
Forgiveness of receivable from Foundation	—	—	—	—	—
Other	(5,777)	(1)	—	4,045	(1,733)
Increase (decrease) in unrestricted net assets	71,720	161	1,576	3,497	76,954
Unrestricted net assets (deficit) at beginning of year	828,995	15,769	6,994	(3,497)	848,261
Unrestricted net assets (deficit) at end of year	$ 900,715	15,930	8,570	—	925,215

(Continued)

Schedule 2

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Unrestricted Net Assets Information

Year ended June 30, 2018

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Menomonee Falls Ambulatory Surgery Center	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Net patient service revenue:						
Net patient service revenue before provision for bad debts	$ 241,637	—	—	1,240	—	242,877
Provision for bad debts	6,524	—	—	—	—	6,524
Net patient service revenue	235,113	—	—	1,240	—	236,353
Other operating revenue	29,709	1,185	505	15	(482)	30,932
Total revenue	264,822	1,185	505	1,255	(482)	267,285
Expenses:						
Salaries	86,482	—	114	705	(100)	87,201
Fringe benefits	23,242	—	—	194	—	23,436
Supplies	73,140	—	155	217	—	73,512
Contract services	14,420	—	—	154	—	14,574
Affiliate support	21,552	—	—	—	—	21,552
Depreciation and amortization	12,386	—	—	181	—	12,567
Interest	2,060	—	—	5	—	2,065
Other	16,012	892	213	187	(382)	16,922
Corporate allocations	16,553	—	—	—	—	16,553
Total expenses	265,847	892	482	1,643	(482)	268,382
Operating revenue in excess (deficient) of expenses	(1,025)	293	23	(388)	—	(1,097)
Nonoperating gains and losses:						
Investment income	—	367	—	—	—	367
Change in net unrealized gains and losses on trading securities	—	(1)	—	—	—	(1)
Change in fair value of interest rate swaps	—	—	—	—	—	—
Loss on early extinguishment of debt	—	—	—	—	—	—
Revenue and gains in excess of expenses and losses	(1,025)	659	23	(388)	—	(731)
Other changes in unrestricted net assets:						
Transfers (to) from affiliates	24,637	(604)	—	—	—	24,033
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	—	604	—	—	—	604
Change in accrued pension benefits other than net periodic benefit costs	7,504	—	—	—	—	7,504
Forgiveness of receivable from Foundation	—	—	—	—	—	—
Other	(7,182)	1	—	7,822	(660)	(19)
Increase (decrease) in unrestricted net assets	23,934	660	23	7,434	(660)	31,391
Unrestricted net assets (deficit) at beginning of year	97,021	6,882	305	—	(6,882)	97,326
Unrestricted net assets (deficit) at end of year	$ 120,955	7,542	328	7,434	(7,542)	128,717

(Continued)

Schedule 2

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Unrestricted Net Assets Information

Year ended June 30, 2018

(In thousands)

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Net patient service revenue:				
Net patient service revenue before provision for bad debts	$ 151,888	—	—	151,888
Provision for bad debts	3,977	3	—	3,980
Net patient service revenue	147,911	(3)	—	147,908
Other operating revenue	2,772	293	—	3,065
Total revenue	150,683	290	—	150,973
Expenses:				
Salaries	40,065	108	—	40,173
Fringe benefits	10,662	—	—	10,662
Supplies	31,897	29	—	31,926
Contract services	6,871	—	—	6,871
Affiliate support	24,502	—	—	24,502
Depreciation and amortization	6,922	—	—	6,922
Interest	2,385	—	—	2,385
Other	11,010	384	—	11,394
Corporate allocations	9,419	—	—	9,419
Total expenses	143,733	521	—	144,254
Operating revenue in excess (deficient) of expenses	6,950	(231)	—	6,719
Nonoperating gains and losses:				
Investment income	—	2,074	—	2,074
Change in net unrealized gains and losses on trading securities	—	33	—	33
Change in fair value of interest rate swaps	—	—	—	—
Loss on early extinguishment of debt	—	—	—	—
Revenue and gains in excess of expenses and losses	6,950	1,876	—	8,826
Other changes in unrestricted net assets:				
Transfers (to) from affiliates	(16,298)	(1,515)	—	(17,813)
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	(129)	129	—	—
Other	—	—	—	—
Increase (decrease) in unrestricted net assets	(9,477)	490	—	(8,987)
Unrestricted net assets at beginning of year	91,507	38,606	—	130,113
Unrestricted net assets at end of year	$ 82,030	39,096	—	121,126

(Continued)

Schedule 2

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Unrestricted Net Assets Information

Year ended June 30, 2018

(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 patient service revenue:							
Net patient service revenue before provision for bad debts	$ 236,506	16,936	—	—	7,098	(18)	2,359,616
Provision for bad debts	5,644	617	—	—	253	—	61,433
Net patient service revenue	230,862	16,319	—	—	6,845	(18)	2,298,183
Other operating revenue	18,298	59,350	8,071	474,259	13,412	(555,436)	82,854
Total revenue	249,160	75,669	8,071	474,259	20,257	(555,454)	2,381,037
Expenses:							
Salaries	183,807	23,994	4,114	129,450	4,900	(2,878)	846,701
Fringe benefits	35,842	7,934	232	163,015	907	(132,833)	213,910
Supplies	20,871	15,746	60	259	5,227	(878)	514,418
Contract services	25,441	8,778	—	27,988	2,308	(102,418)	116,991
Affiliate support	(77,740)	—	—	4,122	—	—	118,738
Depreciation and amortization	6,907	1,814	359	29,934	711	—	119,622
Interest	—	—	—	11,617	116	(93)	32,413
Other	38,335	8,092	8,681	103,860	11,653	(44,620)	276,519
Corporate allocations	15,697	—	—	—	—	(271,704)	—
Total expenses	249,160	66,358	13,446	470,245	25,822	(555,424)	2,239,312
Operating revenue in excess (deficient) of expenses	—	9,311	(5,375)	4,014	(5,565)	(30)	141,725
Nonoperating gains and losses:							
Investment income	—	—	—	80,527	25	—	83,767
Change in net unrealized gains and losses on trading securities	—	—	—	1,283	—	—	1,320
Change in fair value of interest rate swaps	—	—	—	6,541	—	—	6,541
Community health initiatives	—	—	—	(650)	—	—	(650)
Revenue and gains in excess of expenses and losses	—	9,311	(5,375)	91,715	(5,540)	(30)	232,703
Other changes in unrestricted net assets:							
Transfers (to) from affiliates	(13,127)	2	4,999	59,159	976	3	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—	—	(226)
Contributions and net assets released from restriction for property, plant, and equipment	—	—	—	—	—	—	980
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—	—	—	9,746
Investment in ambulatory surgery center from noncontrolling interest	—	—	—	(2,000)	—	—	(2,000)
Other	—	—	—	1,829	—	—	77
Increase (decrease) in unrestricted net assets	(13,127)	9,313	(376)	150,703	(4,564)	(27)	241,280
Unrestricted net assets (deficit) at beginning of year	46,629	27,056	1,540	962,680	3,192	(880)	2,115,917
Unrestricted net assets (deficit) at end of year	$ 33,502	36,369	1,164	1,113,383	(1,372)	(907)	2,357,197

(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.

Schedule 3

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2018

(In thousands)

		Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Unrestricted net assets:						
Revenue in excess of expenses and losses	$	134,131	(631)	1,575	(548)	134,527
Transfers (to) from affiliates		(59,025)	793	—	—	(58,232)
Change in net unrealized gains and losses on other-than-trading securities		(227)	—	1	—	(226)
Net assets released from restrictions for property, plant, and equipment		376	—	—	—	376
Change in accrued pension benefits other than net periodic benefit costs		2,242	—	—	—	2,242
Forgiveness of receivable from Foundation		—	—	—	—	—
Investment in ambulatory surgery center from noncontrolling interest		—	—	—	—	—
Other		(5,777)	(1)	—	4,045	(1,733)
Increase (decrease) in unrestricted net assets		71,720	161	1,576	3,497	76,954
Unrestricted net assets at beginning of year		828,995	15,769	6,994	(3,497)	848,261
Unrestricted net assets at end of year	$	900,715	15,930	8,570	—	925,215
Temporarily restricted net assets:						
Change in net unrealized gains and losses on investments	$	—	(1)	—	—	(1)
Restricted contributions		2,000	117	—	—	2,117
Restricted investment income		—	492	—	—	492
Net assets released from restrictions for operations		—	(491)	—	—	(491)
Net assets released from restrictions for property, plant, and equipment		(156)	(220)	—	—	(376)
Change in beneficial interest in foundations		59	—	—	(59)	—
Other		—	1	—	—	1
Increase (decrease) in temporarily restricted net assets		1,903	(102)	—	(59)	1,742
Temporarily restricted net assets (deficit) at beginning of year		26,613	8,844	—	(24,613)	10,844
Temporarily restricted net assets (deficit) at end of year	$	28,516	8,742	—	(24,672)	12,586
Permanently restricted net assets:						
Permanently restricted net assets (deficit) at beginning of year	$	366	366	—	(366)	366
Permanently restricted net assets (deficit) at end of year	$	366	366	—	(366)	366

(Continued)

Schedule 3

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2018

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	MFASC	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Unrestricted net assets:						
Revenue in excess of expenses and losses	$ (1,025)	659	23	(388)	—	(731)
Transfers (to) from affiliates	24,637	(604)	—	—	—	24,033
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	—	604	—	—	—	604
Change in accrued pension benefits other than net periodic benefit costs	7,504	—	—	—	—	7,504
Forgiveness of receivable from Foundation	—	—	—	—	—	—
Investment in ambulatory surgery center from noncontrolling interest	—	—	—	—	—	—
Other	(7,182)	1	—	7,822	(660)	(19)
Increase (decrease) in unrestricted net assets	23,934	660	23	7,434	(660)	31,391
Unrestricted net assets (deficit) at beginning of year	97,021	6,882	305	—	(6,882)	97,326
Unrestricted net assets (deficit) at end of year	$ 120,955	7,542	328	7,434	(7,542)	128,717
Temporarily restricted net assets:						
Change in net unrealized gains and losses on investments	$ —	—	—	—	—	—
Restricted contributions	—	192	—	—	—	192
Restricted investment income	—	—	—	—	—	—
Net assets released from restrictions for operations	—	(52)	—	—	—	(52)
Net assets released from restrictions for property, plant, and equipment	—	(604)	—	—	—	(604)
Change in beneficial interest in foundations	(445)	—	—	—	445	—
Other	—	19	—	—	—	19
Increase (decrease) in temporarily restricted net assets	(445)	(445)	—	—	445	(445)
Temporarily restricted net assets (deficit) at beginning of year	1,052	1,052	—	—	(1,052)	1,052
Temporarily restricted net assets (deficit) at end of year	$ 607	607	—	—	(607)	607
Permanently restricted net assets:						
Permanently restricted net assets at beginning of year	$ —	—	—	—	—	—
Permanently restricted net assets at end of year	$ —	—	—	—	—	—

(Continued)

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2018

(In thousands)

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Unrestricted net assets:				
Revenue in excess of expenses and losses	$ 6,950	1,876	—	8,826
Transfers (to) from affiliates	(16,298)	(1,515)	—	(17,813)
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	(129)	129	—	—
Investment in ambulatory surgery center from noncontrolling interest	—	—	—	—
Other	—	—	—	—
Increase (decrease) in unrestricted net assets	(9,477)	490	—	(8,987)
Unrestricted net assets at beginning of year	91,507	38,606	—	130,113
Unrestricted net assets at end of year	$ 82,030	39,096	—	121,126
Temporarily restricted net assets:				
Change in net unrealized gains and losses on investments	$ 21	—	—	21
Restricted contributions	—	140	—	140
Restricted investment income	—	—	—	—
Net assets released from restrictions for operations	(8)	(32)	—	(40)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—
Change in beneficial interest in foundations	—	—	—	—
Other	—	—	—	—
Increase (decrease) in temporarily restricted net assets	13	108	—	121
Temporarily restricted net assets at beginning of year	150	276	—	426
Temporarily restricted net assets at end of year	$ 163	384	—	547
Permanently restricted net assets:				
Permanently restricted net assets at beginning of year	$ —	2	—	2
Permanently restricted net assets at end of year	$ —	2	—	2

(Continued)

Schedule 3

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2018

(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.
Unrestricted net assets:							
Revenue in excess of expenses and losses	$ —	9,311	(5,375)	91,715	(5,540)	(30)	232,703
Transfers (to) from affiliates	(13,127)	2	4,999	59,159	976	3	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—	—	(226)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	—	980
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—	—	—	9,746
Forgiveness of receivable from Foundation	—	—	—	—	—	—	—
Investment in ambulatory surgery center from noncontrolling interest	—	—	—	(2,000)	—	—	(2,000)
Other	—	—	—	1,829	—	—	77
Increase (decrease) in unrestricted net assets	(13,127)	9,313	(376)	150,703	(4,564)	(27)	241,280
Unrestricted net assets (deficit) at beginning of year	46,629	27,056	1,540	962,680	3,192	(880)	2,115,917
Unrestricted net assets (deficit) at end of year	$ 33,502	36,369	1,164	1,113,383	(1,372)	(907)	2,357,197
Temporarily restricted net assets:							
Change in net unrealized gains and losses on investments	$ —	—	—	—	—	—	20
Restricted contributions	—	—	—	—	—	—	2,449
Restricted investment income	—	—	—	—	—	—	492
Net assets released from restrictions for operations	—	—	—	—	—	—	(583)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	—	(980)
Change in beneficial interest in foundations	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	20
Increase (decrease) in temporarily restricted net assets	—	—	—	—	—	—	1,418
Temporarily restricted net assets at beginning of year	—	—	—	—	—	—	12,322
Temporarily restricted net assets at end of year	$ —	—	—	—	—	—	13,740
Permanently restricted net assets:							
Permanently restricted net assets at beginning of year	$ —	—	—	—	—	—	368
Permanently restricted net assets at end of year	$ —	—	—	—	—	—	368

(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.