



FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Financial Statements and Schedules

June 30, 2022 and 2021

(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. and Affiliates:

Opinion

We have audited the consolidated financial statements of Froedtert Health, Inc. and Affiliates and its subsidiaries (the System), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. 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 16, 2022

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Balance Sheets

June 30, 2022 and 2021

(In thousands)

Assets	2022	2021
Current assets:		
Cash and cash equivalents	\$ 112,860	176,372
Assets whose use is limited	3,280	7,852
Patient accounts receivable	413,772	388,763
Other receivables	21,705	21,084
Inventories and supplies	49,959	45,613
Collateral held for securities loaned	229,714	279,018
Prepays and other	33,618	34,314
Total current assets	864,908	953,016
Investments	2,057,555	2,264,147
Assets whose use is limited	155,769	179,061
Investments in unconsolidated affiliates	260,329	275,657
Property, plant, and equipment, net	1,417,205	1,432,853
Right of use assets for operating leases	93,498	101,361
Other assets, net	5,577	359
Total assets	\$ 4,854,841	5,206,454
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 19,696	18,277
Current portion of operating lease liabilities	7,905	7,510
Accounts payable	113,222	70,896
Accrued expenses	343,571	344,993
Payable under securities lending agreement	229,714	279,018
Estimated settlements to third-party payors	17,210	19,179
Medicare accelerated payment program advance	24,940	161,192
Total current liabilities	756,258	901,065
Long-term debt, less current installments	745,257	760,957
Long-term operating lease liabilities	88,389	95,709
Other long-term liabilities	94,007	136,581
Total liabilities	1,683,911	1,894,312
Net assets:		
Net assets without donor restrictions	3,140,029	3,282,684
Noncontrolling interest in consolidated joint ventures	12,466	12,712
Total net assets without donor restrictions	3,152,495	3,295,396
Net assets with donor restrictions	18,435	16,746
Total net assets	3,170,930	3,312,142
Total liabilities and net assets	\$ 4,854,841	5,206,454

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Revenue:		
Patient service revenue	\$ 3,250,816	2,970,792
Other operating revenue	94,927	141,329
Total revenue	<u>3,345,743</u>	<u>3,112,121</u>
Expenses:		
Salaries	1,279,907	1,088,932
Fringe benefits	314,575	268,260
Supplies	823,270	723,146
Contract services	155,427	142,712
Affiliate support	141,392	163,416
Depreciation and amortization	142,716	134,598
Interest	34,446	33,849
Other	358,110	335,345
Total expenses	<u>3,249,843</u>	<u>2,890,258</u>
Operating revenue in excess of expenses	<u>95,900</u>	<u>221,863</u>
Nonoperating gains (losses):		
Investment return	(249,790)	332,791
Change in fair value of interest rate swaps	24,203	16,724
Community health initiatives	(250)	(250)
Other components of pension cost	156	(1,199)
Loss on early extinguishment of debt	—	(132)
Bargain purchase price gain on acquisition of Holy Family Memorial	—	10,922
Total nonoperating gains (losses), net	<u>(225,681)</u>	<u>358,856</u>
Revenue and gains in excess (deficient) of expenses and losses	\$ <u>(129,781)</u>	<u>580,719</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets (Continued)

Years ended June 30, 2022 and 2021

(In thousands)

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Balance, June 30, 2020	\$ 2,683,685	12,626	2,696,311
Revenue and gains in excess of expenses and losses	580,719	—	580,719
Investment return	—	1,503	1,503
Change in net unrealized gains and losses on investments of other-than-trading securities	(3,141)	—	(3,141)
Restricted contributions	—	5,189	5,189
Net assets released from restrictions for operations	—	(2,295)	(2,295)
Contributions and net assets released from restrictions for property, plant, and equipment	301	(301)	—
Change in accrued pension benefits other than net periodic benefit costs	28,428	—	28,428
Distributed capital to minority partners in consolidated affiliates, net	(1,617)	—	(1,617)
Noncontrolling interest in Holy Family Memorial net assets	7,480	—	7,480
Other	(459)	24	(435)
	<u>611,711</u>	<u>4,120</u>	<u>615,831</u>
Change in net assets			
Balance, June 30, 2021	<u>3,295,396</u>	<u>16,746</u>	<u>3,312,142</u>
Revenue and gains deficient of expenses and losses	(129,781)	—	(129,781)
Investment return	—	(1,526)	(1,526)
Change in net unrealized gains and losses on investments of other-than-trading securities	(10,617)	—	(10,617)
Restricted contributions	—	7,260	7,260
Net assets released from restrictions for operations	—	(3,483)	(3,483)
Contributions and net assets released from restrictions for property, plant, and equipment	573	(573)	—
Change in accrued pension benefits other than net periodic benefit costs	(9,960)	—	(9,960)
Contributed (distributed) capital from (to) minority partners in consolidated affiliates, net	5,904	—	5,904
Other	980	11	991
	<u>(142,901)</u>	<u>1,689</u>	<u>(141,212)</u>
Change in net assets			
Balance, June 30, 2022	\$ <u><u>3,152,495</u></u>	<u><u>18,435</u></u>	<u><u>3,170,930</u></u>

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (141,212)	615,831
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	142,348	131,336
Loss on disposal of property, plant, and equipment	266	497
Distributed (contributed) capital to (from) minority partners in consolidated affiliates, net	(5,904)	1,617
Income from equity interests in unconsolidated affiliates	(5,754)	(44,587)
Distributions from equity interests in unconsolidated affiliates	12,185	10,357
Restricted contributions and investment return	(5,734)	(5,530)
Net assets released from restrictions for operations	3,483	2,295
Realized and unrealized gains and losses on unrestricted investments, net	307,269	(287,889)
Operating lease payments	(7,561)	(7,586)
Change in fair value of interest rate swap agreements	(24,203)	(16,726)
Change in accrued pension benefits other than net periodic benefit costs	9,960	(28,428)
Loss on early extinguishment of debt	—	132
Noncontrolling interest in Holy Family Memorial net assets	—	(7,480)
Bargain purchase price gain on acquisition of Holy Family Memorial	—	(10,922)
Changes in assets and liabilities:		
Patient accounts receivable	(25,009)	(76,149)
Estimated settlements to third-party payors	(1,969)	(1,300)
Medicare accelerated payment program advance	(136,252)	(22,376)
Accounts payable and accrued expenses	40,904	59,543
Other receivables	(621)	(1,989)
Inventories and supplies	(4,346)	1,185
Other assets and liabilities	(19,256)	22,049
Net cash provided by operating activities	138,594	333,880
Cash flows from investing activities:		
Net additions to property, plant, and equipment	(113,185)	(99,424)
Purchases of trading securities	(1,329,032)	(1,463,987)
Proceeds from sales or maturities of trading securities	1,208,361	1,096,209
Purchases of alternative investments	(13,687)	(445)
Proceeds of sales of alternative investments	61,545	37,288
Additional capital contributions in unconsolidated affiliates	—	(9,759)
Holy Family Memorial acquisition, net of cash acquired	—	(13,674)
Sensia Wellness acquisition	(4,700)	—
Net cash used in investing activities	(190,698)	(453,792)
Cash flows from financing activities:		
Repayments of long-term debt and finance leases	(18,533)	(166,528)
Distributed (contributed) capital to (from) minority partners in consolidated affiliates, net	5,904	(1,617)
Restricted contributions and investment return	5,734	5,530
Net assets released from restrictions for operations	(3,483)	(2,295)
Payments for deferred financing costs	(1,030)	(588)
Proceeds from issuance of long term debt	—	150,210
Net cash used in financing activities	(11,408)	(15,288)
Net change in cash and cash equivalents	(63,512)	(135,200)
Cash and cash equivalents:		
Beginning of year	176,372	311,572
End of year	\$ 112,860	176,372

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

(1) Organization and Summary of Significant Accounting Policies

Froedtert Health, Inc. (the System) a Wisconsin nonstock, not-for-profit corporation, is a regional provider of primary and tertiary healthcare services in southeast Wisconsin. The System is organized to support and carry out its mission of advancing the health of people of the diverse communities served through exceptional care enhanced by innovation and discovery. The System is an integrated health system that combines Froedtert Hospital, an academic medical center and level 1 Trauma Center, 7 community hospitals and 45 ambulatory patient care sites to provide a full range of inpatient, outpatient and ancillary services. The System currently has a total approved bed complement of 1,289 beds, with 1,100 beds currently in service.

The significant accounting policies of the System are as follows:

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the parent and its affiliates (collectively, the "System"):

- Froedtert Health, Inc. ("FH");
- Froedtert Memorial Lutheran Hospital, Inc. and its wholly owned subsidiary, Froedtert Hospital Foundation, Inc. (collectively, "Froedtert Hospital" or "FMLH");
- Community Memorial Hospital of Menomonee Falls, Inc. and its wholly owned subsidiaries, Community Memorial Foundation of Menomonee Falls, Inc. and Community Outpatient Health Services of Menomonee Falls, Inc. (COHS) (collectively, "Froedtert Memomonee Falls Hospital" or "FMFH" or "CMH");
- St. Joseph's Community Hospital of West Bend, Inc. and its wholly owned subsidiary, St. Joseph's Community Foundation, Inc. (collectively, "Froedtert West Bend Hospital" or "FWBH" or "SJH");
- BFHFM LLC and its subsidiaries, 80% controlling interest in Holy Family Memorial Inc., Holy Family Health Services and Froedtert Manitowoc Medical Group (collectively, "Froedtert Holy Family Memorial Hospital" or "HFM");
- Froedtert Health Neighborhood Hospital, LLC ("Froedtert Community Hospitals" or "FCH");
- Froedtert & the Medical College of Wisconsin Community Physicians, Inc. ("CP"); and
- The remaining affiliates: Inception Health, LLC; QHS 1, Inc.; Exceedent, LLC; Wisconsin Diagnostic Laboratories, LLC; Froedtert Health ASC Enterprise, LLC; Froedtert Health Pharmacy Solutions, LLC; and Hart's Mills Insurance Company, SPC.

The consolidated financial statements of the System have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. All material intercompany balances and transactions have been eliminated.

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 the System does not exercise significant control are accounted for using the cost method. Investments in

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

which greater than 50% interest is held are consolidated with the recording of a noncontrolling interest in consolidated joint venture within net assets without donor restrictions.

Investments accounted for under the equity method are recorded initially at cost and subsequently adjusted for the System'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. The System's proportionate share of the net income or loss of these companies is included in other operating revenue in the consolidated statements of operations and changes in net assets.

The following entities are collectively referred to as the "Obligated Group": FH, FMLH, FMFH (excluding COHS), and FWBH. As of June 20, 2022 and 2021, the Obligated Group consisted of 96% and 94% of the System's consolidated total assets, respectively, and 80% and 74% of the System's consolidated patient service revenue, respectively.

(b) 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, collateral held for securities loaned and investments.

(c) Assets Whose Use is Limited

Assets whose use is limited 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, and assets whose use is restricted by donors. Assets whose use is limited are reported as net assets without donor restrictions. Assets whose use is restricted by donors are reported as net assets with donor restrictions. Short-term highly liquid restricted cash equivalents and investments are classified as assets whose use is limited and not as cash and cash equivalents in the consolidated balance sheets. Cash equivalents held as investments are treated as investing activities for cash flow reporting.

(d) Inventories and Supplies

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

FROEDTERT HEALTH, INC. AND AFFILIATES

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(e) Investments and Investment Income

Investments, including assets whose use is limited, with readily determinable fair values, are stated at fair value generally based upon quoted market prices. Certain money market accounts and fixed income securities purchased with a maturity less than twelve months are included in investments on the consolidated balance sheets. Realized gains and losses and interest and dividends on funds held under debt agreements, to the extent not capitalized, are classified as other operating revenue within the consolidated statements of operations and changes in net assets. Realized gains and losses, unrealized gains and losses on trading securities, and interest and dividends on long-term investments are classified as nonoperating gains and losses in the consolidated statements of operations and changes in net assets without restrictions. Unrealized gains and losses are included in revenue and gains in excess (deficient) 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.

The System invests in various investment securities, including U.S. government securities, marketable equity securities, fixed income securities, money market funds, mutual funds, and certain alternative investments. Alternative investments are comprised of a commingled low volatility equity fund, two commingled U.S. real estate funds, a commingled hedge fund of funds, a commingled international emerging markets fund, and an international small cap equity fund.

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

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

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

The hedge fund of funds is organized as a limited partnership with an investment objective to generate a superior absolute and risk adjusted rate of return, with low performance volatility and low correlation with global equity and fixed-income markets, over a full market cycle and to preserve capital during challenging market environments. The hedge fund of funds general partner seeks to achieve the investment objectives by allocating the assets to the discretionary investment authority of a diverse group of third-party investment management firms that employ a wide range of alternative investment strategies in general categories, which include credit, relative value, multi-strategy, equity, event driven, macro, commodities, and portfolio hedging strategies. Redemptions can be made quarterly with 70 days' prior written notice, subject to certain liquidity restrictions.

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

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

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

(f) Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. The System depreciates buildings, building improvements, land improvements, equipment, and software over the estimated useful lives of the assets (25 to 40, 15 to 20, 10 to 25, 5 to 10, and 3 to 10 years, respectively) using the straight-line method. Buildings and equipment accounted for as right-of-use (ROU) assets under finance and operating leases are recorded at the present value of unpaid lease payments at the lease commencement date and are amortized using the straight-line method over the lease term.

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

(g) Long-Term Debt – Costs of Borrowing

Bond issuance costs are deferred and amortized over the indebtedness and are included in long-term debt.

Original issue premium or discount are deferred and amortized using the declining-balance method over the term of the debt.

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.

(h) Net Assets

Net assets with donor restrictions are those whose use by the System has been limited by donors to a specific time period or purpose and those that are required to be maintained in perpetuity. Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that

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(Dollars in thousands)

is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as operating revenue in the consolidated statements of operations and changes in net assets if restricted for operating purposes and as an increase to net assets without donor restrictions, if restricted for property, plant, and equipment. Gifts for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions that are met within the same reporting period, are reported as other operating revenue.

(i) Patient Service Revenue

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

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

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

(j) Revenue and Gains in Excess (Deficient) of Expenses and Losses

The consolidated statements of operations and changes in net assets include revenue and gains in excess (deficient) of expenses and losses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue and expenses. Transactions incidental to the provision of healthcare services are reported as gains and losses. Changes in net assets without donor restrictions that are excluded from revenue and gains in excess (deficient) of expenses and losses, consistent with industry practice, include changes in net unrealized gains and losses on other-than-trading securities, contributions of property, plant, and equipment (including assets acquired using contributions that by donor restrictions were to be used for the purpose of acquiring such assets), changes in accrued pension benefits other than net periodic benefit costs, change in noncontrolling interest and other.

FROEDTERT HEALTH, INC. AND AFFILIATES

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June 30, 2022 and 2021

(Dollars in thousands)

(k) Long-Lived Assets

The System 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 2022 or 2021.

(l) Income Taxes

The Obligated Group entities, HFM, and CP, 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. FCH, Froedtert Health ASC Enterprise, Inception, Exceedent, and Froedtert Health Pharmacy Solutions are limited liability companies and are treated as disregarded entities for tax purposes. Income and losses are passed through to their members. Wisconsin Diagnostic Laboratories is a limited liability company and is treated as a partnership for tax purposes. Income and losses are passed through to its members. Hart's Mills is treated as a controlled foreign corporation and not as a separate entity for tax purposes.

The System applies Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. ASC Topic 740 prescribes a more-likely than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under ASC Topic 740, tax positions are evaluated for recognition, derecognition, and measurement using consistent criteria and provide more information about the uncertainty in income tax assets and liabilities. As of June 30, 2022 and 2021, the System does not have an asset or liability recorded for unrecognized tax positions.

(m) Derivative Instruments

The System 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.

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

(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.

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(Dollars in thousands)

(o) Leases

ASC Topic 842 *Leases (ASC 842)*, requires lessees to recognize leases on the consolidated balance sheet and disclose key information about leasing arrangements. ASC 842 establishes a ROU model that requires a lessee to recognize a ROU asset and lease liability on the consolidated balance sheet for all leases. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statement of operations and changes in net assets. The System recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term.

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

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

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

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

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

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

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

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

(p) Noncontrolling Interests

The consolidated financial statements include all assets, liabilities, revenue, and expenses of entities that are controlled by the System and, therefore, consolidated. Noncontrolling interests in the consolidated balance sheets and statements of operations and changes in net assets represent the portion of net assets owned by entities outside the System and the portion of operating results attributed to the noncontrolling ownership interest.

(q) Reclassification

Certain amounts in the 2021 consolidated financial statements have been reclassified to conform to the 2022 presentation.

(r) Acquisition

On March 1, 2021, the System acquired an 80% controlling interest in Holy Family Memorial, Inc. (HFM) for \$29,930. As a result of this transaction, HFM became a consolidated entity with the System including a 20% non-controlling interest. HFM owns and operates an acute care hospital with 167 approved beds (of which 55 are currently staffed – unaudited) in Manitowoc, Wisconsin.

The following table represents the day one impact of this acquisition:

Cash consideration	\$	29,930
Assumption of liabilities		<u>797</u>
Total consideration	\$	<u>30,727</u>
Cash and cash equivalents	\$	15,686
Other current assets		18,608
Assets whose use is limited		17,144
Property, plant, and equipment, net		21,322
Other liabilities		23,629
Controlling interest – net assets without donor restrictions		37,715
Noncontrolling interest – net assets without donor restrictions		7,480
Net assets with donor restrictions		3,935

The System accounted for the business combination by applying the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. Determining the fair value of the assets acquired and liabilities assumed requires judgment and involves the use of significant accounting

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estimates and assumptions, including assumptions with respect to future cash inflows and outflows and discount rates, among others. the System recorded a \$10,922 bargain purchase price gain on acquisition as nonoperating gains (losses) within the consolidated statements of operations and changes in net assets.

The following table summarizes amounts attributed to HFM since the acquisition date that are included in the accompanying consolidated financial statements for the period ended June 30, 2021:

Total operating revenue	\$	34,414
Total operating expense		<u>41,349</u>
Loss from operations	\$	<u>(6,935)</u>
Nonoperating gains and losses, net and other	\$	537

On a pro forma unaudited annual basis Holy Family is expected to add approximately \$115,000 in operating revenue and similar amount in operating expenses annually.

(2) Fair Value Measurements

The System 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 the System:

- Level 1 – Inputs into fair value methodology are based on quoted market prices in active markets. Securities typically priced using Level 1 inputs include listed equities and exchange-traded mutual funds.
- Level 2 – Inputs into the fair value methodology are based on quoted prices for similar items, broker-dealer quotes, or models using market interest rates or yield curves. The inputs are generally seen as observable in active markets for similar items for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument. Securities typically priced using Level 2 inputs include government bonds and other fixed income securities.
- Level 3 – Inputs into the fair value methodology are unobservable and significant to the fair value measurement.

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

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, patient and other receivables, accounts payable, accrued expenses, Medicare accelerated payment program advance, and estimated settlements to third-party payors.

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- Assets limited as to use, collateral held for securities loaned, and long-term investments: U.S. government securities, marketable equity securities, fixed income securities, money market funds, and mutual funds are measured using quoted market prices; other observable inputs such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets at the reporting date multiplied by the quantity held. The carrying value equals fair value.
- Alternative investments are reported at the net asset value (NAV) reported by the fund manager. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, the System 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 the System. The carrying value equals fair value.

The following table represents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2022:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Cash and cash equivalents	\$ 112,860	112,860	—	—
Collateral held for securities loaned	229,714	—	229,714	—
Investments, excluded receivable of \$3,047:				
U.S. government securities	176,952	—	176,952	—
Marketable equity securities/ mutual funds	1,074,227	1,074,227	—	—
Fixed income securities	182,304	—	182,304	—
Money market funds/fixed income mutual funds	303,514	303,514	—	—
Investments measured at NAV ¹ alternative investments:				
Low volatility equity fund	75,791	—	—	—
Real estate fund A	151,377	—	—	—
Real estate fund B	25,632	—	—	—
International fund A	20,474	—	—	—
International fund B	23,443	—	—	—
Hedge fund of funds	20,794	—	—	—

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	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets whose use is limited, excluding interest receivable of \$142 and pledges receivable of \$1,590:				
Cash and cash equivalents	\$ 9,241	9,241	—	—
U.S. government securities	9,310		9,310	—
Marketable equity securities/ mutual funds	69,557	69,557	—	—
Fixed income securities	13,489	—	13,489	—
Money market funds/fixed income mutual funds	38,919	38,919	—	—
Investments measured at NAV ¹ alternative investments:				
Low volatility equity fund	3,986	—	—	—
Real estate fund A	7,964	—	—	—
Real estate fund B	1,348	—	—	—
International fund A	1,077	—	—	—
International fund B	1,233	—	—	—
Hedge fund of funds	1,094	—	—	—
Other	99	—	99	—
Total assets	<u>\$ 2,554,399</u>	<u>1,608,318</u>	<u>611,868</u>	<u>—</u>
Liabilities:				
Payable under securities lending agreement	\$ 229,714	—	229,714	—
Interest rate swap agreements	18,659	—	18,659	—
Total liabilities	<u>\$ 248,373</u>	<u>—</u>	<u>248,373</u>	<u>—</u>

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The following table represents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2021:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Cash and cash equivalents	\$ 176,372	176,372	—	—
Collateral held for securities loaned	279,018	—	279,018	—
Investments, excluding receivable of \$3,377:				
U.S. government securities	197,549	—	197,549	—
Marketable equity securities/ mutual funds	989,629	989,629	—	—
Fixed income securities	231,263	—	231,263	—
Money market funds/ fixed income mutual funds	492,467	492,467	—	—
Investments measured at NAV ¹ alternative investments:				
Low volatility equity fund	100,278	—	—	—
Real estate fund A	123,095	—	—	—
Real estate fund B	53,086	—	—	—
International fund A	23,511	—	—	—
International fund B	28,033	—	—	—
Hedge fund of funds	21,859	—	—	—
Assets whose use is limited, excluding interest receivable of \$160 and pledges receivable of \$194:				
Cash and cash equivalents	5,638	5,638	—	—
U.S. government securities	10,427	—	10,427	—
Marketable equity securities/ mutual funds	67,409	67,409	—	—
Fixed income securities	16,845	—	16,845	—
Money market funds/ fixed income mutual funds	67,523	67,523	—	—

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	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments measured at NAV ¹				
alternative investments:				
Low volatility equity fund	\$ 5,293	—	—	—
Real estate fund A	6,498	—	—	—
Real estate fund B	2,802	—	—	—
International fund A	1,242	—	—	—
International fund B	1,479	—	—	—
Hedge fund of funds	1,153	—	—	—
Other	249	—	249	—
Total assets	<u>\$ 2,902,718</u>	<u>1,799,038</u>	<u>735,351</u>	<u>—</u>
Liabilities:				
Payable under securities lending agreement	\$ 279,018	—	279,018	—
Interest rate swap agreements	42,863	—	42,863	—
Total liabilities	<u>\$ 321,881</u>	<u>—</u>	<u>321,881</u>	<u>—</u>

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

For the year ended June 30, 2022 and 2021, there were no transfers in or out of Levels 1, 2, or 3.

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

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 122,101	182,010
Fixed income	543,005	811,830
U.S. government securities	186,262	207,976
Equity securities	1,143,784	1,057,038
Alternative investments	334,312	368,578
	<u>\$ 2,329,464</u>	<u>2,627,432</u>

The System's investment policy goal is to maximize total return while preserving principal. The organization maintains 15 to 20 days of cash on deposit at area banks invested in cash equivalents or other highly liquid funds, including short-term receivables that are highly liquid to fund expenses due in one year or less. All such deposits are readily available to meet daily operational needs. The remainder of the System's funds are invested according to its investment policy, which is monitored by the System's Investment Committee and reviewed by the board of directors on a periodic basis. Approximately 90% of long-term investments can be liquidated within one month and 100% within one year.

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 112,860	176,372
Patient accounts receivable	413,772	388,763
Long-term investments	<u>2,057,555</u>	<u>2,264,147</u>
	<u>\$ 2,584,187</u>	<u>2,829,282</u>

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(4) Investments and Assets Whose Use is Limited

Assets whose use is limited are summarized as follows:

	<u>June 30</u>	
	<u>2022</u>	<u>2021</u>
Assets whose use is limited:		
Under debt agreements	\$ 13	1,154
By management:		
For executive compensation agreements	40,540	44,885
For program development and physician recruitment	70,085	84,513
For community health initiatives	9,148	9,398
For other	4,185	3,259
By donors	18,435	16,746
Other	<u>16,643</u>	<u>26,958</u>
Total assets whose use is limited	<u>\$ 159,049</u>	<u>186,913</u>

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

	<u>Year ended June 30</u>	
	<u>2022</u>	<u>2021</u>
Interest and dividends on investments	\$ 49,681	41,922
Net realized gains and losses on sale of investments	59,753	38,011
Change in net unrealized gains and losses on investments	<u>(370,463)</u>	<u>251,543</u>
Total investment return	<u>\$ (261,029)</u>	<u>331,476</u>

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

	Year ended June 30	
	2022	2021
Other operating revenue:		
Interest and dividend income	\$ 357	323
Nonoperating gains and losses – investment return	(249,790)	332,791
Other changes in net assets without donor restrictions – change in net unrealized gains and losses on investments of nontrading securities	(10,617)	(3,141)
Other changes in net assets with donor restrictions – investment return	(979)	1,503
Total investment return	\$ (261,029)	331,476

The System 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 \$227,792 and \$273,391 at June 30, 2022 and 2021, respectively. The fair market value of the collateral received under this arrangement was \$229,714 and \$279,018 at June 30, 2022 and 2021, 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, the System 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 100.8% and 102.1% of the fair value of securities loaned at June 30, 2022 and 2021, respectively.

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(5) Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows:

	June 30	
	2022	2021
Land and land improvements	\$ 58,775	48,291
Building and leasehold improvements	450,938	414,319
Buildings	1,030,654	1,012,760
Fixed equipment	216,408	204,562
Movable equipment	925,876	861,861
Finance lease ROU assets	156,086	152,875
Construction in progress	69,506	95,957
Total property, plant, and equipment	2,908,243	2,790,625
Less accumulated depreciation and amortization	1,491,038	1,375,427
Property, plant, and equipment, net	\$ 1,417,205	1,415,198

Construction in progress at June 30, 2022 primarily relates to facility expansion, facility renovation, and equipment at the hospitals and clinic campuses. Contractually committed costs remaining for expansion and renovation projects totaled approximately \$92,140 at June 30, 2022.

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(6) Leases

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

	June 30	
	2022	2021
Operating lease cost	\$ 10,623	10,981
Finance lease cost:		
Amortization of ROU assets	9,459	9,886
Interest on lease liabilities	6,731	7,091
Total finance lease cost	16,190	16,977
Variable lease cost	9,821	9,258
Short-term lease cost	5,795	4,054
Total lease cost	\$ 42,429	41,270
Operating leases:		
Equipment and office space	\$ 118,919	119,016
Accumulated amortization	(25,421)	(17,655)
Property, plant, and equipment, net	\$ 93,498	101,361
Current portion of lease liabilities	\$ 7,905	7,509
Long-term lease liabilities	88,389	95,709
Total operating lease liabilities	\$ 96,294	103,218
Finance leases:		
Equipment and office space	\$ 156,086	152,875
Accumulated amortization	(60,507)	(53,064)
Property, plant, and equipment, net	\$ 95,579	99,811
Current portion of lease liabilities	\$ 9,219	8,076
Long-term lease liabilities	113,093	117,339
Total finance lease liabilities	\$ 122,312	125,415

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	<u>2022</u>	<u>2021</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	\$ 7,561	7,586
Operating cash flow from finance leases	6,731	7,091
Financing cash flow from finance leases	8,330	8,123
ROU assets obtained in exchange for lease obligations:		
Operating leases	\$ 492	—
Finance leases	4,743	—
Reductions to ROU assets resulting from reductions to lease obligations:		
Operating leases	\$ 734	3,273
Finance leases	2,017	—
Weighted average remaining term:		
Operating leases	13.2 years	12.5 years
Finance leases	10.3 years	11.7 years
Weighted average discount rate:		
Operating leases	2.08 %	2.09 %
Finance leases	3.04	2.97

Maturities of lease liabilities under noncancellable leases as of June 30, 2022 are as follows:

	<u>Operating leases</u>	<u>Finance leases</u>
2023	\$ 9,960	15,556
2024	10,094	15,706
2025	10,051	15,839
2026	9,499	15,694
2027	8,986	15,668
Thereafter	<u>61,972</u>	<u>81,509</u>
Total undiscounted lease payments	110,562	159,972
Less imputed interest	<u>(14,268)</u>	<u>(37,660)</u>
Total lease liabilities	<u>\$ 96,294</u>	<u>122,312</u>

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(7) Long-Term Debt

Long-term debt is summarized as follows:

	June 30	
	2022	2021
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 5.24% in 2022 and 4.66% in 2021)	\$ 150,055	150,320
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 4.69%	100,000	100,000
Revenue bonds, Series 2017A – annual principal payments range from \$5,600 to \$22,490, plus interest each year through 2048, ranging from 3.00% to 5.00% (effective rate of interest 4.26% in 2022 and 4.27% in 2021)	229,065	235,820
Revenue bonds, Series 2021A – annual principal payments range from \$3,240 to \$9,295, plus interest each year through 2035. Interest is variable based on market conditions (0.65% for 2022, effective rate of interest 3.73% for 2022)	66,280	69,375
Revenue bonds, Series 2021B – principal payments due in installments ranging from \$320 to \$27,120 from 2044 to 2048. Interest is variable based on market conditions (0.90% for 2022, effective rate of interest 3.51% for 2022)	80,835	80,835
Other	123	211
Total	626,358	636,561
Finance lease liabilities	122,312	125,414
Total	748,670	761,975
Unamortized bond premiums and debt issuance costs, net	16,283	17,259
Total	764,953	779,234
Current installments of long-term debt	19,696	18,277
Total long-term debt	\$ 745,257	760,957

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Pursuant to the terms of the master trust indenture, each Obligated Group member is jointly and severally liable for the guaranty of principal and interest on the master note issued to secure the revenue bonds issued by WHEFA and by the System (2015A) on behalf of the Obligated Group. The Master Trust Indenture obligations related to the Series 2012A, 2015A, 2017A, 2021A, and 2021B bonds and the standby bond purchase agreements related to the 2021A and 2021B 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. During July 2022, the Series 2012A bonds were currently refunded through the issuance of Series 2022A fixed rate bonds in which the face amount of the bonds is \$134,440 and the original issue premium is \$20,100. The bonds have an all-in true interest cost of 2.93% and annual principal payments range from \$145 to \$31,620 from through 2042.

Cash payments for interest, net of amounts capitalized, and monthly swap settlements were \$33,649 and \$35,341 for the years ended June 30, 2022 and 2021, respectively.

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

	<u>Bond debt</u>
2023	\$ 10,477
2024	10,761
2025	10,990
2026	11,260
2027	11,550
Thereafter	<u>571,320</u>
	<u>\$ 626,358</u>

The System has an outstanding guaranty for payment of certain debt of another corporation. The debt guaranty is for an amount up to \$10,000 as of June 30, 2022. The System has not been required to make any payments or accruals related to this guaranty as of June 30, 2022.

(8) Derivative Instruments and Hedging Activities

The derivative instruments used by the System 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 the System 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

The System, at times, uses variable rate debt to finance its operations. The debt obligations expose the System 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,

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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, the System 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 the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty, and therefore, it does not pose credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions with high quality counterparties.

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

(b) Interest Rate Swap Agreements

Consistent with the objectives set forth above, the Obligated Group's interest rate swap agreements are currently matched to its Series 2021A and Series 2021B bonds.

Under the terms of the interest rate swap agreements, the Obligated Group pays a fixed rate on the bonds and receives a variable rate of interest equal to the 68% of the three-month LIBOR index for the Series 2021A bonds and 70% of the one-month LIBOR index for the Series 2021B bonds. The swap agreement matched to the Series 2021B bonds became effective January 1, 2021, at which time the cash flow payments and cash flow hedge began.

The interest rate swap agreements for the Obligated Group at June 30, 2022 and 2021 consist of the following:

<u>Associated series</u>	<u>Original notional amount</u>	<u>Maturity date</u>	<u>Fixed pay rate</u>	<u>Variable pay rates at June 30</u>	
				<u>2022</u>	<u>2021</u>
2021A bonds	\$ 94,050	April 1, 2035	3.37 %	1.884 %	0.133 %
2021B bonds	80,000	April 1, 2048	2.92	0.743	0.064

The fair value of the interest rate swaps of \$18,662 and \$42,865 is included in other long-term liabilities in the consolidated balance sheets at June 30, 2022 and 2021, respectively. The change in fair value of the interest rate swaps of \$24,203 and \$16,724 is included in nonoperating gains and losses in the consolidated statements of operations and changes in net assets for the years ended June 30, 2022 and 2021, respectively.

Cash paid for monthly settlement under the interest rate swap agreements was \$4,213 and \$3,411 for the fiscal years ended June 30, 2022 and 2021, respectively, and is included within interest expense in the consolidated statements of operations and changes in net assets. No cash was received under the

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interest rate swap agreements for the years ended June 30, 2022 or 2021. No swap collateral posting was required at June 30, 2022 or 2021, respectively.

(9) Net Assets With Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Capital	\$ 6,362	2,807
Education and research	3,915	4,298
Patient care	1,084	1,076
Other	7,074	8,565
	<u>\$ 18,435</u>	<u>16,746</u>

(10) Patient Service Revenue

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

Medicare – Inpatient acute care, most outpatient, and defined capital costs for services rendered to Medicare beneficiaries are paid at prospectively determined rates per case. These rates vary according to a payment classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, medical education, and certain organ acquisition costs related to Medicare beneficiaries are paid based upon cost reimbursement methods, established fee screens, or a combination thereof. FMLH, CMH, SJH, HFM, and Neighborhood 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 Administrative Contractor through June 30, 2018. The CMH and SJH cost reports have been audited by the Medicare Administrative Contractor through June 30, 2019. The HFM cost reports have been audited by the Medicare Administrative Contractor through December 31, 2019. The FCH cost reports have been audited by the Medicare Administrative Contractor through June 30, 2021.

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

Wisconsin's Economic Recovery Act includes a tax assessment on hospital revenues. Funds collected under the tax are used to increase federal funding for the Wisconsin Medicaid program. The System recognized \$56,477 and \$62,174 of increased Medicaid reimbursement and \$53,569 and \$50,050 of tax expense as a result of the law for the years ended June 30, 2022 and 2021, respectively. The Medicaid reimbursement and tax assessment expense are recorded in patient service revenue and other expense, respectively, in the 2022 and 2021 consolidated statements of operations and changes in net assets.

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

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

Settlements with third-party payers for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (i.e., new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Changes to prior year variable consideration resulted in a decrease of patient service revenue of \$100 and \$0 in 2022 and 2021, respectively, due to appeals, cost report settlements, and other adjustments to prior year.

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

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

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

	<u>2022</u>	<u>2021</u>
Medicare	30 %	29 %
Medicaid	8	8
Managed care/contracted payor	45	48
Self-pay	1	1
Other	16	14
	<u>100 %</u>	<u>100 %</u>

Patient service revenue recognized by type of service is as follows for the year ended June 30:

	<u>2022</u>	<u>2021</u>
Hospital inpatient	\$ 1,296,561	1,215,352
Hospital outpatient	1,208,727	1,065,416
Physician clinics	300,482	278,877
Ambulatory surgery centers	32,623	26,901
Other	412,423	384,246
	<u>\$ 3,250,816</u>	<u>2,970,792</u>

(11) Concentration of Credit Risk

The System 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 is as follows:

	<u>2022</u>	<u>2021</u>
Medicare	22 %	24 %
Medicaid	9	10
Managed care/contracted payor	49	46
Self-pay	13	13
Other	7	7
	<u>100 %</u>	<u>100 %</u>

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(12) Charity Care

The System provides uncompensated care based on the cost of providing care to patients, in accordance with established policies. The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The estimated amount of cost incurred for services and supplies furnished under the System's charity care policy was \$11,441 and \$12,226 for the years ended June 30, 2022 and 2021, respectively.

(13) Functional Expenses

The System provides healthcare services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets as of June 30, 2022 and 2021 are as follows:

<u>2022</u>	<u>Healthcare services</u>	<u>General and administration</u>	<u>Total</u>
Salaries and fringe benefits	\$ 1,389,685	204,797	1,594,482
Supplies and contract services	949,283	29,414	978,697
Depreciation and amortization	116,695	26,021	142,716
Interest	29,760	4,686	34,446
Affiliate support and other	373,273	126,229	499,502
	<u>\$ 2,858,696</u>	<u>391,147</u>	<u>3,249,843</u>

<u>2021</u>	<u>Healthcare services</u>	<u>General and administration</u>	<u>Total</u>
Salaries and fringe benefits	\$ 1,161,472	195,720	1,357,192
Supplies and contract services	833,174	32,684	865,858
Depreciation and amortization	115,582	19,016	134,598
Interest	29,163	4,686	33,849
Affiliate support and other	360,395	138,366	498,761
	<u>\$ 2,499,786</u>	<u>390,472</u>	<u>2,890,258</u>

(14) Related Organizations and Other Significant Transactions

(a) The Medical College of Wisconsin, Inc.

The System and The Medical College of Wisconsin, Inc (MCW). continue to pursue opportunities to enhance operational and clinical integration that provides coordinated patient care in the communities served. This led to the creation of Froedtert & the Medical College of Wisconsin Community Physicians (CP), a joint clinical practice group to serve patients at community clinics in the service area. It also led

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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*

The System is the controlling member of CP, a physician organization formed by the combination of MCW physicians and the System 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, 2022 and 2021.

(ii) *Funds Flow Agreement*

The System 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 the System. 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 \$136,261 and \$131,131 for the years ended June 30, 2022 and 2021, respectively. Amounts accrued relating to the Variable Performance Payment were \$6,286 and \$7,941 included in accounts payable on the consolidated balance sheets at June 30, 2022 and 2021, respectively. Also, accrued under the Funds Flow Agreement was \$56,571 and \$71,467, which is included in other long-term liabilities on the consolidated balance sheets at June 30, 2022 and 2021, respectively.

(b) *Unconsolidated Affiliates*

(i) *Network Health, Inc*

The System has a 50% ownership interest in Network Health, Inc. (NHI), a Wisconsin-based health insurance company having approximately 120,000 members (including self-insured members), which markets insurance products and related services to employers and individuals in eastern Wisconsin. NHI is the sole corporate member of Network Health Plan (NHP), which engages in the business of health insurance to groups and individuals and Network Health Insurance Corporation (MHIC), which provides health insurance to groups, individuals, and Medicare beneficiaries. The ownership interest is co-owned with Ministry Health (doing business as Ascension Wisconsin) and is accounted for by the System under the equity method of accounting. The carrying amount of the investment in NHI was \$109,257 and \$120,261 at June 30, 2022 and 2021, respectively.

The System recorded other (loss) revenue in the consolidated statements of operations and changes in net assets related to its investment in NHI of \$(49) and \$6,024 for the years ended June 30, 2022 and 2021, respectively. The 2022 other (loss) revenue is comprised of \$(49) of the System's 50% share of NHI's net gains/(losses) for the year ended June 30, 2022. The 2021 other

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revenue is comprised of \$(248) of the System's 50% share of NHI's net gains/(losses) for the year ended June 30, 2021 and a reserve adjustment of \$6,272 for the change in premium deficiency and other reserve estimate adjustment recorded at year-end for the estimate of exposure through June 30, 2021.

The following information regarding NHI as of June 30, including the tables below, is unaudited.

	June 30	
	2022	2021
Current assets	\$ 127,858	145,478
Current liabilities	<u>162,634</u>	<u>179,271</u>
Working capital	(34,776)	(33,793)
Property and equipment, net	7,667	8,187
Other long-term assets	<u>239,553</u>	<u>259,383</u>
Net assets	<u>\$ 212,444</u>	<u>233,777</u>

Investment in NHI advances the System'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

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intended to show the combined results of the System and NHI for the year ended June 30, 2022 as a healthcare enterprise, with recognition of Ascension Wisconsin's equity position.

(Unaudited)	Froedtert Health Enterprise			Less other NHI equity interests and adjustments (unaudited)	The System Combined illustrative statement of operations (unaudited)
	The System Delivery System	NHI Insurance Products and Services ** (unaudited)	Combined Health Enterprise (unaudited)		
Patient service revenue	\$ 3,250,816	—	3,250,816	—	3,250,816
Premiums, net	—	1,000,028	1,000,028	(500,014)	500,014
Other operating revenue	94,927	—	94,927	49	94,976
Total revenue	<u>3,345,743</u>	<u>1,000,028</u>	<u>4,345,771</u>	<u>(499,965)</u>	<u>3,845,806</u>
Salaries and fringe benefits	1,594,482	—	1,594,482	—	1,594,482
Medical benefits and supplies	823,270	895,726	1,718,996	(447,863)	1,271,133
Contract services and affiliate support	296,819	—	296,819	—	296,819
General and administrative depreciation, interest and other	535,272	114,455	649,727	(57,228)	592,499
Total expenses	<u>3,249,843</u>	<u>1,010,181</u>	<u>4,260,024</u>	<u>(505,091)</u>	<u>3,754,933</u>
Operating revenue in excess (deficient) of expenses	95,900	(10,153)	85,747	5,126	90,873
Income tax credit	—	3,315	3,315	(1,658)	1,657
Nonoperating gains, net	(225,681)	6,740	(218,941)	(3,370)	(222,311)
Revenue and gains (deficient) of expenses and losses	<u>\$ (129,781)</u>	<u>(98)</u>	<u>(129,879)</u>	<u>98</u>	<u>(129,781)</u>

** Trailing twelve months ended June 30, 2022.

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

In October 2017, the System 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 the System 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, the System contributed \$5,000 in fiscal year 2021. The final payment was made in fiscal year 2021. The governance rights include the System becoming a voting member and obtaining a 25% equity ownership interest in United. The System has recorded equity (loss) income related to the affiliation of \$(889) and \$19,074 for the years ended June 30, 2022 and 2021, respectively. The System recorded its 25% share of United's change in accrued pension benefits other than net periodic benefit costs of \$(8,897) and \$1,410 for the years ended June 30, 2022 and 2021, respectively, in the consolidated statements of operations and changes in net assets. The carrying amount of the investment in United was \$76,759 and \$86,545 at June 30, 2022 and 2021, respectively.

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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 the System will implement under a separate contractual agreement.

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

(iii) Other Unconsolidated Affiliates

The following represents summary financial data (unaudited) for all unconsolidated affiliates, excluding NHI as of June 30:

	2022	2021
Current assets	\$ 262,668	260,683
Current liabilities	(57,897)	(67,035)
Working capital	204,771	193,648
Property and equipment, net	288,475	292,999
Other long-term assets	287,458	290,179
Long-term liabilities	(139,189)	(99,070)
Net assets	\$ 641,515	677,756
Revenues	\$ 551,840	549,698
Expenses	(516,512)	(446,616)
Excess of revenues over expenses	\$ 35,328	103,082

(c) Noncontrolling Interest in Consolidated Joint Ventures

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

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

	<u>Total</u>	<u>Controlling interest</u>	<u>Noncontrolling interest</u>
Balance, June 30, 2020	\$ 2,683,685	2,674,502	9,183
Revenue and gains in excess of expenses and losses	580,719	581,690	(971)
Changes in net unrealized gains and losses on other-than-trading securities	(3,141)	(3,141)	—
Contributions and net assets released from restrictions for property, plant, and equipment	301	301	—
Change in accrued pension benefits other than net periodic benefit costs	28,428	28,428	—
Noncontrolling interest in Holy Family Memorial	7,480	—	7,480
Distribution to minority partner, net	(1,617)	—	(1,617)
Other	<u>(459)</u>	<u>904</u>	<u>(1,363)</u>
Changes in net assets without donor restrictions	<u>611,711</u>	<u>608,182</u>	<u>3,529</u>
Balance, June 30, 2021	<u>3,295,396</u>	<u>3,282,684</u>	<u>12,712</u>

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	<u>Total</u>	<u>Controlling interest</u>	<u>Noncontrolling interest</u>
Revenue and gains in excess of expenses and losses	\$ (129,781)	(123,623)	(6,158)
Changes in net unrealized gains and losses on other-than-trading securities	(10,617)	(10,617)	—
Contributions and net assets released from restrictions for property, plant, and equipment	573	573	—
Change in accrued pension benefits other than net periodic benefit costs	(9,960)	(9,960)	—
Contributed (distributed) capital from (to) minority partners in consolidated affiliates	5,904	—	5,904
Other	980	972	8
	<u>(142,901)</u>	<u>(142,655)</u>	<u>(246)</u>
Changes in net assets without donor restrictions			
Balance, June 30, 2022	\$ <u>3,152,495</u>	<u>3,140,029</u>	<u>12,466</u>

(15) Employee Benefit Plans

(a) Defined Contribution Plans

The System sponsors the Froedtert Health 403(b) Plan (FH 403(b) Plan), covering substantially all FH employees. The FH 403(b) Plan provides a nonelective employer contribution, which varies based on employee's service from 2.5% of pay for employees with less than 5 years of service to 4.5% of pay for employees with 26 or more years of service. The nonelective employer contribution is also provided for those employees that no longer qualify for future service in the CMH defined benefit plan. It also provides a matching employer contribution of 50% of the first 6% of pay deferred by an employee. FH's nonelective and matching contributions to these plans are made annually and each pay period, respectively. FH's pension expense for the plan was \$52,308 and \$44,254 for the years ended June 30, 2022 and 2021, respectively.

(b) Defined Benefit Plans

FMLH has a defined benefit plan (the FMLH Plan), sponsored by the System, 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 (liability)/receivable from Milwaukee County for their portion of the unfunded projected benefit obligation of \$(1,153) and \$(1,878) at June 30, 2022 and 2021, respectively, included in other assets, net on the consolidated balance sheets. FMLH's pension

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expense for the FMLH Plan was \$173 and \$133 for the years ended June 30, 2022 and 2021, respectively.

Data relative to the FMLH Plan for the years ended June 30 is as follows:

	<u>2022</u>	<u>2021</u>
Change in pension benefit obligation:		
Projected benefit obligation at beginning of year	\$ 72,710	72,075
Service cost	630	620
Interest cost	1,914	1,942
Actuarial loss (gain)	(1,476)	1,716
Change in mortality assumption	272	(823)
Change in discount rate	(14,161)	505
Expenses paid	(246)	(380)
Benefits paid	<u>(3,157)</u>	<u>(2,945)</u>
Projected benefit obligation at end of year	<u>56,486</u>	<u>72,710</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	76,391	70,552
Actual return on plan assets	(14,327)	7,872
Employer contributions	—	1,292
Expenses paid	(246)	(380)
Benefits paid	<u>(3,157)</u>	<u>(2,945)</u>
Fair value of plan assets at end of year	<u>58,661</u>	<u>76,391</u>
Funded status	<u>\$ 2,175</u>	<u>3,681</u>
Accumulated benefit obligation	\$ 55,708	70,888

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	<u>2022</u>	<u>2021</u>
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to net assets without donor restrictions:		
Prior service cost	\$ —	—
Accumulated loss	<u>7,323</u>	<u>5,385</u>
Unrecognized pension costs	<u>\$ 7,323</u>	<u>5,385</u>
Net periodic pension cost comprises the following:		
Service cost	\$ 630	620
Interest cost on projected benefit obligation	1,914	1,942
Expected return on plan assets	(2,977)	(3,388)
Net amortization and deferral	<u>—</u>	<u>257</u>
Net periodic pension cost	<u>\$ (433)</u>	<u>(569)</u>

	<u>2022</u>	<u>2021</u>
Assumptions used:		
Discount rate for measurement of pension obligation	4.79 %	2.70 %
Discount rate for determining net periodic pension cost	2.70	2.76
Rate of increase in compensation levels	2.40	3.25
Expected return of plan assets	4.00	4.85

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

As of June 30, 2022 and 2021, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the FMLH Plan.

No employer contributions are expected for the FMLH Plan for the year ended June 30, 2022. The benefits expected to be paid in each year from 2023 through 2027 are expected to be \$3,644, \$3,769, \$3,859, \$3,910, and \$3,947, respectively. The aggregate benefits to be paid in the five years from 2028 through 2032 are expected to be \$20,050. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2022.

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The asset allocation of the pension plan at June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Equity securities	15 %	14 %
Debt securities	85	86
Total	<u>100 %</u>	<u>100 %</u>

FMLH intends to provide an appropriate range of investment options consistent with a liability driven investments strategy to better hedge against interest rate risk and reduce funded status volatility. Investment options will allow for construction of a portfolio consistent with funded status of the plan. For funded status levels up to 105%, asset allocation is targeted as follows:

<u>Asset class</u>	<u>Target percentage</u>
Equity securities	15–35%
Debt securities	65–85%
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 the System, 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.

During fiscal year 2021, the System elected to freeze all benefit accruals under the CMH plan effective December 31, 2024. Thus, no compensation paid nor service performed after that date will be considered in determining eligibility for or accruals under the CMH Plan. Additionally, there will be no projected annual compensation increases with respect to periods after that date, which will be

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considered in determining projected benefits under the CMH plan. While no further benefits will accrue, the System does not intend to terminate the CMH plan at that time. The CMH Plan freeze qualifies as a curtailment and resulted in a \$3,376 reduction in projected benefit obligation in fiscal year 2021. There was no impact to fiscal year 2021 net period pension cost.

Data relative to the CMH Plan for the years ended June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Change in pension benefit obligation:		
Projected benefit obligation at beginning of year	\$ 144,821	144,425
Service cost	1,783	2,459
Interest cost	3,954	4,071
Plan curtailments	—	(3,376)
Actuarial loss (gain)	7,485	1,281
Change in mortality assumption	474	(1,289)
Change in discount rate	(34,766)	1,559
Expenses paid	(197)	(221)
Benefits paid	<u>(4,540)</u>	<u>(4,088)</u>
Projected benefit obligation at end of year	<u>119,014</u>	<u>144,821</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	134,638	104,681
Actual return on plan assets	(24,013)	26,298
Employer contributions	4,437	7,968
Expenses paid	(197)	(221)
Benefits paid	<u>(4,540)</u>	<u>(4,088)</u>
Fair value of plan assets at end of year	<u>110,325</u>	<u>134,638</u>
Funded status	\$ <u><u>(8,689)</u></u>	\$ <u><u>(10,183)</u></u>
Accumulated benefit obligation	\$ 116,474	141,801

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

	2022	2021
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to net assets without donor restrictions:		
Prior service cost	\$ —	—
Accumulated loss	18,575	17,395
Unrecognized pension costs	\$ 18,575	17,395
Net periodic pension cost is comprised of the following:		
Service cost	\$ 1,783	2,459
Interest cost	3,954	4,071
Expected return on plan assets	(6,230)	(6,391)
Recognized actuarial loss	2,256	3,537
Net periodic pension cost	\$ 1,763	3,676
Assumptions used:		
Discount rate for measurement of pension obligation	4.79 %	2.78 %
Discount rate for determining net periodic pension cost	2.78	2.86
Rate of increase in compensation levels	2.60	3.00–6.00
Expected return of plan assets	5.25	6.00

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

As of June 30, 2022 and 2021, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the CMH Plan.

The minimum employer contributions for the CMH Plan for the year ended June 30, 2023 are estimated to be \$3,818. The benefits expected to be paid in each year from 2023 through 2027 are \$5,723, \$6,128, \$6,566, \$6,929 and \$7,312, respectively. The aggregate benefits to be paid in the five years from 2028 through 2032 are \$40,831. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2022.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

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

	2022	2021
Equity securities	35 %	44 %
Debt securities	64	55
Other	1	1
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 94%, asset allocation is targeted as follows:

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

The allocation is subject to a de-risking glide path where duration-matched securities are increased as funded status levels begin to exceed the 90% level.

(i) Fair Value Measurements

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

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

(ii) Fair Value Hierarchy

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

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(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, 2022:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Plan assets:				
Collateral for securities loaned	\$ 51,167	—	51,167	—
Investments:				
Short-term investments consisting of money market funds	\$ 3,085	3,085	—	—
Corporate stocks	13,264	13,264	—	—
Pooled equity funds	25,551	25,551	—	—
International equity funds	7,486	7,486	—	—
Corporate and foreign bonds	68,342	—	68,342	—
U.S. government securities	50,047	—	50,047	—
Annuity contract	1,211	—	—	1,211
Total investments	\$ <u>168,986</u>	<u>49,386</u>	<u>118,389</u>	<u>1,211</u>
Liabilities:				
Payable under securities lending agreement	\$ 51,167	—	51,167	—

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

Fair value at June 30, 2021	\$ 1,855
Gains/losses and investment income, net	
Purchases, issuances, and write-offs, net	(336)
Contributions and disbursements, net	<u>(308)</u>
Fair value at June 30, 2022	\$ <u>1,211</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(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, 2021:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Plan assets:				
Collateral for securities loaned	\$ 54,723	—	54,723	—
Investments:				
Short-term investments consisting of money market funds	\$ 4,359	4,359	—	—
Corporate stocks	18,791	18,791	—	—
Pooled equity funds	39,529	39,529	—	—
International equity funds	11,169	11,169	—	—
Corporate and foreign bonds	83,239	—	83,239	—
U.S. government securities	52,087	—	52,087	—
Annuity contract	1,855	—	—	1,855
Total investments	\$ <u>211,029</u>	<u>73,848</u>	<u>135,326</u>	<u>1,855</u>
Liabilities:				
Payable under securities lending agreement	\$ 54,723	—	54,723	—

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

Fair value at June 30, 2020	\$ 1,997
Gains/losses and investment income, net	76
Purchases, issuances, and write-offs, net	—
Contributions and disbursements, net	<u>(218)</u>
Fair value at June 30, 2021	\$ <u>1,855</u>

The System 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 \$51,106 and \$53,958 at June 30, 2022 and 2021, respectively. The fair market

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

value of the collateral received under this arrangement was \$51,167 and \$54,723 at June 30, 2022 and 2021, respectively. Under the terms of the securities lending agreement, the System is not entitled to the unrealized gains on the invested collateral and, as such, has not recognized the unrealized gains at June 30, 2022 and 2021. The fair value of collateral was 100.3% and 101.4% of the fair value of securities loaned at June 30, 2022 and 2021, respectively.

(c) Postretirement Medical Plan

FMLH has an unfunded postretirement medical plan (the FMLH Medical Plan), sponsored by the System, 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, 2022 and 2021 using a discount rate of 4.81% and 2.70% was \$3,031 and \$4,131, respectively, of which \$212 and \$206, respectively, are included in short-term liabilities and \$2,819 and \$3,925, respectively, are included in other long-term liabilities on the consolidated balance sheets.

(16) Professional Liability Insurance

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

(17) Commitments and Contingencies

(a) Health Insurance

The System 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. Hart's Mills covers claims in excess of \$250 and a commercial stop-loss agreement is in place for claims that exceed \$1,250. 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, 2022 and 2021 are estimated amounts payable for health insurance claims incurred as of such dates of \$15,326 and \$17,926, respectively.

(b) Litigation

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

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

(c) *Regulatory Investigation and Other*

The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The System is subject to these regulatory efforts. Additionally, the laws and regulations governing the Medicare, Medicaid, and other government healthcare programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for the System and other healthcare organizations. Recently, the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. The System 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 the System patient service revenue.

(18) COVID-19

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient activity and related revenues for most services were significantly impacted starting in mid-March as various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic that caused many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective surgical procedures by healthcare facilities.

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

During the years ended June 30, 2022 and 2021, the System received \$5,275 and \$29,600, respectively in general and targeted distributions related to the CARES Act. These funds are not subject to repayment, provided the System is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as other income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on analysis of the compliance and reporting requirements of the CARES Act, the System has recorded the CARES Act distributions as other operating revenue in the consolidated statements of operations and changes in net assets, in the year the distributions were received.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(Dollars in thousands)

In June 2020, Wisconsin Department of Health Services announced the State was granted \$40,000 through the federal CARES program to be allocated to Wisconsin hospital providers for COVID-19 related lost revenue and expenses. In November 2020, Froedtert Health received and recorded \$5,923 as other operating revenue in the consolidated statements of operations and changes in net assets.

During fiscal year 2020, the System received \$173,356 of accelerated Medicare payments under the Medicare Advanced Payment Program (APP). APP allowed eligible healthcare facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other healthcare providers. Recoupment of the APP funds began during fiscal year 2021 and \$24,940 and \$161,192 remained outstanding as of June 30, 2022 and 2021, respectively. The System has recorded the APP payments contract liability as a current liability on the consolidated balance sheets.

The extent of the COVID-19 pandemic's adverse impact on operating results and financial condition of the System has been and will continue to be driven by many factors, most of which are beyond the System's control and ability to forecast. Because of these and other uncertainties, the System cannot estimate the length or severity of the impact of the pandemic on the business and the results of its operations.

(19) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, the System evaluated events and transactions through September 16, 2022, the date the consolidated financial statements were issued, noting no subsequent events other than those previously disclosed requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 1

Consolidating Balance Sheet Information

June 30, 2022

(In thousands)

Assets	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Current assets:				
Cash and cash equivalents	\$ 1,177	1,264	—	2,441
Assets whose use is limited	—	—	—	—
Patient accounts receivable	302,505	—	—	302,505
Other receivables	367	365	—	732
Inventories	19,267	—	—	19,267
Collateral held for securities loaned	—	—	—	—
Prepays and other	7,234	—	—	7,234
Total current assets	330,550	1,629	—	332,179
Investments	—	14,501	—	14,501
Assets whose use is limited	33,454	10,471	(26,227)	17,698
Investments in unconsolidated affiliates	3,065	—	—	3,065
Property, plant, and equipment, net	830,296	—	—	830,296
Right of use assets for operating leases	29,546	—	—	29,546
Other assets, net	(1,153)	—	—	(1,153)
Total assets	\$ 1,225,758	26,601	(26,227)	1,226,132
Liabilities and Net Assets				
Current liabilities:				
Current installments of long-term debt	\$ 1,174	—	—	1,174
Current portion of operating lease liabilities	2,524	—	—	2,524
Accounts payable	40,818	284	—	41,102
Accrued expenses	65,190	90	—	65,280
Payable under securities lending agreement	—	—	—	—
Estimated settlements to third-party payors	11,152	—	—	11,152
Medicare accelerated payment program advance	12,506	—	—	12,506
Total current liabilities	133,364	374	—	133,738
Long-term debt, less current installments	7,757	—	—	7,757
Long-term operating lease liabilities	28,118	—	—	28,118
Other long-term liabilities	5,243	—	—	5,243
Total liabilities	174,482	374	—	174,856
Net assets (deficit):				
Without donor restrictions:				
Without donor restrictions	1,017,822	15,918	—	1,033,740
Noncontrolling interests in consolidated joint ventures	—	—	—	—
Total without donor restrictions	1,017,822	15,918	—	1,033,740
With donor restrictions	33,454	10,309	(26,227)	17,536
Total net assets	1,051,276	26,227	(26,227)	1,051,276
Total liabilities and net assets	\$ 1,225,758	26,601	(26,227)	1,226,132

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 1

Consolidating Balance Sheet Information

June 30, 2022

(In thousands)

Assets	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Current assets:					
Cash and cash equivalents	\$ 7	363	—	—	370
Assets whose use is limited	—	—	—	—	—
Patient accounts receivable	31,425	—	—	—	31,425
Other receivables	3,843	—	435	—	4,278
Inventories	3,037	—	—	—	3,037
Collateral held for securities loaned	—	—	—	—	—
Prepays and other	371	22	—	—	393
Total current assets	38,683	385	435	—	39,503
Investments	—	6,974	—	—	6,974
Assets whose use is limited	—	2,663	—	—	2,663
Investments in unconsolidated affiliates	9,396	—	—	(9,396)	—
Property, plant, and equipment, net	78,901	—	—	—	78,901
Right of use assets for operating leases	—	—	—	—	—
Other assets, net	—	—	—	—	—
Total assets	\$ 126,980	10,022	435	(9,396)	128,041
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	\$ 58	—	—	—	58
Current portion of operating lease liabilities	—	—	—	—	—
Accounts payable	—	626	—	—	626
Accrued expenses	9,303	—	—	—	9,303
Payable under securities lending agreement	—	—	—	—	—
Estimated settlements to third-party payors	3,979	—	—	—	3,979
Medicare accelerated payment program advance	4,223	—	—	—	4,223
Total current liabilities	17,563	626	—	—	18,189
Long-term debt, less current installments	203	—	—	—	203
Long-term operating lease liabilities	—	—	—	—	—
Other long-term liabilities	8,689	—	—	—	8,689
Total liabilities	26,455	626	—	—	27,081
Net assets (deficit):					
Without donor restrictions:					
Without donor restrictions	99,771	8,642	435	(8,642)	100,206
Noncontrolling interests in consolidated joint ventures	—	—	—	—	—
Total without donor restrictions	99,771	8,642	435	(8,642)	100,206
With donor restrictions	754	754	—	(754)	754
Total net assets	100,525	9,396	435	(9,396)	100,960
Total liabilities and net assets	\$ 126,980	10,022	435	(9,396)	128,041

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 1

Consolidating Balance Sheet Information

June 30, 2022

(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	\$ (81)	1,984	—	1,903
Assets whose use is limited	—	—	—	—
Patient accounts receivable	17,030	—	—	17,030
Other receivables	(2,642)	64	(602)	(3,180)
Inventories	2,217	—	—	2,217
Collateral held for securities loaned	—	—	—	—
Prepays and other	99	—	—	99
Total current assets	<u>16,623</u>	<u>2,048</u>	<u>(602)</u>	<u>18,069</u>
Investments	—	10,463	—	10,463
Assets whose use is limited	226	9,260	—	9,486
Investments in unconsolidated affiliates	20	—	—	20
Property, plant, and equipment, net	64,464	—	—	64,464
Right of use assets for operating leases	—	—	—	—
Other assets, net	—	—	—	—
Total assets	<u>\$ 81,333</u>	<u>21,771</u>	<u>(602)</u>	<u>102,502</u>
Liabilities and Net Assets				
Current liabilities:				
Current installments of long-term debt	\$ —	—	—	—
Current portion of operating lease liabilities	—	—	—	—
Accounts payable	1	605	(602)	4
Accrued expenses	5,308	—	—	5,308
Payable under securities lending agreement	—	—	—	—
Estimated settlements to third-party payors	1,929	—	—	1,929
Medicare accelerated payment program advance	4,168	—	—	4,168
Total current liabilities	<u>11,406</u>	<u>605</u>	<u>(602)</u>	<u>11,409</u>
Long-term debt, less current installments	—	—	—	—
Long-term operating lease liabilities	—	—	—	—
Other long-term liabilities	962	—	—	962
Total liabilities	<u>12,368</u>	<u>605</u>	<u>(602)</u>	<u>12,371</u>
Net assets (deficit):				
Without donor restrictions:				
Without donor restrictions	68,739	20,771	—	89,510
Noncontrolling interests in consolidated joint ventures	—	—	—	—
Total without donor restrictions	<u>68,739</u>	<u>20,771</u>	<u>—</u>	<u>89,510</u>
With donor restrictions	226	395	—	621
Total net assets	<u>68,965</u>	<u>21,166</u>	<u>—</u>	<u>90,131</u>
Total liabilities and net assets	<u>\$ 81,333</u>	<u>21,771</u>	<u>(602)</u>	<u>102,502</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 1

Consolidating Balance Sheet Information

June 30, 2022

(In thousands)

Assets	Holy Family Memorial Hospital	Holy Family Health Services	Froedtert Manitowoc Medical Group	BFHFM	Eliminations and consolidating entries	Consolidated BFHFM LLC
Current assets:						
Cash and cash equivalents	\$ (4,496)	1,160	(421)	—	—	(3,757)
Assets whose use is limited	—	—	—	—	—	—
Patient accounts receivable	5,339	525	4,892	—	—	10,756
Other receivables	12,218	62	(9,581)	(69,853)	—	(67,154)
Inventories	1,445	289	—	—	—	1,734
Collateral held for securities loaned	—	—	—	—	—	—
Prepays and other	831	57	90	—	—	978
Total current assets	<u>15,337</u>	<u>2,093</u>	<u>(5,020)</u>	<u>(69,853)</u>	<u>—</u>	<u>(57,443)</u>
Investments	—	—	—	—	—	—
Assets whose use is limited	10,075	—	—	1,500	—	11,575
Investments in unconsolidated affiliates	—	—	—	68,549	(68,049)	500
Property, plant, and equipment, net	24,959	1	1,379	—	—	26,339
Right of use assets for operating leases	444	—	—	—	—	444
Other assets, net	—	—	153	—	—	153
Total assets	<u>\$ 50,815</u>	<u>2,094</u>	<u>(3,488)</u>	<u>196</u>	<u>(68,049)</u>	<u>(18,432)</u>
Liabilities and Net Assets						
Current liabilities:						
Current installments of long-term debt	\$ 1	—	—	—	—	1
Current portion of operating lease liabilities	94	—	—	—	—	94
Accounts payable	804	7	21	—	40	872
Accrued expenses	3,087	33	1,567	196	—	4,883
Payable under securities lending agreement	—	—	—	—	—	—
Estimated settlements to third-party payors	150	—	—	—	—	150
Medicare accelerated payment program advance	4,043	—	—	—	—	4,043
Total current liabilities	<u>8,179</u>	<u>40</u>	<u>1,588</u>	<u>196</u>	<u>40</u>	<u>10,043</u>
Long-term debt, less current installments	—	—	—	—	—	—
Long-term operating lease liabilities	350	—	—	—	—	350
Other long-term liabilities	78	—	—	—	—	78
Total liabilities	<u>8,607</u>	<u>40</u>	<u>1,588</u>	<u>196</u>	<u>40</u>	<u>10,471</u>
Net assets (deficit):						
Without donor restrictions:						
Without donor restrictions	33,530	2,054	(5,076)	—	(64,114)	(33,606)
Noncontrolling interests in consolidated joint ventures	5,179	—	—	—	—	5,179
Total without donor restrictions	<u>38,709</u>	<u>2,054</u>	<u>(5,076)</u>	<u>—</u>	<u>(64,114)</u>	<u>(28,427)</u>
With donor restrictions	3,499	—	—	—	(3,975)	(476)
Total net assets	<u>42,208</u>	<u>2,054</u>	<u>(5,076)</u>	<u>—</u>	<u>(68,089)</u>	<u>(28,903)</u>
Total liabilities and net assets	<u>\$ 50,815</u>	<u>2,094</u>	<u>(3,488)</u>	<u>196</u>	<u>(68,049)</u>	<u>(18,432)</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2022

(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	\$ 1	(374)	(28)	95,201	17,103	—	112,860
Assets whose use is limited	—	—	150	3,130	—	—	3,280
Patient accounts receivable	29,140	4,548	—	1,273	17,095	—	413,772
Other receivables	4,596	637	1,369	128,050	23,908	(71,531)	21,705
Inventories	1,390	448	—	10,637	11,229	—	49,959
Collateral held for securities loaned	—	—	—	229,714	—	—	229,714
Prepays and other	18	360	80	21,524	2,932	—	33,618
Total current assets	35,145	5,619	1,571	489,529	72,267	(71,531)	864,908
Investments	—	—	—	2,010,788	14,829	—	2,057,555
Assets whose use is limited	—	—	—	109,429	4,918	—	155,769
Investments in unconsolidated affiliates	—	—	—	248,747	8,869	(872)	260,329
Property, plant, and equipment, net	58,132	8,619	531	302,267	47,656	—	1,417,205
Right of use assets for operating leases	16,789	75	—	46,644	—	—	93,498
Other assets, net	18	—	—	4,509	2,050	—	5,577
Total assets	\$ 110,084	14,313	2,102	3,211,913	150,589	(72,403)	4,854,841
Liabilities and Net Assets							
Current liabilities:							
Current installments of long-term debt	\$ (2)	750	—	17,715	—	—	19,696
Current portion of operating lease liabilities	2,127	75	—	3,085	—	—	7,905
Accounts payable	—	3,185	4	72,510	66,450	(71,531)	113,222
Accrued expenses	32,751	6,134	548	190,194	29,170	—	343,571
Payable under securities lending agreement	—	—	—	229,714	—	—	229,714
Estimated settlements to third-party payors	—	—	—	—	—	—	17,210
Medicare accelerated payment program advance	—	—	—	—	—	—	24,940
Total current liabilities	34,876	10,144	552	513,218	95,620	(71,531)	756,258
Long-term debt, less current installments	1	1,582	—	735,714	—	—	745,257
Long-term operating lease liabilities	15,310	—	—	44,611	—	—	88,389
Other long-term liabilities	1,929	—	—	77,106	—	—	94,007
Total liabilities	52,116	11,726	552	1,370,649	95,620	(71,531)	1,683,911
Net assets (deficit):							
Without donor restrictions:							
Without donor restrictions	57,968	2,587	1,550	1,833,977	54,969	(872)	3,140,029
Noncontrolling interests in consolidated joint ventures	—	—	—	7,287	—	—	12,466
Total net assets without donor restrictions	57,968	2,587	1,550	1,841,264	54,969	(872)	3,152,495
With donor restrictions	—	—	—	—	—	—	18,435
Total net assets	57,968	2,587	1,550	1,841,264	54,969	(872)	3,170,930
Total liabilities and net assets	\$ 110,084	14,313	2,102	3,211,913	150,589	(72,403)	4,854,841

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

See accompanying independent auditors' report.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2022

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Revenue:				
Patient service revenue	\$ 2,226,561	—	—	2,226,561
Other operating revenue	35,412	1,942	(394)	36,960
Total revenue	<u>2,261,973</u>	<u>1,942</u>	<u>(394)</u>	<u>2,263,521</u>
Expenses:				
Salaries	566,660	—	—	566,660
Fringe benefits	152,885	—	—	152,885
Supplies	541,912	—	(392)	541,520
Contract services	128,035	—	—	128,035
Affiliate support	195,915	—	—	195,915
Depreciation and amortization	73,891	—	—	73,891
Interest	18,785	—	—	18,785
Other	145,350	1,815	(2)	147,163
Corporate allocations	312,591	—	—	312,591
Total expenses	<u>2,136,024</u>	<u>1,815</u>	<u>(394)</u>	<u>2,137,445</u>
Operating revenue in excess (deficient) of expenses	125,949	127	—	126,076
Nonoperating gains and losses:				
Investment return	—	(1,667)	—	(1,667)
Change in fair value of interest rate swaps	—	—	—	—
Community health initiatives	—	—	—	—
Other components of pension cost	—	—	—	—
Revenue and gains in excess (deficient) of expenses and losses	<u>\$ 125,949</u>	<u>(1,540)</u>	<u>—</u>	<u>124,409</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2022

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Revenue:					
Patient service revenue	\$ 248,534	—	—	—	248,534
Other operating revenue	11,312	1,290	876	(1,202)	12,276
Total revenue	<u>259,846</u>	<u>1,290</u>	<u>876</u>	<u>(1,202)</u>	<u>260,810</u>
Expenses:					
Salaries	104,548	—	197	(246)	104,499
Fringe benefits	26,780	—	—	—	26,780
Supplies	46,844	—	256	—	47,100
Contract services	17,869	—	—	—	17,869
Affiliate support	27,098	—	—	—	27,098
Depreciation and amortization	9,530	—	—	—	9,530
Interest	1,887	—	—	—	1,887
Other	20,972	1,018	340	(956)	21,374
Corporate allocations	18,173	—	—	—	18,173
Total expenses	<u>273,701</u>	<u>1,018</u>	<u>793</u>	<u>(1,202)</u>	<u>274,310</u>
Operating revenue in excess (deficient) of expenses	(13,855)	272	83	—	(13,500)
Nonoperating gains and losses:					
Investment return	—	(1,038)	—	—	(1,038)
Change in fair value of interest rate swaps	—	—	—	—	—
Community health initiatives	—	—	—	—	—
Other components of pension cost	—	—	—	—	—
Revenue and gains in excess (deficient) of expenses and losses	<u>\$ (13,855)</u>	<u>(766)</u>	<u>83</u>	<u>—</u>	<u>(14,538)</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2022

(In thousands)

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Revenue:				
Patient service revenue	\$ 128,552	—	—	128,552
Other operating revenue	9,451	137	—	9,588
Total revenue	<u>138,003</u>	<u>137</u>	<u>—</u>	<u>138,140</u>
Expenses:				
Salaries	50,848	164	—	51,012
Fringe benefits	12,428	—	—	12,428
Supplies	22,467	10	—	22,477
Contract services	8,717	—	—	8,717
Affiliate support	24,314	—	—	24,314
Depreciation and amortization	4,415	—	—	4,415
Interest	2,549	—	—	2,549
Other	10,238	347	—	10,585
Corporate allocations	9,833	—	—	9,833
Total expenses	<u>145,809</u>	<u>521</u>	<u>—</u>	<u>146,330</u>
Operating revenue in excess (deficient) of expenses	(7,806)	(384)	—	(8,190)
Nonoperating gains and losses:				
Investment return	—	(2,452)	—	(2,452)
Change in fair value of interest rate swaps	—	—	—	—
Community health initiatives	—	—	—	—
Other components of pension cost	—	—	—	—
Revenue and gains in excess (deficient) of expenses and losses	<u>\$ (7,806)</u>	<u>(2,836)</u>	<u>—</u>	<u>(10,642)</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2022

(In thousands)

	Holy Family Memorial Hospital	Holy Family Health Services	Froedtert Manitowoc Medical Group	BFHFM	Eliminations and consolidating entries	Consolidated BFHFM LLC
Revenue:						
Patient service revenue	\$ 94,760	9,915	6,233	—	—	110,908
Other operating revenue	2,701	(359)	7,124	—	(7,545)	1,921
Total revenue	97,461	9,556	13,357	—	(7,545)	112,829
Expenses:						
Salaries	57,867	742	12,361	—	(5,528)	65,442
Fringe benefits	12,321	178	3,172	—	(1,535)	14,136
Supplies	19,260	7,999	547	—	—	27,806
Contract services	23,003	45	1,656	—	—	24,704
Affiliate support	—	—	—	—	—	—
Depreciation and amortization	3,966	—	96	—	—	4,062
Interest	—	—	—	—	—	—
Other	11,648	195	601	—	(482)	11,962
Corporate allocations	—	—	—	—	—	—
Total expenses	128,065	9,159	18,433	—	(7,545)	148,112
Operating revenue in excess (deficient) of expenses	(30,604)	397	(5,076)	—	—	(35,283)
Nonoperating gains and losses:						
Investment return	(327)	—	—	—	—	(327)
Change in fair value of interest rate swaps	—	—	—	—	—	—
Community health initiatives	—	—	—	—	—	—
Other components of pension cost	—	—	—	—	—	—
Revenue and gains in excess (deficient) of expenses and losses	\$ (30,931)	397	(5,076)	—	—	(35,610)

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets Information

Year ended June 30, 2022

(In thousands)

	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Exceedent	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Revenue:							
Patient service revenue	\$ 294,246	30,472	—	—	211,543	—	3,250,816
Other operating revenue	23,653	75,813	3,779	651,338	28,178	(748,579)	94,927
Total revenue	<u>317,899</u>	<u>106,285</u>	<u>3,779</u>	<u>651,338</u>	<u>239,721</u>	<u>(748,579)</u>	<u>3,345,743</u>
Expenses:							
Salaries	250,802	27,377	2,094	176,188	43,899	(8,066)	1,279,907
Fringe benefits	50,093	6,449	520	233,780	10,456	(192,952)	314,575
Supplies	25,303	27,046	218	(1,625)	135,636	(2,211)	823,270
Contract services	20,812	13,206	—	35,875	17,591	(111,382)	155,427
Affiliate support	(96,848)	—	—	(9,695)	609	(1)	141,392
Depreciation and amortization	7,110	2,150	72	37,679	3,807	—	142,716
Interest	—	52	—	11,173	—	—	34,446
Other	38,578	13,751	2,015	148,658	28,445	(64,421)	358,110
Corporate allocations	22,049	—	—	—	6,900	(369,546)	—
Total expenses	<u>317,899</u>	<u>90,031</u>	<u>4,919</u>	<u>632,033</u>	<u>247,343</u>	<u>(748,579)</u>	<u>3,249,843</u>
Operating revenue in excess (deficient) of expenses	—	16,254	(1,140)	19,305	(7,622)	—	95,900
Nonoperating gains and losses:							
Investment return	—	—	—	(243,004)	(1,302)	—	(249,790)
Change in fair value of interest rate swaps	—	—	—	24,203	—	—	24,203
Community health initiatives	—	—	—	(250)	—	—	(250)
Other components of pension cost	—	—	—	156	—	—	156
Revenue and gains in excess (deficient) of expenses and losses	<u>\$ —</u>	<u>16,254</u>	<u>(1,140)</u>	<u>(199,590)</u>	<u>(8,924)</u>	<u>—</u>	<u>(129,781)</u>

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

See accompanying independent auditors' report.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets Information (Continued)

Year ended June 30, 2022

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Net assets without donor restrictions:				
Revenue in excess of expenses and losses	\$ 125,949	(1,540)	—	124,409
Transfers (to) from affiliates	(56,189)	582	—	(55,607)
Change in net unrealized gains and losses on investments of other-than-trading securities	—	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	550	—	—	550
Change in accrued pension benefits other than net periodic benefit costs	117	—	—	117
Contributed (distributed) capital from (to) minority partners in consolidated affiliates, net	—	—	—	—
Other	380	—	—	380
	<u>70,807</u>	<u>(958)</u>	<u>—</u>	<u>69,849</u>
Increase (decrease) in net assets without donor restrictions				
Net assets without donor restrictions at beginning of year	<u>947,015</u>	<u>16,876</u>	<u>—</u>	<u>963,891</u>
Net assets without donor restrictions at end of year	<u>\$ 1,017,822</u>	<u>15,918</u>	<u>—</u>	<u>1,033,740</u>
Net assets with donor restrictions:				
Investment return	\$ —	(1,076)	—	(1,076)
Restricted contributions	5,000	1,976	—	6,976
Net assets released from restrictions for operations	(2,329)	(1,124)	—	(3,453)
Contributions and net assets released from restrictions for property, plant, and equipment	(550)	—	—	(550)
Change in beneficial interest in foundations	(1,181)	—	1,181	—
Other	1	3	—	4
	<u>941</u>	<u>(221)</u>	<u>1,181</u>	<u>1,901</u>
Increase (decrease) in net assets with donor restrictions				
Net assets with donor restrictions at beginning of year	<u>32,513</u>	<u>10,530</u>	<u>(27,408)</u>	<u>15,635</u>
Net assets with donor restrictions at end of year	<u>\$ 33,454</u>	<u>10,309</u>	<u>(26,227)</u>	<u>17,536</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets Information (Continued)

Year ended June 30, 2022

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Net assets without donor restrictions:					
Revenue in excess of expenses and losses	\$ (13,855)	(766)	83	—	(14,538)
Transfers (to) from affiliates	25,458	(149)	—	891	26,200
Change in net unrealized gains and losses on investments of other-than-trading securities	—	—	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	—	23	—	—	23
Change in accrued pension benefits other than net periodic benefit costs	(1,180)	—	—	—	(1,180)
Contributed (distributed) capital from (to) minority partners in consolidated affiliates, net	—	—	—	—	—
Other	2	—	—	—	2
Increase (decrease) in net assets without donor restrictions	10,425	(892)	83	891	10,507
Net assets without donor restrictions at beginning of year	89,346	9,534	352	(9,533)	89,699
Net assets without donor restrictions at end of year	\$ 99,771	8,642	435	(8,642)	100,206
Net assets with donor restrictions:					
Investment return	\$ —	(14)	—	—	(14)
Restricted contributions	—	159	—	—	159
Net assets released from restrictions for operations	—	(23)	—	—	(23)
Contributions and net assets released from restrictions for property, plant, and equipment	—	(23)	—	—	(23)
Change in beneficial interest in foundations	—	—	—	—	—
Other	100	1	—	(100)	1
Increase (decrease) in net assets with donor restrictions	100	100	—	(100)	100
Net assets with donor restrictions at beginning of year	654	654	—	(654)	654
Net assets with donor restrictions at end of year	\$ 754	754	—	(754)	754

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets Information (Continued)

Year ended June 30, 2022

(In thousands)

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Net assets without donor restrictions:				
Revenue in excess of expenses and losses	\$ (7,806)	(2,836)	—	(10,642)
Transfers (to) from affiliates	14,587	(24,284)	—	(9,697)
Change in net unrealized gains and losses on investments of other-than-trading securities	—	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	—	—	—	—
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Contributed (distributed) capital from (to) minority partners in consolidated affiliates, net	—	—	—	—
Other	1	—	—	1
Increase (decrease) in net assets without donor restrictions	6,782	(27,120)	—	(20,338)
Net assets without donor restrictions at beginning of year	61,957	47,891	—	109,848
Net assets without donor restrictions at end of year	\$ 68,739	20,771	—	89,510
Net assets with donor restrictions:				
Investment return	\$ 46	—	—	46
Restricted contributions	—	125	—	125
Net assets released from restrictions for operations	(7)	—	—	(7)
Contributions and net assets released from restrictions for property, plant, and equipment	—	—	—	—
Change in beneficial interest in foundations	—	—	—	—
Other	—	—	—	—
Increase (decrease) in net assets with donor restrictions	39	125	—	164
Net assets with donor restrictions at beginning of year	187	270	—	457
Net assets with donor restrictions at end of year	\$ 226	395	—	621

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets Information (Continued)

Year ended June 30, 2022

(In thousands)

	Holy Family Memorial Hospital	Holy Family Health Services	Froedtert Manitowoc Medical Group	BFHFM	Eliminations and consolidating entries	Consolidated BFHFM LLC
Net assets without donor restrictions:						
Revenue in excess of expenses and losses	\$ (30,931)	397	(5,076)	—	—	(35,610)
Transfers (to) from affiliates	—	—	—	—	—	—
Change in net unrealized gains and losses on investments of other-than-trading securities	—	—	—	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	—
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—	—	—
Contributed (distributed) capital from (to) minority partners in consolidated affiliates, net	32,500	—	—	—	(64,114)	(31,614)
Other	(57)	98	—	—	—	41
Increase (decrease) in net assets without donor restrictions	1,512	495	(5,076)	—	(64,114)	(67,183)
Net assets without donor restrictions at beginning of year	37,197	1,559	—	—	—	38,756
Net assets without donor restrictions at end of year	\$ 38,709	2,054	(5,076)	—	(64,114)	(28,427)
Net assets with donor restrictions:						
Investment return	\$ (482)	—	—	—	—	(482)
Restricted contributions	—	—	—	—	—	—
Net assets released from restrictions for operations	—	—	—	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	—
Change in beneficial interest in foundations	—	—	—	—	—	—
Other	6	—	—	—	(3,975)	(3,969)
Increase (decrease) in net assets with donor restrictions	(476)	—	—	—	(3,975)	(4,451)
Net assets with donor restrictions at beginning of year	3,975	—	—	—	—	3,975
Net assets with donor restrictions at end of year	\$ 3,499	—	—	—	(3,975)	(476)

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets Information (Continued)

Year ended June 30, 2022

(In thousands)

	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Exceedent	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Net assets without donor restrictions:							
Revenue in excess of expenses and losses	\$ —	16,254	(1,140)	(199,590)	(8,924)	—	(129,781)
Transfers (to) from affiliates	2,042	(116,414)	1,068	138,131	14,277	—	—
Change in net unrealized gains and losses on investments of other-than-trading securities	—	—	—	(10,617)	—	—	(10,617)
Contributions and net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	—	573
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	(8,897)	—	—	(9,960)
Contributed (distributed) capital from (to) minority partners in consolidated affiliates, net	—	—	—	(1,029)	833	37,714	5,904
Other	—	—	(4)	(2)	567	(5)	980
Increase (decrease) in net assets without donor restrictions	2,042	(100,160)	(76)	(82,004)	6,753	37,709	(142,901)
Net assets (deficits) without donor restrictions at beginning of year	55,926	102,747	1,626	1,923,268	48,216	(38,581)	3,295,396
Net assets (deficits) without donor restrictions at end of year	\$ 57,968	2,587	1,550	1,841,264	54,969	(872)	3,152,495
Net assets with donor restrictions:							
Investment return	\$ —	—	—	—	—	—	(1,526)
Restricted contributions	—	—	—	—	—	—	7,260
Net assets released from restrictions for operations	—	—	—	—	—	—	(3,483)
Contributions and net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	—	(573)
Change in beneficial interest in foundations	—	—	—	—	—	—	—
Other	—	—	—	—	—	3,975	11
Increase (decrease) in net assets with donor restrictions	—	—	—	—	—	3,975	1,689
Net assets with donor restrictions at beginning of year	—	—	—	—	—	(3,975)	16,746
Net assets with donor restrictions at end of year	\$ —	—	—	—	—	—	18,435

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

See accompanying independent auditors' report.