von Briesen
von Briesen & Roper, s.c. | Attorneys at Law

TAGLaw International Lawyers

John E. Hintz
Direct Telephone
414-287-1517
jhintz@vonbriesen.com

October 7, 2014

VIA FEDERAL EXPRESS OVERNIGHT AND
EMAIL: Kristin.Forsberg@Wisconsin.gov

Kristin Forsberg, CPA, CFE
Bureau of Financial Analysis and Examinations
Office of the Commissioner of Insurance
125 S. Webster St.
Madison, WI 53702

Re: In the Matter of the Acquisition of Control of Network Health Plan and Network Health Insurance Corporation by Froedtert Health, Inc.

Dear Ms. Forsberg:

This letter is in response to your September 17, 2014, request addressed to Catherine Mode Eastham for additional information regarding Froedtert Health, Inc.'s ("Froedtert", "FHI", or "Froedtert Health, Inc.") Form A filing regarding the acquisition of control of Network Health Plan and Network Health Insurance Corporation.

Regarding the hearing date, as you know, all parties have waived minimum notice of the hearing, and we will accommodate the earliest possible date that you can schedule.

Your specific questions are listed below followed by the response. Similar to Froedtert's September 3, 2014 letter enclosing its Form A filing, please note that responses to Questions 3(a), 3(b), 3(c), 4, and 5(b) contain certain confidential information that could put Froedtert at a competitive disadvantage if released to the public. Toward that end, Questions 3(a), 3(b), 3(c), 4, and 5(b) have been redacted from this letter and responses to these questions have been provided to the Office under separate cover. Froedtert respectfully requests that the Office of the Commissioner of Insurance ("Office") does not release the non-redacted version of the response letter (or any corresponding attachments) to the public.

<u>Question 1.</u> <u>Froedtert Health, Inc.</u>: FHI is a non-stock Wisconsin corporation. *Please identify:*

(a) The corporate members of Froedtert Health, Inc., and their respective representation on FHI's Board,

(b) The ultimate controlling entity (if applicable), and

www.vonbriesen.com 411 East Wisconsin Avenue, Suite 1000 Milwaukee, Wisconsin 53202-4409 Phone 414-276-1122 Fax 414-276-6281

(c) Any insurance company affiliates owned or controlled by the corporate members.

<u>Response 1.</u>

(a) Froedtert Health, Inc. has no corporate members.

(b) Not applicable – Froedtert Health, Inc. is the ultimate controlling entity.

(c) Froedtert Health, Inc. has no corporate members, and therefore there are no insurance company affiliates owned or controlled by the corporate members.

<u>Question 2.</u> <u>Purpose of the Proposed Transaction</u>: *Please state:*

(a) What are the objectives that FHI hopes to achieve if the proposed transaction is consummated?

(b) How will the proposed transaction benefit FHI and Ministry Holdings, Inc. (and their subsidiaries), respectively?

<u>Response 2.</u>

(a) As health care continues to emphasize population health management, the skills and resources of an entity that is involved in both health care delivery and insurance become increasingly complementary. If the proposed transaction is consummated, Froedtert hopes to develop and coordinate health care initiatives to improve the quality, delivery, and efficiency of health care in Wisconsin.

(b) The proposed transaction will benefit Froedtert by diversifying and expanding Froedtert's (and its subsidiaries') business operations. The proposed transaction will benefit Ministry Holdings, Inc. (and its subsidiaries) by providing another strong Wisconsin health care organization to compliment Ministry Health Care, Inc. as the ultimate controlling entity of Network Health Plan and Network Health Insurance Corporation. The proposed transaction will also better position Network Health to expand its service area in southeastern Wisconsin and strengthen options for clinical integration.

<u>Question 3.</u> Member Admission Agreement: *Please provide or explain:*

(a) <u>Executed Copy</u>: An executed copy of this agreement (when it becomes available).

(b) REDACTED

(c) <u>Exhibits and Schedules</u>: The following Exhibits and Schedules (referenced in the Member Admission Agreement) were not attached to the Agreement, and were not otherwise included with the Form A filing. Please provide a copy of the following Exhibits and Schedules:

Exhibits:

Exhibit B	REDACTED
Exhibit C	REDACTED
Exhibit D	REDACTED
Exhibit E	REDACTED
Exhibit F	REDACTED

Schedules:

2.2(b)	REDACTED
2.3(b)	REDACTED
2.6	REDACTED
2.7(a)	REDACTED
2.7(b)	REDACTED
2.7(c)	REDACTED
2.8	REDACTED
2.9	REDACTED
2.10	REDACTED
2.11	REDACTED
2.12(a)	REDACTED
2.12(d)	REDACTED
2.12(e)	REDACTED
2.14(a)	REDACTED
2.14(b)	REDACTED
2.17(a)	REDACTED
2.18(b)	REDACTED
2.21	REDACTED
2.22	REDACTED
5.18	REDACTED

Response 3.

(a) A redacted copy of the executed Member Admission Agreement is attached to this letter as Attachment 3(a). A non-redacted copy of the executed Member Admission Agreement was provided to the Office under separate cover.

(b) REDACTED

(c) A non-redacted copy of the requested Exhibits and Schedules was provided to the Office under separate cover.

Question 4. Members' Agreement: *Please provide* an executed copy of this agreement (when available).

Response 4. A redacted copy of the final Members Agreement is attached to this letter as Attachment 4.

<u>Question 5.</u> <u>Consolidated Audited Financial Statements – FHI and Affiliates</u>: *Please provide or explain:*

(a) <u>Consolidated Financial Statements</u>: A copy of the audited consolidated financial statements for FHI and Affiliates for the fiscal year ending June 30, 2014 (when available).

(b) <u>Debt Coverage Ratio</u>: Please provide the Debt Coverage Ratio for the consolidated group for the last 5 fiscal years. Does FHI try to maintain a minimum threshold for this ratio, and if so – what is the minimum threshold?

(c) <u>Hart-Scott-Rodino Anti-Trust (HSR) Determination</u>: *Please provide* a copy of the FTC's determination as to whether the proposed transaction will/will not adversely affect U.S. commerce under the federal anti-trust laws (when available).

<u>Response 5.</u>

(a) A copy of the audited consolidated financial statements for FHI and Affiliates for the fiscal year ending June 30, 2014 is attached as <u>Attachment 5(a)</u> to this letter.

(b) REDACTED

(c) A copy of the Federal Trade Commission's Hart-Scott-Rodino determination letter is attached to this letter as <u>Attachment 5(c)</u>.

Thank you for your time and attention to this matter. If you have any further questions, please do not hesitate to contact me. We look forward to continuing to working with you and OCI throughout this process.

Very truly yours,

von BRIESEN & ROPER, s.c.

John E. Hintz

Enclosures

CC: Catherine Mode Eastham, Esq., Senior Vice President and General Counsel, Froedtert Health (via email w/ enclosures)
Sheila Jenkins, President, Network Health Plan and Network Health Insurance Corporation (via email w/ enclosures)
Ronald Mohorek, Esq., Senior Vice President and General Counsel, Ministry Health Care (via email w/ enclosures)

ATTACHMENT 3(A)

RESPONSE TO QUESTION 3(A)
MEMBER ADMISSION AGREEMENT

A non-redacted version of the executed Member Admission Agreement has been provided to the Office under separate cover.

MEMBER ADMISSION AGREEMENT

by and between

MINISTRY HOLDINGS, INC.,

MINISTRY HEALTH CARE, INC.

and

FROEDTERT HEALTH, INC.

Dated as of September 30, 2014

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LIST OF EXHIBITS AND SCHEDULES

EXHIBITS:

SCHEDULES:

MEMBER ADMISSION AGREEMENT

This **MEMBER ADMISSION AGREEMENT** (this "Agreement"), dated as of September 30, 2014, is by and between Ministry Holdings, Inc., a Wisconsin non-stock corporation (the "Company"), Ministry Health Care, Inc., a Wisconsin non-stock corporation ("MHC") and Froedtert Health, Inc., a Wisconsin non-stock corporation ("FHI"). The Company, MHC and FHI are sometimes referred to herein individually as a "Party" and together as the "Parties." Capitalized terms used in this Agreement that are not otherwise defined shall have the meanings set forth in Exhibit A attached to this Agreement, which is incorporated in this Agreement as if fully set forth herein.

RECITALS:

WHEREAS, the Company is a holding company that operates insurance companies through its wholly controlled subsidiaries, which are as follows: (a) Network Health Plan, an insurance corporation organized under Chapter 611 of the Wisconsin Statutes ("NHP") that is authorized to do business in Wisconsin and, among other thing, owns and operates a health maintenance organization, and (b) Network Health Insurance Corporation, a service insurance corporation organized under Chapter 613 of the Wisconsin Statutes ("NHIC", and together with NHP, the "Subsidiaries" and each a "Subsidiary") that is authorized to do business in Wisconsin and engages in the business of health insurance (each of the businesses described above are collectively referred to herein as the "Business");

WHEREAS, MHC is the sole member of the Company;

WHEREAS, MHC and the Company desire that FHI be admitted as a member of the Company pursuant to the terms and conditions hereof and having those membership rights in the Company as set forth in the amended and restated articles of incorporation of the Company and the amended and restated bylaws of the Company (together with the amended and restated articles of incorporation of NHIC and NHP and the amended and restated bylaws of NHIC and NHP, the "Restated Organizational Documents", the forms of each being attached hereto as Exhibit B);

WHEREAS, as set forth in the Restated Organizational Documents, the name of the Company shall be changed to Network Health, Inc. in connection with the consummation of the transactions contemplated by this Agreement; and

WHEREAS, FHI has filed a Form A (Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer) with the Office of the Commissioner of Insurance for the State of Wisconsin ("OCI") prior to the date hereof.

TERMS AND CONDITIONS:

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be bound, hereby agree as follows:

ARTICLE I.
MEMBERSHIP ADMISSION

1.1 Member Admission; Subscription Price. Upon the terms and subject to the conditions set forth in this Agreement, FHI shall be admitted as a member of the Company and shall have those membership rights set forth in the Restated Organizational Documents. The Subscription Price shall be paid by FHI to MHC at Closing by wire transfer of immediately available funds to an account identified by MHC in consideration of its admission as a member of the Company.

1.2 Closing of Member Admission. Subject to the satisfaction of the conditions set forth in Article VI, the consummation of FHI's admission as a member of the Company and the other transactions contemplated by this Agreement (the "Closing") shall take place within five (5) business days of the satisfaction of the conditions set forth in Section 6.1(b) and Section 6.2(d); or if the Parties mutually agree in writing on a different date, the date upon which they have mutually agreed at 11925 West Lake Park Drive, Suite 100 Milwaukee, WI 53224, or such other place to which the Parties may agree in writing (the applicable date being the "Closing Date").

ARTICLE V.
COVENANTS

In addition to the other agreements and covenants included in this Agreement, the Parties agree as follows:

5.3 Access and Information.

(a) With respect to the period between the date hereof and the earlier to occur of the Closing or the termination of this Agreement pursuant to Article VIII, the Company and the Subsidiaries shall afford, and MHC shall cause the Company and the Subsidiaries to afford, to FHI and its accountants, counsel and other representatives reasonable access, upon reasonable prior notice and during normal business hours, to all of the properties, books, accounts, records, contracts, and personnel of the Company and the Subsidiaries and, during such period, the Company and the Subsidiaries shall, and MHC shall cause the Company and the Subsidiaries and their respective accountants, counsel and other representatives to, furnish promptly to FHI and its representatives all information concerning the Business, and the properties and personnel of the Company, the Subsidiaries and MHC as FHI or its representatives may reasonably request; provided that such access shall be subject to the Company's, the Subsidiaries' and MHC's reasonable security measures and applicable Law and shall not unreasonably interfere with the operations of the Company, the Subsidiaries or MHC.

(c) If MHC, the Company or the Subsidiaries become aware prior to Closing of any event, fact or condition or nonoccurrence of any event, fact or condition that may constitute a breach of any representation, warranty, covenant or agreement of MHC, the Company or the Subsidiaries, or may constitute a breach of any representation or warranty of MHC, the Company or the Subsidiaries if such representation or warranty were made on the date of the occurrence or discovery of such event, fact or condition or on the Closing Date, then MHC will promptly provide FHI with a written description of such fact or condition. The delivery of any information pursuant to this Section will not cure any breach of a representation, warranty, covenant or agreement nor will it limit any remedy that may be available to FHI under the terms of this Agreement.

5.7 Other Filings. With respect to the period between the date hereof and the earlier to occur of the Closing or the termination of this Agreement pursuant to Article VIII, (a) each of the Parties shall use commercially reasonable efforts to cooperate with each other in timely making all filings required to be made prior to the Closing Date with the Governmental Authorities and third persons described in Section 2.2(b), (b) the Company shall, and MHC shall cause the Company to, file with the Wisconsin Department of Financial Institutions the amended and restated articles of incorporation contained in the Restated Organizational Documents, and (c) each of the Parties shall use commercially reasonable efforts to take, or cause to be taken, all other action and do, or cause to be done, all other things necessary or appropriate to consummate the transactions contemplated by this Agreement.

5.10 Additional Agreements. Subject to the terms and conditions herein provided, each of the Parties agree to use commercially reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate and make effective the transactions contemplated by this Agreement.

5.12 Tax Returns; Transfer Taxes. Each of the Parties agrees to cooperate with each other Party in the preparation of any Tax Returns.

5.13 Interim Financial Statements. With respect to the period between the date hereof and the earlier to occur of the Closing or the termination of this Agreement pursuant to Article VIII, the Company shall, and MHC shall cause the Company to regularly and continuously, provide FHI with those interim, unaudited, financial statements of the Company and the Subsidiaries prepared in the ordinary course of business in accordance with past practices for each calendar month, which shall include, for the Subsidiaries, those financial statements required to be filed with OCI (the "Interim Financial Statements"), within three (3) Business Days after being prepared or filed with OCI, as the case may be. The last set of Interim Financial Statements delivered by the Company or MHC prior to the Closing Date in accordance with this Section 5.13 shall be deemed included in the Financial Statements. Notwithstanding any provision of this Agreement to the contrary, the representations and warranties set forth in Section 2.7(a), above, with respect to any Interim Financial Statements delivered to FHI under this Section 5.13 shall be deemed to have been made by MHC as of the date of such delivery.

ARTICLE VII.
DELIVERIES

7.1 Deliveries by FHI. Subject to written waiver by the Company, FHI shall execute, as appropriate, and deliver at the Closing all of the following documents and instruments:

(b) a certificate dated as of the Closing Date signed by an appropriate executive officer of FHI certifying that, as of the Closing Date: (i) the FHI Fundamental Representations remain true and correct in all material respects in the manner set forth in Section 6.2(a); (ii) FHI has performed and complied with, in all material respects, the covenants, obligations and agreements set forth in this Agreement; and (iii) to the knowledge of such officer, the conditions specified in Section 6.1(e) have been satisfied;

(c) a certificate dated as of the Closing Date signed by an appropriate executive officer of FHI certifying (i) FHI's certificate of incorporation and bylaws, and (ii) the resolutions of FHI's board of directors approving FHI's execution, delivery and performance of this Agreement and the Related Agreements to which it is a party;

(e) a certificate of status with respect to FHI issued by the Department of Financial Institutions of the State of Wisconsin, issued not earlier than ten (10) Business Days prior to the Closing Date; and

(f) all other documents and instruments reasonably required or requested by MHC to consummate the transactions contemplated hereby.

7.2 Deliveries by the Company and MHC. Subject to written waiver by FHI, the Company and MHC shall execute, as appropriate, or cause the Subsidiaries to execute, and deliver at the Closing all of the following documents and instruments:

(a) a certificate representing FHI's membership in the Corporation;

(b) a certificate dated as of the Closing Date signed by an appropriate executive officer of the Company certifying that, as of the Closing Date: (i) the Company Fundamental Representations remain true and correct in all material respects in the manner set forth in Section 6.1(a); (ii) the Company and MHC have performed and complied with, in all material respects, the covenants, obligations and agreements set forth in this Agreement; and (iii) to the knowledge of such officer, the conditions specified in Section 6.2(e) have been satisfied;

(c) a certificate dated as of the Closing Date signed by an appropriate executive officer of the Company and each Subsidiary, as applicable, certifying (i) the

Company's and the Subsidiaries' articles of incorporation and bylaws, and (ii) resolutions of the Company's board of directors and/or member, if necessary, approving the Company's execution, delivery and performance of this Agreement and the Related Agreements to which it is a party;

(d) a certificate dated as of the Closing Date signed by an appropriate executive officer of MHC certifying (i) MHC's articles of incorporation and bylaws; and (ii) the resolutions of MHC approving MHC's execution, delivery and performance of this Agreement;

(e) a certificate of status with respect to the Company, each of the Subsidiaries and MHC, issued not earlier than ten (10) Business Days prior to the Closing Date by the Department of Financial Institutions of the State of Wisconsin;

(g) a copy of the amended and restated articles of incorporation that are contained in the Restated Organizational Documents that have been filed with the Wisconsin Department of Financial Institutions; and

(h) all other documents and instruments reasonably required or requested by FHI to consummate the transactions contemplated hereby.

ARTICLE X.
MISCELLANEOUS

10.1 Notices. Any notice, request, instruction or other document to be given hereunder by a Party shall be in writing and shall be deemed to have been given, (a) when received if given in person or by courier or a courier service, or (b) on the immediately following Business Day after deposit with a nationally recognized overnight carrier; in each case if addressed or directed to a Party in accordance with the contact information included on the signature pages to this Agreement, or to such other address as a Party may designate for itself by notice given as herein provided.

10.2 Counterparts. This Agreement may be executed by electronic trans-mission (i.e., facsimile or electronically transmitted portable document format (PDF)) and in counterparts, any one of which need not contain the signatures of more than one Party, but all such counterparts taken together shall constitute one and the same instrument.

10.3 Interpretation. The headings preceding the text of Articles and Sections included in this Agreement and the headings to Exhibits and Schedules attached to this Agreement are for convenience only and shall not be deemed part of this Agreement or be given any effect in interpreting this Agreement. The use of the masculine, feminine or neuter gender herein shall not limit any provision of this Agreement. The use of the terms "including" or "include" shall in all cases herein mean "including, without limitation" or "include, without limitation," respectively. Underscored references to Articles, Sections, Exhibits or Schedules shall refer to those portions of this Agreement.

10.4 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin, without regard to the principles of conflicts of laws.

10.5 Amendment and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the Parties. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way rights arising by virtue of any prior or subsequent occurrence.

10.6 Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. No assignment of any rights or obligations shall be made by any Party without the written consent of each other Party.

10.7 Expenses. All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby (including those of brokers, lawyers, accountants and other advisors), shall be paid by the Party incurring such costs and expenses.

10.8 No Third Party Beneficiaries. This Agreement is solely for the benefit of the Parties and no provision of this Agreement shall be deemed to confer upon any third party any remedy, claim, Liability, reimbursement, cause of action or other right.

10.9 Further Assurances. Upon the reasonable request of any Party, each other Party will on and after the Closing Date execute and deliver such other documents, releases, assignments and other instruments as may be required to effectuate completely the transactions contemplated hereby and to otherwise carry out the purposes of this Agreement; provided, however, no such action shall require any other Party to incur any additional cost or Liability unless the requesting Party shall agree to reimburse the reasonable costs and expenses of such other Party.

10.10 Severability. If any provision of this Agreement shall be held invalid, illegal or unenforceable, the validity, legality or enforceability of the other provisions hereof shall not be affected thereby, and there shall be deemed substituted for the provision at issue a valid, legal and enforceable provision as similar as possible to the provision at issue.

10.11 Entire Understanding. This Agreement and the Confidentiality Agreement sets forth the entire agreement and understanding of the Parties with respect to the matters set forth herein and supersedes any and all prior agreements, arrangements and understandings among the Parties.

10.12 Specific Performance. Each Party acknowledges and agrees that, in the event of any breach of this Agreement, each non-breaching Party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the Parties will (a) waive, in any action for specific performance, the defense of adequacy of a remedy at law, and (b) be entitled, in the non-breaching Party's sole discretion, in addition to any other remedy to which they may be entitled at law or in equity, to compel specific performance of this Agreement in any action instituted in accordance with this Section 10.12.

10.13 Reproductions. This Agreement and all other documents, instruments and agreements in the possession of any Party which relate hereto or thereto may be reproduced by such Party, and any such reproduction shall be admissible in evidence, with the same effect as the original itself, in any judicial or other administrative proceeding, whether the original is in existence or not. No Party will object to the admission in evidence of any such reproduction, unless the objecting Party reasonably believes that the reproduction does not accurately reflect the contents of the original and objects on that basis.

10.14 No Presumption Against Drafter. Each of the Parties has jointly participated in the negotiation and drafting of this Agreement. In the event of any ambiguity or if a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by each of the Parties and no presumptions or burdens of proof shall arise favoring any Party by virtue of the authorship of any of the provisions of this Agreement.

10.15 Disputes. All disputes arising out of or relating to this Agreement shall be resolved in accordance with the procedures set forth in this Section 10.15. If a dispute arises under this Agreement (including any alleged breach of this Agreement), a Party may submit the dispute to alternative dispute resolution under this Section 10.15 by giving written notice thereof to the other Parties. The matter shall be submitted to the highest ranking executive officer of each Party who shall meet to attempt in good faith to resolve the dispute. If after thirty (30) days, the matter has not been resolved by the highest ranking executive officers of the Parties, at the request of any Party, the matter will be submitted to mediation by a mediator mutually acceptable to the Parties. Each Party will designate one or more representatives to participate in the mediation on behalf of such Party who will have the authority to accept a resolution of the dispute on behalf of such Party. If, and only if, the dispute is not resolved by mediation, either Party may file suit in a court of competent jurisdiction to obtain a judicial determination or adjudication of the dispute, which may include specific performance, declaratory relief, or any other remedies available under the agreement, at law or in equity.

[Signatures on Following Pages]

IN WITNESS WHEREOF, each of the Parties has caused this Member Admission Agreement to be executed on its behalf by its representatives duly authorized as of the day and year first above written.

The Company:

MINISTRY HOLDINGS, INC.,
a Wisconsin non-stock corporation

By: ______________________
Shelia Jenkins
President and CEO

Address for notice purposes:

Ministry Health Care, Inc.
11925 West Lake Park Drive
Suite 100
Milwaukee, WI 53224-3014
Attn: Chief Executive Officer

With a copy to (which will not constitute notice):

Ministry Health Care, Inc.
11925 West Lake Park Drive
Suite 100
Milwaukee, WI 53224-3014
Attn: Ronald E. Mohorek
Senior VP and General Counsel

and an additional copy to (which will not constitute notice):

Paul W. Seidenstricker, Esq.
Hall, Render, Killian, Heath & Lyman, P.C.
111 East Kilbourn Avenue
Suite 1300
Milwaukee, WI 53202

[The Company's Counterpart Signature Page]

IN WITNESS WHEREOF, each of the Parties has caused this Member Admission Agreement to be executed on its behalf by its representatives duly authorized as of the day and year first above written.

MHC:

MINISTRY HEALTH CARE, INC.,
a Wisconsin non-stock corporation

By: ______________________
Nicholas F. Desien
President and CEO

Address for notice purposes:

Ministry Health Care, Inc.
11925 West Lake Park Drive
Suite 100
Milwaukee, WI 53224-3014
Attn: Chief Executive Officer

With a copy to (which will not constitute notice):

Ministry Health Care, Inc.
11925 West Lake Park Drive
Suite 100
Milwaukee, WI 53224-3014
Attn: Ronald E. Mohorek
Senior VP and General Counsel

and an additional copy to (which will not constitute notice):

Paul W. Seidenstricker, Esq.
Hall, Render, Killian Heath & Lyman, P.C.
111 East Kilbourn Avenue
Suite 1300
Milwaukee, WI 53202

[MHC's Counterpart Signature Page]

IN WITNESS WHEREOF, each of the Parties has caused this Member Admission Agreement to be executed on its behalf by its representatives duly authorized as of the day and year first above written.

<u>FHI</u>:

FROEDTERT HEALTH, INC.,
a Wisconsin non-stock corporation

By: Catherine Jacobson
Catherine Jacobson
President and CEO

Address for notice purposes:

Froedtert Health, Inc.
9200 West Wisconsin Ave.
Milwaukee, WI 53226
Attn: General Counsel

With a copy to (which will not constitute notice):

McDermott Will & Emery LLP
333 Avenue of the Americas, Suite 4500
Miami, Florida 33131
Attn: Gary Scott Davis, P.A.

and an additional copy to (which will not constitute notice):

Beck, Chaet, Bamberger & Polsky, S.C.
Two Plaza East
Suite 1085
330 E. Kilbourn Avenue
Milwaukee, WI 53202
Attn: Michael Bamberger, Esq.

APPROVED AS TO FORM
Office of General Counsel
9/30/2014 CMË
Date Initials

[FHI's Counterpart Signature Page]

EXHIBIT A

DEFINITIONS

Capitalized terms used herein are defined in the provisions of the Agreement set forth below:

Index of Terms Defined Elsewhere in this Agreement

Defined Term	*Section*
Agreement	First Paragraph
Business	Recitals
Closing	Section 1.2
Closing Date	Section 1.2
Company	First Paragraph
FHI	First Paragraph
Interim Financial Statements	Section 5.13
MHC	First Paragraph
NHIC	Recitals
NHP	Recitals
OCI	Recitals
Party/Parties	First Paragraph

Restated Organizational Documents	Recitals
Subsidiaries	Recitals

For purposes of this Agreement, the following terms and variations thereof have the meanings specified below:

"ACA" shall mean the Patient Protection and Affordable Care Act, as amended.

"Affiliate" and similar terms have the meaning set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended.

"Business Day" means any day of the year not a Saturday or a Sunday on which national banking institutions in Milwaukee, Wisconsin are open to the public for conducting business and are not required or authorized to close.

"CMS" means the Centers for Medicare & Medicaid Services/U.S. Department of Health and Human Services.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Company Financial Statements" means, collectively, (a) the audited consolidated financial statements of the Company and the Subsidiaries at December 31, 2012, which financial statements consist of a consolidated balance sheet, the related consolidated statement of operations, changes in member's equity and cash flows (and footnotes thereto) and the consolidating schedule; (b) the audited consolidated financial statements of the Company and the Subsidiaries at December 31, 2013, which financial statements consist of a consolidated balance sheet, the related consolidated statement of operations, changes in member's equity and cash flows (and footnotes thereto) and the consolidating schedule (the "2013 Audited Financial Statements"); (c) the unaudited consolidated financial statements of the Company and the Subsidiaries, for the period ending on the last day of the calendar month prior to the execution of this Agreement, which financial statements consist of consolidated balance sheets and the related consolidated income statement; and (d) the final set of Interim Financial Statements delivered prior to the Closing Date pursuant to Section 5.13.

"Company Intellectual Property" means the Intellectual Property and Software used in the conduct of the Business as it is currently conducted.

"Company Material Contract" means contracts to which the Company or a Subsidiary is a party that: (i) have more than a one (1) year term, inclusive of renewal rights; or (ii) involve the payment of more than Two Hundred Fifty Thousand Dollars ($250,000.00).

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and rules and regulations issued thereunder.

"ERISA Affiliate" means any entity that is considered a single employer with the Company or any Subsidiary under Section 414 of the Code.

"Financial Statements" means the Company Financial Statements and the Subsidiary Financial Statements.

"GAAP" means United States generally accepted accounting principles, consistently applied.

"Governmental Authority" means any court, arbitrator, administrative agency or commission, or governmental or quasi-governmental or regulatory official, department, agency, body, authority or instrumentality, including the Wisconsin Health Insurance Exchange, whether foreign or U.S. federal, state or local.

"Governmental Order" means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the regulations promulgated thereunder.

"Income Tax Return" means any Tax Return that is required to be filed with respect to a tax that is based on, or calculated by reference to, net income.

"Intellectual Property" means, collectively, all U.S., state and foreign (a) inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, and all patents ("Patents"); (b) trademarks, service marks, trade names, Internet domain names, designs, logos and slogans, all goodwill associated therewith, and all applications, registrations, and renewals in connection therewith ("Trademarks"); (c) moral rights and copyrights in any work of authorship (including but not limited to databases and software) ("Copyrights"); (d) all trade secrets and confidential or proprietary business information (including, without limitation, confidential ideas, research and development, know-how, methods, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals) ("Trade Secrets"); and (e) all copies and tangible embodiments thereof (in whatever form or medium).

"IP Licenses" means all contracts (excluding off-the-shelf computer programs and the terms of use or service for any web site) pursuant to which the Company or any of the Subsidiaries have acquired rights in (including usage rights) or to any Intellectual Property or Software, or licenses or agreements pursuant to which the Company or any of the Subsidiaries have licensed or transferred the right to use any Intellectual Property or Software.

"Laws" means any federal, state, local or municipal statute, law, ordinance, regulation, rule, code, order, other requirement or rule of law.

"Liability" means any known liability or obligation, whether asserted or unasserted, absolute or contingent, accrued or unaccrued, liquidated or unliquidated and whether due or to become due, regardless of when asserted.

"Lien" means any mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, security interest, lien, charge, encumbrance, lease, covenant, condition, restriction, including a restriction on transfer or assignment, option, right of first refusal or any other preference or priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement having substantially the same effect as any of the foregoing).

"Members Agreement" means that certain Members Agreement between the Company, MHC and FHI in substantially the form attached hereto as Exhibit C.

"Owned Real Property" means all land, together with all buildings, structures, improvements and fixtures located thereon, including all electrical, mechanical, plumbing and other building systems, fire protection, security and surveillance systems, telecommunications, computer, wiring, and cable installations, utility installations, water distribution systems, and landscaping, together with all easements and other rights and interests appurtenant thereto (including air, oil, gas, mineral, and water rights), owned by the Company or the Subsidiaries.

"Permitted Liens" means (a) statutory liens for current Taxes or other governmental charges not yet due and payable or the amount or validity of which is being contested in good faith by appropriate proceedings by the Company or any of the Subsidiaries and for which appropriate reserves have been established in accordance with SAP (with respect to the Subsidiaries) or GAAP (with respect to the Company); (b) mechanics', carriers', workers', repairers' and similar statutory liens arising or incurred in the ordinary course of business; (c) liens arising under worker's compensation, unemployment insurance, social security, retirement and similar legislation; (d) purchase money liens and liens securing rental payments under capital or operating lease arrangements; and (e) informational statements filed under the Uniform Commercial Code with respect to operational leases.

"Person" means any human being, sole proprietorship, general partnership, limited partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, Governmental Authority or other entity.

"Real Property" means the property leased by the Company or the Subsidiaries under the Real Property Leases and the Owned Real Property.

"SAP" means the statutory accounting practices prescribed by Wis. Admin. Code § Ins. 50.20(1)(b) and OCI's prescribed practices with respect to statutory financial statements filed with OCI.

"Software" means all computer programs, including any and all software implementations of algorithms, models and methodologies whether in source code or object code form, databases and compilations, including any and all electronic data and electronic collections of data, all documentation, including user manuals and training materials, related to any of the foregoing and the content and information contained on any web site.

"State Regulatory Filings" means all annual statutory-basis financial statements of the Subsidiaries filed with OCI for the year ended December 31, 2013.

"Subsidiary Financial Statements" means, collectively, (a) the audited financial statements of each Subsidiary at December 31, 2012, which financial statements consist of a balance sheet and the related statement of operations, changes in member's equity and cash flows (and footnotes thereto); (b) the audited financial statements of each Subsidiary at December 31, 2013, which financial statements consist of a balance sheet and the related statement of operations, changes in member's equity and cash flows (and footnotes thereto); (c) the financial statements of each Subsidiary required to be filed with the OCI during 2012 and 2013; (d) the unaudited financial statements of each Subsidiary, for the period ending on the last day of the calendar month prior to the execution of this Agreement, which financial statements consist of a balance sheet and the related income statement; and (e) the final set of Interim Financial Statements delivered prior to the Closing Date pursuant to Section 5.14.

"Taxes" means all federal, provincial, territorial, state, municipal, local, domestic, foreign or other taxes, imposts, rates, levies, assessments and other charges including, without limitation, ad valorem, capital, capital stock, customs and import duties, disability, documentary stamp, escheat and unclaimed property, employment, estimated, excise, fees, franchise, gains, goods and services, gross income, gross receipts, income, intangible, inventory, license, mortgage recording, net income, occupation, payroll, personal property, premiums, production, profits, property, real property, recording, rent, sales, severance, sewer, social security, stamp, transfer, transfer gains, unemployment, use, value added, water, windfall profits, and withholding, together with any interest, additions, fines or penalties with respect thereto or in respect of any failure to comply with any requirement regarding Tax Returns and any interest in respect of such additions, fines or penalties and shall include any transferee Liability in respect of any and all of the above.

"Tax Return" means any declaration, estimate, return, report, information statement, schedule or other document (including any related or supporting information) with respect to Taxes that is required to be filed with any Governmental Authority, including any schedule or attachment thereto, and any amendment thereof.

EXHIBIT B

EXHIBIT C

EXHIBIT D

EXHIBIT E

ATTACHMENT 4

RESPONSE TO QUESTION 4
MEMBERS AGREEMENT

A non-redacted version of the final Members Agreement has been provided to the Office under separate cover.

MEMBERS AGREEMENT

by and among

NETWORK HEALTH, INC. (f/k/a Ministry Holdings, Inc.)

and its members

MINISTRY HEALTH CARE, INC.

and

FROEDTERT HEALTH, INC.

Dated as of [__________], 2014

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MEMBERS AGREEMENT

This **MEMBERS AGREEMENT** ("Agreement") is entered into as of [__________], 2014 ("Effective Date"), by and among Network Health, Inc. (f/k/a Ministry Holdings, Inc.), a Wisconsin non-stock corporation (the "Company"), Ministry Health Care, Inc., a Wisconsin non-stock corporation ("MHC") and Froedtert Health, Inc., a Wisconsin non-stock corporation ("FHI", and together with MHC, the "Members" and each individually a "Member"). The Company, MHC and FHI are sometimes referred to herein individually as a "Party" and together as the "Parties."

RECITALS:

WHEREAS, the Parties have entered into a Member Admission Agreement dated June 30, 2014 (the "Member Admission Agreement"), pursuant to which FHI has been admitted as a member of the Company as of the date hereof;

WHEREAS, MHC and FHI are the only members of the Company;

WHEREAS, the Company is a holding company that operates insurance companies through its wholly controlled subsidiaries, which are as follows: (a) Network Health Plan, an insurance corporation organized under Chapter 611 of Wisconsin Statutes ("NHP") that is authorized to do business in Wisconsin and owns and operates a health maintenance organization, and (b) Network Health Insurance Corporation, a service insurance corporation organized under Chapter 613 of Wisconsin Statutes ("NHIC", and together with NHP, the "Subsidiaries" and each a "Subsidiary") that is authorized to do business in Wisconsin and engages in the business of health insurance (each of the businesses described above are collectively referred to herein as the "Business"); and

WHEREAS, the Parties wish to enter into this Members Agreement to govern certain affairs of the Company and to set forth certain rights and obligations of the Members.

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

ARTICLE I
DEFINITIONS

For the purposes of this Agreement, the following terms not otherwise defined herein shall have the following meanings:

"Applicable Rate" means an annual rate of interest equal to the three (3) month London Interbank Offered Rate plus 2%.

An "Affiliate" of a specified Person shall mean a Person which, directly or indirectly, through one or more intermediaries, Controls, or is Controlled by, or is under common Control with, the Person specified and, when used with respect to the Company or the Subsidiaries, shall include any holder of membership rights or capital stock, such Person's parent entity and any officer or director of the Company and the Subsidiaries.

"Board" means the Board of Directors of the Company.

"Business Day" means any day, other than a Saturday, Sunday or legal holiday, on which banks in Milwaukee, Wisconsin are permitted to be open for business.

"CMS" means the Centers for Medicare & Medicaid Services, U.S. Department of Health and Human Services.

"Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of membership rights or other securities, by contract or otherwise.

"Director" means any member of the Board of Directors of the Company.

"Membership Rights" means the membership rights of a Member in the Company pursuant to applicable law and the Organizational Documents, each as may be amended from time to time.

"OCI" means the Office of the Commissioner of Insurance for the State of Wisconsin.

"Organizational Documents" means the Articles of Incorporation and the Bylaws of the Company, as each may be amended from time to time.

"Person" means an individual, corporation, partnership, limited liability company, trust, unincorporated association, government or any agency or political subdivision thereof, or any other entity.

"Sale of the Company" means the sale (in a single transaction or a series of related transactions) of the Company (or the Subsidiaries) to any independent third party.

"Transfer" means to transfer, sell, assign, pledge, hypothecate, give, grant or create a security interest in or lien on, place in trust (voting or otherwise), assign an interest in or in any other way encumber or dispose of, directly or indirectly and whether or not by operation of law or for value, any Membership Rights.

ARTICLE II

ARTICLE III
RESTRICTIONS ON TRANSFER

Except as set forth in this Article III, no Member shall Transfer its Membership Rights. To the fullest extent permitted by law, no Transfer of or attempt to Transfer any Membership Rights in violation of the preceding sentence shall be effective or valid for any purpose. No Member shall grant any proxy or enter into or agree to be bound by any voting trust with respect to its Membership Rights nor shall any Member enter into any agreements or arrangements of any kind with any Person with respect to its Membership Rights on terms that conflict with the provisions of this Agreement.

ARTICLE IV

ARTICLE V

ARTICLE VI
DEADLOCK RESOLUTION

Section 6.1 **Dispute Resolution**. Anything to the contrary contained herein notwithstanding, all disputes arising out of or relating to this Agreement shall be resolved in accordance with the procedures set forth in this Section. To the extent a dispute arises under this Agreement, the matter shall be submitted to the highest ranking executive officer of each Party who shall meet to attempt in good faith to resolve the dispute. If after thirty (30) days, the matter has not been resolved by the highest ranking executive officers of the Parties, at the request of any Party, the matter will be submitted to mediation by a mediator mutually acceptable to the Parties. Each Party will designate one or more representatives to participate in the mediation on behalf of such Party who will have the authority to accept a resolution of the dispute on behalf of such Party. If, and only if, the dispute is not resolved by mediation, either Party may file suit in a court of competent jurisdiction to obtain a judicial determination or adjudication of the dispute, which may include specific performance, declaratory relief, or any other remedies available under the agreement, at law or in equity.

Section 6.2 **Operations during a Deadlock**. With respect to any Deadlock, the Chief Executive Officer of the Company shall continue to direct, and make decisions with respect to, the strategic direction and operations of the Company and the Subsidiaries, as applicable, consistent with his or her authority, past practice and the annual budget, and any action taken by or at the direction of the Chief Executive Officer pursuant to the foregoing sentence shall be binding on the Company and the Subsidiaries, as applicable; provided, however, that the Chief Executive Officer shall not take any action reserved for the Members pursuant to the Organizational Documents without the joint consent of the Members or requiring approval of the Board pursuant to the Organizational Documents or applicable law without the consent of the Board.

ARTICLE VII
MISCELLANEOUS PROVISIONS

Section 7.2 **Entire Agreement; Amendment**.

(a) This Agreement sets forth the entire agreement and understanding of the Parties with respect to the matters set forth herein and supersedes any and all prior agreements, arrangements and understandings among the Parties with respect hereto.

(b) No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the Company, FHI and MHC.

Section 7.3 **<u>Severability</u>**.

If any provision of this Agreement shall be held invalid, illegal or unenforceable, the validity, legality or enforceability of the other provisions hereof shall not be affected thereby, and there shall be deemed substituted for the provision at issue a valid, legal and enforceable provision as similar as possible to the provision at issue.

Section 7.4 **<u>Notices</u>**.

Any notice, request, instruction or other document to be given hereunder by a Party shall be in writing and shall be deemed to have been given, (a) when received if given in person or by courier or a courier service, (b) when sent by facsimile, on the date of transmission, or (c) on the immediately following Business Day after deposit with a nationally recognized overnight carrier; in each case if addressed or directed to a Party in accordance with the contact information included on the signature pages to this Agreement, or to such other address as a Party may designate for itself by notice given to the other Parties as herein provided.

Section 7.5 **<u>Binding Effect; Assignment</u>.**

This Agreement shall be binding upon and inure to the benefit of the Parties hereto and to their respective transferees, successors, assigns, heirs and administrators; <u>provided</u> that the rights under this Agreement may not be assigned except as expressly provided herein. No such assignment shall relieve an assignor of its obligations hereunder.

Section 7.6 **<u>Action Necessary to Effectuate the Agreement</u>**.

The Parties agree to take or cause to be taken all such corporate and other action as may be necessary to effect the intent and purposes of this Agreement.

Section 7.7 **<u>No Waiver</u>**.

No course of dealing and no delay on the part of any Party hereto in exercising any right, power or remedy conferred by this Agreement shall operate as waiver thereof or otherwise prejudice such Party's rights, powers and remedies. No single or partial exercise of any rights, powers or remedies conferred by this Agreement shall preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

Section 7.8 **Counterparts**.

This Agreement may be executed by electronic transmission (i.e., facsimile or electronically transmitted portable document format (PDF)) and in counterparts, any one of which need not contain the signatures of more than one Party, but all such counterparts taken together shall constitute one and the same instrument.

Section 7.9 **Interpretation**.

All headings and captions in this Agreement are for purposes of references only and shall not be construed to limit or affect the substance of this Agreement. Words used in this Agreement, regardless of the gender and number used, will be deemed and construed to include any other gender, masculine, feminine, or neuter, and any other number, singular or plural, as the context requires. As used in this Agreement, the word "including" is not limiting, and the word "or" is not exclusive. The words "this Agreement," "hereto," "herein," "hereunder," "hereof," and words or phrases of similar import refer to this Agreement as a whole and not to any particular article, section, subsection, paragraph, clause or other portion of this Agreement. Any reference to an agreement herein shall mean such agreement as amended from to time to time in accordance with its terms.

Section 7.10 **Governing Law; No Jury Trial; Jurisdiction**.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin, without regard to the principles of conflicts of laws.

(b) TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE PARTIES HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

(c) EACH OF THE PARTIES AGREE THAT ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT BETWEEN OR AMONG SUCH PARTIES, SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF WISCONSIN LOCATED IN THE CITY OF MILWAUKEE, OR IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF WISCONSIN. EACH OF THE PARTIES HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF WISCONSIN LOCATED IN THE CITY OF MILWAUKEE, AND OF THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF WISCONSIN. EACH OF THE PARTIES HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

Section 7.11 **Joint Drafting**.

Each of the Parties has jointly participated in the negotiation and drafting of this Agreement. In the event of any ambiguity or if a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by each of the Parties and no presumptions or burdens of proof shall arise favoring any Party by virtue of the authorship of any of the provisions of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date.

The Company:

NETWORK HEALTH, INC. (f/k/a Ministry Holdings, Inc.),
a Wisconsin non-stock corporation

By: ______________________________
Sheila Jenkins
President and CEO

Address for notice purposes:

Network Health, Inc.
1570 Midway Place
Menasha, WI 54952
Attn: President & CDO

With a copy to each of MHC and FHI (which will not constitute notice).

<u>MHC:</u>

MINISTRY HEALTH CARE, INC.,
a Wisconsin non-stock corporation

By: ______________________________
Nicholas F. Desien
President and CEO

Address for notice purposes:

Ministry Health Care, Inc.
11925 West Lake Park Drive
Suite 100
Milwaukee, WI 53224-3014
Attn: Chief Executive Officer

With a copy to (which will not constitute notice):

Ministry Health Care, Inc.
11925 West Lake Park Drive
Suite 100
Milwaukee, WI 53224-3014
Attn: Ronald E. Mohorek
Senior VP and General Counsel

and an additional copy to (which will not constitute notice):

Paul W. Seidenstricker, Esq.
Hall, Render, Killian, Heath & Lyman, P.C.
111 East Kilbourn Avenue
Suite 1300
Milwaukee, WI 53202

<u>FHI:</u>

FROEDTERT HEALTH, INC.,
a Wisconsin non-stock corporation

By: ______________________________
Catherine Jacobson
President and CEO

Address for notice purposes:

Froedtert Health, Inc.
9200 West Wisconsin Ave.
Milwaukee, WI 53226
Attn: General Counsel

With a copy to (which will not constitute notice):

McDermott Will & Emery LLP
333 Avenue of the Americas, Suite 4500
Miami, Florida 33131
Attn: Gary Scott Davis, P.A.

and an additional copy to (which will not constitute notice):

Beck, Chaet, Bamberger & Polsky, S.C.
Two Plaza East
Suite 1085
330 E. Kilbourn Avenue
Milwaukee, WI 53202
Attn: Michael Bamberger, Esq.

ATTACHMENT 5(a)

RESPONSE TO QUESTION 5(a)
FINANCIAL STATEMENTS FOR FHI AND AFFILIATES FOR THE FISCAL YEAR ENDING JUNE 30, 2014

See Attached.

KPMG

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Financial Statements and Schedules

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

FROEDTERT HEALTH, INC. AND AFFILIATES

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KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

Independent Auditors' Report

The Board of Directors
Froedtert Health, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Froedtert Health, Inc. and Affiliates, which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Froedtert Health, Inc. and Affiliates as of June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matter

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

KPMG LLP

Milwaukee, Wisconsin
September 17, 2014

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Balance Sheets

June 30, 2014 and 2013

(In thousands)

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	111,301	105,744
Assets whose use is limited		694	1,383
Patient accounts receivable, net of estimated uncollectibles of approximately $44,100 in 2014 and $45,500 in 2013		177,474	183,605
Other receivables		11,189	10,710
Inventories		22,457	21,587
Collateral held for securities loaned		335,433	266,846
Prepaids and other		9,574	8,748
Total current assets		668,122	598,623
Investments		1,148,198	1,004,670
Assets whose use is limited or restricted		134,551	158,498
Investments in unconsolidated affiliates		45,275	41,488
Property, plant, and equipment, net		733,598	641,104
Deferred financing costs and other assets, net		27,057	32,355
Total assets	$	2,756,801	2,476,738
Liabilities and Net Assets			
Current liabilities:			
Current installments of long-term debt	$	9,533	9,655
Accounts payable		34,274	26,578
Accrued expenses		170,423	170,455
Payable under securities lending agreement		335,433	266,846
Estimated settlements to third-party payors		12,123	6,202
Total current liabilities		561,786	479,736
Long-term debt, less current installments		570,460	580,500
Other long-term liabilities		73,878	75,751
Total liabilities		1,206,124	1,135,987
Net assets:			
Unrestricted		1,535,923	1,328,209
Noncontrolling interest in consolidated joint ventures		2,243	2,267
Total unrestricted		1,538,166	1,330,476
Temporarily restricted		12,143	9,907
Permanently restricted		368	368
Total net assets		1,550,677	1,340,751
Total liabilities and net assets	$	2,756,801	2,476,738

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Net patient service revenue:			
Net patient service revenue before provision for bad debts	$	1,661,856	1,501,898
Provision for bad debts		73,390	76,156
Net patient service revenue		1,588,466	1,425,742
Other operating revenue		66,681	73,464
Total revenue		1,655,147	1,499,206
Expenses:			
Salaries		588,077	512,648
Fringe benefits		145,833	128,871
Supplies		316,443	276,288
Contract services		135,323	129,412
Affiliate support		84,769	70,451
Depreciation and amortization		72,894	59,962
Interest		23,171	22,176
Other		204,896	215,006
Total expenses		1,571,406	1,414,814
Operating revenue in excess of expenses		83,741	84,392
Nonoperating gains (losses):			
Investment income		59,469	39,817
Change in net unrealized gains on trading securities		67,989	42,081
Change in fair value of interest rate swaps		(513)	17,025
Loss on early extinguishment of debt		—	(3,640)
Loss on disposal of property, plant, and equipment		(370)	(412)
Total nonoperating gains (losses), net		126,575	94,871
Revenue and gains in excess of expenses and losses		210,316	179,263
Other changes in unrestricted net assets:			
Change in net unrealized gains (losses) on other-than-trading securities		(205)	(1,218)
Contributions and net assets released from restrictions for property, plant, and equipment		2,152	3,457
Change in accrued pension benefits other than net periodic benefit costs		(5,253)	26,372
Other		680	308
Increase in unrestricted net assets		207,690	208,182
Unrestricted net assets at beginning of year		1,330,476	1,122,294
Unrestricted net assets at end of year	$	1,538,166	1,330,476

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2014 and 2013

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance, June 30, 2012	$ 1,122,294	10,948	368	1,133,610
Revenue and gains in excess of expenses and losses	179,263	—	—	179,263
Change in net unrealized gains (losses) on investments	—	307	—	307
Change in net unrealized gains (losses) on other-than-trading securities	(1,218)	—	—	(1,218)
Restricted contributions	—	2,294	—	2,294
Restricted investment return	—	323	—	323
Net assets released from restrictions for operations	—	(544)	—	(544)
Contributions and net assets released from restrictions for property, plant, and equipment	3,457	(3,457)	—	—
Change in accrued pension benefits other than net periodic benefit costs	26,372	—	—	26,372
Other	308	36	—	344
Increase (decrease) in net assets	208,182	(1,041)	—	207,141
Balance, June 30, 2013	1,330,476	9,907	368	1,340,751
Revenue and gains in excess of expenses and losses	210,316	—	—	210,316
Change in net unrealized gains (losses) on investments	—	422	—	422
Change in net unrealized gains (losses) on other-than-trading securities	(205)	—	—	(205)
Restricted contributions	—	4,128	—	4,128
Restricted investment return	—	412	—	412
Net assets released from restrictions for operations	—	(581)	—	(581)
Contributions and net assets released from restrictions for property, plant, and equipment	2,152	(2,152)	—	—
Change in accrued pension benefits other than net periodic benefit costs	(5,253)	—	—	(5,253)
Other	680	7	—	687
Increase in net assets	207,690	2,236	—	209,926
Balance, June 30, 2014	$ 1,538,166	12,143	368	1,550,677

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	209,926	207,141
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		72,894	59,962
Provision for bad debts		73,390	76,156
Loss on disposal of property, plant, and equipment		370	412
Loss on early extinguishment of debt		—	3,640
Income from equity interest in unconsolidated affiliates, net		(3,787)	(2,116)
Restricted contributions and investment return		(4,962)	(2,924)
Net assets released from restrictions for operations		581	544
Realized and unrealized gains and losses on unrestricted investments, net		(102,531)	(55,965)
Change in fair value of interest rate swap agreements		513	(17,025)
Change in accrued pension benefits other than net periodic benefit costs		5,253	(26,372)
Changes in assets and liabilities:			
Patient accounts receivable		(67,259)	(82,774)
Estimated settlements to third-party payors		5,921	291
Accounts payable and accrued expenses		7,664	32,070
Other receivables		(479)	10,183
Inventories		(870)	(1,837)
Other assets and liabilities		(3,473)	7,003
Net cash provided by operating activities		193,151	208,389
Cash flows from investing activities:			
Net additions to property, plant, and equipment		(165,875)	(126,678)
Proceeds from sales of property, plant, and equipment		51	221
Purchases of investments and assets whose use is limited or restricted		(892,232)	(440,751)
Proceeds from sales or maturities of investments and assets whose use is limited or restricted		875,871	286,251
Additional capital contributions in unconsolidated affiliates		—	(9,619)
Net cash used in investing activities		(182,185)	(290,576)
Cash flows from financing activities:			
Repayments of long-term debt		(189,590)	(67,198)
Payments for deferred financing costs		(295)	(1,690)
Proceeds from issuance of long-term debt, net of bond premium		180,095	167,195
Restricted contributions and investment return		4,962	2,924
Net assets released from restrictions for operations		(581)	(544)
Net cash (used in) provided by financing activities		(5,409)	100,687
Net change in cash and cash equivalents		5,557	18,500
Cash and cash equivalents:			
Beginning of year		105,744	87,244
End of year	$	111,301	105,744

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Froedtert Health, Inc. (FH) is a nonstock, not-for-profit corporation organized to support and carry out the missions of Froedtert Memorial Lutheran Hospital, Inc. (FMLH); Community Memorial Hospital of Menomonee Falls, Inc. (CMH); St. Joseph's Community Hospital of West Bend, Inc. (SJCH); Froedtert & The Medical College of Wisconsin Community Physicians (CP); and Progressive Physician Network, Inc. (PPN). FH is the sole corporate member of FMLH, CMH, SJCH, and PPN.

FMLH owns and operates an acute care hospital with 655 approved beds (of which 516 are currently staffed), clinics, and related operations in Wauwatosa, Wisconsin. FMLH is the sole corporate member of Froedtert Hospital Foundation, Inc. (Froedtert Foundation), which is a supporting organization of FMLH. The purpose of Froedtert Foundation is to raise money and to accept contributions for the purpose of developing philanthropic support for FMLH. Froedtert Foundation solicits, allocates, and dispenses funds exclusively for the maintenance, benefit, and support of FMLH programs, services, education, and capital improvements in accordance with priorities set by the Froedtert Foundation's board of directors and donor restrictions. Froedtert Surgery Center, LLC (FSC) is a Wisconsin limited liability company created as a joint venture among FMLH, The Medical College of Wisconsin (MCW), and Advanced Healthcare S.C. (Advanced) to provide ambulatory surgery services. FMLH has a 50% ownership in FSC.

CMH owns and operates an acute care hospital with 235 approved beds (of which 202 are currently staffed) in Menomonee Falls, Wisconsin. Community Memorial Foundation of Menomonee Falls, Inc. (Community Memorial Foundation) is a separate Wisconsin not-for-profit corporation whose primary purpose is to raise money and to accept contributions for the purpose of developing philanthropic support for CMH. Community Memorial Foundation solicits, allocates, and dispenses funds for the maintenance, benefit, and support of CMH programs, services, education, and capital improvements in accordance with priorities set by the Community Memorial Foundation's board of directors and donor restrictions. CMH is also the sole corporate member of Community Outpatient Health Services of Menomonee Falls, Inc. (COHS). COHS is a primary care clinic for the indigent.

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

West Bend Clinic (WBC) operated multispecialty clinics and an ambulatory surgery center in West Bend, Wisconsin, and other satellite clinics in surrounding communities. Effective July 1, 2013, WBC was dissolved, merged its assets and liabilities into CP and was removed as a member of the Obligated Group. CP, formerly known as Froedtert Physician Partners, Inc. (FPP), is a joint clinical practice group between FH and MCW designed to provide clinical integration and coordinated patient care at community clinics. FH and MCW are the corporate members of CP.

(Continued)

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

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

The accompanying consolidated financial statements include the accounts of FH, FMLH, Froedtert Foundation, FSC, CMH, Community Memorial Foundation, COHS, SJCH, St. Joseph's Foundation, WBSC, CP, PPN, FHHP, Sussex, and Kewaskum.

At June 30, 2014, FH, FMLH, Froedtert Foundation, CMH, Community Memorial Foundation, SJCH, and St. Joseph's Foundation are members of the obligated group (Obligated Group) for the purposes of the issuance of bonds through the Wisconsin Health and Educational Facilities Authority (WHEFA) (note 6). The Obligated Group consisted only of the members mentioned above and excludes FSC, COHS, WBSC, PPN, CP, FHHP, Sussex, and Kewaskum. Total combined assets of FSC, COHS, WBSC, PPN, CP, FHHP, Sussex, and Kewaskum, which are not members of the Obligated Group, were $86,526 at June 30, 2014. Total combined net assets of the same entities were $53,377 at June 30, 2014 and total combined revenue and gains in excess of expenses and losses were $1,150 for the year ended June 30, 2014.

The significant accounting policies of FH are as follows:

(a) Principles of Consolidation

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

(b) Net Assets

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

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

Interpretation of Relevant Law Governing Endowments

FH applies the provisions of Accounting Standards Codification (ASC) No. 958-205, *Not-for-Profit Entities Presentation of Financial Statements*. ASC 958-205 provides guidance on the net asset classification of donor restricted endowment funds for not-for-profit organizations and requires additional disclosure about endowment funds.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) legislation eliminates the historical dollar value threshold, an amount below which an organization could not spend from the endowment, and replaces it with guidelines that constitute prudent spending with preservation of the endowment. UPMIFA requires the establishment of a spending policy, which may result in the value of the endowment dropping below the historical dollar value threshold.

Froedtert Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Investment returns in excess of spending are classified as increases in temporarily restricted net assets until appropriated for expenditure by Froedtert Foundation.

Endowment Spending Policy

Froedtert Foundation has a policy of appropriating for distribution each year, a percentage as determined periodically by the Froedtert Foundation board of the average fair market value of the assets of the endowment as of June 30 of the preceding 12 quarters. Over the duration of the investments, the Froedtert Foundation anticipates that when offset against inflationary factors, this policy will maintain the purchasing power of the endowment assets that are required to be held in perpetuity, as well as to provide additional purchasing power through new contributions and investment returns.

(Continued)

Endowment Investment Policy

Froedtert Foundation attempts to provide a predictable stream of funding to support its endowments while seeking to maintain the purchasing power of the endowment assets. The endowment's assets are commingled with the investment assets of the Froedtert Foundation and for investment purposes are invested in a manner determined by the FH Investment Committee and in accordance with the FH investment policy. In order to satisfy the long-term rate of return of the investment policy and objectives, FH relies on a total return strategy in which investment returns are achieved through both realized and unrealized gains and losses and interest and dividend income.

(c) ***Assets Whose Use Is Limited or Restricted***

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

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

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

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

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

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

Investments, including assets whose use is limited or restricted, with readily determinable fair values, are stated at fair value generally based upon quoted market prices. Money market accounts and fixed income securities with a maturity of three months or less are included in cash and cash equivalents on the consolidated balance sheet. Fixed income securities purchased with a maturity greater than three months but less than twelve months are included in investments on the consolidated balance sheet. 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 in the consolidated statements of operations. Realized gains and losses, unrealized gains and losses on trading securities, and interest and dividends on long-term investments are classified as nonoperating gains and losses in the consolidated statements of operations. Unrealized gains and losses are included in revenue and gains in excess of expenses and losses as management considers all investments to be trading securities, other than investments held in certain project funds, which are considered other-than-trading securities.

FH invests in various investment securities including U.S. government securities, marketable equity securities, fixed income securities, money market funds, mutual funds and an alternative investment. The alternative investment is comprised of a commingled low volatility equity fund (Fund) organized as a limited liability corporation. The Fund 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. Fund redemptions can be made on any business day with 30 calendar days' prior written notice.

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

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

(g) Inventories

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

(h) Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Buildings and equipment under capital leases are recorded at the net present value of future minimum lease payments. Equipment under capital leases and leasehold improvements are amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment or leasehold improvements.

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.

(Continued)

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

FH periodically assesses the recoverability of long-lived assets (including property, plant, and equipment) when indications of potential impairment, based on estimated, undiscounted future cash flows exist. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining whether there is an impairment of the asset. FH does not believe that there are any factors or circumstances indicating impairment of its long-lived assets for the years ended June 30, 2014 and 2013.

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

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

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

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

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

(l) ***Income Taxes***

FH and its affiliates, except FSC, WBSC, PPN, FHHP, Sussex, and Kewaskum 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. FSC, WBSC, FHHP, Sussex, and Kewaskum are limited liability companies and are treated as partnerships for income tax purposes. Income and losses are passed through to their members. PPN is a nonstock corporation and earnings are subject to income tax.

FH applies ASC No. 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC No. 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 No. 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, 2014 and 2013, FH does not have an asset or liability recorded for unrecognized tax positions.

(Continued)

(m) Derivative Instruments

FH accounts for derivatives and hedging activities in accordance with ASC No. 815, *Derivatives and Hedging*, which requires that all derivatives instruments be recorded as either assets or liabilities in the consolidated balance sheet at their respective fair values.

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

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

(n) Use of Estimates

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

(o) Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 consolidated financial statement presentation.

(2) Fair Value Measurements

FH applies the provisions of Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends ASC Subtopic No. 820-10, *Fair Value Measurement – Overall*, to provide additional disclosure requirements for transfers into and out of Levels 1 and 2 and for activity in Level 3 and to clarify other existing disclosure requirements.

ASC Subtopic No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. These provisions describe a fair value hierarchy that includes three levels of inputs to be used to measure fair value. The three levels are defined as follows as interpreted for use by FH:

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

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

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

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, patient and other receivables, accounts payable, accrued expenses, and estimated settlements to third-party payors.
- Assets limited as to use, collateral held for securities loaned, and long term investments: U.S. government securities, marketable equity securities, fixed income securities, money market funds, and mutual funds are measured using quoted market prices; other observable inputs such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets at the reporting date multiplied by the quantity held. The carrying value equals fair value.
- Alternative investments are reported at the NAV reported by the Fund manager. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, FH has concluded, as a practical expedient, that the NAV approximates fair value.
- Interest rate swaps: The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and FH. The carrying value equals fair value.
- Fair value of total long-term debt was $590,064 and $582,307 at June 30, 2014 and 2013, respectively, and is based upon borrowing rates currently available to FH for similar terms and average maturities.

(Continued)

(Dollars in thousands)

The following table represents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2014:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 111,301	111,301	—	—
Collateral held for securities loaned	335,433	—	335,433	—
Investments, excluding interest receivable of $2,783:				
U.S. government securities	240,800	—	240,800	—
Marketable equity securities	521,236	521,236	—	—
Fixed income securities	152,002	—	152,002	—
Money market funds and mutual funds	196,060	196,060	—	—
Alternative investment:				
Low volatility equity fund	35,317	—	35,317	—
Assets whose use is limited or restricted, excluding interest receivable of $34 and pledges receivable of $869:				
Cash and cash equivalents	16,854	16,854	—	—
U.S. government securities	4,722	—	4,722	—
Marketable equity securities	17,084	17,084	—	—
Fixed income securities	76,680	—	76,680	—
Money market funds and mutual funds	16,226	16,226	—	—
Alternative investment:				
Low volatility equity fund	691	—	691	—
Other	2,085	—	1,226	859
Total assets	$ 1,726,491	878,761	846,871	859
Liabilities:				
Payable under securities lending agreement	$ 335,433	—	335,433	—
Interest rate swap agreements	26,562	—	26,562	—
Total liabilities	$ 361,995	—	361,995	—

(Continued)

(Dollars in thousands)

The low volatility equity fund's classification as Level 2 is based on FH's ability to redeem its interest at or near the date of the consolidated balance sheet.

The following table represents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2013:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 105,744	105,744	—	—
Collateral held for securities loaned	266,846	—	266,846	—
Investments, excluding interest receivable of $3,107:				
U.S. government securities	252,288	—	252,288	—
Marketable equity securities	413,434	413,434	—	—
Fixed income securities	225,364	—	225,364	—
Money market funds and mutual funds	110,477	110,477	—	—
Assets whose use is limited or restricted, excluding interest receivable of $75 and pledges receivable of $441:				
Cash and cash equivalents	8,314	8,314	—	—
U.S. government securities	5,866	—	5,866	—
Marketable equity securities	16,266	16,266	—	—
Fixed income securities	116,099	—	116,099	—
Money market funds and mutual funds	11,813	11,813	—	—
Other	1,007	—	272	735
Total assets	$ 1,533,518	666,048	866,735	735
Liabilities:				
Payable under securities lending agreement	$ 266,846	—	266,846	—
Interest rate swap agreements	26,049	—	26,049	—
Total liabilities	$ 292,895	—	292,895	—

(Continued)

(Dollars in thousands)

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

	2014	2013
Fair value at beginning of year	$ 735	1,191
Gains (losses) and investment income, net	124	(133)
Purchases, issuances, and write-offs, net	—	(323)
Fair value at end of year	$ 859	735

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. FH evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the year ended June 30, 2014, there were no significant transfers in or out of Levels 1, 2, or 3.

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

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

	June 30	
	2014	2013
At fair value:		
U.S. government securities	$ 240,800	252,288
Marketable equity securities	521,236	413,434
Fixed income securities	152,002	225,364
Money market funds and mutual funds	196,060	110,477
Alternative investment:		
Low volatility equity fund	35,317	—
Total investments at fair value	1,145,415	1,001,563
At cost:		
Interest receivable	2,783	3,107
Total investments	$ 1,148,198	1,004,670

(Dollars in thousands)

	June 30 2014	June 30 2013
At fair value:		
Cash and cash equivalents	$ 16,854	8,314
U.S. government securities	4,722	5,866
Marketable equity securities	17,084	16,266
Fixed income securities	76,680	116,099
Money market funds and mutual funds	16,226	11,813
Alternative investment:		
Low volatility equity fund	691	—
Other	2,085	1,007
Total assets whose use is limited at fair value	134,342	159,365
At cost:		
Interest receivable	34	75
Pledges receivable	869	441
Total assets whose use is limited or restricted	$ 135,245	159,881

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

	June 30 2014	June 30 2013
Assets whose use is limited or restricted		
Under debt agreements (note 6)	$ 84,364	112,453
Swap collateral (note 7)	1,039	98
By management:		
For executive compensation agreements	19,947	15,995
For program development and physician recruitment	5,889	10,000
For other	10,802	9,677
By donors	12,511	10,275
Other	693	1,383
Total assets whose use is limited or restricted	$ 135,245	159,881

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

(Continued)

(Dollars in thousands)

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

	Year ended June 30	
	2014	**2013**
Interest and dividends on investments	$ 26,988	26,978
Net realized gains and losses on sale of investments	34,747	15,102
Change in net unrealized gains and losses on investments	68,206	41,170
Total investment return	$ 129,941	83,250

Investment returns are included in the accompanying consolidated statements of operation and changes in net assets for the years ended June 30, 2014 and 2013:

	Year ended June 30	
	2014	**2013**
Other operating revenue:		
Interest and dividend income	$ 864	1,019
Net realized gains and losses	—	(17)
Nonoperating gains and losses – investment income	59,469	39,817
Nonoperating gains and losses – change in unrealized gains and losses on investments	67,989	42,081
Other changes in unrestricted net assets – change in net unrealized gains and losses on investments	(205)	(1,218)
Other changes in temporarily restricted investments:		
Restricted investment income	412	323
Change in net unrealized gains and losses on investments	422	307
Interest earnings offset against capitalized interest cost	990	938
Total investment return	$ 129,941	83,250

FH has a securities lending agreement with a financial institution whereby fixed income and equity securities are loaned to third parties in exchange for cash collateral that exceeds the market value of the securities loaned. Collateral is marked to market daily to reflect changes in fair value of the securities loaned. The fair market value of the securities loaned under this arrangement was $328,753 and $260,105 at June 30, 2014 and 2013, respectively. The fair market value of the collateral received under this arrangement was $335,433 and $266,846 at June 30, 2014 and 2013, respectively. The collateral held is comprised of cash and cash equivalents, U.S. government securities, and fixed income securities. Under the terms of the securities lending agreement, FH is not entitled to the unrealized gains on the invested collateral and as such has not recognized the unrealized gains in the accompanying consolidated financial statements. The change in unrealized gains and losses on the invested collateral was $0 for the years ended June 30, 2014 and 2013. The fair value of collateral was 102.0% and 102.6% of the fair value of securities loaned at June 30, 2014 and 2013, respectively.

(Continued)

(Dollars in thousands)

(4) Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows:

		June 30	
		2014	2013
Land and land improvements	$	16,162	16,023
Leasehold improvements		114,325	86,850
Buildings		592,349	548,561
Fixed equipment		126,422	119,777
Movable equipment		474,265	407,150
Construction in progress		59,591	47,582
Total property, plant, and equipment		1,383,114	1,225,943
Less accumulated depreciation and amortization		649,516	584,839
Property, plant, and equipment, net	$	733,598	641,104

Construction in progress at June 30, 2014 and 2013 primarily relates to the FMLH Center for Advanced Care scheduled to open in the fall of 2015, which will include surgical, interventional, heart, vascular and transplant services. Various software and other renovation projects and equipment at the hospital and clinic campuses are also included in construction in progress at both June 30, 2014 and 2013. Contractually committed costs for renovation and software projects totaled $103,807 at June 30, 2014. During the year ended June 30, 2014, FH capitalized $4,514 of net interest cost, which is comprised of $5,504 of interest cost less $990 of interest earned on unexpended bond proceeds. During the year ended June 30, 2013, FH capitalized $3,161 of net interest cost, which is comprised of $4,099 of interest cost less $938 of interest earned on unexpended bond proceeds.

(5) Land Lease Agreement

In 1980, FMLH entered into a land lease agreement with Milwaukee County to lease the land on which the hospital resides. The lease terms are for FMLH to pay one dollar annually through 2030, and a mutually agreed-upon amount in years 2031 through 2079. If the parties cannot mutually agree upon an amount, the annual rent will be determined as fair market value of the leased land times 10%. In December 1995, FMLH purchased certain assets of John L. Doyne Hospital (Doyne). As part of the purchase, FMLH entered into an amendment to the original land lease agreement to include the land previously used by Doyne. The lease payments on the new land lease are calculated as one dollar plus 5.25% of FMLH's annual operating cash flow, as defined in the agreement, for each of the years through 2020 and one dollar annually in years 2021 to 2079. The lease agreements are accounted for as operating leases. Lease expense has been recognized in accordance with the terms of the lease agreements amounting to $7,037 and $10,771 for the years ended June 30, 2014 and 2013, respectively. Cumulative amounts recognized under the lease agreements since the leases' inception in 1995 approximate $85,406 through June 30, 2014. Payments under the lease agreements are made in the year subsequent to the year in which they relate.

(Continued)

(Dollars in thousands)

(6) Long-Term Debt

Long-term debt is summarized as follows:

		June 30	
		2014	**2013**
Revenue bonds, Series 2005A – due in 2015 (effective rate of 5.35% for both years ended June 30, 2014 and 2013)	$	424	424
Revenue bonds, Series 2009A – interest rates variable based on market conditions (effective rate of interest 3.28% in 2013, refunded December 11, 2013)		—	89,925
Revenue bonds, Series 2009B – interest rates variable based on market conditions (effective rate of interest 3.29% in 2013, refunded December 11, 2013)		—	89,920
Revenue bonds, Series 2009C – annual principal payments range from $2,945 to $22,885, plus interest each year through 2039. Interest rates range from 4.00% to 5.25% (effective rate of interest of 5.14% in 2014 and 5.12% in 2013)		173,820	176,720
Revenue bonds, Series 2012A – due in sinking fund installments ranging from $265 to $35,965 plus interest each year through 2042, ranging from 4.00% to 5.00% (effective rate of interest of 4.86% in 2014 and 4.87% in 2013)		153,815	155,100
Revenue bonds, Series 2013A – annual principal payments range from $2,278 in 2015 to $3,005 in 2023 with a balloon payment of $62,765 in 2024. Interest rates variable based on market conditions (0.75% at June 30, 2014, effective rate of interest 4.2% in 2014)		87,593	—
Revenue bonds, Series 2013B – annual principal payments range from $2,278 in 2015 to $2,865 in 2018 with a balloon payment of $77,045 in 2019. Interest rates variable based on market conditions (0.46% at June 30, 2014, effective rate of interest 3.9% in 2014)		87,593	—
Capital lease obligations		61,821	62,225
Other		632	879
Total debt		565,698	575,193
Less:			
Current installments of long-term debt		9,533	9,655
Unamortized bond premium, net		(14,295)	(14,962)
Total long-term debt	$	570,460	580,500

On December 11, 2013, WHEFA issued $90,048 of Series 2013A and $90,048 of Series 2013B variable rate revenue bonds on behalf of the Obligated Group. The Series 2013A and 2013B bonds were issued as private placements each with a respective national bank. The proceeds from the Series 2013A and Series 2013B bonds were used to refund the Series 2009A and 2009B bonds. The 2013A and 2013B private placements mature in 2024 and 2019, respectively.

(Dollars in thousands)

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

The refunding resulted in a loss on early extinguishment of debt of $3,640, which is included in nonoperating gains and losses in the 2013 consolidated statement of operations.

Pursuant to the terms of the bond trust indentures, each Obligated Group member is jointly and severally liable for the guaranty of principal and interest on the revenue bonds issued by WHEFA on behalf of the Obligated Group. The Master Trust Indenture related to the Series 2005A, 2009C, 2012A, 2013A, and 2013B and the continuing covenant agreements related to the 2013A and 2013B bonds also place limits on the incurrence of additional borrowings and requires that the Obligated Group satisfy certain measures of financial performance as long as the bonds are outstanding.

Cash payments for interest, net of amounts capitalized, and monthly swap settlements were $22,726 and $19,536 for the years ended June 30, 2014 and 2013, respectively.

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

2015	$	9,533
2016		10,230
2017		10,712
2018		11,179
2019		85,777
Thereafter		438,267
	$	565,698

FH has entered into capital leases for certain medical office space through the year 2032. The capital lease obligations were $61,821 and $62,225 at June 30, 2014 and 2013, respectively.

(Dollars in thousands)

Future minimum lease payments under capital leases at June 30, 2014 are as follows:

2015	$	6,662
2016		6,795
2017		6,932
2018		7,071
2019		7,212
Thereafter		90,264
Total minimum lease payments		124,936
Less amounts representing interest ranging from 7.81% to 11.17%		63,115
Present value of net minimum lease payments	$	61,821

FH has outstanding guarantees for payment of certain debt and capital expenditures of another corporation. The debt guaranty is for an amount up to $4,450 as of June 30, 2014. The capital expenditure guaranty, shared with two other corporate entities, is for amounts ranging from $2,190 to $12,670, up to an aggregate $34,885, for the twelve month periods ending June 30, 2014 through June 30, 2018.

(7) Derivative Instruments and Hedging Activities

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

(a) Objectives and Strategies

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

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

(Dollars in thousands)

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

(b) *Risk Management Policies*

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

FH does not use derivative instruments for speculative investment purposes.

(c) *Transactions*

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

The fair value of the interest rate swaps of $26,562 and $26,049 is included in other long-term liabilities in the consolidated balance sheets at June 30, 2014 and 2013, respectively. The change in fair value of the interest rate swaps of $(513) and $17,025 is included in nonoperating gains and losses in the consolidated statements of operations for the years ended June 30, 2014 and 2013, respectively.

The interest rate swap agreements for the Obligated Group at June 30, 2014 consist of the following:

Type	Original notional amount	Maturity date	Fixed pay rate	Variable pay rates at June 30 2014	Variable pay rates at June 30 2013
2009A bonds*	$ 94,050	April 1, 2035	3.366%	0.157%	0.186%
2009B bonds*	94,050	April 1, 2035	3.366	0.157	0.186

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

Cash paid for monthly settlement under the interest rate swap agreements was $5,718 and $5,747 and is included within interest expense in the consolidated statements of operations. No cash was received under the interest rate swap agreements during the years ended June 30, 2014 and 2013. FH posted collateral as required under the interest rate swap agreements of $1,039 and $98 as of June 30, 2014 and 2013, respectively.

(8) Net Patient Service Revenue

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

Medicare – Inpatient acute care, most outpatient, and defined capital costs for services rendered to Medicare beneficiaries are paid at prospectively determined rates per case. These rates vary according to a payment classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, medical education, and certain organ acquisition costs related to Medicare beneficiaries are paid based upon cost reimbursement methods, established fee screens, or a combination thereof. FMLH, CMH, and SJCH are reimbursed for cost reimbursement items at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The FMLH cost reports have been audited by the Medicare fiscal intermediary through June 30, 2009. The CMH and SJCH cost reports have been audited by the Medicare fiscal intermediary through June 30, 2010.

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

Wisconsin's Economic Recovery Act includes a tax assessment on hospital and ambulatory surgery center revenues. Funds collected under the tax are used to increase federal funding for the Wisconsin Medicaid program. FH recognized $45,351 and $42,725 of increased Medicaid reimbursement and $33,398 and $32,569 of tax expense as a result of the law for the years ended June 30, 2014 and 2013, respectively. The increased Medicaid reimbursement and tax assessment expense are recorded in net patient service revenue and other expense, respectively, in the 2014 and 2013 consolidated statements of operations.

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

The percentage of net patient service revenue applicable to services provided to Medicare and Medicaid patients was 35% for the years ended June 30, 2014 and 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. FH believes it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations may be subject to future government review and interpretation. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from the Medicare and Medicaid programs.

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

(Continued)

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

For the years ended June 30, 2014 and 2013, the consolidated statements of operations include $3,055 and $6,000, respectively, as an increase in net patient service revenue for changes in prior year estimates related to third-party contractual allowances and retroactive settlements with third-party payors.

The Medical Electronic Health Record (EHR) Incentive Program (the Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. FH accounts for the Program using International Accounting Standards 20 (IAS20), *Accounting for Government Grants and Disclosures of Government Assistance*. FH applies the "ratable recognition" approach, which states that the grant income can be recognized ratably over the entire "EHR" reporting period once the "reasonable assurance" income recognition threshold of IAS20 is met. For the years ended June 30, 2014 and 2013, FH recognized $4,643 and $7,306, respectively, as other revenue related to Medicare and Medicaid EHR incentives, which have been received or are expected to be received based on certifications prepared by management under the appropriate guidelines for stage 1 attestation.

Patients' accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients' accounts receivable, FH analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, FH analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), FH records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Write-offs associated with self-pay patients were $71,131 in 2013 and $73,706 in 2014. FH has not changed its charity care or uninsured discount policies during the fiscal years 2013 or 2014.

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

(Dollars in thousands)

	2014	2013
Medicare	$ 445,298	411,154
Medicaid	130,191	109,986
Managed care/contracted payor	906,883	797,989
Self-pay	63,089	72,841
Other	116,395	109,928
Net patient service revenue before provision for bad debts	$ 1,661,856	1,501,898

(9) Concentration of Credit Risk

FH grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of accounts receivable from patients and third-party payors as of June 30, 2014 and 2013 is as follows:

	June 30	
	2014	2013
Medicare	22%	21%
Medicaid	9	7
Managed care/contracted payor	42	38
Self-pay	22	27
Other	5	7
	100%	100%

(10) Charity Care

FH provides uncompensated care based on the cost of providing care to patients, in accordance with established policies. FH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because FH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. FH applies the provisions of ASU 2010-23, *Measuring Charity Care for Disclosure*, which requires that cost be used as the measurement basis for charity care disclosure purposes and that cost can be identified as direct and indirect costs of providing charity care. The amount of cost incurred for services and supplies furnished under FH's charity care policy was $21,813 and $19,510 for the years ended June 30, 2014 and 2013, respectively.

(Continued)

(11) Related Organizations and Other Significant Transactions

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

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

Froedtert & The Medical College of Wisconsin Community Physicians

Effective July 1, 2013, West Bend Clinic (WBC) was dissolved, merged all of its assets and liabilities into FPP and was removed as a member of the Obligated Group. FPP subsequently changed its name to Froedtert & The Medical College of Wisconsin Community Physicians (CP). The operations of the clinical sites that were previously affiliated with MCW's Clinical Venture Group were also transferred to CP. FH and MCW are the corporate members of CP. CP is not a member of the Obligated Group. The financial position and results of operations of CP are included in these consolidated financial statements as of and for the year ended June 30, 2014.

Funds Flow Agreement

FH and MCW entered into a Mission Related Funds Flow Agreement effective in July 2013 that provides a formalized structure of the economic relationships that support the joint missions of both organizations. The Funds Flow Agreement provides for payment of Fixed Contracted Services Payments for professional services agreements, medical directorships, graduate medical education support, nonclinical support and other services.

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

Affiliate support relating to the Funds Flow Agreement and previous payments made to MCW amounted to $72,503 and $61,876 for the years ended June 30, 2014 and 2013, respectively.

(b) *Unconsolidated Affiliates*

United/Dynacare, LLC is an independent diagnostic services provider of which FH has a 50% ownership interest. The investment in United/Dynacare, LLC of $17,313 and $14,233 at June 30, 2014 and 2013, respectively, is included in investments in unconsolidated affiliates on the consolidated balance sheets. FH purchased services of $40,797 and $43,919 from United/Dynacare, LLC for the years ended June 30, 2014 and 2013, respectively, which are included in contract services in the consolidated statements of operations.

(Dollars in thousands)

During the year ended June 30, 2013, FH entered into a joint venture, Fresenius Medical Care Midwest Dialysis (Fresenius), with MCW and an unrelated party. FH has a 15% ownership interest in the joint venture. The investment in Fresenius of $8,918 and $8,518 at June 30, 2014 and 2013, respectively, is included in investments in unconsolidated affiliates on the consolidated balance sheets.

The following represents summary financial data (unaudited) for all unconsolidated affiliates, including those described above:

		2014	2013
Current assets	$	77,940	69,841
Current liabilities		(24,325)	(20,305)
Working capital		53,615	49,536
Property and equipment, net		40,887	44,547
Other long-term assets		70,069	70,365
Long-term liabilities		(20,441)	(30,066)
Net assets	$	144,130	134,382
Revenues	$	224,074	192,738
Expenses		(183,683)	(154,826)
Excess of revenues over expenses	$	40,391	37,912

(c) United Hospital System, Inc.

FMLH entered into a membership and affiliation agreement with United Hospital System, Inc. (UHS), a not-for-profit corporation located in Kenosha, Wisconsin, in 2001 for the purpose of integrating activities in order to benefit the patients and communities served. FMLH records its investment in UHS of $15,000 under the cost basis. The investment in UHS is noninterest bearing and unsecured. The investment is included in deferred financing costs and other assets on the consolidated balance sheets.

(d) Noncontrolling Interest in Consolidated Joint Ventures

FH applies the guidance under ASC No. 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.

(Continued)

(Dollars in thousands)

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

		Total	Controlling interest	Non controlling interest
Balance, June 30, 2012	$	1,122,294	1,120,474	1,820
Revenues and gains in excess of expenses and losses		179,263	178,855	408
Changes in net unrealized gains and losses on other-than-trading securities		(1,218)	(1,218)	—
Contributions and net assets released from restrictions for property, plant, and equipment		3,457	3,457	—
Change in accrued pension benefits other than net periodic benefit costs		26,372	26,372	—
Other		308	269	39
Changes in net assets		208,182	207,735	447
Balance, June 30, 2013		1,330,476	1,328,209	2,267
Revenues and gains in excess of expenses and losses		210,316	210,337	(21)
Changes in net unrealized gains and losses on other-than-trading securities		(205)	(205)	—
Contributions and net assets released from restrictions for property, plant, and equipment		2,152	2,152	—
Change in accrued pension benefits other than net periodic benefit costs		(5,253)	(5,253)	—
Other		680	683	(3)
Changes in net assets		207,690	207,714	(24)
Balance, June 30, 2014	$	1,538,166	1,535,923	2,243

(12) Employee Benefit Plans

(a) Defined Contribution Plans

FMLH previously sponsored a defined contribution pension plan and a 403(b) thrift plan covering substantially all FMLH employees, which were frozen effective December 31, 2007.

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

FH created a new 403(b) plan, the Froedtert & Community Health, Inc. 403(b) Plan (F&CH 403(b) Plan) covering the employees of FH, FMLH, and CMH effective January 1, 2008, employees of SJCH and WBC effective January 1, 2010, and employees of FPP effective September 3, 2010. The F&CH 403(b) plan provides a nonelective employer contribution, which varies based on employee's service from 3% of pay for employees with less than 10 years of service to 5% of pay for employees with 26 or more years of service. The nonelective employer contribution is also provided for those employees that no longer qualify for future service in the CMH defined benefit plan. It also provides a matching employer contribution of 50% of the first 5% of pay deferred by an employee. FH's contributions to these plans are made annually. FH's pension expense for the plan was $21,667 and $20,448 for the years ended June 30, 2014 and 2013, respectively.

(b) Defined Benefit Plans

FMLH has a defined benefit plan (the FMLH Plan), sponsored by FH, that covers certain former Milwaukee County employees who became employees of FMLH. FMLH and United/Dynacare, LLC are responsible for funding 10% of the FMLH Plan, with Milwaukee County funding 90%. FMLH has recorded the difference between the projected benefit obligation and the fair market value of plan. There is a corresponding long-term receivable from United/Dynacare, LLC and Milwaukee County for their portion of the unfunded projected benefit obligation of $6,052 and $11,634 at June 30, 2014 and 2013, respectively, included in deferred financing costs and other assets, net on the consolidated balance sheets. FMLH's pension expense for the FMLH Plan was $191 and $720 for the years ended June 30, 2014 and 2013, respectively.

(Continued)

(Dollars in thousands)

Data relative to the FMLH Plan for the years ended June 30, 2014 and 2013 follows:

		2014	2013
Change in pension benefit obligation:			
Projected benefit obligation at beginning of year	$	59,257	66,475
Service cost		879	1,140
Interest cost		2,893	2,600
Actuarial (gain) loss		1,139	(8,867)
Expenses paid		(369)	(346)
Benefits paid		(1,968)	(1,745)
Projected benefit obligation at end of year		61,831	59,257
Change in plan assets:			
Fair value of plan assets at beginning of year		45,961	39,425
Actual return on plan assets		8,300	5,831
Employer contributions		3,881	2,796
Expenses paid		(369)	(346)
Benefits paid		(1,968)	(1,745)
Fair value of plan assets at end of year		55,805	45,961
Funded status	$	(6,026)	(13,296)

		2014	2013
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to unrestricted net assets:			
Prior service cost	$	4	51
Accumulated loss		4,562	9,206
Unrecognized pension costs	$	4,566	9,257
Net periodic pension cost is comprised of the following:			
Service cost	$	879	1,140
Interest cost on projected benefit obligation		2,893	2,600
Expected return on plan assets		(3,043)	(2,785)
Net amortization and deferral		47	47
Recognized actuarial loss		526	2,651
Net periodic pension cost	$	1,302	3,653

(Continued)

(Dollars in thousands)

	2014	2013
Assumptions used:		
Discount rate for measurement of pension obligation	4.35%	4.99%
Discount rate for determining net periodic pension cost	4.99	3.98
Rate of increase in compensation levels	3.25	4.00
Expected return of plan assets	6.50	7.00

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. 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, 2014 and 2013, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the FMLH Plan.

The employer contribution for the FMLH Plan for the year ending June 30, 2015 is estimated to be $3,086. The benefits expected to be paid in each year from 2015 through 2019 are expected to be $2,415, $2,570, $2,733, $2,926, and $3,135, respectively. The aggregate benefits to be paid in the five years from 2020 through 2024 are expected to be $18,441. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2014.

The amounts that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2015 are estimated to be $4.

The weighted average asset allocation of the pension plan at June 30, 2014 and 2013 is as follows:

	2014	2013
Equity securities	61%	63%
Debt securities	37	35
Cash and cash equivalents	2	2
Total	100%	100%

(Continued)

(Dollars in thousands)

FMLH intends to provide an appropriate range of investment options that span the risk/return spectrum. The investment options will allow for construction of a portfolio consistent with plan circumstances, goals, time horizons, and tolerance for risk. Major asset classes to be offered include:

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

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

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

(Continued)

(Dollars in thousands)

Data relative to the CMH Plan for the years ended June 30, 2014 and 2013 follows:

	June 30 2014	June 30 2013
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 98,135	106,315
Service cost	2,477	2,909
Interest cost	4,972	4,350
Actuarial loss (gain)	16,738	(12,724)
Expenses paid	(443)	(413)
Benefits paid	(2,668)	(2,302)
Projected benefit obligation at end of year	119,211	98,135
Change in plan assets:		
Fair value of plan assets at beginning of year	71,237	59,682
Actual return on plan assets	12,781	8,999
Employer contributions	6,987	5,271
Expenses paid	(443)	(413)
Benefits paid	(2,668)	(2,302)
Fair value of plan assets at end of year	87,894	71,237
Funded status	$ (31,317)	(26,898)

	June 30 2014	June 30 2013
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to unrestricted net assets:		
Prior service cost	$ 105	148
Accumulated loss	31,150	25,322
Unrecognized pension costs	$ 31,255	25,470
Net periodic pension cost consists of the following:		
Service cost	$ 2,477	2,909
Interest cost	4,972	4,350
Expected return on plan assets	(4,495)	(4,317)
Net amortization and deferral	43	45
Recognized actuarial loss	2,624	4,706
Net periodic pension cost	$ 5,621	7,693

(Continued)

(Dollars in thousands)

	June 30	
	2014	2013
Assumptions used:		
Discount rate for measurement of pension obligation	4.45%	5.14%
Discount rate for determining net periodic pension cost	5.14	4.14
Rate of increase in compensation levels	3.00 – 6.00	3.30 – 4.00
Expected long-term rate of return on assets	6.50	7.00

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, 2014 and 2013, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the CMH Plan.

The minimum employer contributions for the CMH Plan for the year ending June 30, 2015 are estimated to be $7,410. The benefits expected to be paid in each year from 2015 through 2019 are $3,076, $3,350, $3,765, $4,268, and $4,889, respectively. The aggregate benefits to be paid in the five years from 2020 through 2024 are $33,972. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2014.

The amounts that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2015 are estimated to be $43.

The weighted average asset allocation of the CMH Plan at June 30 follows:

	June 30	
	2014	2013
Equity securities	61%	63%
Debt securities	37	35
Other	2	2
Total	100%	100%

(Dollars in thousands)

CMH intends to provide an appropriate range of investment options that span the risk/return spectrum. The investment options will allow for construction of a portfolio consistent with plan circumstances, goals, time horizons, and tolerance for risk. Major asset classes to be offered include:

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

Fair Value Measurements

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

- Fair values of the Plans' investments are estimated based on prices provided by its investment managers and its custodian bank. Fair value 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.

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.

(Continued)

(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, 2014:

		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Plan assets:					
Collateral for securities loaned	$	68,343	—	68,343	—
Investments:					
Cash and short-term investments consisting of money market funds		2,749	2,749	—	—
Corporate stocks		50,974	50,974	—	—
Pooled equity funds		21,961	21,961	—	—
International equity funds		14,515	14,515	—	—
Corporate and foreign bonds		22,113	—	22,113	—
U.S. government securities		28,942	—	28,942	—
Annuity contract		2,445	—	—	2,445
Total	$	212,042	90,199	119,398	2,445
Liabilities:					
Payable under securities lending agreement	$	68,343	—	68,343	—

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

Fair value at June 30, 2013	$	2,348
Gains/losses and investment income, net		(6)
Purchases, issuances, and write-offs, net		—
Contributions, disbursements, net		103
Fair value at June 30, 2014	$	2,445

(Continued)

(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, 2013:

		Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Plan assets:					
Collateral for securities loaned	$	48,589	—	48,589	—
Investments:					
Cash and short-term investments consisting of money market funds		2,595	2,595	—	—
Corporate stocks		43,116	43,116	—	—
Pooled equity funds		18,594	18,594	—	—
International equity funds		11,163	11,163	—	—
Corporate and foreign bonds		18,298	—	18,298	—
U.S. government securities		21,084	—	21,084	—
Annuity contract		2,348	—	—	2,348
Total	$	165,787	75,468	87,971	2,348
Liabilities:					
Payable under securities lending agreement	$	48,589	—	48,589	—

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

Fair value at June 30, 2012	$	1,887
Gains/losses and investment income, net		(212)
Purchases, issuances, and write-offs, net		73
Contributions, disbursements, net		600
Fair value at June 30, 2013	$	2,348

FH has a securities lending agreement with a financial institution whereby fixed income and equity securities are loaned to third parties in exchange for cash collateral that exceeds the market value of the securities loaned. Collateral is marked to market daily to reflect changes in fair value of the

(Continued)

securities loaned. The fair market value of the securities loaned under this arrangement was $66,967 and $47,276 at June 30, 2014 and 2013, respectively. The fair market value of the collateral received under this arrangement was $68,343 and $48,589 at June 30, 2014 and 2013, respectively. Under the terms of the securities lending agreement, FH is not entitled to the unrealized gains on the invested collateral and as such has not recognized the unrealized gains at June 30, 2014 and 2013. The fair value of collateral was 102.1% and 102.8% of the fair value of securities loaned at June 30, 2014 and 2013, respectively.

(c) Postretirement Medical Plan

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

The projected benefit obligation at June 30, 2014 and 2013 using a discount rate of 4.36% and 5.02% was $4,107 and $3,342, respectively, of which $184 and $138, respectively, are included in short-term liabilities and $3,923 and $3,204, respectively, are included in other long-term liabilities on the consolidated balance sheets.

(13) Professional Liability Insurance

FMLH, CMH, SJCH, 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 (claims-occurred basis). Losses in excess of these amounts are covered through the FMLH, CMH, SJCH, and CP mandatory participation in the Injured Patients' and Families Compensation Fund of the State of Wisconsin. FH applies the provisions of ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a healthcare entity should not net insurance recoveries against a related malpractice claim liability or similar liability and which is consistent with the guidelines in ASC Subtopic 210-20, *Balance Sheet – Offsetting*. FH has recorded an estimated insurance recovery of $1,813 and $2,727 at June 30, 2014 and 2013, respectively, and a related insurance liability of $1,525 and $2,100 at June 30, 2014 and 2013, respectively.

(14) Commitments and Contingencies

(a) Leases

FH, FMLH, CMH, SJCH, CP, and PPN lease equipment and office space under the terms of various operating leases. Rent expense for these leases was $29,031 and $26,352 for the years ended June 30, 2014 and 2013, respectively, included in the consolidated statements of operations.

(Dollars in thousands)

Future minimum operating lease payments, excluding the land lease with Milwaukee County (note 5), that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2014 are as follows:

2015	$	11,770
2016		11,494
2017		10,075
2018		8,785
2019		7,180
Thereafter		23,990

FMLH has agreed to lease certain space to MCW through the year 2025 under an operating lease that calls for a base rent and additional rent allocated for the expenses incurred. Rental income of $5,297 and $5,740 for space leased to MCW is included in other operating revenue for the years ended June 30, 2014 and 2013, respectively, in the consolidated statements of operations. Also included in other operating revenue for the years ended June 30, 2014 and 2013 was a total of $3,603 and $3,531, respectively, for certain other leased space to MCW and United/Dynacare, LLC.

(b) Health Insurance

FH has a self-insured health plan that covers substantially all liability for health costs associated with claims for employees up to certain limits under a commercial stop-loss agreement. 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, 2014 and 2013 are estimated amounts payable for health insurance claims incurred as of such dates of $6,512 and $6,474, respectively.

(c) Litigation

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

(d) Regulatory Investigation and Other

The U.S. Department of Justice (DOJ) and other federal agencies routinely conduct regulatory investigations and compliance audits of health care providers. FH is subject to these regulatory efforts. Additionally, the laws and regulations governing the Medicare, Medicaid, and other government health care programs are extremely complex and subject to interpretation, making compliance an ongoing challenge for FH and other health care organizations. Recently the federal government has increased its enforcement activity, including audits and investigations related to billing practices, clinical documentation, and related matters. FH maintains a system-wide compliance program and conducts audits and other activities to identify potential compliance issues, including overpayments to governmental payors. Management is currently unaware of any regulatory or compliance matters that may have a material adverse effect on FH's consolidated financial position or results of operations.

(e) The Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (often referred to, collectively, as the Affordable Care Act of the health care reform law), was signed into law on March 23, 2010. The statute changed how health care services are delivered and reimbursed through a variety of mechanisms. The law contains stronger antifraud enforcement provisions and provides additional funding for enforcement activity.

On May 6, 2011, CMS issued a final rule establishing a value-based purchasing program for acute care hospitals paid under the Medicare Inpatient Prospective Payment System. Beginning in federal fiscal year 2013, incentive payments are made based on achievement of or improvement in a set of clinical and quality measures designed to foster improved clinical outcomes. FH continues to monitor the impact of this and other proposed regulations as they become finalized and implemented.

(15) Subsequent Events

FH has signed a letter of intent and is currently pursuing an agreement with Ministry Health Care, Inc. to purchase an ownership interest in Network Health, Inc., a Wisconsin based insurance plan. The transaction is expected to be closed by the end of calendar year 2014.

Subsequent events have been evaluated through September 17, 2014 which is the date the financial statements were available to be issued, noting no additional subsequent events requiring recording or disclosure in the financial statements or related notes to the financial statements.

Schedule 1

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2014

(In thousands)

Assets	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Current assets:					
Cash and cash equivalents	$ 16,657	220	2,153	—	19,030
Assets whose use is limited	—	—	—	—	—
Patient accounts receivable, net of estimated uncollectibles of $44,100	128,442	—	779	—	129,221
Other receivables	21,286	962	—	(430)	21,818
Inventories	14,678	—	268	—	14,946
Collateral held for securities loaned	—	—	—	—	—
Prepaids and other	3,265	—	47	—	3,312
Total current assets	184,328	1,182	3,247	(430)	188,327
Investments	—	13,335	—	—	13,335
Assets whose use is limited or restricted	108,988	10,469	—	(24,624)	94,833
Investments in unconsolidated affiliates	2,143	—	—	(2,103)	40
Property, plant, and equipment, net	433,473	—	1,665	—	435,138
Deferred financing costs and other assets, net	21,378	—	—	—	21,378
Total assets	$ 750,310	24,986	4,912	(27,157)	753,051
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	$ 83	—	—	—	83
Accounts payable	29,743	361	437	(430)	30,111
Accrued expenses	45,957	1	269	—	46,227
Payable under securities lending agreement	—	—	—	—	—
Estimated settlements to third-party payors	9,952	—	—	—	9,952
Total current liabilities	85,735	362	706	(430)	86,373
Long-term debt, less current installments	550	—	—	—	550
Other long-term liabilities	10,443	—	—	—	10,443
Total liabilities	96,728	362	706	(430)	97,366
Net assets (deficit):					
Unrestricted:					
Unrestricted net assets of Froedtert Health, Inc. and Affiliates	628,958	14,343	4,206	(4,206)	643,301
Noncontrolling interests in consolidated joint ventures	—	—	—	2,103	2,103
Total unrestricted	628,958	14,343	4,206	(2,103)	645,404
Temporarily restricted	24,258	9,915	—	(24,258)	9,915
Permanently restricted	366	366	—	(366)	366
Total net assets	653,582	24,624	4,206	(26,727)	655,685
Total liabilities and net assets	$ 750,310	24,986	4,912	(27,157)	753,051

(Continued)

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2014

(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	$	7,411	1,051	13	—	8,475
Assets whose use is limited		—	—	—	—	—
Patient accounts receivable, net of estimated uncollectibles of $44,100		20,549	—	—	—	20,549
Other receivables		5,731	45	256	(417)	5,615
Inventories		4,015	—	—	—	4,015
Collateral held for securities loaned		—	—	—	—	—
Prepaids and other		1,188	—	—	—	1,188
Total current assets		38,894	1,096	269	(417)	39,842
Investments		—	2,461	—	—	2,461
Assets whose use is limited or restricted		—	3,924	—	—	3,924
Investments in unconsolidated affiliates		13,230	—	—	(7,045)	6,185
Property, plant, and equipment, net		90,801	—	—	—	90,801
Deferred financing costs and other assets, net		10	—	—	—	10
Total assets	$	142,935	7,481	269	(7,462)	143,223
Liabilities and Net Assets						
Current liabilities:						
Current installments of long-term debt	$	—	—	—	—	—
Accounts payable		8,434	436	7	(417)	8,460
Accrued expenses		4,578	—	—	—	4,578
Payable under securities lending agreement		—	—	—	—	—
Estimated settlements to third-party payors		675	—	—	—	675
Total current liabilities		13,687	436	7	(417)	13,713
Long-term debt, less current installments		—	—	—	—	—
Other long-term liabilities		31,317	—	—	—	31,317
Total liabilities		45,004	436	7	(417)	45,030
Net assets (deficit):						
Unrestricted:						
Unrestricted net assets of Froedtert Health, Inc. and Affiliates		96,218	5,332	262	(5,332)	96,480
Noncontrolling interests in consolidated joint ventures		—	—	—	—	—
Total unrestricted		96,218	5,332	262	(5,332)	96,480
Temporarily restricted		1,713	1,713	—	(1,713)	1,713
Permanently restricted		—	—	—	—	—
Total net assets		97,931	7,045	262	(7,045)	98,193
Total liabilities and net assets	$	142,935	7,481	269	(7,462)	143,223

(Continued)

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2014

(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	$ 3,693	998	—	4,691
Assets whose use is limited	373	—	—	373
Patient accounts receivable, net of estimated uncollectibles of $44,100	11,999	—	—	11,999
Other receivables	2,449	119	(1,029)	1,539
Inventories	2,431	—	—	2,431
Collateral held for securities loaned	—	—	—	—
Prepaids and other	228	—	—	228
Total current assets	21,173	1,117	(1,029)	21,261
Investments	—	26,620	—	26,620
Assets whose use is limited or restricted	147	8,772	—	8,919
Investments in unconsolidated affiliates	20	—	—	20
Property, plant, and equipment, net	78,746	—	—	78,746
Deferred financing costs and other assets, net	—	—	—	—
Total assets	$ 100,086	36,509	(1,029)	135,566
Liabilities and Net Assets				
Current liabilities:				
Current installments of long-term debt	$ —	—	—	—
Accounts payable	7,694	1,030	(1,029)	7,695
Accrued expenses	3,369	—	—	3,369
Payable under securities lending agreement	—	—	—	—
Estimated settlements to third-party payors	1,496	—	—	1,496
Total current liabilities	12,559	1,030	(1,029)	12,560
Long-term debt, less current installments	—	—	—	—
Other long-term liabilities	2,341	—	—	2,341
Total liabilities	14,900	1,030	(1,029)	14,901
Net assets (deficit):				
Unrestricted:				
Unrestricted net assets of Froedtert Health, Inc. and Affiliates	85,038	35,110	—	120,148
Noncontrolling interests in consolidated joint ventures	—	—	—	—
Total unrestricted	85,038	35,110	—	120,148
Temporarily restricted	148	367	—	515
Permanently restricted	—	2	—	2
Total net assets	85,186	35,479	—	120,665
Total liabilities and net assets	$ 100,086	36,509	(1,029)	135,566

(Continued)

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2014

(In thousands)

Assets	Froedtert Health (Parent Only)	Froedtert Health Hometown Pharmacy	Eliminations and consolidating entries	Consolidated Froedtert Health (Parent Only)
Current assets:				
Cash and cash equivalents	$ 73,012	227	—	73,239
Assets whose use is limited	—	—	—	—
Patient accounts receivable, net of estimated uncollectibles of $44,100	—	386	—	386
Other receivables	8,591	139	—	8,730
Inventories	—	860	—	860
Collateral held for securities loaned	335,433	—	—	335,433
Prepaids and other	4,767	10	—	4,777
Total current assets	421,803	1,622	—	423,425
Investments	1,105,782	—	—	1,105,782
Assets whose use is limited or restricted	26,875	—	—	26,875
Investments in unconsolidated affiliates	39,311	—	(281)	39,030
Property, plant, and equipment, net	100,216	99	—	100,315
Deferred financing costs and other assets, net	4,662	157	—	4,819
Total assets	$ 1,698,649	1,878	(281)	1,700,246
Liabilities and Net Assets				
Current liabilities:				
Current installments of long-term debt	$ 9,450	—	—	9,450
Accounts payable	34,314	1,439	—	35,753
Accrued expenses	92,999	18	—	93,017
Payable under securities lending agreement	335,433	—	—	335,433
Estimated settlements to third-party payors	—	—	—	—
Total current liabilities	472,196	1,457	—	473,653
Long-term debt, less current installments	569,910	—	—	569,910
Other long-term liabilities	26,564	—	—	26,564
Total liabilities	1,068,670	1,457	—	1,070,127
Net assets (deficit):				
Unrestricted:				
Unrestricted net assets of Froedtert Health, Inc. and Affiliates	629,979	421	(421)	629,979
Noncontrolling interests in consolidated joint ventures	—	—	140	140
Total unrestricted	629,979	421	(281)	630,119
Temporarily restricted	—	—	—	—
Permanently restricted	—	—	—	—
Total net assets	629,979	421	(281)	630,119
Total liabilities and net assets	$ 1,698,649	1,878	(281)	1,700,246

(Continued)

Schedule 1

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2014

(In thousands)

Assets	F&MCW Community Physicians	Progressive Physician Network	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Current assets:				
Cash and cash equivalents	$ 5,578	288	—	111,301
Assets whose use is limited	321	—	—	694
Patient accounts receivable, net of estimated uncollectibles of $44,100	15,319	—	—	177,474
Other receivables	25,092	71	(51,676)	11,189
Inventories	205	—	—	22,457
Collateral held for securities loaned	—	—	—	335,433
Prepaids and other	64	5	—	9,574
Total current assets	46,579	364	(51,676)	668,122
Investments	—	—	—	1,148,198
Assets whose use is limited or restricted	—	—	—	134,551
Investments in unconsolidated affiliates	—	—	—	45,275
Property, plant, and equipment, net	28,587	11	—	733,598
Deferred financing costs and other assets, net	850	—	—	27,057
Total assets	$ 76,016	375	(51,676)	2,756,801
Liabilities and Net Assets				
Current liabilities:				
Current installments of long-term debt	$ —	—	—	9,533
Accounts payable	108	3,823	(51,676)	34,274
Accrued expenses	23,176	56	—	170,423
Payable under securities lending agreement	—	—	—	335,433
Estimated settlements to third-party payors	—	—	—	12,123
Total current liabilities	23,284	3,879	(51,676)	561,786
Long-term debt, less current installments	—	—	—	570,460
Other long-term liabilities	3,213	—	—	73,878
Total liabilities	26,497	3,879	(51,676)	1,206,124
Net assets (deficit):				
Unrestricted:				
Unrestricted net assets of Froedtert Health, Inc. and Affiliates	49,519	(3,504)	—	1,535,923
Noncontrolling interests in consolidated joint ventures	—	—	—	2,243
Total unrestricted	49,519	(3,504)	—	1,538,166
Temporarily restricted	—	—	—	12,143
Permanently restricted	—	—	—	368
Total net assets	49,519	(3,504)	—	1,550,677
Total liabilities and net assets	$ 76,016	375	(51,676)	2,756,801

See accompanying independent auditors' report.

Schedule 2

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2014

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Net patient service revenue:					
Net patient service revenue before provision for bad debts	$ 1,169,911	—	7,792	—	1,177,703
Provision for bad debts	55,450	—	474		55,924
Net patient service revenue	1,114,461	—	7,318	—	1,121,779
Other operating revenue	32,351	1,545	64	(726)	33,234
Total revenue	1,146,812	1,545	7,382	(726)	1,155,013
Expenses:					
Salaries	274,793	410	1,519	(441)	276,281
Fringe benefits	72,166	111	657	(111)	72,823
Supplies	238,727	1	1,839	—	240,567
Contract services	87,246	—	831	—	88,077
Affiliate support	111,804	—	—	—	111,804
Depreciation and amortization	39,710	—	379	—	40,089
Interest	12,566	—	—	—	12,566
Other	94,306	1,503	1,805	—	97,614
Corporate allocations	129,087	—	—	—	129,087
Total expenses	1,060,405	2,025	7,030	(552)	1,068,908
Operating revenue in excess (deficient) of expenses	86,407	(480)	352	(174)	86,105
Nonoperating gains and losses:					
Investment income	2,378	623	—	—	3,001
Change in net unrealized gains and losses on trading securities	—	806	—	—	806
Change in fair value of interest rate swaps	—	—	—	—	—
Loss on early extinguishment of debt	—	—	—	—	—
Loss on disposal of property, plant, and equipment	(108)	—	(1)	—	(109)
Revenue and gains in excess of expenses and losses	88,677	949	351	(174)	89,803
Other changes in unrestricted net assets:					
Transfers (to) from affiliates	(445,402)	(870)	—	—	(446,272)
Change in net unrealized gains and losses on other-than-trading securities	(205)	—	—	—	(205)
Contributions and net assets released from restriction for property, plant, and equipment	2,000	109	—	—	2,109
Change in accrued pension benefits other than net periodic benefit costs	532	—	—	—	532
Forgiveness of receivable from Foundation	(531)	531	—	—	—
Other	—	—	(3)	—	(3)
Increase in unrestricted net assets	(354,929)	719	348	(174)	(354,036)
Unrestricted net assets (deficit) at beginning of year	983,887	13,624	3,858	(1,929)	999,440
Unrestricted net assets (deficit) at end of year	$ 628,958	14,343	4,206	(2,103)	645,404

(Continued)

Schedule 2

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2014

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Net patient service revenue:					
Net patient service revenue before provision for bad debts	$ 185,122	—	—	—	185,122
Provision for bad debts	5,105	—	—	—	5,105
Net patient service revenue	180,017	—	—	—	180,017
Other operating revenue	5,179	747	811	(959)	5,778
Total revenue	185,196	747	811	(959)	185,795
Expenses:					
Salaries	61,944	—	107	(159)	61,892
Fringe benefits	17,293	—	—	—	17,293
Supplies	33,504	—	249	—	33,753
Contract services	7,690	—	—	—	7,690
Affiliate support	22,222	—	—	—	22,222
Depreciation and amortization	8,828	—	—	—	8,828
Interest	2,303	—	—	—	2,303
Other	13,956	813	417	(275)	14,911
Corporate allocations	27,122	—	—	—	27,122
Total expenses	194,862	813	773	(434)	196,014
Operating revenue in excess (deficient) of expenses	(9,666)	(66)	38	(525)	(10,219)
Nonoperating gains and losses:					
Investment income	(1)	269	—	—	268
Change in net unrealized gains and losses on trading securities	—	322	—	—	322
Change in fair value of interest rate swaps	2	—	—	—	2
Loss on early extinguishment of debt	—	—	—	—	—
Loss on disposal of property, plant, and equipment	(94)	—	—	—	(94)
Revenue and gains in excess of expenses and losses	(9,759)	525	38	(525)	(9,721)
Other changes in unrestricted net assets:					
Transfers (to) from affiliates	(72,747)	(45)	—	—	(72,792)
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	—	15	—	—	15
Change in accrued pension benefits other than net periodic benefit costs	(5,785)	—	—	—	(5,785)
Forgiveness of receivable from Foundation	—	—	—	—	—
Other	(38)	12	1	18	(7)
Increase in unrestricted net assets	(88,329)	507	39	(507)	(88,290)
Unrestricted net assets at beginning of year	184,547	4,825	223	(4,825)	184,770
Unrestricted net assets at end of year	$ 96,218	5,332	262	(5,332)	96,480

(Continued)

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2014

(In thousands)

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Net patient service revenue:				
Net patient service revenue before provision for bad debts	$ 119,617	—	—	119,617
Provision for bad debts	6,223	—	—	6,223
Net patient service revenue	113,394	—	—	113,394
Other operating revenue	4,147	375	—	4,522
Total revenue	117,541	375	—	117,916
Expenses:				
Salaries	32,682	91	—	32,773
Fringe benefits	7,999	—	—	7,999
Supplies	20,393	49	—	20,442
Contract services	4,359	—	—	4,359
Affiliate support	24,219	—	—	24,219
Depreciation and amortization	6,255	—	—	6,255
Interest	2,685	—	—	2,685
Other	8,856	369	—	9,225
Corporate allocations	14,293	—	—	14,293
Total expenses	121,741	509	—	122,250
Operating revenue in excess (deficient) of expenses	(4,200)	(134)	—	(4,334)
Nonoperating gains and losses:				
Investment income	2	1,860	—	1,862
Change in net unrealized gains and losses on trading securities	2	2,481	—	2,483
Change in fair value of interest rate swaps	—	—	—	—
Loss on early extinguishment of debt	—	—	—	—
Loss on disposal of property, plant, and equipment	(68)	—	—	(68)
Revenue and gains in excess of expenses and losses	(4,264)	4,207	—	(57)
Other changes in unrestricted net assets:				
Transfers (to) from affiliates	25,357	(11,163)	—	14,194
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	—	28	—	28
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Forgiveness of receivable from Foundation	(123)	123	—	—
Other	—	—	—	—
Increase in unrestricted net assets	20,970	(6,805)	—	14,165
Unrestricted net assets at beginning of year	64,068	41,915	—	105,983
Unrestricted net assets at end of year	$ 85,038	35,110	—	120,148

(Continued)

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2014

(In thousands)

		Froedtert Health (Parent Only)	Froedtert Health Hometown Pharmacy	Eliminations and consolidating entries	Consolidated Froedtert Health (Parent Only)
Net patient service revenue:					
Net patient service revenue before provision for bad debts	$	—	4,076	—	4,076
Provision for bad debts		—	—	—	—
Net patient service revenue		—	4,076	—	4,076
Other operating revenue		308,092	—	199	308,291
Total revenue		308,092	4,076	199	312,367
Expenses:					
Salaries		76,150	800	—	76,950
Fringe benefits		101,238	—	—	101,238
Supplies		4,662	3,142	—	7,804
Contract services		20,703	—	—	20,703
Affiliate support		6	—	—	6
Depreciation and amortization		13,098	51	—	13,149
Interest		5,597	20	—	5,617
Other		74,174	460	—	74,634
Corporate allocations		—	—	—	—
Total expenses		295,628	4,473	—	300,101
Operating revenue in excess of expenses		12,464	(397)	199	12,266
Nonoperating gains and losses:					
Investment income		54,338	—	—	54,338
Change in net unrealized gains and losses on trading securities		64,378	—	—	64,378
Change in fair value of interest rate swaps		(515)	—	—	(515)
Loss on early extinguishment of debt		—	—	—	—
Loss on disposal of property, plant, and equipment		—	—	—	—
Revenue and gains in excess of expenses and losses		130,665	(397)	199	130,467
Other changes in unrestricted net assets:					
Transfers (to) from affiliates		460,953	—	—	460,953
Change in net unrealized gains and losses on other-than-trading securities		—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment		—	—	—	—
Change in accrued pension benefits other than net periodic benefit costs		—	—	—	—
Forgiveness of receivable from Foundation		—	—	—	—
Other		—	—	—	—
Increase (decrease) in unrestricted net assets		591,618	(397)	199	591,420
Unrestricted net assets at beginning of year		38,361	818	(480)	38,699
Unrestricted net assets at end of year	$	629,979	421	(281)	630,119

(Continued)

Schedule 2

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2014

(In thousands)

		West Bend Clinic	F&MCW Community Physicians	Progressive Physician Network	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Net patient service revenue:						
Net patient service revenue before provision for bad debts	$	—	175,338	—	—	1,661,856
Provision for bad debts		—	6,138	—	—	73,390
Net patient service revenue		—	169,200	—	—	1,588,466
Other operating revenue		—	9,291	87	(294,522)	66,681
Total revenue		—	178,491	87	(294,522)	1,655,147
Expenses:						
Salaries		—	141,328	—	(1,147)	588,077
Fringe benefits		—	27,618	—	(81,138)	145,833
Supplies		—	13,959	—	(82)	316,443
Contract services		—	17,814	175	(3,495)	135,323
Affiliate support		—	(73,482)	—	—	84,769
Depreciation and amortization		—	4,561	12	—	72,894
Interest		—	—	—	—	23,171
Other		—	25,984	76	(17,548)	204,896
Corporate allocations		—	20,610	—	(191,112)	—
Total expenses		—	178,392	263	(294,522)	1,571,406
Operating revenue in excess (deficient) of expenses		—	99	(176)	—	83,741
Nonoperating gains and losses:						
Investment income		—	—	—	—	59,469
Change in net unrealized gains and losses on trading securities		—	—	—	—	67,989
Change in fair value of interest rate swaps		—	—	—	—	(513)
Loss on early extinguishment of debt		—	—	—	—	—
Loss on disposal of property, plant, and equipment		—	(99)	—	—	(370)
Revenue and gains in excess (deficient) of expenses and losses		—	—	(176)	—	210,316
Other changes in unrestricted net assets:						
Transfers (to) from affiliates		1,922	41,995	—	—	—
Change in net unrealized gains and losses on other-than-trading securities		—	—	—	—	(205)
Contributions and net assets released from restriction for property, plant, and equipment		—	—	—	—	2,152
Change in accrued pension benefits other than net periodic benefit costs		—	—	—	—	(5,253)
Forgiveness of receivable from Foundation		—	—	—	—	—
Other		—	690	—	—	680
Increase (decrease) in unrestricted net assets		1,922	42,685	(176)	—	207,690
Unrestricted net assets (deficit) at beginning of year		(1,922)	6,834	(3,328)	—	1,330,476
Unrestricted net assets (deficit) at end of year	$	—	49,519	(3,504)	—	1,538,166

See accompanying independent auditors' report.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2014

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Unrestricted net assets:					
Revenue in excess of expenses and losses	$ 88,677	949	351	(174)	89,803
Transfers (to) from affiliates	(445,402)	(870)	—	—	(446,272)
Change in net unrealized gains and losses on other-than-trading securities	(205)	—	—	—	(205)
Net assets released from restrictions for property, plant, and equipment	2,000	109	—	—	2,109
Change in accrued pension benefits other than net periodic benefit costs	532	—	—	—	532
Forgiveness of receivable from Foundation	(531)	531	—	—	—
Other	—	—	(3)	—	(3)
Increase in unrestricted net assets	(354,929)	719	348	(174)	(354,036)
Unrestricted net assets at beginning of year	983,887	13,624	3,858	(1,929)	999,440
Unrestricted net assets at end of year	$ 628,958	14,343	4,206	(2,103)	645,404
Temporarily restricted net assets:					
Change in net unrealized gains on investments	$ —	396	—	—	396
Restricted contributions	2,000	1,622	—	—	3,622
Restricted investment income	—	390	—	—	390
Net assets released from restrictions for operations	—	(516)	—	—	(516)
Net assets released from restrictions for property, plant, and equipment	(2,000)	(109)	—	—	(2,109)
Change in beneficial interest in foundations	2,502	—	—	(2,502)	—
Other	—	—	—	—	—
Increase (decrease) in temporarily restricted net assets	2,502	1,783	—	(2,502)	1,783
Temporarily restricted net assets at beginning of year	21,756	8,132	—	(21,756)	8,132
Temporarily restricted net assets at end of year	$ 24,258	9,915	—	(24,258)	9,915
Permanently restricted net assets:					
Permanently restricted net assets at beginning of year	$ 366	366	—	(366)	366
Permanently restricted net assets at end of year	$ 366	366	—	(366)	366

(Continued)

Schedule 3

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2014

(In thousands)

		Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Unrestricted net assets:						
Revenue in excess of expenses and losses	$	(9,759)	525	38	(525)	(9,721)
Transfers (to) from affiliates		(72,747)	(45)	—	—	(72,792)
Change in net unrealized gains and losses on other-than-trading securities		—	—	—	—	—
Net assets released from restrictions for property, plant, and equipment		—	15	—	—	15
Change in accrued pension benefits other than net periodic benefit costs		(5,785)	—	—	—	(5,785)
Forgiveness of receivable from Foundation		—	—	—	—	—
Other		(38)	12	1	18	(7)
Increase in unrestricted net assets		(88,329)	507	39	(507)	(88,290)
Unrestricted net assets at beginning of year		184,547	4,825	223	(4,825)	184,770
Unrestricted net assets at end of year	$	96,218	5,332	262	(5,332)	96,480
Temporarily restricted net assets:						
Change in net unrealized gains on investments	$	—	26	—	—	26
Restricted contributions		—	449	—	—	449
Restricted investment income		—	22	—	—	22
Net assets released from restrictions for operations		—	(51)	—	—	(51)
Net assets released from restrictions for property, plant, and equipment		—	(15)	—	—	(15)
Change in beneficial interest in foundations		438	—	—	(438)	—
Other		—	7	—	—	7
Increase (decrease) in temporarily restricted net assets		438	438	—	(438)	438
Temporarily restricted net assets at beginning of year		1,275	1,275	—	(1,275)	1,275
Temporarily restricted net assets at end of year	$	1,713	1,713	—	(1,713)	1,713
Permanently restricted net assets:						
Permanently restricted net assets at beginning of year	$	—	—	—	—	—
Permanently restricted net assets at end of year	$	—	—	—	—	—

(Continued)

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2014

(In thousands)

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Unrestricted net assets:				
Revenue in excess of expenses and losses	$ (4,264)	4,207	—	(57)
Transfers (to) from affiliates	25,357	(11,163)	—	14,194
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	—	28	—	28
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Forgiveness of receivable from Foundation	(123)	123	—	—
Other	—	—	—	—
Increase in unrestricted net assets	20,970	(6,805)	—	14,165
Unrestricted net assets at beginning of year	64,068	41,915	—	105,983
Unrestricted net assets at end of year	$ 85,038	35,110	—	120,148
Temporarily restricted net assets:				
Change in net unrealized gains on investments	$ —	—	—	—
Restricted contributions	4	53	—	57
Restricted investment income	—	—	—	—
Net assets released from restrictions for operations	—	(14)	—	(14)
Net assets released from restrictions for property, plant, and equipment	—	(28)	—	(28)
Change in beneficial interest in foundations	—	—	—	—
Other	—	—	—	—
Increase (decrease) in temporarily restricted net assets	4	11	—	15
Temporarily restricted net assets at beginning of year	144	356	—	500
Temporarily restricted net assets at end of year	$ 148	367	—	515
Permanently restricted net assets:				
Permanently restricted net assets at beginning of year	$ —	2	—	2
Permanently restricted net assets at end of year	$ —	2	—	2

(Continued)

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2014

(In thousands)

	Froedtert Health (Parent Only)	Froedtert Health Hometown Pharmacy	Eliminations and consolidating entries	Consolidated Froedtert Health (Parent Only)
Unrestricted net assets:				
Revenue in excess of expenses and losses	$ 130,665	(397)	199	130,467
Transfers (to) from affiliates	460,953	—	—	460,953
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	—	—	—	—
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Forgiveness of receivable from Foundation	—	—	—	—
Other	—	—	—	—
Increase (decrease) in unrestricted net assets	591,618	(397)	199	591,420
Unrestricted net assets at beginning of year	38,361	818	(480)	38,699
Unrestricted net assets at end of year	$ 629,979	421	(281)	630,119
Temporarily restricted net assets:				
Change in net unrealized gains on investments	$ —	—	—	—
Restricted contributions	—	—	—	—
Restricted investment income	—	—	—	—
Net assets released from restrictions for operations	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	—	—	—	—
Change in beneficial interest in foundations	—	—	—	—
Other	—	—	—	—
Increase (decrease) in temporarily restricted net assets	—	—	—	—
Temporarily restricted net assets at beginning of year	—	—	—	—
Temporarily restricted net assets at end of year	$ —	—	—	—
Permanently restricted net assets:				
Permanently restricted net assets at beginning of year	$ —	—	—	—
Permanently restricted net assets at end of year	$ —	—	—	—

(Continued)

Schedule 3

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2014

(In thousands)

	West Bend Clinic	F&MCW Community Physicians	Progressive Physician Network	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Unrestricted net assets:					
Revenue in excess (deficient) of expenses and losses	$ —	—	(176)	—	210,316
Transfers (to) from affiliates	1,922	41,995	—	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	(205)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	2,152
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—	(5,253)
Forgiveness of receivable from Foundation	—	—	—	—	—
Other	—	690	—	—	680
Increase (decrease) in unrestricted net assets	1,922	42,685	(176)	—	207,690
Unrestricted net assets (deficit) at beginning of year	(1,922)	6,834	(3,328)	—	1,330,476
Unrestricted net assets (deficit) at end of year	$ —	49,519	(3,504)	—	1,538,166
Temporarily restricted net assets:					
Change in net unrealized gains on investments	$ —	—	—	—	422
Restricted contributions	—	—	—	—	4,128
Restricted investment income	—	—	—	—	412
Net assets released from restrictions for operations	—	—	—	—	(581)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	(2,152)
Change in beneficial interest in foundations	—	—	—	—	—
Other	—	—	—	—	7
Increase (decrease) in temporarily restricted net assets	—	—	—	—	2,236
Temporarily restricted net assets at beginning of year	—	—	—	—	9,907
Temporarily restricted net assets at end of year	$ —	—	—	—	12,143
Permanently restricted net assets:					
Permanently restricted net assets at beginning of year	$ —	—	—	—	368
Permanently restricted net assets at end of year	$ —	—	—	—	368

See accompanying independent auditors' report.

ATTACHMENT 5(c)

RESPONSE TO QUESTION 5(c)
HART-SCOTT-RODINO DETERMINATION LETTER

See Attached.

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UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
Washington, D.C. 20580

Bureau of Competition
Premerger Notification Office

September 16, 2014

Carla Hine, Esq.
McDermott Will & Emery, LLP
500 North Capitol Street, NW
Washington, DC 20001 USA

Re: EARLY TERMINATION GRANTED
Transaction Identification Number 20141501
Froedtert Health, Inc. / Ascension Health Alliance

Dear Mr. Hine :

The request for early termination of the waiting period is granted effective September 16, 2014 03:17 PM with respect to the proposed acquisition by Froedtert Health, Inc. of certain assets of Ministry Holdings, Inc. from Ascension Health Alliance. Early termination of the waiting period is provided by Section 7A(b)(2) of the Clayton Act and Sections 803.10(b) and 803.11(c) of the Premerger Notification Rules.

Notice of this termination will be published in the Federal Register in accordance with Section 7a(b)(2) of the Clayton Act and Section 803.11(c) of the Premerger Notification Rules and on the Federal Trade Commission's internet site [http://www.ftc.gov/bc/earlyterm/index.html].

If you have any questions concerning this matter, please contact me at 202-326-3589.

Sincerely,

Renee A. Chapman
Contact Representative
Premerger Notification Office
Bureau of Competition