



**FROEDTERT HEALTH, INC. AND AFFILIATES**  
Consolidated Financial Statements and Schedules  
June 30, 2021 and 2020  
(With Independent Auditors' Report Thereon)

## FROEDTERT HEALTH, INC. AND AFFILIATES

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## Independent Auditors' Report

The Board of Directors  
Froedtert Health, Inc.:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Froedtert Health, Inc. and Affiliates (FH), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Froedtert Health, Inc. and Affiliates as of June 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



*Other Matter*

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

KPMG LLP

Milwaukee, Wisconsin  
September 17, 2021

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Consolidated Balance Sheets

June 30, 2021 and 2020

(In thousands)

<b>Assets</b>	<b>2021</b>	<b>2020</b>
Current assets:		
Cash and cash equivalents	\$ 176,372	311,572
Assets whose use is limited	7,852	3,994
Patient accounts receivable	388,763	302,652
Other receivables	21,084	17,101
Inventories and supplies	45,613	44,636
Collateral held for securities loaned	279,018	212,055
Prepays and other	34,314	25,970
Total current assets	<u>953,016</u>	<u>917,980</u>
Investments	2,264,147	1,697,839
Assets whose use is limited or restricted	179,061	113,259
Investments in unconsolidated affiliates	275,657	235,258
Property, plant, and equipment, net	1,534,214	1,551,825
Other assets, net	359	3,142
Total assets	<u>\$ 5,206,454</u>	<u>4,519,303</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current installments of long-term debt	\$ 10,202	9,739
Current portion of lease liabilities	15,585	15,868
Accounts payable	70,896	88,623
Accrued expenses	344,993	261,694
Payable under securities lending agreement	279,018	212,055
Estimated settlements to third-party payors	19,179	19,900
Medicare accelerated payment program advance	161,192	173,356
Total current liabilities	<u>901,065</u>	<u>781,235</u>
Long-term debt, less current installments	643,618	653,952
Long-term lease liabilities	213,048	230,971
Other long-term liabilities	136,581	156,834
Total liabilities	<u>1,894,312</u>	<u>1,822,992</u>
Net assets:		
Net assets without donor restrictions	3,282,684	2,674,502
Noncontrolling interest in consolidated joint ventures	12,712	9,183
Total net assets without donor restrictions	<u>3,295,396</u>	<u>2,683,685</u>
Net assets with donor restrictions	16,746	12,626
Total net assets	<u>3,312,142</u>	<u>2,696,311</u>
Total liabilities and net assets	<u>\$ 5,206,454</u>	<u>4,519,303</u>

See accompanying notes to consolidated financial statements.

**FROEDTERT HEALTH, INC. AND AFFILIATES**

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

Years ended June 30, 2021 and 2020

(In thousands)

	<b>2021</b>	<b>2020</b>
Revenue:		
Patient service revenue	\$ 2,970,792	2,558,502
Other operating revenue	141,329	152,174
Total revenue	3,112,121	2,710,676
Expenses:		
Salaries	1,088,932	947,265
Fringe benefits	268,260	238,893
Supplies	723,146	628,596
Contract services	142,712	124,135
Affiliate support	163,416	142,530
Depreciation and amortization	134,598	131,681
Interest	33,849	34,637
Other	335,345	298,576
Total expenses	2,890,258	2,546,313
Operating revenue in excess of expenses	221,863	164,363
Nonoperating gains (losses):		
Investment return	332,791	8,409
Change in fair value of interest rate swaps	16,724	(24,886)
Community health initiatives	(250)	(5,689)
Other components of pension cost	(1,199)	(7,663)
Loss on early extinguishment of debt	(132)	—
Bargain purchase price gain on acquisition of Holy Family Memorial	10,922	—
Total nonoperating gains (losses), net	358,856	(29,829)
Revenue and gains in excess of expenses and losses	580,719	134,534
Other changes in net assets without donor restrictions:		
Change in net unrealized gains and losses on other-than-trading securities	(3,141)	1,007
Contributions and net assets released from restrictions for property, plant, and equipment	301	1,517
Change in accrued pension benefits other than net periodic benefit costs (Distributed) contributed capital (to) from minority partners in consolidated affiliates, net	28,428	(10,482)
Noncontrolling interest in Holy Family Memorial net assets	(1,617)	3,667
Other	7,480	—
Increase in net assets without donor restrictions	(459)	(24)
Increase in net assets without donor restrictions	611,711	130,219
Net assets without donor restrictions at beginning of year	2,683,685	2,553,466
Net assets without donor restrictions at end of year	\$ 3,295,396	2,683,685

See accompanying notes to consolidated financial statements.

**FROEDTERT HEALTH, INC. AND AFFILIATES**  
Consolidated Statements of Changes in Net Assets  
Years ended June 30, 2021 and 2020  
(In thousands)

	<b>Net assets without donor restrictions</b>	<b>Net assets with donor restrictions</b>	<b>Total</b>
Balance, June 30, 2019	\$ 2,553,466	16,126	2,569,592
Revenue and gains in excess of expenses and losses	134,534	—	134,534
Investment return	—	65	65
Change in net unrealized gains and losses on investments of other-than-trading securities	1,007	—	1,007
Restricted contributions	—	4,653	4,653
Net assets released from restrictions for operations	—	(6,721)	(6,721)
Contributions and net assets released from restrictions for property, plant, and equipment	1,517	(1,517)	—
Change in accrued pension benefits other than net periodic benefit costs	(10,482)	—	(10,482)
Contributed capital from minority partners in consolidated affiliates	3,667	—	3,667
Other	(24)	20	(4)
Change in net assets	<u>130,219</u>	<u>(3,500)</u>	<u>126,719</u>
Balance, June 30, 2020	<u>2,683,685</u>	<u>12,626</u>	<u>2,696,311</u>
Revenue and gains in excess of expenses and losses	580,719	—	580,719
Investment return	—	1,503	1,503
Change in net unrealized gains and losses on investments of other-than-trading securities	(3,141)	—	(3,141)
Restricted contributions	—	5,189	5,189
Net assets released from restrictions for operations	—	(2,295)	(2,295)
Contributions and net assets released from restrictions for property, plant, and equipment	301	(301)	—
Change in accrued pension benefits other than net periodic benefit costs	28,428	—	28,428
Distributed capital to minority partners in consolidated affiliates, net	(1,617)	—	(1,617)
Noncontrolling interest in Holy Family Memorial net assets	7,480	—	7,480
Other	(459)	24	(435)
Change in net assets	<u>611,711</u>	<u>4,120</u>	<u>615,831</u>
Balance, June 30, 2021	<u>\$ 3,295,396</u>	<u>16,746</u>	<u>3,312,142</u>

See accompanying notes to consolidated financial statements.

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 615,871	126,719
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	131,336	130,166
Loss on disposal of property, plant, and equipment	497	190
Distributed (contributed) capital to(from) minority partners in consolidated affiliates, net	1,617	(3,667)
Income from equity interests in unconsolidated affiliates	(44,587)	(34,383)
Distributions from equity interests in unconsolidated affiliates	10,357	11,931
Restricted contributions and investment return	(5,530)	(3,215)
Net assets released from restrictions for operations	2,295	6,721
Realized and unrealized gains and losses on unrestricted investments, net	(287,889)	36,794
Operating lease payments	(7,586)	(8,087)
Change in fair value of interest rate swap agreements	(16,726)	24,886
Change in accrued pension benefits other than net periodic benefit costs	(28,428)	10,482
Loss on early extinguishment of debt	132	—
Noncontrolling interest in Holy Family Memorial net assets	(7,480)	—
Bargain purchase price gain on acquisition of Holy Family Memorial	(10,922)	—
Changes in assets and liabilities:		
Patient accounts receivable	(76,149)	(10,229)
Estimated settlements to third-party payors	(1,300)	10,658
Medicare accelerated payment program advance	(22,376)	173,356
Accounts payable and accrued expenses	59,543	(2,000)
Other receivables	(1,989)	(2,507)
Inventories	1,185	(5,060)
Other assets and liabilities	22,009	(195)
Net cash provided by operating activities	<u>333,880</u>	<u>462,560</u>
Cash flows from investing activities:		
Net additions to property, plant, and equipment	(99,424)	(197,412)
Purchases of trading securities	(1,463,987)	(799,649)
Proceeds from sales or maturities of trading securities	1,096,209	711,846
Purchases of alternative investments	(445)	(22,179)
Proceeds of sales of alternative investments	37,288	46,112
Additional capital contributions in unconsolidated affiliates	(9,759)	(5,000)
Holy Family Memorial acquisition, net of cash acquired	(13,674)	—
Net cash used in investing activities	<u>(453,792)</u>	<u>(266,282)</u>
Cash flows from financing activities:		
Repayments of long-term debt and finance leases	(166,528)	(17,270)
Contributed capital from minority partners in consolidated affiliates	833	3,667
Distributions to minority partners in consolidated affiliates	(2,450)	—
Restricted contributions and investment return	5,530	3,215
Net assets released from restrictions for operations	(2,295)	(6,721)
Payments for deferred financing costs	(588)	—
Proceeds from issuance of long term debt	150,210	—
Net cash used in financing activities	<u>(15,288)</u>	<u>(17,109)</u>
Net change in cash and cash equivalents	(135,200)	179,169
Cash and cash equivalents:		
Beginning of year	311,572	132,403
End of year	<u>\$ 176,372</u>	<u>311,572</u>

See accompanying notes to consolidated financial statements.



## FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

### (1) Organization and Summary of Significant Accounting Policies

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

FMLH owns and operates an acute care hospital with 783 approved beds (of which 702 are currently staffed – unaudited), clinics, and related operations in Wauwatosa, Wisconsin. FMLH is the sole corporate member of Froedtert Hospital Foundation, Inc. (Froedtert Foundation), which is a supporting organization of FMLH. The purpose of Froedtert Foundation is to raise money and to accept contributions for the purpose of developing philanthropic support for FMLH. Froedtert Foundation solicits, allocates, and dispenses funds exclusively for the maintenance, benefit, and support of FMLH programs, services, education, and capital improvements in accordance with priorities set by the Froedtert Foundation's board of directors and donor restrictions. Froedtert Surgery Center, LLC (FSC) is a Wisconsin limited liability company created as a joint venture among FMLH and the Medical College of Wisconsin (MCW) to provide ambulatory surgery services. The ownership interest in FSC was transferred to ASC effective July 1, 2019.

CMH owns and operates an acute care hospital with 237 approved beds (of which 202 are currently staffed – unaudited) in Menomonee Falls, Wisconsin. Community Memorial Foundation of Menomonee Falls, Inc. (Community Memorial Foundation) is a separate Wisconsin not-for-profit corporation whose primary purpose is to raise money and to accept contributions for the purpose of developing philanthropic support for CMH. Community Memorial Foundation solicits, allocates, and dispenses funds for the maintenance, benefit, and support of CMH programs, services, education, and capital improvements in accordance with priorities set by the Community Memorial Foundation's board of directors and donor restrictions. CMH is also the sole corporate member of Community Outpatient Health Services of Menomonee Falls, Inc. (COHS). COHS is a primary care clinic for the indigent. CMH wholly owned Menomonee Falls Ambulatory Surgery Center, LLC (MFASC) through June 30, 2019. The ownership interest in MFASC was transferred to ASC effective July 1, 2019.

SJH owns and operates an acute care hospital with 70 approved and staffed beds (unaudited) in West Bend, Wisconsin. SJH is the sole corporate member of St. Joseph's Community Foundation, Inc. (St. Joseph's Foundation), which is a supporting organization of SJH. The purpose of St. Joseph's Foundation is to raise money and to accept contributions for the purpose of developing philanthropic support for SJH and CP. St. Joseph's Foundation solicits, allocates, and dispenses funds for the maintenance, benefit, and support of SJH and CP programs, services, education, and capital improvements in accordance with priorities set by the St. Joseph's Foundation's board of directors and donor restrictions. SJH was also the sole member of West Bend Surgery Center, LLC (WBSC), an ambulatory surgery center in West Bend, Wisconsin, through June 30, 2019. The ownership interest in WBSC was transferred to ASC effective July 1, 2019.

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

FH owns and operates Neighborhood, a small-scale acute care neighborhood hospital with multiple locations that are in New Berlin and Pewaukee, Wisconsin. Each neighborhood hospital location has a seven-bed emergency department and eight inpatient beds for patients requiring additional care, observation, and tests. The facilities also provide laboratory, pharmacy, and imaging service. They are designed to treat medical emergencies that require attention beyond an urgent care clinic's capability. Both locations began operations in 2020.

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

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

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

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

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

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

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

On March 1, 2021, FH acquired 80% interest in Holy Family Memorial, Inc. (HFM) as disclosed in note 1(r).

Investments in joint ventures in which 20% to 50% interest is held are accounted for using the equity method of accounting. Investments in joint ventures with less than a 20% interest and for which FH does not exercise significant control are accounted for using the cost method. Investments in which greater than 50% interest is held are consolidated with the recording of a noncontrolling interest in consolidated joint venture within net assets without donor restrictions.

Investments accounted for under the equity method are recorded initially at cost and subsequently adjusted for FH's share of the net income or loss and cash contributions and distributions to or from these entities and are recorded within investments in unconsolidated affiliates within the consolidated balance sheets. FH's proportionate share of the net income or loss of these companies is included in other operating revenue in the consolidated statements of operations and changes in net assets without donor restrictions.

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

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

At June 30, 2021 and 2020, FH, FMLH, Froedtert Foundation, CMH, Community Memorial Foundation, SJH, and St. Joseph's Foundation are members of the obligated group (Obligated Group) for the purposes of the issuance of revenue bonds (note 7). The Obligated Group consisted only of these members and excludes all other FH affiliates. Total combined assets of the FH affiliates, which are not members of the Obligated Group, were \$357,638 and \$309,628 at June 30, 2021 and 2020, respectively. Total combined net assets of the same entities were \$209,346 and \$127,342 at June 30, 2021 and 2020 and total combined revenue and gains deficient of expenses and losses were \$34,744 and \$(2,138) for the years ended June 30, 2021 and 2020, respectively.

The significant accounting policies of FH are as follows:

#### **(a) Principles of Consolidation**

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

#### **(b) Net Assets**

Net assets with donor restrictions are those whose use by FH has been limited by donors to a specific time period or purpose and those that are required to be maintained in perpetuity. Unconditional promises to give cash and other assets to FH are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as operating revenue in the consolidated statements of operations and changes in net assets without donor restrictions if restricted for operating purposes and as an increase to net assets without donor restrictions, if restricted for property, plant, and equipment. Gifts for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions that are met within the same reporting period, are reported as other operating revenue.

#### **(c) Assets Whose Use is Limited or Restricted**

Assets whose use is limited or restricted include assets set aside by management for executive compensation agreements, affiliate support, program development and physician recruitment, community health initiatives, assets held by trustees under debt agreements, and assets whose use is restricted by donors. Assets whose use is limited are reported as net assets without donor restrictions. Assets whose use is restricted by donors are reported as net assets with donor restrictions. Short-term highly liquid restricted cash equivalents and investments are classified as assets whose use is limited and not as cash and cash equivalents in the consolidated balance sheets. Cash equivalents held as investments are treated as investing activities for cash flow reporting.

## FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

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

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

### **(e) Patient Service Revenue**

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

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

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

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

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

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

consolidated statements of operations and changes in net assets without restrictions. Unrealized gains and losses are included in revenue and gains in excess of expenses and losses as management considers all investments to be trading securities, other than investments held in certain project funds, which are considered other-than-trading securities.

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

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

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

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

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

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

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

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

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

#### **(g) Inventories and supplies**

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

#### **(h) Property, Plant, and Equipment**

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

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

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

FH periodically assesses the recoverability of long-lived assets (including property, plant, and equipment) when indications of potential impairment, based on estimated, undiscounted future cash flows exist. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining whether there is an impairment of the asset. No impairments were recorded in 2021 or 2020.

#### **(j) Long-Term Debt – Costs of Borrowing**

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

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

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

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

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

## FROEDTERT HEALTH, INC. AND AFFILIATES

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### **(l) Income Taxes**

FH and its affiliates, except Neighborhood, ASC, FSC, WBSC, WDL, Inception, Exceedent, MFASC, DSC, Pharmacy, and Hart's Mills, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Neighborhood, ASC, WBSC, Inception, Exceedent, and Pharmacy are limited liability companies and are treated as disregarded entities for tax purposes. Income and losses are passed through to their members. FSC, WDL, DSC, and MFASC are limited liability companies and are treated as partnerships for tax purposes. Income and losses are passed through to their members. Hart's Mills is treated as a controlled foreign corporation and not as a separate entity for tax purposes.

FH applies Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. ASC Topic 740 prescribes a more-likely than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under ASC Topic 740, tax positions are evaluated for recognition, derecognition, and measurement using consistent criteria and provide more information about the uncertainty in income tax assets and liabilities. As of June 30, 2021 and 2020, FH does not have an asset or liability recorded for unrecognized tax positions.

### **(m) Derivative Instruments**

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

FH's interest rate swap agreements do not meet the criteria to qualify for hedge accounting treatment. FH continues to carry all of its derivatives at fair value and recognizes changes in their fair value as nonoperating gains and losses in the consolidated statements of operations and changes in net assets without donor restrictions.

### **(n) Use of Estimates**

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

### **(o) Leases**

ASC Topic 842, *Leases (ASC 842)*, was adopted by FH effective July 1, 2019 using a modified retrospective transition approach, without adjustment to the prior period comparative financial information. ASC Topic 842 requires lessees to recognize leases on the consolidated balance sheet and disclose key information about leasing arrangements. ASC 842 establishes a ROU model that requires a lessee to recognize a ROU asset and lease liability on the consolidated balance sheet for all leases. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statement of operations and changes in

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net assets without donor restrictions. In adopting and applying the standard, FH elected to adopt the package of practical expedients, including not reassessing past lease accounting, not reassessing previously capitalized initial direct costs as well as electing the short-term lease exemption. FH recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term. As of July 1, 2019, FH recorded ROU assets of \$138,019 and a corresponding leasing obligation of the same amount.

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

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

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

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

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

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

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

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



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

#### **(p) New Accounting Pronouncements**

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional guidance for a limited time to ease the potential accounting effects of transitioning away from reference rates expected to be discontinued, such as the London Interbank Offered Rate (LIBOR). The ASU was effective on issuance on March 12, 2020. The adoption of the ASU did not have an effect on the consolidated financial statements.

#### **(q) Noncontrolling Interests**

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

#### **(r) Acquisition**

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

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

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

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FH accounted for the business combination by applying the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. Determining the fair value of the assets acquired and liabilities assumed requires judgment and involves the use of significant accounting estimates and assumptions, including assumptions with respect to future cash inflows and outflows and discount rates, among others. FH recorded a \$10,922 bargain purchase price gain on acquisition as nonoperating gains (losses) within the consolidated statements of operations and changes in net assets without donor restrictions.

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

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

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

## (2) Fair Value Measurements

FH applies the provisions of ASC Topic 820, *Fair Value Measurement*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. These provisions describe a fair value hierarchy that includes three levels of inputs to be used to measure fair value. The three levels are defined as follows as interpreted for use by FH:

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

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

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

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

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Cash and cash equivalents	\$ 176,372	176,372	—	—
Collateral held for securities loaned	279,018	—	279,018	—
Investments, excluding receivable of \$3,377:				
U.S. government securities	197,549	—	197,549	—
Marketable equity securities/ mutual funds	989,629	989,629	—	—
Fixed income securities	231,263	—	231,263	—
Money market funds/fixed income mutual funds	492,467	492,467	—	—

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	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments measured at NAV <sup>1</sup>				
alternative investments:				
Low volatility equity fund	\$ 100,278	—	—	—
Real estate fund A	123,095	—	—	—
Real estate fund B	53,086	—	—	—
International fund A	23,511	—	—	—
International fund B	28,033	—	—	—
Hedge fund of funds	21,859	—	—	—
Assets whose use is limited or restricted, excluding interest receivable of \$161 and pledges receivable of \$194:				
Cash and cash equivalents	5,638	5,638	—	—
U.S. government securities	10,427	—	10,427	—
Marketable equity securities/ mutual funds	67,409	67,409	—	—
Fixed income securities	16,845	—	16,845	—
Money market funds/fixed income mutual funds	67,523	67,523	—	—
Investments measured at NAV <sup>1</sup>				
alternative investments:				
Low volatility equity fund	5,293	—	—	—
Real estate fund A	6,498	—	—	—
Real estate fund B	2,802	—	—	—
International fund A	1,242	—	—	—
International fund B	1,479	—	—	—
Hedge fund of funds	1,153	—	—	—
Other	249	—	249	—
Total assets	\$ <u>2,902,718</u>	<u>1,799,038</u>	<u>735,351</u>	<u>—</u>
Liabilities:				
Payable under securities lending agreement	\$ 279,018	—	279,018	—
Interest rate swap agreements	42,863	—	42,863	—
Total liabilities	\$ <u>321,881</u>	<u>—</u>	<u>321,881</u>	<u>—</u>

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

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 311,572	311,572	—	—
Collateral held for securities loaned	212,055	—	212,055	—
Investments, excluding interest receivable of \$3,540:				
U.S. government securities	216,098	—	216,098	—
Marketable equity securities/ mutual funds	619,800	619,800	—	—
Fixed income securities	264,646	—	264,646	—
Money market funds/ fixed income mutual funds	251,594	251,594	—	—
Investments measured at NAV <sup>1</sup> alternative investments:				
Low volatility equity fund	84,309	—	—	—
Real estate fund A	120,001	—	—	—
Real estate fund B	71,500	—	—	—
International fund A	19,613	—	—	—
International fund B	19,227	—	—	—
Hedge fund of funds	27,511	—	—	—
Assets whose use is limited or restricted, excluding interest receivable of \$138 and pledges receivable of \$498:				
Cash and cash equivalents	4,880	4,880	—	—
U.S. government securities	9,788	—	9,788	—
Marketable equity securities/ mutual funds	39,346	39,346	—	—
Fixed income securities	16,390	—	16,390	—
Money market funds/ fixed income mutual funds	30,412	30,412	—	—

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

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

For the year ended June 30, 2021 and 2020, there were no transfers in or out of Levels 1, 2, or 3.

## FROEDTERT HEALTH, INC. AND AFFILIATES

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

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 182,010	316,452
Fixed income	811,830	567,218
U.S. government securities	207,976	225,886
Equity securities	1,057,038	659,146
Alternative investments	368,578	357,962
	<u>\$ 2,627,432</u>	<u>2,126,664</u>

FH's investment policy goal is to maximize total return while preserving principal. The organization maintains 15 to 20 days of cash on deposit at area banks invested in cash equivalents or other highly liquid funds. All such deposits are readily available to meet daily operational needs. The remainder of FH's funds are invested according to its investment policy, which is monitored by the FH Investment Committee and reviewed by the board of directors on a periodic basis. An independent advisor assists with the selection of fund managers, monitors portfolio allocations, advises on routine investment decisions, and reports results to the Investment Committee on a quarterly basis. Approximately 91% of long-term investments can be liquidated within one month and 100% within one year.

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 176,372	311,572
Patient accounts receivable	388,763	302,652
Long-term investments	2,264,147	1,697,839
	<u>\$ 2,829,282</u>	<u>2,312,063</u>

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

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Assets whose use is limited or restricted:		
Under debt agreements	\$ 1,154	—
By management:		
For executive compensation agreements	44,885	35,424
For program development and physician recruitment	84,513	42,937
For community health initiatives	9,398	9,648
For other	3,259	11,024
By donors	16,746	12,626
Other	26,958	5,594
Total assets whose use is limited or restricted	\$ 186,913	117,253

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

	<b>Year ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Interest and dividends on investments	\$ 41,922	48,813
Net realized gains and losses on sale of investments	38,011	5,564
Change in net unrealized gains and losses on investments	251,543	(42,723)
Total investment return	\$ 331,476	11,654



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

	<b>Year ended June 30</b>	
	<b>2021</b>	<b>2020</b>
Other operating revenue:		
Interest and dividend income	\$ 323	2,173
Nonoperating gains and losses – investment return	332,791	8,409
Other changes in net assets without donor restrictions – change in net unrealized gains and losses on investments of nontrading securities	(3,141)	1,007
Other changes in net assets with donor restrictions – investment return	1,503	65
Total investment return	\$ 331,476	11,654

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 \$273,391 and \$207,765 at June 30, 2021 and 2020, respectively. The fair market value of the collateral received under this arrangement was \$279,018 and \$212,055 at June 30, 2021 and 2020, respectively. The collateral held is comprised of cash and cash equivalents, U.S. government securities, and fixed income securities. Under the terms of the securities lending agreement, FH is not entitled to the unrealized gains on the invested collateral and, as such, has not recognized unrealized gains in the accompanying consolidated financial statements. The fair value of collateral was 102.1% of the fair value of securities loaned at June 30, 2021 and 2020.

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**(5) Property, Plant, and Equipment**

Property, plant, and equipment are summarized as follows:

	June 30	
	2021	2020
Land and land improvements	\$ 48,291	47,336
Building and leasehold improvements	414,319	380,622
Buildings	1,012,760	997,652
Fixed equipment	204,562	194,175
Movable equipment	861,861	794,239
Finance lease ROU assets	152,875	152,502
Operating lease ROU assets	119,016	122,288
Construction in progress	95,957	122,742
Total property, plant, and equipment	2,909,641	2,811,556
Less accumulated depreciation and amortization	1,375,427	1,259,731
Property, plant, and equipment, net	\$ 1,534,214	1,551,825

Construction in progress at June 30, 2021 primarily relates to facility expansion, facility renovation, and equipment at the hospitals and clinic campuses. Contractually committed costs remaining for expansion and renovation projects totaled approximately \$61,700 at June 30, 2021.

**(6) Leases**

In 1980, FMLH entered into a land lease agreement with Milwaukee County to lease the land on which the hospital resides. The lease terms are for FMLH to pay one dollar annually through 2030 and a mutually agreed-upon amount in years 2031 through 2079. If the parties cannot mutually agree upon an amount, the annual rent will be determined as fair market value of the leased land times 10%. In December 1995, FMLH purchased certain assets of John L. Doyne Hospital (Doyne). As part of the purchase, FMLH entered into an amendment to the original land lease agreement to include the land previously used by Doyne. The lease payments on the new land lease are calculated as one dollar plus 5.25% of FMLH's annual operating cash flow, as defined in the agreement, for each of the years through 2020 and one dollar annually in years 2021 to 2079. In April 2020, the lease was terminated and FMLH purchased the land with two purchase price installment payments to be paid December 31, 2020 (first payment) and 2021 (second payment), respectively. The first payment is calculated similar to previous land lease payments as 5.25% of certain fiscal year 2020 operating cash flow. The second payment is calculated as 5.25% of certain fiscal year 2021 operating cash flow multiplied times 50%. As a result of the purchase, FMLH recorded land asset of \$15,507, as of June 30, 2020, which includes the first and second payments, an estimate for assumed liabilities, and certain closing costs. The asset was adjusted down to \$13,067 as of June 30, 2021 once the transaction details were finalized.

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

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Operating lease cost	\$ 10,981	10,455
Finance lease cost:		
Amortization of ROU assets	9,886	9,802
Interest on lease liabilities	7,091	7,371
Total finance lease cost	16,977	17,173
Variable lease cost	9,258	8,784
Short-term lease cost	4,054	5,883
Total lease cost	<u>\$ 41,270</u>	<u>42,295</u>
Operating leases:		
Equipment and office space	\$ 119,016	122,288
Accumulated amortization	(17,655)	(9,380)
Property, plant, and equipment, net	<u>\$ 101,361</u>	<u>112,908</u>
Current portion of lease liabilities	\$ 7,509	7,807
Long-term lease liabilities	95,709	105,867
Total operating lease liabilities	<u>\$ 103,218</u>	<u>113,674</u>
Finance leases:		
Equipment and office space	\$ 152,875	152,502
Accumulated amortization	(53,064)	(43,167)
Property, plant, and equipment, net	<u>\$ 99,811</u>	<u>109,335</u>
Current portion of lease liabilities	\$ 8,076	8,061
Long-term lease liabilities	117,339	125,104
Total finance lease liabilities	<u>\$ 125,415</u>	<u>133,165</u>

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	<u>2021</u>	<u>2020</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	\$ 7,586	8,087
Operating cash flow from finance leases	7,091	7,371
Financing cash flow from finance lease	8,123	7,486
ROU assets obtained in exchange for lease obligations:		
Operating leases	\$ —	—
Finance leases	—	—
Reductions to ROU assets resulting from reductions to lease obligations:		
Operating leases	\$ 3,273	606
Finance leases	—	—
Weighted average remaining term:		
Operating leases	12.5 years	13.4 years
Finance leases	11.7 years	12.5 years
Weighted average discount rate:		
Operating leases	2.09 %	2.04 %
Finance leases	2.97	2.84

Maturities of lease liabilities under noncancellable leases as of June 30, 2021 are as follows:

	<u>Operating leases</u>	<u>Finance leases</u>
2022	\$ 9,732	14,761
2023	9,864	14,894
2024	9,995	15,039
2025	9,952	15,316
2026	9,402	15,215
Thereafter	<u>70,738</u>	<u>93,825</u>
Total undiscounted lease payments	119,683	169,050
Less imputed interest	<u>(16,465)</u>	<u>(43,635)</u>
Total lease liabilities	<u>\$ 103,218</u>	<u>125,415</u>

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**(7) Long-Term Debt**

Long-term debt is summarized as follows:

	June 30	
	2021	2020
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 4.66% in 2021 and 4.60% in 2020)	\$ 150,320	150,645
Revenue bonds, Series 2013A – the remaining principal plus interest paid off in 2021. Interest rate variable based on market conditions (0.87% at June 24, 2021, effective rate of interest 3.95% in 2021 and 5.11% in 2020)	—	71,415
Revenue bonds, Series 2015A – principal payments due in sinking fund installments ranging from \$31,820 to \$34,870 from 2043 to 2045. Interest rate is fixed at 4.686% (effective rate of interest of 4.72% in both 2021 and 2020)	100,000	100,000
Revenue bonds, Series 2017A – annual principal payments range from \$5,600 to \$22,490, plus interest each year through 2048, ranging from 4.00% to 5.00% (effective rate of interest 4.27% in 2021 and 4.28% in 2020)	235,820	242,355
Revenue bonds, Series 2017B – the remaining principal plus interest paid off in 2021. Interest rate is variable based on market conditions (0.87% at June 24, 2021, effective rate of interest 2.34% in 2021 and 2.13% in 2020)	—	80,000
Revenue bonds, Series 2021A – annual principal payments range from \$3,095 to \$9,295, plus interest each year through 2035. Interest is variable based on market conditions (0.28% for 2021, effective rate of interest 0.28% for 2021)	69,375	—
Revenue bonds, Series 2021B – principal payments due in installments ranging from \$320 to \$27,120 from 2044 to 2048. Interest is variable based on market conditions (0.36% for 2021, effective rate of interest 0.36% for 2021)	80,835	—
Other	211	339
	<u>636,561</u>	<u>644,754</u>
Unamortized bond premiums and debt issuance costs, net	17,259	18,937
Total	653,820	663,691
Current installments of long-term debt	<u>10,202</u>	<u>9,739</u>
Total long-term debt	<u>\$ 643,618</u>	<u>653,952</u>

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Pursuant to the terms of the master trust indenture, each Obligated Group member is jointly and severally liable for the guaranty of principal and interest on the master note issued to secure the revenue bonds issued by WHEFA and by FH (2015A) on behalf of the Obligated Group. The Master Trust Indenture obligations related to the Series 2012A, 2015A, 2017A, 2021A, and 2021B bonds and the standby bond purchase agreements related to the 2021A and 2021B bonds also place limits on the incurrence of additional borrowings and requires that the Obligated Group satisfy certain measures of financial performance as long as the bonds are outstanding.

Cash payments for interest, net of amounts capitalized, and monthly swap settlements were \$35,341 and \$35,297 for the years ended June 30, 2021 and 2020, respectively.

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

2022	\$	10,202
2023		10,477
2024		10,761
2025		10,990
2026		11,260
Thereafter		<u>582,671</u>
	\$	<u><u>636,361</u></u>

FH has an outstanding guaranty for payment of certain debt of another corporation. The debt guaranty is for an amount up to \$10,000 as of June 30, 2021. FH has not been required to make any payments or accruals related to this guaranty as of June 30, 2021.

#### **(8) Derivative Instruments and Hedging Activities**

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

##### **(a) Objectives and Strategies**

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

By using derivative financial instruments to hedge exposures to changes in interest rates, FH exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty

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

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

**(b) Interest Rate Swap Agreements**

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

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

The interest rate swap agreements for the Obligated Group at June 30, 2021 and 2020 consist of the following:

<u>Associated series</u>	<u>Original notional amount</u>	<u>Maturity date</u>	<u>Fixed pay rate</u>	<u>Variable pay rates at June 30</u>	
				<u>2021</u>	<u>2020</u>
2021A/2013A bonds	\$ 94,050	April 1, 2035	3.37 %	0.133 %	0.317
2021B/2017B bonds	80,000	April 1, 2048	2.92	0.064	—

The fair value of the interest rate swaps of \$42,865 and \$59,589 is included in other long-term liabilities in the consolidated balance sheets at June 30, 2021 and 2020, respectively. The change in fair value of the interest rate swaps of \$16,724 and \$(24,886) is included in nonoperating gains and losses in the consolidated statements of operations and changes in net assets without donor restrictions for the years ended June 30, 2021 and 2020, respectively.

Cash paid for monthly settlement under the interest rate swap agreements was \$3,411 and \$1,670 for the fiscal years ended June 30, 2021 and 2020, respectively, and is included within interest expense in the consolidated statements of operations and changes in net assets without donor restrictions. No cash was received under the interest rate swap agreements for the years ended June 30, 2021 or 2020. No swap collateral posting was required at June 30, 2021 or 2020, respectively.

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**(9) Net Assets With Donor Restrictions**

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

	2021	2020
Capital	\$ 2,807	310
Education and research	4,298	1,642
Patient care	1,076	507
Other	8,565	10,167
	\$ 16,746	12,626

**(10) Patient Service Revenue**

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

**Medicare** – Inpatient acute care, most outpatient, and defined capital costs for services rendered to Medicare beneficiaries are paid at prospectively determined rates per case. These rates vary according to a payment classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, medical education, and certain organ acquisition costs related to Medicare beneficiaries are paid based upon cost reimbursement methods, established fee screens, or a combination thereof. FMLH, CMH, SJH, HFM, and Neighborhood are reimbursed for cost reimbursement items at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The FMLH cost reports have been audited by the Medicare Administrative Contractor through June 30, 2016. The CMH cost reports have been audited by the Medicare Administrative Contractor through June 30, 2018. The SJH cost reports have been audited by the Medicare Administrative Contractor through June 30, 2018. The HFM cost reports have been audited by the Medicare Administrative Contractor through December 31, 2017.

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

Wisconsin's Economic Recovery Act includes a tax assessment on hospital revenues. Funds collected under the tax are used to increase federal funding for the Wisconsin Medicaid program. FH recognized \$62,174 and \$54,404 of increased Medicaid reimbursement and \$50,050 and \$47,802 of tax expense as a result of the law for the years ended June 30, 2021 and 2020, respectively. The Medicaid reimbursement and tax assessment expense are recorded in patient service revenue and other expense, respectively, in the 2021 and 2020 consolidated statements of operations and changes in net assets without donor restrictions.

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



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

Settlements with third-party payers for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (i.e., new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. During 2021 there were no changes in the estimated settlement and in 2020, changes to prior year variable consideration resulted in a decrease of patient service revenue of \$2,000, due to appeals, cost report settlements, and other adjustments to prior year.

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

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

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

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

	<u>2021</u>	<u>2020</u>
Medicare	29 %	29 %
Medicaid	8	8
Managed care/contracted payor	48	49
Self-pay	1	1
Other	14	13
	<u>100 %</u>	<u>100 %</u>

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

	<u>2021</u>	<u>2020</u>
Hospital inpatient	\$ 1,215,352	1,118,442
Hospital outpatient	1,065,416	913,426
Physician clinics	278,877	232,214
Ambulatory surgery centers	26,901	20,525
Other	384,246	273,895
	<u>\$ 2,970,792</u>	<u>2,558,502</u>

**(11) Concentration of Credit Risk**

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

	<u>2021</u>	<u>2020</u>
Medicare	24 %	25 %
Medicaid	10	10
Managed care/contracted payor	46	44
Self-pay	13	15
Other	7	6
	<u>100 %</u>	<u>100 %</u>

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**(12) Charity Care**

FH provides uncompensated care based on the cost of providing care to patients, in accordance with established policies. FH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because FH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The estimated amount of cost incurred for services and supplies furnished under FH's charity care policy was \$12,226 and \$10,828 for the years ended June 30, 2021 and 2020, respectively.

**(13) Functional Expenses**

FH provides healthcare services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets without donor restrictions as of June 30, 2021 and 2020 are as follows:

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

  

<u>2020</u>	<u>Healthcare services</u>	<u>General and administration</u>	<u>Total</u>
Salaries and fringe benefits	\$ 1,030,043	156,115	1,186,158
Supplies and contract services	672,592	80,139	752,731
Depreciation and amortization	116,223	15,458	131,681
Interest	29,913	4,724	34,637
Affiliate support and other	358,620	82,486	441,106
	<u>\$ 2,207,391</u>	<u>338,922</u>	<u>2,546,313</u>

**(14) Related Organizations and Other Significant Transactions**

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

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

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Mission Related Funds Flow Agreement (Funds Flow Agreement) that summarizes the economic relationship that supports the joint missions of both organizations.

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

FH is the controlling member of CP, a physician organization formed by the combination of MCW physicians and FH physicians. CP is not a member of the Obligated Group. The financial position and results of operations of CP are included in these financial statements as of and for the years ended June 30, 2021 and 2020.

(ii) *Funds Flow Agreement*

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

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

Affiliate support relating to the Funds Flow Agreement made to MCW amounted to \$131,131 and \$117,615 for the years ended June 30, 2021 and 2020, respectively. Amounts accrued relating to the Variable Performance Payment were \$7,941 and \$3,923 in accounts payable on the consolidated balance sheets at June 30, 2021 and 2020, respectively. Also, accrued under the Funds Flow Agreement was \$71,467 and \$38,643, which is included in other long-term liabilities on the consolidated balance sheets at June 30, 2021 and 2020, respectively.

**(b) *Unconsolidated Affiliates***

(i) *Network Health, Inc.*

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

The carrying amount of the investment in NHI was \$120,261 and \$117,880 at June 30, 2021 and 2020, respectively. The excess of the carrying amount over FH's share of the equity of NHI was \$3,372 at both June 30, 2021 and 2020 and has been allocated, within the investment in unconsolidated affiliates account, to goodwill.

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FH recorded other revenue in the consolidated statements of operations and changes in net assets without donor restrictions related to its investment in NHI of \$6,024 and \$18,214 for the years ended June 30, 2021 and 2020, respectively. The 2021 other revenue is comprised of \$(248) of FH's 50% share of NHI's net gains/(losses) for the year ended June 30, 2021 and a reserve adjustment of \$6,272 for the change in premium deficiency and other reserve estimate adjustment recorded at year-end for the estimate of exposure through June 30, 2021. The 2020 other revenue is comprised of \$16,214 of FH's 50% share of NHI's net gains/(losses) for the year ended June 30, 2020 and a reserve adjustment of \$2,000 for the change in premium deficiency reserve estimate adjustment recorded at year-end for the estimate of exposure through June 30, 2020.

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

	June 30	
	2021	2020
Current assets	\$ 145,478	223,415
Current liabilities	179,271	210,510
Working capital	(33,793)	12,905
Property and equipment, net	8,187	8,562
Other long-term assets	259,383	219,093
Long-term liabilities	—	—
Net assets	\$ 233,777	240,560

Investment in NHI advances FH's accountable care strategy and movement toward population health. Partnering with a provider-based health plan expands the health system's scope and scale in terms of efficient, cost-effective care delivery. The following unaudited table is intended to show the combined results of FH and NHI for the year ended June 30, 2021 as a healthcare enterprise, with recognition of Ascension Wisconsin's equity position.

(Unaudited)	Froedtert Health Enterprise			Less other NHI equity interests and adjustments (unaudited)	FH Combined illustrative statement of operations (unaudited)
	FH Delivery System	NHI Insurance Products and Services ** (unaudited)	Combined Health Enterprise (unaudited)		
Patient service revenue	\$ 2,970,792	—	2,970,792	—	2,970,792
Premiums, net	—	985,659	985,659	(492,830)	492,829
Other operating revenue	141,329	—	141,329	(6,272)	135,057
Total revenue	3,112,121	985,659	4,097,780	(499,102)	3,598,678
Salaries and fringe benefits	1,357,192	—	1,357,192	—	1,357,192
Medical benefits and supplies	723,146	875,382	1,598,528	(437,691)	1,160,837
Contract services and affiliate support	306,128	—	306,128	—	306,128

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<u>(Unaudited)</u>	<u>Froedtert Health Enterprise</u>			<u>Less other NHI equity interests and adjustments (unaudited)</u>	<u>FH Combined illustrative statement of operations (unaudited)</u>
	<u>FH Delivery System</u>	<u>NHI Insurance Products and Services ** (unaudited)</u>	<u>Combined Health Enterprise (unaudited)</u>		
General and administrative depreciation, interest and other	\$ 503,792	118,400	622,192	(65,720)	556,472
Total expenses	<u>2,890,258</u>	<u>993,782</u>	<u>3,884,040</u>	<u>(503,411)</u>	<u>3,380,629</u>
Operating revenue in excess of expenses	221,863	(8,123)	213,740	4,309	218,049
Income tax credit	—	3,790	3,790	(1,895)	1,895
Nonoperating gains, net	<u>358,856</u>	<u>3,838</u>	<u>362,694</u>	<u>(1,919)</u>	<u>360,775</u>
Revenue and gains in excess of expenses and losses	<u>\$ 580,719</u>	<u>(495)</u>	<u>580,224</u>	<u>495</u>	<u>580,719</u>

\*\* Trailing twelve months ended June 30, 2021.

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

In October 2017, FH entered into an affiliation agreement with United Hospital System, Inc. (United); a not-for-profit corporation located in Kenosha, Wisconsin. The terms of the agreement called for FH to make a \$60,000 capital contribution to be paid in installments through December 2020 in exchange for certain governance rights and other commitments of United. In accordance with the agreement, FH contributed \$5,000 in both fiscal years 2021 and 2020. The final payment was made in fiscal year 2021. The governance rights include FH becoming a voting member and obtaining a 25% equity ownership interest in United. FH has recorded equity (loss) income related to the affiliation of \$19,074 and \$(3,103) for the years ended June 30, 2021 and 2020, respectively. FH recorded its 25% share of United's change in accrued pension benefits other than net periodic benefit costs of \$1,410 and \$(5,049) for the years ended June 30, 2021 and 2020, respectively, in the consolidated statements of operations and changes in net assets without donor restrictions. The carrying amount of the investment in United was \$86,545 and \$66,061 at June 30, 2021 and 2020, respectively.

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

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

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*(iii) Other Unconsolidated Affiliates*

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

	<b>2021</b>	<b>2020</b>
Current assets	\$ 260,683	219,312
Current liabilities	(67,035)	(52,126)
Working capital	193,648	167,186
Property and equipment, net	292,999	304,482
Other long-term assets	290,179	205,856
Long-term liabilities	(99,070)	(108,475)
Net assets	\$ 677,756	569,049
Revenues	\$ 549,698	453,315
Expenses	(446,616)	(418,091)
Excess of revenues over expenses	\$ 103,082	35,224

**(c) Noncontrolling Interest in Consolidated Joint Ventures**

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

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

	<u>Total</u>	<u>Controlling interest</u>	<u>Noncontrolling interest</u>
Balance, June 30, 2019	\$ 2,553,466	2,547,372	6,094
Revenue and gains in excess of expenses and losses	134,534	135,112	(578)
Changes in net unrealized gains and losses on other-than-trading securities	1,007	1,007	—
Contributions and net assets released from restrictions for property, plant, and equipment	1,517	1,517	—
Change in accrued pension benefits other than net periodic benefit costs	(10,482)	(10,482)	—
Investment in ambulatory surgery center from noncontrolling interest	3,667	—	3,667
Other	(24)	(24)	—
Changes in net assets	<u>130,219</u>	<u>127,130</u>	<u>3,089</u>
Balance, June 30, 2020	<u>2,683,685</u>	<u>2,674,502</u>	<u>9,183</u>
Revenue and gains in excess of expenses and losses	580,719	581,690	(971)
Changes in net unrealized gains and losses on other-than-trading securities	(3,141)	(3,141)	—
Contributions and net assets released from restrictions for property, plant, and equipment	301	301	—
Change in accrued pension benefits other than net periodic benefit costs	28,428	28,428	—
Noncontrolling interest in Holy Family Memorial	7,480	—	7,480
Distribution to minority partner, net	(1,617)	—	(1,617)
Other	(459)	904	(1,363)
Changes in net assets without donor restrictions	<u>611,711</u>	<u>608,182</u>	<u>3,529</u>
Balance, June 30, 2021	<u>\$ 3,295,396</u>	<u>3,282,684</u>	<u>12,712</u>



**FROEDTERT HEALTH, INC. AND AFFILIATES**

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**(15) Employee Benefit Plans**

**(a) Defined Contribution Plans**

FH sponsors the Froedtert Health 403(b) Plan (FH 403(b) Plan), covering substantially all FH employees. The FH 403(b) Plan provides a nonelective employer contribution, which varies based on employee's service from 2.5% of pay for employees with less than 5 years of service to 4.5% of pay for employees with 26 or more years of service. The nonelective employer contribution is also provided for those employees that no longer qualify for future service in the CMH defined benefit plan. It also provides a matching employer contribution of 50% of the first 6% of pay deferred by an employee. FH's nonelective and matching contributions to these plans are made annually and each pay period, respectively. FH's pension expense for the plan was \$44,254 and \$43,029 for the years ended June 30, 2021 and 2020, respectively.

**(b) Defined Benefit Plans**

FMLH has a defined benefit plan (the FMLH Plan), sponsored by FH, that covers certain former Milwaukee County employees who became employees of FMLH. FMLH and WDL are responsible for funding 10% of the FMLH Plan, with Milwaukee County funding 90%. FMLH has recorded the difference between the projected benefit obligation and the fair market value of plan. There is a corresponding long-term receivable from Milwaukee County for their portion of the unfunded projected benefit obligation of \$(1,878) and \$1,460 at June 30, 2021 and 2020, respectively, included in other assets, net on the consolidated balance sheets. FMLH's pension expense for the FMLH Plan was \$(133) and \$100 for the years ended June 30, 2021 and 2020, respectively.

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

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

	<b>2021</b>	<b>2020</b>
Change in pension benefit obligation:		
Projected benefit obligation at beginning of year	\$ 72,075	73,740
Service cost	620	678
Interest cost	1,942	2,507
Plan settlements	—	(6,724)
Actuarial loss (gain)	1,716	(752)
Change in mortality assumption	(823)	(849)
Change in discount rate	505	7,135
Expenses paid	(380)	(402)
Benefits paid	(2,945)	(3,258)
Projected benefit obligation at end of year	72,710	72,075

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	70,552	71,434
Actual return on plan assets	7,872	8,407
Employer contributions	1,292	1,095
Plan settlements	—	(6,724)
Expenses paid	(380)	(402)
Benefits paid	(2,945)	(3,258)
	<u>76,391</u>	<u>70,552</u>
Fair value of plan assets at end of year		
Funded status	\$ <u>3,681</u>	\$ <u>(1,523)</u>
	<u>2021</u>	<u>2020</u>
Accumulated benefit obligation	\$ 70,888	\$ 69,159
	<u>2021</u>	<u>2020</u>
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to net assets without donor restrictions:		
Prior service cost	\$ —	\$ —
Accumulated loss	5,385	8,727
	<u>5,385</u>	<u>8,727</u>
Unrecognized pension costs	\$ <u>5,385</u>	\$ <u>8,727</u>
Net periodic pension cost comprises the following:		
Service cost	\$ 620	\$ 678
Interest cost on projected benefit obligation	1,942	2,506
Expected return on plan assets	(3,388)	(3,967)
Net amortization and deferral	257	203
Recognized settlement loss	—	819
	<u>(569)</u>	<u>239</u>
Net periodic pension cost	\$ <u>(569)</u>	\$ <u>239</u>

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
Assumptions used:		
Discount rate for measurement of pension obligation	2.70 %	2.76 %
Discount rate for determining net periodic pension cost:		
Fiscal year 2021	2.76	—
July 1, 2019 to April 30, 2020	—	3.58
May 1, 2020 to June 30, 2020	—	3.05
Rate of increase in compensation levels	3.25	3.25
Expected return of plan assets:		
Fiscal year 2021	4.85	—
July 1, 2019 to April 30, 2020	—	5.80
May 1, 2020 to June 30, 2020	—	4.85

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

As of June 30, 2021 and 2020, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the FMLH Plan.

No employer contributions are expected for the FMLH Plan for the year ended June 30, 2022. The benefits expected to be paid in each year from 2022 through 2026 are expected to be \$3,654, \$3,807, \$3,919, \$4,006, and \$4,053, respectively. The aggregate benefits to be paid in the five years from 2027 through 2031 are expected to be \$20,572. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2021.

The amount that will be recorded as net periodic benefit cost in fiscal year 2022 is estimated to be \$(433).

The asset allocation of the pension plan at June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Equity securities	14 %	33 %
Debt securities	86	67
Total	<u>100 %</u>	<u>100 %</u>

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

FMLH intends to provide an appropriate range of investment options consistent with a liability driven investments strategy to better hedge against interest rate risk and reduce funded status volatility. Investment options will allow for construction of a portfolio consistent with funded status of the plan. For funded status levels up to 90%, asset allocation is targeted as follows:

<u>Asset class</u>	<u>Target percentage</u>
Equity securities	50%–70%
Debt securities	30–50
Other	—

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

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

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

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

During fiscal year 2021, FH elected to freeze all benefit accruals under the CMH plan effective December 31, 2024. Thus, no compensation paid nor service performed after that date will be considered in determining eligibility for or accruals under the CMH Plan. Additionally, there will be no projected annual compensation increases with respect to periods after that date, which will be considered in determining projected benefits under the CMH plan. While no further benefits will accrue, FH does not intend to terminate the CMH plan at that time. The CMH Plan freeze qualifies as a

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

curtailment and resulted in a \$3,376 reduction in projected benefit obligation in fiscal year 2021. There was no impact to fiscal year 2021 net period pension cost.

Data relative to the CMH Plan for the years ended June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Change in pension benefit obligation:		
Projected benefit obligation at beginning of year	\$ 144,425	149,130
Service cost	2,459	3,141
Interest cost	4,071	5,175
Plan curtailments	(3,376)	—
Plan settlements	—	(21,143)
Actuarial loss (gain)	1,281	(1,180)
Change in mortality assumption	(1,289)	(991)
Change in discount rate	1,559	16,054
Expenses paid	(221)	(824)
Benefits paid	<u>(4,088)</u>	<u>(4,937)</u>
Projected benefit obligation at end of year	<u>144,821</u>	<u>144,425</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	104,681	121,595
Actual return on plan assets	26,298	6,215
Employer contributions	7,968	3,775
Plan settlements	—	(21,143)
Expenses paid	(221)	(824)
Benefits paid	<u>(4,088)</u>	<u>(4,937)</u>
Fair value of plan assets at end of year	<u>134,638</u>	<u>104,681</u>
Funded status	\$ <u>(10,183)</u>	<u>(39,744)</u>
	<u>2021</u>	<u>2020</u>
Accumulated benefit obligation	\$ 141,801	134,386

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

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(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to net assets without donor restrictions:		
Prior service cost	\$ —	—
Accumulated loss	<u>17,395</u>	<u>42,665</u>
Unrecognized pension costs	<u>\$ 17,395</u>	<u>42,665</u>

	<u>2021</u>	<u>2020</u>
Net periodic pension cost is comprised of the following:		
Service cost	\$ 2,459	3,141
Interest cost	4,071	5,175
Expected return on plan assets	(6,391)	(7,329)
Recognized settlement loss	—	6,469
Recognized actuarial loss	<u>3,537</u>	<u>3,002</u>
Net periodic pension cost	<u>\$ 3,676</u>	<u>10,458</u>

Assumptions used:

Discount rate for measurement of pension obligation	2.78 %	2.86 %
Discount rate for determining net periodic pension cost:		
Fiscal year 2021	2.86	—
July 1, 2019 to April 30, 2020	—	3.64
May 1, 2020 to June 30, 2020	—	3.13
Rate of increase in compensation levels	3.00–6.00	3.00–6.00
Expected return of plan assets:		
Fiscal year 2021	6.00	—
July 1, 2019 to April 30, 2020	—	6.40
May 1, 2020 to June 30, 2020	—	6.00

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

As of June 30, 2021 and 2020, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the CMH Plan.

The minimum employer contributions for the CMH Plan for the year ended June 30, 2022 are estimated to be \$4,438. The benefits expected to be paid in each year from 2022 through 2026 are \$5,153,

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

\$5,578, \$5,960, \$6,365, and \$6,710, respectively. The aggregate benefits to be paid in the five years from 2027 through 2031 are \$37,808. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2021.

The amount that will be recorded as net periodic benefit cost in fiscal year 2022 is estimated to be \$1,763.

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

	<u>2021</u>	<u>2020</u>
Equity securities	44 %	64 %
Debt securities	55	34
Other	<u>1</u>	<u>2</u>
Total	<u>100 %</u>	<u>100 %</u>

CMH intends to provide an appropriate range of investment options consistent with a liability driven investments strategy to better hedge against interest rate risk and reduce funded status volatility. Investment options will allow for construction of a portfolio consistent with funded status of the plan. For funded status levels up to 90%, asset allocation is targeted as follows:

<u>Asset class</u>	<u>Target percentage</u>
Equity securities	50%–70%
Debt securities	30–50
Other	—

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

(i) *Fair Value Measurements*

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

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

**FROEDTERT HEALTH, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

(ii) *Fair Value Hierarchy*

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

The following table presents the Plans' fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2021:

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



**FROEDTERT HEALTH, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

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

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

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

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Plan assets:				
Collateral for securities loaned \$	51,117	—	51,117	—
Investments:				
Short-term investments consisting of money market funds	\$ 3,733	3,733	—	—
Corporate stocks	51,031	51,031	—	—
Pooled equity funds	23,194	23,194	—	—
International equity funds	15,051	15,051	—	—
Marketable limited partnerships	66	66	—	—
Corporate and foreign bonds	49,108	—	49,108	—
U.S. government securities	31,053	—	31,053	—
Annuity contract	<u>1,997</u>	<u>—</u>	<u>—</u>	<u>1,997</u>
Total investments	\$ <u><u>175,233</u></u>	<u><u>93,075</u></u>	<u><u>80,161</u></u>	<u><u>1,997</u></u>
Liabilities:				
Payable under securities lending agreement	\$ 51,117	—	51,117	—

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

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

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

FH has a securities lending agreement with a financial institution whereby fixed income and equity securities are loaned to third parties in exchange for cash collateral that exceeds the market value of the securities loaned. Collateral is marked to market daily to reflect changes in fair value of the securities loaned. The fair market value of the securities loaned under this arrangement was \$53,958 and \$50,192 at June 30, 2021 and 2020, respectively. The fair market value of the collateral received under this arrangement was \$54,723 and \$51,117 at June 30, 2021 and 2020, 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, 2021 and 2020. The fair value of collateral was 101.4% and 101.8% of the fair value of securities loaned at June 30, 2021 and 2020, respectively.

#### **(c) Postretirement Medical Plan**

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

The projected benefit obligation at June 30, 2021 and 2020 using a discount rate of 2.7% and 2.76% was \$4,131 and \$4,226, respectively, of which \$206 and \$184, respectively, are included in short-term liabilities and \$3,925 and \$4,042, respectively, are included in other long-term liabilities on the consolidated balance sheets.

#### **(16) Professional Liability Insurance**

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

## FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

FH has recorded an estimated insurance recovery of \$110 at June 30, 2021 and 2020, and a related insurance liability of \$110 at June 30, 2021 and 2020.

### **(17) Commitments and Contingencies**

#### **(a) Health Insurance**

FH has a self-insured health plan that covers substantially all liability for health costs associated with claims for employees up to certain limits under a commercial stop-loss agreement. Effective January 1, 2017, Hart's Mills began to cover claims in excess of \$250 and a commercial stop-loss agreement is in place for claims that exceed \$1,000. Provisions for self-insured health claims include the ultimate cost of claims reported and claims incurred but not reported as of the consolidated balance sheet dates. Included in other accrued expenses at June 30, 2021 and 2020 are estimated amounts payable for health insurance claims incurred as of such dates of \$17,926 and \$12,126, respectively.

#### **(b) Litigation**

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

#### **(c) Regulatory Investigation and Other**

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

### **(18) COVID-19**

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

## FROEDTERT HEALTH, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

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

As of June 30, 2021 and 2020, FH received \$29,600 and \$65,868, respectively in general and targeted distributions related to the CARES Act. These funds are not subject to repayment, provided FH is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as other income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on analysis of the compliance and reporting requirements of the CARES Act and the impact of the pandemic on operating results through the end of the second quarter, FH has recorded the CARES Act distributions as other operating revenue in the consolidated statements of operations and changes in net assets without donor restrictions, in the year the distributions were received.

In June 2020, Wisconsin Department of Health Services announced the State was granted \$40,000 through the federal CARES program to be allocated to Wisconsin hospital providers for COVID-19 related lost revenue and expenses. Each hospital's initial allocation share of the \$40,000 was equal to their percentage of Medicaid revenue (inpatient and outpatient services) compared to all Medicaid hospitals in Wisconsin. In November 2020, Froedtert Health received and recorded \$5,923 as other operating revenue in the consolidated statements of operations and changes in net assets without donor restrictions.

During fiscal year 2020, FH received \$173,356 of accelerated Medicare payments under the Medicare Advanced Payment Program (APP). APP allowed eligible healthcare facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other healthcare providers. After 120 days of receipt (preliminarily beginning in August 2020), claims for services provided to Medicare beneficiaries will be applied against the advance payment balance. Recoupment of the APP funds began during fiscal year 2021 and \$161,192 remained outstanding as of June 30, 2021. FH has recorded the APP payments contract liability as a current liability on the consolidated balance sheets.

## FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

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

### **(19) Subsequent Events**

In connection with the preparation of the consolidated financial statements and in accordance with ASC Topic 855, *Subsequent Events*, FH evaluated events and transactions through September 17, 2021, the date the consolidated financial statements were issued, noting no subsequent events other than those previously disclosed requiring recording or disclosure in the consolidated financial statements or related notes to the consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 1

Consolidating Balance Sheet Information

June 30, 2021

(In thousands)

<b>Assets</b>	<b>Froedtert Memorial Lutheran Hospital</b>	<b>Froedtert Hospital Foundation</b>	<b>Eliminations and consolidating entries</b>	<b>Consolidated Froedtert Memorial Lutheran Hospital</b>
Current assets:				
Cash and cash equivalents	\$ 2,462	610	—	3,072
Assets whose use is limited	—	—	—	—
Patient accounts receivable	288,540	—	—	288,540
Other receivables	(3,853)	374	—	(3,479)
Inventories	17,547	—	—	17,547
Collateral held for securities loaned	—	—	—	—
Prepays and other	7,800	—	—	7,800
Total current assets	<u>312,496</u>	<u>984</u>	<u>—</u>	<u>313,480</u>
Investments	—	16,166	—	16,166
Assets whose use is limited or restricted	32,513	10,693	(27,408)	15,798
Investments in unconsolidated affiliates	2,800	—	—	2,800
Property, plant, and equipment, net	893,396	—	—	893,396
Other assets, net	(1,878)	—	—	(1,878)
Total assets	<u>\$ 1,239,327</u>	<u>27,843</u>	<u>(27,408)</u>	<u>1,239,762</u>
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Current installments of long-term debt	\$ 48	—	—	48
Current portion of lease liabilities	3,316	—	—	3,316
Accounts payable	17,312	308	—	17,620
Accrued expenses	62,115	127	—	62,242
Payable under securities lending agreement	—	—	—	—
Estimated settlements to third-party payors	14,666	—	—	14,666
Medicare accelerated payment program advance	118,783	—	—	118,783
Total current liabilities	<u>216,240</u>	<u>435</u>	<u>—</u>	<u>216,675</u>
Long-term debt, less current installments	124	—	—	124
Long-term lease liabilities	38,591	—	—	38,591
Other long-term liabilities	4,844	—	—	4,844
Total liabilities	<u>259,799</u>	<u>435</u>	<u>—</u>	<u>260,234</u>
Net assets (deficit):				
Without donor restrictions:				
Without donor restrictions	947,015	16,878	—	963,893
Noncontrolling interests in consolidated joint ventures	—	—	—	—
Total without donor restrictions	<u>947,015</u>	<u>16,878</u>	<u>—</u>	<u>963,893</u>
With donor restrictions	32,513	10,530	(27,408)	15,635
Total net assets	<u>979,528</u>	<u>27,408</u>	<u>(27,408)</u>	<u>979,528</u>
Total liabilities and net assets	<u>\$ 1,239,327</u>	<u>27,843</u>	<u>(27,408)</u>	<u>1,239,762</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 1

Consolidating Balance Sheet Information

June 30, 2021

(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	770	—	—	777
Assets whose use is limited	—	—	—	—	—
Patient accounts receivable	27,513	—	—	—	27,513
Other receivables	4,505	—	352	—	4,857
Inventories	2,725	—	—	—	2,725
Collateral held for securities loaned	—	—	—	—	—
Prepays and other	466	38	—	—	504
Total current assets	35,216	808	352	—	36,376
Investments	—	7,361	—	—	7,361
Assets whose use is limited or restricted	—	2,562	—	—	2,562
Investments in unconsolidated affiliates	10,187	—	—	(10,187)	—
Property, plant, and equipment, net	83,339	—	—	—	83,339
Other assets, net	—	—	—	—	—
Total assets	\$ 128,742	10,731	352	(10,187)	129,638
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Current installments of long-term debt	\$ —	—	—	—	—
Current portion of lease liabilities	—	—	—	—	—
Accounts payable	—	543	—	—	543
Accrued expenses	8,711	1	—	—	8,712
Payable under securities lending agreement	—	—	—	—	—
Estimated settlements to third-party payors	2,179	—	—	—	2,179
Medicare accelerated payment program advance	17,667	—	—	—	17,667
Total current liabilities	28,557	544	—	—	29,101
Long-term debt, less current installments	—	—	—	—	—
Long-term lease liabilities	—	—	—	—	—
Other long-term liabilities	10,184	—	—	—	10,184
Total liabilities	38,741	544	—	—	39,285
Net assets (deficit):					
Without donor restrictions:					
Without donor restrictions	89,347	9,533	352	(9,533)	89,699
Noncontrolling interests in consolidated joint ventures	—	—	—	—	—
Total without donor restrictions	89,347	9,533	352	(9,533)	89,699
With donor restrictions	654	654	—	(654)	654
Total net assets	90,001	10,187	352	(10,187)	90,353
Total liabilities and net assets	\$ 128,742	10,731	352	(10,187)	129,638

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 1

Consolidating Balance Sheet Information

June 30, 2021

(In thousands)

<b>Assets</b>	<b>St. Joseph's Community Hospital</b>	<b>St. Joseph's Community Foundation</b>	<b>Eliminations and consolidating entries</b>	<b>Consolidated St. Joseph's Community Hospital</b>
Current assets:				
Cash and cash equivalents	\$ (64)	1,886	—	1,822
Assets whose use is limited	—	—	—	—
Patient accounts receivable	15,963	—	—	15,963
Other receivables	(1,528)	95	(351)	(1,784)
Inventories	2,300	—	—	2,300
Collateral held for securities loaned	—	—	—	—
Prepays and other	177	—	—	177
Total current assets	<u>16,848</u>	<u>1,981</u>	<u>(351)</u>	<u>18,478</u>
Investments	—	35,996	—	35,996
Assets whose use is limited or restricted	187	10,538	—	10,725
Investments in unconsolidated affiliates	20	—	—	20
Property, plant, and equipment, net	64,212	—	—	64,212
Other assets, net	—	—	—	—
Total assets	<u>\$ 81,267</u>	<u>48,515</u>	<u>(351)</u>	<u>129,431</u>
<b>Liabilities and Net Assets</b>				
Current liabilities:				
Current installments of long-term debt	\$ —	—	—	—
Current portion of lease liabilities	—	—	—	—
Accounts payable	1	354	(351)	4
Accrued expenses	5,878	—	—	5,878
Payable under securities lending agreement	—	—	—	—
Estimated settlements to third-party payors	1,928	—	—	1,928
Medicare accelerated payment program advance	10,354	—	—	10,354
Total current liabilities	<u>18,161</u>	<u>354</u>	<u>(351)</u>	<u>18,164</u>
Long-term debt, less current installments	—	—	—	—
Long-term lease liabilities	—	—	—	—
Other long-term liabilities	962	—	—	962
Total liabilities	<u>19,123</u>	<u>354</u>	<u>(351)</u>	<u>19,126</u>
Net assets (deficit):				
Without donor restrictions:				
Without donor restrictions	61,957	47,891	—	109,848
Noncontrolling interests in consolidated joint ventures	—	—	—	—
Total without donor restrictions	<u>61,957</u>	<u>47,891</u>	<u>—</u>	<u>109,848</u>
With donor restrictions	187	270	—	457
Total net assets	<u>62,144</u>	<u>48,161</u>	<u>—</u>	<u>110,305</u>
Total liabilities and net assets	<u>\$ 81,267</u>	<u>48,515</u>	<u>(351)</u>	<u>129,431</u>



## FROEDTERT HEALTH, INC. AND AFFILIATES

## Consolidating Balance Sheet Information

June 30, 2021

(In thousands)

Assets	Holy Family Memorial	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Exceedent	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Current assets:								
Cash and cash equivalents	\$ 11,574	14	19,351	10,997	99,756	29,009	—	176,372
Assets whose use is limited	—	—	—	241	7,611	—	—	7,852
Patient accounts receivable	8,848	29,406	5,420	—	1,024	12,049	—	388,763
Other receivables	2,559	2,508	76,864	(9,475)	(8,615)	11,101	(53,452)	21,084
Inventories	2,291	767	2,160	—	8,702	9,121	—	45,613
Collateral held for securities loaned	—	—	—	—	279,018	—	—	279,018
Prepays and other	3,325	158	511	171	19,728	1,940	—	34,314
Total current assets	<u>28,597</u>	<u>32,853</u>	<u>104,306</u>	<u>1,934</u>	<u>407,224</u>	<u>63,220</u>	<u>(53,452)</u>	<u>953,016</u>
Investments								
Assets whose use is limited or restricted	—	—	—	—	2,188,558	16,066	—	2,264,147
Investments in unconsolidated affiliates	16,222	—	1,603	—	127,234	4,917	—	179,061
Property, plant, and equipment, net	—	—	—	—	307,931	7,427	(42,521)	275,657
Other assets, net	20,999	81,310	9,419	607	350,764	30,168	—	1,534,214
	—	60	—	—	127	2,050	—	359
Total assets	<u>\$ 65,818</u>	<u>114,223</u>	<u>115,328</u>	<u>2,541</u>	<u>3,381,838</u>	<u>123,848</u>	<u>(95,973)</u>	<u>5,206,454</u>
<b>Liabilities and Net Assets</b>								
Current liabilities:								
Current installments of long-term debt	\$ —	—	—	—	10,115	39	—	10,202
Current portion of lease liabilities	—	2,104	760	—	9,405	—	—	15,585
Accounts payable	5,918	—	2,505	1	46,939	50,778	(53,412)	70,896
Accrued expenses	7,453	31,848	6,536	914	196,600	24,810	—	344,993
Payable under securities lending agreement	—	—	—	—	279,018	—	—	279,018
Estimated settlements to third-party payors	406	—	—	—	—	—	—	19,179
Medicare accelerated payment program advance	9,310	5,078	—	—	—	—	—	161,192
Total current liabilities	<u>23,087</u>	<u>39,030</u>	<u>9,801</u>	<u>915</u>	<u>542,077</u>	<u>75,627</u>	<u>(53,412)</u>	<u>901,065</u>
Long-term debt, less current installments	—	—	—	—	643,494	—	—	643,618
Long-term lease liabilities	—	17,432	1,979	—	155,046	—	—	213,048
Other long-term liabilities	—	1,835	801	—	117,955	—	—	136,581
Total liabilities	<u>23,087</u>	<u>58,297</u>	<u>12,581</u>	<u>915</u>	<u>1,458,572</u>	<u>75,627</u>	<u>(53,412)</u>	<u>1,894,312</u>
Net assets (deficit):								
Without donor restrictions:								
Without donor restrictions	32,564	55,926	102,747	1,626	1,923,266	41,701	(38,586)	3,282,684
Noncontrolling interests in consolidated joint ventures	6,192	—	—	—	—	6,520	—	12,712
Total net assets without donor restrictions	<u>38,756</u>	<u>55,926</u>	<u>102,747</u>	<u>1,626</u>	<u>1,923,266</u>	<u>48,221</u>	<u>(38,586)</u>	<u>3,295,396</u>
With donor restrictions	3,975	—	—	—	—	—	(3,975)	16,746
Total net assets	<u>42,731</u>	<u>55,926</u>	<u>102,747</u>	<u>1,626</u>	<u>1,923,266</u>	<u>48,221</u>	<u>(42,561)</u>	<u>3,312,142</u>
Total liabilities and net assets	<u>\$ 65,818</u>	<u>114,223</u>	<u>115,328</u>	<u>2,541</u>	<u>3,381,838</u>	<u>123,848</u>	<u>(95,973)</u>	<u>5,206,454</u>

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

See accompanying independent auditors' report.

FROEDTERT HEALTH, INC. AND AFFILIATES

Schedule 2

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

Year ended June 30, 2021

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Revenue:				
Patient service revenue	\$ 2,063,218	—	—	2,063,218
Other operating revenue	49,603	1,331	(952)	49,982
Total revenue	<u>2,112,821</u>	<u>1,331</u>	<u>(952)</u>	<u>2,113,200</u>
Expenses:				
Salaries	470,440	—	—	470,440
Fringe benefits	135,115	—	—	135,115
Supplies	482,022	—	(949)	481,073
Contract services	127,404	—	—	127,404
Affiliate support	179,182	—	—	179,182
Depreciation and amortization	73,043	—	—	73,043
Interest	18,005	—	—	18,005
Other	135,044	1,121	(3)	136,162
Corporate allocations	312,088	—	—	312,088
Total expenses	<u>1,932,343</u>	<u>1,121</u>	<u>(952)</u>	<u>1,932,512</u>
Operating revenue in excess (deficient) of expenses	180,478	210	—	180,688
Nonoperating gains and losses:				
Investment return	—	2,458	—	2,458
Change in fair value of interest rate swaps	—	—	—	—
Community health initiatives	—	—	—	—
Other components of pension cost	—	—	—	—
Loss on early extinguishment of debt	—	—	—	—
Gain on Holy Family Memorial acquisition	—	—	—	—
Revenue and gains in excess of expenses and losses	<u>180,478</u>	<u>2,668</u>	<u>—</u>	<u>183,146</u>
Other changes in net assets without donor restrictions:				
Transfers (to) from affiliates	(152,741)	138	—	(152,603)
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	204	—	—	204
Change in accrued pension benefits other than net periodic benefit costs	1,749	—	—	1,749
Contributed capital from minority partners in consolidated affiliates	—	—	—	—
Noncontrolling interest in Holy Family Memorial net assets	—	—	—	—
Distributions to minority partners in consolidated affiliates	—	—	—	—
Other	2	(2)	—	—
Increase in net assets without donor restrictions	<u>29,692</u>	<u>2,804</u>	<u>—</u>	<u>32,496</u>
Net assets without donor restrictions at beginning of year	<u>917,323</u>	<u>14,072</u>	<u>—</u>	<u>931,395</u>
Net assets without donor restrictions at end of year	<u>\$ 947,015</u>	<u>16,876</u>	<u>—</u>	<u>963,891</u>

## FROEDTERT HEALTH, INC. AND AFFILIATES

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

Year ended June 30, 2021

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Revenue:					
Patient service revenue	\$ 235,390	—	—	—	235,390
Other operating revenue	18,097	1,270	666	(969)	19,064
Total revenue	253,487	1,270	666	(969)	254,454
Expenses:					
Salaries	90,861	—	159	(197)	90,823
Fringe benefits	25,432	—	—	—	25,432
Supplies	42,944	—	212	—	43,156
Contract services	16,068	—	—	—	16,068
Affiliate support	30,652	—	—	—	30,652
Depreciation and amortization	9,713	—	—	—	9,713
Interest	1,943	—	—	—	1,943
Other	19,594	801	292	(772)	19,915
Corporate allocations	18,630	—	—	—	18,630
Total expenses	255,837	801	663	(969)	256,332
Operating revenue in excess (deficient) of expenses	(2,350)	469	3	—	(1,878)
Nonoperating gains and losses:					
Investment return	—	1,396	—	—	1,396
Change in fair value of interest rate swaps	—	—	—	—	—
Community health initiatives	—	—	—	—	—
Other components of pension cost	—	—	—	—	—
Loss on early extinguishment of debt	—	—	—	—	—
Gain on Holy Family Memorial acquisition	—	—	—	—	—
Revenue and gains in excess of expenses and losses	(2,350)	1,865	3	—	(482)
Other changes in net assets without donor restrictions:					
Transfers (to) from affiliates	(1,254)	(385)	—	(1,570)	(3,209)
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	—	90	—	—	90
Change in accrued pension benefits other than net periodic benefit costs	25,269	—	—	—	25,269
Contributed capital from minority partners in consolidated affiliates	—	—	—	—	—
Noncontrolling interest in Holy Family Memorial net assets	—	—	—	—	—
Distributions to minority partners in consolidated affiliates	—	—	—	—	—
Other	(14)	—	1	—	(13)
Increase in net assets without donor restrictions	21,651	1,570	4	(1,570)	21,655
Net assets without donor restrictions at beginning of year	67,695	7,964	348	(7,963)	68,044
Net assets without donor restrictions at end of year	\$ 89,346	9,534	352	(9,533)	89,699

## FROEDTERT HEALTH, INC. AND AFFILIATES

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

Year ended June 30, 2021

(In thousands)

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Revenue:				
Patient service revenue	\$ 120,749	(4)	—	120,745
Other operating revenue	8,153	204	—	8,357
Total revenue	128,902	200	—	129,102
Expenses:				
Salaries	43,557	124	—	43,681
Fringe benefits	11,668	—	—	11,668
Supplies	20,155	7	—	20,162
Contract services	6,888	—	—	6,888
Affiliate support	24,712	—	—	24,712
Depreciation and amortization	4,446	—	—	4,446
Interest	2,342	—	—	2,342
Other	9,639	343	—	9,982
Corporate allocations	9,752	—	—	9,752
Total expenses	133,159	474	—	133,633
Operating revenue in excess (deficient) of expenses	(4,257)	(274)	—	(4,531)
Nonoperating gains and losses:				
Investment return	—	7,121	—	7,121
Change in fair value of interest rate swaps	—	—	—	—
Community health initiatives	—	—	—	—
Other components of pension cost	—	—	—	—
Loss on early extinguishment of debt	—	—	—	—
Gain on Holy Family Memorial acquisition	—	—	—	—
Revenue and gains in excess of expenses and losses	(4,257)	6,847	—	2,590
Other changes in net assets without donor restrictions:				
Transfers (to) from affiliates	9,625	86	—	9,711
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	—	—	—	—
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Contributed capital from minority partners in consolidated affiliates	—	—	—	—
Noncontrolling interest in Holy Family Memorial net assets	—	—	—	—
Distributions to minority partners in consolidated affiliates	—	—	—	—
Other	—	—	—	—
Increase in net assets without donor restrictions	5,368	6,933	—	12,301
Net assets without donor restrictions at beginning of year	56,589	40,958	—	97,547
Net assets without donor restrictions at end of year	\$ 61,957	47,891	—	109,848

## FROEDTERT HEALTH, INC. AND AFFILIATES

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

Year ended June 30, 2021

(In thousands)

	Holy Family Memorial	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Exceedent	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Revenue:								
Patient service revenue	\$ 31,763	278,877	68,572	—	—	172,227	—	2,970,792
Other operating revenue	2,651	26,506	77,631	4,011	638,981	22,654	(708,508)	141,329
Total revenue	34,414	305,383	146,203	4,011	638,981	194,881	(708,508)	3,112,121
Expenses:								
Salaries	19,003	232,146	27,725	2,455	176,877	33,085	(7,303)	1,088,932
Fringe benefits	4,654	44,326	7,510	530	206,568	7,949	(175,492)	268,260
Supplies	5,789	23,572	36,796	159	3,690	114,639	(5,890)	723,146
Contract services	6,870	23,606	13,323	—	37,178	14,629	(103,254)	142,712
Affiliate support	—	(84,944)	—	—	12,855	959	—	163,416
Depreciation and amortization	1,105	8,411	2,307	83	30,544	4,946	—	134,598
Interest	3	—	64	—	11,498	(6)	—	33,849
Other	3,925	36,465	11,731	2,769	138,984	23,756	(48,344)	335,345
Corporate allocations	—	21,801	—	—	—	5,954	(368,225)	—
Total expenses	41,349	305,383	99,456	5,996	618,194	205,911	(708,508)	2,890,258
Operating revenue in excess (deficient) of expenses	(6,935)	—	46,747	(1,985)	20,787	(11,030)	—	221,863
Nonoperating gains and losses:								
Investment return	251	—	—	—	320,550	1,015	—	332,791
Change in fair value of interest rate swaps	—	—	—	—	16,724	—	—	16,724
Community health initiatives	—	—	—	—	(250)	—	—	(250)
Other components of pension cost	—	—	—	—	(1,199)	—	—	(1,199)
Loss on early extinguishment of debt	—	—	—	—	(132)	—	—	(132)
Gain on Holy Family Memorial acquisition	—	—	—	—	10,922	—	—	10,922
Revenue and gains in excess of expenses and losses	(6,684)	—	46,747	(1,985)	367,402	(10,015)	—	580,719
Other changes net assets without donor restrictions:								
Transfers (to) from affiliates	—	2,951	—	2,500	99,474	41,176	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	(3,141)	—	—	(3,141)
Contributions and net assets released from restrictions for property, plant, and equipment	7	—	—	—	—	—	—	301
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—	1,410	—	—	28,428
Contributed capital from minority partners in consolidated affiliates	—	—	—	—	—	833	—	833
Noncontrolling interest in Holy Family Memorial net assets	7,480	—	—	—	—	—	—	7,480
Distributions to minority partners in consolidated affiliates	—	—	—	—	(2,450)	—	—	(2,450)
Other	37,953	—	(1)	2	(590)	(161)	(37,649)	(459)
Increase (decrease) in net assets without donor restrictions	38,756	2,951	46,746	517	462,105	31,833	(37,649)	611,711
Net assets without donor restrictions at beginning of year	—	52,975	56,001	1,109	1,461,163	16,383	(932)	2,683,685
Net assets without donor restrictions at end of year	\$ 38,756	55,926	102,747	1,626	1,923,268	48,216	(38,581)	3,295,396

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

See accompanying independent auditors' report.

## FROEDTERT HEALTH, INC. AND AFFILIATES

## Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2021

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Net assets without donor restrictions:				
Revenue in excess of expenses and losses	\$ 180,478	2,668	—	183,146
Transfers (to) from affiliates	(152,678)	75	—	(152,603)
Change in net unrealized gains and losses on investments of other-than-trading securities	—	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	141	63	—	204
Change in accrued pension benefits other than net periodic benefit costs	1,749	—	—	1,749
Contributed capital from minority partners in consolidated affiliates	—	—	—	—
Noncontrolling interest in Holy Family Memorial net assets	—	—	—	—
Distributions to minority partners in consolidated affiliates	—	—	—	—
Other	2	(2)	—	—
Increase (decrease) in net assets without donor restrictions	29,692	2,804	—	32,496
Net assets without donor restrictions at beginning of year	917,323	14,072	—	931,395
Net assets without donor restrictions at end of year	\$ 947,015	16,876	—	963,891
Net assets with donor restrictions:				
Investment return	\$ —	1,503	—	1,503
Restricted contributions	5,000	146	—	5,146
Net assets released from restrictions for operations	(2,001)	(250)	—	(2,251)
Contributions and net assets released from restrictions for property, plant, and equipment	(141)	(63)	—	(204)
Change in beneficial interest in foundations	4,138	—	(4,138)	—
Other	3	(2)	(2)	(1)
Increase (decrease) in net assets with donor restrictions	6,999	1,334	(4,140)	4,193
Net assets with donor restrictions at beginning of year	25,514	9,196	(23,268)	11,442
Net assets with donor restrictions at end of year	\$ 32,513	10,530	(27,408)	15,635

## FROEDTERT HEALTH, INC. AND AFFILIATES

## Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2021

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Net assets without donor restrictions:					
Revenue in excess of expenses and losses	\$ (2,350)	1,865	3	—	(482)
Transfers (to) from affiliates	(1,254)	(385)	—	(1,570)	(3,209)
Change in net unrealized gains and losses on investments of other-than-trading securities	—	—	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	—	90	—	—	90
Change in accrued pension benefits other than net periodic benefit costs	25,269	—	—	—	25,269
Contributed capital from minority partners in consolidated affiliates	—	—	—	—	—
Noncontrolling interest in Holy Family Memorial net assets	—	—	—	—	—
Distributions to minority partners in consolidated affiliates	—	—	—	—	—
Other	(14)	—	1	—	(13)
Increase (decrease) in net assets without donor restrictions	21,651	1,570	4	(1,570)	21,655
Net assets without donor restrictions at beginning of year	67,695	7,964	348	(7,963)	68,044
Net assets without donor restrictions at end of year	\$ 89,346	9,534	352	(9,533)	89,699
Net assets with donor restrictions:					
Investment return	\$ —	—	—	—	—
Restricted contributions	—	22	—	—	22
Net assets released from restrictions for operations	—	(33)	—	—	(33)
Contributions and net assets released from restrictions for property, plant, and equipment	—	(90)	—	—	(90)
Change in beneficial interest in foundations	—	—	—	—	—
Other	(86)	15	—	86	15
Increase (decrease) in net assets with donor restrictions	(86)	(86)	—	86	(86)
Net assets with donor restrictions at beginning of year	740	740	—	(740)	740
Net assets with donor restrictions at end of year	\$ 654	654	—	(654)	654

## FROEDTERT HEALTH, INC. AND AFFILIATES

## Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2021

(In thousands)

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Net assets without donor restrictions:				
Revenue in excess of expenses and losses	\$ (4,257)	6,847	—	2,590
Transfers (to) from affiliates	9,625	86	—	9,711
Change in net unrealized gains and losses on investments of other-than-trading securities	—	—	—	—
Contributions and net assets released from restrictions for property, plant, and equipment	—	—	—	—
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Contributed capital from minority partners in consolidated affiliates	—	—	—	—
Noncontrolling interest in Holy Family Memorial net assets	—	—	—	—
Distributions to minority partners in consolidated affiliates	—	—	—	—
Other	—	—	—	—
Increase (decrease) in net assets without donor restrictions	5,368	6,933	—	12,301
Net assets without donor restrictions at beginning of year	56,589	40,958	—	97,547
Net assets without donor restrictions at end of year	\$ 61,957	47,891	—	109,848
Net assets with donor restrictions:				
Investment return	\$ —	—	—	—
Restricted contributions	21	—	—	21
Net assets released from restrictions for operations	(8)	—	—	(8)
Contributions and net assets released from restrictions for property, plant, and equipment	—	—	—	—
Change in beneficial interest in foundations	—	—	—	—
Other	—	—	—	—
Increase (decrease) in net assets with donor restrictions	13	—	—	13
Net assets with donor restrictions at beginning of year	174	270	—	444
Net assets with donor restrictions at end of year	\$ 187	270	—	457



## FROEDTERT HEALTH, INC. AND AFFILIATES

## Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2021

(In thousands)

	Holy Family Memorial	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Exceedent	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Net assets without donor restrictions:								
Revenue in excess of expenses and losses	\$ (6,684)	—	46,747	(1,985)	367,402	(10,015)	—	580,719
Transfers (to) from affiliates	—	2,951	—	2,500	99,474	41,176	—	—
Change in net unrealized gains and losses on investments of other-than-trading securities	—	—	—	—	(3,141)	—	—	(3,141)
Contributions and net assets released from restrictions for property, plant, and equipment	7	—	—	—	—	—	—	301
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—	1,410	—	—	28,428
Noncontrolling interest in Holy Family Memorial net assets	7,480	—	—	—	—	—	—	7,480
Distributed capital to minority partners in consolidated affiliates, net	—	—	—	—	(2,450)	833	—	(1,617)
Other	37,953	—	(1)	2	(590)	(161)	(37,649)	(459)
Increase (decrease) in net assets without donor restrictions	38,756	2,951	46,746	517	462,105	31,833	(37,649)	611,711
Net assets (deficits) without donor restrictions at beginning of year	—	52,975	56,001	1,109	1,461,163	16,383	(932)	2,683,685
Net assets (deficits) without donor restrictions at end of year	\$ 38,756	55,926	102,747	1,626	1,923,268	48,216	(38,581)	3,295,396
Net assets with donor restrictions:								
Investment return	\$ —	—	—	—	—	—	—	1,503
Restricted contributions	—	—	—	—	—	—	—	5,189
Net assets released from restrictions for operations	(3)	—	—	—	—	—	—	(2,295)
Contributions and net assets released from restrictions for property, plant, and equipment	(7)	—	—	—	—	—	—	(301)
Change in beneficial interest in foundations	—	—	—	—	—	—	—	—
Other	3,985	—	—	—	—	—	(3,975)	24
Increase (decrease) in net assets with donor restrictions	3,975	—	—	—	—	—	(3,975)	4,120
Net assets with donor restrictions at beginning of year	—	—	—	—	—	—	—	12,626
Net assets with donor restrictions at end of year	\$ 3,975	—	—	—	—	—	(3,975)	16,746

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

See accompanying independent auditors' report.