

Froedtert Health, Inc. and Affiliates

UNAUDITED QUARTERLY DISCLOSURE

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020 | **Q1**

Froedtert



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For the Three Months Ended September 30, 2020

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The following financial data for the three months ended September 30, 2020 is derived from the interim consolidated financial statements of Froedtert Health, Inc. and Affiliates (FH). The interim consolidated financial statements include all adjustments consisting of a normal recurring nature that FH considers necessary for a fair presentation of its financial position and the results of operations for these periods. The financial information as of and for the three months ended September 30, 2019 is derived from FH's audited consolidated financial statements. Operating and financial results reported herein are not necessarily indicative of the results that may be expected for any future periods.

The information contained herein is being filed by FH for the purpose of complying with its obligations under Continuing Disclosure Agreements entered into in connection with the issuance of the series of bonds listed herein and disclosure and compliance obligations in connection with various banking arrangements. The information contained herein is as of September 30, 2020. Digital Assurance Certification, LLC, as Dissemination Agent, has not participated in the preparation of this Unaudited Quarterly Disclosure, has not examined its contents and makes no representations concerning the accuracy and completeness of the information contained herein.

Introduction

Froedtert Health, Inc. (FH) is a Wisconsin non-stock, non-profit corporation organized to support and carry out the missions of Froedtert Memorial Lutheran Hospital, Inc. (FMLH); Community Memorial Hospital of Menomonee Falls, Inc. (CMH); St. Joseph's Community Hospital of West Bend, Inc. (SJH); Froedtert & the Medical College of Wisconsin Community Physicians (CP); Inception Health, LLC (Inception); QHS 1, Inc. (QHS 1); Wisconsin Diagnostic Laboratories, Inc. (WDL); Froedtert Health ASC Enterprise (ASC); Froedtert Health Pharmacy Solutions, LLC (Pharmacy); Hart's Mills Insurance Company, SPC; and Exceedent, LLC (Exceedent).

In November 2019, Froedtert Health renamed two of its hospitals to further unify the brand and increase recognition of local access to the academic health network in the geographies served. While the legal names remain unchanged, CMH now operates as Froedtert Menomonee Falls Hospital ("FMFH") and SJH operates as Froedtert West Bend Hospital ("FWBH"). FMLH continues to operate as Froedtert Hospital ("Froedtert Hospital").

FH is an integrated health system that combines the resources and specialty care of a premier academic medical center with the high-quality, close-to-home care of two community hospitals and affiliated medical clinics. FH is a regional provider of primary and tertiary health care services in southeast Wisconsin. The FH system combines FMLH, an academic medical center, and one of the state's two Level I Adult Trauma Centers (and the only Level I Adult Trauma Center in southeast Wisconsin), with community hospitals and clinics to provide a full range of inpatient, outpatient, and ancillary services.

FH values a highly collaborative approach in the delivery of services across the care continuum (community-based care, acute care, and post-acute care), partnering with nationally known providers in joint venture relationships for the delivery of dialysis and imaging services. FH also holds significant equity interests in both a 110,700 member health plan (including self-insured members) and the second largest home health agency in the state of Wisconsin.

The Medical College of Wisconsin is the major adult teaching affiliate for FMLH. The Medical College places approximately 348 full-time residents at FMLH. Substantially all patient encounters at FMLH are teaching related.

Froedtert & the Medical College of Wisconsin advance the health of the communities we serve through exceptional care enhanced by innovation and discovery. Our values are:

- **Partnership:** partnering with patients, families, and other organizations; collaborating with co-workers and colleagues
- **Responsiveness:** meeting the needs of the community in prevention, wellness, and providing integrated care for all ages
- **Integrity:** using resources wisely; building trust
- **Dignity and Respect:** creating an inclusive and compassionate environment for all people
- **Excellence:** demonstrating excellence in all we do

FH's vision is to be the trusted leader by transforming health care and connecting communities to the best of academic medicine.

Health care organizations like FH that offer an academic medical center have a great responsibility to society as innovators, leaders, and teachers. As an economic and social engine that generates groundbreaking medical research and clinical achievements, we are inextricably linked to the welfare of our community and our region. It is a responsibility that drives our mission, our values, and the work we do every day.

The purpose of Management's Discussion and Analysis ("MD&A") is to provide a narrative explanation of our financial statements that enhances our overall financial disclosures, to provide the context within which our financial information may be analyzed and to provide information about the quality of, and potential variability of, our financial condition, results of operations, and cash flows.

Unless otherwise indicated, all financial and statistical information included herein relates to our continuing operations, with dollar amounts expressed in thousands (except for statistical information). MD&A should be read in conjunction with the accompanying unaudited consolidated financial statements.

Executive Summary

FINANCIAL RESULTS – For the Three Months Ended September 30, 2020 and 2019 (\$ in 000's)

	2020 (Unaudited)	2019 (Unaudited)
Total operating revenue	\$ 753,029	\$ 666,951
Total operating expenses	699,659	641,242
Operating revenue in excess of expenses	53,370	25,709
Non-operating gains (losses), net	66,218	(4,890)
Revenues and gains in excess of expenses	\$ 119,588	\$ 20,819
Operating margin	7.1%	3.9%
Operating EBITDA margin	13.0%	10.3%

SELECT BALANCE SHEET INFORMATION – September 30, 2020 and June 30, 2020 (\$ in 000's)

	Unaudited September 30, 2020	Audited June 30, 2020
Unrestricted cash and investments	\$ 2,244,405	\$ 2,061,996
Days cash on hand	332.3	312.5
Net revenue days outstanding	45.2	45.9
Long-term debt*	\$ 881,062	\$ 884,923
Unrestricted cash and investments to long-term debt*	2.55x	2.33x

*See new accounting policy for leases on page 19

Financial Results – For the Three Months Ended September 30, 2020

FH's operating revenue in excess of expenses was \$53,370 for the three months ended September 30, 2020 as compared to \$25,709 in the previous year. The year-to-date operating margin was 7.1% as compared to 3.9% in the previous year. Hospital inpatient activity, as measured by admissions for the three months ended September 30, 2020, increased 3.5% from the comparable period in 2019. Hospital outpatient activity, as measured by visits for the three months ended September 30, 2020, decreased 0.6% from the comparable period in 2019. (See pages 7 and 8 for further information on patient activity).

Revenues and gains in excess of expenses were \$119,588 for the three months ended September 30, 2020 as compared to \$20,819 in the previous year. The year-to-date September excess margin percentage was 14.6% as compared to 3.1% in the previous year. The increase in excess margin is due to an increase in non-operating gains generated primarily from investments and increased patient service revenue. Non-operating gains were \$66,218 during the three months ended September 30, 2020 compared to net losses of (\$4,890) during the three months ended September 30, 2019.

Financial Position – September 30, 2020

Net revenue days outstanding were at 45.2 days as of September 30, 2020 compared with 45.9 at June 30, 2020 (see page 9). Days cash on hand increased from 312.5 at June 30, 2020 to 332.3 at September 30, 2020. Medicare Accelerated Payments and CARES Act stimulus funds contributed to the higher days of cash on hand (see pages 3 and 4 for discussion on COVID-19).

Executive Summary

Creating Value

Froedtert Health continues its pursuit of delivering on the value equation in terms of providing superior quality and service at a price patients are willing to pay. Along with its partner, the Medical College of Wisconsin, Froedtert Health is making major strides.

The sum of all interactions with an individual patient – from providing information about services through discharge or post-appointment follow-up and every conversation along the way – is the patient experience. Patients and the public now have more information available to them about each of our physicians or advanced practice providers as we share our own star ratings on froedtert.com. In the most recent reporting period we achieved the 55th percentile of all hospitals in the nation for patient experience. Our clinical care score provided by physicians in an office setting measured at the 94th percentile, demonstrating superior service.

From reducing intensive care unit usage and length of stay post-transplant to sustaining the practice of daily care coordination rounds, staff and physicians across the health network have improved standardization and reduced health care costs. Now ingrained in how we do our work, we are controlling the cost of an individual case, while maintaining high quality.

FH and Ascension Wisconsin are co-owners of Network Health, a Wisconsin-based health insurance company providing commercial, public exchange, and Medicare Advantage health insurance plans to employers and individuals in eastern Wisconsin.

Bond Ratings

The obligated group's outstanding bonds through Wisconsin Health and Educational Facilities Authority (various series) have been assigned ratings of AA (stable outlook) by Fitch and S&P.

In March 2020, Fitch revised its ratings from AA- (positive outlook) to AA (stable outlook). Fitch cites continued strengthening in FH's financial profile categorized by steady growth in unrestricted cash reserves and maintenance of robust operating cash-flow levels, and steady improvement in market share in a competitive environment. Fitch also cites FH's relationship with the Medical College of Wisconsin, supporting its status as the only academic medical center in eastern Wisconsin and is one of only two Level 1 Trauma Centers in the state.

COVID-19

The COVID-19 pandemic has created an environment that has significantly altered everything from daily life to the global economy. Market volatility, business closures, increased unemployment, and supply chain disruption are just a few examples of the current environment. Froedtert Health has experienced disruption similar to other health care systems across the region and throughout the country, as the southeast Wisconsin market has shown the highest concentration of COVID-19 cases in Wisconsin.

During the first quarter of fiscal year 2021, Froedtert Health has seen a strong recovery of inpatient, outpatient, and clinic activity compared to the fourth quarter in fiscal year 2020. Through a coordinated recovery plan, Froedtert Health leadership has developed and implemented strategies to safely reopen facilities and services for the benefit of its patients and the community. As a result, admissions increased 23%, outpatient visits increased 53%, and clinic visits increased 46% over the fourth quarter of fiscal year 2020. Volumes have reached, and in some cases, exceeded pre-COVID-19 levels. Telemedicine strategies put into place during the onset of the pandemic have gained a certain level of acceptance among the patient community and remain a vital component of the patient care strategy moving forward in terms of patient safety and convenient access to services.

Executive Summary

Froedtert Health received approximately \$66 million in provider relief funding through the CARES Act in fiscal year 2020 and an additional \$18 million in targeted funds as of September 30, 2020. The health system continues to work with outside auditors and consultants to ensure compliance with reporting requirements under the CARES Act.

As the pandemic continues into future months, Froedtert Health has both incident command and recovery command structures in place and ready to effectively manage future surges. Supply chain issues are not anticipated to be a significant problem in a potential second wave, as PPE inventories have been increased over past months. Finally, the state of Wisconsin has opened an alternate care facility (field hospital) on the grounds of State Fair Park in suburban Milwaukee to serve as an overflow facility for all hospitals across the state.

Affiliations

In March 2020, Froedtert Health announced that it had entered into a letter of intent with Holy Family Memorial (HFM) based in Manitowoc, Wisconsin. Discussions have focused on Froedtert Health acquiring an interest that would provide a long-term clinical and financial commitment that would enhance HFM's current and future health care services. The partnership with Froedtert Health will include provisions for additional health care relationships in the region to ensure that the best quality care at the right time is available to all who use the HFM network.

Focus on Patients

We are passionate and focused on improving patient care and satisfaction while reducing costs.

Patient satisfaction is measured using national, standardized surveys of patients' perspectives. Hospital care is measured by the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS). Clinical care provided by physicians in an office setting is measured by the Clinician and Group Assessment of Healthcare Providers and Systems (CG-CAHPS). Our highly rated physician clinics have demonstrated consistently high patient satisfaction scores as shown below:

QUALITY SCORES			
	Current Scores*	FY 2019	Difference
Quality Scores*			
HCAHPS (percent top box)	74.1 (54th percentile)	76.8	(2.7)
CG-CAHPS Overall Rating of Provider (percent top box)	91.7 (95th percentile)	89.8	1.9
<i>*Most recent scores available. Represents 12 month period from October 1, 2019 to September 30, 2020</i>			

Our continued focus on patient-centered care emphasizes the power of care coordination in helping patients seek the right care, in the right place, at the right time. These efforts have also resulted in higher outpatient and ambulatory patient activity at our hospitals and physician clinics (see page 8 for additional data and discussion).

Honors and Recognition

Members of the Froedtert Health System have a long history of medical excellence and leadership. Notable recognitions include:

- Vizient ranked Froedtert Menomonee Falls Hospital No. 2 out of 82 participating complex teaching medical centers in the 2019 Vizient Quality and Accountability Ranking. The study assesses the performance in quality and safety across a broad spectrum of patient care activities for participating hospitals.
- Froedtert Hospital ranks as the second best hospital in the Milwaukee area and the third best hospital in Wisconsin in the U.S. News & World Report's 2020-21 Best Hospitals rankings. Froedtert Hospital is recognized by U.S. News & World Report as High Performing in five adult specialties – diabetes & endocrinology, gastroenterology & GI surgery, nephrology, pulmonology & lung surgery, and urology – and seven procedures and conditions. Froedtert Menomonee Falls Hospital is recognized by U.S. News & World Report as High Performing in pulmonology & lung surgery and urology, as well as four additional adult procedures and conditions. Froedtert West Bend Hospital is recognized by U.S. News & World Report as High Performing in pulmonology & lung surgery.
- Froedtert Hospital was recognized by the 2020 Becker's Hospital Review 100 Great Hospitals in America list. Hospitals included on the list have been recognized nationally for excellence in clinical care, patient outcomes, and staff and physician satisfaction, and are industry leaders that have achieved advanced accreditation and certification in several specialties.
- Froedtert, Froedtert Menomonee Falls, and Froedtert West Bend Hospitals received "A" ratings in the Leapfrog Group's Hospital Safety Grade Spring 2020 results. Hospital Safety Scores are assigned biannually to more than 2,500 hospitals across the nation and are based on a variety of process, structural, and outcome measures.
- Froedtert Hospital achieved its third Magnet designation for excellence in nursing services by the American Nurses Credentialing Center's Magnet Recognition Program® in 2016 and is currently undergoing the appraisal process for its fourth designation. The Magnet Recognition Program recognizes health care organizations that demonstrate excellence in nursing practice and quality patient care. Organizations with this prestigious outcomes-driven credential demonstrate improved patient outcomes, nurse satisfaction and retention, and reduced costs. Magnet recognition is the gold standard for nursing care delivery, new nursing knowledge (research), and evidence-based clinical quality in health care organizations around the world.
- Froedtert & the Medical College of Wisconsin Cancer Network is a recipient of Press Ganey's 2019-20 Guardian of Excellence Award® for the Medical Practice setting. Press Ganey, a national company measuring health care organization performance, is based on responses from cancer patients who were surveyed on a variety of factors describing their treatment experience with the Froedtert & MCW Cancer Network. The Froedtert & MCW Cancer Network has sustained excellence in patient experience, ranking in the top 5% of nearly 950 other United States health facilities. In addition, more than 95% of patients would recommend the Froedtert & MCW Cancer Network to family and friends.
- Human Rights Campaign recognized all three Froedtert & MCW hospitals as "Leaders in LGBTQ Healthcare Equality" for protecting our LGBTQ patients and employees from discrimination, ensuring equal visitation for LGBTQ people and providing staff training in LGBTQ patient-centered care. As a designated organization, we ensure exceptional staff and patient experiences based on policy, process, and practices.
- Disability:IN has recognized the Froedtert Health system as one of the "2020 Best Places to Work for People with Disabilities" for our disability policies and practices.

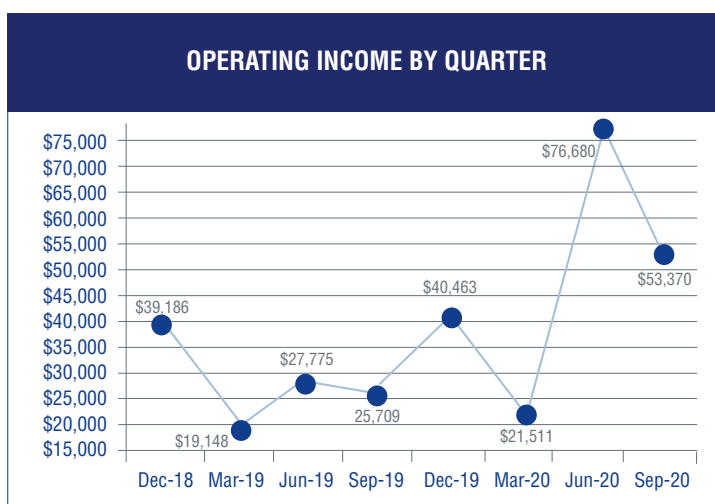
Management's Discussion & Analysis

For the Three Months Ended September 30, 2020

OPERATING RESULTS

Consolidated operating revenue in excess of expenses for the three months ended September 30, 2020 was \$53,370 (7.1% margin) compared to \$25,709 (3.9% margin) for the same period in the previous year - an increase of \$27,661. Operating EBITDA margin for the three months ended September 30, 2020 was 13.0% compared to 10.3% for the same period in the previous year. The increase in operating margin over the same period in the previous year can largely be attributed to increased patient service revenue as volumes recover from the negative COVID-19 impact.

FOR THE THREE MONTHS ENDED SEPTEMBER 30			
	2020	2019	Change
Operating Income	\$53,370	\$25,709	\$27,661
Operating Margin	7.1%	3.9%	3.2%



Management's Discussion & Analysis

For the Three Months Ended September 30, 2020

PATIENT ACTIVITY

PATIENT ACTIVITY – For the Three Months Ended September 30, 2020 and 2019

INPATIENT ACTIVITY

	2020	2019
Admissions	12,354	11,941
Patient Days	64,313	64,697
Average Length of Stay	5.21	5.42
Case Mix Index – All Patients	1.94	1.84
Inpatient Surgical Cases	3,781	3,774
Occupancy		
– Staffed Beds	992	944
– Occupancy Rate	70%	74%
– Average Daily Census	699	703

OUTPATIENT ACTIVITY

Hospital Outpatient Visits	273,903	275,426
Emergency Department Visits	30,254	31,789
Provider Office Visits	234,941	237,529
Outpatient Surgical Cases (includes ASC)	8,242	7,864

HOSPITAL INPATIENT ACTIVITY

Hospital inpatient activity, as measured by admissions at FH's affiliated hospitals for the three months ended September 30, 2020, increased 3.5% from the comparable period in 2019. Froedtert Hospital increased its bed capacity, which patient demand filled to maintain an overall system occupancy of 70%. Inpatient acuity as measured by Case Mix Index (CMI) increased to 1.94 compared to 1.84 the prior year. Average Length of Stay decreased to 5.21 days for the three months ended September 30, 2020 from 5.42 days in the prior year.

FOR THE THREE MONTHS ENDED SEPTEMBER 30

	2020	2019	Change
Academic	8,909	8,419	490
Community	3,445	3,522	(77)
Total	12,354	11,941	413

ADMISSIONS BY QUARTER



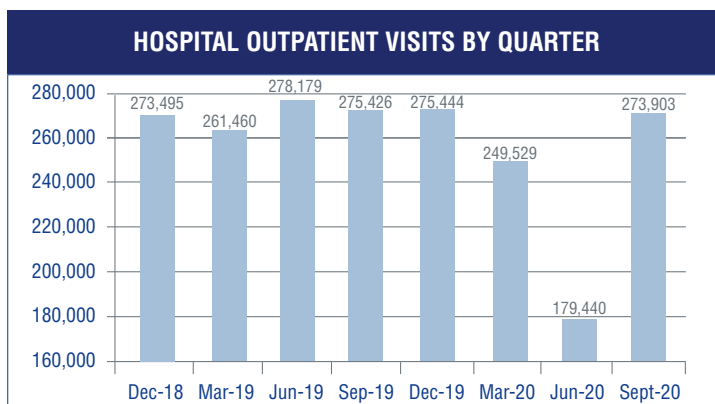
Management's Discussion & Analysis

For the Three Months Ended September 30, 2020

HOSPITAL OUTPATIENT ACTIVITY

Hospital outpatient activity as measured by visits at FH's affiliated hospitals for the three months ended September 30, 2020 decreased 1,523 or 0.6% from the comparable period in 2019. Outpatient activity has dramatically increased from the lows in 4th quarter of FY2020; however, volumes are not yet at pre-COVID-19 levels.

FOR THE THREE MONTHS ENDED SEPTEMBER 30			
	2020	2019	Change
Academic	216,340	220,553	(4,213)
Community	57,563	54,873	2,690
Total	273,903	275,426	(1,523)

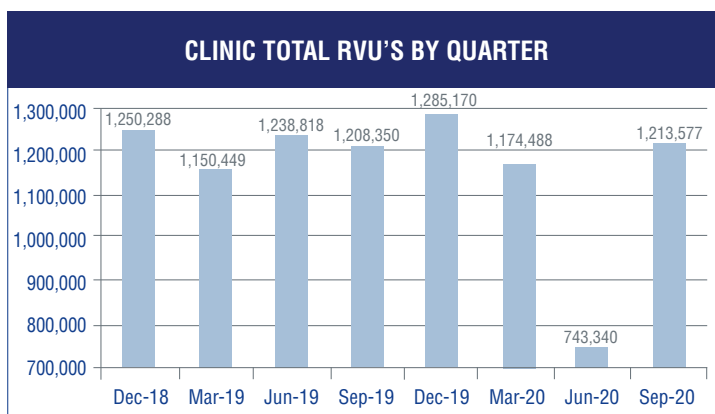
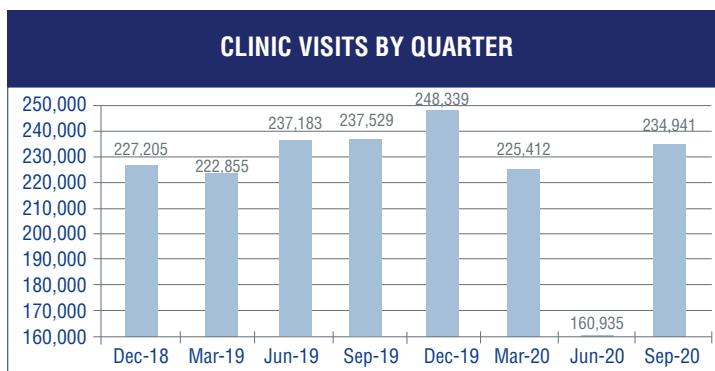


COMMUNITY PHYSICIANS – Clinic Visits and Total RVU's

Community Physicians activity as measured by clinic visits at FH's affiliated clinics for the three months ended September 30, 2020 decreased by 2,588 or 1.1% from the comparable period in 2019.

Community Physicians activity as measured by total RVU's at FH's affiliated clinics for the three months ended September 30, 2020 increased by 5,227 or 0.4% from the comparable period in 2019.

FOR THE THREE MONTHS ENDED SEPTEMBER 30			
	2020	2019	Change
Visits	234,941	237,529	(2,588)
Total RVU's	1,213,577	1,208,350	5,227



Management's Discussion & Analysis

For the Three Months Ended September 30, 2020

SOURCES OF PATIENT SERVICE REVENUE

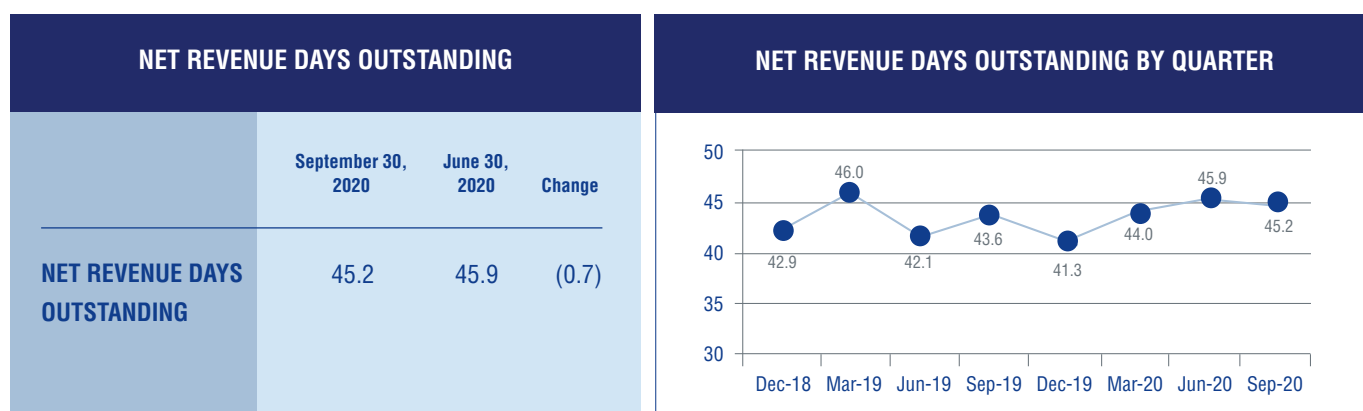
The gross patient service revenue of FH is derived from third-party payers who reimburse or pay FH for the services it provides to patients covered by such payers. Third-party payers include the federal Medicare program, the federal and state Medical Assistance program (Medicaid), managed care, and other third-party insurers such as health maintenance organizations and preferred provider organizations. The following table is a summary of the percentage of the organization's gross patient service revenue by payer.

For the Three Months Ended September 30		
	2020	2019
Medicare	45.2%	45.8%
Medicaid	13.5	13.4
Managed Care & Commercial	33.3	34.2
Self Pay	1.2	1.4
Other	6.8	5.2
Total	100.0%	100.0%

BALANCE SHEET INDICATORS

NET REVENUE DAYS OUTSTANDING

Net Revenue Days Outstanding decreased to 45.2 on September 30, 2020. Effective revenue cycle workflows and strong cash collection contribute to the stable performance in net revenue days outstanding.



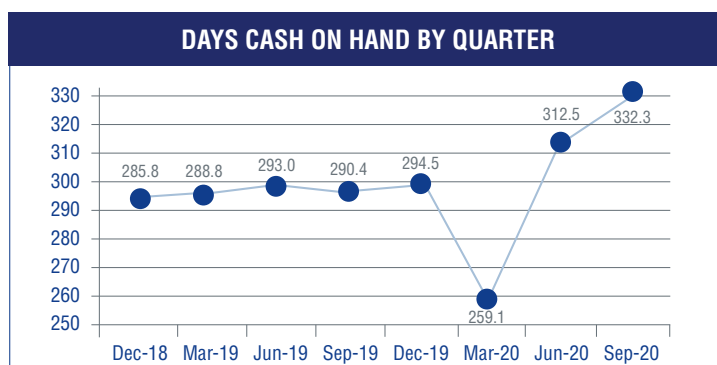
Management's Discussion & Analysis

For the Three Months Ended September 30, 2020

CASH AND INVESTMENTS

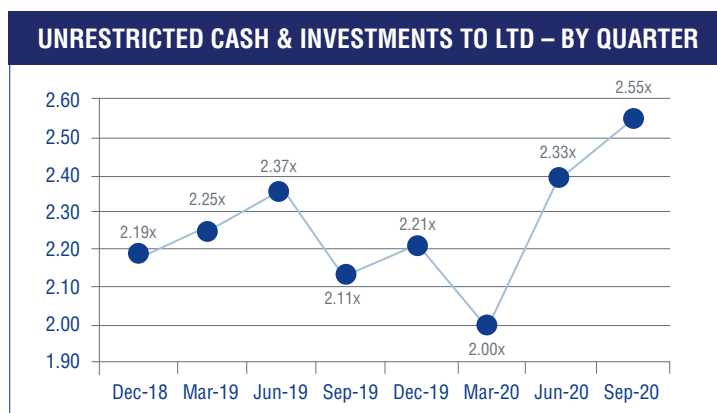
Medicare Accelerated Payments, CARES Act Provider Relief Funds, and the increase in investment earnings brought days cash on hand up to 332.3 on September 30, 2020. FH spent approximately \$19,985 of operating cash on capital expenditures during the three months ended September 30, 2020.

DAYS CASH ON HAND			
	September 30, 2020	June 30, 2020	Change
DCOH	332.3	312.5	19.8



At September 30, 2020, Unrestricted Cash & Investments to Long-Term Debt was 2.55x compared to 2.33x at June 30, 2020. Unrestricted Cash & Investments to Long-Term Debt increased from June 30, 2020 as investment income and positive operating results increased cash and investments.

UNRESTRICTED CASH & INVESTMENTS TO LTD			
(\$ in 000's)	September 30, 2020	June 30, 2020	Change
Cash & Investments	\$2,244,405	\$2,061,996	182,409
Long-Term Debt	\$ 881,062	\$ 884,923	19,257
Ratio	2.55x	2.33x	



OUTSTANDING DEBT

Issuer	Series	September 30, 2020
Wisconsin Health and Educational Facilities Authority	2012A	\$ 150,645
Wisconsin Health and Educational Facilities Authority	2013A	71,415
Froedtert Health, Inc.	2015A	100,000
Wisconsin Health and Educational Facilities Authority	2017A	242,355
Wisconsin Health and Educational Facilities Authority	2017B	80,000
Legacy capital lease obligations		118,230
Finance and operating lease obligations - new lease accounting (see footnote 2)		124,881
Other		310
TOTAL		\$ 887,836
Less: Current portion of long term debt		(25,386)
Less: Deferred financing costs		(4,094)
Add: Unamortized bond premium, net		22,706
TOTAL LONG-TERM DEBT		\$ 881,062

Management's Discussion & Analysis

For the Three Months Ended September 30, 2020

NON-OPERATING ACTIVITIES

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. If necessary, FH could liquidate over 87% of its unrestricted investments in a month or less.

INVESTING AND FINANCING ACTIVITY BY TYPE		
For the Three Months Ended September 30 (\$ in 000's)	2020	2019
Investment Return	\$ 67,020	\$ 6,118
Change in Fair Value of Interest Rate Swaps and Other	(802)	(11,008)
Non-operating Gains (Losses), net	\$ 66,218	\$ (4,890)

SOURCES AND USES OF CASH

FH's primary source of operating cash is the collection of revenue and related accounts receivable. As of September 30, 2020, FH had approximately \$427,299 of cash and cash equivalents on hand to fund operations and capital expenditures.

Operating EBITDA was \$97,653 for the three months ended September 30, 2020, compared to \$68,729 for the three months ended September 30, 2019. Net cash provided by operating activities was \$144,349 for the three months ended September 30, 2020 compared to \$93,110 for the three months ended September 30, 2019.

Investing activities for the three months ended September 30, 2020 included capital expenditures of \$19,985. A significant portion of the capital expenditures represent IT infrastructure, and continued construction and renovation on the FMLH campus.

Financing activities for the three months ended September 30, 2020 include payment of long term debt of \$3,758, restricted contributions and investment return of \$431, and net assets released from restriction of \$62.

Management's Discussion & Analysis

For the Three Months Ended September 30, 2020

DEBT COVENANT CALCULATIONS

Twelve Months Ended September 30, 2020	
Excess of revenues over expenses	\$ 233,303
Add net unrealized losses	2,835
Add interest on indebtedness	34,731
Add depreciation and amortization	132,850
Adjustments to the value of assets or liabilities resulting from changes to generally accepted accounting principles	860
Income available for debt service	\$ 404,579
Actual long-term debt service ¹	\$ 59,774
Historical debt service coverage ratio	6.77x
Maximum annual debt service ²	\$ 72,470
Historical coverage of maximum annual debt service	5.58x

¹Represents trailing twelve months interest expense and debt principal payments.

²Maximum annual principal and interest payment on long-term indebtedness for any succeeding Fiscal Year calculated in accordance with the provisions of the Master Indenture.

Unaudited Interim Consolidated Financial Statements

For the Three Months Ended September 30, 2020

CONSOLIDATED BALANCE SHEETS

September 30, 2020 and June 30, 2020 (\$ in 000's)

ASSETS	Unaudited September 30, 2020	Audited June 30, 2020
Current assets:		
Cash and cash equivalents	\$ 427,299	\$ 311,572
Assets whose use is limited	1,245	3,994
Patient accounts receivable, net	354,210	302,652
Other receivables	27,665	17,101
Inventories	43,167	44,636
Collateral held for securities loaned	228,086	212,055
Prepays and other	36,355	25,970
Total current assets	\$ 1,118,027	\$ 917,980
Investments	\$ 1,756,147	\$ 1,697,839
Assets whose use is limited or restricted	125,694	113,259
Investments in unconsolidated affiliates	251,667	235,258
Property, plant and equipment, net	1,535,788	1,551,825
Deferred financing costs and other assets, net	3,276	3,142
TOTAL ASSETS	\$ 4,790,599	\$ 4,519,303
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current installments of long-term debt	\$ 25,386	\$ 25,607
Accounts payable	106,666	88,623
Accrued expenses	350,686	261,694
Payable under securities lending agreement	228,086	212,055
Estimated settlements to third-party payors	215,082	193,256
Total current liabilities	\$ 925,906	\$ 781,235
Long-term debt, less current portion	\$ 881,062	\$ 884,923
Other long-term liabilities	165,904	156,834
Total liabilities	\$ 1,972,872	\$ 1,822,992
Net assets:		
Net assets without donor restrictions	\$ 2,804,731	\$ 2,683,685
Net assets with donor restrictions	12,996	12,626
Total net assets	\$ 2,817,727	\$ 2,696,311
TOTAL LIABILITIES AND NET ASSETS	\$ 4,790,599	\$ 4,519,303

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months Ended September 30, 2020 and 2019 (\$ in 000's)

	Unaudited September 30, 2020	Unaudited September 30, 2019
Revenues:		
Patient service revenue	\$ 721,418	\$ 649,877
Other operating revenue	\$ 31,611	\$ 17,074
Total revenue	\$ 753,029	\$ 666,951
Expenses:		
Salaries	\$ 251,230	\$ 242,894
Fringe benefits	63,857	57,237
Supplies	178,085	153,880
Contract services	33,272	33,442
Affiliate support	50,276	33,509
Depreciation and amortization	35,698	34,529
Interest	8,585	8,491
Other	78,656	77,260
Total expenses	\$ 699,659	\$ 641,242
Operating revenue in excess of expenses	\$ 53,370	\$ 25,709
Non-operating gains:		
Investment return	\$ 67,020	\$ 6,118
Change in fair value of interest rate swaps and other	(802)	(11,008)
Total non-operating gains, net	\$ 66,218	\$ (4,890)
Revenues and gains in excess of expenses	\$ 119,588	\$ 20,819

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the Three Months Ended September 30, 2020 and 2019 (\$ in 000's)

	Unaudited September 30, 2020	Unaudited September 30, 2019
Net assets without donor restrictions:		
Revenues and gains in excess of expenses and losses	\$ 119,588	\$ 20,819
Change in net unrealized gains and losses on other than trading securities	1	1,007
Contributions and net assets released from restrictions for property, plant and equipment	46	56
Change in accrued pension benefits other than net periodic benefit costs	1,410	(5,049)
Other	1	(3)
Increase in net assets without donor restrictions	\$ 121,046	\$ 16,830
Net assets with donor restrictions:		
Change in net unrealized gains and losses on investments	\$ 371	\$ (63)
Restricted contributions	13	438
Restricted investment return	47	30
Net assets released from restrictions for operations	(62)	(282)
Contributions and net assets released from restrictions for property, plant and equipment	—	(56)
Other	1	—
Increase in net assets with donor restrictions	\$ 370	\$ 67
Increase in net assets	\$ 121,416	\$ 16,897
Net assets at beginning of period	2,696,311	2,569,592
Net assets at end of period	\$ 2,817,727	\$ 2,586,489

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended September 30, 2020 and 2019 (\$ in 000's)

	Unaudited September 30, 2020	Unaudited September 30, 2019
Cash flows from operating activities:		
Change in net assets	\$ 121,416	\$ 16,897
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	35,698	34,529
Income and distributions from equity interest in unconsolidated affiliates, net	(14,999)	(3,766)
Restricted contributions and investment return	(431)	(405)
Net assets released from restrictions for operations	62	282
Change in fair value of interest rate swap agreements	503	10,837
Realized and unrealized gains and losses on unrestricted investments, net	(62,746)	(2,513)
Change in accrued pension benefits other than net periodic benefit costs	(1,410)	5,049
Change in assets and liabilities:		
Patient accounts receivable	(51,558)	(15,878)
Estimated settlements to third-party payors	21,826	2,177
Accounts payable and accrued expenses	18,043	72,484
Other receivables	(10,564)	(5,683)
Inventories	1,469	32
Other assets and liabilities	87,040	(20,932)
Net cash provided by operating activities	\$ 144,349	\$ 93,110
Cash flows from investing activities:		
Net additions to property, plant and equipment	(19,985)	(55,227)
Purchases of investments and assets whose use is limited or restricted	(365,810)	(108,939)
Proceeds from sales or maturities of investments and assets whose use is limited or restricted	360,562	93,619
Net cash used in investing activities	\$ (25,233)	\$ (70,547)
Cash flows from financing activities:		
Repayment of long-term debt	\$ (3,758)	\$ (3,674)
Restricted contributions and investment return	431	405
Net assets released from restrictions for operations	(62)	(282)
Net cash used in financing activities	\$ (3,389)	\$ (3,551)
Net change in cash and cash equivalents	\$ 115,727	\$ 19,012
Cash and cash equivalents:		
Beginning of period	311,572	132,403
End of period	\$ 427,299	\$ 151,415

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

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

In November 2019, Froedtert Health renamed two of its hospitals to further unify the brand and increase recognition of local access to the academic health network in the geographies served. While the legal names remain unchanged, CMH now operates as Froedtert Menomonee Falls Hospital ("FMFH") and SJH operates as Froedtert West Bend Hospital ("FWBH"). FMLH continues to operate as Froedtert Hospital ("Froedtert Hospital").

FMLH owns and operates an acute care hospital with 783 approved beds (of which 720 are currently staffed), clinics, and related operations in Wauwatosa, Wisconsin. FMLH is the sole corporate member of Froedtert Hospital Foundation, Inc. (Froedtert Foundation). 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 transferred to ASC effective July 1, 2019.

FMFH owns and operates an acute care hospital with 237 approved beds (of which 202 are currently staffed) in Menomonee Falls, Wisconsin. Community Memorial Foundation of Menomonee Falls, Inc. (Community Memorial Foundation) is a supporting organization of FMFH. FMFH 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. FMFH also wholly owned Menomonee Falls Ambulatory Surgery Center, LLP (MFASC), an outpatient surgery center in Menomonee Falls, Wisconsin, through June 30, 2019. The ownership interest in MFASC was transferred to ASC effective July 1, 2019.

FWBH owns and operates an acute care hospital with 70 approved and staffed beds in West Bend, Wisconsin. FWBH is the sole corporate member of St. Joseph's Community Foundation, Inc. (St. Joseph's Foundation). FWBH 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.

CP is a joint clinical practice group between FH and the 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.

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

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

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

WDL is a diagnostic service provider, wholly owned by FH and QHS1, organized to provide laboratory services to FH affiliates and other health care providers.

Hart's Mills is an offshore captive insurance company.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements include the accounts of FH, FMLH, Froedtert Foundation, FMFH, Community Memorial Foundation, COHS, FWBH, St. Joseph's Foundation, CP, Inception, QHS 1, WDL, Hart's Mills, Exceedent, ASC, and Pharmacy Solutions.

At September 30, 2020, FH, FMLH, Froedtert Foundation, FMFH, Community Memorial Foundation, FWBH, and St. Joseph's Foundation are members of the obligated group (Obligated Group) for the purposes of the issuance of revenue bonds. The Obligated Group consisted only of the members mentioned above and excludes ASC, COHS, CP, Inception, QHS 1, WDL, Hart's Mills, Exceedent, and Pharmacy.

2. BASIS OF PRESENTATION

The consolidated financial statements of FH have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. However, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included in these financial statements. The accompanying unaudited consolidated financial statements include the accounts of FH and its affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation. For further information, refer to the audited consolidated financial statements and notes thereto as of and for the year ended June 30, 2020.

New Accounting Policy - In February 2016, the FASB issued ASU 2016-02, leases (Topic 842). This guidance requires lessees to recognize leases on the face of the balance sheet. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of operations. FH elected the package of practical expedients permitted under the transition guidance within the new FH standard, which among other things, allowed FH to carry forward the historical lease classification.

FH adopted ASU 2016-02 on July 1, 2019. The implementation resulted in recognition of ROU assets of \$123,121 and a corresponding financing obligation of the same amount as part of the adoption.

3. PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

Patient service revenue is reported at estimated net realizable amounts in the period in which services are provided. The majority of FH's services are rendered to patients under Medicare, Medicaid, and Managed Care arrangements. Reimbursement under these programs varies and are based on a combination of prospectively determined rates and historical costs. Amounts received under the Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents.

FH is utilizing the portfolio approach practical expedient in ASU 2014-09 for contracts related to patient service revenue. FH accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. As a result, FH has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract by contract basis.

FH has agreements with third-party payors that generally provide for payments to FH at amounts different from its established rates. For uninsured patients who do not qualify for charity care, FH recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by FH. FH determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with FH's policy, and implicit price concessions provided to uninsured patients. Implicit price concessions represent differences between amounts billed and the estimated consideration FH expects to receive from patients, which are determined based on historical collection experience, current market conditions and other factors. Estimates of contractual adjustments and discounts are based on contractual agreements, discount policies, and historical experience.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Laws and regulations governing the Medicare and Medical Assistance programs are extremely complex and subject to interpretation. Compliance with such laws and regulations are subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medical Assistance programs. As a result, there is at least a reasonable possibility that the recorded estimates may change.

4. FAIR VALUE MEASUREMENTS

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

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

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

- The carrying amount reported in the consolidated balance sheets for the following approximates fair value because of the short maturities of these instruments: cash and cash equivalents, patient and other receivables, accounts payable, accrued expenses, and estimated settlements to third-party payors.
- Assets limited as to use, collateral held for securities loaned, and long term investments: U.S. government securities, marketable equity securities, fixed income securities, money market funds, and mutual funds are measured using quoted market prices; other observable inputs such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets at the reporting date multiplied by the quantity held. The carrying value equals fair value.
- Alternative investments are reported at the NAV reported by the fund manager. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, FH has concluded, as a practical expedient, that 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 table on the following page represents FH's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2020 and September 30, 2019.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements as of September 30, 2020 (\$ in 000's)

	Level 1	Level 2	Level 3	Total Carrying Amount
Assets:				
Fixed Income	\$ 753,146	\$ 706,179	—	\$ 1,459,325
Domestic Equity	523,546	—	—	523,546
International Equity	182,118	—	—	182,118
Low Volatility Equity	—	—	—	93,402
Real Estate Funds	—	—	—	200,178
Hedge Fund of Funds	—	—	—	30,345
International Equity Funds	—	—	—	44,954
Other	—	23	\$ 284	307
Total assets	\$ 1,458,810	\$ 706,202	\$ 284	\$ 2,534,175
Liabilities:				
Payable under securities lending agreements	—	\$ 228,086	—	\$ 228,086
Interest rate swap agreements	—	60,091	—	60,091
Total liabilities	—	\$ 288,177	—	\$ 288,177

Fair Value Measurements as of June 30, 2020 (\$ in 000's)

	Level 1	Level 2	Level 3	Total Carrying Amount
Assets:				
Fixed Income	\$ 587,935	\$ 729,502	—	\$ 1,317,437
Domestic Equity	483,120	—	—	483,120
International Equity	176,022	—	—	176,022
Low Volatility Equity	—	—	—	88,127
Real Estate Funds	—	—	—	200,174
Hedge Fund of Funds	—	—	—	28,758
International Equity Funds	—	—	—	40,599
Other	—	22	\$ 284	306
Total assets	\$ 1,247,077	\$ 729,524	\$ 284	\$ 2,334,543
Liabilities:				
Payable under securities lending agreements	—	\$ 212,055	—	\$ 212,055
Interest rate swap agreements	—	59,589	—	59,589
Total liabilities	—	\$ 271,644	—	\$ 271,644

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

5. INVESTMENTS AND INVESTMENT INCOME

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

FH invests in various investment securities including U.S. government securities, marketable equity securities, fixed income securities, money market funds, mutual funds, and alternative investments. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of FH's investments could occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

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

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

(a) Objectives and Strategies

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

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

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(b) Risk Management Policies

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

FH does not use derivative instruments for speculative investment purposes.

(c) Interest Rate Swap Agreements

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

Under the terms of the interest rate swap agreements, the Obligated Group pays a fixed rate on the bonds and receives a variable rate of interest equal to 68% of the three month LIBOR index for the Series 2013A bonds and 70% of the one month LIBOR index for the Series 2017B bonds. The swap agreement matched to the Series 2017B bonds does not become effective until January 1, 2021 and therefore, no cash payments or receipts are due or receivable prior to January 1, 2021, at which time the cash flow hedge will begin.

The interest rate swap agreements for the Obligated Group at September 30, 2020 and 2019 consist of the following:

Associated Series	Original notional amount	Maturity date	Fixed pay rate	Variable pay rates at September 30	
				2020	2019
2013A bonds	\$94,050	April 1, 2035	3.366%	0.241%	2.126%
2017B bonds	\$80,000	April 1, 2048	2.917%	—	—

The fair value of the interest rate swaps of approximately \$60,093 and \$45,539 is included in other long-term liabilities in the consolidated balance sheets at September 30, 2020 and September 30, 2019, respectively. The change in fair value of the interest rate swaps of (\$503) and (\$10,837) is included in non-operating gains and losses in the consolidating statements of operations for the three months ended September 30, 2020 and 2019, respectively.

Cash paid for monthly settlement under the interest rate swap agreements was \$569 and \$343 for the three months ended September 30, 2020 and 2019, respectively, and is included within interest expense in the consolidated statements of operations. No cash was received under the interest rate swap agreements for the three months ended September 30, 2020 or three months ended September 30, 2019. FH was not required to post any collateral under the swap agreements as of September 30, 2020 and September 30, 2019, respectively.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7. PENSION PLANS

FH maintains defined benefit plans (the "Plans") and defined contribution plans that cover substantially all of FH's employees. Benefits under the Plans vary and are generally based upon the employee's earnings and years of participation. The components of net periodic pension cost for the Plans are as follows:

DEFINED BENEFIT PLAN – Net Periodic Pension Costs

	For the Three Months Ended September 30, 2020	For the Three Months Ended September 30, 2019
Service cost	\$ 770	\$ 970
Interest cost	1,503	1,976
Expected return on plan assets	(2,445)	(2,917)
Recognized net actuarial loss	949	792
Net periodic pension cost	\$ 777	\$ 821

The actuarial assumptions used to determine net periodic pension cost for the three months ended September 30, 2020 and 2019 for the Plans are as follows:

ACTUARIAL ASSUMPTIONS

	For the Three Months Ended September 30, 2020	For the Three Months Ended September 30, 2019
Discount rate	2.76% to 2.86%	3.58% to 3.64%
Expected rate of compensation increase	3% to 6%	3% to 6%
Expected long-term rate of return on plan assets	4.85% to 6.00%	5.80% to 6.40%

During the three months ended September 30, 2020 and 2019, FH made contributions to the Plans (net of contributions received) of \$7,142 and \$4,076 respectively.



Froedtert

Froedtert Health, Inc. and Affiliates
• Unaudited Quarterly Disclosure •
September 2020