

In the opinion of Quarles & Brady LLP, Bond Counsel, under present law and assuming compliance with certain covenants, interest on the Series 2017A Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The interest on the Series 2017A Bonds is, however, included in adjusted current earnings for purposes of computing the alternative minimum tax imposed on corporations. See "TAX EXEMPTION" herein for a more detailed discussion of some of the federal income tax consequences of owning the Series 2017A Bonds. The interest on the Series 2017A Bonds is not exempt from present Wisconsin income taxes.

\$254,190,000

Froedtert Health

**WISCONSIN HEALTH AND EDUCATIONAL
FACILITIES AUTHORITY
Revenue Bonds, Series 2017A
(Froedtert Health, Inc. Obligated Group)**



PRICE OR YIELD	As shown on the inside cover
DATED	Date of delivery
INTEREST PAYMENT DATES	October 1, 2017 and semiannually thereafter on every April 1 and October 1
MATURITY	Maturities, Principal Amounts, Interest Rates, Prices or Yields and CUSIPs as set forth on the inside cover
ISSUANCE	The Wisconsin Health and Educational Facilities Authority (the "Authority") will issue the Series 2017A Bonds through a book-entry system of The Depository Trust Company, New York, New York ("DTC") under a Bond Trust Indenture dated as of April 1, 2017 between the Authority and U.S. Bank National Association, as Bond Trustee. The Series 2017A Bonds will be issued in authorized denominations of \$5,000 or any integral multiple thereof, and no physical delivery of the Series 2017A Bonds will be made to beneficial owners, except as described herein. Payments with respect to the Series 2017A Bonds shall be made by the Bond Trustee to Cede & Co., as nominee of DTC which will, in turn, remit such payments to DTC Participants for disbursement to the beneficial owners of the Series 2017A Bonds. See "BOOK-ENTRY SYSTEM" herein.
REDEMPTION	The Series 2017A Bonds are subject to mandatory sinking fund redemption, optional redemption, extraordinary optional redemption and mandatory purchase in lieu of redemption under certain circumstances. See "THE SERIES 2017A BONDS – Mandatory Redemption", "– Optional Redemption", "– Extraordinary Optional Redemption" and "– Purchase in Lieu of Redemption" herein.
USES	The Authority will lend the proceeds from the sale of the Series 2017A Bonds to Froedtert Health, Inc. ("Froedtert Health") to (i) finance, refinance or reimburse a portion of the costs related to the acquisition, construction, renovation and equipping of certain capital projects described herein, (ii) refund all or a portion of the outstanding principal amount of certain of the Authority's outstanding bonds as described herein (the "Prior Bonds"), and (iii) pay certain expenses incurred in connection with the issuance of the Series 2017A Bonds and refunding of the Prior Bonds. See "PLAN OF FINANCE" herein.
LIMITED OBLIGATION	THE SERIES 2017A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT A DEBT OR LIABILITY OF THE STATE OF WISCONSIN OR OF ANY POLITICAL SUBDIVISION OR AGENCY THEREOF OTHER THAN THE AUTHORITY. THE SOURCE OF PAYMENT AND SECURITY FOR THE SERIES 2017A BONDS ARE MORE FULLY DESCRIBED HEREIN. THE AUTHORITY HAS NO TAXING POWER.

This cover page contains information for general reference only. It is not intended as a summary of this transaction. Investors are advised to read the entire Official Statement, including the Appendices, to obtain information essential to making an informed investment decision.

The Series 2017A Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale and to the approval of legality by Quarles & Brady LLP, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by Quarles & Brady LLP, as its general counsel. Certain legal matters will be passed upon for the Obligated Group by its counsel, Quarles & Brady LLP. Certain legal matters will be passed upon for the Underwriter by Dentons US LLP, its special counsel. It is expected that the Series 2017A Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about April 20, 2017.

MORGAN STANLEY

The date of this Official Statement is March 9, 2017

SERIES 2017A BONDS
MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS®

Maturity <u>April 1</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2018	\$ 2,935,000	3.000%	1.000%	97712DVF0
2019	2,600,000	4.000	1.310	97712DVG8
2020	6,300,000	5.000	1.540	97712DVH6
2021	6,535,000	5.000	1.770	97712DVJ2
2022	6,755,000	5.000	2.040	97712DVK9
2023	5,820,000	5.000	2.350	97712DVL7
2024	6,105,000	5.000	2.640	97712DVM5
2025	6,415,000	5.000	2.850	97712DVN3
2026	6,715,000	5.000	3.000	97712DVP8
2027	7,055,000	5.000	3.120	97712DVQ6
2028	7,905,000	5.000	3.220 ^c	97712DVR4
2029	10,165,000	5.000	3.300 ^c	97712DVS2
2030	10,605,000	5.000	3.380 ^c	97712DVT0
2031	10,895,000	5.000	3.470 ^c	97712DVU7
2032	11,430,000	5.000	3.550 ^c	97712DVV5
2033	11,920,000	5.000	3.630 ^c	97712DVW3
2034	14,845,000	5.000	3.690 ^c	97712DVX1
2035	15,660,000	5.000	3.740 ^c	97712DYY9

\$84,910,000 4.000% Term Bond due April 1, 2039; Yield 4.170%; CUSIP: 97712DVZ6

\$18,620,000 5.000% Term Bond due April 1, 2048; Yield 3.920%^c ; CUSIP: 97712DWA0

[®] CUSIP is a trademark of the American Bankers Association.

^c Yield to April 1, 2027 Call Date.

REGARDING USE OF THIS OFFICIAL STATEMENT

The information contained herein under the caption “THE AUTHORITY” and “LITIGATION – Authority” has been furnished by the Wisconsin Health and Educational Facilities Authority (the “Authority”). The information under the caption “BOOK-ENTRY SYSTEM” herein has been obtained from The Depository Trust Company. All other information contained herein has been obtained from Froedtert Health, Inc. (“Froedtert Health”) and other sources (other than the Authority) which are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness by, and is not to be relied upon as or construed as a promise or representation by, the Authority or Morgan Stanley & Co. LLC (the “Underwriter”). The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of this information.

The Authority does not assume any responsibility for the accuracy or completeness of any information contained in this Official Statement, except such information relating specifically to the Authority under the captions, “THE AUTHORITY” and “LITIGATION – Authority.” Neither the Authority, its counsel, nor any of its officers, members, agents, employees or representatives have reviewed this Official Statement or investigated the statements or representations contained herein, except for those statements relating to the Authority set forth under the captions, “THE AUTHORITY” and “LITIGATION – Authority.” Except with respect to the information contained under such captions, neither the Authority, its counsel, nor any of its officers, members, agents, employees or representatives make any representation as to the completeness, sufficiency and truthfulness of the statements set forth in this Official Statement. Officers, members, employees and agents of the Authority and any other person executing the Bonds are not subject to personal liability by reason of the issuance of the Bonds.

No dealer, broker, salesperson or other person has been authorized by the Authority, Froedtert Health or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be a sale of Series 2017A Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority or Froedtert Health since the date hereof.

CUSIP is a trademark of the American Bankers Association. The CUSIP numbers are provided by Standard and Poor’s, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. These numbers are not intended to create a database and do not serve in any way as a substitute for the CUSIP Service. The CUSIP numbers shown above have been assigned to this issue by an organization not affiliated with the Authority, the Underwriter or Froedtert Health and are included for convenience only. Neither the Authority, the Underwriter nor Froedtert Health is responsible for the selection of CUSIP numbers, nor is any representation made as to their correctness on the Series 2017A Bonds or as indicated herein. The CUSIP numbers are included in this Official Statement for the convenience of the Bondowners and potential Bondowners. No assurance can be given that the CUSIP numbers will remain the same after the date of issuance and delivery of the Series 2017A Bonds.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY UPON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2017A BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2017A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2017A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE BOND INDENTURE AND THE MASTER INDENTURE HAVE NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2017A BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAWS OF THE STATES IN WHICH SERIES 2017A BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2017A BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute projections or estimates of future events, generally known as forward-looking statements. These statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. These forward-looking statements include, but are not limited to, the information under the caption “BONDHOLDERS’ RISKS” in the forepart of this Official Statement and the information in *APPENDIX A* to this Official Statement.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The Members of the Obligated Group do not plan to issue any updates or revisions to those forward-looking statements if or when changes in their expectations, or events, conditions or circumstances on which such statements are based, occur.

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OFFICIAL STATEMENT

\$254,190,000

**Wisconsin Health and Educational Facilities Authority
Revenue Bonds, Series 2017A
(Froedtert Health, Inc. Obligated Group)**

INTRODUCTION

Purpose of this Official Statement. This Official Statement, including the cover page and Appendices, is furnished in connection with the offering of \$254,190,000 in aggregate principal amount of Revenue Bonds, Series 2017A (Froedtert Health, Inc. Obligated Group) (the “Series 2017A Bonds”) of the Wisconsin Health and Educational Facilities Authority (the “Authority”), a public body politic and corporate organized under the laws of the State of Wisconsin (the “State”). The Series 2017A Bonds are being issued pursuant to and secured by a Bond Trust Indenture dated as of April 1, 2017 (the “Bond Indenture”) between the Authority and U.S. Bank National Association, as bond trustee (the “Bond Trustee”), and are being issued in accordance with the provisions of Chapter 231 of the Wisconsin Statutes, as from time to time amended (the “Act”). Certain capitalized terms used in this Official Statement and not otherwise defined are defined in *APPENDIX C* and *APPENDIX D* hereto.

Froedtert Health, Inc. and Affiliates. The proceeds to be received by the Authority from the sale of the Series 2017A Bonds will be loaned to Froedtert Health, Inc., a Wisconsin nonstock nonprofit corporation (“Froedtert Health”), pursuant to a Loan Agreement dated as of April 1, 2017 (the “Loan Agreement”) by and between the Authority and Froedtert Health. Froedtert Health is the sole corporate member of several affiliates, including Community Memorial Hospital of Menomonee Falls, Inc. (“CMH”), Froedtert Memorial Lutheran Hospital, Inc. (“FMLH”) and St. Joseph’s Community Hospital of West Bend, Inc. (“SJH”). See *APPENDIX A* hereto for a more detailed description of the history, organization, facilities, operations and financial performance of Froedtert Health and its affiliates. As of the date of issuance of the Series 2017A Bonds, Froedtert Health, FMLH, CMH, Community Memorial Foundation of Menomonee Falls, Inc. (“Community Memorial Foundation”), Froedtert Hospital Foundation, Inc. (“Froedtert Foundation”), SJH and St. Joseph’s Community Foundation, Inc. (“St. Joseph’s Foundation”) are the Members of the Obligated Group (as such term is defined in the Master Indenture). For an organizational chart identifying the Members of the Obligated Group and certain other affiliates, see “INTRODUCTION – Corporate Structure” in *APPENDIX A* hereto.

Purpose of the Series 2017A Bonds. The proceeds of the sale of the Series 2017A Bonds will be used together with certain other funds to do the following: (i) finance, refinance or reimburse a portion of the costs related to the acquisition, construction, renovation and equipping of certain capital projects (collectively, the “Project”); (ii) advance refund \$158,765,000 of the Authority’s Revenue Bonds, Series 2009C (Froedtert & Community Health, Inc. Obligated Group) (such portion to be advance refunded, the “Refunded Series 2009C Bonds”) and current refund all of the Authority’s Variable Rate Revenue Bonds, Series 2013B (Froedtert Health, Inc. Obligated Group) (the “Series 2013B Bonds” and, together with the Refunded Series 2009C Bonds, the “Prior Bonds”), of which \$79,910,000 in aggregate principal amount will be outstanding on the date of issuance of the Series 2017A Bonds; and (iii) pay certain expenses incurred in connection with the issuance of the Series 2017A Bonds and refunding of the Prior Bonds. The portion of the Authority’s Revenue Bonds, Series 2009C (Froedtert & Community Health, Inc. Obligated Group) that will remain outstanding is referred to herein as the “Outstanding Series 2009C Bonds.” See “PLAN OF FINANCE” herein.

Security. To evidence the loan under the Loan Agreement, Froedtert Health will issue its \$254,190,000 Promissory Note, Series 2017A (the “Series 2017A Obligation”) payable to the Authority providing for payments sufficient to pay principal of and premium, if any, and interest on the

Series 2017A Bonds. The Series 2017A Obligation will be issued pursuant to a Master Trust Indenture dated as of July 1, 1994 as amended and restated in its entirety as of May 1, 2005, as previously supplemented and amended, “Original Master Indenture”), and as currently being supplemented and amended by a Sixteenth Supplemental Master Trust Indenture dated as of April 1, 2017 (the “Sixteenth Supplement” and, together with the Original Master Indenture, the “Master Indenture”), between Froedtert Health and each other Member of the Obligated Group and Wells Fargo Bank, National Association, as master trustee (the “Master Trustee”). The Authority will pledge and assign the Series 2017A Obligation and certain of its rights under the Loan Agreement to the Bond Trustee as security for the Series 2017A Bonds.

The Members of the Obligated Group are the only entities which are obligated to make payments with respect to the Series 2017A Bonds. Each Member of the Obligated Group is jointly and severally liable for the payment of principal and interest on all Obligations outstanding under the Master Indenture. The Master Indenture permits other entities to become Members of the Obligated Group under certain circumstances. See the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – The Obligated Group” in *APPENDIX C*. Froedtert Health has no present intention of adding additional Members to the Obligated Group in the near future. Notwithstanding uncertainties as to enforceability of the covenant of each Member of the Obligated Group in the Master Indenture to jointly and severally guaranty each promissory note issued under the Master Indenture (hereinafter referred to as an “Obligation”) (as described under “BONDHOLDERS’ RISKS – Matters Relating to Enforceability of the Master Indenture”), the accounts of Froedtert Health, its consolidated subsidiaries, and any future Members of the Obligated Group may be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the incurrence of Additional Indebtedness) are met. While the consolidated subsidiaries are included in the financial statements of Froedtert Health and the Obligated Group for determining compliance with various tests contained in the Master Indenture, certain consolidated subsidiaries are not Members of the Obligated Group and are not liable for the Obligations issued under the Master Indenture. The obligations of each Member of the Obligated Group under the Master Indenture are secured by a uniform commercial code security interest in the Pledged Revenues (as defined in *APPENDIX C*) of each Member. See “BONDHOLDERS’ RISKS – Certain Matters Relating to Security for the Series 2017A Bonds” herein.

The Bond Indenture requires the Bond Trustee, upon the request of Froedtert Health, to surrender the Series 2017A Obligation in exchange for one or more substitute obligations. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2017A BONDS - Possible Substitution of Series 2017A Obligation” herein and “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Replacement of Series 2017A Master Note with Note Issued Under a Separate Master Indenture” in *APPENDIX D* hereto.

Outstanding and Additional Indebtedness. As of December 31, 2016, the Obligated Group had approximately \$586 million in aggregate principal amount of Obligations outstanding under the Master Indenture (excluding Obligations related to (i) continuing covenant agreements with bank direct purchasers, and (ii) derivative transactions). Such amount, together with the Series 2017A Obligation and the Series 2017 Bank Bond Obligation (as described and defined under the caption “PLAN OF FINANCE” herein), and excluding the Obligations relating to the Prior Bonds, will result in the approximate amount of Obligations outstanding upon issuance of the Series 2017A Bonds and the Series 2017 Bank Bonds (as described and defined under the caption “PLAN OF FINANCE” herein) of \$672 million. In addition, upon the issuance of the Series 2017A Bonds and the Series 2017 Bank Bonds, the Obligated Group will have approximately \$112 million in capital lease obligations not secured under the Master Indenture and approximately \$389 thousand in other long-term indebtedness not secured under the Master Indenture. See Note 6 to *APPENDIX B* hereto.

In certain circumstances, Froedtert Health or any Member of the Obligated Group may issue additional Obligations under the Master Indenture to the Authority or to persons other than the Authority, that will not be pledged under the Bond Indenture but will be equally and ratably secured with the Series 2017A Obligation by the Master Indenture and may be secured by security in addition to that provided to the Series 2017A Obligation. In addition, under certain circumstances, the Members of the Obligated Group may issue additional indebtedness not secured by Obligations. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2017A BONDS.”

Interest Rate Swaps. Froedtert Health has certain interest rate swaps outstanding. See “MANAGEMENT DISCUSSION OF OPERATING AND FINANCIAL RESULTS – Interest Rate Hedge Transactions” in *APPENDIX A* hereto and “BONDHOLDERS’ RISKS – Interest Rate Swap and Other Hedge Risk” herein for further information regarding the outstanding swaps and risks related thereto.

Continuing Disclosure. Froedtert Health will enter into an undertaking for the benefit of the Bondholders to provide certain information quarterly and annually, and to provide notice of certain events to EMMA. For further information, see “CONTINUING DISCLOSURE AGREEMENT” herein.

Bondholders’ Risks. There are risks associated with the purchase of the Series 2017A Bonds. See the information under the caption “BONDHOLDERS’ RISKS” herein for a discussion of certain of these risks.

General. The following descriptions and summaries of the Series 2017A Bonds, the Bond Indenture, the Loan Agreement, the Continuing Disclosure Agreement, the Series 2017A Obligation and the Master Indenture in this Official Statement are qualified by reference to the complete text of the documents being described or summarized. Following the issuance of the Series 2017A Bonds, copies of such documents will be available for inspection at the principal corporate trust office of the Bond Trustee.

PLAN OF FINANCE

Purpose of the Series 2017A Bonds

The proceeds of the sale of the Series 2017A Bonds, together with other funds, will be used to do the following: (i) finance, refinance or reimburse a portion of the costs related to the acquisition, construction, renovation and equipping of the Project; (ii) refund the Prior Bonds, and (iii) pay certain expenses incurred in connection with the issuance of the Series 2017A Bonds and refunding of the Prior Bonds.

The Project

A portion of the proceeds of the Series 2017A Bonds will be used to finance, refinance or reimburse a portion of the costs related to the acquisition, construction, renovation and equipping of certain healthcare facilities of the Members of the Obligated Group, including, but not limited to, a new Integrated Procedural Platform and a four-floor vertical expansion of the Center for Advanced Care, each located on the FMLH hospital campus (collectively, the “Project”). For further information regarding the Project, see “STRATEGIC PLANS AND SIGNIFICANT CAPITAL PROJECTS – Capital Projects; Five Year Strategic Plan” in *APPENDIX A* hereto.

The Prior Bonds

A portion of the proceeds of the Series 2017A Bonds along with certain other funds will be deposited with the Bond Trustee and held in a trust fund under the Bond Indenture for the current refunding of the Series 2013B Bonds. On or about the date of issuance of the Series 2017A Bonds, an

amount which is sufficient to pay the outstanding principal of, and accrued interest, if any, on the Series 2013B Bonds to such date shall be transferred to U.S. Bank National Association, the sole owner of the Series 2013B Bonds, in order to redeem and refund the Series 2013B Bonds.

A portion of the proceeds of the Series 2017A Bonds will be delivered to U.S. Bank, National Association, as successor bond trustee for the Refunded Series 2009C Bonds (the “Series 2009C Trustee”), to be placed in an escrow fund created pursuant to an Escrow Deposit Agreement dated the date of issuance of the Series 2017A Bonds (the “Series 2009C Escrow Deposit Agreement”), among Froedtert Health, the Authority and the Series 2009C Trustee, relating to the advance refunding of the Refunded Series 2009C Bonds. Such funds, together with other funds on deposit in such escrow fund, will be used to pay the outstanding principal of, and accrued interest on, the Refunded Series 2009C Bonds when due and to pay the redemption price of the Refunded Series 2009C Bonds on April 1, 2019 as specified in the Series 2009C Escrow Deposit Agreement.

Series 2017 Bank Bonds

Froedtert Health anticipates that, on or about April 27, 2017, approximately \$80,060,000 of tax exempt variable rate bonds (the “Series 2017 Bank Bonds”) will be issued for the benefit of Froedtert Health and sold directly to U.S. Bank, National Association (the “Bank Purchaser”). The proceeds of the Series 2017 Bank Bonds will be used to finance, refinance or reimburse a portion of the costs related to the acquisition, construction, renovation and equipping of the Project. The Obligated Group anticipates issuing an Obligation under the Master Indenture in the aggregate principal amount of the Series 2017 Bank Bonds to secure its obligations to make payments with respect to the Series 2017 Bank Bonds (the “Series 2017 Bank Bond Obligation”) and an additional Obligation to secure the obligations of the Obligated Group under a separate additional covenant agreement with the Bank Purchaser. There is no assurance that the Series 2017 Bank Bonds will be issued, or if issued, in what amount. If issued, the Series 2017 Bank Bonds will be a separate issue of bonds, for tax purposes, from the Series 2017A Bonds.

THE AUTHORITY

Powers

The Authority has, among other powers, the statutory power to make loans to certain health care, educational, research and other nonprofit institutions in Wisconsin, to finance the cost of projects and refinance or refund outstanding indebtedness and to assign loan agreements, notes, mortgages and other securities of health care, educational, research and other nonprofit institutions to which the Authority has made loans, and the revenues therefrom, for the benefit of the holders of bonds issued to finance or refinance such projects.

Members of the Authority

The Authority consists of seven members, all of whom must be Wisconsin residents, appointed by Wisconsin’s Governor by and with the consent of the Wisconsin State Senate. Members of the Authority serve staggered seven-year terms and continue to serve until their successors are appointed. The members of the Authority receive no compensation for the performance of their duties but are paid their necessary expenses while engaged in the performance of such duties. No member, officer, agent or employee of the Authority may, directly or indirectly, have any financial interest in any bond issue or in any loan or any property to be included in, or any contract for property or materials to be furnished or used in connection with, any project of the Authority, under penalty of law. Members of the Authority, however, may serve as directors or officers of institutions for which the Authority is providing financing, but they may not vote or take part in the Authority’s deliberations concerning such financings.

The present members of the Authority are:

	<u>Term Expires (June 30)</u>
James Dietsche, Chairperson Chief Financial Officer Bellin Health Green Bay, Wisconsin	2019
Tim Size, Vice-Chairperson Executive Director Rural Wisconsin Health Cooperative Sauk City, Wisconsin	2018
Kevin Flaherty VP/Relationship Manager, Asset-Based Lending Division Associated Bank, National Association Milwaukee, Wisconsin	2017
Paul Mathews President/CEO Marcus Center for the Performing Arts Milwaukee, Wisconsin	2021
Jim Opperman Senior Vice President of Finance and Management Alverno College Milwaukee, Wisconsin	2023*
Pamela Stanick Associate Vice President, Finance & Treasury The Medical College of Wisconsin Milwaukee, Wisconsin	2022*
Robert VanMeeteren President/CEO Reedsburg Area Medical Center Reedsburg, Wisconsin	2020

* Mr. Oppermann and Ms. Stanick were appointed by the Governor of the State of Wisconsin and serve pending Wisconsin State Senate confirmation.

Authority Counsel

Quarles & Brady LLP serves as general counsel to the Authority.

Financing Program of the Authority

The following summary outlines the principal amount of revenue bonds and notes issued during each of the Authority's fiscal years. Except for the other series of bonds previously issued by the Authority for the benefit of Froedtert Health or any other Member of the Obligated Group, such bonds and notes are secured by instruments separate and apart from the Master Indenture. All such bonds and notes are secured by instruments separate and apart from the Bond Indenture.

Fiscal Year Ended <u>June 30</u>	Public Issues		Private Placements		Total	
	Number of <u>Issues</u>	<u>Amount</u>	Number of <u>Issues</u>	<u>Amount</u>	Number of <u>Issues</u>	<u>Amount</u>
1980	--	--	1	\$ 1,300,000	1	\$ 1,300,000
1981	3	\$ 24,480,000	4	20,365,000	7	44,845,000
1982	3	34,100,000	4	12,575,000	7	46,675,000
1983	1	4,000,000	1	600,000	2	4,600,000
1984	4	16,375,000	3	13,225,000	7	29,600,000
1985	6	196,505,000	2	2,200,000	8	198,705,000
1986	9	213,260,000	5	17,478,000	14	230,738,000
1987	12	191,610,000	9	48,410,000	21	240,020,000
1988	14	170,890,000	14	81,589,000	28	252,479,000
1989	20	254,979,000	6	14,394,000	26	269,373,000
1990	14	277,605,000	9	45,737,000	23	323,342,000
1991	11	233,590,000	3	37,500,000	14	271,090,000
1992	15	346,160,000	5	43,500,000	20	389,660,000
1993	25	579,235,000	6	18,775,000	31	598,010,000
1994	16	434,495,000	6	46,615,000	22	481,110,000
1995	7	101,770,000	6	18,847,000	13	120,617,000
1996	14	382,905,000	2	8,800,000	16	391,705,000
1997	28	706,960,300	1	764,000	29	707,724,300
1998	25	722,050,000	1	2,700,000	26	724,750,000
1999	28	710,960,000	4	36,000,000	32	746,960,000
2000	16	415,710,000	6	17,736,450	22	433,446,450
2001	19	437,580,000	8	26,589,000	27	464,169,000
2002	18	815,100,000	2	8,000,000	20	823,100,000
2003	14	296,895,000	3	15,935,000	17	312,830,000
2004	26	912,245,000	4	25,980,000	30	938,225,000
2005	32	923,038,430	2	23,067,000	34	946,105,430
2006	25	706,235,000	2	6,570,000	27	712,805,000
2007	25	1,238,330,000	2	29,090,000	27	1,267,420,000
2008	24	1,006,255,000	4	36,500,000	28	1,042,755,000
2009	21	1,470,875,000	3	37,859,824	24	1,508,734,824
2010	17	1,338,695,000	13	114,746,851	30	1,453,441,851
2011	11	512,745,000	12	75,330,531	23	588,075,531
2012	10	1,149,245,000	16	469,944,854	26	1,619,189,854
2013	18	1,335,035,000	29	374,569,801	47	1,709,604,801
2014	5	326,220,000	19	468,391,000	24	794,611,000
2015	11	726,181,000	26	752,236,098	37	1,478,417,098
2016	<u>4</u>	<u>1,219,215,000</u>	<u>19</u>	<u>689,319,802</u>	<u>23</u>	<u>1,908,534,802</u>
		\$20,431,533,73				
TOTAL	551	0	262	\$3,643,240,211 [†]	813	\$24,074,773,941

*Includes \$7,897,174,283 which was refinanced by subsequent Authority bond issues.

[†] Includes \$1,843,895,517 which was refinanced by subsequent Authority bond issues.

In its fiscal year beginning July 1, 2016, the Authority has issued and authorized the issuance of additional issues of bonds. The Authority plans to offer other obligations from time to time to finance other health, educational, research and other nonprofit facilities. Such other obligations will be issued pursuant to and secured by instruments separate and apart from the Bond Indenture and the security for the Series 2017A Bonds.

Bonds of the Authority

The Authority may from time to time issue bonds for any corporate purpose described in the Act and, pursuant to the Act, these bonds are negotiable for all purposes notwithstanding their payment from a limited source. The bonds are payable solely out of revenues of the Authority specified in the resolution under which they are issued or in a related trust indenture or mortgage. The Authority must pledge the revenues to be received on account of each financing as security for the bonds issued in that financing.

Interest on the Series 2017A Bonds Not Exempt from Wisconsin Income Taxes

Interest on the Series 2017A Bonds is not exempt from present Wisconsin income taxes.

State of Wisconsin Not Liable on the Series 2017A Bonds

The Series 2017A Bonds and the interest payable thereon do not constitute a debt or liability of the State of Wisconsin or of any political subdivision thereof other than the Authority, but shall be payable solely from the funds pledged for the Series 2017A Bonds in accordance with the Bond Indenture. The issuance of the Series 2017A Bonds does not, directly, indirectly or contingently, obligate the State of Wisconsin or any political subdivision thereof to levy any form of taxation for the payment thereof or to make any appropriation for their payment. The State of Wisconsin shall not in any event be liable for the payment of the principal of or interest on the Series 2017A Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever which may be undertaken by the Authority. No breach by the Authority of any such pledge, obligation or agreement may impose any pecuniary liability upon the State of Wisconsin or any charge upon its general credit or against its taxing power. The Authority has no taxing power.

The Act provides that the State of Wisconsin pledges to, and agrees with, holders of any obligations issued under the Act that it will not limit or alter the rights vested in the Authority by the Act until such obligations, together with the interest thereon, are fully met and discharged, provided nothing in the Act precludes such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such obligations.

BOOK-ENTRY SYSTEM

THE INFORMATION PROVIDED IN THIS SECTION HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE OBLIGATED GROUP, THE BOND TRUSTEE OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS OFFICIAL STATEMENT.

The Depository Trust Company ("DTC") New York, New York, will act as securities depository for the Series 2017A Bonds. The Series 2017A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2017A Bond certificate will be issued for each maturity of the Series 2017A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission ("SEC"). More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2017A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2017A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2017A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2017A Bonds, except in the event that use of the book-entry system for the Series 2017A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2017A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2017A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2017A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017A Bonds, such as redemptions, defaults and proposed amendments to the Bond Indenture, the Loan Agreement or the Master Indenture. For example, Beneficial Owners of Series 2017A Bonds may wish to ascertain that the nominee holding Series 2017A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2017A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2017A Bonds unless authorized by a Direct Participant in accordance with DTC's Money Market Instrument Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2017A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal, interest and redemption prices, respectively, on the Series 2017A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, the Authority, or Froedtert Health, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption prices to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the Authority or Froedtert Health. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2017A Bonds at any time by giving reasonable notice to the Authority and the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2017A Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers of the Series 2017A Bonds through DTC (or a successor securities depository). In that event, Series 2017A Bond certificates will be printed and delivered.

NEITHER THE AUTHORITY, THE UNDERWRITER, ANY MEMBER OF THE OBLIGATED GROUP NOR THE BOND TRUSTEE HAS ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE PERSONS FOR WHOM PARTICIPANTS ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF PORTIONS OF THE SERIES 2017A BONDS FOR REDEMPTION.

NEITHER THE BOND TRUSTEE, THE UNDERWRITER, ANY MEMBER OF THE OBLIGATED GROUP NOR THE AUTHORITY WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY PARTICIPANT OF A DEPOSITORY, ANY PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN ANY SERIES 2017A BONDS UNDER OR THROUGH A DEPOSITORY OR ANY PARTICIPANT OF A DEPOSITORY, OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND TRUSTEE AS BEING A REGISTERED OWNER, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY A DEPOSITORY OR ANY PARTICIPANT OF A DEPOSITORY, THE PAYMENT BY A DEPOSITORY OR ANY PARTICIPANT OF A DEPOSITORY OF ANY AMOUNT IN RESPECT OF PRINCIPAL OR PREMIUM, IF ANY, OR INTEREST ON ANY SERIES 2017A BOND, ANY NOTICE WHICH IS REQUIRED TO BE GIVEN TO REGISTERED OWNERS UNDER THE BOND

INDENTURES, THE SELECTION BY A DEPOSITORY OR ANY PARTICIPANT OF A DEPOSITORY OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2017A BONDS, OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF THE SERIES 2017A BONDS.

In reviewing this Official Statement it should be understood that while the Series 2017A Bonds are in the Book-Entry System, reference in other sections of this Official Statement to owners of the Series 2017A Bonds should be read to include any person for whom a Participant acquires an interest in the Series 2017A Bonds, but (i) all rights of ownership, as described herein, must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to registered owners by the Bond Trustee will be given only to DTC. DTC is required to forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

THE SERIES 2017A BONDS

Description of the Series 2017A Bonds

The Series 2017A Bonds as initially issued will be dated their date of delivery, will bear interest at the rates and will mature (subject to the redemption provisions described below) in the amounts and on the dates set forth on the cover page of this Official Statement. Interest will be payable on October 1, 2017 and semiannually on each April 1 and October 1 thereafter. Interest on the Series 2017A Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Denominations and Places of Payment

The Series 2017A Bonds are issuable as fully registered bonds in denominations of \$5,000 and any integral multiple thereof.

For a description of the method of payment of principal, premium, if any, and interest on the Series 2017A Bonds while in the Book-Entry System, see the information herein under the caption “BOOK-ENTRY SYSTEM”. In the event the Book-Entry System is discontinued, the following provisions would apply.

The principal of and premium, if any, on the Series 2017A Bonds will be payable to the Registered Owners (as defined in *APPENDIX D* hereto) upon presentation and surrender of the Series 2017A Bonds being paid at the principal corporate trust office of the Bond Trustee or its successor as Bond Trustee, or at the designated office of any alternate paying agent. Payment of any installment of interest on the Series 2017A Bonds will be made to the person who is the Registered Owner as of the close of business on the applicable Record Date (as defined in *APPENDIX D* hereto) without the necessity of surrendering the Series 2017A Bond on which payment is being made (i) by check mailed by first-class mail on the applicable Bond Interest Payment Date (as defined in *APPENDIX D* hereto) by the Bond Trustee to the Registered Owner at the Registered Owner’s Address (as defined in *APPENDIX D* hereto) as of such Record Date or (ii) by wire transfer on the applicable Bond Interest Payment Date to any Depository or any bank in the United States that is a member of the Federal Reserve System for any securities depository or for any Registered Owner of \$1,000,000 or more in aggregate principal amount of Series 2017A Bonds who, by written request delivered to the Bond Trustee no later than the Record Date for the payment, has requested the Bond Trustee to make any payments of interest due to it by wire transfer at a specified wire transfer address (which request needs to be given only once unless the Registered Owner wishes to change the wire transfer address).

Registration, Transfers and Exchanges

For a description of the method of payment and of matters pertaining to transfers and exchanges of the Series 2017A Bonds while in the Book-Entry System, see the information herein under the caption “BOOK-ENTRY SYSTEM.” In the event the Book-Entry System is discontinued, the following provisions would apply.

The Bond Trustee shall keep the registration books for the Series 2017A Bonds at its principal corporate trust office. Subject to the further conditions contained in the Bond Indenture, the Series 2017A Bonds may be transferred or exchanged for one or more Series 2017A Bonds which are in an authorized denomination and have the same form, terms, interest rate, maturity and aggregate principal amount of the Series 2017A Bonds being transferred or exchanged upon surrender thereof at the principal corporate trust office of the Bond Trustee by the registered owners or their duly authorized legal representative. The exchange or transfer shall be made without charge; provided that the Authority and the Bond Trustee may require payment by the person requesting an exchange or transfer of Series 2017A Bonds of a sum sufficient to cover any resulting tax or other governmental charge.

The Bond Trustee shall not be required to register, transfer, exchange or replace any Series 2017A Bond after notice calling such Series 2017A Bond or portion thereof for redemption has been made in accordance with the Bond Indenture, or during the 10-day period immediately preceding the first mailing or publication of a notice of redemption of any Series 2017A Bonds of the same maturity. The Authority and the Bond Trustee may treat the registered owner of any Series 2017A Bond as the absolute owner thereof for all purposes, whether or not such Bond shall be overdue, and shall not be bound by any notice to the contrary.

Mandatory Redemption

The Series 2017A Bonds maturing on April 1, 2039 are subject to partial mandatory sinking fund redemption on the dates set forth below at a redemption price equal to 100% of the principal amount of the Series 2017A Bonds so redeemed plus the full amount of the unpaid interest that has accrued on the Series 2017A Bonds and will accrue to the date the Series 2017A Bonds are so redeemed.

<u>Series 2017A Bonds Due April 1,</u>	
<u>Year</u>	<u>Principal Amount</u>
2036	\$19,995,000
2037	20,795,000
2038	21,630,000
2039*	22,490,000
* Final Maturity	

The Series 2017A Bonds maturing on April 1, 2048 are subject to partial mandatory sinking fund redemption on the dates set forth below at a redemption price equal to 100% of the principal amount of the Series 2017A Bonds so redeemed plus the full amount of the unpaid interest that has accrued on the Series 2017A Bonds and will accrue to the date the Series 2017A Bonds are so redeemed.

<u>Series 2017A Bonds Due April 1,</u>	
<u>Year</u>	<u>Principal Amount</u>
2046	\$5,600,000
2047	6,195,000
2048*	6,825,000

* Final Maturity

The Bond Trustee shall, if requested to do so by Froedtert Health not less than 60 days in advance of a mandatory redemption date referred to above, reduce the amount designated as the “Principal Amount” of the redemption by the principal amount of outstanding Series 2017A Bonds of the same maturity acquired by Froedtert Health or any other Member of the Obligated Group and delivered to the Bond Trustee for cancellation, or acquired by the Bond Trustee and cancelled, which have not previously been used for such a reduction.

Optional Redemption

The Series 2017A Bonds maturing on or after April 1, 2028 shall be subject to redemption by the Authority (upon direction of Froedtert Health) on or after April 1, 2027 in whole or in part on any date at a redemption price equal to 100% of the principal of the Series 2017A Bonds being redeemed plus the full amount of the unpaid interest that has accrued on the Series 2017A Bonds and will accrue to the date the Series 2017A bonds are so redeemed.

Extraordinary Redemption

The Series 2017A Bonds are also redeemable by the Authority (at the direction of Froedtert Health) prior to their respective maturity dates, in whole or in part, on any date at a redemption price equal to 100% of the principal amount thereof to be redeemed plus accrued but unpaid interest to the redemption date and without premium, in the event of damage to or destruction of the Property (as defined in *APPENDIX C* hereto) or any part thereof of any Member of the Obligated Group or the condemnation of the Property or any part thereof of any Member of the Obligated Group, if the proceeds of insurance, condemnation or sale received in connection therewith exceeds 10% of the Book Value (as defined in *APPENDIX C* hereto) of Property, Plant and Equipment (as defined in *APPENDIX C* hereto) of the Obligated Group at the end of the most recent fiscal year for which audited financial statements are available, but only to the extent of funds provided for in the Master Indenture.

Selection of Series 2017A Bonds for Partial Redemption

In the case of any partial Optional Redemption or partial Extraordinary Redemption as described above, the Series 2017A Bonds must be redeemed in Authorized Denominations, in the amounts and of the maturities (and within a maturity) as designated by Froedtert Health in accordance with the Bond Indenture or, if Froedtert Health has not provided adequate direction within 45 days of the redemption date, in the inverse of the order of their maturity, and within a maturity that is subject to mandatory sinking fund redemptions, applied to the outstanding mandatory sinking fund redemptions for such maturity on a *pro rata* basis. So long as the Series 2017A Bonds are held in book entry form through DTC, the beneficial interests of the Series 2017A Bonds to be selected for redemption in part shall be in accordance with DTC’s procedures.

Purchase in Lieu of Redemption

The Authority and, by their acceptance of the Series 2017A Bonds, the bondholders, irrevocably grant to Froedtert Health and any assigns of Froedtert Health with respect to this right, the option to purchase, at any time and from time to time, any Series 2017A Bond that is subject to optional redemption described under the caption “THE SERIES 2017A BONDS – Optional Redemption” at a purchase price equal to the optional redemption price therefor. To exercise such option, Froedtert Health shall give the Bond Trustee a written request exercising such option within the time period specified in the Bond Indenture and the Loan Agreement as though such written request were a written request of the Authority for optional redemption, and the Bond Trustee shall thereupon give the bondholders of the Series 2017A Bonds to be purchased notice of such mandatory tender and purchase in the same manner as a notice of redemption described under the caption “THE SERIES 2017A BONDS – Notice of Redemption or Purchase in Lieu of Redemption”. The purchase of such Series 2017A Bonds shall be mandatory and enforceable against the bondholders and bondholders will not have the right to retain their Series 2017A Bonds. On the date fixed for purchase pursuant to any exercise of such option, Froedtert Health shall pay or cause to be paid the purchase price of the Series 2017A Bonds then being purchased to the Bond Trustee in immediately available funds not later than 10:00 a.m. CDT, on the purchase date, and the Bond Trustee shall pay the same to the sellers of such Series 2017A Bonds against delivery thereof. Following such purchase, the Bond Trustee shall cause such Series 2017A Bonds to be registered in the name of Froedtert Health or its nominee or as otherwise directed by Froedtert Health and shall deliver them to Froedtert Health or its nominee or as otherwise directed by Froedtert Health. In the case of the purchase of less than all of the Series 2017A Bonds, the particular Series 2017A Bonds to be purchased shall be selected in accordance with the Bond Indenture. No purchase of the Series 2017A Bonds pursuant to the provisions of the Bond Indenture described in this paragraph shall operate to extinguish the indebtedness of the Authority evidenced thereby. Notwithstanding the foregoing, no purchase shall be made pursuant to the provisions of the Bond Indenture described in this paragraph unless Froedtert Health shall have delivered to the Bond Trustee and the Authority concurrently with such purchase an Opinion of Bond Counsel to effect that such purchase and any resale thereof will not adversely affect the validity of the Series 2017A Bonds or any exemption from gross income for federal income tax purposes to which the interest on the Series 2017A Bonds would otherwise be entitled.

Redemption or Defeasance of the Series 2017A Bonds

If any recalculation of the weighted average reasonably expected economic life of the Project and all capital expenditures financed or refinanced by the Prior Bonds is required under the Loan Agreement in connection with any permitted change in the Project or the delivery of a completion certificate for the Project, and such recalculation causes the weighted average maturity of the Series 2017A Bonds to exceed 120% of the weighted average reasonably expected economic life of the Project and all capital expenditures financed or refinanced by the Prior Bonds, calculated in accordance with Section 147 of the Code, Froedtert Health has agreed in the Loan Agreement to redeem or defease a portion, if necessary, of one or more maturities of the Series 2017A Bonds at the time the recalculation is made in an amount that will be sufficient, in the Opinion of Bond Counsel obtained at the time the recalculation is made, to cause the weighted average maturity of the Series 2017A Bonds to be no more than 120% of the weighted average reasonably expected economic life of the Project and all capital expenditures financed or refinanced by the Prior Bonds, all calculated in accordance with Section 147 of the Code.

Notice of Redemption or Purchase in Lieu of Redemption

When any Series 2017A Bonds are to be redeemed or purchased in lieu of redemption, the Bond Trustee will mail a notice by registered or certified mail to the registered owner of each Series 2017A Bond which will be redeemed or purchased in whole or in part at the address for the registered owner

shown in the registration books. The notice will be mailed at least 30 days but not more than 60 days prior to the date fixed for the redemption or purchase of the Series 2017A Bonds.

Except for a mandatory redemption through the operation of a sinking fund described under the caption “THE SERIES 2017A BONDS – Mandatory Redemption,” such notice of redemption or purchase shall also state that any redemption or purchase in lieu of redemption, as applicable, is conditional on funds being on deposit with the Bond Trustee on the applicable redemption or purchase date and that failure to make such a deposit shall not constitute an Event of Default under the Bond Indenture. If sufficient funds are not so deposited by such date, such Series 2017A Bonds shall not be subject to redemption or purchase and the holders thereof shall have the same rights as if no such notice had been given. In such event, the Bond Trustee shall promptly give notice thereof to the registered owners of such Series 2017A Bonds by first class mail, postage prepaid.

Failure to give such notice of redemption or purchase, or any defect in such notice as to any Series 2017A Bond, shall not affect the validity of any proceedings for redemption or purchase of a Series 2017A Bond if the registered owner of it receives actual notice of the redemption or purchase from any source or as to any other Series 2017A Bond for which proper notice was given. All Series 2017A Bonds so called for redemption or purchase will cease to bear interest on the specified redemption or purchase date, provided sufficient funds for their redemption are on deposit with the Bond Trustee on the applicable redemption or purchase date. The foregoing notwithstanding, so long as the Book-Entry System is in place, notices will only be given to Cede & Co. See “BOOK-ENTRY SYSTEM.”

Retained Call Rights

See “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Redemption After Satisfaction of Bond Indenture” in *APPENDIX D* for a description of the reservation of call rights in certain circumstances.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2017A BONDS

General

The Series 2017A Bonds are limited obligations of the Authority and are payable solely from (i) all income and revenues derived pursuant to the terms of the Loan Agreement (except to the extent included in the Unassigned Rights, as defined in *APPENDIX D* hereto) including all payments made by Froedtert Health in respect of the Series 2017A Obligation, (ii) all amounts realized upon recourse to the Loan Agreement or any collateral given by Froedtert Health to secure its obligations under the Loan Agreement, (iii) all amounts realized upon recourse to the Master Indenture which are available pursuant to the Master Indenture to pay amounts due on the Series 2017A Obligation, and (iv) the money and securities (including the earnings from the investment of them) held by the Bond Trustee in the trust funds established under the Bond Indenture. Certain moneys deposited with the Bond Trustee will be held in a Rebate Fund (as defined in *APPENDIX D* hereto) established pursuant to an agreement between Froedtert Health, the Authority and the Bond Trustee. Amounts held in the Rebate Fund are not part of the “trust estate” pledged to secure the Series 2017A Bonds and consequently will not be available to make payments on the Series 2017A Bonds.

The Loan Agreement

The rights of the Authority in and to the Series 2017A Obligation, the amounts payable thereon and the amounts payable to the Authority under the Loan Agreement (other than the Authority’s fees and expenses and the Authority’s right to indemnification in certain circumstances) have been assigned to the Bond Trustee to provide for and to secure the payment of principal of, premium, if any, and interest on the Series 2017A Bonds. Froedtert Health agrees under the Loan Agreement to make its payments on the

Series 2017A Obligation directly to the Bond Trustee. The Loan Agreement imposes certain restrictions on Froedtert Health's actions for the benefit of the Authority and the holders of the Series 2017A Bonds. See "SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT" in *APPENDIX D*.

The Master Indenture and the Series 2017A Obligation

The Series 2017A Obligation is an obligation of Froedtert Health jointly and severally guaranteed by the Members of the Obligated Group and any future Member of the Obligated Group and secured by a uniform commercial code security interest in Pledged Revenues (as defined in *APPENDIX C*) of each Member of the Obligated Group. The Master Indenture permits other entities to become Members of, or to withdraw from, the Obligated Group under certain circumstances. See the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – The Obligated Group" in *APPENDIX C*.

Notwithstanding uncertainties as to enforceability of the covenant of each Member of the Obligated Group in the Master Indenture to be jointly and severally liable for each Obligation (as described under "BONDHOLDERS' RISKS – Matters Relating to Enforceability of the Master Indenture"), the accounts of Froedtert Health, its consolidated subsidiaries, and all then-current Members of the Obligated Group may be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture are met.

Under certain conditions specified in the Master Indenture, Members of the Obligated Group may issue additional Obligations, which additional Obligations will not be pledged under the Bond Indenture, but will be equally and ratably secured by the Master Indenture with the Series 2017A Obligation. As of December 31, 2016, the Obligated Group had approximately \$586 million in aggregate principal amount of Obligations outstanding under the Master Indenture (excluding Obligations related to (i) continuing covenant agreements with bank direct purchasers, and (ii) derivative transactions). Such amount, together with the Series 2017A Obligation and the Series 2017 Bank Bond Obligation, and excluding the Obligations relating to the Prior Bonds, will result in the approximate principal amount of Obligations outstanding upon issuance of the Series 2017A Bonds and the Series 2017 Bank Bonds of \$672 million. In addition, upon issuance of the Series 2017A Bonds and the Series 2017 Bank Bonds, the Obligated Group will have approximately \$112 million in capital lease obligations not secured under the Master Indenture and approximately \$389 thousand in other long-term indebtedness not secured under the Master Indenture.

The Master Indenture permits such additional Obligations to be secured by security in addition to that provided for the Series 2017A Obligation, including liens on certain property of Members of the Obligated Group, or letters or lines of credit or insurance or security interests in depreciation reserve, debt service or interest reserve or debt service or similar funds. In addition, the Master Indenture permits each Member of the Obligated Group to issue other indebtedness and to enter into guaranties either secured or not secured by Obligations issued under the Master Indenture, all upon the terms and conditions specified therein. See *APPENDIX C* for a description of certain terms of the Master Indenture, including those which impose restrictions on actions of the Obligated Group for the benefit of all holders of Obligations issued under the Master Indenture. The Master Indenture provides that Supplemental Master Indentures pursuant to which one or more Series of Obligations entitled to additional security is issued may provide for such amendments to the provisions of the Master Indenture, including the provisions thereof relating to the exercise of remedies upon the occurrence of an event of default, as are necessary to provide for such security and to permit realization upon such security solely for the benefit of the Obligations entitled thereto.

Covenants Related to Other Series of Bonds

The Obligated Group has entered into continuing covenant agreements with certain banks that have purchased bonds issued for the benefit of the Obligated Group (including, but not limited to, the

Bank Purchaser) and agreements with swap providers that contain certain additional covenants and restrictions (collectively, the “Bank Covenants”) solely for the benefit of such banks or swap providers, as applicable. While the financial covenants provided to these banks and swap providers are substantially the same as those provided in the Master Indenture, the Bank Covenants do include, among others, a provision to measure debt service coverage on a semi-annual basis and an event of default if any one of the ratings on the long-term unenhanced parity debt of the Obligated Group falls below BBB+ or its equivalent, or is suspended or withdrawn. The Bank Covenants may be waived, modified or amended by the applicable bank or swap provider in their sole discretion and without notice to or consent by the bond trustee of any outstanding bonds, the Bond Trustee, the Master Trustee, the holders of outstanding bonds, including the Series 2017A Bonds, the holders of any Obligations or any other Person. Violation of any Bank Covenants may result in an Event of Default under the Master Indenture, which could result in acceleration of all of the Obligations, including the Series 2017A Obligation.

Possible Substitution of Series 2017A Obligation

The Bond Indenture requires the Bond Trustee to surrender the Series 2017A Obligation to the Master Trustee in exchange for a replacement obligation issued under a replacement master trust indenture by the then-current Members of the Obligated Group under certain conditions, including, but not limited to, confirmation from each rating agency then maintaining a rating on the Series 2017A Bonds at the request of Froedtert Health that the replacement of the Series 2017A Obligation will not, by itself, result in a reduction in, or withdrawal of, the then-current rating(s) on the Series 2017A Bonds and the receipt by the Bond Trustee of an opinion of Bond Counsel addressed to the Bond Trustee and the Authority to the effect that the action proposed to be taken is authorized or permitted by the Bond Indenture and will not adversely affect the validity of the Series 2017A Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Series 2017A Bonds would otherwise be entitled. See “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Replacement of Series 2017A Master Note with Note Issued Under a Separate Master Indenture” in *APPENDIX D* hereto.

If a substitution occurs, all references in the Loan Agreement and the Bond Indenture to the Series 2017A Obligation shall refer to the replacement obligation issued under the replacement master trust indenture, all references to the Sixteenth Supplement shall refer to the supplement to the separate master trust indenture pursuant to which the substitute obligation was issued, all references to the Obligated Group and Members of the Obligated Group shall refer to the obligated group and members of the obligated group under the separate master trust indenture, and all related references to the Master Indenture shall refer to the separate master trust indenture.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds of the Series 2017A Bonds.

Sources of Funds:

Principal Amount of Series 2017A Bonds	\$254,190,000
Net Premium	<u>18,480,229</u>
Total Sources.....	<u>\$272,670,229</u>

Uses of Funds:

Redemption of Prior Bonds.....	\$250,466,492
Deposit to Project Fund	20,090,000
Costs of Issuance ⁽¹⁾	<u>2,113,737</u>
Total Uses.....	<u>\$272,670,229</u>

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- (1) Includes certain fees and expenses of various legal counsel, financial advisors, accountants, trustees, fees of rating agencies, Underwriter's discount, costs of printing and other costs, including costs related to refunding of the Prior Bonds.

ANNUAL DEBT SERVICE REQUIREMENTS*

The following table sets forth, for each fiscal year of Froedtert Health ending June 30, the amount required to be deposited for the payment of principal at maturity or by mandatory sinking fund redemption and the payment of interest thereon of (i) the Series 2017A Bonds, (ii) the Series 2017 Bank Bonds; (iii) other long-term indebtedness of the Obligated Group secured by Obligations (excluding Obligations related to the Prior Bonds, or related to continuing covenant agreements and swap agreements entered into in connection with certain bonds), and (iv) capital lease obligations and other long-term indebtedness which are not secured by Obligations under the Master Indenture and which, upon the issuance of the Series 2017A Bonds and the Series 2017 Bank Bonds, will total \$112 million and \$389 thousand, respectively. For certain calculations of coverage of debt service of the Obligated Group, see “MANAGEMENT DISCUSSION OF OPERATING AND FINANCIAL RESULTS – Debt Service Coverage Ratios” in **APPENDIX A** hereto.

Fiscal Year Ending June 30	Series 2017A Bonds		Series 2017 Bank Bonds**	Other Debt Service***	Aggregate Debt Service
	Principal	Interest			
2018	\$ 2,935,000	\$ 11,154,205	\$ 2,802,100	\$ 32,202,441	\$ 49,093,745
2019	2,600,000	11,687,650	2,802,100	32,772,500	49,862,250
2020	6,300,000	11,583,650	2,802,100	29,208,496	49,894,246
2021	6,535,000	11,268,650	2,802,100	29,343,828	49,949,578
2022	6,755,000	10,941,900	2,802,100	29,511,456	50,010,456
2023	5,820,000	10,604,150	2,802,100	30,838,068	50,064,318
2024	6,105,000	10,313,150	2,802,100	30,899,087	50,119,337
2025	6,415,000	10,007,900	2,802,100	30,895,389	50,120,389
2026	6,715,000	9,687,150	2,802,100	30,953,683	50,157,933
2027	7,055,000	9,351,400	2,802,100	30,992,186	50,200,686
2028	7,905,000	8,998,650	2,802,100	30,544,015	50,249,765
2029	10,165,000	8,603,400	2,802,100	28,835,212	50,405,712
2030	10,605,000	8,095,150	2,802,100	28,983,161	50,485,411
2031	10,895,000	7,564,900	2,802,100	29,183,993	50,445,993
2032	11,430,000	7,020,150	2,802,100	27,883,689	49,135,939
2033	11,920,000	6,448,650	2,802,100	25,002,524	46,173,274
2034	14,845,000	5,852,650	2,802,100	24,307,704	47,807,454
2035	15,660,000	5,110,400	2,802,100	24,194,467	47,766,967
2036	19,995,000	4,327,400	2,802,100	20,524,889	47,649,389
2037	20,795,000	3,527,600	2,802,100	20,571,176	47,695,876
2038	21,630,000	2,695,800	2,802,100	18,970,181	46,098,081
2039	22,490,000	1,830,600	2,802,100	18,159,000	45,281,700
2040	--	931,000	2,802,100	42,247,750	45,980,850
2041	--	931,000	2,802,100	42,246,750	45,979,850
2042	--	931,000	2,802,100	42,249,250	45,982,350
2043	--	931,000	2,802,100	36,506,000	40,239,100
2044	--	931,000	2,802,100	36,504,915	40,238,015
2045	--	931,000	2,802,100	36,504,008	40,237,108
2046	5,600,000	931,000	28,729,967	--	35,260,967
2047	6,195,000	651,000	28,413,667	--	35,259,667
2048	6,825,000	341,250	28,096,250	--	35,262,500
TOTAL	<u>\$254,190,000</u>	<u>\$184,184,405</u>	<u>\$163,698,682</u>	<u>\$841,035,819</u>	<u>\$1,443,108,906</u>

* Includes *de minimis* rounding adjustments.

** Includes principal and interest. The indebtedness related to the Series 2017 Bank Bonds expected to be issued for the benefit of the Obligated Group will be issued as variable rate indebtedness, and the estimated debt service assumes an annual interest rate of 3.50%.

*** Includes debt service on the Outstanding Series 2009C Bonds, the Series 2012A Bonds, the Series 2013A Bonds, the Series 2015A Bonds, capital lease obligations, and other debt. The indebtedness related to the Series 2013A Bonds issued for the benefit of the Obligated Group is variable rate indebtedness with a related interest rate swap. The annual interest rate on the Series 2013A Bonds is assumed to be the swap rate of 3.366% plus the applicable credit spread. The interest rate assumptions used to determine debt service herein are not calculated in accordance with the provisions of the Master Indenture. There can be no assurance that assumed rates will approximate the actual interest rates on the indebtedness of the Obligated Group going forward.

BONDHOLDERS' RISKS

The following is a discussion of certain risks that could affect payments to be made with respect to the Series 2017A Bonds. Such discussion is not exhaustive, should be read in conjunction with all other parts of this Official Statement and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Series 2017A Bonds should analyze carefully the information contained in this Official Statement, including the Appendices hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described in this Official Statement.

General

The Series 2017A Bonds will be special limited obligations of the Authority, payable solely from the revenues derived from Froedtert Health under the Loan Agreement and from the Obligated Group on the Series 2017A Obligation pledged under the Bond Indenture. No representation or assurance can be made that revenues will be realized by the Obligated Group or any future Member of the Obligated Group in amounts sufficient to pay principal of, and premium, if any, and interest on, the Series 2017A Bonds when due.

None of the provisions of the Bond Indenture, the Loan Agreement or the Master Indenture that have been heretofore described nor any other provisions, covenants, terms and conditions of the Bond Indenture, the Loan Agreement or the Master Indenture will afford the Bondholders any assurance that the obligations of Froedtert Health or the Obligated Group will be paid as and when due, if the financial condition of Froedtert Health or the Obligated Group deteriorates to the point where Froedtert Health or the Obligated Group is unable to pay its debts as they come due or Froedtert Health or the Obligated Group otherwise becomes insolvent.

The ability of Froedtert Health to meet its obligations under the Loan Agreement and the ability of the Obligated Group to meet its obligations on the Series 2017A Obligation may be limited by many factors. Among other things, educational, research and healthcare institutions are subject to laws and regulations administered by federal, state and local authorities. Changes in such laws or regulations in the future, particularly in laws and regulations relating to state support of the Obligated Group or reimbursement under the Medicaid programs, could adversely affect the operations or financial results of the Obligated Group.

Economic Conditions and Financial Markets

The disruption of the credit and financial markets several years ago led to volatility in the securities markets, significant volatility in investment portfolios, increased business failures and consumer and business bankruptcies, and was a major cause of the economic recession in 2008 and 2009. As a direct consequence, the financial condition of the Obligated Group and its operating results were adversely affected.

The healthcare sector, including the Obligated Group, was adversely affected by these developments. The consequences of these developments generally included, among other things, realized and unrealized investment portfolio losses, increased borrowing costs and periodic disruption of access to the capital markets. During 2008 and 2009, unemployment rates increased, but have since stabilized in market areas in which the Obligated Group owns and operates healthcare facilities. This resulted in increases in self-pay admissions, increased levels of bad debt and uncompensated care, reduced demand for elective procedures, and reduced availability and affordability of private health insurance. In response

to these operational pressures, Froedtert Health implemented loss reducing and revenue improving measures that have reduced costs, improved revenue cycle results and broadened service capabilities.

In response to that economic recession in 2008 and 2009, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Financial Reform Act”) was enacted in 2010. The Financial Reform Act included broad changes to the existing financial regulatory structure, including the creation of new federal agencies to identify and respond to risks to the financial stability of the United States. Additional legislation is pending or under active consideration by Congress and regulatory action is being considered by various federal agencies and the Federal Reserve Board and foreign governments, which is intended to increase the regulation of domestic and global credit markets. The effects of the Financial Reform Act and of these legislative, regulatory and other governmental actions, if implemented, are unclear.

The American Recovery and Reinvestment Act of 2009 (“ARRA”) included several provisions that were intended to provide financial relief to the healthcare sector, including a requirement that states promptly reimburse healthcare providers and a subsidy to the recently unemployed for health insurance premium costs. ARRA also established a framework for the implementation of a nationally-based health information technology program, including incentive payments which commenced in 2011 to eligible healthcare providers to encourage implementation of health information technology and electronic health records. Assuming federal funding is available, such incentive payments are payable to eligible healthcare providers that comply with the applicable federal requirements, including demonstrating “meaningful use” of electronic health records, in each period over a four year period. Pursuant to ARRA, as of January 1, 2015, Medicare eligible providers that do not demonstrate “meaningful use” of electronic health records are receiving downward adjustments in their Medicare reimbursement. The Obligated Group has demonstrated “meaningful use” of electronic health records at all of its healthcare facilities and is receiving the incentive payments available under ARRA. The Centers for Medicare & Medicaid Services (“CMS”), an agency of the United States Department of Health & Human Services (“HHS”), has commenced audits of providers that have received meaningful use payments.

See *APPENDIX A* of this Official Statement for the Obligated Group’s recent financial performance, financial condition and debt portfolio. In particular, reference is made to information in *APPENDIX A* under the captions, “SUMMARY UTILIZATION STATISTICS AND PAYOR MIX,” “HISTORICAL FINANCIAL INFORMATION” and “MANAGEMENT DISCUSSION OF OPERATING AND FINANCIAL RESULTS.”

Interest Rate Swap and Other Hedge Risk

The Obligated Group utilizes interest rate swaps to manage its exposure to interest volatility. The interest rate swaps are designed to hedge variable rate indebtedness and are structured so that the Obligated Group pays a fixed rate. Swap agreements may require the Obligated Group to secure its obligations in certain circumstances including without limitation a downgrade of the Obligated Group’s long-term debt rating and the occurrence of certain other events. If the Obligated Group is unable to secure its obligations under a swap agreement with sufficient collateral, the swap counterparty will have the right to terminate such swap agreement. In the event of an early termination of any swap for any reason by either party in accordance with the related swap agreement, the Obligated Group may owe a payment to the related swap provider, and such amount, may be substantial.

The payment obligations of the Obligated Group under the swap agreements will not alter the obligations of the Obligated Group to pay or make payments with respect to principal of, redemption price and purchase price of, and interest on any other indebtedness. **The obligations of the Obligated Group pursuant to certain swap agreements are secured by Obligations issued under the Master Indenture.** See *APPENDIX A* under “MANAGEMENT DISCUSSION OF OPERATING AND FINANCIAL RESULTS – Interest Rate Hedge Transactions,” and the audited consolidated financial

statements of Froedtert Health and its consolidated subsidiaries included in *APPENDIX B* for additional information on interest rate swaps, including information on current collateral posting by the Obligated Group.

Additional Debt; Dilution

The Master Indenture permits the issuance of additional Obligations on parity with the Series 2017A Obligation and the other outstanding Obligations and also permits incurrence of Additional Indebtedness by Froedtert Health and other Members of the Obligated Group which are not issued under the Master Indenture or secured by an Obligation. See the information in *APPENDIX C* under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Restrictions as to Incurrence of Additional Indebtedness.”

Additions to or Withdrawal from Obligated Group; Dilution

Froedtert Health has no present intention of adding or removing any Members of the Obligated Group, however, it may do so at any time provided that it satisfies the conditions set forth in the Master Indenture. See “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE – The Obligated Group” in *APPENDIX C*. The accounts of Froedtert Health, its consolidated subsidiaries (whether or not such consolidated subsidiaries are Members of the Obligated Group) and the then-Members of the Obligated Group may be combined for financial reporting purposes, and the combined accounts will be used in determining whether various covenants and financial tests contained in the Master Indenture have been met (including financial tests which must be met as conditions to transactions such as the incurrence of additional debt, the consummation of a merger or the transfer of assets to third parties). It is possible, therefore, that the addition or removal of Members to the Obligated Group could weaken the financial condition of the Obligated Group and diminish the financial performance of the Obligated Group to the minimum levels permitted by the Master Indenture.

Affordable Care Act

In March 2010, the Patient Protection and Affordable Care Act of 2010 (the “Affordable Care Act”) was enacted. The content and implementation of the Affordable Care Act have been, and remain, highly controversial. Several attempts to amend and repeal provisions of the Affordable Care Act have been made since its passage. While past attempts to amend and repeal the Affordable Care Act have not been successful, the results of the Presidential and Congressional elections in November 2016 could affect the outcome of future efforts. Newly elected President Donald Trump and republican members of Congress have vowed to renew efforts to repeal the Affordable Care Act in 2017. On January 20, 2017, just hours after being sworn in as the 45th President of the United States, President Trump signed a multi-part executive order stating that it is his administration’s official policy to “seek the prompt repeal” of the Affordable Care Act. A number of Congressional proposals have already been advanced in that regard. If a full repeal proves impractical, legislators may instead dismantle portions of the Affordable Care Act through various legislative efforts (including replacement or amendment) and funding measures. The Congressional Budget Office forecasts that repealing the Affordable Care Act could cause the number of uninsured to grow by approximately 24 million by 2025. The ultimate outcome of any legislative efforts to repeal, substantially amend, eliminate or reduce funding for the Affordable Care Act is unknown, but the effect of any such modification or repeal could have a material adverse effect on the financial condition of the Obligated Group.

The Affordable Care Act was designed, in substantial part, to make available, or subsidize the premium costs of, healthcare insurance for millions of uninsured (or underinsured) consumers, and specifically those who fall below certain income levels. To achieve this objective, the Affordable Care Act set off the promulgation of substantial regulation that has significantly impacted the healthcare industry and third-party payors. The following represents a summary of some of the Affordable Care

Act's key provisions related to the performance and financial condition of the Obligated Group. This listing is not intended to be, nor should it be considered to be, comprehensive. The Affordable Care Act is complex and the effects of its mandated programs and initiatives, and changes to existing programs, policies, practices and laws, cannot be predicted with certainty.

Several reforms derived from the Affordable Care Act have a disproportionately negative effect upon those providers with relatively high dependence upon Medicare managed care revenues. For example, annual Medicare market basket updates for hospitals and skilled nursing facilities are being reduced through September 30, 2019, and are subject to productivity adjustments. The combination of reductions to the market basket updates and the imposition of the productivity adjustments may, in some cases and in some years, result in reductions in Medicare payments per discharge on a year-to-year basis. Payments under "Medicare Advantage" programs (Medicare managed care) are also being periodically reduced through September 30, 2019. The reduction in payments to Medicare Advantage programs may lead to decreased payments to providers by managed care companies operating Medicare Advantage programs. The Hospital Readmissions Reduction Program, which began in October 2012, reduces Medicare payments to hospitals that have a high rate of potentially preventable readmissions of Medicare patients for certain clinical conditions by specified percentages to account for such excess and "preventable" hospital readmissions. An Independent Payment Advisory Board ("IPAB") was established to develop proposals to improve the quality of care and to limit cost increases. If, beginning in 2019, the growth in per capita Medicare program spending exceeds the target growth rate as determined by the CMS Office of the Actuary, IPAB is required to develop proposals, which the Secretary of HHS will be required to implement) to reduce the growth rate.

Other cost cutting measure under the Affordable Care Act include the value-based purchasing program that was established under Medicare to provide incentive payments to hospitals based on performance on quality and efficiency measures. These incentive payments are to be funded through a pool of money collected from all hospital providers, and could result in a decrease in the Obligated Group's revenues. The Affordable Care Act also decreased funds available for Medicare disproportionate share hospital ("DSH") payments through 2019 and Medicaid DSH payments from 2018 through 2025. See "BONDHOLDERS' RISKS – Payment for Healthcare Services –Disproportionate Share Adjustments herein. The American Taxpayer Relief Act of 2012 (the "Taxpayer Relief Act"), which was signed into law on January 2, 2013, has further reduced Medicare DSH payments to hospitals. The Affordable Care Act also created a Center for Medicare and Medicaid Innovation (the "Innovation Center") to test innovative payment and delivery models. The law charges the Innovation Center with identifying, developing, assessing, supporting, and applying new models to further reduce expenditures under Medicare and Medicaid. The outcomes of these projects and programs, including their effect on payments and financial performance of healthcare providers like the Members of the Obligated Group, cannot be predicted.

The Affordable Care Act provides for the expansion of Medicaid programs to a broader population with incomes up to 133% of federal poverty levels. However, in its decision in *National Federation of Independent Business v. Sebelius*, the U.S. Supreme Court determined that any expansion of Medicaid must be at the option of individual states, and not a mandatory obligation. The Court reasoned that permitting the federal government to condition the availability of current Medicaid funding on participation in the expanded Medicaid program equated to a mandate that States participate in the expanded Medicaid program. Although the federal government is expected to almost entirely fund the expanded Medicaid program through 2020, some state officials have expressed reluctance to participate, citing concerns that the administrative and other costs associated with enrolling and managing potentially millions of new individuals would add further stress to already depleted state resources. In the event a state chooses not to participate in the expanded program, the net effect of the Medicaid-related reforms contained in the Affordable Care Act could be significantly reduced. The State of Wisconsin has decided

not to expand its Medicaid program and thus has declined the additional federal funding tied to such expansion.

Affordable Care Act-related regulation has placed significant demands on the resources of the Obligated Group, including an increase in the fixed costs associated with providing healthcare services, which may or may not be offset by increased revenues. For example, the law imposes additional requirements upon tax-exempt hospitals, including obligations to adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the lowest amount charged to insured patients; and control the billing and collection processes. Tax-exempt hospitals must conduct a community needs assessment and adopt an implementation strategy to meet those identified needs. Failure to satisfy these conditions may result in the imposition of fines and the loss of tax-exempt status. The Affordable Care Act also introduced a requirement that requires healthcare insurers to include quality improvement covenants in their contracts with hospital providers and report their progress on such actions to the Secretary of HHS. Healthcare insurers participating in the health insurance exchanges are allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care. The effect of these provisions upon the Obligated Group's ability to negotiate contracts with insurers or the costs of implementing such programs cannot be predicted.

Taxpayer Relief Act

The Taxpayer Relief Act continues a number of Medicare policies known as “extenders.” Those extenders include a wide variety of policies, including special provisions for some low-volume hospitals and charges for ambulance and physical therapy costs. The \$30 billion cost of these provisions is expected to be partially offset by a reduction of payments to hospitals over the next decade, including an estimated \$10.5 billion reduction in the projected Medicare hospital payments over ten years for inpatient or overnight care (through a downward adjustment in annual base payment increases), and a reduction in the Medicaid disproportionate share payments to hospitals by an additional \$4.2 billion over the same period. These cuts are in addition to those made with respect to hospitals as part of the Affordable Care Act.

Budget Control Act of 2011

The Budget Control Act of 2011 (the “Budget Control Act”) limits the federal government’s discretionary spending caps at levels necessary to reduce expenditures by \$917 billion from the current federal budget baseline through fiscal year 2021. Medicare, Social Security, Medicaid and other entitlement programs will not be affected by the limit on discretionary spending caps.

The Budget Control Act also created a Joint Select Committee on Deficit Reduction (the “Committee”), which was tasked with making recommendations to further reduce the federal deficit by \$1.5 trillion on or before November 23, 2011. After several months of negotiations, the Committee was unable to reach agreement on spending reductions, putting into motion \$1.2 trillion in spending cuts (known as sequestration). Provisions of the Budget Control Act, as modified by the Taxpayer Relief Act of 2012, set in place a protocol for the sequestration resulting in an automatic 2% reduction in Medicare program payments for all healthcare providers effective March 27, 2013. The Consolidated and Further Continuing Appropriations Act of 2013 was signed into law on March 26, 2013, providing funds for operation of the federal government through September 30, 2013 and off-setting some of the sequestration mandated reductions for federal fiscal year 2014. The spending reductions for federal fiscal year 2013 were approximately \$85.4 billion with similar cuts for federal fiscal years 2014 through 2021. In December 2013, then-President Obama signed the Bipartisan Budget Act of 2013 that increased the sequestration caps for federal fiscal years 2014 and 2015 by \$45 billion and \$18 billion, respectively, but extended the caps into 2023. On November 2, 2015, then-President Obama signed into law the Bipartisan Budget Act of 2015, increasing the discretionary spending caps imposed by the Budget Control Act for

fiscal years 2016 and 2017 and authorizing \$80 billion in increased spending over the two years. The Bipartisan Budget Act of 2015 also extended the 2% reduction to Medicare providers and insurers for another year (to at least March 31, 2025) and suspended the limit on the federal government's debt until March 2017.

Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts that are approved may have on the Obligated Group. Further, with no long-term resolution in place for federal deficit reduction, hospital and physician reimbursement are likely to continue to be targets for reductions with respect to any interim or long-term federal deficit reduction efforts. These and any additional reductions in Medicare spending could have a material adverse effect upon the financial condition or operations of the Obligated Group.

Jobs Creation Act

The Middle Class Tax Relief and Job Creation Act of 2012 (the "Jobs Creation Act"), as amended by the Taxpayer Relief Act, delayed through the end of 2013 the implementation of certain scheduled cuts to physician payments mandated by the sustainable growth rate ("SGR") formula that ties physician reimbursement to the gross domestic product. In 2013, Medicare physician reimbursement would have been cut by 26.5% but for this extension. The Jobs Creation Act provides that the approximately \$17 billion cost of delaying the scheduled cuts for physician payments be achieved by providing for cuts in other areas of health care. Such measure includes reducing Medicaid payments to hospitals with a disproportionate share of uninsured patients, as well as reducing Medicare's reimbursement to providers for beneficiaries' unpaid coinsurance and deductible amounts after reasonable collection efforts. Prior to the enactment of the Jobs Creation Act, Medicare reimbursed hospital providers 70% of beneficiary bad debt. The Jobs Creation Act reduced that reimbursement level to 65%. In 2014, Congress passed the Protecting Access to Medicare Act of 2014 which delayed scheduled SGR reductions of 24% until March 2015. On April 16, 2015, then-President Barack Obama signed into law the Medicare Access and Children's Health Insurance Program Reauthorization Act ("MACRA"). The law replaced the SGR formula with statutorily prescribed physician payment updates and provisions and includes details to pay for the approximately \$210 billion cost associated with eliminating the SGR formula. See "BONDHOLDERS' RISKS – Payment for Healthcare Services – Medicare – *Physician Payment* herein. Reductions in payments for treating Medicare beneficiaries may have a material adverse effect on the financial condition or operations of the Obligated Group.

Potential Future Legislation

Other legislative proposals which could have an adverse effect on the Members of the Obligated Group include: (i) any changes in the taxation of not for profit corporations or in the scope of their exemption from income, sales or property taxes; (ii) limitations on the amount or availability of tax-exempt financing for corporations recognized under the Internal Revenue Code of 1986, as amended (the "Code"); (iii) regulatory limitations affecting the Obligated Group's ability to undertake capital projects or develop new services; (iv) mandating certain levels of free or substantially reduced care that must be provided to low income uninsured and underinsured populations; and (v) placing ceilings on executive compensation of not for profit corporations.

Legislative bodies have considered proposed legislation on the charity care standards that nonprofit, charitable hospitals must meet to maintain their federal income tax-exempt status under the Code and legislation mandating nonprofit, charitable hospitals to have an open-door policy toward Medicare and Medicaid patients as well as to offer, in a non-discriminatory manner, qualified charity care and community benefits. Excise tax penalties on nonprofit, charitable hospitals that violate these charity care and community benefit requirements could be imposed or their tax-exempt status under the Code could be revoked. As described above, because of the complexity of health reform generally, additional

legislation is likely to be considered and enacted over time beyond the Affordable Care Act. The scope and effect of any such legislation cannot be predicted. Enactment of any such legislation may have the effect of subjecting a portion of the Obligated Group's income to federal or state income taxes or to other tax penalties.

Payment for Healthcare Services

Third-Party Payment Programs. Most of the patient service revenues of the Obligated Group are derived from third-party payors which reimburse or pay for the services and items provided to patients covered by such third parties for such services, including the federal Medicare program, state Medicaid program and private health plans and insurers, health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs") and other managed care payors. Many of these third-party payors make payments to the Obligated Group at rates other than the direct charges of the Obligated Group, which rates may be determined on a basis other than the actual costs incurred in providing services and items to patients. Accordingly, there can be no assurance that payments made under these programs will be adequate to cover the Obligated Group's actual costs of furnishing healthcare services and items. In addition, the financial performance of the Obligated Group could be adversely affected by the insolvency of, or other delay in receipt of payments from, third-party payors which provide coverage for services to their patients.

Medicare and Medicaid Programs. Medicare and Medicaid are the commonly used names for healthcare reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is a combined federal and state program. Medicare provides certain healthcare benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient services and certain other services, and Medicare Part B covers outpatient services, certain physician services, medical supplies and durable medical equipment. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and is administered by state agencies. CMS administers the Medicare program and works with the states regarding the Medicaid program, as well as other healthcare programs.

Healthcare providers have been and continue to be affected significantly by changes made in the last several years in federal and state healthcare laws and regulations, particularly those pertaining to Medicare and Medicaid. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "MMA"), among other things described below, generally increased reimbursement levels. The Deficit Reduction Act of 2005 (the "DRA"), contained, among other things, a number of provisions to slow the pace of spending growth in the Medicare and Medicaid programs while increasing healthcare providers' focus on quality and efficient delivery of healthcare services. The purpose of much of the past and current statutory and regulatory activity, including the MMA, has been to reduce the rate of increase in healthcare costs, particularly costs paid under the Medicare and Medicaid programs. Diverse and complex mechanisms to limit the amount of money paid to healthcare providers under both the Medicare and Medicaid programs have been enacted, some of which are being implemented and some of which will be or may be implemented in the future. Management of the Obligated Group is unable to predict what effect, if any, current and future legislative initiatives related to Medicare and Medicaid may have on operations of the Obligated Group.

Medicare. For the fiscal year ended June 30, 2016, approximately 43% of the gross revenues of the Obligated Group was derived from Medicare. As a consequence, any adverse development or change in Medicare reimbursement could have a material adverse effect on the financial condition and results of operations of the Obligated Group.

Inpatient Operating Reimbursement under PPS. For acute care hospitals, Medicare Part A pays for most inpatient services under Prospective Payment System (“PPS”). Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs. The following discussion on Medicare reimbursement relates to hospitals that are reimbursed on a PPS basis.

Acute care hospitals, including the hospitals operated by the Obligated Group, that are reimbursed on a PPS basis are paid a specified amount toward their operating costs based on the Diagnosis Related Group (“DRG”) to which each Medicare hospitalization is assigned, which is determined by the diagnosis and procedure and other factors for each particular inpatient stay. The amount paid for each DRG is established prospectively by CMS based on the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis and is not directly related to a hospital’s actual costs. For certain Medicare beneficiaries who have unusually costly hospital stays (“outliers”), CMS will provide additional payments above those specified for the DRG. Outlier payments cease to be available upon the exhaustion of such patient’s Medicare benefits or a determination that acute care is no longer necessary, whichever occurs first. There is no assurance that any of these payments will cover the actual costs incurred by a hospital. In addition, revisions to the outlier regulations could be implemented to curb outlier payment abuse, which may adversely affect hospitals’ ability to receive such subsidies. In addition to outlier payments, DRG payments are adjusted for area wage differentials. These change on a yearly basis.

DRG payments are adjusted each federal fiscal year (which begins October 1) based on the hospital “market basket” index, or the cost of providing healthcare services. For nearly every year since 1983, Congress has modified the increases and given substantially less than the increase in the “market basket” index. In federal fiscal year 2008, CMS also implemented a documentation and coding adjustment to account for changes in payments under the Medicare Severity Diagnosis Related Group, or MS-DRG system that are not related to changes in case mix. CMS was given the authority to retrospectively determine if the documentation and coding adjustments were adequate to account for changes in payments not related to changes in case mix. The Taxpayer Relief Act requires CMS to recover \$11 billion by 2017 to fully recoup documentation and coding overpayments related to the transition to the MS-DRG system. In a report dated April 15, 2016, the CMS Office of the Actuary estimated that in, order to meet the recovery mandate, larger than expected adjustments were made for federal fiscal year 2017.

The Affordable Care Act will reduce the annual Medicare market basket updates each federal fiscal year through federal fiscal year 2019. The Affordable Care Act also provides that annual Medicare market basket updates will be subject to productivity adjustments, further reducing Medicare payments to hospitals. The reductions in market basket updates and the productivity adjustments will have a disproportionately negative effect upon those providers that rely more upon Medicare. Moreover, certain reductions in market basket updates take effect prior to the expansion of insurance coverage and the number of insured consumers. This sequence of events is expected to have an interim negative effect on revenues and operating income. The combination of reductions to the market basket updates and the imposition of the productivity adjustments may, in some cases and in some years, result in reductions in Medicare payments per discharge on a year-to-year basis. Changes in the payments received for all services, including specialty services, could have an adverse effect on the Obligated Group. For further information regarding the Affordable Care Act and its provisions, see “BONDHOLDERS’ RISKS – Affordable Care Act” herein.

As required by the DRA, hospitals that do not participate in the Hospital Inpatient Quality Reporting Program (the “Hospital Quality Initiative”) will receive the market basket update, less 2%. CMS continues to update quality measures that hospitals must report to qualify for the full market basket update. The hospitals operated by the Obligated Group participate in the Hospital Quality Initiative.

The Affordable Care Act established a value-based purchasing program that rewards hospitals with incentive payments for the quality of care they provide to Medicare patients. The program works by reducing the amount of inpatient PPS payments for all discharges by two percent each year, and then distributing those savings to hospitals that meet certain quality performance standards established by HHS. For payments that will be made for federal fiscal year 2017, CMS will score each hospital based on achievement (relative to other hospitals) and improvement ranges (relative to the hospital's own past performance) across each quality performance standard. The quality performance standards take into account a broad range of factors designed to measure quality of care, how closely best clinical practices are followed and the overall experience of the patients. Because the Affordable Care Act provides that the pool will be fully distributed, hospitals that meet or exceed the quality performance standards will receive greater reimbursement under the value-based purchasing program than they would have otherwise. Hospitals that do not achieve the necessary quality performance will receive reduced Medicare inpatient hospital payment. The Obligated Group is unable to predict how value-based purchasing will affect its results of operations, however the program could negatively impact the revenues of the Obligated Group.

For federal fiscal year 2017, CMS increased acute care hospital base payment rates by 0.95%. This increase reflects: (i) a market basket increase of 2.7%; (ii) a multi-factor productivity reduction of 0.3%; (iii) an additional reduction of 0.75% for cuts mandated under the Affordable Care Act; (iv) a 1.5% reduction for documentation and coding recoupment adjustment required by the Taxpayer Relief Act; and (v) an increase of approximately 0.8% to remove the adjustment to offset the estimated costs of the two-midnight rule (described below).

The Secretary of HHS is required to review annually the DRG categories to take into account any new procedures and reclassify DRGs and recalibrate the DRG relative weights that reflect the relative hospital resources used by hospitals with respect to discharges classified within a given DRG category. There is no assurance that the Obligated Group will be paid amounts that will adequately reflect changes in the cost of providing health care or in the cost of healthcare technology being made available to patients. Since the implementation of the MS-DRG system, CMS created new DRGs and revised or deleted others in order to better recognize the severity of illness for each patient. CMS may only adjust DRG weights on a budget-neutral basis

On August 19, 2013, CMS issued the 2014 Final Inpatient Prospective Payment Rule for hospitals, which adopted a "two-midnight" benchmark to be used to determine the medical necessity of an inpatient admission and made changes to the certification and order requirements for inpatient hospital admission. Under this rule, Medicare Part A payment is presumed to be appropriate only if the physician certifies that a patient will require a stay in the hospital lasting at least two midnights and clearly documents in the medical record that he or she is admitting the patient to the hospital on that expectation. Effective October 1, 2015, responsibility for enforcement of the two-midnight rule shifted from Medicare administrative contractors to quality improvement organizations ("QIO") and recovery audit contractors will only conduct reviews for providers that have been referred by the related QIO. In the hospital outpatient PPS rule for calendar year 2016, several revisions to the two-midnight rule allow some physician discretion in determining the necessity for an inpatient admission of less than two midnights.

The American Hospital Association, joined by several other healthcare associations and hospital plaintiffs, filed two lawsuits against HHS challenging the two-midnight rule. The lawsuits contend that several provisions included in the 2014 Final Inpatient Prospective Payment Rule burden hospitals with unlawful arbitrary standards and documentation requirements and deprive hospitals of proper Medicare reimbursement for caring for patients. Faced with a legal challenge of the two-midnight rule, CMS released a proposed rule on April 18, 2016 that would forego the inpatient payment cuts. On August 2, 2016, in its 2017 Medicare Inpatient Prospective Payment System final rule, CMS eliminated the inpatient pay cuts associated with the two-midnight rule. In addition, the final rule instituted an increase

of approximately 0.8 percent points in fiscal year 2017 to offset the estimated cost of the two-midnight rule policy in fiscal years 2014, 2015 and 2016. Obligated Group management is unable to predict whether the inpatient pay cuts associated with the two-midnight rule will be reinstated in the future, the outcome of the ongoing lawsuits or what effect, if any, the two-midnight rule will have on future hospital revenues.

Rehabilitation. CMS reimburses inpatient rehabilitation facilities (“IRFs”) on a PPS basis. Under IRF PPS, patients are classified into case mix groups based on impairment, age, comorbidities and functional capability. IRFs are paid a predetermined amount per discharge that reflects the patient’s case mix group and is adjusted for area wage levels, low-income patients, rural areas and high-cost outliers.

The final IRF rule issued by CMS for federal fiscal year 2012 (the “2012 IRF Rule”) implemented a new quality reporting program required by the Affordable Care Act, which will reduce the annual IRF PPS rates by 2% for facilities that fail to report quality data, beginning in federal fiscal year 2014. Under the 2012 IRF Rule, IRFs submit quality data related to urinary catheter-associated urinary tract infection and pressure ulcers that are new or have worsened, with a third quality measure currently under consideration by CMS related to readmissions.

On August 5, 2016, CMS published its IRF PPS final rule for federal fiscal year 2017 (the “2017 IRF Rule”). CMS estimates that, based on the 2017 IRF Rule, payments to IRFs will increase by 1.9% (or \$145 million) compared to 2016 levels. The 2017 IRF Rule provides for a market basket increase of 2.7%, with a 0.3% multi-factor productivity downward adjustment and a 0.75% reduction, each as mandated by the Affordable Care Act. An additional 0.3% increase will be added to aggregate payments due to updating the outlier threshold.

Psychiatric Services. Inpatient psychiatric services are reimbursed on a PPS basis, as mandated by the Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999. The inpatient psychiatric facility (“IPFs”) PPS applies to both freestanding psychiatric hospitals and certified psychiatric units in general acute care hospitals. On July 28, 2016, CMS published its IPF PPS final rule for federal fiscal year 2017 (the “2017 IPF Rule”). CMS estimates that, based on the 2017 IPF Rule, payments to increase by 2.2% (or \$100 million) compared to 2016 levels. The 2017 IPF Rule provides for a market basket increase of 2.8%, with a 0.3% multi-factor productivity downward adjustment and a 0.2% reduction, each as mandated by law. Additionally, estimated payments to IPFs will be reduced by 0.1% due to an updating the outlier fixed-dollar loss threshold amount.

Inpatient Capital Costs. With limited exceptions, hospitals are reimbursed on a fully prospective basis for capital costs related to the provision of inpatient services to Medicare beneficiaries. Thus, capital costs are reimbursed exclusively on the basis of a standard federal rate (based on average national costs), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the hospital. Hospitals are reimbursed at 100% of the standard federal rate for all capital costs. This applies to the standard federal rate before the application of the adjustment factors for outliers, exceptions and budget neutrality.

There can be no assurance that the prospective payments for capital costs will be sufficient to cover the actual capital-related costs of the Obligated Group allocable to Medicare patient stays or to provide adequate flexibility in meeting the Obligated Group’s future capital needs.

Disproportionate Share Adjustments. Under PPS, hospitals that serve a disproportionate share of low-income patients may receive an additional DSH adjustment. A hospital may be classified as a DSH hospital based upon any of several circumstances related to the number of beds, the hospital’s location, and its disproportionate patient percentage. The DSH adjustment is calculated under one of several methods, depending upon the basis for the hospital’s classification as a DSH hospital. Under the Affordable Care Act, in response to the expected decrease in the uninsured population, DSH payments

were reduced by 75% in federal fiscal year 2014. The 75% reduction in DSH payments that would have otherwise been paid through Medicare was effectively pooled. The pool was and continues to be reduced further each year using a formula that reflects reductions in the national level of uninsured who are under 65 years of age. Each DSH hospital is paid from the reduced DSH payment pool an amount allocated based upon its level of uncompensated care. It is difficult to predict the full impact of future Medicare DSH reductions. For the year ended June 30, 2016, the Obligated Group received DSH payments totaling approximately \$9.3 million. There is no assurance that the Obligated Group will receive DSH payments in the future.

Costs of Outpatient Services. Hospital outpatient services, including hospital operating and capital costs, are reimbursed on a PPS basis. Several Medicare Part B services are specifically excluded from this rule, including certain physician and non-physician practitioner services, ambulance, clinical diagnostic laboratory services and nonimplantable orthotics and prosthetics, physical and occupational therapy, and speech language pathology services.

Under the hospital outpatient PPS (“OPPS”), predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures that are comparable clinically and in terms of resource use into ambulatory payment classification (“APC”) groups. Using hospital outpatient claims data from the most recent available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group. Subsequently, a payment rate is established for each APC. Depending on the services provided, a hospital may be paid for more than one APC for a patient visit.

Certain provisions of the Affordable Care Act relating to OPPS services have been implemented that may impact the reimbursement and operations of hospitals across the country. Some of the specific reforms that have the potential to impact hospitals are: (i) reduction of the OPPS market basket increase factor by a productivity adjustment (effective 2012) and an additional adjustment for payments to hospital outpatient departments (from 2010 through 2019); (ii) application of similar productivity adjustments for payment for ambulatory surgical center (“ASC”) services, which began with calendar year 2011; (iii) new provisions relating to the prohibition against referrals to a hospital by a physician who has an ownership or investment interest in the hospital; (iv) adjustments to the area wage adjustment factor for outpatient department services; and (v) changes related to payment for graduate medical education and indirect medical education.

Physician Payment. Certain physician services are reimbursed on the basis of a national fee schedule called the “resource based-relative value scale” (“RB-RVS”). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. Historically, Medicare payments for physician services have been linked to the SGR formula. The SGR acted as a limit to the growth of Medicare payments and was linked to changes in the U.S. Gross Domestic Product over a ten-year period. The use of the SGR in determining physician fee schedule updates was widely criticized, and was consistently neutralized with Congressional intervention which served to delay considerable decreases to Medicare physician payments.

In response to these criticisms, MACRA replaced the SGR formula with statutorily prescribed physician payment updates and provisions. Specifically, MACRA eliminated the cut to physician payments required by the SGR formula, and substituted annual 0.5% payment increases through 2019. Thereafter, payments rates will be frozen at 2019 levels through 2025. Beginning in 2026, physicians and other professionals paid under the Medicare physician fee schedule will receive an annual update of 0.75% for participating in eligible alternative payment models, while all other professionals will receive annual updates of 0.25%. While the immediate payment cuts associated with the SGR formula have been

eliminated, it is possible that future legislative action will be taken that would once again trigger physician payment reductions.

Provider-Based Standards. Some healthcare providers bill for services as “provider-based entities” and, as such, are subject to CMS’ provider-based regulations. CMS has stated that prior approval of provider-based status by CMS is not required for an entity to bill as provider-based. Rather, a provider may provide an optional attestation of its status as a provider-based entity. Although such attestation is not required to bill as a provider-based entity, it may provide some overpayment protection in the event that CMS subsequently makes a determination that an entity is not provider-based, assuming accurate representation by the provider to CMS. Any reclassification by CMS may adversely affect the entity’s reimbursement under the Medicare program. Based on current regulations, the Obligated Group believes all of its current facilities that bill for services as provider-based entities qualify as “provider-based” entities under the current regulations.

Section 603 of the Bipartisan Budget Act of 2015 reduces Medicare payments to newly enrolled provider-based, off-campus hospital outpatient departments (“HOPDs”) by excluding such facilities from payment under the OPPTS beginning January 1, 2017. While this change does not affect already existing and enrolled provider-based, off-campus HOPDs that were billing for services prior to November 2, 2015, newly enrolled provider-based, off-campus HOPDs will receive lower payments than in previous years for providing the same services.

Medicare Advantage. Medicare beneficiaries may obtain Medicare coverage through a managed care Medicare Advantage plan. A Medicare Advantage plan may be offered by a coordinated care plan (such as an HMO or PPO), a provider sponsored organization (“PSO”) (a network operated by healthcare providers rather than an insurance company), a private fee-for-service plan, or a combination of a medical savings account (“MSA”) and beneficiary-contributions to a Medicare Advantage plan. Each Medicare Advantage plan, except an MSA plan, is required to provide benefits approved by the Secretary of HHS. A Medicare Advantage plan will receive a monthly capitated payment from HHS for each Medicare beneficiary who has elected coverage under the plan. Healthcare providers such as the Members of the Obligated Group must contract with Medicare Advantage plans to treat Medicare Advantage enrollees at agreed upon rates or may form a PSO to contract directly with HHS as a Medicare Advantage plan. Covered inpatient and emergency services rendered to a Medicare Advantage beneficiary by a hospital that is an out-of-plan provider (*i.e.*, that has not entered into a contract with a Medicare Advantage plan) will be paid at Medicare fee-for-service payment rates as payment in full.

The Affordable Care Act provides that, through September 30, 2019, payments under the Medicare Advantage programs will be reduced, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. These beneficiaries may terminate their participation in such Medicare Advantage plans and opt instead for the traditional Medicare fee-for-service program. The reduction in payments to Medicare Advantage plans may also lead to decreased payments to providers by managed care companies operating Medicare Advantage plans. There can be no assurance, however, that rates negotiated for the treatment of Medicare Advantage enrollees will be sufficient to cover the cost of providing services to such patients. All or any of these outcomes will have a disproportionately negative effect upon those providers that rely more upon Medicare managed care revenues. For further information regarding the Affordable Care Act and its provisions, see “BONDHOLDERS’ RISKS – Affordable Care Act” herein. The Taxpayer Relief Act provided for modifications to the Medicare Advantage coding intensity adjustment, which adjusts Medicare Advantage payments to account for differences between fee-for-service Medicare and Medicare Advantage. The Taxpayer Relief Act increased the 2014 Medicare Advantage coding intensity adjustment by setting it at a minimum of 4.91%, and mandated an incremental increase in the adjustment annually starting in 2015 which is expected to further reduce payments by 0.25% each year.

Medicare Audits. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under the Medicare program. Medicare regulations also provide for withholding Medicare payment in certain circumstances if it is determined that an overpayment of Medicare funds has been made. In addition, under certain circumstances, payments may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act (the “Federal False Claims Act”) or other federal statutes, subjecting the Obligated Group to civil or criminal sanctions. Management of the Obligated Group is not aware of any situation whereby a material Medicare payment is being withheld from the Obligated Group.

RAC Audits. The Recovery Audit Contractor Program (“RAC Program”) is a CMS program that began in 2003 as a pilot program and became permanent in 2006. The Affordable Care Act expanded the RAC Program to include Medicare Part C (Medicare Advantage plans), Medicare Part D (prescription drug coverage) and the Medicaid program. The goal of the RAC Program is to identify and correct improper payments made to providers. RAC Program activities are executed by contractors selected by CMS, who are compensated on a contingency basis. Contractors have three years from the time a claim is paid to review that claim. However no claims paid prior to October 2007 can be reviewed. Obligated Group management cannot anticipate the amount or volume of the Obligated Group’s past Medicare claims that will be reviewed under the RAC program or predict the results of any such audits.

Medicaid

Medicaid (Title XIX of the federal Social Security Act) is a health insurance program for certain low-income and needy individuals that is jointly funded by the federal government and the states. It covers approximately 50 million people, including children, the aged, blind, and/or disabled, and individuals who are eligible to receive federally assisted income maintenance payments. Pursuant to broad federal guidelines, the states and the United States territories (Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Northern Mariana Islands) each (i) establish their own eligibility standards; (ii) determine the type, amount, duration, and scope of services; (iii) set the payment rates for services; and (iv) administer their own programs. Some states operate certain Medicaid programs under a waiver of some of the basic Medicaid requirements. Pursuant to the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for such medical and health services is made to hospitals in an amount determined in accordance with procedures and standards established by state law under federal guidelines.

Fiscal considerations of both the federal and state governments in establishing their budgets will directly affect the funds available to providers for payment of services rendered to Medicaid beneficiaries. Currently, Medicaid nursing facility payments are generally made using a prospective per diem payment based on cost, adjusted for various factors, including acuity. In addition, Medicaid inpatient hospital payments are generally made under a DRG, prospective payment system on a per discharge basis. It is important to note that although the payment systems can be categorized in general terms, the specific methodology varies from state to state.

Wisconsin Medicaid Program. In Wisconsin, Medicaid is administered by the Wisconsin Department of Health Services (the “WDHS”). Payments made to health care providers under the Medicaid program are subject to change as a result of federal or state legislative and administrative actions, including changes in the methods for calculating payments, the amount of payments that will be made for covered services and the types of services that will be covered under the program. Such changes have occurred in the past and may be expected to occur in the future, particularly in response to federal and state budgetary constraints. For the fiscal year ended June 30, 2016, approximately 14.4% of the gross revenues of the Members of the Obligated Group was derived from the Medicaid program. As described under the “BONDHOLDERS’ RISKS – Affordable Care Act” above, one component of the Affordable Care Act is designed to incentivize states to expand their Medicaid programs to individuals

earning up to 133% of the federal poverty level by offering additional Medicaid funding to participating states. The State of Wisconsin has decided not to expand its Medicaid programs to cover such individuals and thus has declined the additional federal funding tied to such expansion. Instead, Wisconsin's Medicaid program is limited to individuals earning 100% of the federal poverty level.

Inpatient Hospital Services. Wisconsin Medicaid payments for inpatient services are based on a DRG system. While the Wisconsin Medicaid DRG system is similar to the Medicare DRG system, certain differences apply. Separate Medicaid base rates are paid for hospitals located in Milwaukee County and those located elsewhere in the state. The base rate is adjusted for a Medicaid DRG factor (different from the Medicare DRG factor) for each patient. As with the Medicare system, there is also an adjustment to the base rate for regional wage differences. There are also adjustments for indirect medical education, disproportionate share hospitals, rural hospitals, and cost outliers. There are additional payments for direct medical education and capital costs. A Wisconsin hospital with a total cost of treating Medicaid patients that exceeds the prospective payment rate will incur a loss on such services.

Outpatient Hospital Services. Under the Wisconsin Medicaid program, outpatient services are paid at an interim rate per visit, subject to a retrospective final settlement based on the hospital's audited cost report for that fiscal year as determined according to applicable Medicare and Medicaid standards and principles of reimbursement. The settlement amount is further limited by the lesser of the following amounts: (i) the hospital's customary outpatient charges; (ii) the sum of the allowable payment rates per outpatient visit effective for the settlement year (such rates are based on the hospital's 1987 costs, subject to an adjustment factor), multiplied by the number of Medicaid visits for the period; (iii) the sum of the interim clinical diagnostic laboratory reimbursement plus the lesser of (a) total outpatient charges for other services, or (b) total audited costs for other services; or (iv) allowable outpatient costs determined in accordance with Medicare and Medicaid principles. There is also an adjustment for rural hospitals.

Physician Payments. In Wisconsin physicians are reimbursed for Medicaid covered services the lesser of the physician's usual and customary charge or the maximum allowable fee established by WDHS. The maximum allowable fees are based on various factors, including a review of the Wisconsin Legislature's medical expense budgetary constraints and other relevant economic information. Maximum allowable fees may be adjusted to reflect reimbursement limits on the availability of state and federal funding as specified in federal law.

State Legislation and Regulation

Hospitals are subject to regulation and approval by WDHS. Generally, a hospital may have its approval suspended or revoked for substantial failure to comply with applicable regulatory requirements. However, a hospital may also have its approval suspended or revoked for mere failure to comply with certain regulatory requirements, including failure to pay taxes as certified by the Wisconsin Department of Revenue or acquisition of a hospital without obtaining required regulatory approvals. Hospitals in Wisconsin are not subject to a certificate of need requirement.

Nonprofit corporations are subject to regulation under state nonprofit corporation codes and other state statutes. In addition, state attorneys general are increasingly asserting oversight over the actions of nonprofit corporations, including matters of internal governance, business strategy and mergers and acquisitions. The legal rationale for the assertion of such oversight powers are varied, ranging from express statutory grants to common law fiduciary and charitable constructive trust theories. In addition, state attorneys general have asserted arguments that nonprofit corporations in fact hold their assets in trust for their local communities, and cannot freely move assets or funds between facilities, communities or states in which the nonprofit corporations may operate. It is possible that the development and exercise of such oversight powers could interfere with the ability of governing boards and management of nonprofit corporations to exercise independent business judgment, cross-subsidize operations in different locations,

reallocate assets to meet the needs of the communities served by nonprofit corporations, or liquidate assets to satisfy creditors' claims. Such restrictions, if sustained by court authority, could impede the ability of the Obligated Group to utilize proceeds from divestitures of certain facilities or undertake certain other actions.

Commercial Insurance and Other Third-Party Plans

Many commercial insurance plans, including group plans, reimburse their customers or make direct payments to the Obligated Group for charges at rates established by agreement. Generally, these plans pay per diem rates plus ancillary service charges, which are subject to various limitations and deductibles depending on the plan. To the extent allowed by law, patients carrying such coverage are responsible to the hospital for any deficiency between the commercial insurance proceeds and total billed charges.

Regulation of the Healthcare Industry

General. The health care industry is highly dependent on a number of factors which may limit the ability of the Members of the Obligated Group and any future Members of the Obligated Group to meet their obligations under the Master Indenture and the Series 2017A Obligation. Among other things, participants in the health care industry (such as the Members of the Obligated Group) are subject to significant regulatory requirements of federal, state and local governmental agencies and independent professional organizations and accrediting bodies, technological advances and changes in treatment modes, various competitive factors and changes in third-party reimbursement programs. Discussed below are certain of these factors which could have a significant effect on the future operations and financial condition of the Members of the Obligated Group.

Licensing, Surveys, Audits and Investigations. Hospitals and health facilities, including those of the Members of the Obligated Group, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare Conditions of Participation, requirements for participation in Medicaid, State licensing agencies, private payors and the accreditation standards of The Joint Commission or other nationally recognized accreditation agencies. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative actions by the Members of the Obligated Group. Management of the Members of the Obligated Group anticipates that it will be able to periodically renew currently-held licenses, certifications or accreditations when required. Nevertheless, adverse actions in any of these areas could occur and result in the loss of utilization, revenue or the ability of the Members of the Obligated Group to operate all or a portion of its hospitals and/or health facilities and, consequently, could have a material and adverse effect on the financial condition of the Members of the Obligated Group.

Federal Privacy Laws. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") added two prohibited practices, the commission of which may lead to civil monetary penalties: (i) the practice or pattern of presenting a claim for an item or service on a reimbursement code that the person knows or should know will result in greater payment than appropriate (*i.e.*, upcoding); and (ii) the practice of submitting claims for payment for medically unnecessary services. Violation of such prohibited practices due to civil neglect could amount to civil monetary penalties ranging from \$50,000 to \$1.5 million for all identical violations in a calendar year and/or imprisonment. Management of the Members of the Obligated Group does not expect that the prohibited practices provisions of HIPAA will affect the Members of the Obligated Group in a material respect.

HIPAA also includes administrative simplification provisions intended to facilitate the processing of health care payments by encouraging the electronic exchange of information and the use of

standardized formats for health care information. Congress recognized, however, that standardization of information formats and greater use of electronic technology presents additional privacy and security risks due to the increased likelihood that databases of personally identifiable health care information will be created and the ease with which vast amounts of such data can be transmitted. Therefore, HIPAA requires the establishment of distinct privacy and security protections for individually identifiable health information (“Protected Health Information” or “PHI”).

HHS promulgated privacy regulations under HIPAA (the “Privacy Rule”) that protect the privacy of PHI maintained by health care providers (including hospitals), health plans, and health care clearinghouses (collectively, “Covered Entities”) and provide individuals with certain rights regarding their PHI (including, for example, access to PHI, amending PHI, and receiving an accounting of disclosures of PHI). Security regulations have also been promulgated under HIPAA (the “Security Rule”). The Security Rule requires Covered Entities to have certain administrative, technical and physical safeguards in place to ensure the confidentiality, integrity and availability of all electronic PHI they create, receive, maintain or transmit. Additionally, HHS promulgated regulations to standardize the electronic transfer of information pursuant to certain enumerated transactions (the “Transactions and Code Sets Rule”).

The 2009 Health Information Technology for Economic and Clinical Health (“HITECH”) Act significantly changed the landscape of federal privacy and security laws regarding PHI. The HITECH Act (i) extended the reach of HIPAA, certain provisions of the Privacy Rule, and the Security Rule; (ii) imposed a breach notification requirement on HIPAA covered entities and their business associates; (iii) limited certain uses and disclosures of PHI; (iv) increased individuals’ rights with respect to PHI; and (v) increased enforcement of, and penalties for, violations of the privacy and security of PHI.

The HITECH Act also created a federal breach notification requirement that mirrors protections that many states have passed in recent years. This requirement provides that the Members of the Obligated Group must notify patients of any unauthorized access, acquisition or disclosure of their unsecured PHI that poses more than a very low probability that the PHI was compromised. In addition, a new breach notification requirement was established requiring reporting to the Secretary of HHS and, in some cases, local media outlets, of certain unauthorized access, acquisition or disclosure of unsecured PHI that poses more than a very low probability that the PHI was compromised.

On January 17, 2013 HHS issued an omnibus final rule interpreting and implementing various provisions of the HITECH Act, including a final breach notification rule. In addition, the facilities of the Obligated Group are also subject to any state law which is related to the reporting of data breaches and more restrictive than the regulations and/or requirements issued under HIPAA and the HITECH Act.

Any violation of HIPAA, the HITECH Act or the regulations promulgated thereunder is subject to HIPAA civil and criminal penalties, including monetary penalties and/or imprisonment. Management of the Members of the Obligated Group believes that all of its health care facilities are in substantial compliance with HIPAA, the HITECH Act, and the rules promulgated thereunder.

Federal “Fraud and Abuse” Laws and Regulations. The federal health care program anti-kickback statute (the “Anti-Kickback Statute”) is a broad criminal statute that prohibits one person from “knowingly and willfully” giving (or offering to give) “remuneration” to another person if the payment is intended to “induce” the recipient to: (i) “refer” an individual to a person for the furnishing, or arranging for the furnishing, of any item or service for which payment may be made, in whole or in part, under a federal health care program (*i.e.*, a “covered item or service”); (ii) “purchase,” “order,” or “lease” any covered item or service; (iii) “arrange for” the purchase, order, or lease of any covered item or service; or (iv) “recommend” the purchase, order, or lease of any covered item or service. The Anti-Kickback Statute also prohibits the solicitation or receipt of remuneration for any of these purposes.

Because the Anti-Kickback Statute is so broad, it covers a variety of common and non-abusive arrangements. Recognizing this overbreadth, Congress and the HHS Office of Inspector General (“OIG”) – the lead enforcement agency with respect to the Anti-Kickback Statute – have established a large number of statutory exceptions and regulatory safe harbors (collectively, “safe harbors”). An arrangement that fits squarely into a safe harbor is immune from prosecution under the Anti-Kickback Statute. The safe harbors tend to be narrow, however, and OIG takes the position that immunity is afforded only to those arrangements that “precisely meet” all of the conditions of a safe harbor. Moreover, safe harbors do not exist for every type of arrangement that does (or may) implicate the Anti-Kickback Statute. Failure to meet a safe harbor is not a per se violation.

Where the Anti-Kickback Statute has been violated, the government may proceed criminally or civilly. If the government proceeds criminally, a violation of the Anti-Kickback Statute is a felony punishable by up to five years imprisonment, a fine of up to \$25,000 and mandatory exclusion from participation in all federal health care programs. If the government proceeds civilly, it may impose a civil monetary penalty (CMP) of \$50,000 per violation and an assessment of not more than three times the total amount of “remuneration” involved, and may even exclude the offering or receiving party from participation in all federal health care programs. Many states, including Wisconsin, have enacted laws similar to, and in some cases broader than, the Anti-Kickback Statute.

Management of the Members of the Obligated Group has and is taking steps it believes are reasonable to ensure that its contracts with physicians and other referral sources are in material compliance with the Anti-Kickback Statute. However, in light of the narrowness of the safe harbors and the scarcity of case law interpreting the Anti-Kickback Statute, there can be no assurances that the Obligated Group will not be found to have violated the Anti-Kickback Statute and, if so, whether any sanction imposed would have a material adverse effect on the operations of the Members of the Obligated Group.

The Federal False Claims Act. The federal civil False Claims Act (“FCA”), provides that any person who “knowingly presents, or causes to be presented” a “false or fraudulent claim for payment or approval” to the United States, and its agents and contractor is liable for a civil penalty ranging from \$5,500 to \$11,000 per claim, plus three times the amount of damages sustained by the government. Under the FCA’s so-called “reverse false claims,” liability also could arise for “using” a false record or statement to “conceal,” “avoid” or “decrease” an “obligation to pay or transmit money or property to the Government.” The FCA also empowers and provides incentives to private citizens (commonly referred to as *qui tam* relator or whistleblower) to file suit on the government’s behalf. The *qui tam* relator’s share of the recovery can be between 15% and 25% in cases in which the government intervenes, and 25% to 30% in cases in which the government does not intervene. The government may use the FCA to prosecute Medicare and other government program fraud in areas such as coding errors, billing for services not provided and submitting false cost reports.

Amendments to the FCA in the Fraud Enhancement and Recovery Act of 2009 (“FERA”) and the Affordable Care Act amend and expand the reach of the FCA. FERA expanded the FCA’s reverse false claims provision, imposing liability on any person who “knowingly conceals” or “knowingly and improperly avoids or decreases” an “obligation to pay or transmit money or property to the Government,” whether or not the person uses a false record in doing so. FERA also clarified that an “obligation” can arise from the retention of an overpayment. Section 6402 of the Affordable Care Act further addresses the retention of overpayments by defining the term overpayment and the circumstances and timing under which an overpayment must be returned to the government before it becomes an “obligation” under the FCA. FERA and the Affordable Care Act also amend certain jurisdictional bars to the FCA, effectively narrowing the public disclosure bar and expanding the definition of “original source,” thus potentially broadening the field of potential whistleblowers. While the Members of the Obligated Group make every

effort to be in compliance with applicable federal health care program requirements, there can be no assurance that the Obligated Group will not be subject to an investigation.

Restrictions on Referrals. The federal physician self-referral law and its implementing regulations (commonly referred to as the “Stark Law”) prohibits a physician from referring patients to an entity for the furnishing of designated health services covered by Medicare if the physician (or one of his immediate family members) has a financial relationship with the entity, unless an exception applies. Designated health services include: clinical laboratory services; physical therapy services; occupational therapy services; radiology services, including magnetic resonance imaging, computerized axial tomography scans and ultrasound services; radiation therapy services and supplies; durable medical equipment and supplies; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics and prosthetic devices and supplies; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services. The Stark Law also prohibits the furnishing entity from submitting a claim for reimbursement or otherwise billing Medicare or any other person or entity for improperly referred designated health services.

An entity that submits a claim for reimbursement in violation of the Stark Law must refund any amounts collected and may be subject to civil penalties and exclusion from participation in federal health care programs. In addition, a physician or entity that has participated in a “scheme” to circumvent the operation of the Stark Law is subject to civil penalties and possible exclusion from participation in federal health care programs.

CMS has established a voluntary self-disclosure program under which hospitals and other entities may report Stark violations and seek a reduction in potential refund obligations. However, the program is relatively new and therefore it is difficult to determine at this time whether it will provide significant monetary relief to hospitals that discover inadvertent Stark law violations.

Although the Stark Law only applies to Medicare, a number of states (including Wisconsin) have passed similar statutes pursuant to which similar types of prohibitions are made applicable to all other health plans or third-party payors.

Management of the Members of the Obligated Group believes that the Members of the Obligated Group are currently in material compliance with the Stark Law provisions. However, in light of the scarcity of case law interpreting the Stark Law provisions and the breadth and complexity of these provisions, there can be no assurances that the Members of the Obligated Group will not be found to have violated the Stark Law provisions, and if so, whether any sanction imposed would have a material adverse effect on the operations of the Members of the Obligated Group or the financial condition of the Members of the Obligated Group.

Compliance/OIG Investigations. Medicare requires that extensive financial information be reported on a periodic basis and in a specific format or content. These requirements are numerous, technical and complex and may not be fully understood or implemented by billing or reporting personnel. With respect to certain types of required information, the False Claims Act and the Social Security Act may be violated by mere recklessness in the submission of information to the government even without any intent to defraud. New billing systems, new medical procedures and procedures for which there is not clear guidance from CMS may all result in liability. The penalties for violation include criminal or civil liability and may include, for serious or repeated violations, exclusion from participation in the Medicare program.

HHS, through the OIG, conducts national investigations of Medicare billings for certain services. The focus of these investigations varies annually according to the OIG Workplan. While the Obligated Group makes every effort to be in compliance with Medicare billing requirements, there can be no assurance that the Members of the Obligated Group will not be subject to an investigation.

The False Claims Act provides that an individual may bring a civil action for a violation of such Act. These actions are referred to as *qui tam* actions. In this way, a hospital employee would be able to sue on behalf of the U.S. government if he or she believes that the hospital has committed fraud. If the government intervenes and proceeds with an action brought by this individual, then he or she could receive as much as 25% of any money recovered. Even if the government does not intervene and proceed with an action, the employee could still proceed and receive a portion of any money recovered.

Patient Transfers. In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided, Congress enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA"). Among other things, EMTALA imposes certain requirements which must be met before transferring a patient to another facility, including conducting a medical screening. Failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as imposition of civil and criminal penalties. The requirements of EMTALA, specifically those mandating treatment of uninsured patients, could adversely affect the financial condition of the Members of the Obligated Group.

Accreditation. The Members of the Obligated Group and their operations are subject to regulation and certification by various federal, state and local government agencies and by certain nongovernmental agencies such as The Joint Commission. No assurance can be given as to the effect on current and future operations of the Members of the Obligated Group of existing laws, regulations and standards or the application thereof for certification or accreditation or of any future changes in such laws, regulations and standards.

Environmental Laws and Regulations. Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, hospital operations, facilities and properties owned or operated by hospitals. Among the types of regulatory requirements faced by hospitals, in addition to others, are (a) air and water quality control requirements, (b) waste management requirements, (c) specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances, (d) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital, and (e) requirements for training employees in the proper handling and management of hazardous materials and wastes.

At the present time, management of the Members of the Obligated Group is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues which, if determined adversely to the Members of the Obligated Group, would have a material adverse effect on its operations or financial condition.

International Classification of Disease, 10th Revision Coding System. In 2009, CMS published the final rule for adopting the International Classification of Disease, 10th Revision coding system ("ICD-10"), pursuant to which health care organizations were required to implement ICD-10 by October 1, 2015. The Obligated Group successfully transitioned to ICD-10 prior to the stated deadline, but remains dependent upon the ability of Medicare, Medicaid and other payors to process and pay claims under ICD-10.

Managed Care and Integrated Delivery Systems

Members of the Obligated group have entered into contractual arrangements with PPOs, HMOs, and other similar MCOs, pursuant to which they agree to provide or arrange to provide certain healthcare services for these organizations' eligible enrollees. In certain instances, revenues received under such contracts have not been sufficient to cover all costs of services provided. Failure of the revenues received under such contracts to cover all costs of services provided may have a material adverse effect on the operations or financial condition of the Obligated Group.

State Laws. States are increasingly regulating the delivery of healthcare services in response to the federal government's failure to adopt comprehensive healthcare reform measures. Much of this increased regulation has centered around the managed care industry. State legislatures have cited their right and obligation to regulate and oversee healthcare insurance and have enacted sweeping measures that aim to protect consumers and, in some cases, providers. For example, a number of states have enacted laws mandating a minimum of forty-eight hour hospital stays for women after delivery; laws prohibiting "gag clauses" (contract provisions which prohibit providers from discussing various issues with their patients); laws defining "emergencies," which provide that a healthcare plan may not deny coverage for an emergency room visit if a lay person would perceive the situation as an emergency; and laws requiring direct access to obstetrician-gynecologists without the requirement of a referral from a primary care physician.

Due to this increased state oversight, the Obligated Group could be subject to a variety of state healthcare laws and regulations, affecting both MCOs and healthcare providers. In addition, the Obligated Group could be subject to state laws and regulations prohibiting, restricting, or otherwise governing PPOs, third-party administrators, physician-hospital organizations, independent practice associations or other intermediaries; fee-splitting; the "corporate practice of medicine"; selective contracting ("any willing provider" laws and "freedom of choice" laws); coinsurance and deductible amounts; insurance agency and brokerage; quality assurance, utilization review, and credentialing activities; provider and patient grievances; mandated benefits; rate increases; and many other areas.

In the event that the Obligated Group chooses to transact businesses subject to such laws, or is considered by a state in which it operates to be engaging in such businesses, the Obligated Group may be required to comply with these laws or to seek the appropriate license or other authorization from that state. Such requirements may impose operational, financial, and legal burdens, costs or risks on the Obligated Group.

Dependence Upon Third-Party Payors. The Obligated Group's ability to develop and expand its services and, therefore, its profitability, is dependent upon the Obligated Group's ability to enter into contracts with MCO's, PPO's, HMOs and other third-party payors at competitive rates. There can be no assurance that the Obligated Group will be able to attract and maintain third-party payors in the future, and where it does, no assurance that it will be able to renew contracts or contract with such payors on advantageous terms. For the fiscal year ended June 30, 2016, 67.8% of the managed care portion of the Obligated Group's payor mix was derived from three third-party payor contracts. Of these three third-party payor contracts, two are set to expire December 31, 2017. See **APPENDIX A - "SUMMARY UTILIZATION STATISTICS AND PAYOR MIX – Payor Mix – Obligated Group"** hereto. The inability of the Obligated Group to contract with a sufficient number of such payors on advantageous terms would have a material adverse effect on the Obligated Group's operations and financial results. Further, while the Obligated Group employs a variety of systems to control healthcare service utilization and increase quality, the Obligated Group cannot predict changes in utilization patterns or the system's effect on healthcare providers.

Physician Contracting and Relations. The Obligated Group may wish to contract with physician organizations ("POs") (e.g., independent physician associations, physician-hospital organizations) to arrange for the provision of physician and ancillary services. Because POs are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with the POs.

The success of the Obligated Group will be partially dependent upon its ability to attract a sufficient number of qualified physicians to meet the needs of the patients and the communities in which it operates. See "INTRODUCTION – System Overview" and "FACILITIES AND OPERATIONS – Medical Staff" in **APPENDIX A** to this Official Statement.

Antitrust

Enforcement of the antitrust laws against healthcare providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third-party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. In some respects, the application of federal and state antitrust laws to healthcare is still evolving, and enforcement activity by federal and state agencies appears to be increasing. At various times, healthcare providers may be subject to an investigation by a governmental agency charged with the enforcement of antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Violation of the antitrust laws could be subject to criminal and civil enforcement by federal and state agencies, as well as by private litigants.

The ability to consummate mergers, acquisitions or affiliations may also be impaired by the antitrust laws, potentially limiting the ability of healthcare providers to fulfill their strategic plans. Liability in any of these or other antitrust areas of liability may be substantial, depending on the facts and circumstances of each case.

Cybersecurity

Healthcare providers are highly dependent upon integrated electronic medical record and other information technology systems to deliver high quality, coordinated and cost-effective care. These systems necessarily hold large quantities of highly sensitive protected health information that is highly valued on the black market for such information. As a result, the electronic systems and networks of healthcare providers are considered likely targets for cyberattacks and other potential breaches of their systems. In addition to regulatory fines and penalties, the healthcare entities subject to the breaches may be liable for the costs of remediating the breaches, damages to individuals (or classes) whose information has been breached, reputational damage and business loss, and damage to the information technology infrastructure. The Obligated Group has taken, and continues to take measures to protect its information technology system against such cyberattacks, but there can be no assurance that the Obligated Group will not experience a significant breach. If such a breach occurs, the financial consequences of such a breach could have a materially adverse impact on the Obligated Group.

Issues Related to the Healthcare Markets of the Obligated Group

Affiliation, Merger, Acquisition and Divestiture. Significant numbers of affiliations, mergers, acquisitions and divestitures have occurred in the healthcare industry in recent years, and Froedtert Health has undertaken a variety of such transactions. As part of its ongoing strategic planning process, Froedtert Health considers potential joint ventures, affiliations, acquisitions and similar transactions with entities which may become affiliated with or become part of the Obligated Group in the future, and also considers the divestiture of certain of its operations or properties. As a result, it is possible that certain newly acquired or affiliated organizations and their assets and liabilities may be added to the Obligated Group, existing service lines or affiliate relationships may be expanded, renovations may be made to existing facilities, or certain existing facilities may no longer be part of the Obligated Group, although the Obligated Group may continue to be responsible for any remaining liabilities attributable to the divested facilities, if the consideration received for the divested property would be insufficient to pay any related liabilities.

In addition to relationships with other hospitals or physician groups, the Obligated Group may consider investments, ventures, affiliations, development and acquisition of other health-care related entities. These may include other health care entities that support the overall operations of the Obligated Group. In addition, the Obligated Group may pursue transactions with health insurers, third-party administrators and other health insurance related businesses. Because of the integration occurring throughout the health care field, management will consider these arrangements if they may have strategic

or operational benefits for the Obligated Group. Any initiative may involve significant capital commitments and/or capital or operating risk (including, potentially, insurance risk) in a business in which the Obligated Group may have less expertise than in hospital operations. There can be no assurance as to the impact that any such transaction would have on the financial results of the Obligated Group.

Possible Increased Competition. The Obligated Group could face increased competition in the future from other hospitals and from other forms of healthcare delivery that offer healthcare services to the populations which the Obligated Group currently serves. This could include the construction of new or the renovation of existing hospitals, health maintenance organization facilities, ambulatory surgery centers, free standing emergency facilities, private laboratory and radiological services, intermediate nursing home care, preventive care and drug and alcohol abuse programs. Specifically, the emergence of groups of physician-investors could erode premium medical services from the Obligated Group, and such physician-investor groups could also recruit physicians and staff from the Obligated Group's hospitals. There is no Certificate of Need requirement in Wisconsin to provide a barrier to entry for competitors.

In addition, competition could result from forms of healthcare delivery, particularly ambulatory care facilities, that are able to offer lower priced and more convenient services to certain of the population served by the Obligated Group. These services could be substituted for some of the revenue generating services currently offered by the Obligated Group. The services that could serve as substitutes for hospital treatment include skilled and specialized nursing facilities, diagnostics, home care, intermediate nursing home care, preventive care and drug and alcohol abuse programs. Competition may also come from specialty hospitals or organizations, particularly those facilities providing specialized services in areas with high visibility and strong margins, such as cardiac services and surgical services, and having specialty physicians as investors. Competition may also come from physician services being performed in retail settings or in virtual platforms.

Risks Related to Joint Ventures

While the income received from certain joint venture activities of a Member of the Obligated Group would contribute to the operating income of the Obligated Group, the sale of the underlying assets of those joint ventures or a Member's interest in those joint ventures may not be available as a source of payment for the Series 2017A Obligation, since under the governing documents of such joint ventures the applicable Member may not be able to force such sale. In addition, the Members of the Obligated Group may not compel such joint ventures to contribute funds as necessary to make payments on the Series 2017A Obligation, because such joint ventures are not Members of the Obligated Group; however, the Master Indenture provides that Members of the Obligated Group can include earnings from joint ventures in its debt service coverage calculations under the Master indenture. Joint ventures activities of a Member of the Obligated Group may also involve a requirement to contribute capital or make other investments, and, in some instances, such contributions or investments may be material. See *APPENDIX C* - "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Definitions of Certain Terms - Income Available for Debt Service," for more information on the Master Indenture; and Note 11 in *APPENDIX B* hereto for a description of certain joint ventures.

Nonprofit Healthcare Environment

Each Member of the Obligated Group is a nonprofit corporation, exempt from federal income taxation as organizations described in the Code. As a nonprofit tax-exempt organization, each Member of the Obligated Group is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organizations and operations, including its operation for charitable purposes. At the same time, several of the Members of the Obligated Group conduct large-scale complex business transactions and the Obligated Group's hospitals are major employers in their geographic areas. There can often be a

tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex healthcare organization.

Over the past several years, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations, and in particular whether such organizations are providing sufficient community benefit to justify their continuing tax-exemption. These challenges are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the healthcare organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, community benefit, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, local and state tax authorities, labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

Congressional Hearings. A number of House and Senate Committees, including, the House Committee on Energy and Commerce, the House Committee on Ways and Means and the Senate Finance Committee, have conducted hearings and/or investigations into issues related to nonprofit tax-exempt healthcare organizations. These hearings and investigations have included a nationwide investigation of hospital billing and collection practices, charity care and community benefit and prices charged to uninsured patients and possible reforms to the nonprofit sector. These hearings and investigations may result in new legislation. The effect on the nonprofit healthcare sector or the Members of the Obligated Group of any such legislation, if enacted, cannot be determined at this time.

Litigation Relating to Billing and Collection Practices. Lawsuits have been filed in both federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. The cases are proceeding in various courts around the country with inconsistent results. While it is not possible to make general predictions, some hospitals and health systems have incurred substantial costs in defending such lawsuits and in some cases have entered into substantial settlements. None of the Members of the Obligated Group have been served as a defendant in litigation relating to billing and collection practices.

Challenges to Real Property Tax Exemptions. Recently, the real property tax exemptions afforded to certain nonprofit healthcare providers by certain state and local taxing authorities have been challenged on the grounds that the healthcare providers were not engaged in charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements. In July 2011, the Wisconsin Supreme Court affirmed that off-campus hospital outpatient facilities qualify for Wisconsin property tax exemption. Specifically, the Wisconsin Supreme Court held that a hospital outpatient facility operated by Wheaton Franciscan Healthcare in Wauwatosa, Wisconsin is exempt from the property tax under the same statute that exempts hospitals. Although this decision will allow Wisconsin hospitals to maintain property tax exemption for off-campus facilities that provide hospital-based outpatient services, there can be no assurance that future disputes challenging property tax exemption of other healthcare facilities will not arise within the State. As a result, while the Obligated Group is not aware of any current challenge to the tax exemption afforded to any of its material real property, there can be no assurance that these types of challenges will not occur in the future.

Form 990 and Instructions. The Internal Revenue Service (“IRS”) Form 990 is used by most 501(c)(3) not-for-profit organizations exempt from federal income taxation to submit information required by the federal government. The Form 990 now requires detailed disclosure of compensation

practices, corporate governance, loans to management and others, joint ventures and other types of transactions, political campaign activities, and other areas the IRS deems to be compliance risk areas. The Form 990 also requires the disclosure of information on community benefit as well as reporting of information related to tax-exempt bonds, including compliance with the arbitrage rules and rules limiting private-use of bond-financed facilities, including compliance with the safe harbor guidance in connection with management contracts and research contracts. The Form 990 is intended to provide enhanced transparency as to the operations of exempt organizations. It is likely that the IRS will use the detailed information to assist in its enhanced enforcement efforts.

Risks Related to Tax-Exempt Status

Tax Exemption for Nonprofit Hospitals. Loss of tax-exempt status, *i.e.*, status as an organization described in Section 501(c)(3) of the Code, by Froedtert Health or by any owner or user of property financed or refinanced with the proceeds of the Series 2017A Bonds could result in loss of tax exemption of the Series 2017A Bonds and of other tax-exempt debt issued therefor, and defaults in covenants regarding the Series 2017A Bonds and such other related tax-exempt debt would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Obligated Group. Management of the Members of the Obligated Group is not aware of any transactions or activities currently ongoing that are likely to result in the revocation of the tax exempt status of any Member of the Obligated Group

Joint Ventures. The maintenance by an entity of its tax-exempt status depends, in part, upon its maintenance of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of tax-exempt status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including its operation for charitable and educational purposes and its avoidance of transactions which may cause its assets to inure to the benefit of private individuals. The IRS has announced that it intends to closely scrutinize transactions between nonprofit hospitals and for-profit entities, and in particular has issued revised audit guidelines for tax-exempt hospitals. Although specific activities of hospitals, such as medical office building leases and compensation arrangements and other contracts with physicians, have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because Members of the Obligated Group conduct large-scale and diverse operations involving private parties, including joint ventures, there can be no assurance that certain of its transactions would not be challenged by the IRS which could adversely affect the tax-exempt status of Froedtert Health or its affiliates.

In 1998, the IRS issued Revenue Ruling 98-15 (the “Revenue Ruling”) that compared two situations in which a tax-exempt hospital participated in a whole hospital joint venture with a for-profit entity. The IRS analysis was very fact specific and based on a number of factors. A 2002 federal District Court case and a 1999 federal Tax Court case addressed similar issues. The Revenue Ruling, the District Court decision and the Tax Court decision set forth a number of factors that are relevant in an analysis of such joint ventures. However, the issue remains as to how this analysis may be applied to other types of joint ventures between for-profit and non-profit entities relating to ancillary activities. In 2004, the IRS issued Revenue Ruling 2004-51, which addressed a joint venture between a tax-exempt university and a for-profit entity. While this ruling provides additional guidance, issues remain with respect to the application of the IRS’ analysis in a health-care setting.

No Member of the Obligated Group is a participant in any whole hospital joint venture of the specific type addressed in the Revenue Ruling. However, certain Members of the Obligated Group are and will be participants in a variety of joint ventures and transactions with physicians and certain other entities for ambulatory and ancillary services. Management of the Obligated Group believes that the joint ventures and transactions to which Members are and will be a party are consistent with the requirements

of its tax-exempt status and that the income derived from such joint ventures has been reported correctly, but the Revenue Ruling and the case law create uncertainty as to the state of the law in this regard.

Anti-Kickback Statute. The IRS has taken the position that hospitals which are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status. See the information herein under the caption “BONDHOLDERS’ RISKS – Regulation of the Healthcare Industry – Federal ‘Fraud and Abuse’ Laws and Regulations.” As a result, tax-exempt hospitals, such as those owned by Froedtert Health and its affiliates, which have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny, and perhaps enforcement, by the IRS.

Intermediate Sanctions. The Taxpayer Bill of Rights 2, enacted on July 30, 1996, added Section 4958, commonly referred to as the “intermediate sanctions law,” to the Code. Section 4958 of the Code provides the IRS with an “intermediate” tax enforcement tool that may be used as an alternative to revoking the federal tax exemption of an organization that violates the private inurement prohibition. Final IRS regulations on the intermediate sanctions law became effective January 23, 2002.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be, therefore, no assurance that future changes in the laws and regulations of the federal, state or local governments will not materially and adversely affect the operations and revenues of the Obligated Group by requiring them to pay income or real estate taxes.

Tax-Exempt Status of the Series 2017A Bonds. The tax-exempt status of the Series 2017A Bonds is based on the continued compliance by the Authority, Froedtert Health and any other owners or users of property financed or refinanced with proceeds of the Series 2017A Bonds with certain covenants relating generally to restrictions on the use of the facilities financed or refinanced with the proceeds of the Series 2017A Bonds, arbitrage limitations and rebate of certain excess investment earnings to the federal government and status of users of the properties financed or refinanced with the proceeds of the Series 2017A Bonds as organizations described in Section 501(c)(3) of the Code (See “Tax Exemption for Nonprofit Hospitals” above). In the event that the Series 2017A Bonds become subject to federal income taxation retroactive to the date of issuance, such Series 2017A Bonds are not subject to redemption solely as a consequence thereof, although the principal thereof may be accelerated. No additional interest or penalty is payable in the event of the taxability of interest on any of the Series 2017A Bonds.

For the past several years, the IRS has increased the frequency and scope of its examination and other enforcement activity regarding tax-exempt organizations and tax-exempt bonds. Currently, the primary penalties available to the IRS under the Code are the revocation of tax-exempt status of an organization and a determination that interest on tax-exempt bonds is subject to federal income taxation. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit corporations, it could do so in the future. Loss of tax-exempt status by Froedtert Health or any other owner or user of property financed or refinanced with proceeds of the Series 2017A Bonds could potentially result in loss of the tax exemption of the interest on the Series 2017A Bonds, and defaults in covenants regarding the Series 2017A Bonds could be triggered. Loss of such tax-exempt status could also result in substantial tax liabilities on income of the Obligated Group.

In addition, although the IRS has only infrequently taxed the interest received by holders of bonds that were represented to be tax-exempt, the IRS has examined a number of bond issues and concluded that such bond issues did not comply with applicable provisions of the Code and related regulations. No assurance can be given that the IRS will not examine the purchaser, a Bondholder, Froedtert Health or the Series 2017A Bonds. If the Series 2017A Bonds are examined, it may have an adverse impact on their marketability and price. Based on the use of proceeds from the sale of the Series 2017A Bonds described herein and in *APPENDIX A*, and on the representations and warranties of Froedtert Health as to factual

matters and the opinions of counsel to Froedtert Health, Bond Counsel will deliver its opinion in the form attached as *APPENDIX E* to this Official Statement.

Charity Care

Hospitals are permitted to acquire tax-exempt status under the Code because the provision of health care historically has been treated as a “charitable” enterprise. This treatment arose before most Americans had health insurance, when charitable donations were required to fund the health care provided to the sick and disabled. Some commentators and others have taken the position that, with the onset of employer health insurance and governmental reimbursement programs, there is no longer any justification for special tax treatment for the healthcare industry, and the availability for tax-exempt status should be eliminated. Management of the Members of the Obligated Group cannot predict the likelihood of such a dramatic change in the law. Federal and state tax authorities are beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits.

As further described above under the caption “BONDHOLDERS’ RISKS – Nonprofit Healthcare Environment – Litigation Relating to Billing and Collection Practices,” charity care issues also serve as the basis of certain claims against major hospital systems throughout the United States on behalf of uninsured patients. Past lawsuits that have been filed against nonprofit hospitals allege a number of claims against the hospital defendants, including claims that the defendants, by accepting tax-exempt status, entered into agreements with the federal, state and local governments promising to provide free or reduced care to all those who need it; the uninsured patients are beneficiaries of those agreements and can bring suit on them; the defendants engaged in illegal and oppressive tactics against the uninsured; the defendants engaged in illegal price discrimination by charging the uninsured rates far in excess of the rates charged to such third party payors as Medicare and certain insurers; the defendants violated state consumer fraud statutes; the defendants allowed a portion of their properties to be used by for-profit entities at less than fair value and engaged in other inappropriate transactions with doctors and certain insiders; the defendants transferred monies illegally to their affiliates for other than charitable purposes; and the defendants and the American Hospital Association, another named defendant in many of the lawsuits, conspired with the defendants to charge illegal prices to the uninsured.

Schedule H to the new Form 990 requires the organization to identify if it has a charity care policy and to provide a description of that policy. The schedule also requires an organization to report the community benefits that it provides, including the cost of providing charity care and other benefits. The required reporting of this information on the Form 990 makes the information more readily available and perhaps will lead to additional IRS compliance efforts.

Hospital Star Ratings

On July 27, 2016, CMS published its overall hospital quality star ratings. The ratings are a composite metric consisting of one to five stars (five being the best) and intended to convey the overall quality of nearly 4,000 hospitals in the U.S. Ratings are posted to CMS’s website, Hospital Compare. Each rating summarizes up to 64 quality measures reflecting common conditions that hospitals treat, such as heart attacks or pneumonia. Along with the overall rating, Hospital Compare includes information on other aspects of quality, such as rates of infection and complications and patients’ experiences. The overall rating shows how well each hospital performed, on average, compared to other hospitals in the U.S. CMS maintains its star ratings will provide consumers an important tool for comparing hospitals both locally and nationwide. The hospital facilities owned and operated by CMH, FMLH and SJH have each been assigned a rating of three stars. Obligated Group management is unable to determine at this time what impact such ratings may have on utilization rates of the Obligated Group’s hospitals and financial condition of the Obligated Group.

Code Section 501(r)

The provisions of the Affordable Care Act provided for a new Code Section 501(r), which adds certain requirements that not for profit hospital organizations must meet in order to attain or to maintain Code Section 501(c)(3) tax-exempt status. Among other things, a hospital must: (i) establish a written financial assistance policy (“FAP”) and a policy relating to emergency medical care meeting the requirements of Code Section 501(r)(4); (ii) limit the amounts charged for emergency or other medically necessary care provided to individuals eligible for assistance under the hospital’s FAP to not more than the amounts generally billed to individuals who have insurance covering such care (“AGB”); and (iii) make reasonable efforts to determine whether an individual is FAP-eligible before engaging in extraordinary collection actions.

On December 31, 2014, the IRS released final regulations regarding the requirements of Section 501(r) applicable to tax-exempt hospital organizations. These regulations provide guidance regarding Section 501(r)’s requirements for community health needs assessments, financial assistance policies, limitations on charges, and billing and collection policies, and clarify the consequences for failing to meet the various requirements thereunder.

A failure to comply with the provisions of Section 501(r) and the final regulations could result in a loss of Section 501(c)(3) tax-exempt status. Management of the Members of the Obligated Group believes that the Members of the Obligated Group are currently in material compliance with the requirements of Section 501(r). For further information regarding the Affordable Care Act, see “BONDHOLDERS’ RISKS – Affordable Care Act” herein.

Bond Audits

IRS officials have indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector. Tax-exempt bonds issued on behalf of the Obligated Group may be, from time to time, subject to audits by the IRS. Management of the Members of the Obligated Group believes that such bonds properly comply with the tax laws applicable to tax-exempt bonds. There can be no assurance that an audit of such bonds would not adversely affect the Members of the Obligated Group.

Termination of Managed Care Contracts

Certain health maintenance and preferred provider organization contracts can be terminated by the third-party payor at any time without the necessity of showing cause upon as little as ninety days’ prior written notice. Termination of such contracts could have an adverse effect on the financial performance of the Obligated Group. See **APPENDIX A** - “SUMMARY UTILIZATION STATISTICS AND PAYOR MIX – Payor Mix – Obligated Group” hereto.

Capitated Payments

Under the traditional fee-for-service method of health care delivery, hospitals, physicians and other providers are reimbursed on a per-service basis and thus have a financial incentive to provide more services, which, in turn, generate more revenue. Under a capitated payment arrangement, in contrast, providers are reimbursed on a “per member, per month” basis; the provider bears some or all of the risk if the cost of services provided exceeds the amount of the capitation payments. This creates an incentive to control utilization of services.

Capitated contracts may cover hospital and professional services separately, or together as “full-risk” contracts. In either case, the provider assumes financial responsibility for the provision of covered health care services to enrollees under such contracts. The financial risk of such arrangements for a hospital is increased by a variety of factors, including, but not limited to, the following: utilization of

facilities and services by enrollees above expected levels; increases in the hospital's cost of providing health care services; increases in the cost of emergency care provided by out-of-area providers; increases in the cost of tertiary care provided by providers other than the hospital; and the size or demographic makeup of the enrollee pool. Insufficient information regarding historical costs, utilization or other factors or inability to manage care jointly with other providers (including physicians) may adversely affect a network's ability to manage the risks of a capitated payment arrangement. The Members of the Obligated Group did not receive any of their total revenue from capitated contracts for the fiscal year ended June 30, 2016.

Risks Related to Variable Rate Indebtedness

Immediately following the issuance of the Series 2017A Bonds and the Series 2017 Bank Bonds and the refunding of the Prior Bonds, indebtedness outstanding under the Master Indenture in the principal amount of approximately \$160 million will be subject to variable interest rate exposure. The Obligated Group has certain swaps in place which hedge variable rate indebtedness and are structured so that the Obligated Group pays a fixed rate. See "BONDHOLDERS' RISKS – Interest Rate Swap and Other Hedge Risk herein and "MANAGEMENT DISCUSSION OF OPERATING AND FINANCIAL RESULTS – Interest Rate Hedge Transactions" in *APPENDIX A* hereto. Variable interest rates vary from time to time and may in certain cases be converted to fixed interest rates. This protection against rising interest rates is limited, however, because the Obligated Group would be required to continue to pay interest at the applicable variable rate until it is permitted to either convert the obligation to a fixed rate pursuant to the terms of the applicable transaction documents or restructure, refinance or pay such obligation. In the event an obligation is converted to a fixed rate, there is no assurance what such fixed rates will be at the applicable time. In addition, there is no assurance that any variable rate debt subject to self-liquidity will not need to be paid in full on short notice by the Obligated Group in accordance with the related documents.

Markets for the Series 2017A Bonds

Subject to prevailing market conditions, the Underwriter intends, but is not obligated, to make a market in the Series 2017A Bonds.

Bond Ratings

There is no assurance that the ratings assigned to the Series 2017A Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for, and marketability of, the Series 2017A Bonds. See "RATINGS" herein.

Labor Matters

Not-for-profit healthcare providers and their employees are under the jurisdiction of the National Labor Relations Board ("NLRB"). As of December 31, 2016, Froedtert Health had approximately 9,064 full-time equivalent employees, excluding employed physicians. Employees of the Members of the Obligated Group are not covered by collective bargaining agreements. While management of the Froedtert Health believes that its overall employee relations are good, and that a direct relationship between the Froedtert Health System and its employees is generally more beneficial for both Froedtert Health and the employees than a union relationship, the potential for unionization continues to be a concern of Froedtert Health. Unionization of employees could cause an increase in costs.

Nursing, Technician and Specialty Physician Shortage

During certain periods of time, the healthcare industry may experience a shortage of nurses, technicians, physicians in certain specialties and other related staff, which can result in increased costs

and lost revenues due to the need to hire agency nursing personnel at higher rates, to increased compensation levels, and to the inability to use otherwise available beds as a result of staffing shortages. If the Members of the Obligated Group were to experience shortages of certain staff, it would increase employment costs at certain of its facilities and may adversely affect the Obligated Group's operations.

Other Risk Factors Affecting the Obligated Group

The following factors, among others, may also affect the future operations or financial performance of the Obligated Group:

- i. Medical and other scientific advances resulting in decreased usage of hospital facilities or services, including those of the Obligated Group;
- ii. Decreases in population within the service areas of the Obligated Group's hospitals;
- iii. Increased unemployment or other adverse economic conditions which could increase the proportion of patients who are unable to pay fully for the cost of their care;
- iv. Imposition of wage and price controls for the healthcare industry, such as those that were imposed and adversely affected healthcare facilities in the early 1970s;
- v. The ability of, and the cost to, the Obligated Group to continue to insure or otherwise protect itself against malpractice claims in light of escalating increases in insurance premiums; and
- vi. The occurrence of natural disasters, including floods and earthquakes, or terrorist actions, which may damage the facilities of the Obligated Group or any future Member of the Obligated Group, interrupt utility service to the facilities, or otherwise impair the operation and generation of revenues from said facilities.

The occurrence of one or more of the foregoing, or the occurrence of other unanticipated events, could adversely affect the financial performance of the Obligated Group.

Certain Matters Relating to Security for the Series 2017A Bonds

See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2017A BONDS" for a discussion of certain provisions of the Master Indenture. The facilities of the Obligated Group are not pledged as security for the Series 2017A Bonds. The Obligated Group's facilities are not comprised of general purpose buildings and generally would not be suitable for industrial or commercial use and consequently, it could be difficult to find a buyer or lessee for such facilities. If it were necessary to proceed against such facilities, whether pursuant to a judgment, if any, against the Obligated Group or otherwise, upon any default which results in the acceleration of the Series 2017A Bonds, an amount may not be realized sufficient to pay in full the Obligations, including the Series 2017A Obligation, from the sale or lease of such facilities.

Certain amendments to the Bond Indenture may be made without the consent of any Holders of the outstanding Series 2017A Bonds and certain other amendments to the Bond Indenture may be made with the consent of the Holders of not less than a majority of the principal amount of the outstanding Series 2017A Bonds. Certain amendments to the Master Indenture may be made without the consent of any Holders of Obligations and certain other amendments to the Master Indenture may be made with the consent of the Holders of not less than a majority of the principal amount of Obligations Outstanding under the Master Indenture. Such amendments may adversely affect the security of the Bondholders. With respect to amendments to the Master Indenture requiring the consent of the Holders of not less than

a majority of the principal amount of Obligations Outstanding under the Master Indenture, the Holders of the requisite percentage of Outstanding Obligations may be composed wholly or partially of the Holders of additional Obligations. Such amendments may adversely affect the security of the Bondholders. See “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE” in *APPENDIX C* hereto.

Pledged Revenues

The Pledged Revenues pledge may not be released without the consent of a majority of the Holders of the Obligations outstanding under the Master Indenture. The Master Indenture provides that the Master Trustee’s security interest in the accounts receivable of the Obligated Group, which are included in the Pledged Revenues, may under certain circumstances be subordinate to a security interest in such accounts receivable granted to other creditors of a Member of the Obligated Group. See “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE” in *APPENDIX C* hereto. In addition, the effectiveness of the security interest in the Pledged Revenues of the Members of the Obligated Group pursuant to the Master Indenture may be limited by a number of factors, including (i) the absence of an express provision permitting assignment of receivables due any Member of the Obligated Group under the Medicare and Medicaid programs or under capitated risk contracts, and present or future prohibitions against assignment contained in any federal statutes or regulations; (ii) certain judicial decisions that cast doubt upon the right of the Master Trustee, in the event of the bankruptcy or any Member of the Obligated Group, to collect and retain accounts receivable from Medicare, Medicaid, general assistance and other governmental programs; (iii) statutory liens; (iv) rights arising in favor of the United States of America or any agency thereof; (v) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (vi) federal bankruptcy laws which may affect the priority of claims against the assets of the Obligated Group and the enforceability of the Bond Indenture or the security interest in the Pledged Revenues which are earned by any Member of the Obligated Group within 90 days preceding and after any effectual institution of bankruptcy proceedings by or against such Member, (vii) rights of third parties in the Obligated Group’s revenues converted to cash and not in the possession of the Bond Trustee or the Master Trustee; and (viii) claims that might gain priority if appropriate financing or continuation statements are not filed in accordance with the Wisconsin Uniform Commercial Code as from time to time in effect.

Matters Relating to Enforceability of the Master Indenture

The accounts of Froedtert Health, its consolidated subsidiaries (whether or not such consolidated subsidiaries are Members of the Obligated Group) and the Members of the Obligated Group may be combined for financial reporting purposes, and the combined accounts will be used in determining whether various covenants and financial tests contained in the Master Indenture have been met (including financial tests which must be met as conditions to transactions such as the incurrence of additional debt, the consummation of a merger or the transfer of assets to third parties). It is possible, therefore, that the addition of Members to the Obligated Group could weaken the financial condition of the Obligated Group and diminish the financial performance of the Obligated Group to the minimum levels permitted by the Master Indenture. The joint and several obligations described herein of Members of the Obligated Group to make payments of debt service on Obligations issued under the Master Indenture may not be enforceable to the extent (i) enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors’ rights and by general equitable principles and (ii) such payments (a) are requested to be made on any Obligations which are issued for a purpose which is not consistent with the charitable purposes of the Member of the Obligated Group from which such payments are requested or which are issued for the benefit of any entity other than a tax-exempt organization; (b) are requested to be made from any moneys or assets which are donor restricted or which are subject to a direct or express trust which does not permit the use of such moneys or assets for such a payment; (c) would result in the cessation or discontinuation of any material portion of the health

care or related services previously provided by the Member of the Obligated Group from which such payment is requested; or (d) are requested to be made pursuant to any loan violating applicable usury laws.

A Member of the Obligated Group may not be required to make any payment to provide for the payment of any Obligation, or portion thereof, the proceeds of which were not loaned or otherwise disbursed to such Member of the Obligated Group to the extent that such transfer would render the Member of the Obligated Group insolvent or which would conflict with, not be permitted by or which is subject to recovery for the benefit of other creditors of such Member of the Obligated Group under applicable fraudulent conveyance, bankruptcy or moratorium laws. There is no clear precedent in the law as to whether such transfers from a Member of the Obligated Group in order to pay debt service on the Obligations may be voided by a trustee in bankruptcy in the event of bankruptcy of the Member of the Obligated Group, or by third-party creditors in an action brought pursuant to state fraudulent transfer or fraudulent conveyance statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under state fraudulent transfer or fraudulent conveyance statutes and common law, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other basis therefor, (i) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (ii) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or applicable state fraudulent transfer or fraudulent conveyance statutes, or the guarantor is undercapitalized.

Application by courts of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. It is possible that, in an action to force a Member of the Obligated Group to pay debt service on an Obligation for which it was not the direct beneficiary, a court might not enforce such a payment in the event it is determined that the Member of the Obligated Group is analogous to a guarantor of the debt of the Member of the Obligated Group who directly benefited from the borrowing and that sufficient consideration for the Member of the Obligated Group’s guaranty was not received and that the incurrence of such obligation has rendered or will render the Member of the Obligated Group insolvent or the Member of the Obligated Group is or will thereby become undercapitalized.

There exist, in addition to the foregoing, common law authority and authority under applicable state statutes pursuant to which the courts may terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court’s own motion pursuant to a petition of the Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

Potential Effects of Bankruptcy

If a Member of the Obligated Group were to file a petition for relief (or if a petition were filed against a Member of the Obligated Group) under the Federal Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Member of the Obligated Group, and its property. If the bankruptcy court so ordered, such Member of the Obligated Group’s property, including its accounts receivable and proceeds thereof, could be used for the benefit of such Member of the Obligated Group despite the claims of its creditors.

In a bankruptcy proceeding, such Member of the Obligated Group could file a plan for the adjustment of its debts which modifies the rights of creditors generally, or the rights of any class of creditors, secured or unsecured. The plan, when confirmed by the court, would bind all creditors who had

notice or knowledge of the plan and discharge all claims against the debtor provided for in the plan. No plan may be confirmed unless, among other conditions, the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

RATINGS

S&P Global Ratings has assigned to the Series 2017A Bonds a long-term rating of “AA-” with a positive outlook, and Fitch, Inc. has assigned to the Series 2017A Bonds a long-term rating of “AA-” with a stable outlook. The ratings and an explanation of their significance may be obtained from the rating agency furnishing such rating. Such ratings reflect only the respective views of the rating agencies.

Froedtert Health has furnished such rating agencies with certain information and materials relating to the Series 2017A Bonds and Froedtert Health that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies, and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. The Underwriter has no responsibility to bring to the attention of the holders of the Series 2017A Bonds any proposed revision or withdrawal of the ratings on the Series 2017A Bonds. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Series 2017A Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The mathematical accuracy of certain computations provided on behalf of the Obligated Group relating to the adequacy of the maturing principal and interest earned on the funds to be deposited with the Series 2009C Trustee to provide for the payment of the principal of and interest on the Refunded Series 2009C Bonds will be verified by Causey Demgen & Moore P.C., independent public accountants the (“Verification Agent”). Such computation was based solely on assumptions and information supplied by the Underwriter on behalf of the Obligated Group. The Verification Agent has restricted its procedures to verify the arithmetical accuracy of certain computations and has not made any study or evaluations of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

INDEPENDENT AUDITORS

The consolidated financial statements for Froedtert Health, Inc. and Affiliates as of June 30, 2016 and 2015, and for the years then ended, included in **APPENDIX B** to this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report appearing therein.

INTERIM FINANCIAL INFORMATION

Included in **APPENDIX A** of this Official Statement is certain unaudited interim financial information. Operating results for the six months ended December 31, 2016 are not necessarily indicative of the results that may be expected for the entire year ending June 30, 2017. See “HISTORICAL FINANCIAL INFORMATION” in **APPENDIX A** hereto.

LITIGATION

Authority

There is not now pending or, to the knowledge of the Authority, threatened any litigation restraining or enjoining the issuance or delivery of the Series 2017A Bonds or questioning or affecting the validity of the Series 2017A Bonds or the proceedings or authority under which they are to be issued. Neither the creation, organization or existence of the Authority nor the title of the present members or other officials of the Authority to their respective positions is being contested. There is no litigation pending or, to the Authority's knowledge, threatened which in any manner questions the right of the Authority to enter into the Bond Indenture or the Loan Agreement or to secure the Series 2017A Bonds in the manner provided in the Bond Indenture and the Act.

Obligated Group

There is no litigation pending or, to the knowledge of management of Froedtert Health, threatened which in any manner questions the right of the Obligated Group to secure the Series 2017A Bonds in accordance with the provisions of the Bond Indenture, the Loan Agreement or the Master Indenture. There is no litigation, proceeding or investigation pending for which service of process or notice has been received or, to the knowledge of management of Froedtert Health, threatened except litigation, proceedings or investigations in which the probable ultimate recoveries and the estimated costs and expenses of defense, either will be entirely within the applicable insurance policy limits of the Obligated Group (subject to applicable deductibles) or will not have a materially adverse effect on the operations or condition, financial or otherwise, of the Obligated Group.

LEGAL MATTERS

Legal matters incident to the authorization and validity of the Series 2017A Bonds are subject to the approval of Quarles & Brady LLP, Bond Counsel to the Authority, whose approving opinion will be delivered with the Series 2017A Bonds. Certain legal matters will be passed on for the Authority by Quarles & Brady LLP, its general counsel, for the Obligated Group by its counsel, Quarles & Brady LLP, and for the Underwriter by Dentons US LLP, its special counsel.

In other transactions not related to the Series 2017A Bonds, each of these law firms may have represented the Authority, the Obligated Group, the Underwriter or their respective affiliates, or other creditors of the Obligated Group, in each case in capacities different from those described above, and there will be no limitations imposed as a result of their role in connection with the issuance of the Series 2017A Bonds on the ability of either of these firms or their respective attorneys to represent any of these parties in any future transactions.

Potential purchasers of the Series 2017A Bonds should not assume that the Authority, the Obligated Group, the Underwriter or their respective affiliates, or other creditors of the Obligated Group or their respective counsel have not previously engaged in, are not currently engaged in or will not, after the issuance of the Series 2017A Bonds, engage in other transactions with each other or with any affiliates of any of them, and no assurances can be given that there are or will be no past or future relationship or transactions between or among any of these parties or these law firms.

TAX EXEMPTION

In General

The opinion of Bond Counsel and the descriptions of the tax laws contained in this Official Statement are based on laws and official interpretations of them that are in existence on the date the

Series 2017A Bonds are issued. There can be no assurance that those laws or the interpretations of them will not change or that new laws will not be enacted or regulations issued while the Series 2017A Bonds are outstanding in a manner that would adversely affect the value of any investment in the Series 2017A Bonds or the tax treatment of the interest paid on the Series 2017A Bonds.

Federal Income Tax Opinion of Bond Counsel

Quarles & Brady LLP, Bond Counsel, will deliver a legal opinion with respect to the federal income tax exemption applicable to the interest on the Series 2017A Bonds under existing law in substantially the form in *APPENDIX E* hereto.

Other Federal Income Tax Considerations

Interest on the Series 2017A Bonds is included in the adjusted current earnings of corporations for purposes of the alternative minimum tax imposed by Section 55 of the Code. The Code also contains numerous other provisions which could adversely affect the value of an investment in the Series 2017A Bonds for particular Bondholders. For example, (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2017A Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Series 2017A Bonds, (ii) Section 265 of the Code denies a deduction for expenses that are allocable to the interest on the Series 2017A Bonds, (iii) Section 265 of the Code denies a deduction for otherwise allowable deductions of a regulated investment company that are allocable to distributions of the interest on the Series 2017A Bonds paid during the taxable year (or after the close of the taxable year pursuant to Section 855 of the Code), (iv) interest on the Series 2017A Bonds may affect the federal income tax liabilities of life insurance companies and, with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series 2017A Bonds, (v) interest on the Series 2017A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (vi) passive investment income, including interest on the Series 2017A Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of the Subchapter S corporation is passive investment income and (vii) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account receipts or accruals of interest on the Series 2017A Bonds in determining gross income. There may be other provisions of the Code which could adversely affect the value of an investment in the Series 2017A Bonds for particular Bondholders. Investors should consult their tax advisors to determine how the provisions described under this caption, under the captions "Bond Premium" and "Original Issue Discount" below and other provisions of the Code relating to the ownership of tax-exempt obligations apply to them.

From time to time legislation is proposed, and there are or may be legislative proposals pending in the Congress of the United States that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Series 2017A Bonds. Prospective purchasers of the Series 2017A Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

Wisconsin Income Tax

The interest on the Series 2017A Bonds is not exempt from present Wisconsin income taxes.

Bond Premium

To the extent that the initial offering prices of certain of the Series 2017A Bonds are more than the principal amount payable at maturity, such Bonds (“Premium Bonds”) will be considered to have bond premium.

Any Premium Bond purchased in the initial offering at the issue price will have “amortizable bond premium” within the meaning of Section 171 of the Code. The amortizable bond premium of each Premium Bond is calculated on a daily basis from the issue date of such Premium Bond until its stated maturity date (or call date, if any) on the basis of a constant instant rate compounded at each accrual period (with straight line interpolation between the compounding dates). An owner of a Premium Bond that has amortizable bond premium is not allowed any deduction for the amortizable bond premium; rather the amortizable bond premium attributable to a taxable year is applied against (and operates to reduce) the amount of tax-exempt interest payments on the Premium Bonds. During each taxable year, such an owner must reduce his or her tax basis in such Premium Bond by the amount of the amortizable bond premium that is allocable to the portion of such taxable year during which the holder held such Premium Bond. The adjusted tax basis in a Premium Bond will be used to determine taxable gain or loss upon a disposition (including the sale, exchange, redemption, or payment at maturity) of such Premium Bond.

Owners of Premium Bonds who did not purchase such Premium Bonds in the initial offering at the issue price should consult their own tax advisors with respect to the tax consequences of owning such Premium Bonds. Owners of Premium Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Premium Bonds.

Original Issue Discount

To the extent that the initial public offering price of certain of the Series 2017A Bonds is less than the principal amount payable at maturity, such Bonds (“Discounted Bonds”) will be considered to be issued with original issue discount. The original issue discount is the excess of the stated redemption price at maturity of a Discounted Bond over the initial offering price to the public, excluding underwriters or other intermediaries, at which price a substantial amount of such Discounted Bonds were sold (“issue price”). With respect to a taxpayer who purchases a Discounted Bond in the initial public offering at the issue price and who holds such Discounted Bond to maturity, the full amount of original issue discount will constitute interest that is not includible in the gross income of the owner of such Discounted Bond for federal income tax purposes and such owner will not, subject to the caveats and provisions herein described, realize taxable capital gain upon payment of such Discounted Bond upon maturity.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discounted Bond, on days that are determined by reference to the maturity date of such Discounted Bond. The amount treated as original issue discount on a Discounted Bond for a particular semiannual accrual period is generally equal to (i) the product of (x) the yield to maturity for such Discounted Bond (determined by compounding at the close of each accrual period) and (y) the amount that would have been the tax basis of such Discounted Bond at the beginning of the particular accrual period if held by the original purchaser; and less (ii) the amount of any interest payable for such Discounted Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discounted Bond the sum of the amounts that have been treated as original issue discount for such purposes during all prior periods. If a Discounted Bond is sold or exchanged between semiannual compounding dates, original issue discount that would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

For federal income tax purposes, the amount of original issue discount that is treated as having accrued with respect to such Discounted Bond is added to the cost basis of the owner in determining gain or loss upon disposition of a Discounted Bond (including its sale, exchange, redemption, or payment at maturity). Amounts received upon disposition of a Discounted Bond that are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain.

The accrual or receipt of original issue discount on the Discounted Bonds may result in certain collateral federal income tax consequences for the owners of such Discounted Bonds. The extent of these collateral tax consequences will depend upon the owner's particular tax status and other items of income or deduction. In the case of corporate owners of Discounted Bonds, a portion of the original issue discount that is accrued in each year will be included in the calculation of the corporation's alternative minimum tax liability. Corporate owners of any Discounted Bonds should be aware that such accrual of original issue discount may result in an alternative minimum tax liability although the owners of such Discounted Bonds will not receive a corresponding cash payment until a later year.

The Code contains additional provisions relating to the accrual of original issue discount. Owners who purchase Discounted Bonds at a price other than the issue price or who purchase such Discounted Bonds in the secondary market should consult their own tax advisors with respect to the tax consequences of owning the Discounted Bonds. Under the applicable provisions governing the determination of state and local taxes, accrued interest on the Discounted Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year. Owners of Discounted Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discounted Bonds.

CONTINUING DISCLOSURE AGREEMENT

General

The Members of the Obligated Group have covenanted for the benefit of the registered owners of any Series 2017A Bond (including any beneficial owners thereof when the Series 2017A Bonds are held in a book-entry system, the "Bondholders") pursuant to a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") to be executed and delivered by the Obligated Group to provide or cause to be provided (i) Annual Financial Information; (ii) Quarterly Financial Information; and (iii) notice of any Listed Event, each as described herein. These covenants have been made in order to assist the Underwriter and registered brokers, dealers and municipal securities dealers in complying with the requirements of Rule 15c2-12 (the "Rule") promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended. Pursuant to the Continuing Disclosure Agreement, Froedtert Health has designated Digital Assurance Certification, L.L.C. to act as disclosure dissemination agent (the "Dissemination Agent").

Annual Financial Information

Each year, Froedtert Health, on behalf of the Members of the Obligated Group, will, while any Series 2017A Bonds are outstanding, provide the Annual Financial Information to the Authority and the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system ("EMMA", available at <http://emma.msrb.org>) not later than 180 days after the end of the Obligated Group's fiscal year (the "Report Date"). Commencing with the Annual Financial Information for the fiscal year ending June 30, 2017, on or before the Report Date, Froedtert Health will submit the Annual Financial Information to the Dissemination Agent and the Dissemination Agent will file the Annual Financial Information with the Authority and EMMA.

The Annual Financial Information will contain or incorporate by reference at least the following items:

- i. audited financial statements of the Obligated Group or audited financial statements including the Obligated Group (provided the Members of the Obligated Group are broken out in consolidating schedules) prepared in accordance with accounting principles generally accepted in the United States (“GAAP”); provided, however, that if such audited financial statements are not available by the Submission Date (as defined in the Continuing Disclosure Agreement), they shall be promptly provided when and if available and unaudited financial statements shall be included in the Annual Financial Information; and
- ii. an update of the information substantially consistent with the historic annual financial and operating information in **APPENDIX A** to this Official Statement under the headings “SUMMARY UTILIZATION STATISTICS AND PAYOR MIX – Utilization – FMLH,” “– Utilization – Community Hospital Division,” “– Utilization – Community Physicians” and “– Payor Mix – Obligated Group” and “MANAGEMENT DISCUSSION OF OPERATING AND FINANCIAL RESULTS – Debt Service Coverage Ratios” and “– Liquidity Position.”

Any or all of the items to be provided in the Annual Financial Information may be included by specific reference to other documents that have previously been provided to EMMA or filed with the SEC. Froedtert Health will clearly identify each such other document as included by reference. Upon written request, Froedtert Health, as Obligated Group disclosure representative, will provide any Bondholder with a copy of the most recent Annual Financial Information as filed with EMMA.

Quarterly Financial Information

In addition, Froedtert Health, on behalf of the Members of the Obligated Group, will, while any Series 2017A Bonds are outstanding, provide the Dissemination Agent with copies of the Quarterly Financial Information within 60 days of the end of each fiscal quarter. The Dissemination Agent will promptly file the Quarterly Financial Information with the Authority and EMMA.

The Quarterly Financial Information will contain, with respect to the prior fiscal quarter, the unaudited quarterly combined financial statements of the Obligated Group or consolidated financial statements including the Obligated Group, including balance sheets and statements of income and expenses. Such quarterly financial statements shall be prepared in accordance with GAAP. Any deviation from GAAP will be set forth in a quantified explanation of material deviations from GAAP accompanying the Quarterly Financial Information. Upon written request, Froedtert Health, as Obligated Group disclosure representative, will provide any Bondholder with a copy of the most recent Quarterly Financial Information as filed with EMMA.

Notice of Listed Events

Froedtert Health, on behalf of the Members of the Obligated Group, will, while any Series 2017A Bonds are outstanding, provide to the Dissemination Agent in a timely manner not in excess of 10 business days, information with respect to the occurrence of any of the following events (each a “Listed Event”) as required by the Rule with respect to the Series 2017A Bonds:

- i. principal and interest payment delinquencies;
- ii. nonpayment related defaults, if material;
- iii. unscheduled draws on debt service reserves reflecting financial difficulties;

- iv. unscheduled draws on credit enhancements reflecting financial difficulties;
- v. substitution of credit or liquidity providers, or their failure to perform;
- vi. adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2017A Bonds, or other events affecting the tax status of the Series 2017A Bonds;
- vii. modifications to rights of Bondholders, if material;
- viii. Series 2017A Bond calls, if material;
- ix. Series 2017A Bond defeasances;
- x. release, substitution or sale of property securing repayment of the Series 2017A Bonds, if material;
- xi. rating changes;
- xii. tender offers;
- xiii. bankruptcy, insolvency, receivership or similar event of the obligated person;
- xiv. consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- xv. appointment of a successor or additional trustee or the change of name of a trustee, if material.

Upon written request, Froedtert Health, as Obligated Group disclosure representative, will provide any Bondholder with a copy of any notice of a Listed Event as filed with EMMA.

Failure to Comply

In the event of a failure of the Obligated Group to comply with any provision of the Continuing Disclosure Agreement the Dissemination Agent may (and, at the request of the Underwriter or the Bondholders of at least 25% aggregate principal amount of outstanding Series 2017A Bonds and upon being indemnified to its satisfaction, shall), or any Bondholder may seek specific performance by court order to cause the Obligated Group to comply with the obligations under the Continuing Disclosure Agreement. A failure to comply with the Continuing Disclosure Agreement shall not be deemed an Event of Default under the Master Indenture, the Bond Indenture or the Loan Agreement. The sole remedy under the Continuing Disclosure Agreement in the event of any failure of the Obligated Group to comply with the Continuing Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damage thereunder under any circumstances.

Amendment of the Continuing Disclosure Agreement

The provisions of the Continuing Disclosure Agreement, including but not limited to the provisions relating to the accounting principles pursuant to which the financial statements are prepared, may be amended as deemed appropriate by Froedtert Health; but any such amendment must be adopted

procedurally and substantively in a manner consistent with the Rule, including any interpretation thereof made from time to time by the SEC. Such interpretations currently include the requirements that (i) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of any obligated person or the type of activities conducted thereby, (ii) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Series 2017A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the Obligated Group. The foregoing SEC interpretations may be changed in the future.

Prior Undertakings

The Obligated Group has previously entered into undertakings regarding compliance with Rule 15c2-12 with respect to certain outstanding tax-exempt revenue bonds. In connection with a prior bond issuance for the benefit of SJH (prior to its 2008 affiliation with Froedtert Health) (the “2003 Synergy Bonds”), it was discovered that, while Froedtert Health had been providing certain financial and operating information to EMMA in accordance the continuing disclosure undertaking related to the 2003 Synergy Bonds, certain outpatient clinic utilization information was not included as required pursuant to such continuing disclosure undertaking. The 2003 Synergy Bonds were advance refunded in October 2012, and the Obligated Group has, within the previous five years, otherwise complied in all material respects with its continuing disclosure undertakings.

FINANCIAL ADVISOR

The Obligated Group has retained Kaufman, Hall & Associates, LLC, Skokie, Illinois, as financial advisor in connection with the issuance of the Series 2017A Bonds. Although Kaufman, Hall & Associates, LLC, has assisted in the preparation of this Official Statement, Kaufman, Hall & Associates, LLC, was not and is not obligated to undertake, and has not undertaken to make, an independent verification and assumes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

UNDERWRITING

The Series 2017A Bonds are being purchased by Morgan Stanley & Co. LLC (the “Underwriter”) at an aggregate purchase price of \$271,438,190.65, which price reflects the principal amount of the Series 2017A Bonds, plus net premium of \$18,480,229.20, less an underwriter’s discount of \$1,232,038.55. The initial public offering prices of the Series 2017A Bonds set forth on the cover page may be changed without notice by the Underwriter. The Underwriter may offer and sell the Series 2017A Bonds to certain dealers (including dealers depositing Series 2017A Bonds into investment trusts, certain of which may be sponsored or managed by the Underwriter) and others at prices lower than the offering prices set forth on the cover page hereof. Froedtert Health has agreed to indemnify the Underwriter and the Authority against certain liabilities arising out of materially incorrect information contained in or material information omitted from this Official Statement. The Purchase Contract between the Underwriter and the Authority provides that the Underwriter is obligated to purchase all of the Series 2017A Bonds if any Series 2017A Bonds are purchased, but such obligation is subject to certain conditions.

The Underwriter may offer and sell the Series 2017A Bonds to certain dealers (including dealers depositing the Series 2017A Bonds into unit investment trusts) and others at prices lower (or yields higher) than the offering price (or yield) set forth on the inside cover pages.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Authority, the Members of the Obligated Group and/or their respective affiliates, for which they received or will receive customary fees and expenses. An affiliate of Morgan Stanley & Co. LLC is the counterparty on certain interest rate swaps of the Obligated Group, and the obligations of such counterparty thereunder are guaranteed by Morgan Stanley & Co. LLC. See “MANAGEMENT DISCUSSION OF OPERATING AND FINANCIAL RESULTS – Interest Rate Hedge Transactions” in *APPENDIX A* hereto.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority and the Obligated Group.

The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Morgan Stanley & Co. LLC, the underwriter of the Series 2017A Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2017A Bonds.

MISCELLANEOUS

The references herein to the Bond Indenture, the Series 2017A Bonds, the Continuing Disclosure Agreement, the Loan Agreement, the Series 2017A Obligation and the Master Indenture and other materials are brief outlines of certain provisions thereof. Such outlines do not purport to be complete, and for full and complete statements of such provisions reference is made to such instruments and other materials, executed counterparts of which will be on file at the principal corporate trust office of the Bond Trustee subsequent to the delivery of the Series 2017A Bonds.

All statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Obligated Group or the Authority and the purchasers or owners of any of the Series 2017A Bonds. The execution and delivery of this Official Statement have been duly authorized by the Authority. The Authority has not, however, prepared nor made any independent investigation of the information contained in this Official Statement except the information under the captions “THE AUTHORITY” and “LITIGATION – Authority.”

WISCONSIN HEALTH AND EDUCATIONAL
FACILITIES AUTHORITY

By: /s/ Dennis P. Reilly
Executive Director

This Official Statement is approved:

FROEDTERT HEALTH, INC.,
for itself and on behalf of the Obligated Group

By /s/ Scott R. Hawig
Executive Vice President of Finance,
Chief Financial Officer and Treasurer

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APPENDIX A

FROEDTERT HEALTH, INC.

OBLIGATED GROUP

**The information contained herein as Appendix A has been provided by
Froedtert Health, Inc.**

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APPENDIX A

FROEDTERT HEALTH, INC. OBLIGATED GROUP

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APPENDIX A

FROEDTERT HEALTH, INC.

INTRODUCTION

System Overview

Froedtert Health, Inc. (“Froedtert Health”) a Wisconsin non-stock, non-profit corporation is a regional provider of primary and tertiary healthcare services in southeast Wisconsin. Froedtert Health was formed in December 2000 with the affiliation between Froedtert Memorial Lutheran Hospital, Inc. (“FMLH”) and Community Memorial Hospital of Menomonee Falls, Inc. (“CMH”). In July 2008, Froedtert Health became the sole corporate member of St. Joseph’s Community Hospital of West Bend, Inc. (“SJH”). Froedtert Health is also the controlling member of Froedtert & the Medical College of Wisconsin Community Physicians, Inc. (“Community Physicians”), a physician organization formed on July 1, 2013 by the combination of Medical College of Wisconsin, Inc. (“MCW”) physicians and Froedtert Health physicians. Froedtert Health and its affiliates are sometimes referred to herein as the “FH System.”

The FH System is an integrated health system that combines Froedtert Memorial Lutheran Hospital (“Froedtert Hospital”), an academic medical center and one of the State’s two Level 1 Trauma Centers (and the only Level 1 Trauma Center in southeast Wisconsin), with two community hospitals, Community Memorial Hospital (“Community Memorial Hospital”) and St. Joseph’s Community Hospital of West Bend (“St. Joseph’s Community Hospital” and, together with Froedtert Hospital and Community Memorial Hospital, the “FH System Hospitals”), and 29 ambulatory patient care sites to provide a full range of inpatient, outpatient and ancillary services. The FH System currently has a total approved bed complement of 962 beds, with 817 beds currently in service.

Froedtert Health partners extensively with MCW in the delivery of healthcare in southeast Wisconsin and throughout the State under the brand “Froedtert & the Medical College of Wisconsin” (“F&MCW”). FMLH is the major teaching affiliate of MCW. A majority of Froedtert Hospital’s medical staff is comprised of MCW’s faculty members. MCW has approximately 766 full-time equivalent residents and fellows at Froedtert Hospital, along with 845 medical students. MCW is not a member of the Obligated Group.

Froedtert Health and Medical College Physicians (“MCP”), MCW’s adult faculty practice plan, work together to provide quality patient care across many provider sites. MCP is the largest multispecialty group practice in Wisconsin and provides care to adults in all medical specialties and subspecialties. Patient care is jointly managed by Froedtert Health and MCP through Enterprise Level Service Lines (see “ENTERPRISE LEVEL SERVICE LINES” herein). An Enterprise Level Service Line Planning Committee, consisting of representatives from Froedtert Health, Community Physicians and MCP, provides a forum for cross-collaboration and standardization. This process is intended to assure that the highest level of care is consistently provided for every patient regardless of location.

Strategy

As healthcare transforms from a system based on patient volume to one based on value in caring for populations of patients, the FH System is deliberately and actively positioning for the future healthcare delivery model. As the FH System seeks ways to improve patient outcomes in addition to decreasing costs and raising health care delivery efficiency, its objective is to invest in strategies that perform well in both the current volume-based business model as well as the value-based business model.

The FH System's focus is on transforming its care model into one organized around the coordinated care of patients and the patient experience. The FH System has made investments to support this overall strategy with some of the initiatives that are summarized below:

- **Physician Alignment** - Community Physicians currently operates 29 community-based ambulatory care sites in southeast Wisconsin with a complement of 355 physicians and advanced practice providers. Froedtert Health continues to implement a physician recruitment strategy that provides greater access to health care services throughout southeast Wisconsin. Numerous physician clinics have also been purchased, remodeled or constructed as part of the strategy to deliver lower cost, accessible services to FH System patients. See "FACILITIES AND OPERATIONS – Community Physicians Health Centers and Clinics" herein.
- **Patient Centered Care and Clinical Effectiveness** – Froedtert Health's focus on patient centered care emphasizes care coordination and its impact on patients seeking the right care, in the right place at the right time. These efforts are resulting in higher outpatient and ambulatory patient activity at the FH System Hospitals and Froedtert Health clinics. Improved care coordination leads to increased quality care due to processes that support an "every patient, every time" mentality.
- **Ambulatory Network Expansion** - Froedtert Health's ambulatory network strategy has led to the construction of three new ambulatory sites in three new markets that are scheduled to open in late 2017 and early 2018. See "FACILITIES AND OPERATIONS – Community Physicians Health Centers and Clinics" herein. The new sites will expand geographic coverage within southeast Wisconsin and are expected to provide new patients with easier access to Froedtert Health services. The ambulatory network strategy has already created increased demand for services at the FH System Hospitals and has led to the need for more space at the Froedtert Hospital campus for expansion of inpatient services.
- **Technology and Innovation** - Froedtert Health has implemented Epic Enterprise software as its Electronic Health Record ("EHR") solution at its clinical sites. An integrated EHR allows Froedtert Health to capture clinical data needed to enable consistent quality, performance and cost measurement across all care settings. Epic revenue and billing systems have provided management at the FH System Hospitals with the ability to maintain and control cash flow and accounts receivable.

Inception Health ("IH") was created by Froedtert Health to drive innovation and collaboration with other companies to address health care problems, develop new ideas for care delivery, and scale solutions across the FH System. Currently, IH offers Telemetry, Tele-observation, eICU, virtual visits and other types of health care services. IH also has a number of strategic partnerships and investments that identify and implement digital solutions to achieve better outcomes for physicians and patients.

- **Strategies to Strengthen Analytics and Population Health Capabilities** - Froedtert Health recently hired a chief analytics officer to direct strategies to leverage data as an asset to drive health care value, quality improvement, cost savings and innovation throughout the FH System. Some of the goals are to facilitate the provision of patient / family centered / interdisciplinary care that provides value derived from quality, a safe environment, and operations that are efficient and sensitive to provider time and effort.
- **Health Plan Partnership** - In November 2014, Froedtert Health partnered with Ministry Health Care (now Ascension Wisconsin), with each party taking a 50 percent ownership interest in Network

Health Inc. (“NHI”), a Wisconsin-based health insurance company. NHI is a 170,000 member health plan operating in eastern Wisconsin. The joint venture transaction has expanded NHI’s service area and added Froedtert Health as one of the provider organizations for Network Health Plan members in the southeast Wisconsin service area. NHI is the second largest Medicare Advantage PPO Product in Wisconsin with 65,000 covered lives. They also received an overall rating of 4.5 out of 5 stars in 2015 from the Centers for Medicare & Medicaid Services.

- **Third Party Administrator (TPA) Services** - Exceedent is an innovative full-service TPA, owned and operated by Froedtert Health, that specializes in serving self-funded employers locally and nationally. Exceedent began operations in July 2016 offering a full range of TPA services including risk management, health risk assessments, health and wellness educational events and many others.
- **Clinically Integrated Network (CIN)** – F&MCW are currently seeking further integration including the creation of a clinical integration strategy that will enable the organizations to jointly contract with third party payors.
- **Focus on People: Staff, Providers, Patients and Consumers** – Froedtert Health has created customer service standards to guide employees in all interactions, to develop, maintain and/or improve relationships with patients and the patient experience. The goal with every interaction is to create a positive, memorable experience for FH System patients. The customer service standards provide the basis for a professional, collaborative, team-oriented culture that supports physicians and staff.

Current FH System Priorities (Fiscal 2017 and Fiscal 2018)

Froedtert Health’s current priorities are summarized below:

Continue to Execute on the 2020 Strategic Plan - F&MCW’s shared vision strengthens the ability to position Froedtert Health for success in the future health care environment. As competing health systems continue to develop their capabilities, F&MCW is required to find ways to assure continued differentiation of the academic-community partnership to draw patient referrals from the region and offer unique value to the communities F&MCW serves. This focus will be closely tied to Froedtert Health’s efforts to improve quality and service for its patients.

Froedtert Health’s strategic plan includes goals to achieve and maintain top decile national rankings for performance in both quality and service. Other goals that are identified in the 2020 strategic plan include:

- Achieve / maintain top decile national ranking for quality, service and provider and staff engagement
- Reduce the per capita cost of care through population health initiatives
- Execute on ambulatory network strategy
- Achieve financial performance sufficient to achieve strategic goals

Continue to Build on Previous Plans - Primary care and cancer service lines continue to be strong contributors to F&MCW’s patient volumes. Efforts continue to maximize other service lines across the enterprise, notably, heart & vascular, transplant, neurosciences, musculoskeletal and spine. Froedtert Health has plans beyond providing acute care services, including a post-acute care, behavioral health, comprehensive pain management, community engagement and ambulatory network strategy. These plans are necessary to be successful in an environment of population health management, where there is a need to align health care delivery across the region in an effort to touch the lives of three million people.

Focused Future Plan Development on Certain Initiatives – A focused direction is needed to maintain and improve Froedtert Health’s competitive position within its service area. Froedtert Health’s board of directors and management are currently working on the 2025 strategic plan. Future initiatives will be focused on improving patient satisfaction and clinical effectiveness, achieving the milestones that have been identified in Froedtert Health’s ambulatory and growth plans and continuing the development of strategic capabilities to include digital solutions, clinical integration, care management and enterprise analytics.

Mission, Vision and Values

F&MCW’s shared mission and vision are:

Mission: F&MCW will advance the health of the communities they serve through exceptional care enhanced by innovation and discovery.

Vision: F&MCW will be the region’s premier health system by demonstrating superior value through an academic-community partnership and aligning health care delivery across the region.

Froedtert Health’s values consist of:

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 Froedtert Health does

Awards and Honors

Members of the FH System have a long history of medical excellence and leadership, and have received numerous awards including:

- Froedtert Hospital ranks fourth nationally among the top academic medical centers in Vizient’s 2016 Quality and Accountability Study, which assesses performance in quality and safety across a broad spectrum of patient care activities. The annual study, measuring the performance of member academic medical centers across the nation, ranks Froedtert Health fourth among more than 100 participating organizations. Froedtert Hospital was also one of just five academic medical centers nationwide recognized by Vizient for excellence in outpatient care. Unlike many other rankings, the comprehensive study stringently evaluates all care provided at the FH System Hospitals and the criteria reflect the National Institute of Medicine’s six domains of care: safety, timeliness, effectiveness, efficiency, equity and patient-centeredness.

- Froedtert Hospital ranks as the best hospital in Milwaukee and one of the top two hospitals in Wisconsin in *U.S. News & World Report's* 2016-17 Best Hospitals list. Additionally, Froedtert Hospital ranks nationally in four specialties: ear, nose and throat; nephrology; pulmonology; and urology. Froedtert Hospital is also recognized as a high performer in four specialties: diabetes and endocrinology; cancer; gastroenterology and GI surgery; and neurology and neurosurgery. Community Memorial Hospital tied for third in Milwaukee and seventh in Wisconsin in *U.S. News & World Report's* 2016-17 Best Hospitals.
- For the fourth consecutive year, Froedtert Hospital was named to the national 100 Top Hospitals list released by Truven Health Analytics. Froedtert Hospital is the only Milwaukee hospital, and one of just six Wisconsin hospitals, to make the overall list. It is also the only Wisconsin hospital ranked as one of the 15 Major Teaching Hospitals in the nation. The 100 Top Hospitals study, which has been conducted annually since 1993, identifies 100 U.S. hospitals that have been objectively proven to provide high value to their communities.
- Froedtert Hospital achieved its third Magnet designation for excellence in nursing services by the American Nurses Credential Center's (ANCC) Magnet Recognition Program® in January 2016. The Magnet Recognition Program recognizes health care organizations that demonstrate excellence in nursing practice and adherence to national standards for the organization and delivery of nursing services.
- The Milwaukee Journal Sentinel named Froedtert Health to its list of 2016 Top Workplaces for the seventh consecutive year. The Top Workplaces are determined solely through staff feedback to a survey conducted by Workplace Dynamics LLP, a leading research firm on organizational health and employee engagement.
- The Human Rights Campaign Foundation recognized all three FH System Hospitals as "Leaders in LGBT Healthcare Equality" for protecting LGBT patients and employees from discrimination, ensuring equal visitation for LGBT people and providing staff training in LGBT patient-centered care.
- Froedtert Health was recognized as a 2016 Healthiest 100 Workplace in America, based on the integration of vital corporate wellness policies, practices and programs into its workplace.

FH System and the Obligated Group

Froedtert Health operates two main platforms for the provision of health care services. The acute care/hospital platform consists of the FH System Hospitals. The physician/provider platform for Froedtert Health consists of Community Physicians. An organizational chart of the corporate structure of Froedtert Health is set forth below under "Corporate Structure" and the following is a description of each of the entities:

Froedtert Memorial Lutheran Hospital, Inc. is a Wisconsin non-stock, non-profit corporation which operates Froedtert Hospital, a tertiary care, teaching and research hospital facility that opened in September 1980. Froedtert Hospital is located in the City of Wauwatosa, on the Milwaukee Regional Medical Center Campus, approximately seven miles west of downtown Milwaukee. FMLH is supported by Froedtert Hospital Foundation, Inc. ("Froedtert Foundation"). As of December 31, 2016, Froedtert Hospital is approved for 655 beds, with 545 staffed beds.

Community Memorial Hospital of Menomonee Falls, Inc. is a Wisconsin non-stock, non-profit corporation which operates Community Memorial Hospital, a general hospital that opened in 1964 providing primary and acute care services, as well as diagnostic and preventative services, on both an inpatient and outpatient basis. Community Memorial Hospital is located in the Village of Menomonee Falls, Wisconsin, a residential community of approximately 30,000 residents, approximately 20 miles northwest of downtown Milwaukee, Wisconsin CMH is supported by Community Memorial Foundation of Menomonee Falls, Inc. (“Community Memorial Foundation”). As of December 31, 2016, Community Memorial Hospital is approved for 237 beds, with 202 staffed beds.

St. Joseph’s Hospital Community Hospital of West Bend, Inc. is a Wisconsin non-stock, non-profit corporation which operates St. Joseph’s Community Hospital, an acute care general hospital located near West Bend, Wisconsin, which was completed in 2005 (as a replacement hospital for a facility in existence since 1930). West Bend is a community of approximately 28,000 residents, located approximately 35 miles northwest of downtown Milwaukee. SJH also is the sole member of West Bend Surgery Center, LLC (“WBSC”), which operates an outpatient surgery center located in West Bend. SJH is supported by St. Joseph’s Community Foundation, Inc. (“St. Joseph’s Foundation”). As of December 31, 2016, St. Joseph’s Community Hospital has been approved for 70 beds, all of which are staffed.

Froedtert & the Medical College of Wisconsin Community Physicians, Inc. is a Wisconsin non-stock, non-profit corporation, the members of which are Froedtert Health and MCW. Community Physicians is consolidated with Froedtert Health for financial reporting purposes. Community Physicians currently operates physician clinics at 29 sites (with three additional sites in progress) throughout Milwaukee, Washington and Waukesha counties.

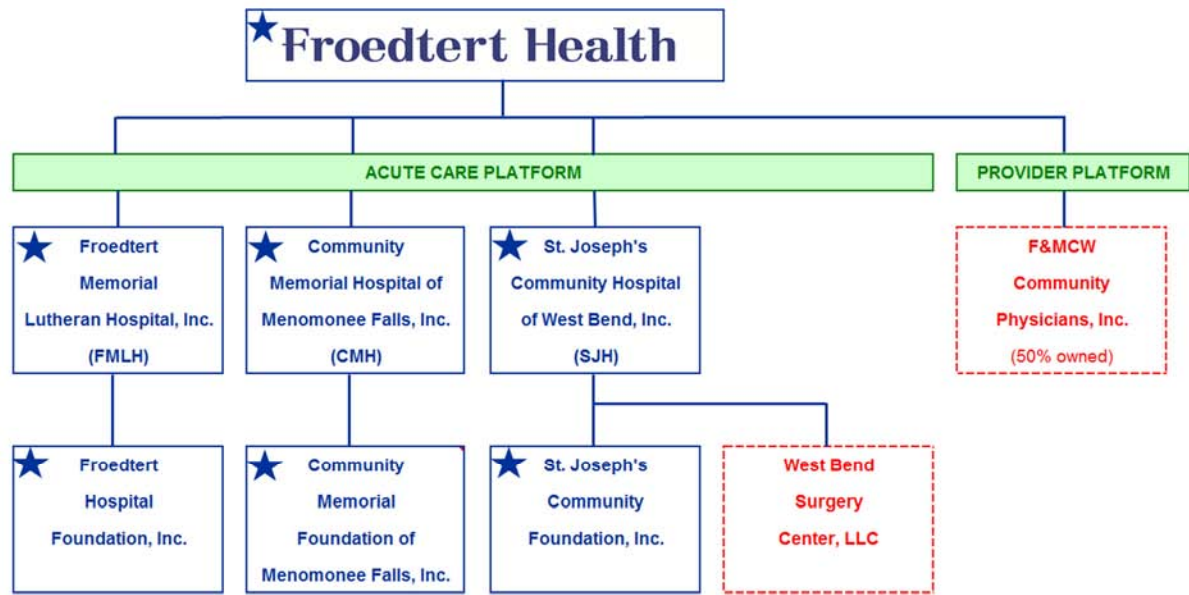
Additional financial information on the Froedtert Foundation, Community Memorial Foundation and St. Joseph’s Foundation is included in the audited consolidated financial statements of Froedtert Health included in Appendix B.

Froedtert Health, FMLH, Froedtert Foundation, CMH, Community Memorial Foundation, SJH and St. Joseph’s Foundation are the current Members of the Obligated Group, and are the only entities obligated to make payments on the Series 2017A Bonds or the Series 2017A Obligation. All of the current Members of the Obligated Group are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. MCW, WBSC and Community Physicians are not Members of the Obligated Group.

In addition to the Members of the Obligated Group and Non-Obligated Group affiliates described above, the Members of the Obligated Group have also entered into joint ventures and other operating arrangements with entities that are not part of the Obligated Group. See Note 11 to the audited consolidated financial statements of Froedtert Health and affiliates included in Appendix B hereto for a description of these entities and operations.

Corporate Structure

The relationship among the Members of the Obligated Group as of the date of issuance of the Series 2017A Bonds is shown on the following organizational chart. While there are other entities affiliated with Froedtert Health, only the corporations identified as Members of the Obligated Group in the organizational chart below are Members of the Obligated Group.



★ OBLIGATED GROUP MEMBER

NON-OBLIGATED GROUP MEMBERS DENOTED IN RED DOTTED BOX

GOVERNANCE AND MANAGEMENT

Board of Directors – Froedtert Health

Froedtert Health is governed by a self-perpetuating Board of Directors. The size of the Board of Directors ranges from a minimum size of twelve, plus the ex-officio CEO, to a maximum of seventeen directors plus the ex-officio CEO. Froedtert Health directors serve three-year terms and can serve no more than three consecutive terms.

The Froedtert Health directors serve in a voluntary capacity and do not receive any compensation for their services on the Board of Directors. The current members of the Froedtert Health Board of Directors are:

<u>Name/Office</u>	<u>Affiliation</u>	<u>Term Expires</u>
Kurt D. Bechthold	President & CEO Payne and Dolan, Inc.	2018
Mary Beth Berkes	Principal The Shorewood Group	2019
Bruce T. Block	Shareholder Reinhart Boerner Van Deuren, S.C.	2017
Tonit M. Calaway	Vice President and Chief Human Resources Officer BorgWarner, Inc.	2019
Dirk J. Debbink	Chairman/CEO MSI General Corporation	2018
Andre J. Fernandez	President CBS Radio	2017
Deborah Ford, Ph.D.	Chancellor University of Wisconsin-Parkside	2019
Jackie Fredrick	Retired President and CEO Versiti and Blood Center of Wisconsin	2019
Catherine A. Jacobson	President and CEO Froedtert Health	<i>Ex-Officio</i>
David J. Lubar	President Lubar & Co., Inc.	2019
Vincent P. Lyles	President and CEO Boys & Girls Clubs of Greater Milwaukee	2017
Gary A. Mecklenburg	Retired President and CEO Northwestern Memorial HealthCare and Northwestern Memorial Hospital	2019
John E. Schlifske	Chairman and CEO Northwestern Mutual	2019
Kevin A. Steiner <i>Chairperson</i>	President and CEO West Bend Mutual Insurance Company	2017

The current committees of the Froedtert Health Board of Directors are Finance, Investment, Governance, and Leadership Development & Compensation. The Finance Committee also serves as the Audit Committee and, in that role, engages and works with the independent auditor and assures the existence and operation of internal structures for reporting ethical and operational concerns.

Reserved Powers – Froedtert Health

As the sole corporate member of FMLH, CMH, and SJH, Froedtert Health retains certain reserved powers over each of these affiliates (the “Affiliated Entities”). The corporate bylaws of Froedtert Health and the Affiliated Entities provide that Froedtert Health has the authority to direct the activities of Froedtert Health and the Affiliated Entities, including the following:

- (a) Develop and revise Froedtert Health’s strategic and financial plan, and approve, develop or revise any strategic plans relating to the Affiliated Entities;
- (b) Approve, develop or revise capital and operating budgets for Froedtert Health and the Affiliated Entities;
- (c) Approve all requests by Froedtert Health and the Affiliated Entities to borrow or loan funds, incur debt, guarantee a loan, or enter into similar debt obligations in excess of the financial levels specified;
- (d) Make all expenditures of Froedtert Health and approve all proposed capital expenditures entered into by the Affiliated Entities in excess of the financial levels specified;
- (e) Approve all affiliations, partnerships, joint ventures, acquisitions, divestitures, dissolutions, sales, mergers and similar corporate transactions involving Froedtert Health and/or an Affiliated Entity;
- (f) Engage in consolidated cash management, transfer and/or consolidate funds of the Affiliated Entities, and direct the hospitals and members of an obligated group to take actions to cause all of the outstanding debt of the hospitals to be evidenced by notes issued under the same Master Indenture;
- (g) Develop and revise any capital and operating budget parameters for the Affiliated Entities.
- (h) Approve the selection of directors for the Affiliated Entities.
- (i) Froedtert Health and MCW, as the two members of Community Physicians, exercise certain reserve powers jointly. Froedtert Health has additional reserve powers that it solely exercises. Jointly exercised reserve powers include approval of new members and any merger or dissolution. Froedtert Health has the final approval authority for Community Physicians’ strategic plan; financial plan, including operating and capital budgets; debt obligations, physician compensation and managed care contracts.

Conflict of Interest Policies

The Froedtert Health Board of Directors has adopted a conflict of interest policy applicable to the officers and directors of Froedtert Health and its affiliates, requiring that officers and directors submit an annual certificate concerning conflicts of interest. The policy also prohibits directors from voting on a matter with respect to which the directors have a conflict of interest.

Management/Administration – Froedtert Health

Catherine A. Jacobson, CPA - President and CEO, Froedtert Health, age 53. Ms. Jacobson joined Froedtert Health in 2010 as Executive Vice President of Finance and Strategy, Chief Financial Officer and Chief Strategy Officer. She was promoted in 2011, becoming President. In 2012, she assumed the CEO role. Prior to joining Froedtert Health, Ms. Jacobson spent 22 years at Rush University Medical Center in Chicago in various leadership roles. She was appointed Chief Financial Officer and Treasurer of the health system in 2002 and served as Senior Vice President of Strategic Planning and Finance, Chief Financial Officer, and Treasurer until 2010. Ms. Jacobson served as the voluntary national Chair of the Healthcare Financial Management Association (HFMA) during the 2009–10 term. A member of HFMA since 1989, her involvement with HFMA includes serving on the national Board of Directors from 2004–10 and the Principles & Practices Board from 1995–2001 serving as chair during 2000–01. Current board appointments include Mercy Health of Ohio (formerly Catholic Health Partners), Vizient (formerly VHA-UHC Alliance), United Way of Greater Milwaukee, the Greater Milwaukee Committee and Metropolitan Milwaukee Association of Commerce as well as other boards representing partnerships of Froedtert Health. She is also the current chair of the Wisconsin Hospital Association Board. Ms. Jacobson's recognitions include Becker's Hospital Review 2014 Health Care Leaders Award, and one of Becker's 24 Leading Women to Know in Healthcare. She was recognized among Women of Influence by the Milwaukee Business Journal in 2013 and received an honorable mention as Executive of the Year in 2014 and 2016. Ms. Jacobson received an honorary degree of Doctor of Healthcare Leadership from the University of Wisconsin-Milwaukee in 2015. Ms. Jacobson is a member of Healthcare Financial Management Association, the American College of Healthcare Executives, the Healthcare Institute and Healthcare Executives Study Society. She is also a member of the Chicago Network, an organization for women executives, and TEMPO and Professional Dimensions, two Milwaukee-based women's leadership organizations. Ms. Jacobson is a Certified Public Accountant. She received her Bachelor of Science degree in accounting from Bradley University, Peoria, Illinois.

Dennis M. Pollard, Executive Vice President, Chief Operating Officer, Froedtert Health, age 60. Mr. Pollard joined the Community Memorial Hospital leadership team in October, 1990; serving as Senior Vice President, Planning and Program Development at the time of the formation of Froedtert & Community Health. He was appointed Senior Vice President, Chief Operating Officer of Froedtert Health in July 1, 2007. He was appointed to additional roles as president of CMH on July 1, 2009, and president of the system's Community Hospital Division on February 1, 2012; roles he maintained through December 31, 2016. In July 2016, Mr. Pollard was promoted to the level of Executive Vice President primarily responsible for overseeing the health network's shared corporate support services, Community Hospital Division, and major planning and operational elements of its ambulatory network strategy. Mr. Pollard is also focused on the health network's value-based care initiative – redesigning the system's cost structure while advancing quality outcomes and overall patient experience. He began his health care career as a physical therapist. From 1986 to 1990, Mr. Pollard was the director of Physical Medicine and Rehabilitation services for St. Mary's Medical Center in Racine, Wisconsin. A former surveyor for the Commission on Accreditation of Rehabilitation Facilities, Mr. Pollard was also an adjunct faculty member for the Marquette University Program in Physical Therapy from 1982 through 1999; and in 2009

he was named a Distinguished Alumnus in Physical Therapy by the Marquette University College of Health Science. He served on the Wisconsin Hospital Association's Council on Medical and Professional Affairs from 1997 to 2004. Mr. Pollard is a member of the American College of Healthcare Executives and the American Physical Therapy Association. He is a past president of the Menomonee Falls Chamber of Commerce. Currently, Mr. Pollard serves on several of the health network's affiliate boards, as well as the Board of Managers for the Vizient Upper Midwest Consolidated Service Center. In addition, he serves on the Board of Directors and Audit Committee of Lutheran Living Services, and Board of Directors and Finance Committee of the Waukesha County Community Foundation. Mr. Pollard also sits on the Nativity Jesuit Academy Board Facilities Committee. Earning a master's degree in health management from Cardinal Stritch University in 1990, Mr. Pollard completed his undergraduate studies with a bachelor's degree in physical therapy from Marquette University in 1978.

Scott R. Hawig, CPA, CMA, MBA – Executive Vice President of Finance, Chief Financial Officer and Treasurer, Froedtert Health, age 43. Mr. Hawig joined Froedtert Health as Senior Vice President and Chief Financial Officer in August 2012 with responsibility for all strategic and operational matters related to finance for the health system to include financial reporting, planning and budgeting, decision support, revenue cycle management, managed care contracting and strategic relationships. In July 2016, Mr. Hawig was promoted to the level of Executive Vice President and took on the added responsibility for supply chain operations and oversight of Froedtert's wholly-owned third party administration company. Prior to joining Froedtert Health, Mr. Hawig was Vice President of Finance with Shands at the University of Florida and served as a Divisional Chief Financial Officer with Duke University Health System. Prior to his time in academic medicine, Mr. Hawig served as a healthcare audit and consulting manager within the public accounting firms of Arthur Andersen and Deloitte & Touche. Current board appointments include Network Health Plan, Milwaukee Regional Medical Center and various other Froedtert affiliated entities. Mr. Hawig also serves as an adjunct professor at Marquette University, is licensed as a Certified Public Accountant and Certified Management Accountant and is a member of the American Institute of Certified Public Accountants, Institute of Management Accountants and Healthcare Financial Management Association. He received a Master's of Business Administration from Duke University and a Bachelor of Business Administration in both Accounting and Finance from the University of Wisconsin-Whitewater.

Jonathon D. Truwit, MD – Enterprise Chief Medical Officer, age 60. Dr. Truwit joined Froedtert Health and the Medical College of Wisconsin in January 2014 as a dual-report enterprise Chief Medical Officer ("CMO"). Dr. Truwit also holds the rank of tenured professor of medicine (pulmonary) at MCW. As enterprise CMO, Dr. Truwit is responsible for the development, management and implementation of a strategy and vision to improve enterprise quality and safety outcomes across the continuum of care, improve physician alignment and satisfaction, and lead evidence-based programs, practices and activities that deliver results. Additionally, he provides leadership and expertise for clinical quality and safety, disease management, care coordination, clinical integration and the overall patient experience, and plays an integral role in expanding the health system's clinical footprint. Dr. Truwit was formerly professor of medicine with tenure, Chief Medical Officer and Senior Associate Dean for Clinical Affairs at the University of Virginia School Of Medicine. Dr. Truwit received a BSE in Biomedical Engineering from Duke University School of Engineering in 1979, his medical degree from Georgetown University School of Medicine in 1983, and an MBA from the University of Virginia Darden School of Business in 2009. Dr. Truwit served his internship and residency in the Department of Medicine at Vanderbilt University School of Medicine from 1983 to 1986. He completed a fellowship in the Division of Pulmonary and Critical Care Medicine at Vanderbilt University School of Medicine from 1986 to 1989. Dr. Truwit is currently certified by the American Board of Internal Medicine ("ABIM") and holds subspecialty

certifications with the ABIM in Critical Care and Pulmonary. His peers also have selected him to be included in Best Doctors in America annually since 2005.

David A. Olson, FACHE - Senior Vice President and Chief Strategy Officer, Froedtert Health, age 54. Mr. Olson joined Froedtert Health in January 2010 as Chief Strategy Officer, leading, directing and executing strategies to support the organization's growth objectives. In October 2011, he was named Senior Vice President and Chief Strategy Officer for the FH System. In this role, Mr. Olson provides executive leadership for employer services, marketing, communications, and community engagement. Prior to joining Froedtert Health, Mr. Olson served as President of Columbia-St. Mary's Hospital-Ozaukee and an Executive Vice President of the Columbia-St. Mary's system. His experience also includes more than a decade as President and CEO of Bay Area Medical Center in Marinette, Wisconsin. Mr. Olson received a Master of Health Administration degree and Master of Business Administration degree from the University of Iowa and a Bachelor of Business Administration degree from the University of Wisconsin-Eau Claire. Mr. Olson is a fellow of the American College of Healthcare Executives. In 2001, he was selected as the organization's Hudgens Memorial Award winner for National Young Healthcare Executive of the Year. During 2010, David served as the Wisconsin Hospital Association's chair. In March 2017, Mr. Olson was nominated as chair-elect for the American College of Healthcare Executives and will serve a three-year term in the executive officers' role.

Keith Allen - Senior Vice President and Chief Human Resources Officer, Froedtert Health, age 60.* Mr. Allen joined the Froedtert Health Human Resources Department as Senior Vice President and Chief Human Resources Officer in 2012. Mr. Allen came to Froedtert Health from the University of Maryland Medical Center/System/University Specialty Hospital in Baltimore, Maryland, where he served as the Vice President of Human Resources. Mr. Allen has 30 years of experience working in various health care human resource roles, including employee relations, organizational development and employee safety and health. Mr. Allen received a Bachelor of Arts degree in criminology in 1979 from Indiana University of Pennsylvania and his master's degree in industrial and labor relations in 1983 from Indiana University of Pennsylvania. Mr. Allen is a member of the Vizient Chief Human Resources Officers Council and a member of the Society of Human Resources Management. He is founder and former Chair of the Center for Healthcare Careers of Southeast Wisconsin and currently serves as the chair of their education and community engagement steering committees. Mr. Allen is also the Chair of the Health Care sector for the Industry Advisory Board in the Milwaukee region.

Eric Humphrey - Vice President of Human Resources Operations, Froedtert Health, age 47.* Mr. Humphrey joined the Froedtert Health Human Resources Department as Vice President of Human Resources Operations in September 2016. Mr. Humphrey came to Froedtert Health from Lehigh Valley Health Network in Allentown, PA where he served as the Vice President of Human Resources. Mr. Humphrey has over 25 years of experience working in various health care human resource roles, including employee relations, organizational development, talent, and total compensation. Mr. Humphrey received a Bachelor of Science degree in psychology in 1991 from Bowling Green State University and his master's degree in industrial and organizational psychology in 1993 from the University of Baltimore. Mr. Humphrey is a member of the Society of Human Resources Management and the American Society for Healthcare Human Resources Administration.

* Keith Allen will be retiring from Froedtert Health on June 30, 2017. As part of a planned transition, Eric Humphrey, currently the Vice President of Human Resources Operations of Froedtert Health, will assume the role of Chief Human Resources Officer of Froedtert Health upon Mr. Allen's retirement.

Dean Thomas, FACHE –Senior Vice President of Planning and Service Line Development, Froedtert Health, age 51. Mr. Thomas joined Froedtert Health as Senior Vice President of Planning and Service Line Development in December 2013. Mr. Thomas is accountable for planning, driving growth and improving the value performance of service lines throughout the F&MCW health network. Mr. Thomas oversees the strategic planning functions for the F&MCW health network and is part of a common organizational model for service lines for F&MCW, intended to support a focus on key accountabilities, clear reporting relationships, and consistent approaches, structures and processes across the service lines. Mr. Thomas plays an important role in these efforts to achieve the consistency and accountability demanded by a service line approach to delivering clinical care. Mr. Thomas serves in a triad leadership role for service lines with the physician leaders of the adult physician practices and works closely with physician leadership in each service line to ensure hospital-physician alignment. In addition, Mr. Thomas co-leads ambulatory operational oversight and major ambulatory project implementation along with the system COO. Mr. Thomas has a successful track record in health care administration, serving most recently as Vice President of Clinical Service Lines and Business Development with Scottsdale Lincoln Health Network in Arizona. While there, he significantly increased service line contribution margins, implemented many new clinical services, launched several joint ventures and helped advance hospital-physician alignment. Prior to his successive roles with Scottsdale, Mr. Thomas served in multiple service line and operational roles at Ochsner Health System in New Orleans. Mr. Thomas earned dual master's degrees in business administration and health services administration from Arizona State University.

Amy Marquardt, RN, JD – Senior Vice President, Chief Legal Officer and General Counsel, Froedtert Health, age 54. Ms. Marquardt joined Froedtert Health in November 2016. In her role, Ms. Marquardt works with senior leaders in setting strategy and policies for the organization. She also advises the Froedtert Health board of directors and senior leaders on key legal issues, legislative initiatives and regulatory changes relevant to an academic health system environment and ensures the effectiveness of all legal work performed in the organization. Ms. Marquardt came to Froedtert Health from Hospital Sisters Health System (HSHS) headquartered in Springfield, Ill. with hospitals and physicians throughout Illinois and Wisconsin. During Ms. Marquardt's four and a half-year tenure as vice president and general counsel at HSHS, she standardized processes for contractual legal reviews and provided counsel to the HSHS board of directors and leadership on legal transactions, including the HSHS St. Clare Memorial Hospital (Oconto Falls, Wis.) and HSHS Holy Family Hospital (Greenville, Ill.) affiliations. Prior to HSHS, Ms. Marquardt spent a number of years at St. Mary's Hospital in Milwaukee then Columbia-St. Mary's beginning in a nursing role before earning her law degree and moving into the legal department ultimately serving as general counsel for the health system. Ms. Marquardt earned her law degree from the University of Wisconsin-Madison and her Bachelor of Science in Nursing from the University of Wisconsin-Oshkosh. Ms. Marquardt has served as a captain in the United States Army Reserve – Nurse Corps.

Management/Administration – FMLH

Catherine J. Buck - President, FMLH, age 63. Ms. Buck joined FMLH in 1982. She was appointed President of FMLH in 2011 and previously served as its Executive Vice President for Operations and Chief Operating Officer since January 1999. Prior to assuming her current position, Ms. Buck was Vice President for Patient Care Services and Patient Care Director in the Division of Nursing. Ms. Buck received her bachelor's degree in nursing from DePaul University in 1976 and her master's degree in nursing from Rush University in 1979. She worked as a staff nurse at Swedish Covenant Hospital, Rush Presbyterian St. Luke's and the University of Chicago, prior to joining FMLH. The *Business Journal of Greater Milwaukee* recognized Ms. Buck, for its 2011 Women of Influence in the Corporate Executive category.

Management/Administration – Community Hospital Division

Allen Ericson - President, Community Hospital Division / President, SJH, age 50. Mr. Ericson joined Froedtert Health in August 2012. Prior to joining Froedtert Health, Mr. Ericson served as Senior Vice President and Chief Operating Officer of Catholic Medical Center, Manchester, New Hampshire for seven years. Catholic Medical Center is a 330-bed facility in the largest city in New Hampshire. Mr. Ericson has a master's of business administration from Widener University in Chester, Pennsylvania in 1993, and a bachelor's degree in economics from Rutgers University, Camden, New Jersey in 1991. Mr. Ericson is also a fellow in the American College of Healthcare Executives.

Teresa Lux - President, CMH, age 48. Ms. Lux joined Froedtert Health in February 2000 in the role of Acute Care Nurse Practitioner. In 2008, Ms. Lux transitioned to the role of Vice President of Patient Care Services and Chief Nursing Officer - Community Hospital Division. In January 2017, she was named President of CMH. Within the Community Hospital Division management structure, Ms. Lux also has the responsibility of chief operating officer. Ms. Lux has a master's degree in nursing from Rush University and a bachelor's degree in nursing from the University of Alabama.

Management/Administration – Community Physicians

Mark Lodes, MD – President, Community Physicians, age 46. Dr. Lodes joined F&MCW in 2001 as an internal medicine/pediatrics physician and assistant clinical professor. He served as the executive director of F&MCW's Primary Care Initiative from 2003-2007, where he oversaw the building of four new clinical sites and was responsible for the development and implementation of the recruitment and practice development plan. During that time, the size and scope of the organization more than doubled. In 2008 the Primary Care Initiative became Clinical Ventures Group (CVG) and Dr. Lodes assumed the role of chief medical officer. CVG was a joint planning and administrative vehicle for FMLH and MCW's community-based ambulatory care strategy. CVG was responsible for planning and development of regional physician services, external practice acquisitions and prospective management of Froedtert Health's existing community practices. In 2013 F&MCW created Community Physicians and consolidated all of its community physician practices in southeastern Wisconsin into this single group practice, with Dr. Lodes as president. In addition to his leadership of Community Physicians, he works in close collaboration with the cancer, cardiovascular and neuroscience Enterprise Level Service Lines in development of regional programs. He serves on a number of committees related to Epic, strategic planning, practice operations and contracting.

ENTERPRISE LEVEL SERVICE LINES

Froedtert Health and MCP have formed six enterprise level service lines: Cancer, Heart & Vascular, Musculoskeletal, Neuroscience, Spine and Transplant (collectively, the "Enterprise Level Service Lines"). Patient care within these Enterprise Level service Lines is provided across multiple sites of care. See "FACILITIES AND OPERATIONS – Overview" below for a map showing the locations of the FH System Hospitals and the Community Physicians health centers and clinics. The Enterprise Level Service Lines are governed collaboratively between Froedtert Health executive leadership, Community Physicians executive and physician leadership and MCP physician and administrative leadership. An Enterprise Level Service Line Planning Committee, chaired by the Froedtert Health Senior Vice President of Planning and Service Line Development, has been established to provide a forum for cross-collaboration and standardization.

Cancer – The F&MCW Cancer Network offers services at multiple sites, including the Clinical Cancer Center at Froedtert Hospital, the Community Memorial Hospital Cancer Care Center, the Kraemer Cancer Center at St. Joseph’s Community Hospital and Moorland Reserve Health Center. The Clinical Cancer Center offers comprehensive care for all types of cancer through 14 disease-specific, multidisciplinary cancer programs, as well as research facilities, international cancer registries, and a wide range of clinical trials, many of which are available to patients at the community sites. The Clinical Cancer Center holds multiple specialty accreditations including Foundation for Accreditation of Cellular Therapy, American College of Radiology, National Program for Accreditation of Breast Centers and Commission on Cancer of the American College of Surgeons. The other Cancer Network sites offer accessibility to the specialty expertise of Froedtert Hospital with the convenience of the community setting. These sites offer radiation oncology, chemotherapy as well as medical and surgical oncology for several programs.

Heart and Vascular – The Heart and Vascular Center at Froedtert Hospital offers a complete range of cardiovascular services from diagnostic imaging, minimally invasive interventions and rehabilitation to critical care nursing and surgery. The care of patients is provided by highly specialized, collaborative physicians and collaborate nursing, technical and support staff. Innovative programs include a dedicated Vascular Heart Disease Clinic, Arrhythmia Management Program, Electrophysiology Program, Adult Congenital Heart Program, Heart Failure Program, The Joint Commission/CMS Certified Ventricular Assist Destination Therapy Program, Heart Transplantation and Cardiac Second Opinion Program. The Vascular Disease Program, a unique regional program and part of the Cardiovascular Center, is staffed by the state’s only full-time board-certified vascular surgeons (five), who are developing and providing advanced stent repairs for abdominal aortic aneurysms. In addition, Interventional Radiology provides non-surgical options for patients with vascular disease. Heart and vascular specialty services are also provided at Community Memorial Hospital, St. Joseph’s Community Hospital and the Moorland Reserve, North Hills and Westbrook health centers.

Musculoskeletal – F&MCW offer comprehensive, world-class orthopedic surgery and care for the entire musculoskeletal system – bones, joints, muscles, ligaments and tendons. Specialists provide a multidisciplinary approach across several programs including: back and neck care, foot and ankle, hand and upper extremity, joint replacement, sports medicine and trauma. The breadth of musculoskeletal services offered in the community sites has grown substantially in recent years. Community Memorial Hospital has one of the most effective and efficient joint replacement programs in the region, performing more than 600 procedures annually, including hip replacement and knee replacement. Surgeons are leaders in their field, earning recognition from national health care organizations including the Blue Distinction by Anthem Blue Cross and Blue Shield for delivering quality healthcare for joint replacement. Froedtert Health recently designated Community Memorial Hospital as a musculoskeletal Center of Excellence, moving all elective joint procedures from Froedtert Hospital to Community Memorial Hospital. Also, with the opening in 2014 of the Orthopedic, Sports and Spine Center (“OSSC”) in Menomonee Falls, patients have access to orthopedic, rehabilitation, sports and spine care specialists and therapists all in one location. Musculoskeletal services are offered at all three FH System Hospitals and 10 health center locations.

Neurosciences – The Neurosciences Center at Froedtert Hospital is a leader in the diagnosis and treatment of complex disorders of the brain, spine and muscle systems, with a specialized staff of neurologists and neurosurgeons. It has a dedicated Neurosciences Intensive Care Unit, staffed by fellowship-trained neurointensivists, an eICU®, and a six bed long-term monitoring unit for patients with epilepsy. Froedtert holds The Joint Commission (the “Joint Commission”) certification as a Primary Stroke Center, with a team of neurointerventionalists for intracranial procedures. It is a Level 4 Epilepsy Center as rated by the National Association of Epilepsy Centers and holds Disease Specific Care Accreditation for

Epilepsy from the Joint Commission. It offers multidisciplinary programs in brain injury, spinal cord injury and neuro-oncology. Patients with Parkinson's disease or movement disorders receive comprehensive care through the Parkinson's and Movement Disorders Program, and surgical deep brain stimulation options through the Restorative Neurosciences Program. Neurologists specialize in the diagnosis and treatment of peripheral nerve and muscle disorders, dementia, neuro-ophthalmologic conditions and demyelinating disorders. The NeuroRehab program is an integral part of all neurosciences programs. Neuroscience specialty services are also provided at St. Joseph's Community Hospital and the North Hills, Town Hall, Moorland Reserve, Greenfield Highlands and West Bend health centers.

Spine – F&MCW offers spine services at multiple locations throughout the FH System, including all FH System Hospitals and 14 health centers and clinics. These include four specially designed spine care clinics that offer multi-disciplinary, operative and non-operative care for patients with spinal trauma, degenerative diseases of the spine, spinal tumors, and back pain.

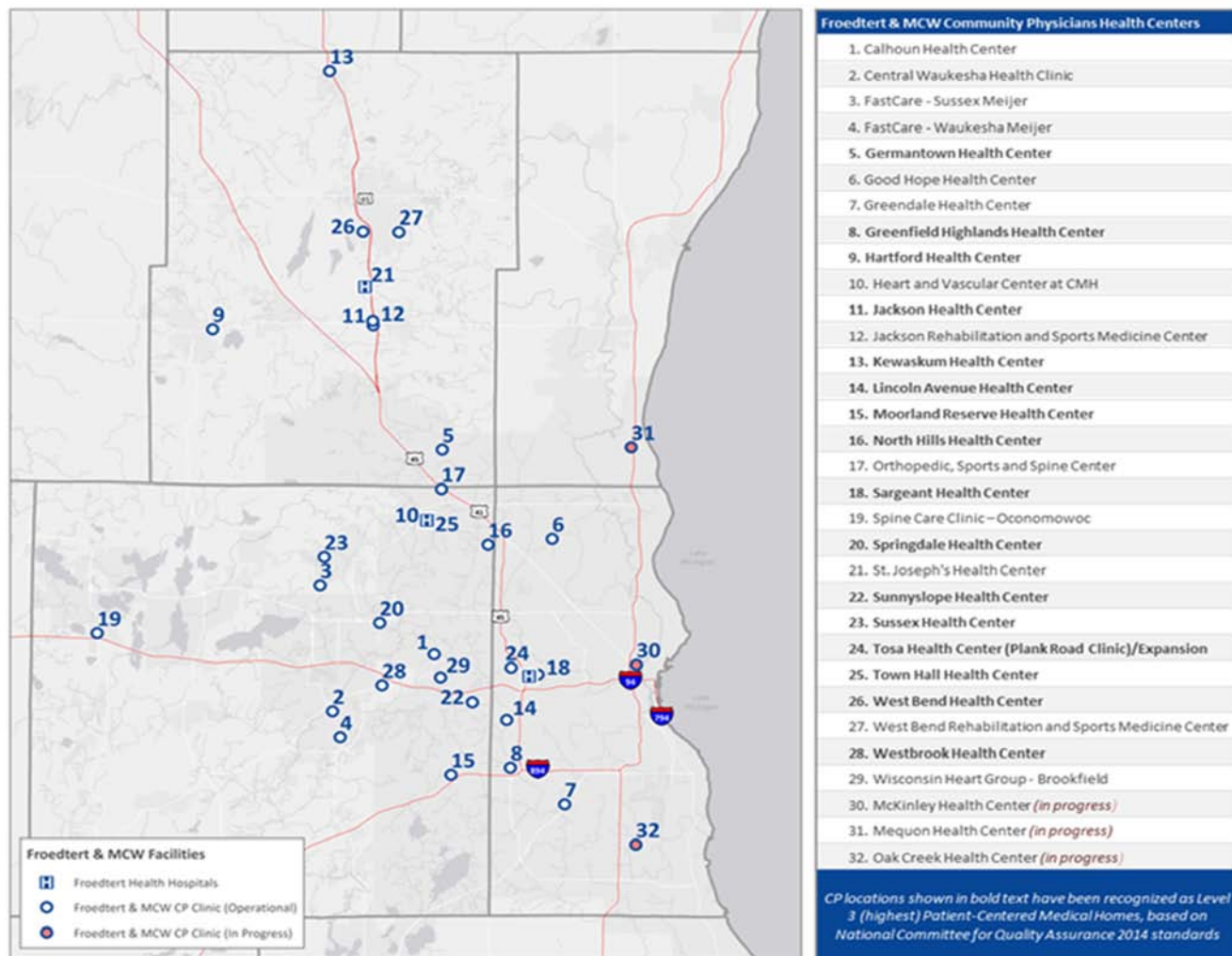
Transplant Surgery – Froedtert Hospital offers a full range of solid organ transplant services, including kidney, liver, pancreas, heart and lung transplantation. Froedtert Hospital has the only academic transplant program in southeast Wisconsin, and as such offers professional education, public education, and research in the region. Froedtert Health and MCW partner with Children's Hospital of Wisconsin, Inc. and the Blood Center of Wisconsin, Inc. to provide a full continuum of care to end stage organ failure and transplantation patients across pediatric and adult populations. Froedtert Hospital also participates in a National Paired Exchange program for kidney transplantation, which offers patients who otherwise had an incompatible live donor the increased opportunity of receiving a living-donor kidney transplant. F&MCW also has outreach clinics for patients with liver disease in clinics located in Green Bay, Stevens Point and Wausau, Wisconsin. These additional locations allow patients who have liver disease to see a F&MCW specialist near their home and, if indicated, may facilitate referral to Froedtert Hospital for a transplant.

FACILITIES AND OPERATIONS

Overview

The following section describes the facilities and range of services provided at the FH System Hospitals and by Community Physicians (collectively, the "Delivery System"). Froedtert Health governs and directs the activities of the Delivery System. Such direction includes management of strategic and financial plans, capital and operating budgets, capital expenditures, incurrence of debt, affiliations, joint ventures, divestitures and treasury functions (see "GOVERNANCE AND MANAGEMENT – Reserved Powers – Froedtert Health" herein). Physician, ambulatory and outpatient strategies among the Delivery System and MCW are increasingly integrated from a strategic perspective in an effort to increase patient access to the highest caliber physicians and specialists throughout the Froedtert Health service area.

Below is a map showing the three FH System Hospitals and the Community Physicians health centers and clinic locations.



FMLH

Facilities/Existing Properties. Froedtert Hospital is located on the campus of the Milwaukee Regional Medical Center (“MRMC”), a campus of approximately 255 acres located on real property currently owned by Milwaukee County (the “County”) and leased to and operated by six independent entities referred to as “members.” MRMC is located approximately seven miles west of Milwaukee near the intersection of Interstate Highway 94 and Interstate Highway 41. The members of MRMC include FMLH, MCW, Blood Center of Wisconsin, Inc., Children’s Hospital of Wisconsin, Inc., Curative Care Network and Milwaukee County Behavioral Health Center. The members of MRMC provide a full spectrum of programs in medical education, research and patient care. Each of the non-County MRMC members has entered into a long-term lease with the County for the use of its land. The lease between FMLH and the County covers approximately 31 acres of land on the MRMC campus. The lease agreement was most recently restated and amended as of December 21, 1995. The lease has an initial term of 99 years, which commenced September 19, 1980.

Froedtert Hospital was constructed due to the generosity of Kurtis R. Froedtert, a Milwaukee industrialist and philanthropist who died in 1951. Mr. Froedtert's Last Will and Testament established the Froedtert Memorial Lutheran Hospital Trust (the "Froedtert Trust") for charitable purposes, including primarily the establishment of a new hospital. **The Froedtert Trust is not a Member of the Obligated Group and is not obligated to make payments on the Series 2017A Bonds or the Series 2017A Obligation.** Froedtert Hospital opened in 1980 as a five-story structure on the MRMC campus with a total area of approximately 400,000 square feet and has since undergone significant expansion and renovation. The current facility encompasses approximately 3,000,000 square feet of clinical and support space on the MRMC campus. As of December 31, 2016, Froedtert Hospital is approved for 655 beds, with 545 staffed beds.

Programs/Services. Froedtert Hospital provides a wide variety of clinical services including the following:

Anesthesiology	Infectious Diseases	Plastic / Reconstructive Surgery
Cardiothoracic Surgery	Minimally Invasive Surgery	Preventive / Occupational Medicine
Cardiovascular Medicine	Nephrology	Psychiatry / Behavioral Medicine
Dermatology	Neurology	Pulmonary / Critical Care Medicine
Diagnostic Radiology	Neurosurgery	Radiation Oncology
Emergency Medicine	Nuclear Medicine	Rheumatology
Endocrinology / Metabolism	Obstetrics / Gynecology	Surgical Oncology
Family Medicine	Ophthalmology	Transplant Surgery
Gastroenterology	Oral / Maxillofacial Surgery	Trauma / Critical Care Surgery
General Internal Medicine	Orthopedic Surgery	Urology
General Surgery	Otolaryngology	Vascular Surgery
Geriatric / Gerontology	Pancreatobiliary / Endocrine Surgery	
Hematology / Oncology	Physical Medicine / Rehabilitation	

FMLH partners with MCW for the provision of these services by its MCP physicians and surgeons. Most of the services provided by Froedtert Hospital are tertiary or quaternary care services.

Educational Affiliations. Froedtert Hospital is the major adult teaching affiliate of MCW. The other two significant teaching affiliates of MCW are the Clement J. Zablocki VA Medical Center and Children's Hospital of Wisconsin, which is located adjacent to Froedtert Hospital and MCW on the MRMC campus. The affiliation agreement between MCW and FMLH provides for joint programs in health care education, health-related research and health services. The affiliation agreement has a rolling ten-year term so that when one year expires, another year is added to the term. Either party must give the other party 120 months' notice in order to terminate the agreement. MCW has approximately 766 full-time equivalent residents and fellows at Froedtert Hospital, along with 845 medical students.

Substantially all patient encounters at Froedtert Hospital are teaching related and Froedtert Hospital provides extensive support for MCW's residency programs. Froedtert Hospital is utilized in MCW's residency programs in anesthesiology, cardiothoracic surgery, dermatology, diagnostic radiology, emergency medicine, general surgery, internal medicine, interventional radiology, medicine-pediatrics,

neurosurgery, neurology, obstetrics and gynecology, ophthalmology, oral and maxillofacial surgery, orthopedic surgery, otolaryngology, pathology, physical medicine and rehabilitation, plastic surgery, psychiatry, radiation oncology and urology.

FMLH supports continuing medical education. All of the medical services provide continuing medical education for their staff, residents and students. Scientific conferences are held on a weekly basis for most services. MCP physicians, faculty members, who comprise the majority of the medical staff of Froedtert Hospital, frequently serve as directors of continuing medical education programs for other hospitals within the State of Wisconsin and the surrounding region.

In addition to the affiliation with MCW, FMLH maintains educational affiliations with a number of other institutions including Alverno College, Cardinal Stritch University, Carroll College, Marian College, Marquette University, Milwaukee Area Technical College, Milwaukee School of Engineering, Mount Mary College, University of Wisconsin System (UW-Milwaukee and UW-Oshkosh) and Waukesha County Technical College.

Community Hospital Division

The Community Hospital Division currently consists of CMH and SJH. A single management team is responsible for the operations at both Community Memorial Hospital and St. Joseph's Community Hospital in order to provide consistent, cost effective, quality care to patients. Some of the ancillary, specialty and subspecialty services provided by the Community Hospital Division include:

Anesthesiology	Infectious Disease	Otolaryngology
Cardiothoracic Surgery	Internal Medicine	Physical Medicine and Rehabilitation
Cardiovascular Medicine	Neonatology	Plastic / Reconstructive Surgery
Dermatology	Nephrology	Psychiatry / Behavioral Medicine
Diagnostic Radiology	Neurology	Psychology
Emergency Medicine	Neurosurgery	Pulmonary critical care Medicine
Endocrinology / Metabolism	Nuclear Medicine	Radiation Oncology
Family Medicine	Obstetrics / Gynecology	Urology
Gastroenterology	Ophthalmology	Vascular Surgery
General Surgery	Oral Surgery	
Hematology / Oncology	Orthopedic Surgery	

A description of Community Memorial Hospital and St. Joseph's Community Hospital follows:

Community Memorial Hospital. Community Memorial Hospital is located on a 33-acre campus in Menomonee Falls, Wisconsin, approximately 20 miles northwest of downtown Milwaukee and 14 miles northwest of Froedtert Hospital. The hospital facility is a six-story building consisting of approximately 527,000 square feet. Community Hospital opened in July 1964 as a 61-bed facility and has since undergone several major expansions and remodeling projects. As of December 31, 2016, Community Memorial Hospital is approved for 237 beds, with 202 staffed beds.

St. Joseph's Community Hospital. St. Joseph's Community Hospital has been serving the City of West Bend and surrounding communities since 1930. The Sisters of the Divine Savior operated the original hospital from 1930 until 1971 when it was transferred to the community. The original hospital facility

was operated at its original location in downtown West Bend until August 2005, when SJH opened a new replacement hospital facility located approximately five miles south of the original hospital site.

St. Joseph's Community Hospital currently contains approximately 190,000 square feet and is located approximately 26 miles northwest of Froedtert Hospital and 17 miles north of Community Memorial Hospital. Two medical office buildings are attached to St. Joseph's Community Hospital. The medical office buildings are leased to Community Physicians for clinic space.

As of December 31, 2016, St. Joseph's Community Hospital is approved for 70 beds, all of which are staffed.

Community Physicians Health Centers and Clinics

Community Physicians is a joint clinical practice group formed in 2013 to create an economically, operationally and clinically aligned strategy and structure that enables previously separate medical groups to work together to achieve a high-performing patient care model focused on delivering value across the continuum. Community Physicians, in partnership with MCP, forms a portion of the FH System's academic-community partnership, which is a unique market differentiator for F&MCW. The ability to deliver the highest quality of care to patients across the care continuum – from walk-in care to chronic disease management to complex tertiary care – is best served by a health network, like F&MCW, comprised of strong community and academic providers and programs.

Community Physicians operates 29 ambulatory care sites in 16 communities within the FH System's broader service area across Waukesha, Washington and Milwaukee counties. The community-based health centers and clinics are significant sources of patient referrals to the FH System Hospitals.

There were 776,089 provider office visits provided by 355 physicians and advanced practice providers across Community Physicians in the fiscal year ended June 30, 2016.

The FH System continues to focus on expanding its geographic coverage throughout southeast Wisconsin by establishing patient-centered and efficient off-hospital campus clinic sites. Construction on three new ambulatory sites is currently underway, which are scheduled to open in late 2017 through early 2018. The three new ambulatory sites include:

- **Mequon Health Center** – Construction of a three-level, 89,000 square foot health center in Ozaukee County is expected to open in October 2017. Services to be offered at the location include primary care, OB/GYN, and an urgent care facility. The primary care space has been designed to accommodate changing care delivery models and future technology options such as virtual consults, e-visits and patient self-rooming. The facility will house a musculoskeletal service line program including orthopedics, sports medicine, physical rehabilitation, spine care and Froedtert Health's first sports training/performance enhancement center. The site will include lab, imaging and a remote medication dispensing site for pharmacy.
- **McKinley Health Center** – Construction of a three-level, 37,500 square foot health center in downtown Milwaukee is expected to open in November 2017. The facility will include a focus on primary care, employer services, orthopedic sports medicine, physical rehabilitation and ophthalmology. FastCare – a retail offering for medical care – will be offered at this site through a nurse practitioner model. The site is intended to directly benefit and meet the needs of the local community through a robust engagement program in partnership with the Milwaukee Bucks and

Bucks Foundation focusing on workforce development, chronic disease management and community health and awareness.

- **Drexel Town Square Health Center** – Construction of a three-level, 109,000 square foot health center in Oak Creek is expected to open in January 2018. The facility will function as a full-service regional health center offering adult and pediatric primary care, OB/GYN, an urgent care center, occupational medicine, a range of specialty services, ancillary services, pharmacy, an ambulatory surgery center (“ASC”), and a full cancer center. The primary care space is designed to accommodate changing care delivery models and future technology options such as virtual consults, e-visits and patient self-rooming. Specialty services will include gastroenterology, pain management, orthopedics, sports medicine, ophthalmology, otolaryngology, plastics surgery, general surgery, general neurology, cardiology, endocrinology, urology and dermatology. The site includes a 16,500 square foot ASC and 17,200 square foot cancer care center.

Other recent expansion of physicians and clinic sites include:

- **Central Waukesha Health Center** – Acquired in May 2016, the health center includes a family medicine physician and two physician assistants. Provides comprehensive health services including adult, adolescent and family medicine, along with on-site laboratory services.
- **Greendale Health Center** – Expanded in June 2016 with a new 15,000 square-foot replacement facility that provides onsite lab and radiology services and will accommodate up to five FTE physicians. Services at the new facility have been expanded to include pediatrics.
- **FastCare** – Two FastCare clinics were opened inside Meijer retail stores in Sussex and Waukesha, and two more locations will open in spring 2017 in new Meijer developments in Greenfield and West Bend, Wisconsin. These 800 square-foot clinics offer patients a fast, convenient and affordable option for treating minor illnesses and injuries.
- **Good Hope Health Center** - In September 2016, OB/GYN Lifetime’s Milwaukee location moved to a new 1,300 square-foot satellite location. The new clinic allows for the continued care of existing OB-GYN patients in the local marketplace. The Good Hope Health Center features a small lab, ultrasound and pre-natal coordinator services to allow for comprehensive women’s health services.
- **Calhoun Health Center** – In January 2017, a new 15,000 square foot health center opened in Brookfield, Wisconsin. Several OB-GYN physicians were relocated to the new site which provides genetic counseling, laboratory and radiology services, including ultrasound imaging and 3-D mammography. High-risk pregnancy consultations and primary care services will be added later in 2017.
- **Wisconsin Heart Group (WHG)** - Froedtert Health and MCW assumed majority ownership of WHG on January 1, 2017. The group’s four cardiologists will continue to practice at their current location in Brookfield, Wisconsin.
- **Oconomowoc Health Center** – In March 2017, Community Physicians is expected to acquire Lake Country Private Medical, which includes an internal medicine-pediatrics physician and a nurse practitioner. The practice will be relocated to the neighboring Froedtert & MCW SpineCare location, which is being renovated and will be renamed Oconomowoc Health Center to reflect the broader

scope of services that will be available at the site. Spine services will continue to be offered, along with endocrinology and the addition of an onsite lab.

Medical Staff

As of December 31, 2016, the combined medical staffs of the FH System Hospitals and Community Physicians numbered 1,476 physicians (MD/DO). The respective medical staffs of FH System Hospitals and Community Physicians are described below.

As of December 31, 2016, the active medical staff of Froedtert Hospital consisted of 893 physicians and the affiliate medical staff consisted of 172 physicians. All active and affiliate physicians on the Froedtert Hospital medical staff hold faculty appointments at MCW. In addition, as of December 31, 2016, the Froedtert Hospital medical staff included the following non-physician providers: 382 advanced practice professionals (advanced practice nurses, certified nurse midwives, certified registered nurse anesthetists and physician assistants), 24 clinical psychologists, one chiropractor, one dentist, four oral surgeons and five optometrists.

As of December 31, 2016, the active medical staff of the Community Hospital Division and Community Physicians consisted of 411 physicians who were active or affiliate members of the medical staff of Community Memorial Hospital, St. Joseph's Community Hospital or Community Physicians (not including those members who are also members of the staff of Froedtert Hospital). Not all physicians on the medical staff of Community Memorial Hospital or St. Joseph's Community Hospital are members of the faculty of MCW. In addition, as of December 31, 2016, the Community Hospital Division included 154 advanced practice professionals (advanced practice nurses, anesthesiologist's assistant, certified nurse midwives, certified registered nurse anesthetists, and physician assistants), three clinical psychologists, three general dentists, two oral surgeons, 10 podiatrists and five optometrists.

Froedtert Hospital

Specialty Grouping	Number of Physicians	Number Board Certified	% Board Certified	Average Age
Anesthesiology	101	83	82%	50
Community & Family Medicine	8	8	100	57
Dermatology	22	22	100	44
Emergency Medicine	44	36	82	44
Medicine	414	377	91	47
OB/GYN	38	31	82	44
Ophthalmology	36	25	69	49
Pathology	37	36	97	49
Pediatrics	88	86	98	46
Psychiatry	17	17	100	49
Radiation Oncology	16	15	94	43
Radiology	79	73	92	48
Surgery (MD/DO)	165	150	91	48
Total	1,065	959	90%	47

Community Hospital Division

Specialty Grouping	Number of Physicians	Number Board Certified	% Board Certified	Average Age
Anesthesiology	28	27	96%	46
Community & Family Medicine	43	42	98	48
Emergency Medicine	43	40	93	41
Medicine	153	151	99	48
OB/GYN	25	21	84	48
Ophthalmology	10	10	100	53
Pathology	3	3	100	59
Pediatrics	17	16	94	45
Psychiatry	6	6	100	49
Radiology	33	33	100	49
Surgery (MD/DO)	50	50	100	55
Total	411	399	97%	52

Network Health, Inc.

In November 2014, Froedtert Health completed a strategic transaction to acquire a 50% ownership interest in Network Health, Inc., a 170,000 member Wisconsin-based health insurance company owned by Ministry Health Care (now Ascension Wisconsin). NHI provides commercial, public exchange and Medicare Advantage health insurance plans to employers and individuals in eastern Wisconsin. NHI's Medicare Advantage PPO product holds the highest possible accreditation status from the National Committee for Quality Assurance. They also received an overall rating of 4.5 out of 5 stars from the Centers for Medicare & Medicaid Services.

For the twelve months ended June 30, 2016, NHI reported total operating revenue of \$878 million and total operating expense of \$907 million resulting in an operating loss of \$29 million. Froedtert Health records its investment in NHI using the equity method of accounting and has recorded its share of the operating loss in Other Operating Revenue. NHI has implemented several recent growth initiatives including:

- April 2015 – introduced a commercial insurance product in southeast Wisconsin.
- January 2016 – entered into the public health insurance exchanges in northeast and southeast Wisconsin.
- January 2017 – launched the Medicare Advantage product in southeast Wisconsin.

STRATEGIC PLANS AND SIGNIFICANT CAPITAL PROJECTS

Froedtert Health Strategic Plans

Froedtert Health's strategy is to strengthen its position as a health care provider of choice by providing high quality care and responding to community health care needs. Froedtert Health plans for, evaluates and pursues potential merger and affiliation candidates on a consistent basis as part of its overall strategic planning and development process. Froedtert Health may receive offers from, or conduct discussions with, third parties about the potential acquisition of operations or properties that may become part of the

FH System in the future, or about the potential sale of some of the operations and properties of Froedtert Health.

Froedtert Health is engaged in on-going discussions with several parties regarding the acquisition of, or investment in, certain health care entities. Such discussions may lead to transactions with such parties, but there is no assurance that such transactions will be completed, and if completed, the particular terms or timing thereof. Certain costs and risks are associated with affiliations, mergers and acquisitions. Anticipated efficiencies or economies of scale may not materialize, unanticipated liabilities may arise and the costs of integrating a hospital facility may be significantly more than estimated. In addition, expanding an integrated health care delivery network may require significant capital for facility improvements and development of support systems.

Capital Projects; Five-Year Strategic Plan

Froedtert Health updates its five-year capital plan annually as part of its annual budgeting process. In its fiscal year 2017 - 2021 capital plan, Froedtert Health has identified \$1.0 billion of capital projects (approximately 180% of depreciation). The strategic objectives of the Froedtert Health five-year capital plan are to: (i) position Froedtert Health to further align its markets and provide convenient access to patient-centered care through the strategic deployment of key service lines; and (ii) position Froedtert Health for continued growth, improving patient flow and operating efficiency while addressing capacity issues.

The major categories of capital expenditures include the vertical expansion of the Center for Advanced Care ("CFAC") and related projects on the Froedtert Hospital campus, new clinic sites, information systems projects, hospital campus expansion and equipment acquisitions. Froedtert Health currently intends to fund the identified capital expenditures in the five-year capital plan from proceeds of the Series 2017A Bonds and Series 2017 Bank Bonds, cash flows from operations and existing cash reserves. No additional borrowing is planned at this time. As part of its review each year of the five-year capital plan, Froedtert Health management may increase or decrease capital spending based on operations, healthcare regulations, economic market conditions, community needs, opportunities that arise and other factors.

Capital Investments in Information Technology

Froedtert Health's capital investment in information technology is critical to improved clinical workflow, multi-dimensional health intelligence, community engagement and innovative advanced diagnostics. In consideration of these factors, Froedtert Health has implemented Epic Enterprise software as its EHR solution at its clinical sites. With an integrated EHR, Froedtert Health is better able to capture clinical data needed to enable consistent quality, performance and cost measurement across all care settings. Having this data allows for opportunities to analyze points of success and weakness in Froedtert Health's clinical operations so that actions may be taken to exceed the specified performance of the Centers for Medicare & Medicaid Services. The timely deployment of Epic Enterprise software has allowed Froedtert Health to remain in certified compliance with Meaningful Use regulations and avoid reimbursement penalties. Total operating expenses related to information technology amounted to \$80 million in fiscal 2016 and are estimated to approximate \$95 million in fiscal 2017.

Recently Completed Projects

Recently completed projects on the campuses of the FH System Hospitals and Community Physicians health centers and clinics include:

- In October of 2015, FMLH finished construction of the Center for Advanced Care. This 675,000 square foot facility contains three levels of below grade parking and eight levels of clinical and support space above grade. Key clinical programs that occupy the building include a Transplant Center, Surgery Clinic, Pre-Admission Testing, Pre/Post Procedural patient care (serving Surgery, Cardiac Catheterization/EP, and Interventional Radiology/Neuro Interventional), a new Heart and Vascular Center, an ENT Clinic, Pulmonary Clinics and new Oral & Maxillofacial patient care space. Additionally, FMLH has created Hematology, Oncology and Blood Marrow Transplant inpatient units into the upper floors of the CFAC. These 64 new inpatient rooms provide much needed inpatient space, deliver an enhanced healing environment for these critically ill patients and allow additional ICU renovations to occur within the main building. The CFAC building provides an important avenue for ambulatory clinical growth as well as much-needed inpatient capacity. The CFAC has positioned FMLH to execute strategic growth plans that encompass interventional services (outlined below), inpatient care, intensive care and ambulatory care.
- In May 2016, Froedtert Health saw its first patient in the new Joint and Spine Center at Community Memorial Hospital. As part of the Community Memorial Hospital Ortho Center of Excellence, the new Joint and Spine Center is home to a new Preoperative Clinic for surgery services which feature additional exam space and a unique Education Center. The Joint and Spine Center also offers dedicated entrances for patients and staff, thus improving the overall patient experience. Because of its central location, the Joint and Spine Center brings value and convenience to the communities in which it serves. The new facility functions as Froedtert Health's hub for total joint replacements and elective spine surgeries.
- In July 2016, Froedtert Health opened a free standing Emergency Department at the Moorland Reserve Health Center, located 10 miles from Froedtert Hospital. Due to the overwhelming demands associated with the Urgent Care program at Moorland Reserve, Froedtert Health opted to build an addition to the 2013 building and deploy a new 18 bed Emergency Department. The new space includes full radiology services and comprehensive diagnostic testing. Froedtert Hospital staff members are available 24 hours/day and seven/days week. Patients with higher acuity levels are transported to Froedtert Hospital or Community Memorial Hospital for continued care.
- In August 2016, Froedtert Health opened a renovated and expanded Emergency Department at Community Memorial Hospital. The project fully redesigned and renovated the existing Emergency Department and added an additional 4,000 square feet to the existing footprint. Some components of the new design included a new main entrance, a security office, a larger patient waiting area, new registration window, a triage area and seven extra exam rooms. With the renovation complete, there is much easier access to the Emergency Department from within the hospital, allowing for more efficient workflows and optimization of patient care.
- In September 2016, FMLH started seeing patients in Froedtert Hospital's newly renovated and expanded Birthing Center. This multi-phased project enlarged the current Birthing Center to 60,000 square feet via an expansion of the program to the 8th floor of Children's Hospital of Wisconsin. This location provided for physical proximity to Children's Hospital of Wisconsin's neonatal intensive care unit. The existing Birthing Center space on the 6th and 7th floors of Froedtert Hospital was

completely remodeled. Now completed, the 6th floor accommodates 20 anti-partum beds and support space, while the 7th floor supports a fresh new patient entrance, 19 new post-partum beds, a new nursery and new parent sleeping rooms with quick access to the neonatal ICU. The 8th floor contains three new C-section operating rooms, 12 large new labor-delivery-recovery beds and a much more efficient triage area.

Current Projects

- In January 2017, Froedtert Health opened a new Simulation Center, the first of its kind for FMLH. The Simulation Center provides a resource and real-life environment for care providers to facilitate the training and development of department staff through the use of simulated scenarios. Department groups that often work together can train together to better respond in emergency situations. The training resource environments include: inpatient rooms, operating rooms, ICU and trauma rooms, control rooms and private observation galleries for each Simulation Theater. The new space also includes a Skills Development Lab. The Simulation Center is centrally located within Froedtert Hospital and provides a platform for staff and clinicians to enhance their skills and abilities.
- In June 2017, FMLH will open Phase I of the new Integrated Procedural Platform, which occupies a significant portion of the third floor of Froedtert Hospital. This state-of-the-art patient care space consolidates Arrival/Check-in, Family Waiting, Pre/Post Procedural patient care, Operating Rooms, Cardiac Catheterization/EP rooms and Interventional Radiology/ Neuro-Interventional suites. The Integrated Procedural Platform will consolidate surgical services, which currently operate in two locations on two floors of Froedtert Hospital. This milestone project will provide optimized environments of care for surgical and interventional services, while effectively consolidating clinical and support functions. This new procedural environment provides optimal space for surgeons and clinicians to effectively care for patients. As part of this initiative, many of Froedtert Hospital's existing operating rooms will also be renovated. Two additional "flexible" operating room conditions are also being created. The first is an Intraoperative MRI. Intraoperative magnetic resonance imaging (iMRI) allows clinicians to create highly technical images of the patient during surgery. The second is an Intraoperative CT. Intraoperative computerized tomography (iCT) allows surgeons to view images during complex brain, spine and trauma surgeries that otherwise would not be able to be seen.
- With the relocation of Hematology and Oncology to the new inpatient floors in the CFAC, FMLH strategically opened the square footage required to create two new 20-bed intensive care units at Froedtert Hospital. These new units will be housed in the North Tower and will be located on 4th floor and 5th floor, respectively. Each unit is scheduled to be 22,000 square feet and house many state of the art ICU technologies that will continue to enhance the care experience for patients, families and staff members. Each ICU room is sized appropriately to ensure clear access to all patient care components, contains ceiling hung medical equipment booms for 360 degree patient access and each room includes a family zone, which will supply comfortable accommodations for family members and additional care givers. These new units will come online in July 2017.

Future Plans and Projects

- Due to the amount of inpatient bed demand, Froedtert Health will begin vertically expanding the CFAC building in July 2017. The current CFAC building is eight stories above ground (with three stories of parking below). FMLH will vertically expand this building by four floors, with the ultimate height of the finished product being a total of twelve floors. The additional four floors will be similar

in square footage as floors 7 and 8. By adding these four floors (two to be built out and two to be shelled space for future use), FMLH has the opportunity to construct a total of 128 additional inpatient rooms. Additionally, by creating these new inpatient units in CFAC, FMLH will strategically be able to enhance some of the existing space within Froedtert Hospital.

- In the summer of 2017, FMLH will open its new Hybrid MRI Linear Accelerator (MR-Linac), which is housed within the Clinical Cancer Center. Researchers at Froedtert Hospital are part of a research consortium developing and studying the MR-Linac's capabilities, in partnership with other members throughout the world. Together, Froedtert Health and its partners are evaluating the MR-Linac's ability to lead to improved patient outcomes for existing and future radiation therapy indications. FMLH's Clinical Cancer Center is the second U.S. location that has launched this technology and the fifth location globally.
- Froedtert Hospital is currently undergoing a major renovation and restructure of its central sterile processing department. Currently, the central sterile functions are operated in two separate portions of Froedtert Hospital. At the conclusion of this renovation, central sterile will be consolidated in one location, adjacent to the new Integrated Procedural Platform. The new space will be available for use in mid-2019, and is anticipated to greatly enhance departmental process flows.

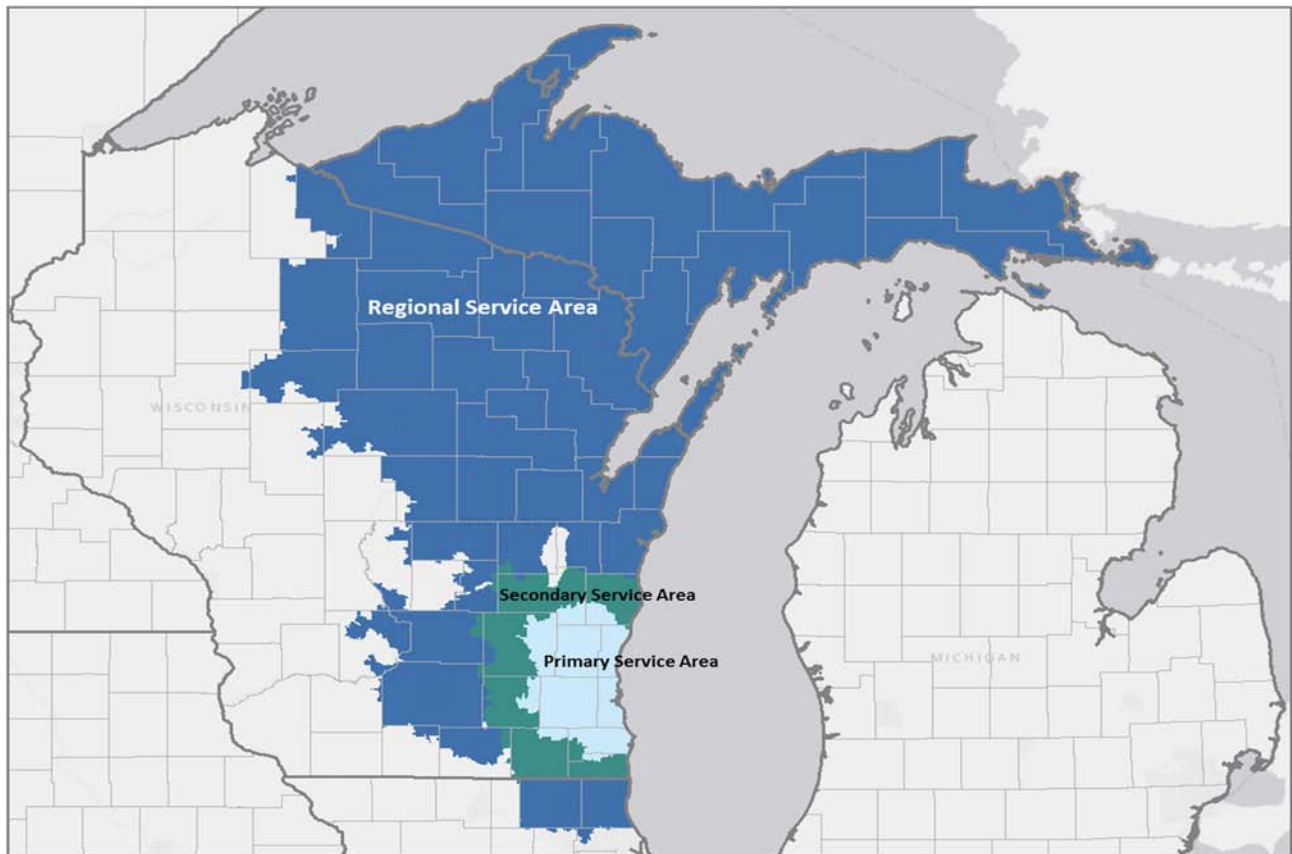
SERVICE AREA AND MARKET SHARE

Description of Service Area

Management of Froedtert Health identifies the primary service area for the FH System as the zip codes within the Milwaukee metropolitan area, and encompasses the zip codes surrounding the five counties of Milwaukee, Racine, Waukesha, Washington and Ozaukee counties. Froedtert Health also competes for tertiary care and referral business in areas just outside the Milwaukee metropolitan area, identified as the secondary service area, as well as the regional service area which includes the remaining areas of eastern Wisconsin, the upper peninsula of Michigan and parts of northeast Illinois. The following table shows the estimated population of these service areas based on U.S. Census data:

Service Area	2016 Population (Estimated)	2021 Population (Projected)	% Increase	% of Patients in FY16
Primary Service Area	1,820,605	1,862,089	2.28%	87.8%
Secondary Service Area	617,875	640,167	3.61	6.1
Regional and other Service Areas	3,460,365	3,603,260	4.13	6.1
Total	5,898,845	6,105,516	3.50%	100.0%

Source: Date Bay
Revision Date: 1/9/2017



Froedtert Health and Competitor Inpatient Utilization

The Froedtert Health competes primarily with four hospital systems in its primary and secondary service areas. The following table provides three years of inpatient utilization information for the FH System Hospitals and the four competitor hospital systems.

Combined Primary and Secondary Service Area

	12 Months Ended		
	6/30/2014	6/30/2015	6/30/2016
	Discharges	Discharges	Discharges
<i>Froedtert Health</i>			
Froedtert Hospital	25,428	27,008	26,710
Community Memorial Hospital	9,498	9,627	9,235
St. Joseph's Community Hospital	4,301	4,494	4,433
Froedtert Health Total	39,227	41,129	40,378
<i>Aurora Health Care</i>			
Aurora Sinai	10,722	10,441	10,380
Aurora St. Luke's South Shore	5,083	5,184	5,182
Aurora St. Luke's	27,117	27,560	28,008
Aurora Hartford	1,640	1,608	1,388
Aurora West Allis	16,136	16,295	16,483
Aurora Grafton	6,995	7,579	8,157
Aurora Summit	2,930	3,279	3,674
Aurora Health Care Total	70,623	71,946	73,272
<i>Wheaton Franciscan (Now Ascension Wisconsin)</i>			
WFH All Saints	15,751	15,416	14,242
WFH Elmbrook	5,126	4,981	4,730
WFH Franklin	1,810	1,983	2,288
WFH St. Francis	8,244	8,739	7,880
WFH St. Joseph	12,279	11,054	10,475
MW Spine and Ortho and WI Heart Hospital	1,261	1,333	1,157
MW Orthopedic Specialty Hospital	1,407	1,250	1,371
Wheaton Franciscan Total	45,878	44,756	42,143
<i>Columbia St. Mary's (Now Ascension Wisconsin)</i>			
CSM Milwaukee	14,338	14,067	14,076
CSM Ozaukee	4,789	5,376	4,915
Columbia Center	975	1,033	1,113
Orthopedic Hospital of WI	1,114	1,136	1,181
Columbia St. Mary's Total	21,216	21,612	21,285
<i>ProHealth Care</i>			
Oconomowoc Memorial Hospital	3,375	3,282	3,187
Waukesha Memorial Hospital	15,421	14,958	14,362
Rehabilitation Hospital of WI	642	674	765
ProHealth Care Total	19,438	18,914	18,314

Note: Based on all inpatient discharges, including newborns and hospice
Data Source: DataBay (data collected by Wisconsin Hospital Association)
Revision Data: 1/9/2017

Froedtert Health Position in the Primary and Secondary Service Area

As shown in the table below, as of June 30, 2016, which is the most current market share information available, Froedtert Health has the third largest inpatient market share in the primary service area and combined primary and secondary service area, and Froedtert Hospital had the second highest inpatient market share for an individual hospital in both the primary service area and the combined primary and secondary service area:

	Primary Service Area Inpatient Market Share			Combined Primary and Secondary Service Area Inpatient Market Share		
	12 Months Ended			12 Months Ended		
	6/30/2014	6/30/2015	6/30/2016	6/30/2014	6/30/2015	6/30/2016
<i>Froedtert Health</i>						
Froedtert Hospital	11.1%	11.6%	11.7%	9.4%	9.8%	9.9%
Community Memorial Hospital	4.5%	4.4%	4.4%	3.5%	3.5%	3.4%
St. Joseph's Community Hospital	2.0%	2.1%	2.1%	1.6%	1.6%	1.7%
Froedtert Health Total	17.6%	18.1%	18.2%	14.5%	14.9%	15.0%
<i>Aurora Health Care</i>						
Aurora Sinai	5.0%	4.8%	4.9%	4.0%	3.8%	3.9%
Aurora St. Luke's	11.6%	11.6%	12.0%	10.0%	10.1%	10.4%
Aurora Hartford	0.8%	0.7%	0.6%	0.6%	0.6%	0.5%
Aurora West Allis	7.5%	7.5%	7.8%	6.0%	5.9%	6.1%
Aurora Grafton	3.1%	3.3%	3.7%	2.6%	2.8%	3.0%
Aurora Summit	1.2%	1.3%	1.5%	1.1%	1.2%	1.4%
Aurora Health Care Total	29.1%	29.2%	30.4%	24.2%	24.3%	25.4%
<i>Wheaton Franciscan (Now Ascension Wisconsin)</i>						
WFH All Saints	6.6%	6.4%	6.2%	5.8%	5.6%	5.3%
WFH Elmbrook	2.4%	2.3%	2.2%	1.9%	1.8%	1.8%
WFH Franklin	0.8%	0.9%	1.1%	0.7%	0.7%	0.9%
WFH St. Francis	3.9%	4.0%	3.7%	3.0%	3.2%	2.9%
WFH St. Joseph	5.8%	5.2%	5.0%	4.5%	4.0%	3.9%
MW Spine and Ortho and WI Heart Hospital	0.6%	0.6%	0.5%	0.5%	0.5%	0.4%
MW Orthopedic Specialty Hospital	0.6%	0.5%	0.6%	0.5%	0.5%	0.5%
Wheaton Franciscan Total	20.7%	20.0%	19.4%	16.9%	16.3%	15.7%
<i>Columbia St. Mary's (Now Ascension Wisconsin)</i>						
CSM Milwaukee	6.7%	6.5%	6.7%	5.3%	5.1%	5.2%
CSM Ozaukee	2.2%	2.4%	2.2%	1.8%	2.0%	1.8%
Columbia Center	0.4%	0.5%	0.5%	0.4%	0.4%	0.4%
Orthopedic Hospital of WI	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%
Columbia St. Mary's Total	9.8%	9.9%	9.9%	7.8%	7.9%	7.9%
<i>ProHealth Care</i>						
Oconomowoc Memorial Hospital	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%
Waukesha Memorial Hospital	7.0%	6.7%	6.6%	5.7%	5.5%	5.3%
Rehabilitation Hospital of WI	0.3%	0.3%	0.3%	0.2%	0.2%	0.3%
ProHealth Care Total	8.7%	8.3%	8.2%	7.2%	6.9%	6.8%

Note: Based on all inpatient discharges, including newborns and hospice
 Data Source: DataBay (data collected by Wisconsin Hospital Association)
 Revision Data: 1/9/2017

Froedtert Hospital's Position in the Regional Service Area

As the only academic medical center in southeast Wisconsin, Froedtert Hospital is uniquely positioned to attract patients from the regional service area. Patients outside of the primary and secondary service area accounted for approximately 6.1% of Froedtert Hospital's inpatient admissions for the twelve months ended June 30, 2016.

SUMMARY UTILIZATION STATISTICS AND PAYOR MIX

Overview

The following summary utilization statistics are presented for FMLH, the Community Hospital Division and Community Physicians separately for all periods shown. Payor mix is shown for the Members of the Obligated Group.

Utilization – FMLH

Utilization for Froedtert Hospital for fiscal years ended June 30, 2014, 2015 and 2016 and the six months ended December 31, 2015 and 2016 is summarized below.

<u>Statistic</u>	Year Ended June 30,			Six Months Ended December 31,	
	2014	2015	2016	2015	2016
Admissions – Acute	25,452	27,176	27,534	13,642	14,857
Observations	5,437	5,505	5,984	2,893	3,061
Patient Days	140,209	144,132	149,241	72,231	81,994
Average Length of Stay	5.51	5.30	5.42	5.29	5.52
Staffed Beds	516	516	536	530	545
Occupancy Rate	74%	77%	76%	74%	82%
Average Daily Census	384	395	408	393	446
Outpatient Hospital Visits	736,450	762,977	789,197	393,788	399,303
Emergency Department Visits	64,742	67,089	67,216	32,292	35,723
Surgical Cases	16,547	17,149	17,520	8,693	9,440
Case Mix Index – All Payors	1.82	1.82	1.90	1.87	1.94

Utilization – Community Hospital Division

Utilization for the Community Hospital Division for fiscal years ended June 30, 2014, 2015 and 2016 and the six months ended December 31, 2015 and 2016 is summarized below.

Statistic	Year Ended June 30,			Six Months Ended December 31,	
	2014	2015	2016	2015	2016
Admissions – Acute	12,242	12,605	12,499	6,269	6,164
Observations	2,963	2,785	2,781	1,438	1,463
Patient Days	52,301	51,056	47,551	23,388	23,166
Average Length of Stay	4.27	4.05	3.80	3.73	3.76
Staffed Beds	272	272	272	272	272
Occupancy Rate	53%	51%	48%	47%	46%
Average Daily Census	143	140	130	127	126
Outpatient Hospital Visits	169,016	168,101	176,765	87,208	94,167
Emergency Department Visits	37,273	39,914	40,507	20,365	23,903
Surgical Cases	10,930	10,838	10,132	5,218	5,145
Case Mix Index – All Payors	1.39	1.40	1.42	1.39	1.45

Utilization – Community Physicians

Utilization for Community Physicians for fiscal year ended June 30, 2014, 2015 and 2016 and the six months ended December 31, 2015 and 2016 is summarized below.

Statistic	Year Ended June 30,			Six Months Ended December 31,	
	2014	2015	2016	2015	2016
Physician Clinic Visits:					
Community Physicians	686,501	751,370	776,089	383,014	390,727

Payor Mix – Obligated Group

Payments on behalf of certain patients are made by the State of Wisconsin under the Medicaid program, the federal government under the Medicaid and Medicare programs, commercial insurance carriers, health maintenance organizations and preferred provider organizations. Revenues received under these programs or contracts generally pay for services on a basis other than published charges. See “BONDHOLDERS RISKS – Payment for Health Care Services” in the forepart of this Official Statement.

The following table shows the payor mix as a percentage of the Obligated Group’s gross revenues for the fiscal years ended June 30, 2014, 2015 and 2016:

	2014	2015	2016
Medicare	41.8%	42.5%	43.0%
Medicaid	12.5	14.3	14.4
Managed Care	37.8	36.9	36.4
Self-Pay	3.2	1.3	1.4
Other	4.7	5.0	4.8
Total	100.0%	100.0%	100.0%

For the fiscal year ended June 30, 2016, 67.8% of the managed care payor mix was from United Healthcare, Anthem and Humana patients. The Froedtert Health United Healthcare contract and the Froedtert Health Humana contract expire December 31, 2017. The Froedtert Health Anthem contract expires December 31, 2018.

HISTORICAL FINANCIAL INFORMATION

Summary Financial Information – Froedtert Health

The following consolidated and condensed statements of operations and changes in net assets of Froedtert Health for the fiscal years ended June 30, 2014, 2015 and 2016 and the consolidated and condensed balance sheets of Froedtert Health as of June 30, 2014, 2015, 2016 have been derived from the consolidated financial statements of Froedtert Health and affiliates which have been audited by KPMG LLP, independent auditors. This summary financial information should be read in conjunction with the consolidated financial statements and related notes as of and for the years ended June 30, 2015 and 2016 and included in Appendix B. The consolidated and condensed statements of operations for the six months ended December 31, 2015 and 2016 and the consolidated and condensed balance sheet as of December 31, 2016, each of which are unaudited, were prepared by management of Froedtert Health. The results of operations for the six months ended December 31, 2016 should not necessarily be considered indicative of results for the full year ending June 30, 2017.

In accordance with the terms and provisions of the Master Indenture, financial statements may include activities of Immaterial Affiliates (as defined in the Master Indenture), for all purposes under the Master Indenture, including compliance with various financial tests, so long as Immaterial Affiliates represent less than 15% of the combined or consolidated net assets of the Obligated Group. See Appendix C “Summary of the Master Indenture – Filing of Financials Statements, Reports, and Other Information” for a description of the financial reporting requirements. The activities of Froedtert Health’s affiliates which are not part of the Obligated Group are included in these financial statements. The activities of such affiliates amount to approximately 3.99% of total assets, 4.55% of total net assets and approximately 15.80% of total unrestricted revenue as of and for the year ended June 30, 2016. Such financial information should be read in conjunction with the audited consolidated financial statements of Froedtert Health and affiliates included in Appendix B hereto.

Froedtert Health Condensed Consolidated Balance Sheets

(in 000's)	June 30, 2014	June 30, 2015	June 30, 2016	December 31, 2016 (unaudited)
Current assets	\$ 668,122	\$ 707,707	\$ 688,748	\$ 793,944
Investments	1,148,198	1,277,063	1,348,294	1,337,516
Assets whose use is limited or restricted	134,551	110,637	122,718	107,628
Net property, plant & equipment	733,598	818,527	946,298	1,012,255
Other assets	72,332	152,003	148,801	140,529
Total Assets	\$ 2,756,801	\$ 3,065,937	\$ 3,254,859	\$ 3,391,872
Current liabilities	\$ 561,786	\$ 584,543	\$ 607,207	\$ 620,104
Long-term liabilities	644,338	761,622	825,360	822,366
Total Liabilities	1,206,124	1,346,165	1,432,567	1,442,470
Unrestricted net assets	1,538,166	1,704,717	1,805,646	1,930,595
Temporary and permanently restricted net assets	12,511	15,055	16,646	18,807
Total net assets	1,550,677	1,719,772	1,822,292	1,949,402
Total Liabilities and Net Assets	\$ 2,756,801	\$ 3,065,937	\$ 3,254,859	\$ 3,391,872

Froedtert Health Condensed Consolidated Statement of Operations and Changes in Unrestricted Net Assets

(in 000's)	Fiscal Year Ended June 30,			Six Months Ended December 31, (unaudited)	
	2014	2015	2016	2015	2016
Net patient service revenue	\$ 1,588,466	\$ 1,816,975	\$ 1,982,078	\$ 981,635	\$ 1,032,996
Other operating revenue	66,681	74,706	30,677	1,408	22,856
Total revenue	1,655,147	1,891,681	2,012,775	983,043	1,055,852
Depreciation and amortization	73,264	80,628	88,376	45,819	56,081
Interests	23,171	24,846	31,665	15,365	16,250
All other expenses	1,475,341	1,637,218	1,748,149	856,076	943,755
Total expenses	1,571,776	1,742,692	1,868,190	917,260	1,016,086
Operating revenues in excess of expenses	83,371	148,989	144,565	65,783	39,766
Non- Operating gains and losses, net	126,945	11,553	(23,849)	(58,626)	67,003
Revenue in excess of expenses and gains and losses	210,316	160,542	120,716	7,157	106,769
Other change in unrestricted net assets	(2,626)	6,009	(19,787)	77	18,180
Increase in Unrestricted net assets	207,690	166,551	100,929	7,234	124,949
Unrestricted net assets, beginning of the period	1,330,476	1,538,166	1,704,717	1,704,717	1,805,646
Unrestricted net assets, end of the period	\$ 1,538,166	\$ 1,704,717	\$ 1,805,646	\$ 1,711,951	\$ 1,930,595

MANAGEMENT DISCUSSION OF OPERATING AND FINANCIAL RESULTS

Six Months Ended December 31, 2016 and December 31, 2015

Froedtert Health's revenues and gains in excess of expenses and losses of \$106.8 million for the six months ended December 31, 2016 represented an increase of \$99.6 million or 1,391.8% from the six months ended December 31, 2015. Froedtert Health operating revenues in excess of expenses of \$39.8 million for the six months ended December 31, 2016 represented a decrease of \$26.0 million or 39.5% from the six months ended December 31, 2015. Net non-operating gains and losses of \$67.0 million for the six months ended December 31, 2016 represented an increase of \$125.6 million from the six months ended December 31, 2015 resulting primarily from higher investment portfolio income and a positive change in the fair value of interest rate swaps.

Revenue

Total revenues of \$1.06 billion for the six months ended December 31, 2016 represented an increase of \$72.8 million or 7.4% from the six months ended December 31, 2015.

Net patient service revenue, representing 97.8% of total revenues, increased 5.2% over the six month period ended December 31, 2015. The overall increase was due to increased patient volume, particularly hospital admissions and outpatient visits. Underlying trends are identified as follows:

- Inpatient admissions of 21,021 increased by 5.6% from the six months ended December 31, 2015 to the six months ended December 31, 2016. Average length of stay increased from 4.80 to 5.00 days, patient days increased by 10.0% and the case mix index increased from 1.72 to 1.80.
- Hospital outpatient visits of 493,470 increased by 2.6% from the six months ended December 31, 2015 to the six months ended December 31, 2016.
- Community Physicians clinic visits of 390,727 increased by 2.0% from the six months ended December 31, 2015 to the six months ended December 31, 2016.
- Emergency department visits of 59,626 increased by 13.2% with increases at all hospital locations.
- Other operating revenue represented 2.2% and 0.1% of total operating revenue for the six month periods ended December 31, 2016 and 2015, respectively.

Expenses

Total operating expenses of \$1.0 billion for the six months ended December 31, 2016 represented an increase of \$98.8 million or 10.8% from the six months ended December 31, 2015. Underlying trends are identified as follows:

- Salaries, wages and employee benefits increased 13.7% over the six months ended December 31, 2015 due to the overall growth in total revenue (7.4%), inpatient admissions (5.6%), outpatient hospital visits (2.6%), Community Physicians clinic visits (2.0%) and patient acuity as measured by the all payor case mix index (4.7%) noted above. Wage adjustments and an increase in premium pay and overtime during the period also contributed to the increase. Full-time equivalent staff increased (9.1%) from the six month period ending December 31, 2016 as compared to the six month period

ending December 31, 2015. Employee benefits expense as a percent of salary and wage expense was 25.2% and 26.5% for the six months ended December 31, 2016 and 2015, respectively.

- Supplies expense increased \$19.7 million or 9.7% over the same period of the prior year. Supplies as a percent of total revenues was 21.1% and 20.6% for the six months ended December 31, 2016 and 2015, respectively.
- Contract service expense increased \$3.2 million or 6.2% over the same period of the prior year. Contract services as a percent of total revenues was 5.1% and 5.2% for both six months ended December 31, 2016 and 2015, respectively.
- Affiliate support decreased \$729,000 or 1.4% due to certain provisions in the funds flow agreement with MCW, that provides funding for the shared academic mission and additional venues in support of education, research and community engagement. Affiliate support as a percent of total revenues was 4.9% and 5.3% for the six months ended December 31, 2016 and 2015, respectively.
- Depreciation and amortization expense increased \$10.3 million or 22.4% over the same period of the prior year. Depreciation and amortization as a percent of total revenues was 5.3% and 4.7% for the six months ended December 31, 2016 and 2015, respectively. The increase is attributable to increased capital expenditures particularly on the Froedtert Hospital campus in recent years.
- Other expenses increased \$7.5 million or 5.9% over the same period of the prior year. Other expenses, as a percent of total revenues were 12.7% and 12.9% for the six months ended December 31, 2016 and 2015, respectively.

Non-operating gains and losses

Total non-operating gains and (losses), net were \$67.0 million for the six months ended December 31, 2016 and represented an increase of \$125.6 million or 214.3% from the six months ended December 31, 2015. Underlying trends are identified as follows:

- Investment portfolio income increased by \$109.0 million in the six months ended December 31, 2016 as compared to the six months ended December 31, 2015. This resulted primarily from a \$35.1 million net unrealized investment gain during the six months ended December 31, 2016 as compared to a \$73.9 million net unrealized investment loss during the six months ended December 31, 2015.
- Fair value gains on interest rate swaps of \$13.0 million occurred during the six months ended December 31, 2016 as compared to fair value losses of \$3.7 million during the six months ended December 31, 2015.
- Net assets of \$1.9 billion increased by \$127.1 million from June 30, 2016. The net increase generally reflects revenues and gains in excess of expenses and losses for the six months ended December 31, 2016.

Fiscal Years Ended June 30, 2016 and June 30, 2015

Froedtert Health's revenues and gains in excess of expenses and losses of \$120.7 million for the twelve months ended June 30, 2016 represented a decrease of \$39.8 million or 24.8% from the twelve months ended June 30, 2015. Froedtert Health's operating revenues in excess of expenses of \$144.6 million for the twelve months ended June 30, 2016 represented a decrease of \$4.4 million or 3.0% from the twelve months ended June 30, 2015. Total non-operating gains (losses), net of (\$23.8) million for the twelve months ended June 30, 2016 represented a decrease of \$35.4 million from the twelve months ended June 30, 2015 resulting primarily from lower investment portfolio income and a change in the fair value of interest rate swaps.

Revenue

Total revenue of \$2.0 billion for the twelve months ended June 30, 2016 represented an increase of \$121.1 million or 6.4% from the twelve months ended June 30, 2015.

Net patient service revenue, representing 98.5% of total revenues, increased 9.1% over the twelve-month period ended June 30, 2015. The overall increase was due to outpatient services growth across Froedtert Health and increased payment rates associated with certain managed care contracts. Underlying trends are identified as follows:

- Inpatient admissions of 40,033 increased by 0.6% from the previous fiscal year. The slight increase in admissions is viewed favorably by management due to efforts made to reduce readmissions. Average length of stay increased slightly from 4.91 to 4.92 days, patient days increased by 0.8% and the case mix index increased from 1.69 to 1.75.
- Hospital outpatient visits of 965,962 increased by 3.7% from the previous fiscal year. The outpatient visit increase resulted primarily from focus and growth in oncology, heart and vascular and surgical services along with management's efforts to provide patient care in the most efficient and effective setting.
- Emergency department visits of 107,723 increased by 0.7%.
- Wisconsin's Economic Recovery Act includes a tax assessment on hospital and ASC revenues. Funds collected under the tax are used to increase federal funding for the Wisconsin Medicaid program. Froedtert Health recognized \$49.7 million and \$47.9 million of increased Medicaid reimbursement and \$37.5 million and \$35.2 million of tax expense as a result of the law for the years ended June 30, 2016 and 2015, respectively.
- Other operating revenue represented 1.5% and 3.9% of total operating revenue in the years ended June 30, 2016 and 2015, respectively. A loss of \$35.6 million was recorded in other operating revenue related to the investment in NHI compared to a loss of \$2.2 million in the previous year. The 2016 loss is comprised of an impairment charge of \$16.3 million, \$8.1 million of Froedtert Health's 50% share of NHI's net losses for the fiscal year, a premium deficiency reserve estimate of \$8.2 million, and \$3.0 million related to purchase price adjustments in NHI.

Expenses

Total operating expenses of \$1.9 billion for the twelve months ended June 30, 2016 represented an increase of \$125.5 million or 7.2% from the year ended June 30, 2015. Underlying trends are identified as follows:

- Salaries, wages and employee benefits increased 11.6% over the twelve months ended June 30, 2015 consistent with the overall growth in total revenue (6.4%), adjusted discharges 3.9% and patient acuity as measured by the all payor case mix index (3.6%) noted above. Full-time equivalent staff increased to accommodate growth and routine wage adjustments during the period contributed to the increase. Employee benefits expense as a percent of salary and wage expense was 24.6% and 26.3% for the years ended June 30, 2016 and 2015, respectively.
- Supplies expense increased \$50.5 million or 14.0% over the same period of the prior year. Supplies as a percent of total revenues were 20.4% and 19.0% for the years ended June 30, 2016 and 2015, respectively. Higher supply expenses are consistent with overall services growth, as measured by the increase in adjusted discharges and higher patient acuity, as measured by the all payor case mix index increase of 3.6%. Pharmaceutical costs, including certain hematology/oncology pharmaceuticals, also contributed to the increased supply expenses.
- During the twelve months ended June 30, 2016, contract services decreased \$29.8 million or 21.2% as compared to the twelve months ended June 30, 2015. Effective June 30, 2015, the acquisition of the 50% unowned portion of United / Dynacare resulted in the creation of Wisconsin Diagnostic Laboratories, LLC, a wholly owned affiliate of Froedtert Health. As such, lab services no longer were considered a contract service.
- Depreciation and amortization increased \$7.7 million or 9.6%. The increase is attributable to increased capital expenditures particularly on the Froedtert Hospital campus.

Non-operating gains and losses

Total non-operating gains (losses), net of (\$23.8) million for the twelve months ended June 30, 2016 represented a decrease of \$35.4 million from the twelve months ended June 30, 2015. Underlying trends are identified as follows:

- Investment portfolio income decreased by \$24.0 million in the twelve months ended June 30, 2016 versus the prior fiscal year due to a \$15.2 million decrease in investment income and realized investment gains and a \$44.8 million unrealized investment loss during fiscal year 2016 as compared to a \$36.0 million unrealized investment loss during fiscal year 2015.
- Interest rate swap fair value gains decreased by \$11.4 million from (\$2.1) million in fiscal 2015 to (\$13.5) million in fiscal 2016.
- Unrestricted Net Assets of \$1.8 billion increased by \$100.9 million from June 30, 2015. The net increase generally reflects operating revenue in excess of expenses offset by losses from investments and interest rate swaps and a change in accrued pension benefits for the twelve months ended June 30, 2016.

Fiscal Years Ended June 30, 2015 and June 30, 2014

Froedtert Health's revenues and gains in excess of expenses and losses of \$160.5 million for the twelve months ended June 30, 2015 represented a decrease of \$49.8 million or 23.7% from the twelve months ended June 30, 2014. Froedtert Health operating revenues in excess of expenses of \$149.0 million for the twelve months ended June 30, 2015 represented an increase of \$65.6 million or 78.7% from the twelve months ended June 30, 2014. Net non-operating gains of \$11.6 million for the twelve months ended June 30, 2015 represented a decrease of \$115.4 million from the twelve months ended June 30, 2014 resulting primarily from decreased investment portfolio income and a negative change in the fair value of the interest rate swaps.

Revenue

Total revenues of \$1.9 billion for the twelve months ended June 30, 2015 represented an increase of \$236.5 million or 14.3% from the twelve months ended June 30, 2014.

Net patient service revenue, representing 96.1% of total revenues, increased 14.4% over the twelve-month period ended June 30, 2014. The overall increase was due to increased patient volume, particularly with hospital admissions and outpatient visits, and an improved payor mix. Underlying trends are identified as follows:

- Inpatient admissions of 39,781 increased by 5.5% from the previous fiscal year. Average length of stay decreased from 5.11 to 4.91 days, patient days increased by 1.4% and the case mix index increased from 1.68 to 1.69.
- Hospital outpatient visits of 931,078 increased by 2.8% from the previous fiscal year. Outpatient visit increases are due primarily to increased focus and growth in oncology, heart and vascular and surgical services. Provider office visits at Community Physicians of 751,370 increased by 9.4% from the previous fiscal year as new clinic locations and providers were added.
- Emergency department visits of 107,003 increased by 4.9%.
- Wisconsin's Economic Recovery Act includes a tax assessment on hospital and ASC revenues. Funds collected under the tax are used to increase federal funding for the Wisconsin Medicaid program. Froedtert Health recognized \$47.9 million and \$45.4 million of increased Medicaid reimbursement and \$35.2 million and \$33.4 million of tax expense as a result of the law for the years ended June 30, 2015 and 2014, respectively.
- Other operating revenue represented 3.9% and 4.0% of total operating revenue in the years ended June 30, 2015 and 2014, respectively.

Expenses

Total operating expenses of \$1.7 billion for the twelve months ended June 30, 2015 represented an increase of \$170.9 million or 10.9% from the year ended June 30, 2014. Underlying trends are identified as follows:

- Salaries, wages and employee benefits increased 7.0% over the twelve months ended June 30, 2014 consistent with the overall growth in total revenue (14.3%), adjusted discharges 4.2% and patient acuity as measured by the all payor case mix index (0.6%) noted above. Full-time equivalent staff increased to accommodate growth and routine wage adjustments during the period contributed to the increase. Employee benefits expense as a percent of salary and wage expense was 26.3% and 24.8% for the years ended June 30, 2015 and 2014, respectively.
- Supplies expense increased \$43.1 million or 13.6% over the same period of the prior year. Supplies as a percent of total revenue were 19.0% and 19.1% for the years ended June 30, 2015 and 2014, respectively. Higher supply expenses are consistent with overall services growth, as measured by the increase in adjusted discharges and higher patient acuity. Pharmaceutical costs, including certain hematology/oncology pharmaceuticals and outpatient pharmacy activity also contributed to the increased supply expenses.
- During the twelve months ended June 30, 2015, contract services increased \$5.2 million or 3.8% as compared to the twelve months ended June 30, 2014.
- Affiliate support increased \$23.5 million or 27.7% due to increased program support related to the funds flow agreement with MCW that provides funding for the shared academic mission and additional venues in support of education, research and community engagement.
- The Consolidated Statement of Operations for the year ended June 30, 2015 contain an increase in other operating expenses of \$15 million relating to an impairment charge related to its investment in United Hospital System, Inc.

Non-operating gains and losses

Total non-operating gains, net of \$11.6 million for the twelve months ended June 30, 2015 represented a decrease of \$115.4 million from the twelve months ended June 30, 2014. Underlying trends are identified as follows:

- Investment portfolio income decreased by \$113.8 million in the twelve months ended June 30, 2015 versus the prior fiscal year due to a \$9.8 million decrease in investment income and realized investment gains and a decrease of \$104.0 million in net unrealized investment losses during fiscal year 2015 as compared to fiscal year 2014.
- Interest rate swap fair value losses increased by \$1.6 million from \$(0.5) million in fiscal 2014 to \$(2.1) million in fiscal 2015.
- Unrestricted Net Assets of \$1.7 billion increased by \$166.6 million from June 30, 2014. The net increase generally reflects the increase in revenues and gains in excess of expenses and losses during fiscal 2015.

Debt Service Coverage Ratios

The following table sets forth the historical debt service coverage ratio and pro forma maximum annual debt service coverage ratio for Froedtert Health and its consolidated affiliates for the twelve months ended June 30, 2016. As described in the footnote below, the “pro forma maximum annual debt service” assumes issuance of the Series 2017A Bonds, the Series 2017 Bank Bonds and the refunding of the Prior Bonds.

	Twelve Months Ended June 30, 2016 (Dollars in 000's)
Excess of revenues over expenses	\$120,716
Add net unrealized losses	58,357
Add loss resulting from reappraisal, revaluation or impairment of assets	16,293
Add interest on indebtedness	31,665
Add depreciation and amortization	<u>88,376</u>
Income available for debt service	<u>\$315,407</u>
Actual long-term debt service	\$ 41,894
Historical debt service coverage ratio	7.53x
Pro forma maximum annual debt service ¹	\$ 50,485
Pro forma maximum annual debt service coverage ratio	6.25x

¹ Estimated maximum annual debt service requirements for any future fiscal year ending after June 30, 2017. Includes debt service on the Outstanding Series 2009C Bonds, the Series 2012A Bonds, the Series 2013A Bonds, the Series 2015A Bonds and the Series 2017A Bonds, and the estimated debt service on the Series 2017 Bank Bonds, as well as capital lease obligations and other long-term indebtedness which are not secured by Obligations under the Master Indenture and which, upon the issuance of the Series 2017A Bonds and the Series 2017 Bank Bonds, will total \$112 million and \$389 thousand, respectively. The indebtedness related to the Series 2013A Bonds is variable rate indebtedness with a related interest rate swap. The annual interest rate on the Series 2013A Bonds is assumed to be the swap rate of 3.366% plus the applicable credit spread. The estimated debt service on the Series 2017 Bank Bonds assumes an annual interest rate of 3.50%. The debt service schedule does not contemplate the cash flows on the existing swap related to the Series 2013B Bonds, which are being refunded with a portion of the proceeds of the Series 2017A Bonds. The interest rate assumptions used to determine debt service herein are not calculated in accordance with the provisions of the Master Indenture. There can be no assurance that assumed rates will closely approximate the actual interest rates on the indebtedness of the Obligated Group going forward. See “ANNUAL DEBT SERVICE REQUIREMENTS” in the front part of this Official Statement.

Outstanding Long-Term Indebtedness

Set forth below is a description of the outstanding long-term indebtedness, including the current portion, of Froedtert Health and its consolidated affiliates as of December 31, 2016 and the pro forma amount to be outstanding following delivery of the Series 2017A Bonds and the Series 2017 Bank Bonds, and the refunding of the Prior Bonds.

	Amount Outstanding December 31, 2016 (Dollars in 000's)	Pro-Forma Amount To Be Outstanding (Dollars in 000's)
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2009C	\$167,900	\$ 6,160
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2012A	152,575	152,010
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013A ¹	82,670	79,910
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2013B ¹	82,670	--
Froedtert Health, Inc., Series 2015A	100,000	100,000
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2017A	--	254,190
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2017B ¹	--	80,060
Capital Lease Obligations ²	112,166	111,553
Other	414	390
Total	<u>\$698,395</u>	<u>\$784,273</u>

¹ The Series 2013A Bonds and Series 2013B Bonds were issued as private placements with two national banks. The Series 2013A Bonds are subject to mandatory tender in 2024. The Series 2013B Bonds are being refunded with a portion of the Series 2017A Bonds. The Series 2017 Bank Bonds are expected to be subject to mandatory tender in 2027.

² Consists of building leases for the Drexel, Mequon, North Hills and Town Hall health centers.

Liquidity Position

The following table shows the liquidity position of Froedtert Health and its consolidated affiliates as of June 30, 2014, 2015 and 2016 and December 31, 2016 and is derived from the consolidated financial statements of Froedtert Health and affiliates.

	(Dollars in 000's)			December 31,
	2014	June 30, 2015	2016	2016
Unrestricted Cash and Investments	\$1,265,388	\$1,479,174	\$1,474,525	\$1,541,624
Long-Term Debt (including net unamortized premium)	\$ 570,460	\$ 659,571	\$ 672,276	\$ 699,929
Days Cash on Hand	308	325	303	302
Unrestricted Cash and Investments to Long-Term Debt	2.22x	2.24x	2.19x	2.20x

Investment Policy

Froedtert Health's investment policy goal is to maximize total return while preserving principal. The organization maintains 15 to 20 days of cash on deposit at local banks invested in cash equivalents or other highly liquid funds. All such deposits are readily available to meet daily operational needs. The remainder of Froedtert Health's funds are invested according to its investment policy which is monitored by the Investment Committee of the Froedtert Health Board of Directors and reviewed by the Froedtert Health 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, Froedtert Health could liquidate 90% of its unrestricted investments within one month.

Fixed income investments include government-backed instruments and other intermediate-duration, investment grade U.S. fixed income securities and mutual funds that include non U.S. issued and below investment grade securities.

As of December 31, 2016, Froedtert Health's investment portfolio allocation was:

Fixed Income	38%
Domestic and International Equities	46
Alternative Investments	<u>16</u>
Total	<u>100%</u>

Interest Rate Hedge Transactions

Froedtert Health is a party to certain interest rate hedge transactions ("Swap Agreements") with Morgan Stanley Capital Services, Inc. ("MSCS") which are summarized in the following table.

Original Related Bonds	Original Notional Amount	Expiry	Rate Paid by Froedtert Health	Rate Paid by Counterparty	Counterparty	Fair Value as of March 2, 2017
2009A ¹	\$94,050,000	April 1, 2035	3.366%	68% of 3-Month LIBOR	MSCS ²	\$(13.3) million
2009B ¹	\$94,050,000	April 1, 2035	3.366%	68% of 3-Month LIBOR	MSCS ²	\$(13.3) million

¹ The Swap Agreements originally related to the Series 2009A and Series 2009B Bonds, which were refunded by the Series 2013A Bonds and Series 2013B Bonds, respectively. The Swap Agreement related to the Series 2013B Bonds is expected to remain outstanding following the refunding of the Series 2013B Bonds and the issuance of the Series 2017 Bank Bonds.

² Obligations of MSCS are guaranteed by Morgan Stanley & Co. LLC.

The Swap Agreements are secured by obligations under the Master Indenture. The Swap Agreements require either party to post collateral (in the form of cash) to secure the other party's credit exposure in excess of the collateral threshold of the counterparty's long-term rating. Based on Froedtert Health's current long-term debt ratings, Froedtert Health is obligated to post collateral to secure any prospective termination payment to MSCS when the aggregate amount of such termination payments exceeds \$25 million. As of March 2, 2017, approximately \$3.5 million of collateral was posted by Froedtert Health.

MISCELLANEOUS

Employees

As of December 31, 2016, Froedtert Health staff consisted of a total of 9,064 full-time equivalents, excluding employed physicians. Employees of the Members of the Obligated Group are not covered by collective bargaining agreements and management considers its labor relations to be good. Full-time and regular part-time employees are provided a comprehensive benefit program through Froedtert Health that management believes is competitive with programs offered by other area health systems.

Accreditations, Memberships and Licensure

The FH System Hospitals are accredited by the Joint Commission. The most recent Joint Commission accreditations were full three-year accreditations received in 2016. Other Froedtert Hospital programs re-certified by the Joint Commission are the Comprehensive Stroke Program (2015), and the cardiac Ventricular Assisted Device program (2016). Other current multi-year accreditations are Froedtert Hospital's Spinal Cord Injury, General Rehabilitation and Outpatient Neuro-rehabilitation programs. Additionally, Inpatient Rehabilitation programs were accredited by the Commission on the Accreditation of Rehabilitation Facilities and Froedtert Hospital's Level 1 Trauma Center was re-certified by the Committee on Trauma of the American College of Surgeons. The FH System Hospitals maintain active memberships in the American Hospital Association and the Wisconsin Hospital Association.

In 2015, F&MCW Breast Care Cancer Center received a three-year accreditation for quality care from the National Accreditation Program for Breast Centers. In 2015, the Radiation Oncology programs at the FH System Hospitals received a three-year accreditation from the American College of Radiology. The FH System Hospitals each hold Certificates of Approval (licenses) to operate hospitals, issued by the Wisconsin Department of Health Services. They are also subject to federal, state and local regulation and periodic inspection and the review of adequacy of fire prevention methods and other building standards, as well as state hospital requirements and Medicare and Medicaid conditions of participation.

Laboratories in the FH System Hospitals have all received accreditation from the Commission on Laboratory Accreditation of the College of American Pathologists ("CAP"). The CAP is recognized by the federal government as being equal to or more stringent than the government's own inspection program. The program is designed to provide the highest standard of care.

Professional Liability Insurance

Froedtert Health formed Hart's Mills Insurance Company SPC ("Hart's Mills"), a segregated portfolio company in the Cayman Islands which is licensed as a Class B(i) insurer by the Cayman Islands Monetary Authority. Hart's Mills was formed to provide various coverages to Froedtert Health and its subsidiaries. Certain coverages will be provided by Hart's Mills through reinsurance policies issued to Froedtert Health and its subsidiaries by a commercial fronting carrier. In addition, Hart's Mills will also issue certain policies directly to Froedtert Health in connection with the Froedtert Health insurance program. Hart's Mills is not admitted, authorized or approved as an insurance company in any jurisdiction other than the Cayman Islands.

The health care provider organizations of Froedtert Health carry professional liability insurance through its insurance broker, Willis of Wisconsin, Inc., and The Medical Protective Company, an insurance carrier, and the Wisconsin Injured Patients and Families Compensation Fund (the "Fund"), a fund created under

Wisconsin law for the purpose of paying professional liability claims against health care providers that are in excess of primary insurance coverage required by law. Froedtert Health's health care provider organizations currently carry primary professional liability coverage with limits, as required by law, of \$1,000,000 for each occurrence and \$3,000,000 for all occurrences in any one policy year.

The Fund assesses health care providers on an annual basis for Fund administration expenses in an amount based on the type and volume of activity for each of the particular providers. Provided that the health care provider organizations of Froedtert Health comply with the Fund's rules regarding primary insurance coverage and payment of the Fund's assessments, they cannot, under Wisconsin law, be liable for professional liability claims in excess of the primary insurance coverage.

Employee Retirement Plans

Froedtert Health has a defined contribution retirement plan covering employees of Froedtert Health, FMLH, CMH, SJH and Community Physicians. In addition, FMLH and CMH have defined benefit plans (the "Plans") covering certain categories of employees. Under U.S. generally accepted accounting principles, the Plans had an unfunded liability of \$15.5 million and \$41.8 million respectively as of June 30, 2016. From an Employee Retirement Income Security Act of 1974 ("ERISA") perspective, which drives the contribution funding requirements of FMLH and CMH as the Plans' sponsors, the Plans were 126.3% and 120.3% funded, respectively, as of January 1, 2016, the most recent measurement date. Under ERISA, the Plans currently have a \$3.3 million funding credit balance, which Froedtert Health expects to utilize over the next several years, effectively eliminating the need for Froedtert Health to contribute to the Plans. Froedtert Health has not made any contributions to the Plans since September 2016. For additional information on the Froedtert Health retirement plans, see Note 12 to the Froedtert Health and affiliates financial statements included as Appendix B.

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APPENDIX B

**CONSOLIDATED FINANCIAL STATEMENTS OF
FROEDTERT HEALTH, INC. AND AFFILIATES**

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FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Financial Statements and Schedules

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

FROEDTERT HEALTH, INC. AND AFFILIATES

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

Independent Auditors' Report

The Board of Directors
Froedtert Health, Inc.:

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, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Network Health, Inc., FH's investment in which is accounted for by use of the equity method (see note 11 to the consolidated financial statements) for the year ended ended June 30, 2016 and the six-month period ended June 30, 2015. The accompanying June 30, 2016 and 2015 consolidated financial statements of FH include its equity investment in Network Health, Inc. of \$92.7 million and \$107.8 million as of June 30, 2016 and 2015, respectively, and its equity losses, impairment, and purchase price adjustment in Network Health, Inc. of \$35.6 million for the year ended June 30, 2016 and \$2.2 million for the six-month period ended, June 30, 2015. The financial statements of Network Health, Inc. were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Network Health, Inc., is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Froedtert Health, Inc. and Affiliates as of June 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

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

KPMG LLP

Milwaukee, Wisconsin
November 16, 2016

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Balance Sheets

June 30, 2016 and 2015

(In thousands)

Assets	2016	2015
Current assets:		
Cash and cash equivalents	\$ 62,747	155,398
Assets whose use is limited	6,139	2,913
Patient accounts receivable, net of estimated uncollectibles of approximately \$28,267 in 2016 and \$36,737 in 2015	230,086	194,753
Other receivables	14,716	4,477
Inventories	26,243	23,470
Collateral held for securities loaned	332,610	314,547
Prepays and other	16,207	12,149
Total current assets	688,748	707,707
Investments	1,348,294	1,277,063
Assets whose use is limited or restricted	122,718	110,637
Investments in unconsolidated affiliates	131,859	141,676
Property, plant, and equipment, net	946,298	818,527
Deferred financing costs and other assets, net	16,942	10,327
Total assets	\$ 3,254,859	3,065,937
Liabilities and Net Assets		
Current liabilities:		
Current installments of long-term debt	\$ 11,127	10,229
Accounts payable	74,299	57,908
Accrued expenses	173,888	183,495
Payable under securities lending agreement	332,768	314,547
Estimated settlements to third-party payors	15,125	18,364
Total current liabilities	607,207	584,543
Long-term debt, less current installments	672,276	659,571
Other long-term liabilities	153,084	102,051
Total liabilities	1,432,567	1,346,165
Net assets:		
Unrestricted	1,802,622	1,701,866
Noncontrolling interest in consolidated joint ventures	3,024	2,851
Total unrestricted	1,805,646	1,704,717
Temporarily restricted	16,278	14,687
Permanently restricted	368	368
Total net assets	1,822,292	1,719,772
Total liabilities and net assets	\$ 3,254,859	3,065,937

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Operations

Years ended June 30, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Net patient service revenue:		
Net patient service revenue before provision for bad debts	\$ 2,002,000	1,850,168
Provision for bad debts	19,922	33,193
Net patient service revenue	<u>1,982,078</u>	<u>1,816,975</u>
Other operating revenue	<u>30,677</u>	<u>74,706</u>
Total revenue	<u>2,012,755</u>	<u>1,891,681</u>
Expenses:		
Salaries	703,748	622,094
Fringe benefits	173,130	163,497
Supplies	409,987	359,534
Contract services	110,712	140,526
Affiliate support	109,938	108,282
Depreciation and amortization	88,376	80,628
Interest	31,665	24,846
Other	240,634	243,285
Total expenses	<u>1,868,190</u>	<u>1,742,692</u>
Operating revenue in excess of expenses	<u>144,565</u>	<u>148,989</u>
Nonoperating gains (losses):		
Investment income	34,508	49,674
Change in net unrealized gains and losses on trading securities	(44,822)	(36,003)
Change in fair value of interest rate swaps	(13,535)	(2,118)
Total nonoperating gains (losses), net	<u>(23,849)</u>	<u>11,553</u>
Revenue and gains in excess of expenses and losses	120,716	160,542
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on other-than-trading securities	36	1,406
Contributions and net assets released from restrictions for property, plant, and equipment	948	750
Change in accrued pension benefits other than net periodic benefit costs	(20,704)	(722)
Other	(67)	4,575
Increase in unrestricted net assets	<u>100,929</u>	<u>166,551</u>
Unrestricted net assets at beginning of year	<u>1,704,717</u>	<u>1,538,166</u>
Unrestricted net assets at end of year	\$ <u><u>1,805,646</u></u>	<u><u>1,704,717</u></u>

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2016 and 2015

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance, June 30, 2014	\$ 1,538,166	12,143	368	1,550,677
Revenue and gains in excess of expenses and losses	160,542	—	—	160,542
Change in net unrealized gains and losses on investments	—	(215)	—	(215)
Change in net unrealized gains and losses on other-than-trading securities	1,406	—	—	1,406
Restricted contributions	—	3,547	—	3,547
Restricted investment return	—	360	—	360
Net assets released from restrictions for operations	—	(412)	—	(412)
Contributions and net assets released from restrictions for property, plant, and equipment	750	(750)	—	—
Change in accrued pension benefits other than net periodic benefit costs	(722)	—	—	(722)
Other	4,575	14	—	4,589
Change in net assets	166,551	2,544	—	169,095
Balance, June 30, 2015	1,704,717	14,687	368	1,719,772
Revenue and gains in excess of expenses and losses	120,716	—	—	120,716
Change in net unrealized gains and losses on investments	—	(237)	—	(237)
Change in net unrealized gains and losses on other-than-trading securities	36	—	—	36
Restricted contributions	—	3,044	—	3,044
Restricted investment return	—	205	—	205
Net assets released from restrictions for operations	—	(489)	—	(489)
Contributions and net assets released from restrictions for property, plant, and equipment	948	(948)	—	—
Change in accrued pension benefits other than net periodic benefit costs	(20,704)	—	—	(20,704)
Other	(67)	16	—	(51)
Change in net assets	100,929	1,591	—	102,520
Balance, June 30, 2016	\$ 1,805,646	16,278	368	1,822,292

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 102,520	169,095
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	88,039	80,384
Provision for bad debts	19,922	33,193
Loss on disposal of property, plant, and equipment	337	244
Loss on impairment of assets	16,293	15,000
Income and distributions from equity interests in unconsolidated affiliates, net	16,524	13,970
Restricted contributions and investment return	(3,012)	(3,692)
Net assets released from restrictions for operations	489	412
Realized and unrealized gains and losses on unrestricted investments, net	40,687	11,400
Change in fair value of interest rate swap agreements	13,535	2,118
Change in accrued pension benefits other than net periodic benefit costs	20,704	722
Changes in assets and liabilities:		
Patient accounts receivable	(55,255)	(43,442)
Estimated settlements to third-party payors	(3,239)	6,241
Accounts payable and accrued expenses	11,174	17,583
Other receivables	(10,239)	6,794
Inventories	(2,773)	(1,013)
Other assets and liabilities	5,384	25,961
Net cash provided by operating activities	<u>261,090</u>	<u>334,970</u>
Cash flows from investing activities:		
Net additions to property, plant, and equipment	(195,976)	(156,732)
Proceeds from sales of property, plant, and equipment	8	703
Purchases of investments and assets whose use is limited or restricted	(827,391)	(1,065,749)
Proceeds from sales or maturities of investments and assets whose use is limited or restricted	700,324	949,179
Additional capital contributions in unconsolidated affiliates	(23,000)	(110,900)
Net cash used in investing activities	<u>(346,035)</u>	<u>(383,499)</u>
Cash flows from financing activities:		
Repayments of long-term debt	(10,229)	(9,533)
Payments for deferred financing costs	—	(1,121)
Proceeds from issuance of long-term debt	—	100,000
Restricted contributions and investment return	3,012	3,692
Net assets released from restrictions for operations	(489)	(412)
Net cash provided by (used in) financing activities	<u>(7,706)</u>	<u>92,626</u>
Net change in cash and cash equivalents	(92,651)	44,097
Cash and cash equivalents:		
Beginning of year	155,398	111,301
End of year	<u>\$ 62,747</u>	<u>155,398</u>
Noncash transactions:		
Assets acquired through capital lease obligations	\$ 23,254	—

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(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 & the Medical College of Wisconsin Community Physicians (CP); Progressive Physician Network, Inc. (PPN); Inception Health, LLC (IH); QHS 1, Inc. (QHS 1); Exceedent, LLC (Exceedent); and Wisconsin Diagnostic Laboratories, LLC (WDL). FH is sole member of IH and the sole corporate member of FMLH, CMH, SJH, PPN, Exceedent, and QHS 1.

FMLH owns and operates an acute care hospital with 655 approved beds (of which 536 are currently staffed), clinics, and related operations in Wauwatosa, Wisconsin. FMLH is the sole corporate member of Froedtert Hospital Foundation, Inc. (Froedtert Foundation), which is a supporting organization of FMLH. The purpose of Froedtert Foundation is to raise money and to accept contributions for the purpose of developing philanthropic support for FMLH. Froedtert Foundation solicits, allocates, and dispenses funds exclusively for the maintenance, benefit, and support of FMLH programs, services, education, and capital improvements in accordance with priorities set by the Froedtert Foundation's board of directors and donor restrictions. Froedtert Surgery Center, LLC (FSC) is a Wisconsin limited liability company created as a joint venture among FMLH, the Medical College of Wisconsin (MCW), and Advanced Healthcare S.C. (Advanced) to provide ambulatory surgery services. FMLH has a 50% ownership in FSC.

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

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

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.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

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

IH 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 formed in 2015 and organized to provide employers with solutions to their health care benefit administration.

QHS 1 was formed in 2005 and is organized to hold and manage investments in healthcare related organizations.

Effective June 30, 2015, FH agreed to un-wind its joint venture with LabCorp of America and assume full ownership of United/Dynacare Laboratories, LLC. Previously, United/Dynacare Laboratories, LLC was an independent diagnostic services provider of which FH had a 50% ownership interest. As of July 1, 2015, the operations continued as an independent company, wholly owned by FH and QHS 1, providing services as WDL.

FH has a 60% ownership interest in Froedtert Health Hometown Pharmacy, LLP (FHHP), which owns and operates a retail pharmacy selling prescriptions and over-the-counter medications and related products in West Bend, Wisconsin. In 2013, FH became 50% owner in both FHHP-Sussex (Sussex), LLC and FHHP-Kewaskum (Kewaskum), LLC, which own and operate retail pharmacies in Sussex and Kewaskum, Wisconsin, respectively. The Sussex partnership was subsequently dissolved in fiscal year 2016.

The accompanying consolidated financial statements include the accounts of FH, FMLH, Froedtert Foundation, FSC, CMH, Community Memorial Foundation, COHS, SJH, St. Joseph's Foundation, WBSC, CP, PPN, IH, QHS 1, WDL, FHHP, Sussex, Kewaskum, and Exceedent. Waukesha Surgery Center, LLC and Hart's Mills Protective, SPC were formed during fiscal year 2016 and will become operational in fiscal year 2017.

At June 30, 2016, FH, FMLH, Froedtert Foundation, CMH, Community Memorial Foundation, SJH, and St. Joseph's Foundation are members of the obligated group (Obligated Group) for the purposes of the issuance of revenue bonds (note 6). The Obligated Group consisted only of these members and exclude all other FH affiliates. Total combined assets of the FH affiliates, which are not members of the Obligated Group were \$129,812 at June 30, 2016. Total combined net assets of the same entities were \$82,869 at June 30, 2016 and total combined revenue and gains in excess of expenses and losses were \$4,445 for the year ended June 30, 2016.

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The significant accounting policies of FH are as follows:

(a) *Principles of Consolidation*

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

(b) *Net Assets*

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

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

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

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

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

The consolidated statements of operations include revenue and gains in excess of expenses and losses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue and expenses. Transactions incidental to the provision of healthcare services are reported as gains and losses. Changes in unrestricted net assets that are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include changes

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in net unrealized gains and losses on other-than-trading securities, contributions of property, plant, and equipment (including assets acquired using contributions that by donor restrictions were to be used for the purpose of acquiring such assets), changes in accrued pension benefits other than net periodic benefit costs, and other.

(e) *Net Patient Service Revenue*

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

(f) *Investments and Investment Income*

Investments, including assets whose use is limited or restricted, with readily determinable fair values, are stated at fair value generally based upon quoted market prices. Money market accounts and fixed income securities with a maturity of three months or less are included in cash and cash equivalents within the consolidated balance sheets. Fixed income securities purchased with a maturity greater than three months but less than twelve months are included in investments on the consolidated balance sheets. Realized gains and losses and interest and dividends on funds held under debt agreements, to the extent not capitalized, are classified as other operating revenue within the consolidated statements of operations. Realized gains and losses, unrealized gains and losses on trading securities, and interest and dividends on long-term investments are classified as nonoperating gains and losses in the consolidated statements of operations. Unrealized gains and losses are included in revenue and gains in excess of expenses and losses as management considers all investments to be trading securities, other than investments held in certain project funds, which are considered other-than-trading securities.

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

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 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.

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

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

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

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

(g) *Inventories*

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

(h) *Property, Plant, and Equipment*

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

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

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(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. An impairment of \$16,293 has been recorded in 2016 and is included in other operating revenue within the consolidated statements of operations related to FH's investment in Network Health, Inc., an unconsolidated affiliate (note 11). An impairment of \$15,000 has been recorded in 2015 and is included in other expenses within the consolidated statements of operations related to FMLH's investment in a membership and affiliation agreement (note 11). Other than these investments, FH does not believe that there are any factors or circumstances indicating impairment of its long-lived assets for the years ended June 30, 2016 and 2015.

(j) Costs of Borrowing

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

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

(k) Cash and Cash Equivalents

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

(l) Income Taxes

FH and its affiliates, except FSC, WBSC, PPN, QHS 1, WDL, FHHP, Sussex, and Kewaskum are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. FSC, WBSC, WDL, FHHP, Sussex, and Kewaskum are limited liability companies and are treated as partnerships for income tax purposes. Income and losses are passed through to their members. PPN is a nonstock corporation and earnings are subject to income tax.

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FH applies ASC No. 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC No. 740 prescribes a more-likely than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. Under ASC No. 740, tax positions are evaluated for recognition, derecognition, and measurement using consistent criteria and provide more information about the uncertainty in income tax assets and liabilities. As of June 30, 2016 and 2015, 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 No. 815, *Derivatives and Hedging*, which requires that all derivative instruments be recorded as either assets or liabilities in the consolidated balance sheet at their respective fair values.

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

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

(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.

(2) 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.

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

FH adopted, and retrospectively applied, the provisions of Accounting Standards Update (ASU) 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 amends ASC Topic No. 820, *Fair Value Measurement*, to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient.

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

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

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Fair value of total long-term debt was \$731,818 and \$677,297 at June 30, 2016 and 2015, respectively, and is based upon borrowing rates currently available to FH for similar terms and average maturities. The following table represents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2016:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 62,747	62,747	—	—
Collateral held for securities loaned	332,610	—	332,610	—
Investments, excluding interest receivable of \$2,876:				
U.S. government securities	207,111	—	207,111	—
Marketable equity securities	572,424	572,424	—	—
Fixed income securities	190,514	—	190,514	—
Money market funds and mutual funds	164,558	164,558	—	—
Investments measured at NAV ¹				
Alternative investment:				
Low volatility equity fund	86,384	—	—	—
Real estate fund	104,066	—	—	—
Hedge fund of funds	20,353	—	—	—
Assets whose use is limited or restricted, excluding interest receivable of \$164 and pledges receivable of \$515:				
Cash and cash equivalents	4,277	4,277	—	—
U.S. government securities	12,653	—	12,653	—
Marketable equity securities	40,653	40,653	—	—
Fixed income securities	14,223	—	14,223	—
Money market funds and mutual funds	24,467	24,467	—	—

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	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments measured at NAV ¹				
Alternative investment:				
Low volatility equity fund	\$ 5,277	—	—	—
Real estate fund	6,357	—	—	—
Hedge fund of funds	1,242	—	—	—
Swap collateral and other	19,037	—	18,550	487
Total assets	<u>\$ 1,868,953</u>	<u>869,126</u>	<u>775,661</u>	<u>487</u>
Liabilities:				
Payable under securities lending agreement	\$ 332,768	—	332,768	—
Interest rate swap agreements	42,219	—	42,219	—
Total liabilities	<u>\$ 374,987</u>	<u>—</u>	<u>374,987</u>	<u>—</u>

The following table represents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2015:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 155,398	155,398	—	—
Collateral held for securities loaned	314,547	—	314,547	—

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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, excluding interest receivable of \$2,489:				
U.S. government securities	\$ 190,297	—	190,297	—
Marketable equity securities	634,523	634,523	—	—
Fixed income securities	153,268	—	153,268	—
Money market funds and mutual funds	145,288	145,288	—	—
Investments measured at NAV ¹				
Alternative investment:				
Low volatility equity fund	78,942	—	—	—
Real estate fund	50,576	—	—	—
Hedge fund of funds	21,680	—	—	—
Assets whose use is limited or restricted, excluding interest receivable of \$109 and pledges receivable of \$688:				
Cash and cash equivalents	5,694	5,694	—	—
U.S. government securities	9,798	—	9,798	—
Marketable equity securities	38,515	38,515	—	—
Fixed income securities	25,203	—	25,203	—
Money market funds and mutual funds	21,017	21,017	—	—
Investments measured at NAV ¹				
Alternative investment:				
Low volatility equity fund	4,064	—	—	—
Real estate fund	2,604	—	—	—
Hedge fund of funds	1,116	—	—	—
Swap collateral and other	4,742	—	3,853	889
Total assets	<u>\$ 1,857,272</u>	<u>1,000,435</u>	<u>696,966</u>	<u>889</u>
Liabilities:				
Payable under securities lending agreement	\$ 314,547	—	314,547	—
Interest rate swap agreements	28,684	—	28,684	—
Total liabilities	<u>\$ 343,231</u>	<u>—</u>	<u>343,231</u>	<u>—</u>

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

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

	<u>2016</u>	<u>2015</u>
Fair value at beginning of year	\$ 889	859
Gains (losses) and investment income, net	(402)	30
Purchases, issuances, and write-offs, net	<u>—</u>	<u>—</u>
Fair value at end of year	<u>\$ 487</u>	<u>889</u>

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. FH evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the year ended June 30, 2016, there were no significant transfers in or out of levels 1, 2, or 3.

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

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

	<u>June 30</u>	
	<u>2016</u>	<u>2015</u>
At fair value:		
U.S. government securities	\$ 207,111	190,297
Marketable equity securities	572,424	634,523
Fixed income securities	190,514	153,268
Money market funds and mutual funds	164,558	145,288
Alternative investments:		
Low volatility equity fund	86,384	78,942
Real estate fund	104,066	50,576
Hedge fund of funds	<u>20,353</u>	<u>21,680</u>
Total investments at fair value	1,345,410	1,274,574
At cost:		
Interest receivable	<u>2,884</u>	<u>2,489</u>
Total investments	<u>\$ 1,348,294</u>	<u>1,277,063</u>

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(Dollars in thousands)

	June 30	
	2016	2015
At fair value:		
Cash and cash equivalents	\$ 4,277	5,694
U.S. government securities	12,653	9,798
Marketable equity securities	40,653	38,515
Fixed income securities	14,223	25,203
Money market funds and mutual funds	24,467	21,017
Alternative investment:		
Low volatility equity fund	5,277	4,064
Real estate fund	6,357	2,604
Hedge fund of funds	1,242	1,116
Swap collateral and other	19,037	4,742
Total assets whose use is limited at fair value	128,186	112,753
At cost:		
Interest receivable	156	109
Pledges receivable	515	688
Total assets whose use is limited or restricted	\$ 128,857	113,550

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

	June 30	
	2016	2015
Assets whose use is limited or restricted		
Under debt agreements (note 6)	\$ —	15,167
Swap collateral (note 7)	18,430	3,737
By management:		
For executive compensation agreements	23,182	22,415
For program development and physician recruitment	48,839	31,713
For community health initiatives	14,645	15,000
For other	6,177	8,463
By donors	16,646	15,055
Other	938	2,000
Total assets whose use is limited or restricted	\$ 128,857	113,550

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

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

	Year ended June 30	
	2016	2015
Interest and dividends on investments	\$ 31,435	27,188
Net realized gains and losses on sale of investments	4,099	23,197
Change in net unrealized gains and losses on investments	(45,023)	(34,812)
Total investment return	<u>\$ (9,489)</u>	<u>15,573</u>

Investment returns are included in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2016 and 2015:

	Year ended June 30	
	2016	2015
Other operating revenue:		
Interest and dividend income	\$ 691	1,104
Nonoperating gains and losses – investment income	34,508	49,674
Nonoperating gains and losses – change in unrealized gains and losses on investments	(44,822)	(36,003)
Other changes in unrestricted net assets – change in net unrealized gains and losses on investments	36	1,406
Other changes in temporarily restricted investments:		
Restricted investment income	205	360
Change in net unrealized gains and losses on investments	(237)	(215)
Interest earnings (losses) offset against capitalized interest cost	130	(753)
Total investment return	<u>\$ (9,489)</u>	<u>15,573</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 \$325,305 and \$307,720 at June 30, 2016 and 2015, respectively. The fair market value of the collateral received under this arrangement was \$332,610 and \$314,547 at June 30, 2016 and 2015, 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 unrealized losses on the invested collateral as of June 30, 2016 and 2015 was \$158 and \$0 respectively, and is included as nonoperating gains and losses on the consolidated statements of operations. The fair value of collateral was 102.3% and 102.2% of the fair value of securities loaned at June 30, 2016 and 2015, respectively.

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(4) Property, Plant, and Equipment

Property, plant, and equipment are summarized as follows:

	June 30	
	2016	2015
Land and land improvements	\$ 16,985	15,954
Leasehold improvements	155,894	128,445
Buildings	762,880	595,350
Fixed equipment	141,726	136,141
Movable equipment	563,740	518,103
Construction in progress	116,190	157,747
Total property, plant, and equipment	1,757,415	1,551,740
Less accumulated depreciation and amortization	811,117	733,213
Property, plant, and equipment, net	\$ 946,298	818,527

Construction in progress at June 30, 2016 primarily relates to a commitment for a physician clinic building under capital lease and various facility renovation and software projects and equipment at the hospital and clinic campuses. Construction in progress at June 30, 2015 primarily relates to the FMLH Center for Advanced Care, which opened in the fall of 2016, and other facility renovation and software projects and equipment at the hospital and clinic campuses. Contractually committed costs for renovation and software projects totaled \$65,787 at June 30, 2016. During the year ended June 30, 2016, FH capitalized \$1,609 of net interest cost, which is comprised of \$1,739 of interest cost plus \$130 of investment gains on unexpended bond proceeds. During the year ended June 30, 2015, FH capitalized \$5,982 of net interest cost, which is comprised of \$5,229 of interest cost plus \$753 of investment losses on unexpended bond proceeds. Construction in progress of \$3,861 and \$4,733 was included in accounts payable in the accompanying consolidated balance sheets as of June 30, 2016 and 2015, respectively.

(5) Land Lease Agreement

In 1980, FMLH entered into a land lease agreement with Milwaukee County to lease the land on which the hospital resides. The lease terms are for FMLH to pay one dollar annually through 2030, and a mutually agreed-upon amount in years 2031 through 2079. If the parties cannot mutually agree upon an amount, the annual rent will be determined as fair market value of the leased land times 10%. In December 1995, FMLH purchased certain assets of John L. Doyne Hospital (Doyne). As part of the purchase, FMLH entered into an amendment to the original land lease agreement to include the land previously used by Doyne. The lease payments on the new land lease are calculated as one dollar plus 5.25% of FMLH's annual operating cash flow, as defined in the agreement, for each of the years through 2020 and one dollar annually in years 2021 to 2079. The lease agreements are accounted for as operating leases. Lease expense has been recognized in accordance with the terms of the lease agreements amounting to \$8,123 and \$8,557 for the years ended June 30, 2016 and 2015, respectively. Cumulative amounts recognized under the lease agreements since the leases' inception in 1995 are \$102,086 through June 30, 2016. Payments under the lease agreements are made in the year subsequent to the year in which they relate.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

(6) Long-Term Debt

Long-term debt is summarized as follows:

	June 30	
	2016	2015
Revenue bonds, Series 2009C – annual principal payments range from \$2,975 to \$22,885, plus interest each year through 2039. Interest rates range from 5.00% to 5.25% (effective rate of interest of 5.17% in 2016 and 5.16% in 2015)	\$ 167,900	170,845
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 4.87% in 2016 and 4.86% in 2015)	152,575	153,180
Revenue bonds, Series 2013A – annual principal payments range from \$2,760 in 2017 to \$3,005 in 2023 with a balloon payment of \$62,765 in 2024. Interest rates variable based on market conditions (0.96% at June 30, 2016, effective rate of interest 3.91% in 2016 and 3.99% in 2015)	82,670	85,315
Revenue bonds, Series 2013B – annual principal payments range from \$2,760 in 2017 to \$2,865 in 2018 with a balloon payment of \$77,045 in 2019. Interest rates variable based on market conditions (0.70% at June 30, 2016, effective rate of interest 3.67% in 2016 and 3.69% in 2015)	82,670	85,315
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 4.69% in 2016 and 4.70% in 2015)	100,000	100,000
Capital lease obligations	84,142	60,960
Other	461	550
Total debt	670,418	656,165
Less:		
Current installments of long-term debt	11,127	10,229
Unamortized bond premium, net	(12,985)	(13,635)
Total long-term debt	\$ 672,276	659,571

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

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

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

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

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

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

Cash payments for interest, net of amounts capitalized, and monthly swap settlements were \$26,517 and \$23,676 for the years ended June 30, 2016 and 2015, respectively.

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

2017	\$	11,127
2018		12,048
2019		86,726
2020		10,628
2021		11,255
Thereafter		538,634
	\$	<u>670,418</u>

FH has entered into capital leases for certain medical office space through the year 2032. The capital lease obligations were \$84,142 and \$60,960 at June 30, 2016 and 2015, respectively.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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(Dollars in thousands)

Future minimum lease payments under capital leases at June 30, 2016 are as follows:

2017	\$	7,892
2018		9,010
2019		9,190
2020		9,374
2021		9,572
Thereafter		<u>100,545</u>
Total minimum lease payments		145,583
Less amounts representing interest ranging from 4.69% to 11.03%		<u>61,441</u>
Present value of net minimum lease payments	\$	<u><u>84,142</u></u>

(7) Derivative Instruments and Hedging Activities

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

(a) Objectives and Strategies

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

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

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

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

(b) *Risk Management Policies*

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

FH does not use derivative instruments for speculative investment purposes.

(c) *Transactions*

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

The fair value of the interest rate swaps of \$42,219 and \$28,684 is included in other long-term liabilities in the consolidated balance sheets at June 30, 2016 and 2015, respectively. The change in fair value of the interest rate swaps of \$(13,535) and \$(2,118) is included in nonoperating gains and losses in the consolidated statements of operations for the years ended June 30, 2016 and 2015, respectively.

The interest rate swap agreements for the Obligated Group at June 30, 2016 consist of the following:

Type	Original notional amount	Maturity date	Fixed pay rate	Variable pay rates at June 30	
				2016	2015
2009A bonds*	\$ 94,050	April 1, 2035	3.366%	0.659%	0.283%
2009B bonds*	94,050	April 1, 2035	3.366	0.659	0.283

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

Cash paid for monthly settlement under the interest rate swap agreements was \$5,129 and \$5,554 and is included within interest expense in the consolidated statements of operations. No cash was received under the interest rate swap agreements during the years ended June 30, 2016 and 2015. FH posted collateral as required under the interest rate swap agreements of \$18,430 and \$3,737 as of June 30, 2016 and 2015, respectively.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

(8) Net Patient Service Revenue

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

Medicare – Inpatient acute care, most outpatient, and defined capital costs for services rendered to Medicare beneficiaries are paid at prospectively determined rates per case. These rates vary according to a payment classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, medical education, and certain organ acquisition costs related to Medicare beneficiaries are paid based upon cost reimbursement methods, established fee screens, or a combination thereof. FMLH, CMH, and SJH are reimbursed for cost reimbursement items at tentative rates with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The FMLH cost reports have been audited by the Medicare fiscal intermediary through June 30, 2013. The CMH cost reports have been audited by the Medicare fiscal intermediary through June 30, 2014. The SJH cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011, in addition to the June 30, 2013 and June 30, 2014 period.

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

Wisconsin's Economic Recovery Act includes a tax assessment on hospital and ambulatory surgery center revenues. Funds collected under the tax are used to increase federal funding for the Wisconsin Medicaid program. FH recognized \$49,666 and \$47,890 of increased Medicaid reimbursement and \$37,540 and \$35,191 of tax expense as a result of the law for the years ended June 30, 2016 and 2015, respectively. The Medicaid reimbursement and tax assessment expense are recorded in net patient service revenue and other expense, respectively, in the 2016 and 2015 consolidated statements of operations.

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

The percentage of net patient service revenue applicable to services provided to Medicare and Medicaid patients was 36% for both years ended June 30, 2016 and 2015. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. FH believes it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations may be subject to future government review and interpretation. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties, and exclusion from the Medicare and Medicaid programs.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

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

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

For the years ended June 30, 2016 and 2015, the consolidated statements of operations include an increase of \$4,176 and a decrease of \$9,048, respectively, in net patient service revenue for changes in prior year estimates related to third-party contractual allowances and retroactive settlements with third-party payors.

The Medical Electronic Health Record (EHR) Incentive Program (the Program) provides incentive payments to eligible hospitals and professionals as they adopt, implement, upgrade, or demonstrate meaningful use of certified EHR technology in their first year of participation and demonstrate meaningful use for up to five remaining participation years. FH accounts for the Program using International Accounting Standards 20 (IAS20), *Accounting for Government Grants and Disclosures of Government Assistance*. FH applies the "ratable recognition" approach, which states that the grant income can be recognized ratably over the entire "EHR" reporting period once the "reasonable assurance" income recognition threshold of IAS20 is met. For the years ended June 30, 2016 and 2015, FH recognized \$3,726 and \$2,962, respectively, as other revenue related to Medicare and Medicaid EHR incentives, which have been received or are expected to be received based on certifications prepared by management under the appropriate guidelines for stage 1 attestation at SJH and stage 2 attestation at CMH and FMLH.

Patients' accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patients' accounts receivable, FH analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, FH analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), FH records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Write-offs associated with self-pay patients were \$29,033 in 2016 and \$43,146 in 2015. FH has made no significant changes to its uninsured discount and charity care policies in fiscal year 2016.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

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

	2016	2015
Medicare	\$ 551,394	501,456
Medicaid	168,346	157,816
Managed care/contracted payor	1,082,030	1,009,629
Self-pay	14,921	21,578
Other	185,309	159,689
	<hr/>	<hr/>
Net patient service revenue before provision for bad debts	\$ 2,002,000	1,850,168
	<hr/>	<hr/>

(9) Concentration of Credit Risk

FH grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of accounts receivable from patients and third-party payors as of June 30, 2016 and 2015 is as follows:

	June 30	
	2016	2015
Medicare	24%	24%
Medicaid	8	10
Managed care/contracted payor	45	45
Self-pay	16	16
Other	7	5
	<hr/>	<hr/>
	100%	100%
	<hr/>	<hr/>

(10) Charity Care

FH provides uncompensated care based on the cost of providing care to patients, in accordance with established policies. FH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because FH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. FH applies the provisions of ASU 2010-23, *Measuring Charity Care for Disclosure*, which requires that cost be used as the measurement basis for charity care disclosure purposes and that cost can be identified as direct and indirect costs of providing charity care. The amount of cost incurred for services and supplies furnished under FH's charity care policy was \$9,088 and \$7,616 for the years ended June 30, 2016 and 2015, respectively.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

(11) Related Organizations and Other Significant Transactions

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

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

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

FH is the controlling member of CP, a physician organization formed on July 1, 2013 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, 2016 and 2015.

Funds Flow Agreement

FH and MCW entered into a Funds Flow Agreement effective in Fiscal year 2014 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 \$98,244 and \$93,107 for the years ended June 30, 2016 and 2015, respectively. Amounts accrued relating to the Variable Performance Payment were \$5,201 and \$2,913 in accounts payable on the consolidated balance sheets at June 30, 2016 and June 30, 2015, respectively. Also accrued under the Funds Flow Agreement was \$43,638 and \$28,800, which is included in other long-term liabilities on the consolidated balance sheets at June 30, 2016 and 2015, respectively.

(b) *Unconsolidated Affiliates*

Network Health, Inc.

In November 2014, FH completed a transaction to acquire a 50% ownership interest in Network Health, Inc. (NHI), a 170,000 member (including self-insured members) Wisconsin-based health insurance company, which markets insurance products and related services to employers and individuals in eastern Wisconsin. NHI is the sole corporate member of Network Health Plan (NHP), which engages in the business of health insurance to groups and individuals and Network Health Insurance Corporation (NHIC), which provides health insurance to groups, individuals, and Medicare beneficiaries. NHI had previously been solely owned by Ministry Health Care, an unrelated entity.

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The investment was funded with unrestricted cash and investments, and is accounted for by FH under the equity method.

The carrying amount of the investment in NHI was \$92,700 and \$107,782 at June 30, 2016 and 2015, respectively. The excess of the carrying amount over FH's share of the equity of NHI was \$3,372 and \$19,665 at June 30, 2016 and 2015, respectively, and has been allocated, within the investment in unconsolidated affiliates account, to goodwill. During 2016, FH management determined that its investment in NHI was impaired due to recurring losses. As such, an impairment charge of \$16,293 was taken against goodwill and is included in other operating revenue in the consolidated statements of operations for the year ended June 30, 2016.

FH recorded a loss in the consolidated statements of operations related to its investment in NHI of \$35,582 and \$2,218 for the years ended June 30, 2016 and 2015, respectively. The 2016 loss is comprised of the impairment charge of \$16,293, \$8,092 of FH's 50% share of NHI's net losses for the year ended June 30, 2016, a reserve of \$8,197 for premium deficiency reserve estimate recorded at year-end for the estimate of exposure through June 30, 2016, and \$3,000 related to purchase price adjustments in NHI. Incremental capital contributions of \$17,500 were made during fiscal year 2016.

Beginning January 1, 2015, NHI provided third party health claims administration services, wellness program administration, and software services for FH's self-insured health benefit plan. For the twelve months ended June 30, 2016, FH paid NHI \$4,425 relating to such services, and for the six months ended June 30, 2015, FH paid NHI \$1,100 relating to such services. These payments are included in fringe benefits, contract services, and other expense in the accompanying consolidated statements of operations.

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

	June 30	
	2016	2015
	(unaudited)	
Current assets	\$ 178,767	146,718
Current liabilities	164,365	140,097
Working capital	14,402	6,621
Property and equipment, net	10,598	9,455
Other long-term assets	180,826	170,934
Long-term liabilities	—	—
Net assets	\$ 205,826	187,010

Investment in NHI advances FH's accountable care strategy and movement toward population health with its clinically integrated network of health systems throughout Wisconsin. Partnering with a provider-based health plan expands the health system's scope and scale in terms of efficient, cost-effective care delivery. The unaudited table below is intended to show the combined results of

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

FH and NHI for the year ended June 30, 2016 as a healthcare enterprise, with recognition of Ministry Health Care'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 * (unaudited)	NHI Insurance Products and Services ** (unaudited)	Combined Health Enterprise (unaudited)		
Net patient service revenue	\$ 1,982,078	—	1,982,078	—	1,982,078
Premiums, net	—	870,902	870,902	(435,451)	435,451
Other operating revenue	66,259	7,323	73,582	(31,152)	42,430
Total revenue	2,048,337	878,225	2,926,562	(466,603)	2,459,959
Salaries and fringe benefits	876,878	—	876,878	—	876,878
General and administrative	—	110,577	110,577	(55,289)	55,288
Medical benefits and supplies	409,987	784,051	1,194,038	(392,026)	802,012
Contract services and affiliate support	220,650	—	220,650	—	220,650
Depreciation and interest	120,041	4,742	124,783	(2,371)	122,412
Premium taxes and other assessments	—	7,736	7,736	(3,868)	3,868
Other	240,634	—	240,634	—	240,634
Total expenses	1,868,190	907,106	2,775,296	(453,554)	2,321,742
Operating revenue in excess of expenses	180,147	(28,881)	151,266	(13,049)	138,217
Income tax expense	—	8,285	8,285	(4,143)	4,142
Nonoperating gains, net	(23,849)	4,412	(19,437)	(2,206)	(21,643)
Revenue and gains in excess of expenses and losses	\$ 156,298	(16,184)	140,114	(19,398)	120,716

* Fiscal year ended June 30, 2016 before insurance operations.

** Trailing twelve months ended June 30, 2016.

Wisconsin Diagnostic Laboratories

Prior to June 30, 2015, FH held a joint venture with LabCorp of America (LabCorp) in which both FH and LabCorp owned 50% of United/Dynacare Laboratories, LLC (United/Dynacare). United/Dynacare was an independent diagnostic services provider. FH accounted for United/Dynacare under the equity method and recorded equity income of \$8,158 within other operating revenue in the consolidated statements of operations for the year ended June 30, 2015. During the year ended June 30,

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

2015, United/Dynacare had \$89,321 in revenues, and \$81,627 in expenses. FH purchased services of \$47,097 from United/Dynacare for the year ended June 30, 2015, which is included in contract services in the consolidated statements of operations.

Effective June 30, 2015, FH entered into an agreement to un-wind its joint venture with LabCorp. Operations of United/Dynacare continued as an independent company, wholly owned by FH and QHS 1, called Wisconsin Diagnostic Laboratories, LLC (WDL). Assets and liabilities were maintained under the ownership of WDL and are consolidated in the accompanying financial statements. The resulting impact on the FH consolidated balance sheets were additions of \$29,871 in current assets, \$7,244 in noncurrent assets, \$18,442 in current liabilities, and \$18,673 in net assets to the consolidated balance sheets on June 30, 2015. Per the agreement, WDL was required to pay LabCorp \$12,510, which was included within the current liabilities of WDL as of June 30, 2015, and which was subsequently paid in fiscal year 2016.

Other Unconsolidated Affiliates

The following represents summary financial data (unaudited) for all unconsolidated affiliates, excluding NHI and United/Dynacare:

	2016 (unaudited)	2016 (unaudited)
Current assets	\$ 89,924	67,469
Current liabilities	(28,217)	(18,092)
Working capital	61,707	49,377
Property and equipment, net	40,726	41,285
Other long-term assets	57,948	58,190
Long-term liabilities	(23,131)	(24,239)
Net assets	\$ 137,250	124,613
Revenues	\$ 199,208	183,308
Expenses	(144,553)	(138,929)
Excess of revenues over expenses	\$ 54,655	44,379

(c) *Noncontrolling Interest in Consolidated Joint Ventures*

FH applies the guidance under ASC No. 810, *Consolidation*, for the presentation of noncontrolling interests, reporting it as a separate component of net assets and including a schedule reconciling beginning and ending balances of controlling and noncontrolling interests of net assets in the notes to the consolidated financial statements.

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June 30, 2016 and 2015

(Dollars in thousands)

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

	<u>Total</u>	<u>Controlling interest</u>	<u>Non controlling interest</u>
Balance, June 30, 2014	\$ 1,538,166	1,535,923	2,243
Revenue and gains in excess of expenses and losses	160,542	160,096	446
Changes in net unrealized gains and losses on other-than-trading securities	1,406	1,406	—
Contributions and net assets released from restrictions for property, plant, and equipment	750	750	—
Change in accrued pension benefits other than net periodic benefit costs	(722)	(722)	—
Other	4,575	4,413	162
Changes in net assets	<u>166,551</u>	<u>165,943</u>	<u>608</u>
Balance, June 30, 2015	<u>1,704,717</u>	<u>1,701,866</u>	<u>2,851</u>
Revenue and gains in excess of expenses and losses	120,716	120,255	461
Changes in net unrealized gains and losses on other-than-trading securities	36	36	—
Contributions and net assets released from restrictions for property, plant, and equipment	948	948	—
Change in accrued pension benefits other than net periodic benefit costs	(20,704)	(20,704)	—
Other	(67)	221	(288)
Changes in net assets	<u>100,929</u>	<u>100,756</u>	<u>173</u>
Balance, June 30, 2016	<u><u>\$ 1,805,646</u></u>	<u><u>1,802,622</u></u>	<u><u>3,024</u></u>

(d) United Hospital System, Inc.

FMLH entered into a membership and affiliation agreement with United Hospital System, Inc. (UHS), a not-for-profit corporation located in Kenosha, Wisconsin, in 2001 for the purpose of integrating

FROEDTERT HEALTH, INC. AND AFFILIATES

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activities in order to benefit the patients and communities served. FMLH recorded its investment in UHS of \$15,000 under the cost basis with such investment included in deferred financing costs and other assets in the consolidated balance sheet at June 30, 2014.

During 2015, FH management determined that its \$15,000 investment in UHS no longer provides the intended benefits that were envisioned at the time of the investment. As such, the investment was deemed impaired and an impairment charge was taken, which is included in other expense in the consolidated statements of operations for the year ended June 30, 2015.

(12) Employee Benefit Plans

(a) Defined Contribution Plans

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

FH sponsors the Froedtert Health 403(b) Plan (FH 403(b) Plan), covering substantially all FH employees. The FH 403(b) Plan provides a nonelective employer contribution, which varies based on employee's service from 3% of pay for employees with less than 10 years of service to 5% of pay for employees with 26 or more years of service. The nonelective employer contribution is also provided for those employees that no longer qualify for future service in the CMH defined benefit plan. It also provides a matching employer contribution of 50% of the first 5% of pay deferred by an employee. FH's nonelective and matching contributions to these plans are made annually and each pay period, respectively. FH's pension expense for the plan was \$27,581 and \$25,341 for the years ended June 30, 2016 and 2015, 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 \$11,409 and \$5,198 at June 30, 2016 and 2015, respectively, included in deferred financing costs and other assets, net on the consolidated balance sheets. FMLH's pension expense for the FMLH Plan was \$(112) and \$254 for the years ended June 30, 2016 and 2015, respectively.

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Data relative to the FMLH Plan for the years ended June 30, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
Change in pension benefit obligation:		
Projected benefit obligation at beginning of year	\$ 64,018	61,831
Service cost	824	909
Interest cost	2,839	2,637
Actuarial loss	1,818	1,073
Change in mortality assumption	(1,239)	1,615
Change in discount rate	6,786	(1,528)
Expenses paid	(346)	(345)
Benefits paid	(2,552)	(2,174)
Projected benefit obligation at end of year	<u>72,148</u>	<u>64,018</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	58,395	55,805
Actual return on plan assets	(307)	2,036
Employer contributions	1,452	3,073
Expenses paid	(346)	(345)
Benefits paid	(2,552)	(2,174)
Fair value of plan assets at end of year	<u>56,642</u>	<u>58,395</u>
Funded status	\$ <u><u>(15,506)</u></u>	<u><u>(5,623)</u></u>
	<u>2016</u>	<u>2015</u>
Accumulated benefit obligation	\$ 66,391	58,749

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	<u>2016</u>	<u>2015</u>
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to unrestricted net assets:		
Prior service cost	\$ —	—
Accumulated loss	18,670	7,356
Unrecognized pension costs	<u>\$ 18,670</u>	<u>7,356</u>
Net periodic pension cost is comprised of the following:		
Service cost	\$ 824	909
Interest cost on projected benefit obligation	2,839	2,637
Expected return on plan assets	(3,770)	(3,670)
Net amortization and deferral	—	4
Recognized actuarial loss	127	—
Net periodic pension cost	<u>\$ 20</u>	<u>(120)</u>
	<u>2016</u>	<u>2015</u>
Assumptions used:		
Discount rate for measurement of pension obligation	3.76%	4.53%
Discount rate for determining net periodic pension cost	4.53	4.35
Rate of increase in compensation levels	3.25	3.25
Expected return of plan assets	6.50	6.50

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

As of June 30, 2016 and 2015, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the FMLH Plan.

The employer contribution for the FMLH Plan for the year ending June 30, 2017 is estimated to be \$627. The benefits expected to be paid in each year from 2017 through 2021 are expected to be \$2,991, \$3,128, \$3,289, \$3,451, and \$3,612, respectively. The aggregate benefits to be paid in the five years from 2022 through 2026 are expected to be \$20,237. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2016.

The amount that will be recorded as net periodic benefit cost in fiscal year 2017 is estimated to be \$1,487.

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

The weighted average asset allocation of the pension plan at June 30, 2016 and 2015 is as follows:

	2016	2015
Equity securities	59%	58%
Debt securities	38	38
Cash and cash equivalents	3	4
Total	<u>100%</u>	<u>100%</u>

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

Asset class	Target percentage
Equity securities	40%–50%
Debt securities	50%–60%
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.

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(Dollars in thousands)

Data relative to the CMH Plan for the years ended June 30, 2016 and 2015 follows:

	2016	2015
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 124,462	119,211
Service cost	2,818	2,975
Interest cost	5,685	5,237
Actuarial loss (gain)	(1,701)	571
Change in mortality assumption	(2,051)	3,368
Change in discount rate	14,894	(3,417)
Expenses paid	(474)	(510)
Benefits paid	(3,346)	(2,973)
Projected benefit obligation at end of year	<u>140,287</u>	<u>124,462</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	94,450	87,894
Actual return on plan assets	(476)	3,189
Employer contributions	8,363	6,850
Expenses paid	(474)	(510)
Benefits paid	(3,346)	(2,973)
Fair value of plan assets at end of year	<u>98,517</u>	<u>94,450</u>
Funded status	\$ <u>(41,770)</u>	<u>(30,012)</u>
	2016	2015
Accumulated benefit obligation	\$ 131,715	113,633

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(Dollars in thousands)

	June 30	
	2016	2015
Amounts not yet reflected in net periodic benefit costs and included as an accumulated reduction to unrestricted net assets:		
Prior service cost	\$ 21	63
Accumulated loss	46,224	30,838
Unrecognized pension costs	\$ 46,245	30,901
Net periodic pension cost consists of the following:		
Service cost	\$ 2,818	2,975
Interest cost	5,685	5,237
Expected return on plan assets	(6,161)	(5,333)
Net amortization and deferral	42	42
Recognized actuarial loss	2,393	2,977
Net periodic pension cost	\$ 4,777	5,898
Assumptions used:		
Discount rate for measurement of pension obligation	3.86%	4.63%
Discount rate for determining net periodic pension cost	4.63	4.45
Rate of increase in compensation levels	3.00-6.00	3.00-6.00
Expected long-term rate of return on assets	6.50	6.50

The long-term rate of return on assets reflects historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the pension portfolio. 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, 2016 and 2015, the Mercer Above Mean Yield Curve was used to select the discount rate used to measure liabilities of the CMH Plan.

The minimum employer contributions for the CMH Plan for the year ending June 30, 2017 are estimated to be \$5,803. The benefits expected to be paid in each year from 2017 through 2021 are \$3,896, \$4,311, \$4,821, \$5,454, and \$6,017, respectively. The aggregate benefits to be paid in the five years from 2022 through 2026 are \$37,385. The expected benefits to be paid are based on the same assumptions used to measure the projected benefit obligation at June 30, 2016.

The amount that will be recorded as net periodic benefit cost in fiscal year 2017 is estimated to be \$4,425.

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(Dollars in thousands)

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

	June 30	
	2016	2015
Equity securities	59%	58%
Debt securities	39	38
Other	2	4
Total	100%	100%

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

Asset class	Target percentage
Equity securities	40%–50%
Debt securities	50%–60%
Other	—%

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

Fair Value Measurements

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

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

Fair Value Hierarchy

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

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June 30, 2016 and 2015

(Dollars in thousands)

The following table presents the Plans' fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

	<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	\$ 69,495	—	69,495	—
Investments:				
Cash and short-term investments consisting of money market funds	3,694	3,694	—	—
Corporate stocks	53,250	53,250	—	—
Pooled equity funds	23,222	23,222	—	—
International equity funds	14,695	14,695	—	—
Corporate and foreign bonds	34,085	—	34,085	—
U.S. government securities	24,231	—	24,231	—
Annuity contract	1,982	—	—	1,982
Total	<u><u>\$ 224,654</u></u>	<u><u>94,861</u></u>	<u><u>127,811</u></u>	<u><u>1,982</u></u>
Liabilities:				
Payable under securities lending agreement	\$ 69,495	—	69,495	—

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, 2015	\$ 2,425
Gains/losses and investment income, net	(1)
Purchases, issuances, and write-offs, net	—
Contributions, disbursements, net	<u>(442)</u>
Fair value at June 30, 2016	<u><u>\$ 1,982</u></u>

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

The following table presents the Plans' fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2015:

	<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	\$ 59,807	—	59,807	—
Investments:				
Cash and short-term investments consisting of money market funds	5,642	5,642	—	—
Corporate stocks	51,388	51,388	—	—
Pooled equity funds	22,571	22,571	—	—
International equity funds	13,291	13,291	—	—
Corporate and foreign bonds	34,192	—	34,192	—
U.S. government securities	23,336	—	23,336	—
Annuity contract	2,425	—	—	2,425
Total	<u><u>\$ 212,652</u></u>	<u><u>92,892</u></u>	<u><u>117,335</u></u>	<u><u>2,425</u></u>
Liabilities:				
Payable under securities lending agreement	\$ 59,807	—	59,807	—

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, 2014	\$ 2,445
Gains/losses and investment income, net	105
Purchases, issuances, and write-offs, net	(27)
Contributions, disbursements, net	<u>(98)</u>
Fair value at June 30, 2015	<u><u>\$ 2,425</u></u>

FROEDTERT HEALTH, INC. AND AFFILIATES

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(Dollars in thousands)

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 \$67,901 and \$58,516 at June 30, 2016 and 2015, respectively. The fair market value of the collateral received under this arrangement was \$69,495 and \$59,807 at June 30, 2016 and 2015, 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, 2016 and 2015. The fair value of collateral was 102.4% and 102.2% of the fair value of securities loaned at June 30, 2016 and 2015, respectively.

(c) *Postretirement Medical Plan*

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

The projected benefit obligation at June 30, 2016 and 2015 using a discount rate of 3.80% and 4.58% was \$4,762 and \$3,738, respectively, of which \$204 and \$155, respectively, are included in short-term liabilities and \$4,558 and \$3,583, respectively, are included in other long-term liabilities on the consolidated balance sheets.

(13) Professional Liability Insurance

FMLH, CMH, SJH, and CP have professional liability insurance for claim losses of less than \$1,000 per claim and \$3,000 per year for professional liability claims incurred during a policy year, regardless of when the claim is reported (claims-occurred basis). Losses in excess of these amounts are covered through the FMLH, CMH, SJH, and CP mandatory participation in the Injured Patients' and Families Compensation Fund of the State of Wisconsin. WDL has professional liability insurance for claim losses of less than \$3,000 per claim and \$5,000 per year for professional liability claims incurred during a policy year, regardless of when the claim is reported (claims covered on an occurrence basis). WDL is not covered under the Injured Patients' and Families Compensation Fund of the State of Wisconsin, but does carry additional excess umbrella coverage for professional liability claims. FH applies the provisions of ASU No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a healthcare entity should not net insurance recoveries against a related malpractice claim liability or similar liability and which is consistent with the guidelines in ASC Subtopic 210-20, *Balance Sheet – Offsetting*. FH has recorded an estimated insurance recovery of \$677 and \$373 at June 30, 2016 and 2015, respectively, and a related insurance liability of \$575 and \$291 at June 30, 2016 and 2015, respectively.

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

(14) Commitments and Contingencies

(a) Leases

FH and its affiliates lease equipment and office space under the terms of various operating leases. Rent expense for these leases was \$17,358 and \$17,365 for the years ended June 30, 2016 and 2015, respectively, included in the consolidated statements of operations.

Future minimum operating lease payments, excluding the land lease with Milwaukee County (note 5), that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2016 are as follows:

2017	\$	11,467
2018		9,934
2019		9,430
2020		9,144
2021		6,702
Thereafter		37,811

FMLH has agreed to lease certain space to MCW through the year 2025 under an operating lease that calls for a base rent and additional rent allocated for the expenses incurred. Rental income of \$4,956 and \$5,568 for space leased to MCW is included in other operating revenue for the years ended June 30, 2016 and 2015, respectively, in the consolidated statements of operations. Also included in other operating revenue for the years ended June 30, 2016 and 2015 was a total of \$3,881 and \$3,792, respectively, for certain other leased space to MCW and WDL.

(b) Health Insurance

FH has a self-insured health plan that covers substantially all liability for health costs associated with claims for employees up to certain limits under a commercial stop-loss agreement. Provisions for self-insured health claims include the ultimate cost of claims reported and claims incurred but not reported as of the consolidated balance sheet dates. Included in other accrued expenses at June 30, 2016 and 2015 are estimated amounts payable for health insurance claims incurred as of such dates of \$6,677 and \$7,677, respectively.

(c) Litigation

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

FROEDTERT HEALTH, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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(Dollars in thousands)

(d) *Regulatory Investigation and Other*

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

(e) *Purchase of Chilled Water and Steam Services*

In March 2016, FMLH entered into a contract with Milwaukee Regional Medical Center Thermal Service, Inc. (Thermal) for purchase of chilled water and steam services. The agreement requires FMLH to purchase all of its steam and chilled water through Thermal at a rate that is determined at least annually by an Operations Committee; of which FMLH is a member. The thirty year term of the agreement contains a limited termination right after 6.5 years and is noncancelable thereafter for the term of the agreement. Amounts paid under the new agreement in fiscal 2016 were \$959.

(15) Subsequent Events

Subsequent events have been evaluated through November 16, 2016, which is the date the financial statements were available to be issued, noting no additional subsequent events requiring recording or disclosure in the financial statements or related notes to the financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2016

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Assets					
Current assets:					
Cash and cash equivalents	\$ 7,641	1,990	4,507	—	14,138
Assets whose use is limited	—	—	—	—	—
Patient accounts receivable, net of estimated uncollectibles of \$28,267	166,837	—	1,045	—	167,882
Other receivables	2,602	219	—	(82)	2,739
Inventories	15,481	—	212	—	15,693
Collateral held for securities loaned	—	—	—	—	—
Prepays and other	5,123	—	49	—	5,172
Total current assets	197,684	2,209	5,813	(82)	205,624
Investments	—	13,159	—	—	13,159
Assets whose use is limited or restricted	25,542	10,733	—	(25,542)	10,733
Investments in unconsolidated affiliates	3,086	—	—	(3,046)	40
Property, plant, and equipment, net	593,096	—	1,143	—	594,239
Deferred financing costs and other assets, net	11,409	—	—	—	11,409
Total assets	\$ 830,817	26,101	6,956	(28,670)	835,204
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	\$ 97	—	—	—	97
Accounts payable	15,298	412	542	(82)	16,170
Accrued expenses	38,410	147	322	—	38,879
Payable under securities lending agreement	—	—	—	—	—
Estimated settlements to third-party payors	5,734	—	—	—	5,734
Total current liabilities	59,539	559	864	(82)	60,880
Long-term debt, less current installments	364	—	—	—	364
Other long-term liabilities	20,064	—	—	—	20,064
Total liabilities	79,967	559	864	(82)	81,308
Net assets (deficit):					
Unrestricted:					
Unrestricted	721,441	14,937	6,092	(6,092)	736,378
Noncontrolling interests in consolidated joint ventures	—	—	—	3,046	3,046
Total unrestricted	721,441	14,937	6,092	(3,046)	739,424
Temporarily restricted	29,043	10,239	—	(25,176)	14,106
Permanently restricted	366	366	—	(366)	366
Total net assets	750,850	25,542	6,092	(28,588)	753,896
Total liabilities and net assets	\$ 830,817	26,101	6,956	(28,670)	835,204

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2016

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Assets					
Current assets:					
Cash and cash equivalents	\$ 627	504	—	—	1,131
Assets whose use is limited	—	—	—	—	—
Patient accounts receivable, net of estimated uncollectibles of \$28,267	19,331	—	—	—	19,331
Other receivables	96	—	311	(332)	75
Inventories	3,335	—	—	—	3,335
Collateral held for securities loaned	—	—	—	—	—
Prepays and other	601	1	—	—	602
Total current assets	23,990	505	311	(332)	24,474
Investments	—	2,430	—	—	2,430
Assets whose use is limited or restricted	—	3,881	—	—	3,881
Investments in unconsolidated affiliates	12,157	—	—	(6,449)	5,708
Property, plant, and equipment, net	111,501	—	—	—	111,501
Deferred financing costs and other assets, net	—	—	—	—	—
Total assets	\$ 147,648	6,816	311	(6,781)	147,994
Liabilities and Net Assets					
Current liabilities:					
Current installments of long-term debt	\$ —	—	—	—	—
Accounts payable	5,300	366	7	(332)	5,341
Accrued expenses	4,369	1	—	—	4,370
Payable under securities lending agreement	—	—	—	—	—
Estimated settlements to third-party payors	6,591	—	—	—	6,591
Total current liabilities	16,260	367	7	(332)	16,302
Long-term debt, less current installments	—	—	—	—	—
Other long-term liabilities	42,792	—	—	—	42,792
Total liabilities	59,052	367	7	(332)	59,094
Net assets (deficit):					
Unrestricted:					
Unrestricted	86,818	4,671	304	(4,671)	87,122
Noncontrolling interests in consolidated joint ventures	—	—	—	—	—
Total unrestricted	86,818	4,671	304	(4,671)	87,122
Temporarily restricted	1,778	1,778	—	(1,778)	1,778
Permanently restricted	—	—	—	—	—
Total net assets	88,596	6,449	304	(6,449)	88,900
Total liabilities and net assets	\$ 147,648	6,816	311	(6,781)	147,994

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2016

(In thousands)

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,218	451	—	1,669
Assets whose use is limited	—	—	—	—
Patient accounts receivable, net of estimated uncollectibles of \$28,267	13,563	—	—	13,563
Other receivables	3,441	104	(336)	3,209
Inventories	2,539	—	—	2,539
Collateral held for securities loaned	—	—	—	—
Prepays and other	257	—	—	257
Total current assets	21,018	555	(336)	21,237
Investments	—	26,530	—	26,530
Assets whose use is limited or restricted	112	8,097	—	8,209
Investments in unconsolidated affiliates	20	—	—	20
Property, plant, and equipment, net	72,199	—	—	72,199
Deferred financing costs and other assets, net	—	—	—	—
Total assets	\$ 93,349	35,182	(336)	128,195
Liabilities and Net Assets				
Current liabilities:				
Current installments of long-term debt	\$ —	—	—	—
Accounts payable	4,785	336	(336)	4,785
Accrued expenses	3,364	—	—	3,364
Payable under securities lending agreement	—	—	—	—
Estimated settlements to third-party payors	2,544	—	—	2,544
Total current liabilities	10,693	336	(336)	10,693
Long-term debt, less current installments	—	—	—	—
Other long-term liabilities	2,153	—	—	2,153
Total liabilities	12,846	336	(336)	12,846
Net assets (deficit):				
Unrestricted:				
Unrestricted	80,391	34,562	—	114,953
Noncontrolling interests in consolidated joint ventures	—	—	—	—
Total unrestricted	80,391	34,562	—	114,953
Temporarily restricted	112	282	—	394
Permanently restricted	—	2	—	2
Total net assets	80,503	34,846	—	115,349
Total liabilities and net assets	\$ 93,349	35,182	(336)	128,195

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Balance Sheet Information

June 30, 2016

(In thousands)

Assets	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Current assets:						
Cash and cash equivalents	\$ 1,490	14,691	22,476	7,152	—	62,747
Assets whose use is limited	—	893	5,201	45	—	6,139
Patient accounts receivable, net of estimated uncollectibles of \$28,267	24,375	4,377	—	558	—	230,086
Other receivables	18,198	6,193	24,074	554	(40,326)	14,716
Inventories	427	—	3,464	785	—	26,243
Collateral held for securities loaned	—	—	332,610	—	—	332,610
Prepays and other	142	682	9,059	293	—	16,207
Total current assets	44,632	26,836	396,884	9,387	(40,326)	688,748
Investments	—	—	1,306,175	—	—	1,348,294
Assets whose use is limited or restricted	—	—	99,895	—	—	122,718
Investments in unconsolidated affiliates	—	—	123,469	3,472	(850)	131,859
Property, plant, and equipment, net	25,795	5,039	136,565	960	—	946,298
Deferred financing costs and other assets, net	488	—	4,156	889	—	16,942
Total assets	\$ 70,915	31,875	2,067,144	14,708	(41,176)	3,254,859
Liabilities and Net Assets						
Current liabilities:						
Current installments of long-term debt	\$ —	—	11,030	—	—	11,127
Accounts payable	365	2,587	72,121	13,256	(40,326)	74,299
Accrued expenses	20,423	5,470	101,177	205	—	173,888
Payable under securities lending agreement	—	—	332,768	—	—	332,768
Estimated settlements to third-party payors	256	—	—	—	—	15,125
Total current liabilities	21,044	8,057	517,096	13,461	(40,326)	607,207
Long-term debt, less current installments	—	—	671,912	—	—	672,276
Other long-term liabilities	3,242	—	84,833	—	—	153,084
Total liabilities	24,286	8,057	1,273,841	13,461	(40,326)	1,432,567
Net assets (deficit):						
Unrestricted:						
Unrestricted	46,629	23,818	793,303	1,247	(828)	1,802,622
Noncontrolling interests in consolidated joint ventures	—	—	—	—	(22)	3,024
Total unrestricted	46,629	23,818	793,303	1,247	(850)	1,805,646
Temporarily restricted	—	—	—	—	—	16,278
Permanently restricted	—	—	—	—	—	368
Total net assets	46,629	23,818	793,303	1,247	(850)	1,822,292
Total liabilities and net assets	\$ 70,915	31,875	2,067,144	14,708	(41,176)	3,254,859

(1) Other Consolidated Affiliates include the entities of Froedtert Health Hometown Pharmacy, Progressive Physician Network, Inception Health, QHS 1, Exceedent, Integrated Holdings, Waukesha Surgery Center, and Harts Mills.

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2016

(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Net patient service revenue:					
Net patient service revenue before provision for bad debts	\$ 1,417,187	—	8,915	—	1,426,102
Provision for bad debts	14,750	—	153	—	14,903
Net patient service revenue	1,402,437	—	8,762	—	1,411,199
Other operating revenue	33,222	1,154	—	(499)	33,877
Total revenue	1,435,659	1,154	8,762	(499)	1,445,076
Expenses:					
Salaries	314,173	—	1,872	—	316,045
Fringe benefits	81,522	—	782	—	82,304
Supplies	303,721	2	2,178	—	305,901
Contract services	90,163	—	798	—	90,961
Affiliate support	130,383	—	—	—	130,383
Depreciation and amortization	48,686	—	332	—	49,018
Interest	16,025	—	—	—	16,025
Other	108,743	2,072	1,912	(55)	112,672
Corporate allocations	203,547	—	—	—	203,547
Total expenses	1,296,963	2,074	7,874	(55)	1,306,856
Operating revenue in excess (deficient) of expenses	138,696	(920)	888	(444)	138,220
Nonoperating gains and losses:					
Investment income	—	316	—	—	316
Change in net unrealized gains and losses on trading securities	—	(477)	—	—	(477)
Change in fair value of interest rate swaps	—	—	—	—	—
Revenue and gains in excess of expenses and losses	138,696	(1,081)	888	(444)	138,059
Other changes in unrestricted net assets:					
Transfers (to) from affiliates	(85,972)	(42)	—	—	(86,014)
Change in net unrealized gains and losses on other-than-trading securities	36	—	—	—	36
Contributions and net assets released from restriction for property, plant, and equipment	333	(63)	—	—	270
Change in accrued pension benefits other than net periodic benefit costs	(5,360)	—	—	—	(5,360)
Forgiveness of receivable from Foundation	(852)	1,158	—	—	306
Other	—	—	—	—	—
Increase (decrease) in unrestricted net assets	46,881	(28)	888	(444)	47,297
Unrestricted net assets (deficit) at beginning of year	674,560	14,965	5,204	(2,602)	692,127
Unrestricted net assets (deficit) at end of year	\$ 721,441	14,937	6,092	(3,046)	739,424

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2016

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Net patient service revenue:					
Net patient service revenue before provision for bad debts	\$ 198,027	—	—	—	198,027
Provision for bad debts	1,375	—	—	—	1,375
Net patient service revenue	196,652	—	—	—	196,652
Other operating revenue	3,589	906	486	(495)	4,486
Total revenue	200,241	906	486	(495)	201,138
Expenses:					
Salaries	67,082	—	102	(141)	67,043
Fringe benefits	18,309	—	—	—	18,309
Supplies	36,868	—	92	—	36,960
Contract services	7,898	—	—	—	7,898
Affiliate support	19,541	—	—	—	19,541
Depreciation and amortization	10,685	—	—	—	10,685
Interest	2,275	—	—	—	2,275
Other	15,214	898	267	(401)	15,978
Corporate allocations	13,600	—	—	—	13,600
Total expenses	191,472	898	461	(542)	192,289
Operating revenue in excess (deficient) of expenses	8,769	8	25	47	8,849
Nonoperating gains and losses:					
Investment income	—	147	—	—	147
Change in net unrealized gains and losses on trading securities	—	(202)	—	—	(202)
Change in fair value of interest rate swaps	—	—	—	—	—
Revenue and gains in excess of expenses and losses	8,769	(47)	25	47	8,794
Other changes in unrestricted net assets:					
Transfers (to) from affiliates	893	(893)	—	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	—	607	—	—	607
Change in accrued pension benefits other than net periodic benefit costs	(15,344)	—	—	—	(15,344)
Forgiveness of receivable from Foundation	—	—	—	—	—
Other	(301)	—	—	286	(15)
Increase (decrease) in unrestricted net assets	(5,983)	(333)	25	333	(5,958)
Unrestricted net assets at beginning of year	92,801	5,004	279	(5,004)	93,080
Unrestricted net assets at end of year	\$ 86,818	4,671	304	(4,671)	87,122

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2016

(In thousands)

Schedule 2

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Net patient service revenue:				
Net patient service revenue before provision for bad debts	\$ 140,202	—	—	140,202
Provision for bad debts	1,243	—	—	1,243
Net patient service revenue	138,959	—	—	138,959
Other operating revenue	3,187	330	(36)	3,481
Total revenue	142,146	330	(36)	142,440
Expenses:				
Salaries	36,623	95	—	36,718
Fringe benefits	9,197	—	—	9,197
Supplies	24,990	111	—	25,101
Contract services	4,982	—	—	4,982
Affiliate support	15,438	—	—	15,438
Depreciation and amortization	6,555	—	—	6,555
Interest	2,649	—	—	2,649
Other	9,904	397	(36)	10,265
Corporate allocations	8,824	—	—	8,824
Total expenses	119,162	603	(36)	119,729
Operating revenue in excess (deficient) of expenses	22,984	(273)	—	22,711
Nonoperating gains and losses:				
Investment income	—	865	—	865
Change in net unrealized gains and losses on trading securities	—	(1,197)	—	(1,197)
Change in fair value of interest rate swaps	—	—	—	—
Revenue and gains in excess of expenses and losses	22,984	(605)	—	22,379
Other changes in unrestricted net assets:				
Transfers (to) from affiliates	(48,874)	(126)	—	(49,000)
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Contributions and net assets released from restriction for property, plant, and equipment	18	53	—	71
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Forgiveness of receivable from Foundation	(123)	123	—	—
Other	70	—	—	70
Increase (decrease) in unrestricted net assets	(25,925)	(555)	—	(26,480)
Unrestricted net assets at beginning of year	106,316	35,117	—	141,433
Unrestricted net assets at end of year	\$ 80,391	34,562	—	114,953

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Operations Information

Year ended June 30, 2016

(In thousands)

	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Net patient service revenue:						
Net patient service revenue before provision for bad debts	\$ 206,485	29,019	—	4,977	(2,812)	2,002,000
Provision for bad debts	1,229	1,172	—	—	—	19,922
Net patient service revenue	205,256	27,847	—	4,977	(2,812)	1,982,078
Other operating revenue	12,237	46,765	337,766	5,112	(413,047)	30,677
Total revenue	217,493	74,612	337,766	10,089	(415,859)	2,012,755
Expenses:						
Salaries	152,391	24,239	104,930	4,634	(2,252)	703,748
Fringe benefits	28,328	7,607	122,420	778	(95,813)	173,130
Supplies	18,051	15,080	5,079	3,975	(160)	409,987
Contract services	19,530	10,788	32,970	1,638	(58,055)	110,712
Affiliate support	(49,941)	—	(5,483)	—	—	109,938
Depreciation and amortization	5,771	1,995	13,943	409	—	88,376
Interest	—	—	10,692	24	—	31,665
Other	29,815	9,615	80,771	1,562	(20,044)	240,634
Corporate allocations	13,548	—	—	—	(239,519)	—
Total expenses	217,493	69,324	365,322	13,020	(415,843)	1,868,190
Operating revenue in excess of expenses	—	5,288	(27,556)	(2,931)	(16)	144,565
Nonoperating gains and losses:						
Investment income	—	—	33,180	—	—	34,508
Change in net unrealized gains and losses on trading securities	—	—	(42,946)	—	—	(44,822)
Change in fair value of interest rate swaps	—	—	(13,535)	—	—	(13,535)
Revenue and gains in excess of expenses and losses	—	5,288	(50,857)	(2,931)	(16)	120,716
Other changes in unrestricted net assets:						
Transfers (to) from affiliates	—	—	129,639	5,375	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—	36
Contributions and net assets released from restriction for property, plant, and equipment	—	—	—	—	—	948
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—	—	(20,704)
Forgiveness of receivable from Foundation	—	—	(306)	—	—	—
Other	—	(143)	(18,388)	42	18,367	(67)
Increase (decrease) in unrestricted net assets	—	5,145	60,088	2,486	18,351	100,929
Unrestricted net assets (deficit) at beginning of year	46,629	18,673	733,215	(1,239)	(19,201)	1,704,717
Unrestricted net assets at end of year	\$ 46,629	23,818	793,303	1,247	(850)	1,805,646

(1) Other Consolidated Affiliates include the entities of Froedtert Health Hometown Pharmacy, Progressive Physician Network, Inception Health, QHS 1, Exceedent, Integrated Holdings, Waukesha Surgery Center, and Harts Mills.

See accompanying notes to consolidated financial statements.

FROEDTERT HEALTH, INC. AND AFFILIATES
Consolidating Statement of Changes in Net Assets Information
Year ended June 30, 2016
(In thousands)

	Froedtert Memorial Lutheran Hospital	Froedtert Hospital Foundation	Froedtert Surgery Center	Eliminations and consolidating entries	Consolidated Froedtert Memorial Lutheran Hospital
Unrestricted net assets:					
Revenue in excess of expenses and losses	\$ 138,696	(1,081)	888	(444)	138,059
Transfers (to) from affiliates	(85,972)	(42)	—	—	(86,014)
Change in net unrealized gains and losses on other-than-trading securities	36	—	—	—	36
Net assets released from restrictions for property, plant, and equipment	333	(63)	—	—	270
Change in accrued pension benefits other than net periodic benefit costs	(5,360)	—	—	—	(5,360)
Forgiveness of receivable from Foundation	(852)	1,158	—	—	306
Other	—	—	—	—	—
Increase (decrease) in unrestricted net assets	46,881	(28)	888	(444)	47,297
Unrestricted net assets at beginning of year	674,560	14,965	5,204	(2,602)	692,127
Unrestricted net assets at end of year	<u>\$ 721,441</u>	<u>14,937</u>	<u>6,092</u>	<u>(3,046)</u>	<u>739,424</u>
Temporarily restricted net assets:					
Change in net unrealized gains and losses on investments	\$ —	(236)	—	—	(236)
Restricted contributions	2,200	107	—	—	2,307
Restricted investment income	—	205	—	—	205
Net assets released from restrictions for operations	—	(372)	—	—	(372)
Net assets released from restrictions for property, plant, and equipment	(333)	63	—	—	(270)
Change in beneficial interest in foundations	(261)	—	—	261	—
Other	—	—	—	—	—
Increase (decrease) in temporarily restricted net assets	1,606	(233)	—	261	1,634
Temporarily restricted net assets at beginning of year	27,437	10,472	—	(25,437)	12,472
Temporarily restricted net assets at end of year	<u>\$ 29,043</u>	<u>10,239</u>	<u>—</u>	<u>(25,176)</u>	<u>14,106</u>
Permanently restricted net assets:					
Permanently restricted net assets at beginning of year	\$ 366	366	—	(366)	366
Permanently restricted net assets at end of year	<u>\$ 366</u>	<u>366</u>	<u>—</u>	<u>(366)</u>	<u>366</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2016

(In thousands)

	Community Memorial Hospital	Community Memorial Foundation	Community Outpatient Health Services	Eliminations and consolidating entries	Consolidated Community Memorial Hospital
Unrestricted net assets:					
Revenue in excess of expenses and losses	\$ 8,769	(47)	25	47	8,794
Transfers (to) from affiliates	893	(893)	—	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	—	607	—	—	607
Change in accrued pension benefits other than net periodic benefit costs	(15,344)	—	—	—	(15,344)
Forgiveness of receivable from Foundation	—	—	—	—	—
Other	(301)	—	—	286	(15)
Increase (decrease) in unrestricted net assets	(5,983)	(333)	25	333	(5,958)
Unrestricted net assets at beginning of year	92,801	5,004	279	(5,004)	93,080
Unrestricted net assets at end of year	<u>\$ 86,818</u>	<u>4,671</u>	<u>304</u>	<u>(4,671)</u>	<u>87,122</u>
Temporarily restricted net assets:					
Change in net unrealized gains and losses on investments	\$ —	(1)	—	—	(1)
Restricted contributions	—	710	—	—	710
Restricted investment income	—	—	—	—	—
Net assets released from restrictions for operations	—	(38)	—	—	(38)
Net assets released from restrictions for property, plant, and equipment	—	(607)	—	—	(607)
Change in beneficial interest in foundations	80	—	—	(80)	—
Other	—	16	—	—	16
Increase (decrease) in temporarily restricted net assets	80	80	—	(80)	80
Temporarily restricted net assets at beginning of year	1,698	1,698	—	(1,698)	1,698
Temporarily restricted net assets at end of year	<u>\$ 1,778</u>	<u>1,778</u>	<u>—</u>	<u>(1,778)</u>	<u>1,778</u>
Permanently restricted net assets:					
Permanently restricted net assets at beginning of year	\$ —	—	—	—	—
Permanently restricted net assets at end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2016

(In thousands)

Schedule 3

	St. Joseph's Community Hospital	St. Joseph's Community Foundation	Eliminations and consolidating entries	Consolidated St. Joseph's Community Hospital
Unrestricted net assets:				
Revenue in excess of expenses and losses	\$ 22,984	(605)	—	22,379
Transfers (to) from affiliates	(48,874)	(126)	—	(49,000)
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—
Net assets released from restrictions for property, plant, and equipment	18	53	—	71
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—
Forgiveness of receivable from Foundation	(123)	123	—	—
Other	70	—	—	70
Increase (decrease) in unrestricted net assets	(25,925)	(555)	—	(26,480)
Unrestricted net assets at beginning of year	106,316	35,117	—	141,433
Unrestricted net assets at end of year	<u>\$ 80,391</u>	<u>34,562</u>	<u>—</u>	<u>114,953</u>
Temporarily restricted net assets:				
Change in net unrealized gains and losses on investments	\$ —	—	—	—
Restricted contributions	(8)	35	—	27
Restricted investment income	—	—	—	—
Net assets released from restrictions for operations	(9)	(70)	—	(79)
Net assets released from restrictions for property, plant, and equipment	(18)	(53)	—	(71)
Change in beneficial interest in foundations	—	—	—	—
Other	—	—	—	—
Increase (decrease) in temporarily restricted net assets	(35)	(88)	—	(123)
Temporarily restricted net assets at beginning of year	147	370	—	517
Temporarily restricted net assets at end of year	<u>\$ 112</u>	<u>282</u>	<u>—</u>	<u>394</u>
Permanently restricted net assets:				
Permanently restricted net assets at beginning of year	\$ —	2	—	2
Permanently restricted net assets at end of year	<u>\$ —</u>	<u>2</u>	<u>—</u>	<u>2</u>

FROEDTERT HEALTH, INC. AND AFFILIATES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2016

(In thousands)

	F&MCW Community Physicians	Wisconsin Diagnostic Laboratories	Froedtert Health (Parent Only)	Other Consolidated Affiliates (1)	Eliminations and consolidating entries	Consolidated Froedtert Health, Inc.
Unrestricted net assets:						
Revenue in excess of expenses and losses	\$ —	5,288	(50,857)	(2,931)	(16)	120,716
Transfers (to) from affiliates	—	—	129,639	5,375	—	—
Change in net unrealized gains and losses on other-than-trading securities	—	—	—	—	—	36
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	948
Change in accrued pension benefits other than net periodic benefit costs	—	—	—	—	—	(20,704)
Forgiveness of receivable from Foundation	—	—	(306)	—	—	—
Other	—	(143)	(18,388)	42	18,367	(67)
Increase (decrease) in unrestricted net assets	—	5,145	60,088	2,486	18,351	100,929
Unrestricted net assets at beginning of year	46,629	18,673	733,215	(1,239)	(19,201)	1,704,717
Unrestricted net assets at end of year	<u>\$ 46,629</u>	<u>23,818</u>	<u>793,303</u>	<u>1,247</u>	<u>(850)</u>	<u>1,805,646</u>
Temporarily restricted net assets:						
Change in net unrealized gains and losses on investments	\$ —	—	—	—	—	(237)
Restricted contributions	—	—	—	—	—	3,044
Restricted investment income	—	—	—	—	—	205
Net assets released from restrictions for operations	—	—	—	—	—	(489)
Net assets released from restrictions for property, plant, and equipment	—	—	—	—	—	(948)
Change in beneficial interest in foundations	—	—	—	—	—	—
Other	—	—	—	—	—	16
Increase (decrease) in temporarily restricted net assets	—	—	—	—	—	1,591
Temporarily restricted net assets at beginning of year	—	—	—	—	—	14,687
Temporarily restricted net assets at end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>16,278</u>
Permanently restricted net assets:						
Permanently restricted net assets at beginning of year	\$ —	—	—	—	—	368
Permanently restricted net assets at end of year	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>368</u>

(1) Other Consolidated Affiliates include the entities of Froedtert Health Hometown Pharmacy, Progressive Physician Network, Inception Health, QHS 1, Exceedent, Integrated Holdings, Waukesha Surgery Center, and Harts Mills.

See accompanying notes to consolidated financial statements.

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APPENDIX C

**SUMMARY OF CERTAIN PROVISIONS OF
THE MASTER TRUST INDENTURE**

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SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

A brief description of the Master Indenture is included in this Appendix C. Such description does not purport to be comprehensive or definitive. All references herein to the Master Indenture are qualified in their entirety by reference to such document, a copy of which is available for review at the offices of the Master Trustee.

Definitions of Certain Terms

The following terms have the following meanings in the Master Indenture:

Accountant means any firm of independent certified public accountants (but not an individual) selected by the Obligated Group Representative and not objected by to the Master Trustee.

Additional Indebtedness means, as to the Corporation and each other Obligated Issuer, any Indebtedness (including all Obligations) issued under a Related Supplement executed pursuant to the Master Indenture.

Affiliate means: (1) a nonstock, nonprofit corporation, a majority of the members of the Governing Body of which are (i) the same as the corporate members or directors of an Obligated Issuer, (ii) subject to election or appointment by an Obligated Issuer, (iii) subject to election or appointment by a corporation which has the power to elect or appoint at least fifty percent (50%) of the members of the Governing Body of an Obligated Issuer, or (iv) which has the power to elect or appoint a majority of the members of the Governing Body of an Obligated Issuer; or (2) a for-profit corporation, at least fifty percent (50%) of whose voting stock is owned by an Obligated Issuer or an Affiliate.

Annual Debt Service means for each Fiscal Year the aggregate amount (without duplication) of principal and interest scheduled to become due (either by maturity or by mandatory redemption) and sinking fund payments required to be paid in that Fiscal Year on all Long-Term Indebtedness, less any amounts on deposit in escrow to be applied during that Fiscal Year to pay principal or interest on Long-Term Indebtedness, calculated using the principles and assumptions set forth under the definition of Maximum Annual Debt Service.

Authorized Representative means with respect to each Obligated Issuer, the chairman of its Governing Body or its chief executive officer or its chief financial officer or any other person designated an Authorized Representative of such Obligated Issuer by a Certificate of such Obligated Issuer, signed by the chairman of its Governing Body or its chief executive officer or chief financial officer and filed with the Master Trustee.

Balloon Indebtedness means Long-Term Indebtedness of an Obligated Issuer, twenty-five percent (25%) or more of the principal of which becomes due (either by maturity or mandatory redemption) during any period of twelve (12) consecutive months, which portion of the principal is not required by the documents governing such Indebtedness to be amortized or prepaid prior to such date. Balloon Indebtedness does not include Indebtedness that would otherwise be classified under the Master Indenture as Put Indebtedness.

Book Value means, when used in connection with Property, Plant and Equipment or other Property of any Obligated Issuer, the value of such property, net of accumulated depreciation, as it is carried on the books of such Obligated Issuer and in conformity with generally accepted accounting principles, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such property of each Obligated Issuer determined in such a way that no portion of such value of property of any Obligated Issuer is included more than once.

Certificate, Statement, Request, Consent or Order of any Obligated Issuer or of the Master Trustee means, respectively, a written certificate, statement, request, consent or order signed in the name of such Obligated Issuer by its respective Authorized Representative or in the name of the Master Trustee by its Responsible Officer. Any such instrument and supporting opinions or certificates, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or certificate and the two or more so combined shall be read and construed as a single instrument.

Completion Indebtedness means any Long-Term Indebtedness incurred by the Obligated Group or any Obligated Issuer for the purpose of financing the completion of construction or equipping of any project for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, to the extent necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness was incurred, and in accordance with the general plans and specifications for such facility as originally prepared and approved in connection with the related financing, modified or amended only in conformance with the provisions of the documents pursuant to which the related financing was undertaken.

Construction Index means the health care component of the implicit price deflator for the gross national product as most recently reported prior to the date in question by the United States Department of Commerce or its successor agency, or, if such index is no longer published, another index that is certified to be comparable and appropriate by the Obligated Group Representative in an Officer's Certificate delivered to the Master Trustee and which other index is not objected to by the Master Trustee.

Corporate Trust Office means the office of the Master Trustee at which its principal corporate trust business is conducted.

Corporation means Froedtert Health, Inc., a nonstock, nonprofit corporation duly organized and existing under the laws of the State of Wisconsin, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Master Indenture.

County Lease means that certain Amended and Restated Lease Agreement between Milwaukee County, Wisconsin as lessor and Froedtert Memorial Lutheran Hospital, Inc. as lessee dated December 21, 1995 granting a leasehold interest in real estate on the Milwaukee county grounds, and any renewal, restatement or amendment thereof.

Current Value means: (a) with respect to Property, Plant and Equipment either (i) the aggregate fair market value of such Property, Plant and Equipment as reflected in the most recent written report of an appraiser not objected to by the Master Trustee and, in the case of real property, who is an Obligated Issuer of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report shall be dated not more than three (3) years prior to the date as of which Current Value is to be calculated), increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which Current Value is to be calculated, plus the Book Value of any Property, Plant and Equipment acquired since the last such report, increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such acquisition to the date as of which Current Value is to be calculated, minus the greater of the Book Value or the fair market value (as reflected in such most recent appraiser's report) of any Property, Plant and Equipment disposed of since the last such report, increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date as of which such Book Value was determined or the date of such report, as the case may be, to the earlier of the date of disposition of such Property, Plant and Equipment or the date as of which Current Value is to be calculated, or (ii) the value equal to a bona fide offer for the purchase of such Property, Plant and Equipment made on an arm's length basis within six (6) months or the date of valuation as set forth in an Officer's Certificate; and (b) with respect to any other Property, the fair market value of such Property, which fair market value shall be evidenced in a manner not objected to by the Master Trustee.

Debt Service means, with respect to the period of time for which calculated, the aggregate amount (without duplication) of principal and interest scheduled to become due (either by maturity or by mandatory redemption) and sinking fund payments required to be paid during such period on all Long-Term Indebtedness, less any amounts on deposit in escrow to be applied during such period to pay principal or interest on Long-Term Indebtedness.

Debt Service Coverage Ratio means the ratio of Income Available for Debt Service for the period or period in question to the Maximum Annual Debt Service on all Outstanding Long-Term Indebtedness.

Event of Default with respect to the Master Trust Indenture means the events summarized herein under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Events of Default."

Excluded Property means the real property, if any, described as Excluded Property in the Master Indenture.

Facilities means the real and personal property owned by each Obligated Issuer and used by any such Obligated Issuer in its health care and related operations other than Excluded Property.

Financing means a borrowing in connection with which an Obligation is issued under the Master Indenture.

Fiscal Year means that period adopted by the Obligated Group Representative as its annual accounting period and which shall also be the Fiscal Year adopted by all other Obligated Issuers (unless any such Obligated Issuer is prevented by law or regulation from adopting such a fiscal year).

Governing Body means, when used with respect to any Obligated Issuer, its board of directors, board of trustees, or other board or group of individuals in which all of the powers of such Person are vested except for those powers reserved to the corporate member thereof by the articles of incorporation or bylaws of such Person.

Government Issuer means any municipal corporation, political subdivision, state, territory or possession of the United States, or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, which obligations would constitute Related Bonds under the Master Indenture.

Government Obligations means: (1) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, Farmers Home Administration, Federal Home Loan Mortgage Corporation, Private Export Funding Corporation, and Student Loan Marketing Association and Government Trust Certificates and any obligation of any other agency or instrumentality of the government of the United States of America hereafter created, provided such obligation of any agency or instrumentality hereinafter created is approved for investment by a nationally recognized rating agency, and including interest strips of bonds issued by the Resolution Funding Corporation and held in book-entry form by the Federal Reserve Bank of New York; and (2) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (1).

Guaranty when used in connection with a particular Person means all obligations of that Person guaranteeing or in effect guaranteeing any indebtedness or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, including without limitation, obligations incurred through an agreement, contingent or otherwise, by that Person (a) to purchase such indebtedness or obligation or any Property or assets constituting security therefor, (b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation at any time after its original incurrence, or (ii) to maintain working capital or other balance sheet condition, (c) to lease Property or to purchase securities or other Property or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the primary obligor to make payment of the indebtedness or obligation or (d) otherwise to assure the owner of the indebtedness or obligation of the primary obligor against loss in respect thereof. Notwithstanding the foregoing, none of the following shall be deemed to constitute a Guaranty: (i) the endorsement in the ordinary course of business of negotiable instruments for deposit or collection, (ii) the discount or sale with recourse of any such Person’s notes receivable or accounts receivable, (iii) a guaranty of the rentals payable by a third person in future years under leases which are not treated as a debt on a balance sheet of the third person prepared in accordance with generally accepted accounting principles and (iv) the obligation to make payments on Obligations pursuant to the provisions of the Master Indenture.

Historical Pro Forma Debt Service Coverage Ratio means, for any period of time, the ratio determined by dividing Income Available for Debt Service for that period by the Maximum Annual Debt Service for the Long-Term Indebtedness then Outstanding and the Long-Term Indebtedness proposed to be issued.

Holder means the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form which is not registered or is registered to bearer.

Immaterial Affiliate means a Person whose total net assets, as shown on its financial statements for its most recently completed fiscal year, were less than ten percent (10%) of combined or consolidated net assets of the Obligated Issuers.

Income Available for Debt Service means, with respect to the Obligated Group, as to any period of time, the excess of Net Revenues over Total Expenses (or, in the case of for-profit Obligated Issuers, net income after taxes) of the Obligated Group for such period, to which shall be added depreciation, amortization and interest, all as determined in accordance with generally accepted accounting principles.

Indebtedness means the Obligations and all other obligations appearing as liabilities on the balance sheet for the payment of money incurred or assumed by the Corporation or any other Obligated Issuer, all as determined in accordance with generally accepted accounting principles consistently applied, and Guaranties, except that Indebtedness shall not include (a) Indebtedness of one Obligated Issuer to another Obligated Issuer or any Guaranty by one Obligated Issuer of Indebtedness of another Obligated Issuer, (b) liabilities (other than for borrowed money and other than rents payable under lease agreements) incurred in the regular operations of an Obligated Issuer, (c) rentals payable in future years, with respect to leases which are not treated as a debt on a balance sheet prepared in accordance with generally accepted accounting principles, (d) any continuing obligation of any Obligated Issuer to pay principal of and interest on Indebtedness or Related Bonds which is deemed to be discharged or defeased in accordance with the terms of the instrument or instruments creating or evidencing such Indebtedness or Related Bonds, as the case may be; provided, however, that there is delivered to the Master Trustee a letter from a nationally recognized firm of independent certified public accountants verifying the adequacy of any escrow established in connection with the discharge or defeasance of such Indebtedness or Related Bonds, and (e) any obligation of the Corporation or any other Obligated Issuer under an Interest Rate Agreement or any obligation to reimburse a bond insurer, financial institution or other Person which has guaranteed or otherwise assured the performance of the obligations of the Corporation or any other Obligated Issuer under an Interest Rate Agreement. Notwithstanding (c) of such definition, leases or similar arrangements that would be classified as operating leases under generally accepted accounting principles at the time of issuance of the Series 2012A Master Note (as defined in the Twelfth Supplement of Master Trust Indenture dated as of October 1, 2012) shall be excluded from Indebtedness.

Industry Restrictions means federal, state or other applicable governmental laws or regulations or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by the Obligated Issuers.

Insurance Consultant means a person or firm (which may be an insurance broker or agent of an Obligated Issuer), who is not, and no Obligated Issuer, director, officer or employee of which is, a director, officer or employee of any Obligated Issuer, designated by the Obligated Group Representative and qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

Interest Rate Agreement means an interest rate exchange, hedge or similar agreement, expressly identified in an Officer's Certificate of the Obligated Issuer entering the Interest Rate Agreement or a duly authorized resolution of the Governing Body of the Obligated Issuer entering the Interest Rate Agreement delivered to the Master Trustee as being entered into in order to hedge or manage the interest payable on all or a portion of any Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g., a call, put, cap, floor or collar) and which agreement does not constitute an obligation to repay money borrowed, credit extended or the equivalent. Obligations of a Obligated Issuer under an Interest Rate Agreement are not Indebtedness for purposes of the Master Indenture and shall not be deemed to be Outstanding under the Master Indenture for any purpose other than entitlement to the payments thereon, secured equally and ratably with all other interest payments on Notes. For purposes of interpreting the terms and provisions of the Master Indenture with respect to Obligations securing Interest Rate Agreements, all references herein to "interest" on Obligations shall mean the periodic scheduled payment obligations of the Obligated Group Members under the interest Rate Agreements and all references to "principal" on Obligations shall mean all payment obligations of the Obligated Group Members under the Interest Rate Agreements other than scheduled periodic payments obligations.

Lien means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property, excluding Liens applicable to Property in which any Obligated Issuer has only a leasehold interest unless the Lien is with respect to such leasehold interest.

Long-Term Indebtedness means Indebtedness having an original maturity greater than one (1) year or renewable at the option of an Obligated Issuer for a period greater than one (1) year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each calendar year.

Management Consultant means a firm (but not an individual), which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in any Obligated Issuer or any Affiliate, and (3) is not connected with any Obligated Issuer or any Affiliate as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions, designated by the Obligated Group Representative, not objected to by the Master Trustee, and having the skill and experience necessary to render the particular report or certification required by the provision of the Master Indenture in which such requirement appears.

Master Indenture means the Master Trust Indenture as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms of the Master Indenture.

Master Trustee means Wells Fargo Bank, National Association and any other corporation or association which may be co-trustee with Wells Fargo Bank, National Association, and any successor or successors to said trustee or co-trustee in the trusts created under the Master Indenture.

Maximum Annual Debt Service means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service the assumptions set forth under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Calculation of Debt Service” shall apply.

Net Revenues means the sum of total net operating revenues, plus net non-operating revenues, as shown on the combined or consolidated financial statements of the Obligated Group, determined in accordance with generally accepted accounting principles, plus any investment income which is offset against interest expense in accordance with generally accepted accounting principles and as a result is not included in total operating revenues or non-operating revenues; provided, however, that no determination of Net Revenues shall take into account (a) for tax-exempt organizations, unrealized gains and losses from investments, (b) any gain or loss resulting from the early extinguishment of Indebtedness, (c) [reserved], (d) any gains or losses resulting from the sale, exchange or other disposition of investments not in the ordinary course of business, (e) any gains or losses resulting from the sale, exchange or other disposition of Property, Plant and Equipment, (f) gifts, grants, bequests or donations restricted as to use for a purpose inconsistent with the payment of Debt Service, (g) insurance (other than business interruption) and condemnation proceeds, (h) any gain or loss resulting from any reappraisal, revaluation or impairment of assets, and (i) adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles. Gains with respect to any Interest Rate Agreement, including any change in the value of its termination value, other than gains resulting from the termination of, in whole or in part, an Interest Rate Agreement, shall be excluded in determining “Net Revenues” for purposes of the Master Indenture.

Non-Recourse Indebtedness means any Indebtedness which is secured by a Lien, liability for which is effectively limited to the Property subject to such Lien, with no recourse, directly or indirectly, to any other Property of any Obligated Issuer.

Obligated Group means all Obligated Issuers collectively.

Obligated Group Representative means the Corporation or such other Obligated Issuer (or Obligated Issuers acting jointly) as may have been designated pursuant to written notice to the Master Trustee executed by all of the Obligated Issuers.

Obligated Issuers means Froedtert Health, Inc., Community Memorial Foundation of Menomonee Falls, Inc., Froedtert Hospital Foundation, Inc., Community Memorial Hospital of Menomonee Falls, Inc., Froedtert Memorial Lutheran Hospital, Inc., St. Joseph's Community Hospital of West Bend, Inc., St. Joseph's Community Foundation, Inc. and West Bend Clinic, Inc. or any corporation which is the surviving, resulting or transferee corporation of any Obligated Issuer in any merger, consolidation or transfer of assets permitted under the Master Indenture.

Obligation means any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of each Obligated Issuer, which has been authenticated by the Master Trustee and which may be in any form set forth in a Related Supplement, including, but not limited to, notes, bonds, obligations, debentures, interest rate swap agreements, loan agreements, leases or reimbursement agreements. Reference to a Series of Obligations or to Obligations of a Series shall mean a Series of Obligations or Obligations of a Series issued pursuant to a single Related Supplement.

Officer's Certificate means a certificate signed by the Authorized Representative of the Obligated Group Representative.

Opinion of Bond Counsel means a written opinion signed by an attorney or firm of attorneys experienced in the field of public finance whose opinions are generally accepted by purchasers of obligations issued by or on behalf of a Government Issuer.

Opinion of Counsel means a written opinion signed by an attorney or firm of attorneys, who may be counsel to the Obligated Group Representative, not objected to by the Master Trustee.

Outstanding, when used with reference to Indebtedness, means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than (a) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (b) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, (c) any Obligation held by any Obligated Issuer, and (d) Indebtedness deemed paid and no longer outstanding pursuant to the terms thereof; provided, however, that if two or more obligations which constitute Indebtedness represent the same underlying obligation (as, for example, when an Obligation secures an issue of Related Bonds and another Obligation secures repayment obligations to a bank under a letter of credit which secures such Related Bonds), for purposes of the various financial covenants contained in the Master Indenture, but only for such purposes, only one of such Obligations shall be deemed Outstanding and the Obligation so deemed to be Outstanding shall be that Obligation which produces the greater amount of Debt Service to be included in the calculation being made.

Permitted Encumbrances means certain liens, statutory rights, mortgages, security interests, leases, easements and zoning laws as described in the Master Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Liens on Property" herein.

Person means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Pledged Revenues means the revenues of the Obligated Issuers described in clause (b) of the Granting Clauses in the Master Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Granting Clauses" herein.

Primary Obligor means that Obligated Issuer or those Obligated Issuers primarily obligated to make Required Payments with respect to any particular Obligation as set forth in a Related Supplement.

Projected Debt Service Coverage Ratio means, for any future period of time, the ratio determined by dividing the projected Income Available for Debt Service for that period by the Maximum Annual Debt Service for the Long-Term Indebtedness expected to be Outstanding during such period.

Property means any and all rights, titles and interests in and to any and all property of an Obligated Issuer whether real or personal, tangible or intangible and wherever situated, but not including Excluded Property.

Property, Plant and Equipment means all Property of an Obligated Issuer which is considered property, plant and equipment of such Obligated Issuer under generally accepted accounting principles.

Put Indebtedness means Indebtedness which is payable or required to be purchased or redeemed, at the option of the holder thereof, prior to its stated maturity date other than pursuant to any sinking fund or other similar fund or other than by reason of acceleration upon the occurrence of an event of default.

Rating Agency means Fitch Investors Services, L.P., Moody's Investor Service Inc., Standard & Poor's Ratings Services, a division of the McGraw Hill Companies or any other nationally recognized rating agency.

Related Bonds means the revenue bonds, certificates of participation, or other obligations issued or authorized to be executed and delivered by any Government Issuer, pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to the Corporation or another Obligated Issuer in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer.

Related Bond Indenture means any indenture, bond resolution, trust agreement or other comparable instrument pursuant to which a series of Related Bonds are issued or executed and delivered.

Related Bond Issuer means the Government Issuer of any issue of Related Bonds.

Related Bond Trustee means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

Related Supplement means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture.

Required Payment means any payment required to be made by any Obligated Issuer under the Master Indenture, any Related Supplement, any Obligation or otherwise in connection with a Financing, whether at maturity, by acceleration, upon proceeding for redemption or otherwise.

Responsible Officer means, with respect to the Master Trustee, the chairman and vice chairman of the board of directors, the chairman of the executive committee of the board of directors, the vice chairman of the executive committee of the board of directors, the chairman of the trust committee, the president, any vice president, any assistant vice president, the cashier, any assistant cashier, the secretary, any assistant secretary, the treasurer, any assistant treasurer, any trust officer, any assistant trust officer or any other officer of the Master Trustee customarily performing functions who is authorized by the Master Trustee to perform such functions.

Series of Obligations or Obligations of a Series means all Obligations designated as being of the same series and issued pursuant to a single Related Supplement.

Short-Term Indebtedness means all Indebtedness which has an original term less than or equal to one (1) year and which is not renewable or extendable at the option of an Obligated Issuer to a date or for a term greater than one (1) year from the date of original incurrence or issuance.

Subordinated Indebtedness means Indebtedness that by its terms is specifically subordinated with respect to any security therefor and with respect to right of payment upon default of all Outstanding Obligations.

Tax-Exempt Organization means a Person organized under the laws of the United States of America or any State thereof which is an organization described in Section 501(c)(3) and exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986 or corresponding provisions of federal income tax laws from time to time in effect.

Total Expenses means total operating and non-operating expenses of the Obligated Issuers, excluding extraordinary expense items, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied; provided, however, that no determination of Total Expenses shall take into account (a) any gain or loss resulting from the early extinguishment of Indebtedness, (b) [reserved], (c) any gains or losses resulting from the sale, exchange or other disposition of investments not in the ordinary course of business, (d) any gains or losses resulting from the sale, exchange or other disposition of property, plant and equipment, (e) unrealized gains or losses on investments, (f) losses with respect to any Interest Rate Agreement, including any change in the value of its termination value other than losses resulting from the termination of, in whole or in part, an Interest Rate Agreement, (g) other than temporary impairment losses recorded pursuant to financial accounting standard 115, as it may be amended from time to time, (h) any gain or loss resulting from any reappraisal, revaluation or impairment of assets, and (i) adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles

Total Operating Revenues means the sum of net patient service revenue plus other operating revenue of the Obligated Issuers.

Twelfth Supplement means the Twelfth Supplemental Master Trust Indenture dated as of October 1, 2012 between the Obligated Group and the Master Trustee, and as it may from time to time be supplemented, modified or amended in accordance with the terms of the Master Indenture.

Variable Rate Indebtedness means Indebtedness the interest rate on which is not established, at the time of incurrence, at a fixed or constant rate, provided, however, that if the interest rate on such Indebtedness is subsequently converted to a fixed interest rate to maturity, such Indebtedness shall no longer be treated as Variable Rate Indebtedness for any purpose under the Master Indenture.

General

The Master Indenture authorizes Obligated Issuers to issue Obligations which are the joint and several obligation of each of the Obligated Issuers. The number of Obligations that may be created under the Master Indenture is not limited and the aggregate principal amount of each Obligation is not limited, except as provided by the terms of the Master Indenture and any Related Supplement. Set forth below is a summary of certain provisions of the Master Indenture primarily relating to restrictions imposed on the Obligated Group with respect to financial and operating covenants, entry into and exit from the Obligated Group and certain other matters. The summary is not comprehensive and reference is made to the Master Indenture for a complete recital of its terms.

Granting Clauses

Each Obligated Issuer to secure the payment of the principal of and premium, if any, and interest on such Obligations according to their tenor and effect and to secure the performance and observance by the Corporation and each other Obligated Issuer of all the covenants in the Master Indenture, Supplemental Master Indentures and each series of Obligations issued thereunder, pledge, assign and grant a security interest in the following described property and the proceeds thereof (the "Master Trust Estate") to the Master Trustee and its successors in trust and assigns forever:

(a) any funds or property held by the Master Trustee under the Master Indenture or any Supplemental Master Indenture,

(b) any and all right, title and interest of each Obligated Issuer in and to all rents, issues, profits, income, revenues and receipts derived by each Obligated Issuer from all sources, including all right, title and interest and security interest, if any, of each Obligated Issuer in and to all money, earnings, revenues, rights to the payment of money and receivables, whether now owned or hereafter acquired and whether or not derived from the use or operation of the Facilities including, without limitation, (i) all patient fees, third party payments, rents, issues, profits, income, revenues and receipts derived in any fashion from the Facilities, and (ii) all accounts, chattel paper and instruments, owned by each Obligated Issuer and all proceeds therefrom, whether cash or non cash, all as defined in Article 9 of the Wisconsin Uniform Commercial Code as now or hereafter in effect; *excepting, however*, from the foregoing (A) gifts,

donations, grants, pledges, legacies, bequests, devises and contributions and investment earnings thereon restricted by the donor to uses inconsistent with use for payment of principal and interest on the Obligations, (B) revenue received pursuant to grants and contracts for sponsored programs of research or instruction restricted by the grantor or other party to the contract to uses inconsistent with use for payment of principal and interest on the Obligations, (C) revenue received by each Obligated Issuer as billing agent for others, including charges for a physician's services whether or not the physician is an employee of the Obligated Issuer, (D) proceeds of borrowings, (E) proceeds of the sale of Excluded Property, (F) all amounts paid or transferred to an Obligated Issuer from the Froedtert Memorial Lutheran Hospital Trust or from a foundation created to support an Obligated Issuer, and (G) accounts receivable and the rights to the payment of money which have been sold or assigned to Hospital Billing and Collection Service, Ltd. or similar arrangement, subject to the limitation contained in clause (o) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Liens on Property" hereof, and

(c) any and all other property, or interests therein, of every kind or description that may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, hypothecated, endorsed, deposited, pledged, mortgaged, granted or delivered to or deposited with the Master Trustee as additional security under the Master Indenture by the Corporation or any other Obligated Issuer or by anyone on behalf of any of them or with the written consent of any of them, or that pursuant to any of the provisions of the Master Indenture may come into the possession of or control of the Master Trustee or a receiver appointed pursuant to the Master Indenture, as such additional security; and the Master Trustee is authorized by the Master Indenture to receive any and all such property as and for additional security under the Master Indenture and to hold and apply all such property subject to the terms of the Master Indenture and of all Supplemental Master Indentures.

Conditions to the Issuance of an Obligation or a Series of Obligations

The issuance, authentication and delivery of any Obligation or Series of Obligations shall be subject to the following specific conditions:

(a) The Obligated Group Representative and the Master Trustee shall have entered into a Related Supplement providing for the terms and conditions of such Obligations and the repayment thereof.

(b) Each Related Supplement shall specify the purpose for which such Obligation or Series of Obligations is being issued, which may be for any lawful corporate purpose of any Obligated Issuer.

(c) The Master Trustee shall have received an Officer's Certificate to the effect that each Obligated Issuer shall be in full compliance with all representations, covenants and agreements set forth in the Master Indenture and in any Related Supplement, including, with respect to all Obligations issued subsequent to the issuance of Obligation No. 1, the covenants concerning Additional Indebtedness set forth under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Additional Indebtedness."

(d) The Master Trustee shall have received an Officer's Certificate to the effect that neither an Event of Default nor any event which with the passage of time or the giving of notice or both would become an Event of Default has occurred or would occur upon issuance of such Obligation or Series of Obligations or is continuing under the Master Indenture or any Related Supplement.

(e) The Master Trustee shall have received an Officer's Certificate to the effect that all requirements and conditions to the issuance of such Obligation or Series of Obligations, if any, set forth in the Related Supplement shall have been complied with and satisfied.

(f) The Obligated Group Representative shall have delivered to the Master Trustee such opinions, certificates, proceedings, instruments and other documents as the Master Trustee may reasonably request.

Payment of Principal and Interest

Each Obligated Issuer jointly and severally covenants and agrees in the Master Indenture: (i) to pay or cause to be paid promptly all Required Payments, including the principal of, premium, if any, and interest on each Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture, in any Related Supplement and in said Obligations whether at maturity, upon proceedings for redemption, by acceleration or otherwise; (ii) that each Obligated Issuer shall faithfully observe and perform all of the conditions, covenants and requirements of the Master Indenture and any Related Supplement; and (iii) that time is of the essence with respect to payment and performance of the obligations under the Master Indenture.

The obligation of each Obligated Issuer with respect to Required Payments shall not be abrogated, prejudiced or affected by: (i) the granting of any extension, waiver or other concession given to any Obligated Issuer by the Master Trustee or any Holder or by any compromise, release, abandonment, variation, relinquishment or renewal of any of the rights of the Master Trustee or any Holder or anything done or omitted or neglected to be done by the Master Trustee or any Holder in exercise of the authority, power and discretion vested in them by the Master Indenture, or by any other dealing or thing which, but for this provision, might operate to abrogate, prejudice or affect such obligation; or (ii) any Obligated Issuer's becoming incompetent or otherwise failing to become liable as, or losing eligibility to become, an Obligated Issuer with respect to an Obligation.

The obligation of each Obligated Issuer to make Required Payments is a continuing one and is to remain in effect until all Required Payments have been paid in full in accordance with the terms of the Master Indenture. All moneys from time to time received by the Obligated Group Representative or the Master Trustee to reduce Indebtedness on Obligations, whether from or on account of the Obligated Issuers or otherwise, shall be regarded as payments in gross without any right on the part of any one or more of the Obligated Issuers to claim the benefit of any moneys so received until the whole of the amounts owing on Obligations has been paid or satisfied and so that in the event of any such Obligated Issuer's filing bankruptcy, the Obligated Group Representative or the Master Trustee shall be entitled to prove up the total Indebtedness on Obligations Outstanding as to which the liability of such Obligated Issuer has become fixed.

Each such Obligation shall be a primary obligation and shall not be treated as ancillary to or collateral with any other obligation and shall be independent of any other security so that the obligation of each Obligated Issuer shall be enforceable without first having recourse to any such security or source of payment and without first taking any steps or proceedings against any other Person. The Obligated Group Representative and the Master Trustee, and each of them, are empowered to enforce each such obligation, as provided in the Master Indenture, and to enforce the making of Required Payments, and pursuant to the Master Indenture each Obligated Issuer authorizes the Obligated Group Representative and the Master Trustee, and each of them, to enforce or refrain from enforcing any obligation and to make any arrangement or compromise with any particular Obligated Issuer or Obligated Issuers as the Obligated Group Representative or the Master Trustee may deem appropriate, consistent with the Master Indenture and any Related Supplement, and waives in favor of the Obligated Group Representative and the Master Trustee all rights against the Obligated Group Representative, the Master Trustee and any other Obligated Issuer, insofar as is necessary to give effect to any of the provisions summarized under this heading.

Maintenance of Properties

Each Obligated Issuer respectively covenants and agrees in the Master Indenture:

(a) That it will operate and maintain its Property, Plant and Equipment in all material respects in accordance with all valid and applicable governmental laws, ordinances, approvals and regulations including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon it; provided, however, that no Obligated Issuer shall be required to comply with any law, ordinance, approval or regulation as long as it shall in good faith contest the validity thereof. Each Obligated Issuer, respectively, further covenants and agrees in the Master Indenture that, consistent with prudent business practice, it will maintain and operate its Property, Plant and Equipment and all engines, boilers, pumps, machinery, apparatus, fixtures, fittings and equipment of any kind in or that shall be placed in any building or structure now or hereafter at any time constituting part of its Property, Plant and Equipment in all material respects in good repair, working order

and condition, and that, consistent with prudent business practice, it will from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements so that the operations of such Obligated Issuers will not be materially and adversely impaired.

(b) That it will pay and discharge all applicable taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become liens upon the Property, Plant and Equipment, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Property, Plant and Equipment or any part thereof, and, upon request, will furnish to the Master Trustee receipts for all such payments, or other evidences satisfactory to the Master Trustee; provided, however, that no Obligated Issuer shall be required to pay any tax, assessment, rate or charge as provided in the Master Indenture as long as it shall in good faith contest the validity thereof, provided that such Obligated Issuer shall have set aside reserves with respect thereto that, in the opinion of the Governing Body of the Obligated Group Representative, are adequate.

(c) That it will pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations issued and Outstanding under the Master Indenture) whose validity, amount or collectibility is being contested in good faith.

(d) That it will at all times comply with all terms, covenants and provisions of any Liens applicable to such Obligated Issuer at such time existing upon its Properties or any part thereof or securing any of its Indebtedness, the failure to comply with which would have a material adverse effect on the operations of the Obligated Group or its Properties.

(e) That it will use its best efforts (as long as it is in its best interests consistent with prudent business practice and will not materially adversely affect the interests of the Holders) to maintain all permits, licenses and other governmental approvals necessary for the operation of its Properties and to maintain its qualification for participation in and payment under private insurance programs having broad application and federal, state and local governmental programs providing for payment or reimbursement for services rendered.

(f) That it will take no action or suffer any action to be taken by others which would result in the interest on any Related Bond issued as a tax exempt obligation becoming subject to federal income taxation.

The Obligated Group

Additional Obligated Issuers may be added to the Obligated Group from time to time provided that:

(a) There shall have been delivered to the Master Trustee a copy of a resolution of the proposed new Obligated Issuer which authorizes the execution of the Related Supplement referred to in paragraph (b) below and authorizes compliance with the terms of the Master Indenture;

(b) There shall have been delivered to the Master Trustee a Related Supplement pursuant to which the proposed new Obligated Issuer agrees to become an Obligated Issuer, to be bound by the terms and restrictions imposed by the Master Indenture, and to be bound by Indebtedness represented by the Obligations;

(c) There shall have been delivered to the Master Trustee an irrevocable power of attorney of the proposed new Obligated Issuer authorizing the execution of Obligations by the Obligated Group Representative;

(d) There shall be delivered to the Master Trustee a written Opinion of Counsel to the proposed new Obligated Issuer, which opinion states that the proposed new Obligated Issuer has taken all

necessary action to become an Obligated Issuer, and upon execution of a Related Supplement such proposed new Obligated Issuer will be bound by the terms of the Master Indenture;

(e) There shall be delivered to the Master Trustee a description of any existing Long-Term Indebtedness of the proposed new Obligated Issuer and a description of any Indebtedness which the proposed new Obligated Issuer plans to incur simultaneously with the execution of the Related Supplement;

(f) There shall be delivered to the Master Trustee an Officer's Certificate (and, if required because of the incurrence of Additional Indebtedness in the form of Long-Term Indebtedness, the written report of an Accountant or a Management Consultant, as applicable) to the effect that the Obligated Group would be able to incur at least one dollar (\$1.00) of Long-Term Indebtedness pursuant to the terms summarized in paragraph (a) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Restrictions as to Incurrence of Additional Indebtedness" herein immediately after the addition of the new Obligated Issuer to the Obligated Group;

(g) There shall be delivered to the Master Trustee an Opinion of Bond Counsel to the effect that the addition of such Obligated Issuer, in and of itself, will not cause interest payable on any Related Bonds which are tax exempt obligations to be includable in gross income for federal income tax purposes, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under federal securities laws (or unless such registration, if required, has occurred) nor subject to qualification under the Trust Indenture Act of 1939, as amended (or unless such qualification, if required, has occurred); and

(h) There shall have been delivered to the Master Trustee an Officer's Certificate to the effect that no Obligated Issuer, immediately after the addition of such new Obligated Issuer, would be in default in the performance or observance of any covenant or condition of the Master Indenture.

Withdrawal from Obligated Group

Any Obligated Issuer may withdraw from the Obligated Group, and be released from further liability or obligation under the provisions of the Master Indenture, provided that:

(a) The Master Trustee shall have received an Officer's Certificate to the effect that, immediately following withdrawal of such Obligated Issuer, no Obligated Issuer would be in default in the performance or observance of any covenant or condition of the Master Indenture;

(b) Such Obligated Issuer is not a Primary Obligor with respect to any Outstanding Obligations;

(c) There shall be delivered to the Master Trustee an Officer's Certificate (and, if required by the Master Indenture as summarized in paragraph (a) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Restrictions as to Incurrence of Additional Indebtedness" herein, the written report of an Accountant or a Management Consultant, as applicable) to the effect that the Obligated Group would be able to incur at least one dollar (\$1.00) of Long-Term Indebtedness pursuant to the Master Indenture as summarized in paragraph (a) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Restrictions as to Incurrence of Additional Indebtedness" herein immediately after the withdrawal of such Obligated Issuer from the Obligated Group;

(d) The Master Trustee shall have received an Opinion of Bond Counsel to the effect that the withdrawal of such Obligated Issuer will not cause the interest payable on any Related Bonds which are tax exempt obligations to be includable in gross income for federal income tax purposes, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under federal securities laws (unless such registration, if required, has occurred) nor subject to qualification under the Trust Indenture Act of 1939, as amended (unless such qualification, if required, has occurred).

Upon compliance with the conditions summarized under this heading, the Master Trustee shall execute any documents reasonably requested by the withdrawing Obligated Issuer to evidence the termination of such Obligated Issuer's obligations under the Master Indenture, under any Related Supplements and under all Obligations.

Liens on Property

Each Obligated Issuer, respectively, covenants and agrees in the Master Indenture that it will not create, assume or suffer to exist any Lien upon its Property or the Property of the Obligated Group, and each Obligated Issuer, respectively, further covenants and agrees in the Master Indenture that if such a Lien is created or assumed, such Obligated Issuer will obtain the written consent of the Obligated Group Representative and will make or cause to be made effective a provision whereby all Obligations will be secured prior to or equally and ratably with any such Indebtedness or other obligation secured by such Lien; provided, however that each Obligated Issuer may create, assume or suffer to exist Permitted Encumbrances. For purposes of the Master Indenture, Permitted Encumbrances are defined as follows:

(a) Any judgment lien or notice of pending action against any Obligated Issuer so long as such judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;

(b) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (ii) any liens on any Property for taxes, assessment, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent, or the amount or validity of which, are being contested and execution thereon is stayed or for which adequate reserves have been set aside or, with respect to liens of mechanics, materialmen and laborers which are not being contested, have been due for less than ninety (90) days or which have been bonded for; (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the value thereof; (v) present or future valid ongoing laws and ordinances; and (vi) to the extent that it affects title to any Property, the Master Indenture and any Related Bond Indenture;

(c) Any Lien described in the Master Indenture which is existing on the date of execution of the Master Indenture, provided that no such Lien (or the amount of Indebtedness secured thereby) (other than Liens described in paragraph (b) of this definition) may be increased, extended, renewed or modified to apply to any Property of any Obligated Issuer not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Encumbrance under the Master Indenture;

(d) Any Lien in favor of the Master Trustee securing all Obligations (other than Non-Recourse Indebtedness) on a parity basis;

(e) Liens arising by reason of good faith deposits with any Obligated Issuer in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Obligated Issuer to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(f) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Obligated Issuer to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other similar social security

plans, or to share in the privileges or benefits required for companies participating in such arrangements, and any Lien in the nature of a banker's lien or right of setoff with respect to deposits which any Obligated Issuer is not required to maintain with the bank in question;

(g) Any Lien arising by reason of any escrow established to pay debt service with respect to Indebtedness;

(h) Any Lien on the proceeds of Indebtedness in favor of the trustee with respect to such Indebtedness prior to the application of such proceeds;

(i) Liens on moneys deposited by patients or others with any Obligated Issuer as security for or as prepayment for the cost of patient care;

(j) Liens on Property received by any Obligated Issuer (i) through any gifts, grants, bequests, donations and contributions made as consideration for an annuity and any Property securing or collateralizing such annuities, and (ii) through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon, up to the fair market value of such Property;

(k) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. Section 291 et seq. and similar rights under other federal and state statutes by reason of federal or state funds being made available under such federal or state statutes;

(l) Liens securing Non-Recourse Indebtedness incurred or existing and permitted by the Master Indenture;

(m) Liens on Property acquired by an Obligated Issuer if an Officer's Certificate is delivered to the Master Trustee certifying that (i) the Lien and the Indebtedness secured thereby were created and incurred by a Person other than an Obligated Issuer prior to the acquisition of such Property by an Obligated Issuer, and (ii) the Lien was created prior to the decision of the Obligated Issuer to acquire the Property and was not created for the purpose of enabling an Obligated Issuer to avoid the limitations of the Master Indenture on creation of Liens on Property of the Obligated Group;

(n) Liens resulting from a Person becoming an Obligated Issuer under the Master Indenture or from a consolidation, merger or acquisition of assets pursuant to the Master Indenture;

(o) Liens on the accounts of an Obligated Issuer and the proceeds thereof to secure Indebtedness or to secure the sale or assignment of such accounts, which lien may be subordinate to, on a parity with or superior to the Lien of the Master Indenture, provided that at the time of creation of such Lien the principal amount of Indebtedness, sales and assignments so secured by all such Liens under this paragraph (o) does not exceed thirty percent (30%) of the Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available and the Master Trustee is directed and agrees in the Master Indenture to execute any documents the Obligated Group Representative may reasonably request to evidence the priority or parity of the Lien on accounts permitted by this paragraph (o);

(p) Any leases entered into in the ordinary course of business, any leases entered into in accordance with the Master Indenture as described under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Sale, Lease or other Disposition of Property, Plant and Equipment, hereof, any leases, the County Lease, any lease between an Obligated Issuer as lessor and The Medical College of Wisconsin, Inc. as lessee, licenses or similar rights existing as of the date of the initial execution and delivery of the Master Indenture and any renewals and extensions thereof, and any leases, licenses or similar rights to use Property whereunder an Obligated Issuer is lessee, licensee or the equivalent thereof;

- (q) Liens on Property due to rights of third party payors for recoupment of excess reimbursement amounts paid to any Obligated Issuer;
- (r) Liens on the Excluded Property;
- (s) Any other Lien on Property provided that the net Book Value of all Property encumbered by all Liens incurred pursuant to this paragraph does not exceed twenty percent (20%) of the net Book Value of all Property of the Obligated Group at the time of creation of such Lien;
- (t) Purchase money security interests, whether now existing or hereafter created;
- (u) Liens securing the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title agreement;
- (v) Any other Lien securing Indebtedness of any Obligated Issuer incurred in accordance with the Master Indenture as described under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Restrictions as to Incurrence of Additional Indebtedness” hereof, provided that a Lien on the same collateral is also granted to the Master Trustee to secure the Obligations prior to or equally and ratably with the Lien securing such Indebtedness; and
- (w) Liens arising under the terms of any Interest Rate Agreement (or related documentation) with respect to cash or investment securities pledged by any Obligated Issuer or Issuers (subject to contemporaneous compliance with any Days Cash on Hand covenant in effect for the Obligated Group).

Restrictions as to Incurrence of Additional Indebtedness

Each Obligated Issuer, respectively, agrees in the Master Indenture that it will not incur any Additional Indebtedness except as follows:

- (a) Long-Term Indebtedness, provided that:
 - (i) there is delivered to the Master Trustee an Officer’s Certificate certifying that the Historical Pro Forma Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness (exclusive of any Outstanding Long-Term Indebtedness which is to be refunded or redeemed with proceeds of the Indebtedness to be incurred) and the Long-Term Indebtedness proposed to be incurred, was at least 1.10:1 for the most recent Fiscal Year for which audited financial statements are available; or
 - (ii) there is delivered to the Master Trustee:
 - (A) an Officer’s Certificate certifying the Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness but not the Long-Term Indebtedness proposed to be incurred, for the most recent Fiscal Year for which audited financial statements are available, and such Debt Service Coverage Ratio is not less than 1.10:1; and
 - (B) and a written report of a Management Consultant to the effect that the Projected Debt Service Coverage Ratio for the first full year following the estimated completion of the acquisition, construction, renovation or replacement being paid for with the proceeds of such Additional Indebtedness or following the incurrence of Long-Term Indebtedness for other purposes, will not be less than 1.10:1 for all Outstanding Long-Term Indebtedness after giving effect to the incurrence of such additional Long-Term Indebtedness and the application of the proceeds thereof.

(b) Completion Indebtedness in an amount not to exceed ten percent (10%) of the principal amount of the Long-Term Indebtedness which was incurred to finance the project to be completed by such Completion Indebtedness.

(c) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness if prior to incurrence thereof there is delivered to the Master Trustee a resolution of the Governing Body of the Obligated Group Representative finding that such refunding is in the best interests of the Obligated Group and stating the reasons for such finding.

(d) Short-Term Indebtedness, if immediately after the incurrence of such Short-Term Indebtedness, the total amount of such Short-Term Indebtedness, together with Indebtedness incurred pursuant to the provisions set forth in paragraph (m) below, does not exceed fifteen percent (15%) of Total Operating Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available; provided, however, that, for a period of twenty (20) consecutive calendars days in each such Fiscal Year, the amount of Short-Term Indebtedness must be reduced to an amount not greater than five percent (5%) of Total Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available.

(e) Non-Recourse Indebtedness without limitation.

(f) Balloon Indebtedness provided that the conditions described in paragraph (a) hereof are satisfied with respect to the incurrence of such Balloon Indebtedness utilizing the assumptions specified in paragraph (c) under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Calculation of Debt Service” herein.

(g) Variable Rate Indebtedness provided that the conditions set forth in paragraph (a) hereof are met with respect to such Variable Rate Indebtedness when it is assumed that such Variable Rate Indebtedness bears interest at the rate described in paragraph (d) under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Calculation of Debt Service” herein.

(h) Subordinated Indebtedness without limit.

(i) Put Indebtedness, provided that the conditions set forth in paragraph (a) hereof are met with respect to such Put Indebtedness when it is assumed that such Put Indebtedness bears interest at the rate described in paragraph (c) of the definition of “Maximum Annual Debt Service” set forth herein.

(j) Reimbursement and other obligations arising under reimbursement agreements relating to letters of credit or similar credit or liquidity facilities used to secure or provide liquidity for Indebtedness.

(k) Liabilities for contributions to alternative risk management programs permitted under the Master Indenture.

(l) Liabilities incurred in connection with an Interest Rate Agreement.

(m) Liabilities incurred in connection with a sale of accounts receivable with recourse consisting of an obligation to repurchase all or a portion of such accounts receivable upon certain conditions, provided that the principal amount of such liabilities permitted by the Master Indenture shall not exceed the aggregate sales price of such accounts receivable; any limitation under this paragraph (m) being applicable only if such liabilities (in accordance with generally accepted accounting principles) constitute Indebtedness.

(n) Liabilities under capitalized lease agreements for the lease of, or indebtedness for money borrowed or liabilities under instruments evidencing deferred payment arrangements for the purchase of equipment, tangible personal property or real property; provided that, at the time of incurrence of any Indebtedness pursuant to this paragraph (n), the aggregate of the outstanding liabilities under capitalized leases or such deferred payment arrangements incurred under this paragraph (n) and the Indebtedness

incurred and Outstanding under paragraph (d) and paragraph (o) hereof shall not exceed twenty-five percent (25%) of the Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available.

(o) Other Indebtedness, provided that the aggregate principal amount of the Indebtedness proposed to be issued or incurred and all other Outstanding Indebtedness incurred pursuant to this paragraph (o) and the aggregate liabilities incurred under this paragraph (o), paragraph (d) and paragraph (n) above, does not exceed twenty-five percent (25%) of the Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available immediately preceding the incurrence of such proposed Indebtedness (provided that to the extent Indebtedness initially incurred pursuant to this paragraph (o) subsequently complies with any other incurrence requirement such Indebtedness shall thereafter not be deemed to be incurred pursuant to this paragraph (o).

Restrictions on Guaranties

Each Obligated Issuer, respectively, covenants and agrees in the Master Indenture that it will not enter into, or become liable after the date of execution and delivery of the Master Indenture in respect of, any Guaranty except:

(a) Guaranties of Indebtedness of another Obligated Issuer;

(b) Guaranties of Obligations issued under the Master Indenture; and

(c) Any other Guaranty provided that the conditions described in paragraph (a) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Restrictions as to Incurrence of Additional Indebtedness" are satisfied with respect to the issuance of such Guaranty utilizing the assumptions specified in paragraph (a) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Calculation of Debt Service."

Calculation of Debt Service

(a) there shall be excluded from the calculation of Maximum Annual Debt Service, eighty percent (80%) of the Annual Debt Service on all obligations for which an Obligated Issuer or Obligated Issuers have entered into a Guaranty; provided that no such exclusion shall be permitted in any Fiscal Year in which any Obligated Issuer has made a payment with respect to such Guaranty;

(b) for any Indebtedness for which a binding commitment, letter of credit or other credit arrangement providing for the extension of such Indebtedness beyond its original maturity date exists, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, be made on the assumption that such Indebtedness will be amortized in accordance with such credit arrangement;

(c) for any Balloon Indebtedness and any Put Indebtedness, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, assume that such Indebtedness is to be amortized over a period specified by the Obligated Group Representative up to thirty (30) years in duration, beginning on the date of maturity of such Indebtedness or such earlier date as may be specified by the Obligated Group Representative, assuming level debt service and a rate of interest (determined as of the time of calculation of Maximum Annual Debt Service) equal to, at the option of the Obligated Group Representative, either: (i) the most recently published Bond Buyer 30-Year Revenue Bond Index rate; or (ii) the rate certified by a Management Consultant to be the rate at which the Obligated Group could reasonably expect to borrow by issuing an Obligation with a term of thirty (30) years;

(d) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula, the interest rate on such Long-Term Indebtedness for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to: (i) with respect to Long-Term Indebtedness that has been Outstanding for more than twenty-four (24) months, the average rate of interest borne by such Long-Term Indebtedness during the full twenty-four (24) month period immediately preceding the date of calculation; or (ii) with respect to Long-Term Indebtedness incurred during such twenty-four (24) month period (aa) if interest on such Long-Term Indebtedness is

excluded from gross income for federal income tax purposes, one hundred percent (100%) of the average of the Bond Market Association Index for the preceding twenty-four (24) month period, or (bb) in any other case, the average of the prime rate of the Master Trustee (or the principal banking affiliate of the Master Trustee) in effect during such twenty-four (24) month period;

(e) debt service on Long-Term Indebtedness incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service only in proportion to the amount of interest on such Long-Term Indebtedness which is payable in the then-current Fiscal Year from sources other than the proceeds of such Long-Term Indebtedness;

(f) if moneys or Government Obligations have been deposited with a trustee in an amount, together with earnings thereon, sufficient to pay all or a part of the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, shall be excluded from the calculation of Maximum Annual Debt Service; and

(g) if any Obligated Issuer enters into an Interest Rate Agreement with a provider, then during the term of the Interest Rate Agreement and so long as the provider under the Interest Rate Agreement is not in default under the Interest Rate Agreement, for purposes of any calculation of debt service, the interest rate (or portion thereof) on the Indebtedness of the maturity or maturities will be determined after giving effect to the Interest Rate Agreement if a Rating Agency has assigned to the unsecured obligations of the provider, or the person who guarantees the obligations of the provider to make its payments to the Obligated Issuer, as of the date the Interest Rate Agreement is entered, a rating of at least "A", otherwise the rate used shall be the higher of the rate on such Indebtedness or the rate under the Interest Rate Agreement. Any obligations under the Interest Rate Agreement, whether or not secured by an Obligation, will not be separately included in any calculation of debt service.

Rates and Charges; Debt Coverage

(a) Each Obligated Issuer, respectively further covenants and agrees in the Master Indenture to fix, charge and collect, or cause to be fixed, charged and collected, commencing with the first full Fiscal Year following the execution of the Master Indenture and subject to applicable requirements or restrictions imposed by law or regulation, such rates, fees and charges for the use of its facilities and for the services furnished or to be furnished which, together with all other receipts and revenues of the Obligated Group and any other funds available therefor, will be reasonably projected to be sufficient in each Fiscal Year so that the Debt Service Coverage Ratio of the Obligated Group as a whole at the end of such Fiscal Year is not less than 1.10:1.

(b) Within one hundred fifty (150) days after the end of each Fiscal Year (commencing with the first full Fiscal Year following the execution of the Master Indenture) the Obligated Group Representative shall compute Income Available for Debt Service, Annual Debt Service and the Debt Service Coverage Ratio for such Fiscal Year and shall promptly furnish to the Master Trustee a Certificate setting forth the results of such computation. The Obligated Group Representative further covenants and agrees in the Master Indenture that, if at the end of such Fiscal Year the Debt Service Coverage Ratio shall have been less than 1.10:1, it will within sixty (60) days after such determination, employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Obligated Issuers or the methods of operation of the Obligated Issuers. Copies of the recommendations of the Management Consultant shall be filed with the Master Trustee. Each Obligated Issuer shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations.

If the Obligated Issuers comply in all material respects with the reasonable recommendations of the Management Consultant in respect to said rates, fees, charges and methods of operation or collection or, in the event, the Obligated Group Representative determines not to comply with such recommendations and shall have filed with the Master Trustee the resolution of its Governing Body referred to in the immediately preceding paragraph, the Obligated Issuers will be deemed to have complied with the covenants described under this heading for such Fiscal Year notwithstanding that Income Available for Debt Service shall be less than the amount required

as described in paragraph (a) above; provided that such ratio shall not be reduced to less than 1.0:1 and shall apply to actual Debt Service rather than Maximum Annual Debt Service and provided further that the Obligated Issuers shall not be excused from taking any action or performing any duty required under the Master Indenture and that no other Event of Default shall be waived by the operation of the provision of this paragraph (b).

(c) If a written report of a Management Consultant is delivered to the Master Trustee stating that Industry Restrictions have made it impossible consistent with prudent business judgment for the ratio in paragraph (a) above to be met and that the Obligated Group has generated the maximum amount of Income Available for Debt Service that, in the opinion of such Management Consultant, reasonably could have been generated given such Industry Restrictions, then such ratio shall be reduced to 1.0:1 and shall apply to actual Debt Service rather than Maximum Annual Debt Service.

(d) Notwithstanding the foregoing, an Obligated Issuer may permit the rendering of service at, or the use of, its facilities without charge or at reduced charges, at the discretion of the Governing Body of such Obligated Issuer, to the extent necessary for maintaining its tax exempt status and its eligibility for grants, loans, subsidies or payments from the United States of America, any political subdivision or instrumentality thereof, or the State of Wisconsin or any political subdivision or instrumentality thereof, or in compliance with any recommendation for free services that may be made by a Management Consultant.

Sale, Lease or Other Disposition of Property, Plant and Equipment

Each Obligated Issuer, respectively, covenants and agrees in the Master Indenture that it will not, in any consecutive twelve (12) month period, sell, lease (as lessor) or otherwise dispose of Property constituting Property, Plant and Equipment, other than the Excluded Property, the value of which, together with all other Property sold, leased or otherwise disposed of by any Obligated Issuer during such period, is in excess of fifteen percent (15%) of the value of net Property, Plant and Equipment of the Obligated Group (calculated on the basis of the Book Value of the assets of the Obligated Group) shown in the most recently available audited financial statements of the Obligated Group unless:

(a) The Master Trustee receives an Officer's Certificate to the effect that such assets shall be or within the next two (2) Fiscal Years are reasonably expected to become inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and functioning of the primary business of the Obligated Group and the disposition thereof will not materially and adversely impair the operations of the Obligated Issuers; or

(b) Such sale, lease or other disposition is made to another Obligated Issuer or to a Person who is not an Obligated Issuer if such Person shall become an Obligated Issuer pursuant to the terms of the Master Indenture substantially simultaneously with such sale, lease or other disposition; or

(c) The Master Trustee receives an Officer's Certificate to the effect that the Property to be sold, leased or otherwise disposed of consists solely of assets that are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for payment on an Obligation or Long-Term Indebtedness or operating expenses; or

(d) Such sale, lease or other disposition is in the ordinary course of business, or for the fair market value of the Property so disposed of, or in return for other Property of equal or greater value and usefulness; or

(e) The Master Trustee receives an Officer's Certificate to the effect that the Obligated Group would, after giving effect to such sale, lease or other disposition of Property Plant and Equipment and any reasonably expected reduction in Income Available for Debt Service associated therewith, the Obligated Group would achieve a Debt Service Coverage Ratio of at least 1.25 for the most recent Fiscal Year for which audited financial statements are available; or

(f) It is a lease to The Medical College of Wisconsin, Inc.

Notwithstanding any other provision of the Master Indenture to the contrary, the contribution of Property by an Obligated Issuer to a joint venture engaged in providing health care or related services shall constitute a disposition of Property only to the extent that the value of the asset, if any, received by such Obligated Issuer in consideration for such contribution is recorded on the financial statements of such Obligated Issuer at a value which is less than the Book Value of the Property so contributed.

Disposition of Liquid Assets

Each Obligated Issuer, respectively, covenants and agrees in the Master Indenture that it will not, in any consecutive twelve (12) month period, dispose of any cash or cash equivalents, in an amount which, together with all other cash or cash equivalents disposed of by any other Obligated Issuer during such period, is in excess of three percent (3%) of the Net Revenues of the Obligated Group as shown in the most recently available audited financial statements of the Obligated Group unless:

(a) Such disposition is made to another Obligated Issuer; or

(b) The Master Trustee receives an Officer's Certificate to the effect that the Obligated Group would be able to issue at least one dollar (\$1.00) of Long-Term Indebtedness as described in paragraph (a) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Restrictions as to Incurrence of Additional Indebtedness" immediately after such disposition.

Nothing in the Master Indenture shall prohibit any Obligated Issuer from making secured or unsecured loans provided that any such loan (i) is evidenced in writing, and (ii) the Master Trustee receives an Officer's Certificate stating that (a) the Obligated Group Representative reasonably expects such loan to be repaid, and (b) such loan bears interest at a reasonable rate of interest as determined in good faith by the Obligated Group Representative.

Notwithstanding any other provision of the Master Indenture to the contrary, the contribution of cash or cash equivalents by an Obligated Issuer to a joint venture engaged in providing health care or related services shall constitute a disposition of cash or cash equivalents only to the extent that the value of the asset, if any received by such Obligated Issuer in consideration for such contribution is recorded on the financial statements of such Obligated Issuer at a value which is less than the value of the cash or cash equivalents so contributed.

Consolidation, Merger, Sale or Conveyance

Each Obligated Issuer, respectively, covenants that it will not consolidate or merge with any other corporation not an Obligated Issuer or sell or convey all or substantially all of its assets to any Person not an Obligated Issuer unless:

(a) After giving effect to the consolidation, merger, sale or conveyance, the successor or surviving corporation (hereinafter, the "Surviving Corporation") will be an Obligated Issuer, or, if not, the Surviving Corporation shall be a corporation organized and existing under the laws of the United States of America or a State thereof and such Surviving Corporation shall become an Obligated Issuer pursuant to the Master Indenture and shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing corporation under the Master Indenture, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture by the execution of a Related Supplement delivered to the Master Trustee by such Surviving Corporation; and

(b) There shall have been delivered to the Master Trustee an Officer's Certificate to the effect that no Obligated Issuer, immediately after the date of the proposed consolidation, merger, sale or conveyance, would be in default as a result of such consolidation, merger, sale or conveyance in the performance or observance of any covenant or condition of the Master Indenture; and

(c) So long as any Related Bonds which are tax exempt obligations are Outstanding, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance

satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of such consolidation, merger, sale or conveyance, in and of itself, would not cause interest payable on such Related Bonds which are tax exempt obligations to be includable in gross income for federal income tax purposes and that such consolidation, merger, sale or conveyance, and the assumption of rights and obligations thereafter, complies with the provisions summarized under this heading; and

(d) The Master Trustee shall have received an Officer's Certificate (and, if required by the requirements described under paragraph (a) under the heading SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Restrictions as to Incurrence of Additional Indebtedness," the written report of an Accountant or a Management Consultant, as applicable) to the effect that the Obligated Group would be able to incur at least one dollar (\$1.00) of Long-Term Indebtedness as described in paragraph (a) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Restrictions as to Incurrence of Additional Indebtedness" immediately after such transaction.

(e) Any corporation that controls the Corporation (the "New Parent") may assume all obligations, rights and duties and succeed to all interests of the Corporation under the Master Indenture, and upon completion of that assumption will be the "Corporation" under the Master Indenture if (i) there shall be filed with the Master Trustee (1) a resolution of the Governing Body of the New Parent agreeing to assume all obligations, rights and duties of the Corporation under the Master Indenture, approving the form of and authorizing the execution of the document mentioned in clause (2) below, (2) a document, in form and substance satisfactory to the Master Trustee, executed by the Corporation and the New Parent evidencing such assumption, (3) an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee to the effect that such assumption will not adversely affect the exemption from federal income taxation of interest payable on any Related Bond, and (4) an Officer's Certificate certifying compliance with the requirements summarized under this heading; and (ii) the requirements of paragraphs (a) through (d) shall have been met to the same extent as if the New Parent and the Corporation had merged.

In case of any such consolidation, merger, sale or conveyance, and upon such assumption of obligations, the Surviving Corporation shall be substituted for its predecessor in interest in all agreements, indentures, and Obligations then in effect which affect or relate to any Financing, and the Surviving Corporation shall execute and deliver to the Master Trustee such documents and endorsements as shall be necessary in order to effect the said substitution. From and after the effective date of such substitution as determined by the Master Trustee, the Surviving Corporation shall, subject to the terms, conditions and limitations prescribed in the Master Indenture, be treated as though it were an Obligated Issuer as at the date of the execution of the Master Indenture and shall thereafter have the right to participate in Financings under the Master Indenture to the same extent as the Obligated Issuers of the Obligated Group; and all Financings undertaken on behalf of a Surviving Corporation in all respects have the same legal rank and benefit under the Master Indenture as though undertaken by the Obligated Group in the absence of such consolidation, merger, sale or conveyance.

Insurance

Each Obligated Issuer, respectively, covenants and agrees in the Master Indenture that, it will keep the Property, Plant and Equipment and all of its operations adequately insured at all times and carry and maintain such insurance in amounts which are customarily carried, subject to customary deductibles, and against such risks as are customarily insured against by other corporations in connection with the ownership and operation of facilities of similar character and size.

The Obligated Group Representative shall employ an Insurance Consultant at least once every two (2) years to review the insurance requirements of the Obligated Issuers. If the Insurance Consultant makes recommendations for the increase of any of the Obligated Group's insurance coverage, the Obligated Group Representative shall increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. In lieu of maintaining insurance coverage, the Obligated Issuers shall have the right to adopt alternative risk management programs which the Governing Body of the Obligated Group Representative determines to be reasonable, including, without

limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved, in writing, as reasonable and appropriate risk management by the Insurance Consultant and reviewed each year thereafter.

Filing of Financial Statements, Reports and Other Information

Each Obligated Issuer, respectively, covenants that it will:

(a) Keep adequate records and books of accounts, each separate from the other and from all other records and accounts, in which complete and correct entries shall be made, in accordance with generally accepted accounting principles consistently applied (said books shall at all reasonable times and upon reasonable notice be subject to the inspection of the Master Trustee and any Holder, or their representatives duly authorized in writing);

(b) In the case of the Obligated Group Representative only, cause the books and accounts of the Obligated Issuers to be audited annually on a combined or consolidated basis by an Accountant and make available to the Master Trustee and each Related Bond Issuer:

(i) as soon as practicable, but in no event later than 150 days after the last day of each Fiscal Year, the audited financial statements prepared on a combined or consolidated basis, which audited financial statements shall include the results of operations of all Persons required to be combined or consolidated with such Obligated Issuers in accordance with generally accepted accounting principles, shall contain an audited consolidated balance sheet as of the end of such Fiscal Year and an audited consolidated statement of activities and changes in net assets for such Fiscal Year and an audited consolidated statement of cash flows for such Fiscal Year, accompanied by an audit opinion of the Accountants, together with an accompanying unaudited balance sheet, statement of activities and changes in net assets prepared on a consolidated basis to reflect only the operations of the Obligated Issuers; and

(ii) as soon as practicable but in no event later than 150 days after the end of the Fiscal Year, file with the Master Trustee, and with each Holder who may have so requested, or on whose behalf the Master Trustee may have so requested, an Officer's Certificate of the Obligated Group Representative and a certificate of the Accountants stating whether, to the best of such signer's knowledge, anything has come to such signer's attention which would lead such signer to believe that any Event of Default shall have occurred (limited in the case of the certificate of the Accountants to financial covenants) and if so, specifying each such Event of Default of which the signer may have knowledge; and

(iii) as soon as practicable, but in no event later than sixty (60) days after the end of each quarter of each Fiscal Year, the balance sheet of the Obligated Group at the end of the quarter and statements of income and expenses of the Obligated Group for the period beginning on the first day of the Fiscal Year and ending on the date of the financial statements, all on a consolidated basis and in comparative form showing the corresponding figures for the same period of the prior Fiscal Year and prepared and certified by an authorized financial officer of the Obligated Group Representative; and

(iv) if any Event of Default shall have occurred and be continuing, (a) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated group of companies of which it is an Obligated Issuer) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records, personnel records and such other documents as are necessary to comply with applicable laws and regulations, and (b) provide access to its facilities for the purpose of

inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request; and

(v) within twenty (20) days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by a Management Consultant or an Insurance Consultant; and

(vi) whenever financial information is required under the Master Indenture for the computation of ratios, debt service coverage, or otherwise, provide such information as of the last Fiscal Year for which the combined or consolidated audited financial statements prepared in accordance with the requirements specified under this heading are available.

Notwithstanding the foregoing, the audited financial statements referred to under this heading may include the results of operation and financial position of Immaterial Affiliates, and such results of operation and financial position may be considered as if they were a portion of the results of operation and financial position of the Obligated Issuers for all purposes of the Master Indenture, provided however, that all such Immaterial Affiliates shall represent less than fifteen percent (15%) of the combined or consolidated net assets of the Obligated Issuers as shown on the applicable financial statements.

Events of Default

“Event of Default,” as used in the Master Indenture, means any of the following events:

(a) Failure on the part of the Obligated Group to make due and punctual payment of the principal of, redemption premium, if any, or interest on an Obligation;

(b) Any Obligated Issuer shall default in the payment of any Indebtedness (other than Non-Recourse Indebtedness or an Obligation) in an aggregate amount greater than \$5,000,000 for the most recent Fiscal Year for which audited financial statements are available, whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument, under which there may be secured or evidenced any Indebtedness, in an aggregate amount greater than \$5,000,000 for the most recent Fiscal Year for which audited financial statements are available whether such Indebtedness now exists or shall hereafter be created, shall occur and any period of grace with respect thereto shall have expired; provided, however, that such default shall not constitute an Event of Default within the meaning of the provisions summarized under this heading if within thirty (30) days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced (i) any Obligated Issuer in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness;

(c) Any Obligated Issuer shall fail duly to observe or perform any other covenant or agreement under the Master Indenture for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group Representative and the Master Trustee by the Holders of twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations except that, if such failure can be remedied but not within such thirty (30) day period, such failure shall not become an Event of Default for so long as the Obligated Group Representative shall diligently proceed to remedy same.

(d) A court having jurisdiction shall enter a decree or order for relief in respect of any Obligated Issuer in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee (or similar official) of any Obligated Issuer or for any substantial part of the property of any Obligated Issuer, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of sixty (60) consecutive days;

(e) Any Obligated Issuer shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian (or similar official) of any Obligated Issuer or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing; or

(f) An event of default shall exist under any Related Bond Indenture.

Acceleration; Annulment of Acceleration.

(a) Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may and, upon (i) the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Outstanding Obligations or of any Holder if an Event of Default as summarized in paragraph (a) under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Events of Default” hereof has occurred, or (ii) the acceleration of any Obligation pursuant to the terms of the Related Supplement under which such Obligation was issued, the Master Trustee shall, by notice to the Obligated Issuers, declare all Outstanding Obligations immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in the Master Indenture to the contrary notwithstanding; provided, however, that if the terms of any Related Supplement give a person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement, the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In such event, there shall be due and payable on the Obligations an amount equal to the aggregate principal amount of all such Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, interest which accrues on such principal and interest to the date of payment.

(b) At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices and other payments then due (other than the principal or other payments then due only because of such declaration) of all Outstanding Obligations, (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents, (iii) all other amounts then payable by the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee, and (iv) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee shall annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Additional Remedies and Enforcement of Remedies

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations Outstanding or of any Holder if an Event of Default as summarized in paragraph (a) under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Events of Default” has occurred, upon being indemnified to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

- (ii) Suit upon all or any part of the Obligations;
- (iii) Civil action to require any person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations;
- (iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Obligations; and
- (v) Enforcement of any other right or remedy of the Holders conferred by law or by the Master Indenture.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security given under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Indenture and, in the sole judgment of the Master Trustee, not unduly prejudicial to the interest of the Holders of Obligations not making such request.

Application of Moneys After Default

During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture, after payment of any expenses necessary in the opinion of the Master Trustee to protect the interests of the Holders of the Obligations and payment of reasonable charges and expenses of the Master Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Master Indenture, shall be applied as follows:

- (a) Unless the principal of all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest or the interest portion related to installment sale payments or lease payments then due on the Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments or the principal portion related to installment sale payments or lease payments of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

- (b) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest and installment sale payments or lease payments then due and unpaid upon the Obligations without preference or priority, or of any installment over any other installment, or of any Obligation over any other Obligation, ratably, according to the amounts due, to the Persons entitled thereto without any discrimination or preference.

(c) If the principal of all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter be rescinded and annulled under the provisions of the Master Indenture, then, subject to the provisions of paragraph (b) hereof in the event that the principal of all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) hereof.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions summarized under this heading, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notices as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid coupon or Obligation until such coupon or such Obligation and all unmatured coupons, if any, appertaining to such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations and interest thereon have been paid pursuant to the provisions summarized under this heading and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Obligated Issuers of the Obligated Group, their successors, or as a court of competent jurisdiction may direct.

Remedies Not Exclusive

No remedy by the terms of the Master Indenture conferred upon or reserved to the Master Trustee or the Holders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Indenture or existing at law or in equity or by statute on or after the date of execution of the Master Indenture.

Remedies Vested in the Master Trustee

All rights of action (including the right to file proof of claims) under the Master Indenture or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Master Trustee may be brought in its name as the Master Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Obligations. Subject to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Application of Moneys After Default," any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Obligations and appurtenant coupons, if any.

Holders' Control of Proceedings

If an Event of Default shall have occurred and be continuing, notwithstanding anything in the Master Indenture to the contrary, the Holders of at least a majority in aggregate principal amount of Obligations then Outstanding shall have the right, at any time, by any instrument in writing executed and delivered to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Indenture (including indemnity to the Master Trustee as provided therein) and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of Holders not joining in such direction and provided further that nothing summarized under this heading shall impair the right of the Master Trustee in its discretion to take any other action under the Master Indenture which it may deem proper and which is not inconsistent with such direction by Holders.

Waiver of Event of Default

No delay or omission of the Master Trustee or of any Holder of the Obligations to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by the Master Indenture to the Master Trustee and the Holders of the Obligations, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

The Master Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy thereunder.

Notwithstanding anything contained in the Master Indenture to the contrary, the Master Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Obligations then Outstanding, shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that, except under the circumstances set forth in paragraph (b) under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Acceleration; Annulment of Acceleration,” a default in the payment of the principal of, premium, if any, or interest on or other payment with respect to any Obligation, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations at the time Outstanding.

In case of any waiver by the Master Trustee of an Event of Default under the Master Indenture, the Obligated Issuers, the Master Trustee and the Holders shall be restored to their former positions and rights thereunder, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

Remedies Subject to Provisions of Law

All rights, remedies and powers provided by the Master Indenture may be exercised only to the extent that the exercise thereof does not violate any applicable provision of a law, and all the provisions of the Master Indenture are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render the Master Indenture or the provisions of the Master Indenture invalid or unenforceable under the provisions of any applicable law.

Notice of Default

The Master Trustee shall, within ten (10) days after a Responsible Officer of the Master Trustee has actual knowledge or has received written notice of the occurrence of an Event of Default, mail to all Holders of Obligations (as the names and addresses of such Holders appear upon the books of the Master Trustee), notice of such Event of Default known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice (the term “Event of Default” for the purposes of the provisions summarized under this heading being defined to be the events specified in paragraphs (a) through (f), as summarized under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Events of Default” not including any periods of grace provided for in paragraphs (b), (c) and (d) thereof, and irrespective of the giving of written notice specified in paragraph (c) thereof); and provided that, except in the case of default in the payment of the principal of or premium, if any, or interest or other payments on any of the Obligations and the Events of Default specified in paragraphs (d) and (e), the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trustee committee of directors or Responsible Officers of the Master Trustee in good faith determine that the withholding of such notice is in the interests of the Holders of Obligations.

Removal and Resignation of the Master Trustee; Merger or Consolidation

The Master Trustee may resign and may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding or, provided an Event of Default has not occurred and is then continuing, the Obligated Group Representative. No such

resignation or removal shall become effective unless and until a successor Master Trustee has been appointed and has assumed the trusts created by the Master Indenture. Written notice of such resignation or removal shall be given to the Obligated Issuers of the Obligated Group and to each Holder of an Obligation then Outstanding at the address then shown on the books of the Master Trustee. Such resignation or removal shall then take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed at the direction of the Holders of not less than a majority in aggregate principal amount of Obligations Outstanding, or, if the Master Trustee has resigned or has been removed by the Obligated Group Representative, by the Obligated Group Representative. In the event a successor Master Trustee has not been appointed and qualified within thirty (30) days of the date notice of resignation is given, the Master Trustee, any Obligated Issuer or any Holder may apply to any court of competent jurisdiction for the appointment of a successor Master Trustee to act until such time as a successor is appointed as above provided.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a corporation, trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least \$50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Master Trustee howsoever appointed under the Master Indenture shall execute, acknowledge and deliver to its predecessor and also to each Obligated Issuer an instrument in writing, accepting such appointment under the Master Indenture, and thereupon such successor Master Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor shall execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all records relating to the trust or copies thereof and communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Each successor Master Trustee, not later than ten (10) days after its assumption of the duties under the Master Indenture, shall mail a notice of such assumption to the Obligated Group Representative and to each Holder of an Obligation.

Any company into which the Master Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Master Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible pursuant to the provisions summarized under this heading shall be the successor to such Master Trustee without the execution or filing of any paper or any further act, anything in the Master Indenture to the contrary notwithstanding.

Supplements Not Requiring Consent of Holders

The Obligated Group Representative, acting for itself and as agent for each Obligated Issuer, and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in the Master Indenture;
- (b) To correct or supplement any provision in the Master Indenture which may be inconsistent with any other provision in the Master Indenture, or to make any other provisions with respect to matters or questions arising under the Master Indenture and which shall not materially and adversely affect the interests of the Holders;
- (c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Obligated Issuers;

(d) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect;

(e) To create and provide for the issuance of an Obligation or Series of Obligations as permitted under the Master Indenture;

(f) To obligate a successor to any Obligated Issuer as provided in the Master Indenture;

(g) To add a new Obligated Issuer as provided in the Master Indenture; or

(h) To make any other change that does not materially adversely affect the interests of the Holders of any Obligation.

Supplements Requiring Consent of Holders

(a) Other than Related Supplements described under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Supplements Not Requiring Consent of Holders” and subject to the terms and provisions and limitations contained in the Master Indenture and not otherwise, the Holders of not less a majority in aggregate principal amount of the Obligations then Outstanding shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution, by the Master Trustee and the Obligated Group Representative, acting for itself and as agent for each Obligated Issuer (provided that each Obligated Issuer shall have received written notice regarding such Related Supplement not less than fifteen (15) days prior to execution), of such Related Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture; provided, however, that no provisions summarized under this heading shall permit or be construed as permitting a Related Supplement which would:

(i) Extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest or method of calculating interest payable on any Obligation without the consent of the Holder of such Obligation;

(ii) Modify, alter, amend, add or rescind any of the terms or provisions summarized herein under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Events of Default, Acceleration, Annulment of Acceleration, Additional Remedies and Enforcement of Remedies, and Notice of Default” so as to affect the right of the Holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, without the consent of the Holders of all Obligations then Outstanding;

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Related Supplement without the consent of the Holders of all Obligations then Outstanding; or

(iv) Modify, alter, amend or rescind any of the terms or provisions of the Master Indenture in a manner that would materially and adversely affect the rights of the Holders of Obligations issued to secure Interest Rate Agreements without the written consent of the Holders affected.

(b) If at any time the Obligated Group Representative shall request the Master Trustee to enter into a Related Supplement pursuant to the provisions summarized under this heading (which request is accompanied by a (i) copy of the resolution or other action of its Governing Body certified by its secretary or if it has no secretary, its comparable officer, and (ii) the proposed Related Supplement) and if within such period not exceeding three (3) years following the request, as shall be prescribed by the Obligated Group Representative, the Master Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Obligations specified in paragraph (a) above for the Related Supplement in question (which instrument or instruments shall refer to the proposed Related Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee) thereupon, but not otherwise, the Master Trustee may execute such Related Supplement in substantially such form,

without liability or responsibility to any Holder of any Obligation, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Holder of the Obligation giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Related Supplement, such revocation and, if such Obligation or Obligations are transferable by delivery, proof that such Obligations are held by the signer of such revocation in the manner permitted by the Master Indenture. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Related Supplement, the Master Trustee shall make and file with the Obligated Group Representative a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount or number of the Outstanding Obligations shall have consented to and approved the execution of such Related Supplement as provided in the Master Indenture, no Holder of any Obligation shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or the Obligated Group Representative from executing the same or from taking any action pursuant to the provisions thereof.

Satisfaction and Discharge of Master Indenture

If (i) the Obligated Issuers shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid as provided in any Related Supplement) and not theretofore cancelled, or (ii) upon payment of all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation which have become due and payable, or (iii) the Obligated Issuers or any thereof shall deposit with the Master Trustee (or with a bank or trust company pursuant to an agreement between an Obligated Issuer and such bank or trust company) as trust funds the amount of cash or Government Obligations or both, sufficient to pay at maturity or upon redemption or termination all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation, including principal and interest due or to become due to such date of maturity or redemption or termination date, as the case may be, such sufficiency to be evidenced by a report of an Accountant, and if in any case the Obligated Issuers or any thereof shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Issuers or any thereof, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Obligated Issuers or any thereof and at the cost and expense of the Obligated Issuers or any thereof, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. Each Obligated Issuer, respectively, agrees in the Master Indenture to reimburse the Master Trustee for any costs or expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Indenture or such Obligations.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND LOAN AGREEMENT

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SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND LOAN AGREEMENT

Brief descriptions of the Bond Indenture and the Loan Agreement are set forth below. Those descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to those documents are qualified in their entirety by reference to each document, copies of which are available for review prior to the issuance and delivery of the Series 2017A Bonds at the offices of the Authority and thereafter at the offices of the Bond Trustee.

DEFINITIONS OF CERTAIN TERMS

“Act” means Chapter 231 of the Wisconsin Statutes, as amended.

“Advance Refunded Municipal Obligations” means obligations of any state of the United States or any political subdivision, public instrumentality or public authority of any state that (a) are not callable prior to maturity or with respect to which irrevocable instructions concerning their calling and redemption have been given by the trustee for them and (b) are fully secured by and payable solely from cash or U.S. Government Obligations that (i) may be applied only to the payment of the principal of, premium, if any, and interest on the obligations, (ii) are held by an escrow agent or the Bond Trustee pursuant to an escrow agreement, (iii) are not redeemable prior to maturity without the consent of their holder and (iv) are not available to satisfy any other claims including those against the Bond Trustee or the escrow agent.

“Affiliate” has the meaning attributed to it in Appendix C of this Official Statement.

“Arbitrage Bonds” means bonds that are "arbitrage bonds" within the meaning of Section 148 of the Code.

“Authority” means the Wisconsin Health and Educational Facilities Authority.

“Authority’s Documents” means the Loan Agreement, the Purchase Contract, the Bond Indenture, the Tax Exemption Agreement and the Bonds.

“Authorized Corporation Representative” means the person identified in a written certificate that is signed by an officer of the Corporation, that contains a specimen of the Authorized Corporation Representative’s signature and that has been delivered to the Bond Trustee. Authorized Corporation Representative includes any alternate or alternates designated in the certificate in the same manner. An Authorized Corporation Representative may be an employee of the Corporation.

“Benefited Affiliate” means any Affiliate of the Corporation that owns or uses Bond Financed Property.

“Bond Counsel” means Counsel acceptable to the Authority whose legal opinions on municipal bond issues are nationally recognized.

“Bond Financed Property” means any and all land, equipment, improvements and other real or personal property of the Corporation or a Benefited Affiliate financed or refinanced, directly or indirectly, with the proceeds of the Series 2017A Bonds, including without limitation the Project and all capital expenditures financed or refinanced with the proceeds of the Series 2013B Bonds and the Series 2009C Bonds.

“Bond Fund” means the fund by that name created by the Bond Indenture.

“Bond Indenture” means the Bond Trust Indenture dated as of April 1, 2017 between the Authority and the Bond Trustee, as amended from time to time.

“Bond Indenture Funds” means the Bond Fund, the Project Fund and any other funds or accounts created under the Bond Indenture and does not include the Rebate Fund created pursuant to the Tax Exemption Agreement.

“Bond Interest Payment Date” means each date on which a payment of interest on the Bonds is due.

“Bond Principal Payment Date” means each date on which a payment of principal (whether upon maturity, redemption, acceleration or otherwise) on the Bonds is due.

“Bond Trust Estate” means the property conveyed to the Bond Trustee pursuant to the granting clauses of the Bond Indenture summarized under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Granting Clauses.”

“Bond Trustee” means the bond trustee at the time serving under the Bond Indenture. The initial Bond Trustee is U.S. Bank National Association.

“Bonds” or “Series 2017A Bonds” means the Wisconsin Health and Educational Facilities Revenue Bonds, Series 2017A (Froedtert Health, Inc. Obligated Group).

“Business Day” means a day that is not (a) a Saturday, Sunday or legal holiday or (b) a day on which banking institutions are required or authorized to be closed in the city or cities in which the designated corporate trust office of the Bond Trustee is located or (c) a day on which The New York Stock Exchange is closed for the entire day or Federal Reserve Banks are closed.

“Code” means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations relating to such section, which section and regulations are applicable to the Series 2017A Bonds or the use of the proceeds thereof.

“Completion Certificate” means a certificate signed by the Authorized Corporation Representative (a) stating, without prejudice as to rights against third parties, the Completion Date and that all costs and expenses incurred in connection with the Project and expected to be paid with proceeds of the Bonds have been paid except for specified amounts that either are not yet due and payable or the Corporation is contesting in good faith by appropriate proceedings, (b) stating that all permits for the occupancy and use of the Project have been obtained, if applicable, and (c) either (i) demonstrating that the weighted average maturity of the Series 2017A Bonds does not exceed 120% of the average reasonably expected economic life of the Bond Financed Property (taking into account any additions to or deletions from the Project as originally contemplated), calculated in accordance with Section 147 of the Code or (ii) containing the agreement of the Corporation to sufficiently shorten the weighted average maturity of the Series 2017A Bonds so that the condition described in (i) will be met through a redemption or defeasance of a portion, if necessary, of one or more series of the Series 2017A Bonds.

“Completion Date” means the date specified in the Completion Certificate as the date on which the Project and all other necessary facilities related to the Project were substantially completed to the satisfaction of the Corporation.

“Construction Account” means the account by that name in the Project Fund created by the Bond Indenture.

“Corporation” means Froedtert Health, Inc. or any successors or assigns.

“Corporation’s Closing Certificate” means the Officer’s Certificate of the Corporation dated the date of and delivered at the time of the issuance and delivery of the Bonds.

“Corporation’s Documents” means the Loan Agreement, the Series 2017A Master Note, the Corporation’s Representations Letter, the Tax Exemption Agreement and all other documents (other than the Master Indenture) to which the Corporation is a party related to the issuance of the Bonds.

“Corporation’s Representations Letter” means the Letter of Representation and Indemnification of the Corporation attached to the Purchase Contract.

“Counsel” means an attorney admitted to practice before the highest court of any state.

“Default” means the occurrence of an event that, with the lapse of time or the giving of notice or both, would constitute an Event of Default.

“Defeasance Obligations” means noncallable U.S. Government Obligations not redeemable at the option of the issuer or anyone acting on its behalf prior to maturity and Advance Refunded Municipal Obligations to the extent permitted by law.

“Equipment Account” means the account by that name in the Project Fund created by the Bond Indenture.

“Event of Default” as used in or with reference to (a) the Loan Agreement has the meaning attributed to it under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT - Events of Default,” (b) the Bond Indenture has the meaning attributed to it under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Events of Default,” (c) the Master Indenture has the meaning attributed to it under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Events of Default” in Appendix C of this Official Statement and (d) other documents has the meaning attributed to it in them.

“Event of Taxability” means any act, omission or event that results in the interest paid or payable on any Bond being includable for federal income tax purposes in the gross income of any owner.

“Excess Funds” means any money that is or that the Corporation has determined will be on deposit in the Construction Account or the Equipment Account on or after the date on which the Completion Certificate is delivered to the Bond Trustee other than amounts retained in the Construction Account or the Equipment Account to pay Project Costs not then due or that the Corporation or a Benefited Affiliate is contesting in good faith by appropriate proceedings.

“Excess Funds Account” means the account by that name in the Bond Fund created by the Bond Indenture.

“Executive Director” means the Executive Director or Associate Executive Director of the Authority, a duly authorized acting Executive Director or Associate Executive Director of the Authority or the officer succeeding to the duties presently exercised by the Executive Director or Associate Executive Director of the Authority.

“Facility” or “Facilities” means the health care and related facilities of the Corporation, the other members of the Obligated Group and the Benefited Affiliates, including without limitation the Bond Financed Property and all additions and improvements to the foregoing.

“Financial Statement Recipients” means the Authority, the Bond Trustee, the Purchaser and any firm or corporation that has, at the request of the Corporation, assigned a credit rating to the Bonds.

“Interest Account” means the account by that name in the Bond Fund created by the Bond Indenture.

“Issuing Expenses” means fees and expenses incurred or to be incurred by or on behalf of the Authority, the Bond Trustee, the Corporation or Bond Counsel for the Bonds in connection with the issuance and sale of the Bonds including, but not limited to, underwriting costs (whether in the form of discount in the purchase of the Bonds or otherwise), fees and expenses of legal counsel (including Bond Counsel and Counsel for the Authority, the Bond Trustee, the Purchaser and the Corporation), fees and expenses of financial advisors, feasibility consultants and accountants, rating agency fees, fees and expenses of the Bond Trustee, printing costs, recording expenses, costs associated with the acquisition of securities for any defeasance escrow and for verifying the sufficiency of any defeasance escrow and title insurance and survey costs.

“Issuing Expenses Account” means the account by that name in the Project Fund created by the Bond Indenture.

“Loan” means the loan made by the Authority to the Corporation under the Loan Agreement.

“Loan Agreement” means the Loan Agreement dated as of April 1, 2017 between the Corporation and the Authority, as amended from time to time in accordance with the terms of the Loan Agreement.

“Master Indenture” has the meaning attributed to it in Appendix C of this Official Statement.

“Master Trustee” has the meaning attributed to it in Appendix C of this Official Statement.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation, with written notice to the Bond Trustee and the Authority.

“Obligated Group” means the Obligated Group created under the Master Indenture.

“Officer’s Certificate” means (a) with respect to the Authority, a certificate of the Authority signed by the Chairperson, Vice Chairperson, Executive Director or by any other person designated by resolution of the Authority to act for any of those officers, either generally or with respect to the execution of any particular document or other specific matter, if a certified copy of the resolution has been filed with the Bond Trustee and (b) with respect to any corporation, including the Corporation, a certificate of the corporation signed (i) by the president, by any vice president or by any other person designated by resolution of the board of directors of the corporation, either generally or with respect to the execution of any particular document or other specific matter, if a copy of the resolution has been filed with the Bond Trustee or (ii) in the case of the Corporation, by an Authorized Corporation Representative.

“Opinion of Bond Counsel” means a written opinion Bond Counsel.

“Opinion of Counsel” means a written opinion of Counsel selected and paid by the Corporation and not objected to by the Bond Trustee.

“Outstanding” when used with reference to the Bonds means all Bonds that have been authenticated and delivered by the Bond Trustee under the Bond Indenture except (a) Bonds or portions of Bonds that have been canceled after (i) purchase in the open market, (ii) payment at maturity or redemption prior to maturity or (iii) delivery to the Bond Trustee by the Corporation under the Bond Indenture, (b) Bonds for the payment or redemption of which there has been deposited with the Bond Trustee, in trust, cash or Defeasance Obligations in an amount sufficient, including in the case of Defeasance Obligations the income or increment to accrue on them, but without reinvestment, to pay or redeem (when redeemable) the Bonds at or before their respective maturity dates, including interest that has accrued on the Bonds and will accrue through the final payment or redemption of the Bonds and any redemption premium on them, provided that if the Bonds are to be redeemed prior to their maturity irrevocable notice of the redemption has been given or irrevocable arrangements satisfactory to the Bond Trustee have been made for the giving of a notice of redemption and provided further that the requirements summarized under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Discharge” have been satisfied with respect to such Bonds, (c) Bonds in lieu of which other Bonds have been authenticated under the Bond Indenture and (d) for purposes of any agreement, acceptance, approval, waiver, consent, request or other action to be taken under the Loan Agreement or the Bond Indenture by the Registered Owners of a specified percentage of principal amount of Bonds, Bonds held by or for the account of the Authority, the Corporation or any Person controlling, controlled by or under common control with any of them, unless such parties own 100% of the outstanding Bonds.

“Person” means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a joint venture, a trust, an unincorporated organization, or a government or any agency or political subdivision thereof.

“Prepayment Account” means the account by that name in the Bond Fund created by the Bond Indenture.

“Principal Account” means the account by that name in the Bond Fund created by the Bond Indenture.

“Principal Trust Office” means the designated corporate trust office of the Bond Trustee. The address of the Principal Trust Office is initially the address which the Bond Trustee has designated as its address for receiving notices under the Bond Indenture.

“Project” means, collectively, the acquisition, construction, renovation and equipping of certain hospital and related health care facilities owned or operated by the Corporation and/or a Benefited Affiliate and located at the Wisconsin locations identified in the notice of public hearing related to the Bonds (a copy of which is attached to the Tax Exemption Agreement), all as more specifically detailed in the Tax Exemption Agreement.

“Project Cost” means any costs of the Project that are or will be capitalized on the books of the Corporation or a Benefited Affiliate and that are permitted to be financed under the Act and the Code, the payment of which will not cause an Event of Taxability to occur and that are not Issuing Expenses.

“Project Fund” means the fund by that name created by the Bond Indenture.

“Purchase Contract” means the Purchase Contract between Morgan Stanley & Co. Incorporated and the Authority providing for the sale of the Bonds.

“Purchaser” means the initial purchaser(s) of the Bonds, whether one or more, as identified in the Purchase Contract.

“Qualified Investments” means, subject to the provisions of the Tax Exemption Agreement, (a) U.S. Government Obligations and bonds or securities issued or guaranteed as to principal and interest by a commission, board or other instrumentality of the federal government; (b) short-term discount obligations of the Federal National Mortgage Association; (c) certificates of deposit or time deposits constituting direct obligations of any bank the full amount of which is insured by the Federal Deposit Insurance Corporation; (d) time deposits in any credit union, bank, savings bank, trust company or savings and loan association that is authorized to transact business in the State if the time deposits mature in not more than three years; (e) bonds or securities of any county, city, drainage district, technical college district, village, town or school district of the State; (f) any security that matures or that may be tendered for purchase at the option of the holder within not more than seven years of the date on which it is acquired, if that security has a rating which is the highest or second highest rating category assigned by S&P, Moody’s or other similar nationally recognized rating agency or if that security is senior to, or on a parity with, a security of the same issuer that has such a rating; (g) securities of an open-end management investment company or investment trust if the investment company or investment trust does not charge a sales load, if the investment company or investment trust is registered under the Investment Company Act of 1940, 15 USC 80a-1 to 80a-64, and if the portfolio of the investment company or investment trust is limited to the following: (i) bonds and securities issued by the federal government or a commission, board or other instrumentality of the federal government, (ii) bonds that are guaranteed as to principal and interest by the federal government or a commission, board or other instrumentality of the federal government and (iii) repurchase agreements that are fully collateralized by bonds or securities described under (i) or (ii); and (h) any other obligation or security that constitutes a permitted investment for money of the Authority as a result of an amendment of the Act subsequent to April 1, 2017 if the prior written consent of the Authority is obtained.

“Rebate Fund” means the fund by that name created by the Tax Exemption Agreement.

“Record Date” means the fifteenth (15th) day of the month (which may or may not be a Business Day) immediately preceding a Bond Interest Payment Date.

“Registered Owner” or “Owner” or “holder” or “Bondholder” when used with reference to a Bond means the person who is the registered owner of a Bond or that person’s legal representative.

“Registered Owner’s Address” means the address, that a Registered Owner may change upon written request to the Bond Trustee, of the Registered Owner of any Bond as it appears in the Registration Books.

“Registration Books” means books maintained by the Bond Trustee on behalf of the Authority at the Principal Trust Office of the Bond Trustee for the purpose of recording the registration, transfer, exchange or replacement of any of the Bonds.

“Revenues” means (a) all income and revenues derived pursuant to the terms of the Loan Agreement (except to the extent included in the Unassigned Rights) including all payments made by the Corporation in respect of the Series 2017A Master Note, (b) all amounts realized upon recourse to the Loan Agreement or any collateral given by the Corporation to secure the Corporation’s obligations under the Loan Agreement, (c) all amounts realized

upon recourse to the Master Indenture that are available pursuant to the Master Indenture to pay amounts due on the Series 2017A Master Note and (d) the money and securities (including the earnings from the investment of them) held by the Bond Trustee in the trust funds established under the Bond Indenture (which does not include the Rebate Fund).

“Series 2009C Bonds” means the Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2009C (Froedtert & Community Health, Inc. Obligated Group), originally issued in the principal amount of \$187,390,000 on October 22, 2009.

“Series 2009C Refunded Bonds” means the portion of the Series 2009C Bonds to be advance refunded with the proceeds of the Series 2017A Bonds, as more specifically identified in the Tax Exemption Agreement.

“Series 2013B Bonds” means the Wisconsin Health and Educational Facilities Authority Variable Rate Revenue Bonds, Series 2013B (Froedtert Health, Inc. Obligated Group) originally issued in the principal amount of \$90,047,500 on December 11, 2013 as part of the same issue as the Revenue Bonds, Series 2013A (Froedtert Health, Inc. Obligated Group).

“Series 2017A Bonds” means the Bonds.

“Series 2017A Master Note” means the Corporation’s Promissory Note, Series 2017A issued pursuant to the Master Indenture.

“Standard & Poor’s” or “S&P” means S&P Global Ratings, a corporation existing under the laws of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation, with written notice to the Bond Trustee and the Authority.

“State” means the State of Wisconsin.

“Tax Exemption Agreement” means the Tax Exemption Certificate and Agreement among the Authority, the Corporation, the Benefited Affiliates and the Bond Trustee dated the date of issuance and delivery of the Series 2017A Bonds.

“Unassigned Rights” means the Authority’s rights (a) to receive indemnity, payments for its expenses and other payments under the Loan Agreement or any other document associated with the issuance of any Bonds specifically including but not limited to its rights to receive payments under the Loan Agreement, (b) subject to the terms of the Loan Agreement, to execute and deliver amendments to the Loan Agreement and the Bond Indenture and to receive notices and other documents and to provide its consent, acceptance or approval with respect to matters as to which that right is given in the Loan Agreement or the Bond Indenture and (c) to receive indemnification and payment of expenses under the Purchase Contract.

“U.S. Government Obligations” means obligations that are direct, full faith and credit obligations of the United States of America or are obligations with respect to which the United States of America has unconditionally guaranteed the timely payment of all principal or interest or both, but only to the extent of the principal or interest so guaranteed.

“Written Request” means with reference to the Authority, a request in writing signed by the Chairperson, Vice Chairperson or Executive Director of the Authority and with reference to the Corporation means a request in writing signed by an Authorized Corporation Representative, or any other officers designated in writing by the Authority or the Corporation, as the case may be.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

Granting Clauses

In consideration of the acceptance by the Bond Trustee of the trusts created by the Bond Indenture, the purchase and acceptance of the Series 2017A Bonds by the Purchaser and other good and valuable consideration, and to secure the payment of the principal of, premium, if any, and interest on the Series 2017A Bonds and the performance and observance by the Authority of its obligations under the Bond Indenture and the Series 2017A Bonds, pursuant to the Bond Indenture the Authority pledges and assigns to the Bond Trustee and grants the Bond Trustee a security interest in, with power of sale, the following property: (a) except for the Unassigned Rights, the Authority's entire right, title and interest in and to each of the Corporation's Documents and the Series 2017A Master Note, specifically including the Authority's right to receive payments from the Corporation under the Series 2017A Master Note or the Loan Agreement or the payments received under the Master Indenture that are available pursuant to the Master Indenture to pay amounts due on the Series 2017A Master Note and the other Corporation's Documents; (b) the Authority's entire right, title and interest in and to all Revenues and all cash, securities or other investments held by the Bond Trustee in any of the Bond Indenture Funds (which does not include the Rebate Fund) or otherwise under the terms of the Bond Indenture; and (c) all money and securities from time to time held by the Bond Trustee under the terms of the Bond Indenture (which does not include the Rebate Fund) and all other real or personal property from time to time conveyed, pledged, assigned or transferred to the Bond Trustee as additional security under the Bond Indenture.

Authorization and Issuance of the Series 2017A Bonds

The Bond Indenture authorizes the issuance of the Series 2017A Bonds and limits their aggregate principal amount to the amount stated on the cover page of this Official Statement.

Use of Proceeds from the Sale of the Series 2017A Bonds

The Authority agrees in the Bond Indenture to deposit the purchase price with the Bond Trustee and, upon receipt, the Bond Trustee agrees in the Bond Indenture to apply the purchase price in the manner described in the forepart of this Official Statement. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" in the forepart of this Official Statement.

Bond Fund

The Bond Indenture creates a trust fund designated the "Froedtert Health, Inc. Bond Fund." Within the Bond Fund are created the following Accounts:

Principal Account. Except as provided in the Bond Indenture, money in the Principal Account will be used solely (i) for the payment or scheduled mandatory redemption of the principal of the Series 2017A Bonds as it becomes due, whether at maturity, redemption, acceleration or otherwise and (ii) for the redemption of the Series 2017A Bonds from amounts transferred to the Principal Account from the Prepayment Account.

Interest Account. Except as provided in the Bond Indenture, money in the Interest Account will be used solely for the payment of the interest on the Series 2017A Bonds as it becomes due.

Excess Funds Account. Money in the Excess Funds Account will be (i) transferred to the Interest Account to the extent necessary to make the next interest payments on the Series 2017A Bonds required to be made within thirteen months from the date of the transfer, then to the Principal Account to the extent necessary to make the next payment of principal on the Series 2017A Bonds so long as the next principal payment is required to be made within thirteen months from the date of the transfer and then to the Prepayment Account or (ii) applied in any other manner directed by the Corporation in writing and accompanied by an Opinion of Bond Counsel to the effect that the alternate application will not adversely affect the validity of the Series 2017A Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled.

Prepayment Account. Money in the Prepayment Account will be used first to make up any deficiencies existing in the Interest Account and the Principal Account (in that order) and second for the payment of

the principal of and premium, if any, on Bonds called for optional or extraordinary redemption as provided in the Bond Indenture. Money remaining in the Prepayment Account may be used by the Bond Trustee to purchase Bonds in the open market for immediate cancellation if the Bond Trustee is requested to do so by the Corporation.

Whenever the amount in the Bond Fund from any source is sufficient to pay the principal of the Series 2017A Bonds, unpaid interest that has accrued on the Series 2017A Bonds and will accrue to the date the Series 2017A Bonds are redeemed and any redemption premiums on all the Series 2017A Bonds then Outstanding and is available for that purpose the Bond Trustee, upon the Written Request of the Corporation, is instructed and agrees in the Bond Indenture to take or cause to be taken the necessary steps to pay or redeem all of the Series 2017A Bonds then Outstanding on the next date on which all of the Series 2017A Bonds may be redeemed and for which the required redemption notice may be given.

If (i) on any date on which a payment from the Principal Account or the Interest Account is due there is not enough money in the Principal Account or the Interest Account to make all of the payments then required to be made from the Principal Account or the Interest Account or (ii) an Event of Default has occurred and the Outstanding Bonds have been accelerated, then money in any account of the Bond Fund may be immediately or from time to time thereafter transferred to any other account in the Bond Fund that the Bond Trustee determines to be appropriate for application as summarized under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Application of Proceeds.”

Project Fund

The Bond Indenture creates a trust fund designated “Froedtert Health, Inc. Project Fund” (the “Project Fund”). Within the Project Fund are created the following Accounts:

Issuing Expenses Account. Money in the Issuing Expenses Account will be used to pay Issuing Expenses or to reimburse the Corporation for Issuing Expenses actually paid by it. No money on deposit in any fund or account created by the Bond Indenture will be used to pay Issuing Expenses other than money on deposit in the Issuing Expenses Account. Upon the earlier of the receipt by the Bond Trustee of a Written Request of the Corporation to the effect that all Issuing Expenses have been paid and that the Corporation has been reimbursed for all Issuing Expenses paid by it or the first anniversary of the original issuance and delivery of the Series 2017A Bonds, amounts then on deposit in the Issuing Expenses Account will be transferred to the Construction Account and applied as other amounts on deposit in the Construction Account would be applied, unless the Bond Trustee is provided with an Opinion of Bond Counsel to the effect that some other disposition of those amounts will not adversely affect the validity of the Series 2017A Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Series 2017A Bonds would otherwise be entitled.

Construction Account and Equipment Account. Money in the Construction Account and the Equipment Account, if any, will be used to pay Project Costs or to reimburse the Corporation for Project Costs actually paid by it. Upon the earlier of the receipt by the Bond Trustee of a Completion Certificate or the third anniversary of the original issuance and delivery of the Series 2017A Bonds, amounts on deposit in the Construction Account and the Equipment Account or deposited in the Construction Account or the Equipment Account on any date thereafter will be transferred by the Bond Trustee to the Excess Funds Account, unless the Bond Trustee is provided by the Corporation with an Opinion of Bond Counsel to the effect that some other disposition of those amounts will not adversely affect the validity of the Series 2017A Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Series 2017A Bonds would otherwise be entitled. No funds will be deposited into the Equipment Account.

Upon the occurrence of an Event of Default and an acceleration of Outstanding Bonds, money in any account of the Project Fund may be immediately or from time to time thereafter transferred to the account in the Bond Fund that the Bond Trustee determines to be appropriate for application as summarized under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Application of Proceeds.”

The Bond Trustee agrees in the Bond Indenture to keep accurate records pertaining to each transaction within each of the accounts in the Project Fund. After the Completion Certificate has been received, the Bond Trustee agrees in the Bond Indenture to file a statement of transactions for the Project Fund with the Corporation and, upon the Authority’s request, with the Authority.

Completion of the Project

The completion of the Project is to be evidenced by the filing with the Bond Trustee of the Completion Certificate. Upon receipt of the Completion Certificate, the Bond Trustee is authorized and directed to promptly transfer to the Excess Funds Account any Excess Funds then on deposit in the Construction Account, the Equipment Account or the Issuing Expenses Account.

Non-presentment of Bonds

Subject to the Bond Indenture when the Bonds are in book entry form, if funds sufficient to pay the principal of any Bond when due (whether at maturity, redemption, acceleration or otherwise) are on deposit with the Bond Trustee but the Bond is not presented to the Bond Trustee for payment, then all liability of the Authority to the Registered Owner for the payment of the Bond is completely discharged. The Bond Trustee agrees in the Bond Indenture to hold the funds on deposit for any Bonds that have not been presented when due, but without liability for interest, solely for the benefit of the Registered Owners of those Bonds. Thereafter and prior to the transfer summarized in the succeeding paragraph, the sole claim that any Registered Owner who did not present its Bonds for payment when due has for the payment of its Bonds is to receive the funds held for its Bonds by the Bond Trustee.

Any money held by the Bond Trustee pursuant to the provisions summarized under this heading that remains unclaimed by the Registered Owners entitled to it for a period of five years after the date on which those Bonds became due will, except as may otherwise be provided by law, be paid to the Corporation upon its Written Request or, if required by law, to the officer, board or body as may then be entitled by law to receive it. Thereafter, the Registered Owners of the Series 2017A Bonds not presented for payment may look only to the holder of those funds for the payment of its Bonds and may not look to the Bond Trustee for payment of its Bonds and the Bond Trustee has no responsibility with respect to the money transferred or the unpresented Bonds.

Investments Generally

The Bond Trustee agrees in the Bond Indenture to continuously invest and reinvest money on deposit in the Bond Indenture Funds and the Rebate Fund in Qualified Investments as directed in writing by the Corporation according to the Loan Agreement. The Bond Trustee may conclusively rely upon the Corporation's written instructions as to both the suitability and legality of the directed investments. Ratings of Qualified Investments shall be determined at the time of purchase of such Qualified Investments and without regard to ratings subcategories. In the absence of investment instructions from the Corporation, the Bond Trustee shall not be responsible or liable for keeping the moneys held by it under the Bond Indenture fully invested in Qualified Investments and shall hold any such amounts uninvested in cash, without liability for interest. Investments made with money on deposit in the Bond Indenture Funds and the Rebate Fund may be made by the Bond Trustee through its own bank investment department or that of its affiliates or subsidiaries, and may charge its ordinary and customary fees for such trades, including investment maintenance fees and (a) will have maturities or be readily marketable prior to maturity in the amounts and not later than the dates as may be necessary to provide funds for the purpose for which the money in any account is to be used, (b) will be held by or under the control of the Bond Trustee, (c) will at all times be considered a part of the account for whose benefit the investment was made, (d) will have any loss attributable to them charged to the account for whose benefit the investment was made, (e) in the case of the Interest Account and the Principal Account, will have any interest or profit derived from them applied as provided in the Loan Agreement, (f) in the case of the Excess Funds Account and the Prepayment Account, will have any interest or profit derived from them retained in the Account in which the investment was made until applied as other amounts on deposit in the Account will be applied, (g) in the case of the Issuing Expenses Account will have any interest or profit derived from them credited to the Construction Account until the earlier of three years from the date of the issuance and sale of the Series 2017A Bonds or the date on which the Bond Trustee receives the Completion Certificate and thereafter to the Interest Account in the amount necessary to make any interest payments on the Series 2017A Bonds occurring within 13 months of such transfer and then to the Prepayment Account, (h) in the case of the Construction Account will have any interest or profit derived from them retained in the Construction Account until the earlier of three years from the date of the issuance and sale of the Series 2017A Bonds or the date on which the Bond Trustee receives the Completion Certificate and thereafter to the Interest Account in the amount necessary to make any interest payments on the Series 2017A Bonds occurring within 13 months of such transfer and then to the Prepayment Account, (i) in the case of the Equipment Account, will have any interest or profit derived from them credited to the Construction Account until the earlier of three years from the date of the issuance

and sale of the Series 2017A Bonds or the date on which the Bond Trustee receives the Completion Certificate and thereafter to the Interest Account in the amount necessary to make any interest payments on the Series 2017A Bonds occurring within 13 months of such transfer and then to the Prepayment Account, and (j) in all other cases will have any interest or profit derived from them retained in the Fund or Account from which the investment was made.

Although the Authority and the Corporation each recognize that it may obtain a broker confirmation or written statement containing comparable information at no additional cost, the Authority and the Corporation agree that confirmations of permitted investments are not required to be issued by the Bond Trustee for each month in which a monthly statement is rendered. No statement need be rendered for any fund or account if no activity occurred in such fund or account during such month.

Discharge

The Bond Indenture, the Series 2017A Bonds, and the Loan Agreement and the estate and rights granted by them cease, determine and are void if

(a) the Corporation has performed all of its obligations under the Master Indenture to the extent they relate to the Series 2017A Master Note and under the other Corporation's Documents, and the Authority has performed its obligations under the Authority Documents,

(b) all expenses of the Bond Trustee that have accrued and will accrue through the final payment of the Series 2017A Bonds have been paid or arrangements satisfactory to the Bond Trustee for their payment have been made,

(c) all expenses of the Authority that have accrued and will accrue through the final payment of the Series 2017A Bonds have been paid or arrangements satisfactory to the Authority for their payment have been made,

(d) provision for the payment of all Outstanding Bonds has been made to the satisfaction of the Bond Trustee in one or more of the following ways: (i) by paying or causing to be paid, when due, the principal of, premium, if any, and interest on all Outstanding Bonds; (ii) by depositing with the Bond Trustee, in trust, at or before maturity, cash in an amount sufficient to pay or redeem (when redeemable) all Outstanding Bonds including unpaid interest that has accrued on the Series 2017A Bonds and will accrue to the final payment or redemption of the Series 2017A Bonds and any redemption premium; (iii) by delivering to the Bond Trustee, for cancellation, all Outstanding Bonds; or (iv) by depositing with the Bond Trustee, in trust, Defeasance Obligations that mature in an amount that will, together with the income or increment to accrue on them but without reinvestment, be sufficient to pay or redeem (when redeemable) all Bonds at or before their respective maturity dates, including interest that has accrued on the Series 2017A Bonds and will accrue to the final payment or redemption of the Series 2017A Bonds and any redemption premium,

(e) a notice of redemption has been given as required by the Bond Indenture if any of the Series 2017A Bonds are to be redeemed before their maturity or if a notice of redemption cannot then be given as provided in the Bond Indenture, then the Corporation has given the Bond Trustee, in a form satisfactory to the Bond Trustee, irrevocable instructions to provide a notice of redemption to the Registered Owners of any Bonds to be redeemed in accordance with the Bond Indenture when a notice of redemption can be timely given under the Bond Indenture,

(f) if the payment of the Series 2017A Bonds has been provided for as summarized in clause (d)(ii) or (d)(iv) under this heading, the Bond Trustee (i) has been furnished with an Opinion of Bond Counsel to the effect that the actions taken as summarized under this heading will not adversely affect the validity of any Bond or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled and (ii) has given notice to the Registered Owners of the Series 2017A Bonds at the Registered Owner's Address of the actions taken pursuant to the provisions summarized in clause (d) under this heading and

(g) if the payment of the Series 2017A Bonds has been provided for as summarized in clause (d)(iv) under this heading, the Bond Trustee has been provided an opinion or report from a firm of certified public accountants of the size and type commonly referred to as nationally known certified public accountants or a firm of independent public accountants or other verification experts selected by the Corporation and not objected to by the

Authority to the effect that the funds available or to be available in the escrow for the payment of the Series 2017A Bonds will be sufficient to pay the principal of, premium, if any, and interest on the Series 2017A Bonds.

On the occurrence of the events summarized in clauses (a) through (g) under this heading, the Bond Trustee is authorized and directed to

- (h) cancel the Series 2017A Master Note and deliver it to the Corporation;
- (i) execute and deliver all appropriate instruments evidencing and acknowledging the satisfaction of the Bond Indenture and the Loan Agreement; and
- (j) assign and deliver to the Corporation any money and investments in any Bond Indenture Fund (except money or investments held by the Bond Trustee for the payment of the principal of, premium, if any, and interest on any Bond).

Notwithstanding any other provision of the Bond Indenture that may be contrary to the provisions summarized under this heading, all money and Defeasance Obligations that are set aside and held in trust pursuant to the provisions summarized under this heading for the payment of the principal of, premium, if any, and interest on the Series 2017A Bonds will be applied to and used solely for the payment of the principal of, premium, if any, and interest on the particular Bonds with respect to which it was so set aside in trust. The income derived from Defeasance Obligations held by the Bond Trustee pursuant to the provisions summarized under this heading that are not needed for the payment of the principal of, premium, if any, or interest on the Series 2017A Bonds is to be disposed of in a manner that, in the Opinion of Bond Counsel, will not adversely affect the validity of any Bond or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled.

Notwithstanding a discharge of the Bond Indenture as summarized in clause (d)(ii) or (d)(iv) under this heading, resulting in the Registered Owners of the Series 2017A Bonds having a claim for the payment of their Bonds solely from the cash and Defeasance Obligations so set aside, the Bond Indenture will continue to govern the method of making payments of principal and interest on the Series 2017A Bonds, the registration, transfer and exchange of the Series 2017A Bonds, the circumstances under which the Series 2017A Bonds may be redeemed and similar matters.

Redemption After Satisfaction of Bond Indenture

Notwithstanding anything to the contrary in the Bond Indenture, upon the provision for payment of the Bonds or a portion thereof through a date after any optional redemption date as summarized in clause (d)(ii) or (iv) under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Discharge,” the optional redemption provisions of the Bond Indenture allowing such Bonds to be called prior to maturity upon proper notice (notwithstanding provision for the payment of such Bonds having been made through a date after the first optional redemption date provided for in the Bond Indenture) shall remain available to the Authority, upon direction of the Corporation, unless, in connection with making the deposits referred to in the Bond Indenture, the Authority, at the direction of the Corporation, shall have irrevocably elected to waive any future right to call the Bonds or portions thereof for redemption prior to maturity. No such redemption shall occur, however, unless the Corporation shall deliver on behalf of the Authority to the Bond Trustee (a) Defeasance Obligations or cash sufficient to discharge such Bonds (or portion thereof) on the redemption or maturity date or dates selected, (b) an opinion or report of a recognized independent certified public accountant or other verification experts selected by the Corporation and not objected to by the Authority verifying that such Defeasance Obligations, together with the expected earnings thereon, and/or cash will be sufficient to provide for the payment of such Bonds to the redemption or maturity dates, and (c) an Opinion of Bond Counsel to the effect that such earlier redemption will not, in and of itself, adversely affect any exclusion from gross income for federal income tax purposes to which interest on the Series 2017A Bonds would otherwise be entitled (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds). The Bond Trustee will give written notice of any such redemption to the owners of the Bonds affected thereby.

Events of Default

The occurrence and continuance of any of the following events is an Event of Default under the Bond Indenture:

(a) failure to pay when due the principal of (whether at maturity, redemption, acceleration or otherwise), premium, if any, or interest on any Bond; or

(b) the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Bond Indenture; or

(c) the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Series 2017A Bonds or in the Bond Indenture or any indenture supplemental to the Bond Indenture to be performed on the part of the Authority, and such default shall continue for a period of thirty (30) days after written notice specifying such default and requiring it to be remedied shall have been given to the Authority and the Corporation by the Bond Trustee, which the Bond Trustee may give in its discretion and shall give such notice at the written request of the owners of not less than 25% in aggregate principal amount of the Series 2017A Bonds then Outstanding; provided that, if such default cannot with due diligence and dispatch be wholly cured within 30 days but can be wholly cured, the failure of the Authority to remedy such default within such 30-day period shall not constitute a default hereunder if the Authority shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch until the default is remedied and provides the Bond Trustee with a certification to that effect; or

(d) the occurrence of any event of default as summarized under the headings “SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT - Events of Default” or “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Events of Default” in Appendix C of this Official Statement and the continuation of that event of default from and after (i) the date the Authority is entitled under the Loan Agreement to request that the Master Trustee declare the Series 2017A Master Note to be immediately due and payable, (ii) the date on which the Master Trustee is entitled under the Master Indenture to declare any Obligations (as that term is defined in Appendix C of this Official Statement) immediately due and payable or (iii) the date the Master Trustee declares any Obligations (as that term is defined in Appendix C of this Official Statement) immediately due and payable.

Acceleration and Other Remedies

Upon the occurrence of an Event of Default under the Bond Indenture the Bond Trustee may and, upon receipt of a request to do so from the Registered Owners of not less than 25% of the aggregate principal amount of the Series 2017A Bonds then Outstanding, must by written notice to the Authority and the Corporation declare the principal of and accrued interest on the Series 2017A Bonds (if not then due and payable) to be due and payable immediately.

Upon the occurrence of any Event of Default under the Bond Indenture the Bond Trustee may take whatever action at law or in equity it deems necessary or desirable (i) to collect any amounts then due under the Bond Indenture, the Series 2017A Bonds, the Loan Agreement, the Master Indenture or the Series 2017A Master Note, (ii) to enforce performance of any obligation, agreement or covenant of the Authority under the Bond Indenture or the Series 2017A Bonds, of the Corporation under any of the Corporation’s Documents or the Master Indenture, of a guarantor under any guaranty given with respect to any Bond or the Series 2017A Master Note or of the grantor of any other collateral given to secure the payment of the Series 2017A Bonds or the Series 2017A Master Note or (iii) to otherwise enforce any of its rights.

None of the remedies under the Bond Indenture is exclusive of any other remedy or remedies. Each remedy given under the Bond Indenture is cumulative and is in addition to every other remedy that is given or that now or hereafter exists at law, in equity or by statute. No delay or omission in the exercise of any right or power accruing upon an Event of Default impairs the right or power or is a waiver of or acquiescence in any Event of Default. Every right and power given by the Bond Indenture may be exercised from time to time and as often as

may be deemed expedient. No waiver of any Event of Default extends to or affects any subsequent or other Event of Default or impairs any rights or remedies consequent thereon.

In the event that the Master Trustee has accelerated the Series 2017A Master Note and is pursuing its available remedies under the Master Indenture, the Bond Trustee, without waiving any Event of Default under the Bond Indenture, agrees in the Bond Indenture not to pursue its available remedies under the Bond Indenture or the Loan Agreement in a manner that would hinder or frustrate the pursuit by the Master Trustee of its remedies under the Master Indenture provided that the Bond Trustee may take any action permitted of a noteholder under the Master Indenture.

Right To Direct Proceedings

Anything in the Bond Indenture to the contrary notwithstanding (excluding the provisions summarized in the first paragraph under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Acceleration and Other Remedies,” the Registered Owners of a majority of the aggregate principal amount of the Bonds Outstanding have the right to direct the exercise of any rights or remedies under the Bond Indenture or any of the Corporation’s Documents and the method and place of conducting all proceedings to be taken in connection with the enforcement of the Bond Indenture or any of the Corporation’s Documents. The directions of the Registered Owners summarized under this heading are to be (a) contained in a request that is signed by the Registered Owners of at least a majority of the aggregate principal amount of the Series 2017A Bonds then Outstanding and delivered to the Bond Trustee, (b) in accordance with law and the provisions of the Bond Indenture and (c) accompanied with indemnification of the Bond Trustee as is provided in the Bond Indenture.

Application of Proceeds

(a) Subject to the provisions summarized in paragraph (c) under this heading, if the principal of all the Series 2017A Bonds is not due, whether by declaration by the Bond Trustee pursuant to the provisions summarized under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Acceleration and Other Remedies” or otherwise, then any money received by the Authority or the Bond Trustee as a result of the exercise of one or more of the remedies granted by the Bond Indenture or any of the Corporation’s Documents will be applied as follows:

FIRST: To the payment of (i) the costs and expenses associated with the exercise of any remedy granted by the Bond Indenture or any of the Corporation’s Documents, including reasonable compensation to the Authority, the Bond Trustee and either of their attorneys and agents, (ii) any expenses of the Authority and (iii) any expenses of the Bond Trustee.

SECOND: To fund any deficiency in the Rebate Fund if doing so will prevent the occurrence of an Event of Taxability.

THIRD: To the payment of interest then due on the Series 2017A Bonds, in the order of the maturity of the payments of interest then due, and, if the amount available is not sufficient to pay in full any particular installment of interest, then to the payment of interest ratably, according to the amounts due, to the persons entitled to it without discrimination or privilege.

FOURTH: To the payment of principal and premium, if any, then due on the Series 2017A Bonds (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Bond Indenture), in the order of the maturity of the payments of principal and premium then due, and, if the amount available is not sufficient to pay in full the Series 2017A Bonds due on any particular date then to their payment ratably, according to the amount of principal due, to the persons entitled to it without any discrimination or privilege.

FIFTH: To the payment of any other sums required to be paid by the Corporation pursuant to any provisions of the Bond Indenture or any of the Corporation’s Documents.

SIXTH: To the payment of any other sums required to be paid by the Corporation pursuant to any provisions of the Master Indenture.

SEVENTH: Any balance is to be paid to the Corporation, its successors or assigns, upon its written request, to whomever may be lawfully entitled to receive it, upon its written request, or as any court of competent jurisdiction may direct.

(b) Subject to the provisions summarized in paragraph (c) under this heading, if the principal of the Series 2017A Bonds is due, whether by declaration by the Bond Trustee pursuant to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Acceleration and Other Remedies" or otherwise, then any money received by the Authority or the Bond Trustee as a result of the exercise of one or more of the remedies granted by the Bond Indenture or any of the Corporation's Documents will be applied as follows:

FIRST: To the payment of (i) the costs and expenses associated with the exercise of any remedy granted by the Bond Indenture or any of the Corporation's Documents, including reasonable compensation to the Authority, the Bond Trustee and either of their attorneys and agents, (ii) any expenses of the Authority and (iii) any expenses of the Bond Trustee.

SECOND: To fund any deficiency in the Rebate Fund if doing so will prevent the occurrence of an Event of Taxability.

THIRD: To the payment of the full amount of the principal of, premium, if any, and interest then due and unpaid on the Series 2017A Bonds. In the event money available for that purpose is insufficient to pay the full amount due, then the money that is available for that purpose will be applied ratably, according to the aggregate of principal, interest and premium, if any, then due without preference or priority as between principal, interest or premium.

FOURTH: To the payment of any other sums required to be paid by the Corporation pursuant to any provisions of the Bond Indenture or any of the Corporation's Documents.

FIFTH: To the payment of any other sums required to be paid by the Corporation pursuant to any provisions of the Master Indenture or any of the Corporation's Documents.

SIXTH: Any balance is to be paid to the Corporation, its successors or assigns, upon its written request, to whomever may be lawfully entitled to receive it, upon its written request, or as any court of competent jurisdiction may direct.

(c) If the principal of all the Series 2017A Bonds has been declared due and payable and if the declaration is thereafter rescinded and annulled under the provisions of the Bond Indenture then, subject to the provisions summarized in paragraph (b) under this heading in the event that the principal of all the Series 2017A Bonds later becomes due or is declared due and payable, the money is to be applied in accordance with the provisions summarized in paragraph (a) under this heading and any amounts transferred to the Principal Account and Interest Account of the Bond Fund from any other Bond Indenture Fund will be returned to the fund or account from which they were taken.

(d) Whenever money is to be applied pursuant to the provisions summarized under this heading, the money is to be applied at the times the Bond Trustee determines, having due regard for the amount of money available for application and the likelihood of additional money becoming available for application in the future. Whenever the Bond Trustee applies funds pursuant to the provisions summarized under this heading it will fix the date (which will be a Bond Interest Payment Date unless it deems another date more suitable) upon which the application is to be made and on that date interest on the amounts of principal paid ceases to accrue. The Bond Trustee agrees in the Bond Indenture to give any notice it deems appropriate of the deposit with it of any money pursuant to the provisions summarized under this heading and of the fixing of the payment date. Subject to the Bond Indenture, when the 2017A Bonds are in book entry form, payments of principal to the Registered Owner of any unpaid Bonds will not be made until the Bond is presented to the Bond Trustee at its Principal Trust Office in Saint Paul, Minnesota for appropriate endorsement or for cancellation if fully paid.

Remedies Vested in Bond Trustee

All rights of action (including the right to file proofs of claim) under the Bond Indenture or under any Bonds may be enforced by the Bond Trustee without the possession of any of the Series 2017A Bonds or the production of them in any trial or other proceeding relating to them. Any suit or proceeding instituted by the Bond Trustee is to be brought in its name as Bond Trustee without the necessity of joining as plaintiffs or defendants the Registered Owners. Any resulting recovery or judgment is for the benefit of the Registered Owners of the Outstanding Bonds in accordance with the terms of the Bond Indenture.

Rights and Remedies of the Registered Owners

No Registered Owner of any Bond has any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Bond Indenture, for the execution of any trust created under the Bond Indenture, for the appointment of a receiver or any other remedy, unless (a) an Event of Default has occurred of which the Bond Trustee has been notified as provided in the Bond Indenture or it is deemed to have notice, (b) the Bond Trustee has received a request to do so from the Registered Owners of not less than 25% in aggregate principal amount of the Series 2017A Bonds then Outstanding and has been offered a reasonable opportunity either to proceed to exercise the powers granted in the Bond Indenture or to institute an action, suit or proceeding in its own name, (c) the Bond Trustee has been offered indemnity as provided in the Bond Indenture and (d) the Bond Trustee thereafter fails or refuses to exercise the powers granted in the Bond Indenture or to institute an action, suit or proceeding in its own name.

No Registered Owner has any right to affect, disturb or prejudice the security of the Bond Indenture by its action or to enforce any right under the Bond Indenture except in the manner provided in the Bond Indenture and all proceedings at law or in equity are to be conducted in the manner provided in the Bond Indenture for the equal and ratable benefit of all the Registered Owners. Nothing in the Bond Indenture, however, affects or impairs the right of the Registered Owners to enforce the payment of the principal of, premium, if any, and interest on any Bond at and after its maturity or the obligation of the Authority to pay the principal of, premium, if any, and interest on the Series 2017A Bonds issued under the Bond Indenture to the Registered Owners at the time, place, from the source and in the manner expressed in the Bond Indenture and the Series 2017A Bonds.

Waivers of Events of Default

The Bond Trustee (a) may waive any Event of Default under the Bond Indenture and its consequences and rescind any declaration of maturity of principal of and interest on the Series 2017A Bonds and (b) must do so upon receipt of a written request to do so from the Registered Owners of a majority in aggregate principal amount of all the Series 2017A Bonds then Outstanding in respect of which a default in the payment of the principal of, premium, if any, or interest on the Bonds exists or from the Registered Owners of 25% or more in principal amount of the Series 2017A Bonds then Outstanding in the case of any other default. Notwithstanding the preceding sentence, the Bond Trustee may not waive any Event of Default in the payment of the principal of, premium, if any, or interest on any Bond unless prior to the waiver all arrears of principal, premium, if any, and interest on the Series 2017A Bonds, and all expenses of the Authority and the Bond Trustee in connection with the Event of Default have been paid or provided for.

Removal of the Bond Trustee

The Bond Trustee may be removed at any time without cause upon 30 days' prior notice (a) at the written direction of the Corporation (so long as no Default or Event of Default under the Bond Indenture, any of the Corporation's Documents or the Master Indenture has occurred, whether or not continuing) delivered to the Bond Trustee and the Authority or (b) by an instrument or concurrent instruments in writing signed by the Registered Owners of a majority of the aggregate principal amount of the Series 2017A Bonds then Outstanding and delivered to the Bond Trustee, the Authority, and the Corporation. A removal takes effect upon the appointment of a successor or temporary Bond Trustee pursuant to the Bond Indenture by the Registered Owners or the Authority and the successor or temporary Bond Trustee's acceptance of its appointment.

Supplemental Bond Indentures Not Requiring the Consent of the Registered Owners

The Authority and the Bond Trustee may, without the consent of, or notice to the Registered Owners, enter into an indenture or indentures supplemental to the Bond Indenture, as shall not be inconsistent with the terms and provisions thereof, for any one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in the Bond Indenture;
- (b) to grant to or confer upon the Bond Trustee for the benefit of the Owners of the Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Bonds or the Bond Trustee or any of them;
- (c) to subject to the Bond Indenture additional revenues, properties or collateral;
- (d) to add to the covenants and agreements of the Authority contained in the Bond Indenture other covenants and agreements thereafter to be observed for protection of the Bondholders, or, if such is not to the prejudice of the Bondholders, to surrender or limit any right, power or authority reserved to or conferred upon the Authority in the Bond Indenture, including, without limitation, the limitation of rights of redemption;
- (e) to evidence any succession to the Authority and the assumption by such successor of the covenants and agreements of the Authority contained in the Bond Indenture, the Loan Agreement or any subsequent loan agreement or other instruments providing for the Bonds;
- (f) to modify, amend or supplement the Bond Indenture or any Bond Indenture supplemental thereto in such manner as shall not be prejudicial to the interest of the owners of the Bonds, so as to permit the qualification thereof under any state blue sky law;
- (g) to conform the Bond Indenture to any changes in the Loan Agreement permitted by the Bond Indenture;
- (h) to permit the use of a book entry system to identify the owner of any interest in an obligation issued by the Authority under the Bond Indenture, whether that obligation was formerly, or could be, evidenced by a physical security;
- (i) to permit the Bond Trustee to comply with any duties imposed upon it by law;
- (j) to specify further the duties and responsibilities of the Bond Trustee;
- (k) to provide for the issuance of Bonds in another form (whether or not involving certificates or other written evidence of ownership), provided that the Bond Trustee shall have received an Opinion of Bond Counsel to the effect that issuance of Bonds in any such form will not adversely affect the validity of the Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Bonds would otherwise be entitled;
- (l) to modify or supplement the Bond Indenture in such manner as may be necessary or appropriate to qualify the Bond Indenture under the Trust Bond Indenture Act of 1939 as then amended (the "1939 Act"), or under any similar federal statute hereafter enacted, or as may be necessary to comply with any applicable state securities laws which require the Bond Indenture to comport with any requirements of the 1939 Act regardless of the applicability of the 1939 Act thereto, including provisions whereby the Bond Trustee accepts such powers, duties, conditions and restrictions under the Bond Indenture and the Corporation undertakes such covenants, conditions or restrictions additional to those contained in the Bond Indenture as would be necessary or appropriate so to qualify the Bond Indenture or so to comply with such state securities laws; and
- (m) to supplement the Bond Indenture in any other way that is not to the material prejudice of the Bond Trustee or the owners of the Bonds.

Supplemental Bond Indentures Requiring the Consent of the Registered Owners

Exclusive of supplemental indentures summarized under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Supplemental Bond Indentures Not Requiring the Consent of the Registered Owners,” the Authority and the Bond Trustee, with the prior written consent of the Registered Owners of a majority of the aggregate principal amount of the Series 2017A Bonds then Outstanding, may enter into an indenture or indentures supplemental to the Bond Indenture as the Authority and the Bond Trustee deem necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular manner, any of the terms or provisions contained in the Bond Indenture or in any supplemental indenture. No supplemental indenture, however, may permit, (a) an extension of the stated maturity or reduction in the principal amount of, reduction in the interest rate or extension of the time for paying interest on, a reduction of any premium payable on the redemption of or a reduction in the amount or extension of the time for any payment required by any sinking fund or principal fund applicable to any Bonds without the consent of the Registered Owners of all Bonds at the time Outstanding that would be affected by the action to be taken, (b) the creation of any lien prior to or on a parity with the lien of the Bond Indenture, without the consent of the Registered Owners of all Bonds at the time Outstanding, (c) a reduction in the aggregate principal amount of the Registered Owners that are required to consent to any supplemental indenture without the consent of the Registered Owners of all Bonds at the time Outstanding that would be affected by the action to be taken or (d) a modification of the rights, duties or immunities of the Bond Trustee without the written consent of the Bond Trustee.

If at any time the Authority requests the Bond Trustee to enter into a supplemental indenture for any of the purposes covered under this heading, the Bond Trustee agrees in the Bond Indenture, upon being satisfactorily indemnified with respect to expenses, to send notice of the proposed execution of the supplemental indenture by registered or certified mail to the Registered Owner of each of the Series 2017A Bonds at the Registered Owner’s Address subject, for so long as the Series 2017A Bonds are in a book entry system, to the letter of representations or in such other manner or at such other address as DTC may subsequently require. The notice will briefly set forth the nature of the proposed supplemental indenture and state that copies of it are on file at the Principal Trust Office of the Bond Trustee for inspection by the Registered Owner of any Bond. If, within sixty days or any longer period as is prescribed by the Authority following the mailing of the notice, consent of the Registered Owners of a majority of the aggregate principal amount of the Series 2017A Bonds then Outstanding has been obtained, no Registered Owner of any Bond has any right to object to any of the terms and provisions summarized under this heading or their operation, in any manner to question the propriety of the execution of the supplemental indenture or to enjoin or restrain the Bond Trustee or the Authority from executing the supplemental indenture or from taking any action pursuant to the provisions of the supplemental indenture.

Anything in the Bond Indenture to the contrary notwithstanding, so long as the Corporation is not in default of any of its obligations under any of the Corporation’s Documents or the Master Indenture, a supplemental indenture is not effective unless the Corporation has consented to its execution and delivery.

Opinion

Before the Authority and the Bond Trustee shall enter into any supplemental indenture as summarized above, there shall have been delivered to the Authority and the Bond Trustee an Opinion of Counsel stating that such supplemental indenture is authorized or permitted by the terms of the Bond Indenture. Such opinion may rely upon certifications of financial advisors, investment bankers or others experienced in health care and/or health care finance. The Bond Trustee shall not be required to execute any supplemental indenture that materially adversely affects the Bond Trustee’s rights, duties, indemnities or immunities.

Amendments to Certain of the Corporation’s Documents Not Requiring the Consent of the Registered Owners

The Authority and the Bond Trustee may, without the consent of or notice to the Registered Owners, consent to any amendment, change or modification of the Loan Agreement or the Series 2017A Master Note (a) as may be required by the provisions of the Loan Agreement and the Bond Indenture, (b) for the purpose of curing any ambiguity or formal defect or omission in the Loan Agreement or the Series 2017A Master Note, (c) to more precisely identify, substitute or augment Project descriptions contained in the Loan Agreement or (d) in connection with any other change in the Loan Agreement or the Series 2017A Master Note that is not to the material prejudice of the Bond Trustee or the Registered Owners.

Before the Authority or the Bond Trustee shall consent to any modification, alteration, change, amendment or supplement to the Loan Agreement or the Series 2017A Master Note under the Bond Indenture, there shall be delivered to the Authority and the Bond Trustee an Opinion of Counsel stating that such modification, alteration, change, amendment or supplement is authorized or permitted by the Bond Indenture.

Amendments to Certain of the Corporation's Documents Requiring the Consent of the Registered Owners

Except for the amendments, changes or modifications summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Amendments to certain of the Corporation's Documents Not Requiring the Consent of the Registered Owners," neither the Authority nor the Bond Trustee will consent to any other amendment, change or modification of the Loan Agreement or the Series 2017A Master Note without sending a notice to all Registered Owners and obtaining the prior written consent of the Registered Owners of a majority of the aggregate principal amount of the Series 2017A Bonds then Outstanding in the manner summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Supplemental Bond Indentures Requiring the Consent of the Registered Owners." No amendment to the Loan Agreement or the Series 2017A Master Note, however, may permit, (a) an extension of the stated maturity or reduction in the principal amount of, reduction in the interest rate or extension of the time for paying interest on, a reduction of the amount or an extension of the time for paying any premium payable on the prepayment of, or a reduction in the amount or extension of the time for any payment of principal on any of the obligations described in the Loan Agreement or the Series 2017A Master Note without the consent of the Registered Owners of all the Series 2017A Bonds that would be affected by the action to be taken, (b) the creation of any lien prior to or on a parity with any lien created by the Bond Indenture without the consent of the Registered Owners of all Bonds at the time Outstanding, (c) a reduction in the aggregate principal amount of Bonds the Registered Owners of which are required to consent to any amendment of the Loan Agreement or the Series 2017A Master Note without the consent of the Registered Owners of all Bonds at the time Outstanding that would be affected by the action to be taken or (d) modify the rights, duties or immunities of the Bond Trustee without the written consent of the Bond Trustee. If at any time the Authority and the Corporation request the consent of the Bond Trustee to any proposed amendment, change or modification of the Loan Agreement or the Series 2017A Master Note, the Bond Trustee agrees in the Bond Indenture, upon being satisfactorily indemnified with respect to expenses, to send notice of the proposed amendment, change or modification in the same manner as summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Supplemental Bond Indentures Requiring the Consent of the Registered Owners." The notice will briefly set forth the nature of the proposed amendment, change or modification and state that copies of the instrument embodying it are on file at the Principal Trust Office of the Bond Trustee for inspection by the Registered Owners.

Before the Authority or the Bond Trustee shall consent to any modification, alteration, change, amendment or supplement to the Loan Agreement or the Series 2017A Master Note under the Bond Indenture, there shall be delivered to the Authority and the Bond Trustee an Opinion of Counsel stating that such modification, alteration, change, amendment or supplement is authorized or permitted by the Bond Indenture. Such opinion may rely upon certifications of financial advisors, investment bankers or others experienced in health care and/or health care finance.

Replacement of Series 2017A Master Note with Note Issued Under a Separate Master Indenture

Without the consent of or notice to the Registered Owners, the Series 2017A Master Note shall be surrendered by the Bond Trustee and delivered to the Master Trustee for cancellation upon receipt by the Bond Trustee and the Authority of the following:

(a) a Written Request of the Corporation requesting such surrender and delivery and stating that the then-current members of the Obligated Group have become members of an obligated group under a replacement master indenture (other than the Master Indenture) (or the members of the Obligated Group are obligated, by their respective articles of incorporation, bylaws or by contract or otherwise, to make payments to an entity that is a member of such an obligated group in amounts sufficient to enable the entity to make payments with respect to obligations issued under such replacement master indenture) and that an obligation is being issued to the Authority under such replacement master indenture (the "*Replacement Master Indenture*") and delivered to the Bond Trustee;

(b) a properly executed obligation (the "*Replacement Master Note*") issued under the Replacement Master Indenture and registered to the Bond Trustee (as the assignee of the Authority) with the same

tenor and effect as the Series 2017A Master Note (in a principal amount equal to the then Outstanding principal amount of the Series 2017A Bonds), duly authenticated by the master trustee under the Replacement Master Indenture and endorsed by the Authority to the Bond Trustee;

(c) an Opinion of Counsel, addressed to the Bond Trustee and the Authority, to the effect that the Replacement Master Note has been validly issued under the Replacement Master Indenture and constitutes a valid and binding obligation of the Obligated Group (or the entity to which the Obligated Group is obligated to make the payments referred to in paragraph (a) above) and each other member of the obligated group (if any) that is jointly and severally liable under the Replacement Master Indenture, subject to such qualifications as are not unreasonably objected to by the Authority;

(d) a copy of the Replacement Master Indenture, certified as a true and accurate copy by the master trustee under the Replacement Master Indenture;

(e) written confirmation from each rating agency then rating the Series 2017A Bonds at the request of the Corporation that the replacement of the Series 2017A Master Note will not, by itself, result in a reduction in, or withdrawal of, the then-current rating(s) (not considering outlook) on the Series 2017A Bonds; and

(f) an Opinion of Bond Counsel, addressed to the Bond Trustee and the Authority, to the effect that the action proposed to be taken is authorized or permitted by the Bond Indenture and will not adversely affect the validity of the Series 2017A Bonds or any exclusion from gross income for federal income tax purposes to which interest on the Series 2017A Bonds would otherwise be entitled.

Upon satisfaction of such conditions, all references in the Bond Indenture and the Loan Agreement to the Series 2017A Master Note shall be deemed to be references to the Replacement Master Note, all references to the Master Indenture shall be deemed to be references to the Replacement Master Indenture, all references to the Master Trustee shall be deemed to be references to the master trustee under the Replacement Master Indenture, all references to the Obligated Group and the members of the Obligated Group shall be deemed to be references to the obligated group and the members of the obligated group under the Replacement Master Indenture and all references to the sixteenth supplement shall be deemed to be references to the supplemental master indenture pursuant to which the Replacement Master Note is issued.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

Loan of Proceeds

The Corporation and the Authority will enter into the Loan Agreement pursuant to which the Authority will lend the proceeds of the sale of the Series 2017A Bonds to the Corporation. The Corporation will execute and deliver to the Authority an Obligation to evidence the loan and the obligation of the Corporation to repay it. The Obligation will be issued in a principal amount equal to the aggregate principal amount of the Series 2017A Bonds and will provide for payments of principal, premium, if any, and interest sufficient to permit the Authority to make the required payments of principal, premium, if any and interest on the Bonds.

Deposits in Respect of the Series 2017A Master Note

The Corporation agrees in the Loan Agreement to make the following payments as evidenced by the Series 2017A Master Note, directly to the Bond Trustee for deposit into the appropriate fund established by the Bond Indenture, on the following dates:

(a) for deposit into the Interest Account on or before each April 1 and October 1 commencing on October 1, 2017, the amount necessary, together with any money then on deposit in the Interest Account and available for that purpose, to pay the next installment of interest due on the Series 2017A Master Note and

(b) for deposit into the Principal Account on or before each April 1 commencing on April 1, 2018, the amount necessary, together with any money then on deposit in the Principal Account and available for that purpose, to pay the next installment of principal due on the Series 2017A Master Note.

Obligation of the Corporation Unconditional

The Corporation agrees in the Loan Agreement that its obligation to make the payments described in the Loan Agreement and the Series 2017A Master Note and to perform its obligations under the Loan Agreement and the Series 2017A Master Note are absolute and unconditional and are not subject to diminution by any defense (other than payment), by any right of set off, counterclaim or abatement, by the happening or non-happening of any event or for any other reason whatsoever.

Pledge of the Loan Agreement and the Series 2017A Master Note

Except for Unassigned Rights, all of the Authority's right, title and interest in the Loan Agreement and the Series 2017A Master Note (including the right to receive the payments to be made by the Corporation pursuant to the Series 2017A Master Note) have been assigned to the Bond Trustee by the Bond Indenture. The Corporation consents to that assignment and agrees in the Loan Agreement that the Bond Trustee may enforce any of the rights, privileges and remedies of the Authority under the Loan Agreement and the Series 2017A Master Note other than the Unassigned Rights.

Agreement To Complete the Project

The Corporation agrees in the Loan Agreement to complete or cause the completion of the Project. The Corporation also agrees in the Loan Agreement to construct, acquire and install any additional land, improvements or equipment that are necessary, in the judgment of the Corporation, for the operation of the Project.

Establishment of the Completion Date

Upon the completion of all of the respective components of the Project to be financed with proceeds of the Bonds, the Corporation agrees in the Loan Agreement to deliver a Completion Certificate to the Bond Trustee and the Authority.

Project Fund Insufficiency

If amounts in the Construction Account and the Equipment Account available for the payment of Project Costs are insufficient to pay the costs of the Project in full, the Corporation agrees in the Loan Agreement to complete the Project with another source of funds other than proceeds of the Series 2017A Bonds. If amounts in the Issuing Expenses Account available for the payment of Issuing Expenses are insufficient to pay Issuing Expenses in full, the Corporation agrees in the Loan Agreement to complete the payment of the Issuing Expenses from its own funds.

Inspection of the Bond Financed Property

The Corporation agrees in the Loan Agreement that each of the Authority, the Bond Trustee and the authorized agents of either of them, on reasonable prior written notice and as often as the Authority and the Bond Trustee reasonably determine to be desirable, (a) have the right at reasonable times to enter upon the Facilities in order to examine and inspect the Bond Financed Property, (b) have the right to any access to the Facilities that is reasonably necessary to complete the Project or to repair and maintain the Bond Financed Property in the event the Corporation fails to do so, (c) will be permitted to discuss the affairs and finances of the Corporation with its officers and independent accountants and (d) will be permitted at all reasonable times to examine and copy the books and records of the Corporation with respect to the Bond Financed Property; provided, however, the Corporation shall not be required to disclose or discuss information that it is required to hold confidential either by law or contract.

Sufficient Revenues

Notwithstanding any other provision of the Loan Agreement or any other of the Corporation's Documents or the Master Indenture, the Corporation unconditionally agrees in the Loan Agreement that it will pay pursuant to the Loan Agreement and the Series 2017A Master Note the full amount needed and at the times needed to enable the Authority to make timely payment of the principal of (whether due upon maturity, redemption, acceleration or otherwise), premium, if any, and interest on the Bonds.

Financial Information and Reports

The Corporation agrees in the Loan Agreement to (a) keep proper books of record and account in which full, true and correct entries will be made of all the Corporation's business and affairs in accordance with generally accepted accounting principles consistently applied and (b) furnish to the Financial Statement Recipients, at the same time it is provided to the Bond Trustee to the Master Trustee, the materials and notices required to be delivered to the Master Trustee under the Master Indenture. The Bond Trustee shall have no duty to review or analyze any financial statements provided to the Bond Trustee pursuant to the provisions summarized under this heading and shall hold such financial statements solely as a repository for the benefit of the Bondholders; the Bond Trustee shall not be deemed to have notice of any information contained therein or Event of Default that may be disclosed therein in any manner.

Maintenance of Tax Status

The Corporation agrees in the Loan Agreement that it and each Benefited Affiliate will at all times maintain its existence as a nonprofit corporation and its status as an organization described in Section 501(c)(3) of the Code and exempt from federal income taxation under Section 501(a) of the Code. The Corporation agrees in the Loan Agreement that it will not take any action or permit any action to be taken by others that will adversely affect its agreement summarized in this paragraph.

Maintenance of Existence

Except as otherwise provided in the Master Indenture, the Corporation agrees in the Loan Agreement that during the term of the Loan Agreement it will maintain its corporate existence and will be duly qualified to transact business in the State, will not dissolve, will not sell, lease, transfer or otherwise dispose of all or substantially all of its assets, will not receive from any other corporation by sale, lease, transfer or otherwise all or substantially all of its assets, will not consolidate with or merge into another corporation and will not permit one or more other corporations to consolidate with or merge into it.

Tax Exempt Bonds

The Corporation and Authority intend that the interest paid on the Series 2017A Bonds will be excluded from the gross income of the owners of the Series 2017A Bonds for federal income tax purposes pursuant to Section 103 of the Code. The Corporation agrees in the Loan Agreement that it will not take any action or permit any action to be taken by a Benefited Affiliate that would, or fail to take any action or permit a Benefited Affiliate to fail to take any action the omission of which would, cause an Event of Taxability to occur. The obligations of the Corporation summarized under this heading survive a defeasance of the Series 2017A Bonds pursuant to the provisions summarized under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE - Discharge" and continue until all the Series 2017A Bonds have been paid in full.

Maintenance of Status as a Member of the Obligated Group

The Corporation agrees in the Loan Agreement that as long as any Bonds remain outstanding it will remain a member of the Obligated Group; provided, however, the foregoing shall not preclude a merger among members of the Obligated Group.

Events of Default

The occurrence and continuance of any of the following events is an Event of Default under the Loan Agreement:

(a) Failure by the Corporation to pay when due the principal of (whether at maturity, redemption, acceleration or otherwise), premium, if any, or interest on the Series 2017A Master Note.

(b) Failure by the Corporation to observe and perform any covenant, condition or agreement in the Corporation's Documents to be observed or performed by it, other than those summarized in paragraph (a) under this heading, for a period of thirty days after written notice specifying the failure and requesting that it be remedied is given to the Corporation by the Bond Trustee provided that if the failure is one which can be remedied but cannot be remedied within that thirty day period, the Bond Trustee may grant an extension of the thirty day period if the Corporation institutes corrective action within that thirty day period and diligently pursues that action until the default is remedied.

(c) Any representation or warranty made by the Corporation in the Corporation's Closing Certificate, any of the Corporation's Documents, the Master Indenture, or any financial statement or other document delivered in connection with the issuance of the Bonds proving to be false or misleading in any material respect as of the date given or made.

(d) The occurrence of an event of default under the Master Indenture that would permit the acceleration of any Obligation (as defined in Appendix C of this Official Statement) issued pursuant to the Master Indenture.

Remedies

Upon the occurrence of an Event of Default, the Bond Trustee, as assignee of the Authority, may, and, upon receipt from the Registered Owners of at least 50% of the principal amount of the Bonds then Outstanding of a request to do so, shall by written notice to the Master Trustee, request that the Master Trustee declare the principal of the Series 2017A Master Note (if not then due and payable) to be due and payable immediately subject to the provisions of the Master Indenture regarding waiver of events of default, anything in the Series 2017A Master Note or in the Loan Agreement contained to the contrary notwithstanding.

Upon the occurrence of any Event of Default the Bond Trustee, as assignee of the Authority, may take whatever action at law or in equity the Authority or the Bond Trustee deem necessary or desirable (i) to collect any amounts then due under the Loan Agreement, the Series 2017A Master Note or the Master Indenture, (ii) to enforce performance of any obligation, agreement or covenant of the Corporation or any Benefited Affiliate under any of the Corporation's Documents, the Series 2017A Master Note or the Master Indenture or (iii) to otherwise enforce any of its rights.

None of the remedies of the Authority and the Bond Trustee as its assignee under the Loan Agreement is exclusive of any other remedy or remedies, and each remedy given is cumulative and is in addition to every other remedy that is given or that now or hereafter exists at law, in equity or by statute. No delay or omission by the Authority or the Bond Trustee in the exercise of any right or power accruing upon an Event of Default impairs the right or power or is a waiver of or acquiescence in any Event of Default. Every right and power given by the Loan Agreement to the Authority and assigned to the Bond Trustee may be exercised from time to time and as often as may be deemed expedient by the Authority or the Bond Trustee. No waiver of any Event of Default extends to or affects any subsequent Event of Default or impairs any rights or remedies consequent thereon.

Waivers of Events of Default

The Authority, or the Bond Trustee, as its assignee, may waive any Event of Default under the Loan Agreement and its consequences and rescind any action previously taken and must do so upon receipt of a request from the Registered Owners of at least a majority of the principal amount of the Series 2017A Bonds then Outstanding. There may not be waived, however, any Event of Default summarized in paragraph (a) under the heading "SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT - Events of Default" unless, prior to the waiver, all arrears of principal, premium, if any, and interest on the Series 2017A Bonds and all

expenses of the Authority and the Bond Trustee in connection with the Event of Default have been paid or provided for. If any waiver of any Event of Default occurs under the provisions summarized under this heading or any proceeding taken by the Bond Trustee on account of any Event of Default is discontinued, abandoned or determined adversely, then the Authority, the Corporation, the Bond Trustee and the Registered Owners will be restored to their former positions and rights under the Loan Agreement. No waiver summarized under this heading, whether by the Bond Trustee or the Registered Owners, extends to or affects any subsequent or other Event of Default or impairs any rights or remedies consequent thereon.

Remedies Subject to Law

All rights, remedies and powers given by the Loan Agreement to the Authority and to the Bond Trustee, as its assignee, may be exercised only to the extent that the exercise does not violate any applicable provision of law. All the provisions of the Loan Agreement are intended to be subject to all applicable mandatory provisions of law that may be controlling and to be limited to the extent necessary so that they will not render the Loan Agreement invalid or unenforceable under the provisions of any applicable law.

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

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April 20, 2017

We have acted as bond counsel in connection with the issuance by the Wisconsin Health and Educational Facilities Authority (the “*Authority*”) of \$254,190,000 of its Revenue Bonds, Series 2017A (Froedtert Health, Inc. Obligated Group) (the “*Bonds*”). The Bonds are being issued pursuant to Chapter 231 of the Wisconsin Statutes (the “*Act*”) and a resolution adopted by the Authority on March 2, 2017 (the “*Resolution*”) and under a Bond Trust Indenture dated as of April 1, 2017 (the “*Bond Indenture*”) between the Authority and U.S. Bank National Association, as bond trustee (the “*Bond Trustee*”).

Under a Loan Agreement dated as of April 1, 2017 (the “*Loan Agreement*”) between the Authority and Froedtert Health, Inc. (the “*Corporation*”), the Authority is loaning to the Corporation the proceeds from the sale of the Bonds to (a) advance refund a portion of the outstanding Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2009C (Froedtert & Community Health, Inc. Obligated Group) (the “*Series 2009C Bonds*” and the portion to be advance refunded, the “*Refunded 2009C Bonds*”), (b) currently refund the outstanding Wisconsin Health and Educational Facilities Variable Rate Revenue Bonds, Series 2013B (Froedtert Health, Inc. Obligated Group) (the “*Series 2013B Bonds*”), (c) finance or reimburse the Corporation and/or certain of its affiliates (the “*Benefited Affiliates*”) for costs associated with the acquisition, construction, renovation and equipping of the projects described in the Loan Agreement (collectively, the “*Project*”), and (d) pay certain costs associated with the issuance of the Bonds.

The Corporation’s obligation to repay the loan is evidenced by its Promissory Note, Series 2017A dated April 20, 2017 (the “*Note*”). The Note is being issued pursuant to a Master Trust Indenture dated as of July 1, 1994 between the Obligated Group created thereby (of which the Corporation is a member) and Wells Fargo Bank, National Association, as trustee thereunder (the “*Master Trustee*”), as amended and restated by a Sixth Supplemental Master Trust Indenture dated as of May 1, 2005 between the Obligated Group and the Master Trustee, and as further supplemented and amended in accordance with its terms.

The Bonds are issuable as fully registered bonds in the denominations, bear interest at the rates and mature on the dates and in the amounts as provided in the Bond Indenture. The Bonds are subject to redemption prior to maturity at the times, in the manner and upon the terms set forth in the Bonds and the Bond Indenture.

We have examined (a) copies of Bonds numbered R-1 through R-20, (b) the Loan Agreement, (c) the Note, (d) the Bond Indenture, (e) a Tax Exemption Certificate and Agreement dated April 20, 2017 (the “*Tax Exemption Agreement*”) among the Authority, the Corporation, the Benefited Affiliates and the Bond Trustee, (f) an Escrow Deposit Agreement dated April 20, 2017 (the “*Escrow Agreement*”) among the Authority, the Corporation and U.S. Bank National Association, as bond trustee for the Refunded 2009C Bonds, (g) a Purchase Contract dated March 9, 2017 (the “*Bond Purchase Agreement*”) between Morgan Stanley & Co. Incorporated and the Authority providing for the sale of the Bonds, (h) the Verification Report identified below and (i) the Resolution.

As to questions of fact material to our opinion, we have also examined and relied upon representations and certifications of officials of the Authority, the Corporation, the Benefited Affiliates and others delivered in connection with the issuance of the Bonds (including without limitation, certifications as to the use of proceeds of the Bonds, the Series 2009C Bonds and the Series 2013B Bonds, and the ownership, operation and use of the property financed and refinanced therewith) and the report of Causey Demgen & Moore P.C. dated April 20, 2017 (the “*Verification Report*”) as to, among other matters, the yield on the Bonds, the yield on the Series 2009C Bonds and investments related to the advance refunding of the Refunded 2009C Bonds, without undertaking to verify the same by independent investigation. We have also examined the other documents we deemed relevant and necessary in rendering this opinion.

Based upon the examination described above, it is our opinion under existing law that:

1. The Authority is a public body corporate and politic created and existing under the laws of the State of Wisconsin and has authority under the Act to issue the Bonds and to enter into and perform its obligations under the Loan Agreement, the Tax Exemption Agreement, the Escrow Agreement, the Bond Purchase Agreement and the Bond Indenture.

2. The Bonds are in the form required by law and have been authorized, executed, issued and delivered by the Authority in accordance with law, the Resolution and the Bond Indenture. The Bonds are valid and binding limited obligations of the Authority and are entitled to the protection given by the Bond Indenture except that enforceability may be limited by bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent transfer or other laws affecting creditors’ rights generally. Enforceability of the Authority’s obligations is also subject to general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law). The principal of, premium, if any, and interest on the Bonds are payable solely out of the revenues derived from the Loan Agreement or, in the event of default under the Loan Agreement, as otherwise permitted by the Bond Indenture or the Resolution and by law. The Bonds do not constitute or give rise to a pecuniary liability of the Authority or a charge against its general credit. The Authority has no taxing power.

3. The Loan Agreement, the Note and the amounts payable under the Loan Agreement and the Note by the Corporation have been pledged and assigned under the Bond Indenture as security for payment of the principal of, premium, if any, and interest on the Bonds.

4. The interest on the Bonds is excludable for federal income tax purposes from the gross income of the owners of the Bonds. The interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed by Section 55 of the Internal Revenue Code of 1986, as amended (the “*Code*”), on corporations (as that term is defined for federal income tax purposes) and individuals. The interest on the Bonds is, however, included in adjusted current earnings for purposes of computing the alternative minimum tax imposed on corporations. The Code contains requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be or continue to be excludable from the gross income of the owners of the Bonds for federal income tax purposes. Failure to

comply with certain of those requirements could cause the interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The Authority, the Bond Trustee, and the Corporation and the Benefited Affiliates have agreed to comply with all of those requirements and the opinion set forth in the first sentence of this paragraph is subject to the condition that the Authority, the Bond Trustee, and the Corporation and the Benefited Affiliates comply with those requirements. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

This opinion letter deals only with the specific legal issues that it explicitly addresses and no opinions may be inferred or implied beyond the matters expressly contained herein. The opinions expressed herein are specifically limited to the laws of the United States and the present internal laws of the State of Wisconsin. The opinions expressed herein are based upon those facts and circumstances in existence and laws in effect on the date hereof, and we assume no obligation or responsibility to update or supplement this opinion letter to reflect any facts or circumstances that may hereafter come to our attention or any changes in laws that may hereafter occur, or to inform any person of any change in circumstances occurring after the date hereof that would alter the opinions rendered herein.

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Froedtert Health



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