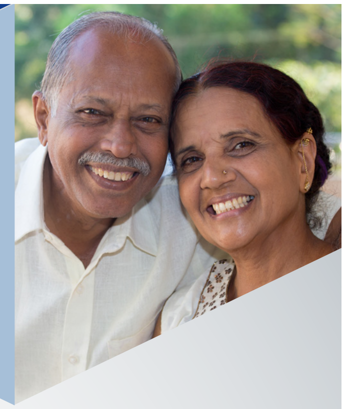

Froedtert Health, Inc. and Affiliates

UNAUDITED QUARTERLY DISCLOSURE

For the Fiscal Year Ended June 30, 2017

Froedtert Health, Inc. and Affiliates
UNAUDITED QUARTERLY DISCLOSURE

For the Fiscal Year Ended June 30, 2017

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The following financial data for the fiscal year ended June 30, 2017 is derived from the interim consolidated financial statements of Froedtert Health, Inc. and Affiliates (FH). The interim consolidated financial statements include all adjustments consisting of a normal recurring nature that FH considers necessary for a fair presentation of its financial position and the results of operations for these periods. The financial information as of and for the fiscal year ended June 30, 2016 is derived from FH's audited consolidated financial statements. Operating and financial results reported herein are not necessarily indicative of the results that may be expected for any future periods.

The information contained herein is being filed by FH for the purpose of complying with its obligations under Continuing Disclosure Agreements entered into in connection with the issuance of the series of bonds listed herein and disclosure and compliance obligations in connection with various banking arrangements. The information contained herein is as of June 30, 2017. Digital Assurance Certification, L.L.C., as Dissemination Agent, has not participated in the preparation of this Unaudited Quarterly Disclosure, has not examined its contents and makes no representations concerning the accuracy and completeness of the information contained herein.

Introduction

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

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

FH values a highly collaborative approach in the delivery of services across the care continuum (community-based care, acute care and post-acute care), partnering with nationally known providers in joint venture relationships for the delivery of dialysis and imaging services. FH also holds significant equity interests in both a 130,000 member health plan (including self-insured members) and the second largest home health agency in the state of Wisconsin.

The Medical College of Wisconsin is the major teaching affiliate for FMLH. The Medical College places approximately 325 full-time residents at FMLH. Substantially all patient encounters at FMLH are teaching related.

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

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

FH's vision is to be the region's premier health system by demonstrating superior value through an academic community partnership and aligning health care delivery across the region.

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

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

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

Executive Summary

FINANCIAL RESULTS – For the Fiscal Years Ended June 30, 2017 and 2016 ($ in 000's)

	2017 (Unaudited)	2016 (Audited)
Total operating revenue	$ 2,160,446	$ 2,012,755
Total operating expenses	2,043,112	1,868,190
Operating revenue in excess of expenses	117,334	144,565
Non-operating gains (losses), net	170,382	(23,849)
Revenues and gains in excess of expenses and losses	$ 287,716	$ 120,716
Operating margin	5.4%	7.2%
Operating EBITDA margin	11.6%	13.1%

SELECT BALANCE SHEET INFORMATION – June 30, 2017 and 2016 ($ in 000's)

	Unaudited June 30, 2017	Audited June 30, 2016
Unrestricted cash and investments	$ 1,644,591	$1,474,525
Days cash on hand	309.3	303.2
Net revenue days outstanding	41.2	42.1
Long-term debt	$ 794,713	$ 668,120
Unrestricted cash and investments to long-term debt	2.07x	2.21x

Financial Results – For the Fiscal Year Ended June 30, 2017

FH's operating revenue in excess of expense was $117,334 for the fiscal year ended June 30, 2017 as compared to $144,565 in the previous year. The year-to-date June operating margin was 5.4% as compared to 7.2% in the previous year. Overall patient activity continues to increase. However, a change in payer mix has contributed to operating results being lower than previous periods. Growth of Medicare patient activity outpaced that of other payers, contributing to lower than expected net patient service revenue (see page 9 for Sources of Patient Service Revenue).

Revenues and gains in excess of expenses and losses were $287,716 for the fiscal year ended June 30, 2017 as compared to $120,716 in the previous year. The year-to-date June excess margin percentage was 12.3% as compared to 6.1% in the previous year. The increase in excess margin is due to net gains on investments of $167,129 during the fiscal year ended June 30, 2017 compared to net losses of $10,314 during the fiscal year ended June 30, 2016.

Financial Position – June 30, 2017

Net revenue days outstanding were at 41.2 days as of June 30, 2017 compared with 42.1 at June 30, 2016. Strong cash collections contribute to the stability in net revenue days outstanding. Days cash on hand increased from 303.2 at June 30, 2016 to 309.3 at June 30, 2017.

Executive Summary

Creating Value

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

In 2016, Froedtert Hospital ranked No. 4 among the nation's top academic medical centers according to this year's Vizient Quality and Accountability Study. The study looks at safety, timeliness, effectiveness, efficiency, equity and patient-centeredness. Froedtert Hospital was also one of just five academic medical centers nationwide recognized for excellence in outpatient care.

The sum of all interactions we have with an individual patient – from providing information about our services through discharge or post-appointment follow-up and every conversation along the way – is the patient experience. Patients and the public now have more information available to them about each of our physicians or advanced practice providers as we share our own star ratings on froedtert.com. In 2016 we reached the 83rd percentile of all hospitals in the nation for patient experience, demonstrating superior service.

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

FH and Ministry Health Care (now Ascension Wisconsin) are co-owners of Network Health, a Wisconsin-based health insurance company providing commercial, public exchange and Medicare Advantage health insurance plans to employers and individuals in eastern Wisconsin. Network Health's Medicare Advantage PPO product holds the highest possible accreditation status from the National Committee for Quality Assurance (NCQA).

Recent Events

New Debt Offerings – In April 2017 FH completed the issuance of its Series 2017A and Series 2017B bonds. The bond proceeds together with certain other funds, will be used to fund a four-floor vertical expansion of the Center for Advanced Care. Two of those floors will be immediately built out to accommodate the addition of 64 beds. The remaining two floors will be shelled for future growth. In addition, bond proceeds will be used to finance Phase II of the Integrated Procedural Platform that will include additional operating rooms and an alignment of operating rooms and interventional services. Bond proceeds were also used to advance refund $158,765 of the Series 2009C bonds and a current refund of all of the Series 2013B bonds totaling $79,910 (Additional information on pages 10 and 11.)

In connection with the 2017A bonds, Standard & Poor's Ratings Services affirmed its "AA-" rating with a positive outlook on Wisconsin Health & Educational Facilities Authority's existing long-term debt (various series) issued for Froedtert Health. Fitch Ratings also affirmed its "AA-" rating in connection with the new 2017A bonds.

Executive Summary

Affiliation Agreement with United Hospital System, Inc. – In July 2017 FH entered into an affiliation agreement with United Hospital System, Inc. (United); with hospital campuses located in Kenosha and Pleasant Prairie, Wisconsin. The terms of the agreement call for FH to make a capital contribution in exchange for certain governance rights and other commitments of United. The governance rights include FH becoming a voting member and obtaining a twenty-five percent equity ownership interest in United.

The agreement also calls for United to adopt Froedtert & MCW care quality protocols and best practices. The two organizations will share an electronic health records system that FH will implement under a separate contractual arrangement. United will continue to operate as a locally led organization, retain its current health system departments, administrative services, medical group leadership and credentialing.

The affiliation is expected to have a closing date and become effective on October 1, 2017. Conditioned upon closing, United will change its name to Froedtert South and will operate under the external brand name of Froedtert & the Medical College of Wisconsin health network.

Focus on Patients

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

Patient satisfaction is measured using national, standardized surveys of patient's perspectives. Hospital care is measured by the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS). Clinical care provided by physicians in an office setting is measured by the Clinician and Group Assessment of Healthcare Providers and Systems (CG-CAHPS). Our highly rated hospitals have remained stable and physician clinics have seen improvement in patient satisfaction over the past year as demonstrated below:

QUALITY SCORES

	2017*	FY 2016	Difference
Quality Scores*			
HCAHPS (percent top box)	78.9 (82nd percentile)	79.0	(0.1)
CG-CAHPS Overall Rating of Provider (percent top box)	88.5 (83rd percentile)	87.6	0.9

**Most recent scores available. Represents 11 month period ending May 31, 2017.*

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

Executive Summary

Honors and Recognition

Members of the health network have a long history of medical excellence and leadership and have been honored to be named recipients of a number of awards and distinctions including:

- Froedtert Hospital ranks fourth among the top academic medical centers members 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 Hospital in the top 10 among more than 100 participating organizations. Froedtert Hospital was also one of just five academic medical centers nationwide recognized for excellence in outpatient care. Unlike many other rankings, the comprehensive study stringently evaluates all care provided at our 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 one of the top three hospitals in Wisconsin in *U.S. News & World Report's* 2017-18 Best Hospitals list. Additionally, Froedtert Hospital ranks nationally in four specialties: ear, nose and throat; nephrology; pulmonology; and gynecology. Froedtert Hospital is also recognized as a high performer in three specialties: cancer; gastroenterology and GI surgery; and neurology and neurosurgery.
- Froedtert & the Medical College of Wisconsin health network was recognized among the top 20 percent of medium-sized health systems in the nation (ranked by total annual operating expenses) by Truven Health Analytics, an independent firm that evaluates hospitals and health systems. The Froedtert & MCW health network is one of just four Wisconsin health systems to make the list. The Truven study analyzed data from 337 health systems and their 2,415 associated hospitals to identify those that achieve supior performance based on a composite score of nine measures of care quality, patient perception of care, cost per episode of illness and operational efficiency.
- Froedtert Hospital achieved its third Magnet designation for excellence in nursing services by the American Nurses Credential Center's (ANCC) Magnet Recognition Program® in 2016. The designation, which involves a rigorous process and must be renewed every three years, recognized health care organizations that demonstrate excellence in nursing practice and adherence to national standards for the management and delivery of nursing services.
- The Human Rights Campaign Foundation recognized Froedtert Hospital as a "leader in LGBT Healthcare Equality" and Community Memorial Hospital and St. Joseph's Hospital as high performers for protecting our LGBT patients and employees from discrimination, ensuring equal visitation rights for LGBT people and providing staff training in LGBT patient-centered care.
- Froedtert Health was recognized as a 2017 Healthiest 100 Workplace in America, based on integration of vital corporate wellness policies, practices and programs into the workplace.
- For the twelfth consecutive year, Froedtert Hospital earned the 2016-2017 Consumer Choice Award from the National Research Corporation. Froedtert is the only Milwaukee hospital and one of nine in Wisconsin to make the list, which is based on an annual survey of more that 300,000 consumers in 300 markets across the US. The award identifies hospitals that consumers consider to have the highest quality, best doctors and nurses, and overall image and reputation.

Management's Discussion & Analysis

For the Fiscal Year Ended June 30, 2017

OPERATING RESULTS

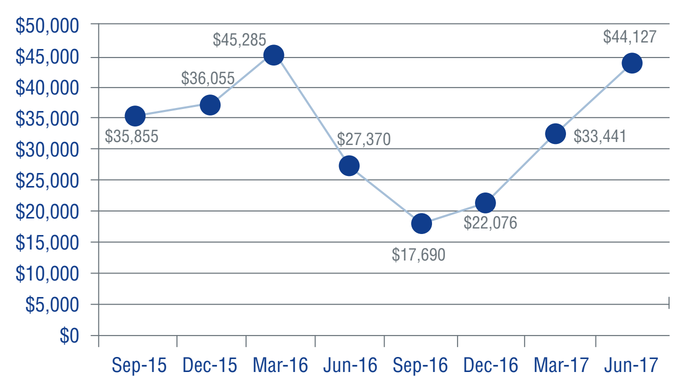
Consolidated operating revenue in excess of expenses for the fiscal year ended June 30, 2017 was $117,334 (5.4% margin) compared to $144,565 (7.2% margin) for the same period in the previous year; a decrease of $27,231. Operating EBITDA margin for the fiscal year ended June 30, 2017 was 11.6% compared to 13.1% for the same period in the previous year. The decline in operating performance can be attributed to a deterioration in payer mix. Although there has been growth in both inpatient and outpatient activity (see pages 7 & 8); growth of Medicare patient activity outpaced the growth of all other patient activity. The change in payer mix resulted in higher contractual allowances and bad debts; leading to lower net patient service revenue and operating margins.

Operating income has improved over the past two quarters (three months ended March 31, 2017 and June 30, 2017) as a result of management's cost control efforts, a stabilized payer mix and strong patient activity.

FOR THE FISCAL YEAR ENDED JUNE 30

	2017	2016	Change
Operating Income	$117,334	$144,565	($27,231)
Operating Margin	5.4%	7.2%	(1.8%)

OPERATING INCOME BY QUARTER



Management's Discussion & Analysis

For the Fiscal Year Ended June 30, 2017

PATIENT ACTIVITY

PATIENT ACTIVITY – For the Fiscal Year Ended June 30, 2017 and 2016

INPATIENT ACTIVITY	2017	2016
Admissions	41,892	40,033
Patient Days	211,111	196,792
Average Length of Stay	5.04	4.92
Case Mix Index – All Patients	1.79	1.75
Inpatient Surgical Cases	13,444	12,342
Occupancy		
– Staffed Beds	825	808
– Occupancy Rate	70%	67%
– Average Daily Census	578	538
OUTPATIENT ACTIVITY		
Hospital Outpatient Visits	998,237	965,962
Emergency Department Visits	120,845	107,723
Provider Office Visits	789,900	776,089
Outpatient Surgical Cases (includes ASC)	29,247	31,629

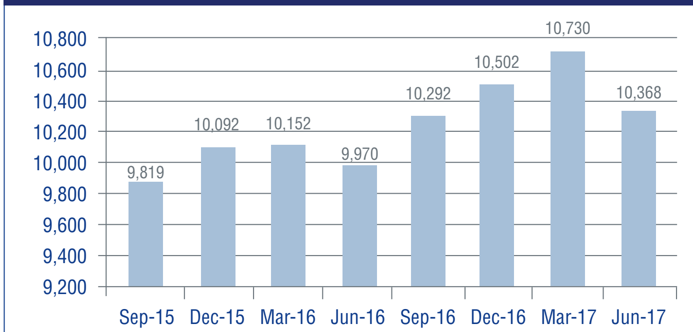
HOSPITAL INPATIENT ACTIVITY

Hospital inpatient activity, as measured by admissions at FH's affiliated hospitals for the fiscal year ended June 30, 2017, increased 4.6% from the comparable period in 2016. Inpatient acuity as measured by Case Mix Index (CMI) increased by .04 or 2.3% compared to prior year. Average Length of Stay increased to 5.04 days for the fiscal year ended June 30, 2017 from 4.92 days in the prior year; reflecting the higher level of acuity of care being delivered.

FOR THE FISCAL YEAR ENDED JUNE 30

	2017	2016	Change
Academic	29,386	27,534	1,852
Community	12,506	12,499	7
Total	41,892	40,033	1,859

ADMISSIONS BY QUARTER



Management's Discussion & Analysis

For the Fiscal Year Ended June 30, 2017

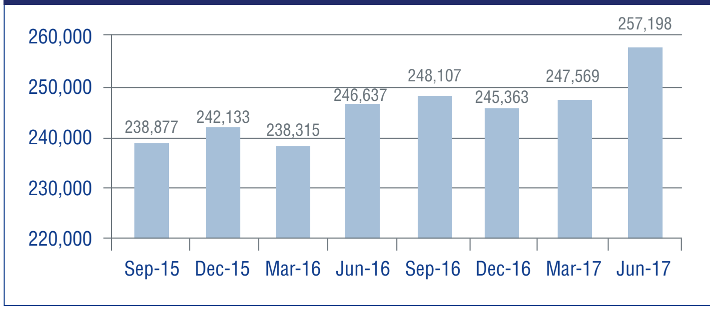
HOSPITAL OUTPATIENT ACTIVITY

Hospital outpatient activity as measured by visits at FH's affiliated hospitals for the fiscal year ended June 30, 2017 increased 32,275 or 3.3% from the comparable period in 2016.

FOR THE FISCAL YEAR ENDED JUNE 30

	2017	2016	Change
Academic	809,191	789,197	19,994
Community	189,046	176,765	12,281
Total	998,237	965,962	32,275

HOSPITAL OUTPATIENT VISITS BY QUARTER



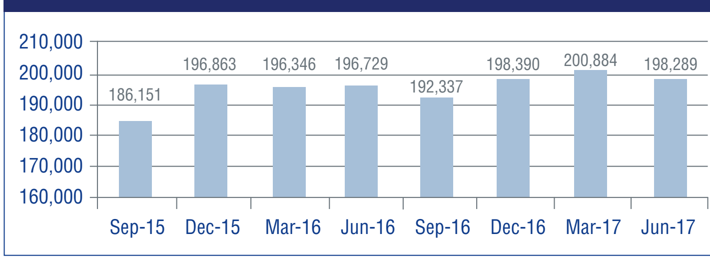
COMMUNITY PHYSICIANS – Clinic Visits and Total RVU's

Community Physicians activity as measured by clinic visits at FH's affiliated clinics for the fiscal year ended June 30, 2017 increased by 13,811 or 1.8% from the comparable period in 2016. Community Physicians activity, as measured by total RVU's at FH's affiliated clinics for the fiscal year ended June 30, 2017, increased 430,824 or 11.4% from the comparable period in 2016.

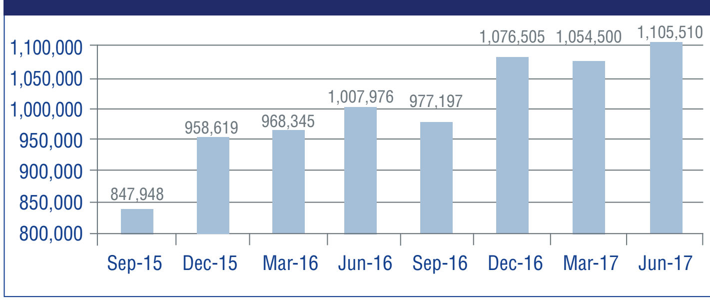
FOR THE FISCAL YEAR ENDED JUNE 30

	2017	2016	Change
Visits	789,900	776,089	13,811
Total RVU's	4,213,712	3,782,888	430,824

CLINIC VISITS BY QUARTER



CLINIC TOTAL RVU'S BY QUARTER



Management's Discussion & Analysis

For the Fiscal Year Ended June 30, 2017

SOURCES OF PATIENT SERVICE REVENUE

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

	For the Fiscal Year Ended June 30	
	2017	**2016**
Medicare	43.7%	42.2%
Medicaid	13.5	13.7
Managed Care	37.0	38.4
Self Pay & Other	5.8	5.7
Total	**100.0%**	**100.0%**

BALANCE SHEET INDICATORS

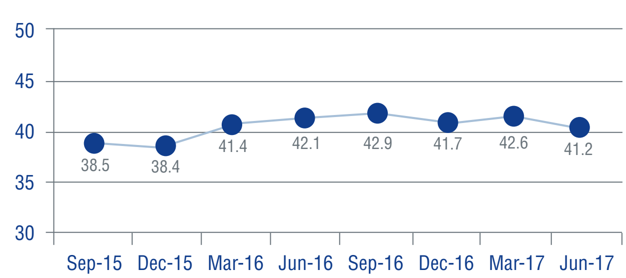
NET REVENUE DAYS OUTSTANDING

Net Revenue Days Outstanding are stable but have decreased slightly and are at 41.2 on June 30, 2017. Effective revenue cycle workflows and strong cash collections contribute to the stable performance in net revenue days outstanding.

NET REVENUE DAYS OUTSTANDING

	June 30, 2017	JUNE 30, 2016	Change
NET REVENUE DAYS OUTSTANDING	41.2	42.1	0.9

NET REVENUE DAYS OUTSTANDING BY QUARTER



Management's Discussion & Analysis

For the Fiscal Year Ended June 30, 2017

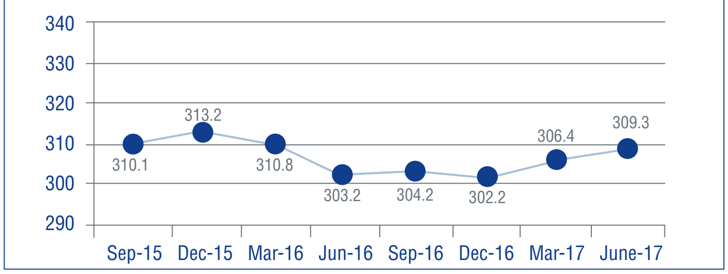
CASH AND INVESTMENTS

Cash flow from operations remains strong due to positive operating results, strong investment income and collection of accounts receivable.

DAYS CASH ON HAND

	June 30, 2017	JUNE 30, 2016	Change
DCOH	309.3	303.2	6.1

DAYS CASH ON HAND BY QUARTER

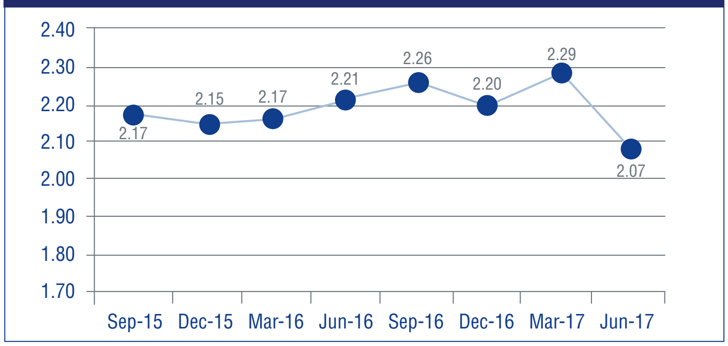


At June 30, 2017, Unrestricted Cash & Investments to Long-Term Debt was 2.07 compared with 2.21 at June 30, 2016. Unrestricted Cash and Investments to Long-Term Debt decreased from June 30, 2016 as investment income and positive operating results increased cash and investments. Long-Term Debt increased because of a new capital lease obligation for a new ambulatory facility and the new Series 2017 debt.

UNRESTRICTED CASH & INVESTMENTS TO LTD

($ in 000's)	JUNE 30, 2017	JUNE 30, 2016	Change
Cash & Investments	$1,644,591	$1,474,525	170,066
Long-Term Debt	$ 794,713	$ 668,120	126,593
Ratio	**2.07**	**2.21**	**(0.14)**

UNRESTRICTED CASH & INVESTMENTS TO LTD – BY QUARTER



OUTSTANDING DEBT

Issuer	Series	June 30, 2017
Wisconsin Health and Educational Facilities Authority	2009C	$ 6,160
Wisconsin Health and Educational Facilities Authority	2012A	152,010
Wisconsin Health and Educational Facilities Authority	2013A	79,910
Wisconsin Health and Educational Facilities Authority	2013B	0
Froedtert Health, Inc.	2015A	100,000
Wisconsin Health and Educational Facilities Authority	2017A	254,190
Wisconsin Health and Educational Facilities Authority	2017B	80,000
Capital Lease Obligations		111,087
Other		364
TOTAL		**$ 783,721**
Less: Current portion of long term debt		(12,285)
Less: Deferred financing costs		(4,646)
Add: Unamortized bond premium, net		27,923
TOTAL LONG TERM DEBT		**$ 794,713**

Management's Discussion & Analysis

For the Fiscal Year Ended June 30, 2017

In April 2017, Wisconsin Health and Educational Facilities Aurthority (WHEFA) issued $254,190 of Series 2017A revenue bonds and $80,000 of Series 2017B variable rate revenue bonds on behalf of the Oligated Group. The Series 2017B bonds were issued as a private placement with a national bank. The proceeds from the Series 2017 bonds were used to refund the Series 2013B bonds, legally defease $158,765 of the Series 2009C bonds and to finance certain Obligated Group projects. The transaction resulted in a loss on early extinguishment of debt of $10,626, which is included in nonoperating gains and losses in the 2017 consolidated statement of operations.

NON-OPERATING ACTIVITIES

FH's investment policy goal is to maximize total return while preserving principal. The organization maintains 15 to 20 days of cash on deposit at area banks invested in cash equivalents or other highly liquid funds. All such deposits are readily available to meet daily operational needs. The remainder of FH's funds are invested according to its investment policy which is monitored by the FH Investment Committee and reviewed by the Board of Directors on a periodic basis. An independent advisor assists with the selection of fund managers, monitors portfolio allocations, advises on routine investment decisions and reports results to the Investment Committee on a quarterly basis. If necessary, FH could liquidate 90% of its unrestricted investments within one month.

INVESTING AND FINANCING ACTIVITY BY TYPE

For the Fiscal Year Ended June 30 ($ in 000's)	**2017**	**2016**
Investment Income	$ 75,164	$ 34,508
Change in Net Unrealized Gains (Losses) on Trading Securities	91,965	(44,822)
Change in Fair Value of Interest Rate Swaps	13,879	(13,535)
Loss of Early Extinguishment of Debt	(10,626)	–
Non-operating Gains/(Losses), net	$ 170,382	$ (23,849)

SOURCES AND USES OF CASH

FH's primary source of operating cash is the collection of revenue and related accounts receivable. As ofJune 30, 2017, FH had approximately $135,830 of cash and cash equivalents on hand to fund operations and capital expenditures.

Operating EBITDA was $251,536 for the fiscal year ended June 30, 2017, compared to $264,606 for the fiscal year ended June 31, 2016. Net cash provided by operating activities was $253,392 for the fiscal year ended June 30, 2017 compared to $261,090 for the fiscal year ended June 30, 2016.

Investing activities for the fiscal year ended June 30, 2017 included capital expenditures of $216,359. A significant portion of the capital expenditures include continued construction and renovation on the FMLH campus.

Financing activities for the fiscal year ended June 30, 2017 include proceeds from the 2017 bonds of $352,670, payment of long term debt of $261,178 and restricted contributions (net of assets released from restrictions) and investment return of $2,644.

Management's Discussion & Analysis

For the Fiscal Year Ended June 30, 2017

DEBT COVENANT CALCULATIONS

	Twelve Months Ended June 30, 2017
Excess of revenues over expenses	$ 287,716
Less net unrealized gains	(105,844)
Add interest on indebtedness	32,021
Add loss resulting from reappraisal, reevaluation or impairment of assets	500
Add loss from early extinguishment of debt	10,626
Add depreciation and amortization	102,181
Income available for debt service	**$ 327,200**
Actual long-term debt service[1]	$ 42,733
Historical debt service coverage ratio	7.66x
Maximum annual debt service[2]	$ 53,758
Historical coverage of maximum annual debt service	6.09x

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

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

Unaudited Interim Consolidated Financial Statements

For the Fiscal Year Ended June 30, 2017

CONSOLIDATED BALANCE SHEETS

June 30, 2017 and 2016 ($ in 000's)

ASSETS	Unaudited June 30, 2017	Audited June 30, 2016
Current assets:		
Cash and cash equivalents	$ 135,830	$ 62,747
Assets whose use is limited	7,130	6,139
Patient accounts receivable, net of estimated uncollectibles	252,549	230,086
Other receivables	16,578	14,716
Inventories	30,415	26,243
Collateral held for securities loaned	274,795	332,610
Prepaids and other	17,697	16,207
Total current assets	**$ 734,994**	**$ 688,748**
Investments	$ 1,451,312	$ 1,348,294
Assets whose use is limited or restricted	210,446	122,718
Investments in unconsolidated affiliates	119,699	131,859
Property, plant and equipment, net	1,092,830	946,298
Deferred financing costs and other assets, net	8,564	12,786
TOTAL ASSETS	**$ 3,617,845**	**$ 3,250,703**

LIABILITIES AND NET ASSETS		
Current liabilities:		
Current installments of long-term debt	$ 12,285	$ 11,127
Accounts payable	67,516	74,299
Accrued expenses	211,251	173,888
Payable under securities lending agreement	274,795	332,768
Estimated settlements to third-party payors	12,832	15,125
Total current liabilities	**$ 578,679**	**$ 607,207**
Long-term debt, less current portion	$ 794,713	$ 668,120
Other long-term liabilities	115,846	153,084
Total liabilities	**$ 1,489,238**	**$ 1,428,411**
Net assets:		
Unrestricted	$ 2,115,917	$ 1,805,646
Temporarily restricted	12,322	16,278
Permanently restricted	368	368
Total net assets	**$ 2,128,607**	**$ 1,822,292**
TOTAL LIABILITIES AND NET ASSETS	**$ 3,617,845**	**$ 3,250,703**

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Fiscal Years Ended June 30, 2017 and 2016 ($ in 000's)

	Unaudited June 30, 2017	Audited June 30, 2016
Revenues:		
Net patient service revenue before provision for bad debts	$ 2,153,486	$ 2,002,000
Provision for bad debts	(50,029)	(19,922)
Net patient service revenue	**$ 2,103,457**	**$ 1,982,078**
Other operating revenue	$ 56,989	$ 30,677
Total revenue	**$ 2,160,446**	**$ 2,012,755**
Expenses:		
Salaries	$ 781,213	$ 703,748
Fringe benefits	191,649	173,130
Supplies	452,013	409,987
Contract services	109,617	110,712
Affiliate support	103,362	109,938
Depreciation and amortization	102,181	88,780
Interest	32,021	31,261
Other	271,056	240,634
Total expenses	**$ 2,043,112**	**$ 1,868,190**
Operating revenue in excess of expenses	$ 117,334	$ 144,565
Non-operating gains and losses:		
Investment income	$ 75,164	$ 34,508
Change in net unrealized gains (losses) on trading securities	91,965	(44,822)
Change in fair value of interest rate swaps	13,879	(13,535)
Loss of early extinguishment of debt	(10,626)	–
Total non-operating gains (losses), net	**$ 170,382**	**$ (23,849)**
Revenues and gains in excess of expenses and losses	$ 287,716	$ 120,716

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the Fiscal Years Ended June 30, 2017 and 2016 ($ in 000's)

	Unaudited June 30, 2017	Audited June, 2016
Unrestricted net assets:		
Revenues and gains in excess of expenses and losses	$ 287,716	$ 120,716
Contributions and net assets released from restrictions for property, plant and equipment	6,717	948
Change in net unrealized gains and losses on other than trading securities	-	36
Change in accrued pension benefits other than net periodic benefit costs	15,097	(20,704)
Other	741	(67)
Increase in unrestricted net assets	**$ 310,271**	**$ 100,929**
Temporarily restricted net assets:		
Change in net unrealized gains and losses on investments	$ 504	$ (237)
Restricted contributions	2,310	3,044
Restricted investment return	437	205
Net assets released from restrictions for operations	(607)	(489)
Contributions and net assets released from restrictions for property, plant and equipment	(6,717)	(948)
Other	117	16
(Decrease) Increase in temporarily restricted net assets	**$ (3,956)**	**$ 1,591**
Increase in net assets	$ 306,315	$ 102,520
Net assets at beginning of period	1,822,292	1,719,772
Net assets at end of period	**$ 2,128,607**	**$ 1,822,292**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Fiscal Years Ended June 30, 2017 and 2016 ($ in 000's)

	Unaudited June 30, 2017	Audited June 30, 2016
Cash flows from operating activities:		
Change in net assets	$ 306,315	$ 102,520
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	101,276	88,039
Provision for bad debts	50,029	19,922
Loss on disposal of property, plant and equipment	265	337
Loss on impairment of assets	500	16,293
Loss on early extinguishment of debt	10,626	–
Income and distributions from equity interest in unconsolidated affiliates, net	11,810	16,524
Restricted contributions and investment return	(3,251)	(3,012)
Net assets released from restrictions for operations	607	489
Change in fair value of interest rate swap agreements	(13,879)	13,535
Realized and unrealized gains and losses on unrestricted investments, net	(135,227)	40,687
Change in accrued pension benefits other than net periodic benefit costs	(15,097)	20,704
Change in assets and liabilities:		
Patient accounts receivable	(72,492)	(55,255)
Estimated settlements to third-party payors	(2,293)	(3,239)
Accounts payable and accrued expenses	25,946	11,174
Other receivables	(1,862)	(10,239)
Inventories	(4,172)	(2,773)
Other assets and liabilities	(5,709)	5,384
Net cash provided by operating activities	**253,392**	**261,090**
Cash flows from investing activities:		
Net additions to property, plant and equipment	(216,359)	(195,976)
Proceeds from sales of property, plant and equipment	959	8
Purchases of investments and assets whose use is limited or restricted	(845,908)	(827,391)
Proceeds from sales or maturities of investments and assets whose use is limited or restricted	789,240	700,324
Capital contributions in unconsolidated affiliates	(150)	(23,000)
Net cash used in investing activities	**(272,218)**	**(346,035)**
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	352,670	–
Repayment of long-term debt	(261,178)	(10,229)
Payments for deferred financing costs	(2,227)	–
Restricted contributions and investment return	3,251	3,012
Net assets released from restrictions for operations	(607)	(489)
Net cash provided by (used in) financing activities	**91,909**	**(7,706)**
Net change in cash and cash equivalents	73,083	(92,651)
Cash and cash equivalents:		
Beginning of period	$ 62,747	$ 155,398
End of period	**$ 135,830**	**$ 62,747**

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

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

FMLH owns and operates an acute care hospital with 655 approved beds (of which 553 are currently staffed), clinics, and related operations in Wauwatosa, Wisconsin. FMLH is the sole corporate member of Froedtert Hospital Foundation, Inc. (Froedtert Foundation). Froedtert Surgery Center, LLC (FSC) is a Wisconsin limited liability company created as a joint venture among FMLH, the Medical College of Wisconsin (MCW), and another provider to provide ambulatory surgery services. FMLH has a 50% ownership in FSC.

CMH owns and operates an acute care hospital with 237 approved beds (of which 202 are currently staffed) in Menomonee Falls, Wisconsin. Community Memorial Foundation of Menomonee Falls, Inc. (Community Memorial Foundation) is a supporting organization of CMH. 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) and the West Bend Surgery Center, LLC (WBSC), an outpatient surgery center in West Bend, Wisconsin.

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

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.

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

Hart's Mills is an offshore captive insurance company.

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. FH has a 50% ownership interest in FHHP-Kewaskum, LLC (Kewaskum), which owns and operates a retail pharmacy in Kewaskum, Wisconsin.

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, Hart's Mills, Exceedent, FHHP and Kewaskum.

At June 30, 2017, 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. The Obligated Group consisted only of the members mentioned above and excludes FSC, COHS, WBSC, PPN, CP, IH, QHS 1, WDL, Hart's Mills, Exceedent, FHHP and Kewaskum.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PRESENTATION

The consolidated financial statements of FH have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. However, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included in these financial statements. The accompanying unaudited consolidated financial statements include the accounts of FH and its affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation. For further information, refer to the audited consolidated financial statements and notes thereto as of and for the year ended June 30, 2016.

New Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs.* This guidance is to simplify presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in the ASU. This ASU is effective fiscal years beginning after December 15, 2015. FH adobted ASU No. 2015-03 in 2017 and applied changes retrospectively to 2016. The adoption of ASU No. 2015-03 resulted in the movement of $4,646 and $4,156 of debt issuance costs from other assets to long term debt as of June 30, 2017 and 2016, respectively.

3. NET PATIENT REVENUE AND ACCOUNTS RECEIVABLE

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

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage and other collection indicators. FH records a significant provision for bad debts in the period services are provided related to self-pay patients, including both uninsured patients and patients with deductible and copayment balances due for which third-party coverage exists for a portion of their balance. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. Accounts receivable are written off after collection efforts have been followed in accordance with internal policies.

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

4. FAIR VALUE MEASUREMENTS

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

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

FH adopted, and retrospectively applied, the provisions of ASU 2015-07, *Disclosure 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 NAV approximates fair value.
- Interest rate swaps: The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and FH. The carrying value equals fair value.

The table on the following page represents FH's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and June 30, 2016.

Fair Value Measurements as of June 30, 2017 ($ in 000's)

	Level 1	Level 2	Level 3	Total Carrying Amount
Assets:				
Fixed Income	$439,979	$ 638,227	–	$1,078,206
Domestic Equity	371,957	–	–	371,957
International Equity	376,213	–	–	376,213
Low Volatility Equity	–	–	–	98,063
Real Estate Fund	–	–	–	120,488
Hedge Fund of Funds	–	–	–	26,154
Other	–	5,007	$276	5,283
Total assets	**$1,188,149**	**$ 643,234**	**$276**	**$2,076,364**
Liabilities:				
Payable under securities lending agreements	–	$ 274,795	–	$ 274,795
Interest rate swap agreements	–	28,339	–	28,339
Total liabilities	**–**	**$ 303,134**	**–**	**$ 303,134**

Fair Value Measurements as of June 30, 2016 ($ in 000's)

	Level 1	Level 2	Level 3	Total Carrying Amount
Assets:				
Fixed Income	$ 256,049	$ 757,112	–	$ 1,013,161
Domestic Equity	308,846	–	–	308,846
International Equity	304,230	–	–	304,230
Low Volatility Equity	–	–	–	91,661
Real Estate Fund	–	–	–	110,423
Hedge Fund of Funds	–	–	–	21,595
Other	–	18,550	$ 487	19,037
Total assets	**$ 869,125**	**$ 775,662**	**$ 487**	**$ 1,868,953**
Liabilities:				
Payable under securities lending agreements	–	$ 332,768	–	$ 332,768
Interest rate swap agreements	–	42,219	–	42,219
Total liabilities	**–**	**$ 374,987**	**–**	**$ 374,987**

5. INVESTMENTS AND INVESTMENT INCOME

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

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

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

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

(a) Objectives and Strategies

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

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

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

(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 were 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 approximately $28,339 and $42,219 is included in other long-term liabilities in the consolidated balance sheets at June 30, 2017 and June 30, 2016, respectively. The change in fair value of the interest rate swaps of $13,879 and ($13,535) is included in non-operating gains and losses in the consolidating statement of operations for the fiscal years ended June 30, 2017 and 2016, respectively.

The interest rate swap agreements for the Obligated Group at June 30, 2017 consist of the following:

				Variable pay rates at June 30	
Type	**Original notional amount**	**Maturity date**	**Fixed pay rate**	**2017**	**2016**
2009A bonds*	$94,050	April 1, 2035	3.366%	1.249%	0.659%
2009B bonds*	$94,050	April 1, 2035	3.366%	1.249%	0.659%

** The Series 2009A and Series 2009B bonds were refunded by the Series 2013A and Series 2013B revenue bonds, as noted above. The Series 2013B revenue bonds were subsequently refunded by the Series 2017A bonds.*

Cash paid for monthly settlement under the interest rate swap agreements was $4,444 and $5,129 for the fiscal years ended June 30, 2017 and 2016, respectively and is included within interest expense in the consolidated statements of operations. No cash was received under the interest rate swaps agreements for the fiscal year ended June 30, 2017 or the fiscal year ended June 30, 2016. FH posted collateral as required under the swap agreements of $4,989 and $18,430 as of June 30, 2017 and June 30, 2016, respectively.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7. PENSION PLANS

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

DEFINED BENEFIT PLAN – Net Periodic Pension Costs

	For the Fiscal Year Ended June 30, 2017	For the Fiscal Year Ended June 30, 2016
Service cost	$ 3,358	$ 3,642
Interest cost	7,959	8,524
Expected return on plan assets	(10,136)	(9,931)
Recognized net actuarial loss	3,890	2,520
Amortization of prior service cost	21	42
Settlement loss recognized	2,419	–
Net periodic pension cost	**$ 7,511**	**$ 4,797**

The actuarial assumptions used to determine net periodic pension cost for the fiscal years ended June 30, 2017 and 2016 for the Plans are as follows:

ACTUARIAL ASSUMPTIONS

	For the Fiscal Year Ended June 30, 2017	For the Fiscal Year Ended June 30, 2016
Discount rate	3.76% to 4.40%	4.53% to 4.63%
Expected rate of compensation increase	3% to 6%	3% to 6%
Expected long-term rate of return on plan assets	6.50%	6.50%

During the fiscal years ended June 30, 2017 and 2016, FH made contributions to the Plans (net of contributions received) of $5,969 and $8,831 respectively.