Aurora Health Care, Inc. and Affiliates

Consolidated Financial Statements as of and for the Years Ended December 31, 2014 and 2013, and Independent Auditors' Report

AURORA HEALTH CARE, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Aurora Health Care, Inc.:

We have audited the accompanying consolidated financial statements of Aurora Health Care, Inc. and Affiliates ("Aurora"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in unrestricted net assets, 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 Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 Aurora'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 Aurora's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aurora Health Care, Inc. and Affiliates as of December 31, 2014 and 2013, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

May 5, 2015

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 238,772	$ 310,076
Investments	1,157,604	847,904
Assets whose use is limited or restricted	5,560	5,652
Patient accounts receivable—net of allowance for doubtful accounts of $151,242 and $280,153 in 2014 and 2013, respectively	613,971	520,617
Other receivables	74,490	75,904
Inventory	64,805	64,760
Prepaids and other current assets	44,255	38,359
Estimated third-party payor settlements	9,361	-
Total current assets	2,208,818	1,863,272
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
Board-designated and other	160,407	166,517
Contractually-restricted	132,567	118,514
Donor restricted	56,139	52,132
Debt service reserve	31,890	32,054
Total assets whose use is limited or restricted	381,003	369,217
PROPERTY, PLANT, AND EQUIPMENT—Net	1,869,492	1,857,437
OTHER ASSETS:		
Intangible assets—net	18,884	24,596
Investments in unconsolidated entities	66,135	12,839
Deferred financing costs—net	15,739	17,375
Other	37,114	36,028
Total other assets	137,872	90,838
TOTAL	$ 4,597,185	$ 4,180,764

(Continued)

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(In thousands)

LIABILITIES AND NET ASSETS	2014	2013
CURRENT LIABILITIES:		
Current installments of long-term debt	$ 56,882	$ 119,125
Accounts payable	201,593	222,843
Accrued salaries and wages	310,848	301,208
Other accrued expenses	179,804	196,216
Estimated third-party payor settlements	22,446	33,480
Total current liabilities	771,573	872,872
LONG-TERM DEBT—Less current installments	1,573,091	1,536,019
OTHER LIABILITIES:		
Pension and other employee benefit liabilities	282,442	198,876
Self-insured liabilities	63,934	62,314
Deferred gain	47,364	52,864
Other	67,360	58,606
Total other liabilities	461,100	372,660
Total liabilities	2,805,764	2,781,551
NET ASSETS:		
Unrestricted:		
Controlling interest	1,639,621	1,261,395
Noncontrolling interest in subsidiaries	86,631	77,447
Total unrestricted net assets	1,726,252	1,338,842
Temporarily restricted	46,697	42,033
Permanently restricted	18,472	18,338
Total net assets	1,791,421	1,399,213
TOTAL	$4,597,185	$4,180,764

See notes to consolidated financial statements. (Concluded)

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	$ 4,361,800	$ 4,106,789
Less provision for bad debts	56,402	221,135
Net patient service revenue less provision for bad debts	4,305,398	3,885,654
Other revenue	410,695	363,321
Total revenue	4,716,093	4,248,975
EXPENSES:		
Salaries and wages	2,109,729	2,042,544
Fringe benefits	355,363	347,965
Professional fees	75,527	84,949
Supplies	818,862	754,759
Depreciation and amortization	205,798	229,576
Interest	63,602	66,817
Maintenance and service contracts	100,623	98,537
Building and equipment rental	76,892	83,975
Hospital tax assessment	94,396	94,394
Utilities	47,690	46,727
Purchased services	112,785	96,047
Other expenses	151,801	145,864
Total expenses	4,213,068	4,092,154
OPERATING INCOME	503,025	156,821
NONOPERATING INCOME (LOSS):		
Investment income	35,341	31,456
Income from joint ventures	-	7,414
Other nonoperating income (loss)—net	758	(732)
Total nonoperating income—net	36,099	38,138
EXCESS OF REVENUE OVER EXPENSES FROM CONTINUING OPERATIONS	539,124	194,959
INCOME FROM DISCONTINUED OPERATIONS	-	1,046
PENSION-RELATED CHANGES OTHER THAN PERIODIC PENSION COST	(113,706)	252,111
NET ASSETS RELEASED FROM RESTRICTION FOR PURCHASE OF PROPERTY AND EQUIPMENT	1,341	2,606
DISTRIBUTIONS TO NONCONTROLLING INTERESTS	(39,260)	(26,886)
OTHER—Net	(89)	933
INCREASE IN UNRESTRICTED NET ASSETS	$ 387,410	$ 424,769

See notes to consolidated financial statements.

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	Controlling Interest Unrestricted	Noncontrolling Interest Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS—December 31, 2012	$ 848,504	$ 65,569	$ 914,073	$36,660	$18,310	$ 969,043
Excess of revenue over expenses from continuing operations	156,467	38,492	194,959	-	-	194,959
Income from discontinued operations	1,046	-	1,046	-	-	1,046
Pension-related changes other than net periodic pension costs	252,111	-	252,111	-	-	252,111
Change in unrealized gains and losses on investments	-	-	-	574	-	574
Contributions	-	-	-	6,303	28	6,331
Investment income	-	-	-	5,060	-	5,060
Change in beneficial interests in assets held by others and remainder trusts	-	-	-	65	-	65
Net assets released from restrictions for operations	-	-	-	(4,535)	-	(4,535)
Net assets released from restrictions for purchase of property and equipment	2,606	-	2,606	(2,606)	-	-
Distributions to noncontrolling interest	-	(26,886)	(26,886)	-	-	(26,886)
Other—net	661	272	933	512	-	1,445
Increase in net assets	412,891	11,878	424,769	5,373	28	430,170
NET ASSETS—December 31, 2013	1,261,395	77,447	1,338,842	42,033	18,338	1,399,213
Excess of revenue over expenses from continuing operations	490,680	48,444	539,124	-	-	539,124
Pension-related changes other than net periodic pension costs	(113,706)	-	(113,706)	-	-	(113,706)
Change in unrealized gains and losses on investments	-	-	-	(468)	-	(468)
Contributions	-	-	-	11,732	39	11,771
Investment income	-	-	-	1,977	-	1,977
Change in beneficial interests in assets held by others and remainder trusts	-	-	-	35	-	35
Net assets released from restrictions for operations	-	-	-	(5,120)	-	(5,120)
Net assets released from restrictions for purchase of property and equipment	1,341	-	1,341	(1,341)	-	-
Distributions to noncontrolling interest	-	(39,260)	(39,260)	-	-	(39,260)
Other—net	(89)	-	(89)	(2,151)	95	(2,145)
Increase in net assets	378,226	9,184	387,410	4,664	134	392,208
NET ASSETS—December 31, 2014	$1,639,621	$ 86,631	$1,726,252	$46,697	$18,472	$1,791,421

See notes to consolidated financial statements.

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 392,208	$ 430,170
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Restricted contributions and investment income	(99)	(513)
Pension-related changes other than net periodic pension cost	113,706	(252,111)
Realized and unrealized gains on investments—net	(13,789)	(30,949)
Gain on sale of property, plant, and equipment	(794)	(1,607)
Loss on early extinguishment of debt	-	1,240
Impairment of long-lived assets	2,452	956
Amortization of intangible assets and other items	8,395	36,844
Amortization of deferred gains	(5,500)	(5,501)
Depreciation and amortization	205,798	229,576
Provision for bad debts	56,402	221,135
Distribution to noncontrolling interest	39,260	26,886
Increase in accounts receivable	(149,756)	(201,854)
(Decrease) increase in accounts payable and accrued expenses	(43,573)	76,964
Decrease in estimated third-party payor settlements—net	(20,395)	(7,101)
Decrease in pension and other employee benefit liabilities	(30,140)	(108,282)
Increase in self-insured liabilities	1,620	1,002
Other changes in assets and liabilities—net	(17,236)	(8,847)
Net cash provided by operating activities	538,559	408,008
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(172,346)	(128,103)
Acquisition of affiliates	-	(3,200)
Investment in unconsolidated entities	(44,472)	(2,217)
Distributions from unconsolidated entities	4,012	15,834
Proceeds from sales of property, plant, and equipment	794	1,607
Purchases of investments	(797,517)	(813,416)
Sales of investments	494,911	409,590
Net cash used in investing activities	(514,618)	(519,905)

(Continued)

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt and financing arrangements	$ -	$ 114,234
Repayments of long-term debt, capital leases, and financing arrangements	(56,084)	(164,171)
Distributions to noncontrolling interest	(39,260)	(26,886)
Debt issuance costs	-	(1,625)
Restricted contributions and investment income	99	513
Net cash used in financing activities	(95,245)	(77,935)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(71,304)	(189,832)
CASH AND CASH EQUIVALENTS:		
Beginning of year	310,076	499,908
End of year	$ 238,772	$ 310,076
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest—net of capitalized interest	$ 65,334	$ 67,721
Cash paid for income taxes	$ 1,073	$ 8,537
SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION:		
Capital expenditures funded through accounts payable	$ 15,551	$ 10,887
Capital expenditures funded through assumption of long-term debt	$ 25,071	$ 589

See notes to consolidated financial statements. (Concluded)

1. ORGANIZATION AND BASIS OF CONSOLIDATION

Aurora Health Care, Inc. (the Corporation), and its affiliates (collectively, Aurora) constitute an integrated health care system providing health care services to communities throughout eastern Wisconsin and northern Illinois. The Aurora system provides a variety of health care related activities, education, philanthropic, medical research and other benefits to the communities in which they operate. Health care services include primary and specialty care, pharmacies, behavioral health care, emergency care, rehabilitation, home care, and end-of-life care.

The Corporation is a Wisconsin nonstock, not-for-profit corporation which operates 14 acute-care hospital campuses, one psychiatric hospital, a network of 153 physician clinic facilities, home health services, 71 retail pharmacies, and other health care and related services.

The accompanying consolidated financial statements include the Corporation and its affiliates, as disclosed in Note 19. All intercompany accounts and transactions have been eliminated in the preparation of the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses as of the date and period of the consolidated financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash and cash equivalents include highly liquid investments purchased with an original maturity or maturity at the date of purchase of three months or less, except for any cash and money market funds included in assets whose use is limited or restricted.

Investments and Investment Income—Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based upon quoted market prices in active markets or other observable inputs and are classified as trading securities. Investments in a real estate investment trust and an international equity limited partnership are reported at net asset value (NAV) reported by the fund, which approximates fair value. Certain investments considered available to support current operations are classified as current.

Investment income or loss on funds held for professional liability coverage and certain employee benefit investments is included in other operating revenue. All other investment income or loss (including realized gains and losses, unrealized gains and losses, interest income, and dividends) is included in nonoperating income (loss), net, unless the income or loss is restricted by donor or law.

Assets Whose Use Is Limited or Restricted—Assets whose use is limited or restricted include investments and other assets set aside by the board of directors at their discretion for future capital improvements or for other purposes, assets held in trust under bond indenture for debt service reserve funds, contractually restricted funds, and donor-restricted funds.

Patient Accounts Receivable—Patient accounts receivable are stated at net realizable value. Patient accounts receivable are reduced by an allowance for contractual adjustments and also by an allowance for doubtful accounts. In evaluating the collectability of patient accounts receivable, Aurora analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for contractual adjustments and allowance for doubtful accounts. Management regularly reviews data about these major payor sources in evaluating the sufficiency of the allowance for contractual adjustments and allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, Aurora analyzes contractually due amounts and provides an allowance for contractual adjustments, as well as an allowance for doubtful accounts, if necessary. For receivables associated with self-pay patients, Aurora records a significant provision for bad debts and charity care 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 in the period they are determined to be uncollectible.

Aurora's allowance for doubtful accounts decreased from 35% of gross accounts receivable less contractual allowances at December 31, 2013, to 20% of gross accounts receivable less contractual allowances at December 31, 2014. Aurora's allowance for doubtful accounts decreased $128,911,000 from $280,153,000 at December 31, 2013, to $151,242,000 at December 31, 2014. The decrease is due to a decrease in receivables owed by patients as compared to the prior year. The decrease in receivables owed by patients is due to an increase in the self-pay discount offered, an expansion of the State of Wisconsin Medicaid program to childless adults, and an increase in patients who are now insured under commercial insurance products through the health insurance exchanges as a result of the Affordable Care Act.

Aurora does not maintain a material allowance for doubtful accounts from third-party payors and did not have significant write-offs from third-party payors.

Inventories—Medical supplies, durable medical equipment held-for-sale, and other inventories are stated at the lower of cost (primarily first-in, first-out) or market. Retail pharmaceutical inventories are stated at average wholesale price, which approximates cost.

Property, Plant, and Equipment—Property, plant, and equipment acquisitions are recorded at cost. Donated property, plant, and equipment are recorded at fair value at the date of donation, which is then treated as cost. Costs of computer software developed or obtained for internal use, including external direct costs of materials and services and payroll and payroll-related costs for employees directly associated with internal-use software development projects, are capitalized and included in property, plant, and equipment in the accompanying consolidated balance sheets and included in capital expenditures in the accompanying consolidated statements of cash flows. Interest expense incurred during the period of construction of significant capital projects is capitalized as a component of the cost of the asset.

Property, plant, and equipment assets are depreciated on the straight-line method over the following estimated useful lives:

Buildings (composite)	40–45 years
Fixed equipment	20–25 years
Moveable equipment	3–15 years
Computer software	3–10 years

Property, plant, and equipment capitalized under capital leases are recorded at the net present value of future minimum lease payments and are amortized on the straight-line method over the shorter of the related lease term or the estimated useful life of the asset. Amortization of property, plant, and equipment under capital leases is included in the accompanying consolidated statements of operations and changes in unrestricted net assets in depreciation and amortization expense.

Assets Held for Sale—A long-lived asset or disposal group of assets and liabilities that is expected to be sold within one year is classified as held for sale and depreciation ceases to be recorded. For long-lived assets held for sale, an impairment charge is recorded if the carrying amount of the asset exceeds its fair value less costs to sell. Such valuations include estimates of fair values generally based upon discounted cash flows and incremental direct costs to transact a sale. Aurora has various properties which are actively being marketed for sale and are classified as held for sale in the accompanying consolidated balance sheets in prepaids and other current assets. As of December 31, 2014 and 2013, the carrying amount of these properties were written down to their fair value, less cost to sell, of $8,996,000 and $11,410,000, respectively, resulting in an impairment adjustment of $2,452,000 and $956,000, during 2014 and 2013, respectively, which was recorded within other operating expenses in the accompanying consolidated statements of operations and changes in unrestricted net assets.

Pledges Receivable—Unconditional pledges receivable of cash and other assets to Aurora are reported at fair value as contribution revenue at the date the pledge is received. Conditional pledges receivable and indications of intentions to give are reported as contribution revenue and receivables at fair value when the conditions are substantially met. Conditional pledge revenue may be net of allowances where applicable, and is reflected as an increase in temporarily restricted contributions when the conditions are substantially met, and the related receivables are reported as other current or noncurrent assets based on the estimated time of collection.

Deferred Financing Costs and Original Issue Discounts/Premiums on Bond Indebtedness—Long-term debt issuance costs are deferred and amortized over the term of the debt. Long-term debt issuance costs and original issue discounts/premiums on bond indebtedness are amortized using methods that approximate the effective interest rate method over the estimated average period the related bonds will be outstanding. Deferred financing costs are included in other long-term assets and original issue discounts/premiums are recorded with the related debt in the consolidated balance sheets.

Intangible Assets—Intangibles are amortized on a straight-line basis over periods ranging from five to 15 years. Amortization of intangibles, other than non-compete agreements, is included in other expense in the accompanying consolidated statements of operations and changes in unrestricted net assets. The amortization of non-compete agreements is included in salaries and wages expense in the accompanying consolidated statements of operations and changes in unrestricted net assets.

Asset Impairment—Aurora periodically assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Recoverability of an asset or group of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset, a quoted market price, or prices for similar assets. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining the impairment of an asset. There were no impairment adjustments recorded in 2014 or 2013 other than the impairment of assets held for sale.

Goodwill is evaluated for impairment annually at November 30, or more frequently if events or changes occur that suggest the carrying value may not be recoverable. If, after assessing events and circumstances, it is concluded that it is more likely than not that the asset is impaired, the fair value is determined and is compared to the carrying value. If the carrying value exceeds the fair value, an impairment charge is recognized.

Investments in Unconsolidated Entities—Investments in unconsolidated entities are accounted for using the cost or equity method. Aurora applies the equity method of accounting for joint ventures and for investments with ownership interests of 50% or less, if Aurora has the ability to exercise significant influence over the operating and financial policies of the investee. All other investees are accounted for using the cost method. The income (loss) on health related unconsolidated entities is included in other operating revenue. All other income (loss) on unconsolidated entities is included within nonoperating income (loss), net.

Derivative Instrument—Aurora has entered into an interest rate swap arrangement to manage its interest costs and achieve other risk management objectives. The swap agreement was not structured to qualify for hedge accounting. Aurora records the swap as either an asset or liability at its fair value. The net change in fair value is recorded as a nonoperating gain or loss. The difference between the actual amount paid and the actual amount received on the swap is accrued and recognized as an adjustment to interest expense. The terms of Aurora's swap agreement require Aurora to transfer collateral to the swap counterparty in certain circumstances. The amount of required collateral is determined based upon the estimated underlying market value of the individual bond supporting the swap. Collateral, if required, would be reported as a separate asset, rather than as an offset to the fair value of the interest rate swap, and would be included in noncurrent assets whose use is limited or restricted in the accompanying consolidated balance sheets. As of December 31, 2014 and 2013, no collateral was required.

Deferred Gain—Aurora has entered into various sale-leaseback transactions. These transactions resulted in deferred gains, which are amortized over the term of the lease, ranging from 10 to 25 years.

Income Taxes—The Corporation and certain of its affiliates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and have been recognized as tax exempt on related income pursuant to Section 501(a) of the Code.

Aurora Health Care Ventures, Inc. (Ventures) and its subsidiaries are taxable entities. Ventures is a subsidiary of the Corporation.

BayCare Aurora, LLC (Aurora BayCare) is treated as a partnership for income tax purposes. Income and losses of Aurora BayCare are passed through to its members. Aurora BayCare income passed through to Aurora is not considered taxable income to Aurora unless it is considered unrelated business income.

Aurora Medical Center Grafton, LLC (AMC Grafton) is a sole member limited liability company. All income and losses are passed through to Aurora, the sole member. AMC Grafton is treated as a disregarded entity for income tax purposes.

Aurora Liability Assurance, Ltd. has elected to be treated as a disregarded entity for income tax purposes.

Aurora evaluates its uncertain tax positions on an annual basis. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. There have been no uncertain tax positions recorded in 2014 or 2013.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Management assesses the realizability of the benefits associated with the deferred tax assets and liabilities on an annual basis and records an appropriate valuation allowance.

Restricted Net Assets—Restricted net assets are used to differentiate resources, the use of which is limited by the donor or grantor, from unrestricted net assets on which the donor or grantor places no restriction or which arise as a result of the operations of Aurora. Restricted gifts and other restricted resources are recorded as additions to restricted net assets.

Restricted net assets consist of specific purpose funds, which are temporarily restricted, and endowment funds, which are permanently restricted. Temporarily restricted net assets comprise donations restricted to various specific purposes by donors and investment earnings of temporarily and permanently restricted net assets. Permanently restricted net assets are used to account for the principal amounts of gifts and bequests accepted by Aurora with donor stipulations that the principal remain intact in perpetuity and only the income from investment of the principal be expended.

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 in the consolidated statements of operations and changes in unrestricted net assets as either other revenue or as net assets released from restrictions used for the purchase of property and equipment. Unrestricted contributions and donor-restricted contributions for operating purposes whose restrictions are met in the same year as received are reported as other revenue.

Patient Service Revenue—Patient service revenue is reported at the net realizable amounts from patients, third-party payors, and others for services rendered. Aurora has agreements with payors that provide for payments at amounts different from established rates. The basis for payment under these agreements includes prospectively determined rates, per diem payments, negotiated discounts from established charges, and retroactive settlements under reimbursement agreements with third-party payors.

Charity Care and Uninsured Care—Aurora provides care to patients who meet certain criteria under its Helping Hands program without charge or at amounts less than its established rates. Because Aurora does not pursue collection of amounts determined to qualify as charity care under this program, they are not reported as revenue.

Provision for Bad Debts—Aurora 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) at the time services are rendered, prior to assessing the patient’s ability to pay. As such, the entire provision for bad debt is presented as a reduction from patient service revenue. On the basis of its historical experience, a significant portion of Aurora’s uninsured patients will be unwilling or unable to pay for the services provided. In addition, a portion of Aurora’s insured patients will be unwilling or unable to pay the portion of their bill for which they are financially responsible. Aurora records a provision for bad debts related to uninsured patients, and related to insured patients for the portion of their bill for which they are financially responsible in the period services were provided.

Other Revenue—Other revenue primarily comprises revenues from retail pharmacy sales, which are reported at the estimated net realizable amounts from third-party payors at the time the prescription is filled. Retail pharmacy sales were $177,741,000 and $167,533,000 for the years ended December 31, 2014 and 2013, respectively.

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for Medicare and Medicaid incentive payments beginning in 2011 to hospitals, physicians, and certain other professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology in ways that demonstrate improved quality, safety, and effectiveness of care. Eligibility for annual Medicare incentive payments is dependent upon providers demonstrating meaningful use of EHR technology in each period over a four-year period. An initial Medicaid incentive payment is available to providers that adopt, implement or upgrade certified EHR technology, but must demonstrate continued meaningful use of EHR technology in subsequent years in order to qualify for additional payments. Hospitals may be eligible for both Medicare and Medicaid EHR incentive payments; however, physicians and other professionals may be eligible for either Medicare or Medicaid incentive payments, but not both. Hospitals that are meaningful users under the Medicare EHR incentive payment program are deemed meaningful users under the Medicaid EHR incentive payment program and do not need to meet additional criteria imposed by a state.

Aurora recognized Medicaid EHR incentive payments in the consolidated statements of operations and changes in unrestricted net assets for the first payment year when (1) the Centers for Medicare and Medicaid Services approved Wisconsin’s EHR incentive plan and (2) Aurora’s hospitals or physicians acquired certified EHR. Medicaid EHR incentive payments for subsequent payment years are recognized in the period during which management becomes reasonably assured of meeting the meaningful use criteria. Aurora recognizes Medicare EHR incentive payments in the consolidated statements of operations and changes in unrestricted net assets when compliance with the specified meaningful use criteria is reasonably assured. Aurora recognized approximately $26,807,000 and $27,136,000 of EHR incentive payments as other revenue for the years ended December 31, 2014 and 2013, respectively.

Other Expenses—Other expense primarily consists of taxes, media purchases, insurance, professional education, and banking fees.

Other Nonoperating Income (Loss)—Net—Revenues and expenses from delivering health care services and other activities that are consistent with Aurora’s ongoing major or central purposes are reported in operations. Income and losses that arise from transactions that are peripheral or incidental to Aurora’s main purpose, such as certain investment income; income and losses attributable to sale of property, plant, and equipment; income or loss attributable to extinguishment of debt; and equity income in non-health related joint ventures, are included in other nonoperating income (loss), net.

Excess of Revenue over Expenses—The performance indicator is the excess of revenue over expenses. Excess of revenue over expenses includes all changes in unrestricted net assets except for income from discontinued operations, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets), distributions to noncontrolling interests, and pension-related changes other than net periodic pension costs.

New Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customer*s, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principal of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This ASU is effective for Aurora as of January 1, 2017. Aurora is currently in the process of evaluating the impact of this new guidance on its consolidated financial position, results of operations and cash flows.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. To simplify presentation of debt issuance costs, this ASU requires the presentation of debt issuance costs related to a recognized debt liability in the balance sheet to be as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective for Aurora as of January 1, 2016. This ASU would reduce long-term debt by $15,739,000 for the reclassification of deferred financing costs which are currently reported within assets in the accompanying consolidated balance sheets.

3. ACQUISITIONS AND DIVESTITURES

In February 2012, Aurora sold nine outpatient dialysis centers to an unrelated third-party (buyer). The results of operations of the outpatient dialysis centers are reflected as discontinued in the accompanying consolidated statements of operations and changes in unrestricted net assets. The excess of revenues over expenses included in the results of discontinued operations was $1,046,000 for the year ended December 31, 2013.

For a period of 10 years, certain employed physicians of Aurora will continue to serve as the medical directors at eight of the nine outpatient dialysis centers sold. Additionally, Aurora leases space to the buyer under a one year lease agreement. Annual medical directorship and rental income is insignificant.

In October of 2013, Aurora acquired an ambulatory surgery center for $3,200,000. The results of this acquisition did not significantly impact operating results for the year ended December 31, 2014.

4. COMMUNITY BENEFIT

Aurora provides health care services without charge to patients who meet the criteria of its charity care policy. The amount of charity care provided, determined on the basis of cost, is estimated based on entity-specific cost-to-charge ratios. In addition to charity care, Aurora provides services to Medicaid and other public programs for financially needy patients, for which the payments received are less than the cost of providing services. The unpaid costs attributed to providing services under these programs are considered a community benefit. A summary of these unpaid costs are as follows for the years ended December 31, 2014 and 2013 (in thousands):

	2014	**2013**
Cost of charity care provided	$ 64,104	$ 56,426
Unpaid cost of Medicaid	257,464	302,199
Unpaid cost of other public programs	9,650	6,924
Total cost of uncompensated care	331,218	365,549
Unpaid cost of Medicare	472,823	426,857
Total cost of uncompensated care and unpaid cost of Medicare	$ 804,041	$ 792,406

In addition, Aurora is also involved in other numerous wide-ranging community benefit activities that include community health education and outreach in the form of free or low-cost clinics, health education, health promotion and wellness programs, such as health screenings and immunizations, and various community projects, transportation services, and support groups.

5. PATIENT SERVICE REVENUE AND PATIENT RECEIVABLES

Aurora has agreements with third-party payors that provide for payments to Aurora at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

- *Medicare*—Inpatient acute, most hospital outpatient services, and inpatient rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain inpatient nonacute and outpatient services, defined capital costs, medical education costs, select drugs, and devices related to Medicare beneficiaries are paid based on cost-reimbursement methodologies. Aurora is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by Aurora and audits thereof by the Medicare fiscal intermediary.

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

- *Other Third-Party Payors*—Services rendered to patients insured by other third-party payors are reimbursed based on a discount from customary charges, prospectively determined rates per discharge, or negotiated fee schedules.

Wisconsin legislation assesses a fee or tax on the gross patient hospital revenue. The revenues from this assessment are used to increase payments made to hospitals for services provided to Medicaid and other medically indigent patients. Aurora's patient service revenue reflects this increase in payment for services to Medicaid and other medically indigent patients, and hospital tax assessment expense reflects the fees assessed by the State. For the years ended December 31, 2014 and 2013, patient service revenue includes $103,680,000 and $105,874,000, respectively, related to this program, and expenses include $94,396,000 and $94,394,000, respectively, of tax assessment fees.

The composition of patient service revenue, net of contractual allowances and discounts (before the provision for bad debts), by payor is as follows for the years ended December 31, 2014 and 2013:

	2014	**2013**
Managed care and all other	62 %	59 %
Medicare	28	29
Medicaid	9	7
Self-pay	1	5
	100 %	100 %

Laws and regulations governing government and other payment programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated third-party settlements could change by a material amount. Changes in estimates relating to prior years increased patient service revenue by approximately $42,873,000 in 2014 and $33,220,000 in 2013.

Aurora has filed formal appeals related to the settlement of certain prior-year Medicare cost reports. The outcome of such appeals cannot be determined at this time.

The composition of patient accounts receivable, net of contractual allowances (before the allowance for doubtful accounts) is summarized as follows as of December 31, 2014 and 2013:

	2014	2013
Managed care and all other	54 %	44 %
Medicare	17	15
Medicaid	5	4
Self-pay	24	37
	100 %	100 %

6. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED OR RESTRICTED

Investments and assets whose use is limited or restricted consist of the following instruments, which were measured at fair value, as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Cash and cash equivalents	$ 29,727	$ 26,294
Fixed-income securities:		
U.S. Treasury	81,179	126,623
Corporate bonds and other debt securities	217,598	304,938
Federal agency	106,355	138,100
Fixed income mutual funds	894,656	418,468
Domestic equity securities:		
Large-cap	20,533	24,258
Mid-cap	10,977	11,315
Small-cap	21,794	20,888
Real estate	332	2,285
Equity mutual funds and exchange-traded funds	80,435	81,252
Real estate investment trust	11,042	-
International equity securities	52,730	50,035
International equity limited partnerships	9,691	9,738
Other	4,653	6,006
Accrued investment income	2,465	2,573
Total	$1,544,167	$1,222,773
Assets whose use is limited or restricted:		
Current	$ 5,560	$ 5,652
Non-current	381,003	369,217
Short-term investments	1,157,604	847,904
Total	$1,544,167	$1,222,773

The current portion of assets whose use is limited or restricted includes the amount of assets available to meet current obligations for claims payments under the professional liability program.

Investment income and losses for the years ended December 31, 2014 and 2013, consisted of the following (in thousands):

	2014	2013
Interest income and dividends	$ 30,225	$ 19,455
Net realized gains on securities	11,358	31,921
Changes in unrealized gains (losses) on investments, trading	2,431	(972)
Total	$ 44,014	$ 50,404

Investment income and losses for the years ended December 31, 2014 and 2013, were classified in the consolidated statements of operations and changes in unrestricted net assets and consolidated statements of changes in net assets as follows (in thousands):

	2014	2013
Other operating revenue	$ 7,164	$ 13,314
Investment income	35,341	31,456
Temporarily restricted net assets	1,509	5,634
Total	$ 44,014	$ 50,404

7. FAIR VALUE

Financial instruments consist of primarily cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, estimated third-party settlements, and long-term debt. Except for long-term debt, the fair values of these instruments approximate their carrying amounts, due to their short-term maturities, at December 31, 2014 and 2013. The estimated fair value of long-term debt, based on discounted cash flows at estimated current borrowing rates, was $1,434,018,000 and $1,421,241,000 at December 31, 2014 and 2013, respectively, and was categorized as Level 2 within the fair value hierarchy.

The fair values of financial assets and liabilities that are measured by the level of significant input as of December 31, 2014 and 2013, are as follows (in thousands):

Assets	**December 31, 2014**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Other Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Recurring fair value measurements:				
Cash equivalents	$ 82,065	$ 20,953	$ 61,112	$ -
Fixed-income securities:				
U.S. Treasury	81,179	-	81,179	-
Corporate bonds and other debt securities	217,598	-	217,047	551
Federal agency	106,355	-	106,355	-
Fixed income mutual funds	894,656	894,656	-	-
Domestic equity securities:				
Large-cap	20,533	19,985	548	-
Mid-cap	10,977	10,977	-	-
Small-cap	21,794	21,794	-	-
Real estate	332	332	-	-
Equity mutual funds and exchange-traded funds	80,435	80,435	-	-
Real estate investment trust	11,042	-	-	11,042
International equity securities	52,730	52,730	-	-
International equity limited partnership	9,691	-	9,691	-
Other	4,653	4,419	-	234
Total recurring fair value measurements	1,594,040	$ 1,106,281	$ 475,932	$ 11,827
Cash	186,434			
Accrued interest	2,465			
Total cash and cash equivalents, investments and assets whose use is limited	$ 1,782,939			
Nonrecurring fair value measurements:				
Long-lived asset held for use	$ 1,985	$ -	$ 1,985	$ -
Long-lived assets held for sale	8,996	-	8,996	-
Total nonrecurring fair value measurements	$ 10,981	$ -	$ 10,981	$ -
Liabilities				
Recurring fair value measurements—other noncurrent liabilities—interest rate swap agreement	$ (2,589)	$ -	$ (2,589)	$ -

Assets	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements:				
Cash equivalents	$ 78,842	$ 21,915	$ 56,927	$ -
Fixed-income securities:				
U.S. Treasury	126,623	-	126,623	-
Corporate bonds and other debt securities	304,938	-	304,323	615
Federal agency	138,100	-	138,100	-
Fixed income mutual funds	418,468	418,468	-	-
Domestic equity securities:				
Large-cap	24,258	23,727	531	-
Mid-cap	11,315	11,315	-	-
Small-cap	20,888	20,888	-	-
Real estate	2,285	2,285	-	-
Equity mutual funds and exchange-traded funds	81,252	81,252	-	-
International equity securities	50,035	50,035	-	-
International equity limited partnership	9,738	-	9,738	-
Other	6,006	5,768	6	232
Total recurring fair value measurements	1,272,748	$635,653	$636,248	$847
Cash	257,528			
Accrued interest	2,573			
Total cash and cash equivalents, investments and assets whose use is limited	$ 1,532,849			
Nonrecurring fair value measurements:				
Long-lived asset held for use	$ 2,275	$ -	$ 2,275	$ -
Long-lived assets held for sale	8,302	-	8,302	-
Total nonrecurring fair value measurements	$ 10,577	$ -	$ 10,577	$ -
Liabilities				
Recurring fair value measurements—other noncurrent liabilities—interest rate swap agreement	$ (2,734)	$ -	$ (2,734)	$ -

Aurora categorizes assets and liabilities measured at fair value in the consolidated financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs which are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available under the circumstances.

The fair value of all assets and liabilities recognized or disclosed at fair value are classified based on the lowest level of significant inputs. Assets and liabilities that are measured at fair value are disclosed and classified in one of the three categories. Category inputs are defined as follows:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date. Investments in this level generally include exchange-traded equity securities, futures, pooled short-term investment funds, options, and exchange-traded mutual funds.

Level 2—Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Investments in this level generally include fixed income securities, including fixed income government obligations; asset-backed securities; certificates of deposit; derivatives; as well as certain U.S. and international equities, which are not traded on an active exchange.

Level 3—Inputs that are unobservable for the asset or liability.

Aurora believes its valuation methods and classification in fair value levels are appropriate and consistent with other market participants based on information readily available from its service providers. Transfers between fair value levels are only done when new or additional information regarding the observability of pricing inputs is received that could result in a different classification as of the reporting date. Aurora measures the transfer between fair value levels as of the end of the reporting period, December 31. There were no significant transfers between fair value levels during 2014 or 2013.

The Level 2 and 3 instruments listed in the fair value tables above utilize the following valuation techniques and inputs:

Cash Equivalents—Cash equivalents are comprised primarily of money market funds, which are valued based upon a net asset value of $1

Fixed-Income Securities—The fair value of fixed-income securities is primarily determined with techniques consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications.

Real Estate Investment Trust—The fair value of the real estate investment trust is determined using the calculated net asset value provided by the fund. The fair value of the underlying real estate properties held in the trust is determined giving consideration to the income, cost and sales comparison approaches of estimating property value.

International Equity Securities—The fair value of international equity securities is primarily determined using prices from the non-NASD (National Association of Securities Dealers) over-the-counter markets.

International Equity Limited Partnership—The fair value of this fund is determined using the calculated net asset value provided by the fund.

Interest Rate Swap Instrument—The fair value of the interest rate swap instrument was determined using an industry standard valuation model, which is based on a market approach.

Aurora holds interests in a real estate investment trust and an international equity limited partnership where the fair value of the investment held is estimated based on the net asset value of the fund. The following table summarizes the attributes relating to the nature and risk of such investments at December 31, 2014 and 2013 (dollars in thousands):

	Fair Value December 31, 2014	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real estate investment trust	$ 11,042	$ -	quarterly	90 days
International equity limited partnership	9,691	-	monthly	15 days

	Fair Value December 31, 2013	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
International equity limited partnership	$ 9,738	$ -	monthly	15 days

The real estate investment trust is a core return, fully specified, open-end commingled equity real estate fund diversified by property type and location designed to provide stable, income-driven rate of return over the long term with potential for growth of net investment income and appreciation of value. The objective of the real estate investment trust is to achieve long term aggregate annual return on invested equity of 8% to 10%, gross of fees, by investing in real estate and real estate-related investments, broadly defined, with the majority of the return being realized from income, with modest appreciation, and using leverage when appropriate.

The international equity limited partnership's investment objective is long-term total return. The fund pursues its investment objective primarily by investing in equity securities of non-U.S. emerging market companies.

The following table presents additional information about Level 3 assets measured at fair value on a recurring basis as of December 31, 2014 (dollars in thousands):

	Corporate Bonds and Other Debt	Real Estate Investment Trust	Other	Total
Balance at December 31, 2013	$ 615	$ -	$ 232	$ 847
Purchases	-	10,000	-	10,000
Interest and dividend income	-	508	-	508
Unrealized gain (loss)	(1)	534	2	535
Sales and other settlements	(63)	-	-	(63)
Balance at December 31, 2014	$ 551	$ 11,042	$ 234	$ 11,827

8. PROPERTY, PLANT, AND EQUIPMENT

The components of property, plant, and equipment at December 31, 2014 and 2013, were summarized as follows (in thousands):

	2014	2013
Land and improvements	$ 113,122	$ 111,888
Buildings and fixed equipment	2,530,728	2,453,067
Movable equipment	1,327,349	1,335,322
Computer software	373,519	368,899
Construction in progress	43,072	7,542
Total property, plant, and equipment	4,387,790	4,276,718
Accumulated depreciation and amortization	(2,518,298)	(2,419,281)
Property, plant, and equipment—net	$ 1,869,492	$ 1,857,437

Property, plant, and equipment includes net assets under capitalized leases and other financing arrangements totaling $162,637,000 (gross of $278,732,000, accumulated amortization of $116,095,000) and $150,479,000 (gross of $254,160,000, accumulated amortization of $103,681,000) at December 31, 2014 and 2013, respectively.

Construction in progress at December 31, 2014 and 2013, primarily consisted of costs incurred for several computer software upgrades and various hospital and clinic renovation projects.

During the year ended December 31, 2014, Aurora recorded the retirement of certain fully depreciated property and equipment having of an original cost of $52,299,000 which were disposed of in prior years.

9. INTANGIBLE ASSETS

A summary of intangible assets and goodwill is as follows as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Non-compete agreements	$ 12,093	$ 13,691
Trade name	7,027	7,027
Prescription lists	6,672	6,672
Other	12,149	12,149
Total intangible assets	37,941	39,539
Accumulated amortization	(26,339)	(22,640)
	11,602	16,899
Goodwill	7,282	7,697
Total intangible assets—net	$ 18,884	$ 24,596

During 2014, management changed its estimate of the remaining amortization period for a certain trade name. This change resulted in recording additional amortization of $3,162,000 for the year ended December 31, 2014.

During 2013, management changed its estimate of the remaining amortization period for certain non-compete agreements. This change resulted in recording additional amortization of $23,291,000 for the year ended December 31, 2013. Additionally, during 2013, $62,699,000 of fully amortized non-compete agreements were written off.

Goodwill of $1,568,000 was acquired as part of an acquisition during 2013.

10. INVESTMENTS IN UNCONSOLIDATED ENTITIES AND NONCONTROLLING INTEREST IN SUBSIDIARIES

On August 19, 2014, Aurora acquired a 49% minority interest in Bay Area Medical Center (BAMC), a 99 bed general acute care hospital located in Marinette, Wisconsin, for $49,450,000, consisting of cash consideration of $43,000,000 and $6,450,000 of other consideration. Aurora's investment in Bay Area Medical Center of $49,781,000 as of December 31, 2014, is accounted for under the equity method of accounting within investments in unconsolidated entities in the accompanying consolidated balance sheets. The carrying amount of Aurora's investment in BAMC is $28,688,000 less than the underlying equity in the net assets of BAMC. This difference represents a contingent gain which would be recognized in the event of dissolution of BAMC or if Aurora's interest in BAMC were to change requiring BAMC to be included in the consolidated financial statements of Aurora.

Aurora has a 50% investment in Midwest Kidney Care, LLC (Midwest Kidney Care). Midwest Kidney Care owned and operated hemodialysis centers in southeastern Wisconsin. Aurora's investment in Midwest Kidney Care of $98,000 and $483,000 as of December 31, 2014 and 2013, respectively, is accounted for under the equity method of accounting within investments in unconsolidated entities in the accompanying consolidated balance sheets. On December 31, 2012, Midwest Kidney Care sold substantially all of its assets to an unrelated third-party. Aurora received $4,980,000 in distributions from Midwest Kidney Care during 2013 as a result of the sale.

Aurora has a 50% investment in the Menomonee Falls Ambulatory Surgery Center, LLC, and a 20% investment in Froedtert Surgery Center, LLC (collectively, the Surgery Centers). The Surgery Centers provide various types of outpatient surgical procedures. Aurora's investment in the Surgery Centers of $5,346,000 and $5,171,000 as of December 31, 2014 and 2013, respectively, is accounted for under the equity method of accounting within investments in unconsolidated entities in the accompanying consolidated balance sheets. The carrying amount of Aurora's investment in the Surgery Centers is different from the underlying equity in the net assets of the investees due to goodwill recorded upon the initial investment in the Surgery Centers.

The summarized financial position and results of operations for the entities accounted for under the equity method as of and for the year ended December 31, 2014 and 2013, is as follows (in thousands):

	2014				
	Bay Area Medical Center	**Midwest Kidney Care**	**Surgery Centers**	**Other Investees**	**Total**
Total assets	$ 220,250	$ 1,008	$ 11,513	$ 18,490	$ 251,261
Total liabilities	60,110	27	2,573	37,100	99,810
Equity	160,140	981	8,940	(18,610)	151,451
Total revenue	104,399	20	16,889	52,201	173,509
Net income	5,981	15	2,861	7,435	16,292

	2013			
	Midwest Kidney Care	**Surgery Centers**	**Other Investees**	**Total**
Total assets	$ 986	$ 12,163	$ 22,280	$ 35,429
Total liabilities	20	4,034	38,585	42,639
Equity	966	8,129	(16,305)	(7,210)
Total revenue	3	17,168	114,102	131,273
Net (loss) income	(186)	3,126	927	3,867

Aurora Medical Group has a majority interest in BayCare Aurora, LLC (Aurora BayCare), a Wisconsin limited liability company established for the purpose of owning and operating a hospital and other medical care facilities in Green Bay, Wisconsin. Under certain circumstances, the operating agreements of Aurora BayCare may require additional contributions from the members and permit distributions of their equity. The accounts of Aurora BayCare are included in the consolidated financial statements. At December 31, 2014 and 2013, the noncontrolling interest in Aurora BayCare totaled $83,735,000 and $74,346,000, respectively, and was included in noncontrolling interest in subsidiaries' unrestricted net assets. During 2014 and 2013, distributions totaling $34,869,000 and $22,159,000, respectively, were paid to such minority shareholders.

Aurora has a controlling financial interest in three surgery centers. The accounts of the surgery centers are included in the consolidated financial statements. At December 31, 2014 and 2013, the noncontrolling interest in the surgery centers totaled $2,896,000 and $3,101,000, respectively, and was included in noncontrolling interest in subsidiaries' unrestricted net assets. During 2014 and 2013, distributions totaling $4,391,000 and $4,727,000, respectively, were paid to such minority shareholders.

11. INCOME TAXES

The provision for income taxes for the years ended December 31, 2014 and 2013, consists of the following (in thousands):

	2014	2013
Current tax expense:		
Federal	$ 3,610	$ 6,150
State	1,164	885
Deferred tax expense (benefit)	(2,361)	3,865
Total tax expense	$ 2,413	$ 10,900

Income tax expense is included within other operating expenses in the consolidated statements of operations and changes in unrestricted net assets.

The following table discloses those significant components of deferred tax assets and liabilities, including any valuation allowance, at December 31, 2014 and 2013 (in thousands):

	2014		2013	
	Assets	Liabilities	Assets	Liabilities
Depreciation and fixed-asset differences	$ 872	$ -	$ 247	$ -
Receivables (doubtful accounts and adjustments)	2,887	-	2,177	-
Accruals for retained insurance risks	667	-	619	-
Investments and other assets	-	(133)	-	(771)
Other accrued liabilities	1,223	-	959	-
Benefit plans	7,352	-	6,671	-
Net operating loss carryforwards	1,771	-	6,693	-
Intangible assets	668	-	-	(2,045)
Subtotal deferred tax assets and liabilities	15,440	(133)	17,366	(2,816)
Valuation allowance	(1,080)	-	(2,684)	-
Total deferred income taxes	$ 14,360	$ (133)	$ 14,682	$ (2,816)

Below is a reconciliation of the deferred tax assets and liabilities and the corresponding amounts reported in the accompanying consolidated balance sheets at December 31, 2014 and 2013 (in thousands):

	2014	2013
Current portion of deferred income tax asset	$ 4,370	$ 3,690
Deferred income tax asset—net of current portion	9,857	8,176
Net deferred tax asset	$ 14,227	$ 11,866

Aurora assesses the realization of its deferred tax assets to determine whether an income tax valuation allowance is required. Based on all available evidence, both positive and negative, and the weight of that evidence to the extent such evidence can be objectively verified, Aurora determines whether it is more likely than not that all or a portion of the deferred tax assets will be realized. The valuation allowance of $1,080,000 and $2,684,000 as of December 31, 2014 and 2013, respectively, is primarily attributable to certain federal and state net operating loss carryovers that, more likely than not, will expire unutilized. During the year ended December 31, 2014 the valuation allowance was reduced based on 2014 income.

At December 31, 2014, federal net operating loss carryforwards totaled $3,719,000 which expire from 2018 to 2030. At December 31, 2014, state loss carryforwards totaled $9,146,000 which expire from 2024 to 2031.

12. LONG-TERM DEBT

Long-term debt at December 31, 2014 and 2013, is summarized as follows (in thousands):

	2014	2013
Wisconsin Health and Educational Facilities Authority (WHEFA) fixed-rate bonds:		
Series 1993 (5.25% weighted average coupon for 2014 and 2013)	$ 86,295	$ 91,130
Series 2009A (5.04% weighted average coupon for 2014 and 5.01% for 2013)	24,550	25,300
Series 2009B (3.42% weighted average coupon for 2014 and 4.94% for 2013)	132,475	132,475
Series 2010A (5.45% weighted average coupon for 2014 and 5.44 for 2013)	210,980	214,975
Series 2010B (5.00% weighted average coupon for 2014 and 2013)	98,340	115,655
Series 2012A (4.74% weighted average coupon for 2014 and 4.71% for 2013)	214,875	217,550
Series 2013A (5.19% weighted average coupon for 2014 and 2013)	115,750	115,750
Wisconsin Health and Educational Facilities Authority variable-rate bonds:		
Series 1999C (0.05% effective rate for 2014 and 0.09% for 2013)	50,000	50,000
Series 2008A (0.15% effective rate for 2014 and 0.20% for 2013)	80,000	80,000
Series 2008B (0.16% effective rate for 2014 and 0.20% for 2013)	80,000	80,000
Series 2010C (0.12% effective rate for 2014 and 0.17% for 2013)	103,080	103,245
Series 2012B (0.04% effective rate for 2014 and 0.08% for 2013)	40,950	42,500
Series 2012C (0.04% effective rate for 2014 and 0.08% for 2013)	40,950	42,500
Series 2012D (0.05% effective rate for 2014 and 0.08% for 2013)	61,745	64,240
Unamortized original issue premium, net	13,984	15,479
Total WHEFA debt	1,353,974	1,390,799
Capital lease obligations and financing arrangements	256,526	248,505
Term note	11,075	11,884
Notes payable	8,398	3,956
Total long-term debt	1,629,973	1,655,144
Less amounts classified as current:		
Current installments	(56,882)	(54,125)
Long-term rate bonds classified as current	-	(65,000)
Long-term debt—net of current portion	$ 1,573,091	$ 1,536,019

Under the terms of a Master Trust Indenture (the "Aurora Indenture"), Aurora's Obligated Group has issued revenue bonds through WHEFA. All outstanding debt under the Aurora Indenture represents general, joint, and several obligations of the members of the Obligated Group. Of the total fixed-rate WHEFA bonds, $47,430,000 is collateralized by bond insurance.

The variable-rate demand bonds are collateralized by $474,135,000 of irrevocable standby letters of credit issued by commercial banks, which provide interim financing to Aurora in the event that remarketing efforts fail for tendered bonds. The letters of credit expire at various dates through 2018 and have various repayment terms. For $328,317,000 of the standby letters of credit, principal payments are due quarterly, beginning the earlier of one year from the date of the advance or two months after the expiration date of the letter of credit and shall amortize over a three-year period, not to exceed three years from the letter of credit's stated expiration date. For the remaining $145,818,000 of the standby letters of credit, principal payments are due quarterly, beginning the earlier of one year from the date of the advance or two months after the expiration date of the letter of credit and shall amortize over a two-year period, not to exceed two years from the letter of credit's stated expiration date. At December 31, 2014 and 2013, no draws were outstanding under the standby letters of credit.

At December 31, 2014 and 2013, Aurora had outstanding $132,475,000 of long-term rate bonds. The long-term rate bonds bear interest at fixed rates for specified periods, and are subject to mandatory tender at the end of such periods, on the date and in the principal amounts below for the years ended December 31, 2014 and 2013 (dollars in thousands):

December 31, 2014:

Series	Principal Amount	Mandatory Tender Date
Series 2009B-1	$ 65,000	August 15, 2017
Series 2009B-2	67,475	August 15, 2016
Total	$ 132,475	

December 31, 2013:

Series	Principal Amount	Mandatory Tender Date
Series 2009B-1	$ 65,000	August 15, 2014
Series 2009B-2	67,475	August 15, 2016
Total	$ 132,475	

There is no liquidity facility in effect with respect to the long-term rate bonds to pay the purchase price on the mandatory tender dates. At December 31, 2013, $65,000,000 of the long-term bonds were classified as current due to the bond holder's requirement to put the bonds on the mandatory tender date to Aurora without a liquidity facility dedicated to these bonds. The remainder of the long-term rate bonds were classified as long-term at December 31, 2013.

The 2009B-1 bonds were remarketed on August 15, 2014 as long-term rate bonds with a fixed interest rate of 1.25% and an initial mandatory tender date of August 15, 2017. At December 31, 2014, all of the long-term bonds are classified as long-term based upon the mandatory tender date.

In August 2013, Aurora issued $115,750,000 of Series 2013A fixed-rate bonds. The proceeds from the Series 2013A bonds were used to refund all of the outstanding Series 2003 fixed-rate bonds. The balance of the proceeds were used to finance certain capital expenditures of Aurora and pay the cost of issuance. The refinancing resulted in a loss on extinguishment of $1,240,000, which is included in other nonoperating income (loss), net in the accompanying consolidated statements of operations and changes in unrestricted net assets for the year ended December 31, 2013.

At December 31, 2014 and 2013, Aurora is obligated under capital lease and financing arrangements entered into in connection with certain leasing and sale-leaseback transactions. These arrangements, which relate to various administrative and medical support buildings, have initial lease terms of 15 to 25 years. In certain cases, the lease terms for these arrangements include renewal options, purchase options, expansion rights, and rent escalation clauses. The buyer-lessors for such transactions are unrelated special purpose entities. Aurora has excluded the unrelated special purpose entities' assets, liabilities, results of operations, and cash flows from its consolidated financial statements because the residual risks and rewards of the leased assets, as well as the obligations imposed by the underlying debt, reside with the lessors, not Aurora.

The Term Note is collateralized by a mortgage on the orthopedic and sports medicine complex and a pledge of Aurora BayCare's interest in, and proceeds from, certain lease agreements, and requires monthly principal and interest payments at LIBOR, plus 1.625%. The Term Note matures in 2016.

At December 31, 2014 and 2013, Aurora had a $60,000,000 line of credit with a commercial bank, bearing interest at either the commercial bank floating rate or LIBOR plus 1.00%, based upon the option of Aurora. As of December 31, 2014 and 2013, two letters of credit issued under the line of credit totaling $36,291,000 and $33,312,000, respectively, were outstanding. There were no outstanding draws on the line of credit or letters of credit as of December 31, 2014 or 2013.

Scheduled maturities on long-term debt (excluding amortization of remaining net unamortized original issue premiums of $13,984,000), assuming the remarketing of the long-term rate bonds, capital lease obligations, and financing arrangements, and related sublease rental income, at December 31, 2014, were as follows (in thousands):

	Long-Term Debt	Capital Lease Obligations and Financing Arrangements	Sublease Rental Income
2015	$ 38,271	$ 34,723	$ 6,264
2016	49,025	34,868	3,794
2017	40,562	34,836	3,122
2018	42,192	35,178	2,772
2019	43,710	35,680	369
Thereafter	1,145,703	181,295	753
Total long-term debt	$1,359,463		
Total minimum lease payments and sublease rental income		356,580	$17,074
Less amount representing interest		(100,054)	
Net present value of minimum lease payments for capital lease obligations and financing arrangements		$ 256,526	

Certain borrowing agreements require sinking fund deposits with a trustee sufficient to pay principal and interest when due. Further, certain of the borrowing agreements contain various covenants regarding maintenance of property, continuation of operations, issuance of additional debt, and maintenance of certain financial ratios and indicators. Aurora was in compliance with all of its financial covenants as of December 31, 2014.

At December 31, 2014 and 2013, Aurora has a fixed-to-variable interest rate swap. During the term of the interest rate swap, Aurora continues to pay interest on the underlying bonds at their fixed rate and pays a variable-rate based on the Securities Industry and Financial Markets Association Index (SIFMA) plus a spread calculated on a notional amount of $88,884,000 and $93,863,000 at December 31, 2014 and 2013, respectively. Aurora receives fixed-rate payments based on a notional amount of $86,295,000 and $91,130,000 at December 31, 2014 and 2013, respectively. The swap expires in February 2018.

The fair value of the swap agreement ($2,589,000 and $2,734,000 at December 31, 2014 and 2013, respectively) has been included in other noncurrent liabilities in the consolidated balance sheets. Aurora received net swap payments of $3,923,000 and $3,797,000 during the years ended December 31, 2014 and 2013, respectively, which are accrued and recognized as a reduction of interest expense in the accompanying consolidated financial statements.

13. EMPLOYEES' BENEFIT PLANS

Aurora has a defined benefit pension plan (the "Pension Plan") covering substantially all of its employees hired before January 1, 2013, with at least 1,000 hours of work in a calendar year. Benefits are based on years of service and the employees' final average earnings, as defined. Aurora funds the amount calculated by the Pension Plan's consulting actuaries to meet the minimum Employee Retirement Income Security Act (ERISA) funding requirements. The Pension Plan assets and obligations are measured at December 31. Employer contributions were $43,900,000 and $121,800,000 during 2014 and 2013, respectively. The actuarial cost method used to compute Pension Plan liabilities and expenses is the projected unit credit method.

In 2012, Aurora's Board of Directors approved an amendment to freeze the Pension Plan effective December 31, 2012. Employees hired after the December 31, 2012, are not covered by the Pension Plan.

A summary of the changes in the projected benefit obligation, fair value of plan assets and funded status of the Pension Plan as of December 31, 2014 and 2013, is as follows (in thousands):

	2014	2013
Accumulated benefit obligation	$ 1,587,063	$ 1,326,853
Change in projected benefit obligation:		
Projected benefit obligation at beginning of measurement period	$ 1,326,853	$ 1,450,932
Interest cost	67,490	64,194
Net actuarial loss (gain)	231,696	(154,560)
Benefits paid	(38,976)	(33,713)
Projected benefit obligation at end of year	1,587,063	1,326,853
Change in plan assets:		
Fair value of plan assets at beginning of measurement period	1,214,617	960,682
Actual income on plan assets	184,775	165,848
Employer contributions	43,900	121,800
Benefits paid	(38,976)	(33,713)
Fair value of plan assets at end of year	1,404,316	1,214,617
Unfunded status at end of year	$ (182,747)	$ (112,236)
Net periodic pension cost (income) is composed of the following:		
Interest cost on projected benefit obligation	$ 67,490	$ 64,194
Expected return on plan assets	(73,157)	(79,764)
Net amortization and deferral	6,373	11,467
Net periodic pension cost (income)	$ 706	$ (4,103)

The unfunded status of the Pension Plan is recorded in the accompanying consolidated balance sheets in non-current pension and other employee benefit liabilities.

The net actuarial loss not yet recognized as a component of net periodic pension cost was $419,373,000 and $305,667,000 as of December 31, 2014 and 2013, respectively.

The net actuarial gain or loss recognized as a component of pension-related changes other than net periodic pension cost was a loss of $113,706,000 for the year ended December 31, 2014, and a gain of $252,111,000 for the year ended December 31, 2013. The expected amortization amount to be included in the net periodic pension cost in 2015 is a net actuarial loss of $9,903,000.

Assumptions used to determine the benefit obligation at the measurement date and the net periodic pension cost as of December 31, 2014 and 2013, were as follows:

	2014	2013
Discount rate—pension expense	5.22 %	4.45 %
Discount rate—projected benefit obligation	4.32	5.22
Expected long-term rate of return on assets—pension expense	6.25	7.50

The discount rate used by Aurora is based on a hypothetical portfolio of high-quality bonds with cash flows matching the Pension Plan's expected benefit payments.

The expected long-term rate of return is based on the total portfolio of the Pension Plan's investments rather than the accumulation of returns on individual asset categories. Aurora's investment objective is to achieve its targeted long-term rate of return while avoiding excessive risk. Risk is effectively managed through diversification, which is achieved by employing various investment managers and mutual funds to direct investments over a broad spectrum of assets, including domestic equities, international equities, and fixed-income securities. These investments are readily marketable and can be sold to fund benefit payment obligations as they become payable. The fair market value of the Pension Plan assets as of December 31, 2014 and 2013, is as follows (in thousands):

	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 20,513	$ 14,374	$ 6,139	$ -
Fixed-income securities:				
U.S. Treasury	196,675	-	196,675	-
Corporate bonds and other debt securities	613,068	-	613,068	-
Federal agency	1,203	-	1,203	-
Fixed-income mutual funds	49,825	49,825	-	-
Commingled funds	62,948	-	62,948	-
Domestic equity securities:				
Large-cap	48,577	46,829	1,748	-
Mid-cap	31,046	31,046	-	-
Small-cap	60,072	60,072	-	-
Real estate	12,027	12,027	-	-
Equity mutual funds and exchange-traded funds	129,252	129,252	-	-
Real estate investment trust	18,771	-	-	18,771
International equity securities	136,577	136,577	-	-
International equity limited partnership	16,475	-	16,475	-
Total	$ 1,397,029	$480,002	$898,256	$ 18,771

	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 43,815	$ 36,867	$ 6,948	$ -
Fixed-income securities:				
U.S. Treasury	117,148	-	117,148	-
Corporate bonds and other debt securities	431,564	-	431,564	-
Federal agency	513	-	513	-
Fixed-income mutual funds	48,786	48,786	-	-
Commingled funds	125,387	-	125,387	-
Domestic equity securities:				
Large-cap	74,501	72,780	1,721	-
Mid-cap	30,446	30,446	-	-
Small-cap	55,004	55,004	-	-
Real estate	10,136	10,136	-	-
Equity mutual funds and exchange-traded funds	115,927	115,927	-	-
International equity securities	141,726	141,726	-	-
International equity limited partnership	16,554	-	16,554	-
Total	$ 1,211,507	$ 511,672	$ 699,835	$ -

There were no significant transfers between fair value levels during 2014 or 2013.

The Pension Plan holds shares or interests in investment funds where the fair value of the investment held is estimated based on the net asset value of the investment funds. The following table summarizes the attributes relating to the nature and risk of these investments at December 31, 2014 and 2013 (dollars in thousands):

	Fair Value December 31, 2014	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real estate investment trust	$ 18,771	$ -	Quarterly	90 days
Commingled funds	62,948	-	Daily	0 days
International equity limited partnership	16,475	-	Monthly	15 days

	Fair Value December 31, 2013	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds	$ 125,387	$ -	Daily	0 days
International equity limited partnership	16,554	-	Monthly	15 days

The real estate investment trust is a core return, fully specified, open-end commingled equity real estate fund diversified by property type and location designed to provide stable, income-driven rate of return over the long term with potential for growth of net investment income and appreciation of value. The objective of the real estate investment trust is to achieve long term aggregate annual return on invested equity of 8% to 10%, gross of fees, by investing in real estate and real estate-related investments, broadly defined, with the majority of the return being realized from income, with modest appreciation, and using leverage when appropriate.

The commingled funds include investments held with two separate funds. The objectives of one of the commingled funds is to maximize total return and outperform the Barclays U.S. Long Government/Credit index, gross of fees, over a market cycle, while maintaining total return risk similar to that of the benchmark. This fund primarily invests in corporate bonds, U.S. Treasury obligations and other U.S. government and agency securities, debt securities of foreign governments and supranational organization, municipal obligations, and asset-backed, mortgage related and mortgage backed securities. The objectives of the other commingled fund is to maximize the total return and outperform the Barclays Long Credit Index, while maintaining total return risk similar to that of the benchmark over a market cycle. This fund invests primarily in investment grade fixed income securities.

The international equity limited partnership's investment objective is long-term total return. The fund pursues its investment objective primarily by investing in equity securities of non-U.S. emerging market companies.

The following table presents additional information about Level 3 assets measured at fair value on a recurring basis as of December 31, 2014 (dollars in thousands):

	Real Estate Investment Trust
Balance at December 31, 2013	$ -
Purchases	18,000
Realized gain (loss)	-
Unrealized gain	771
Sales and other settlements	-
Balance at December 31, 2014	$ 18,771

A reconciliation of the fair value of Pension Plan assets, as presented above, to the fair value of plan assets utilized in determining the unfunded status of the Pension Plan as of December 31, 2014 and 2013, is as follows (in thousands):

	2014	2013
Fair value of plan assets	$ 1,397,029	$ 1,211,507
Accrued investment income	8,293	6,584
(Payable) receivable for pending trades—net	(1,006)	(3,474)
Fair value of plan assets at end of measurement period	$ 1,404,316	$ 1,214,617

The asset allocation of Aurora's Pension Plan assets at December 31, 2014 and 2013, is as follows:

	2014		2013	
	Strategic Target	**Actual**	**Strategic Target**	**Actual**
Equity securities	33 %	30 %	33 %	36 %
Fixed-income securities	64	66	64	60
Real estate	-	2	-	-
Cash and cash equivalents	3	2	3	4
Total	100 %	100 %	100 %	100 %

Aurora expects to make the following contributions to and estimated benefit payments from its Pension Plan (in thousands):

Expected contributions in 2015	$ 40,200
Estimated benefit payments:	
2015	$ 45,091
2016	50,499
2017	55,836
2018	60,909
2019	65,703
2020 through 2024	392,850
Total	$ 670,888

Aurora and certain affiliates sponsor defined contribution and retirement savings plans (the "Defined Contribution Plans"), whereby Aurora contributes a percentage of participants' qualifying compensation up to certain limits as outlined in the Defined Contribution Plans or other amounts as designated by the affiliates' board of directors. Included in fringe benefits expense in the accompanying consolidated statements of operations and changes in unrestricted net assets for the years ended December 31, 2014 and 2013 is $128,476,000 and $123,762,000, respectively, for contributions to the Defined Contribution Plans.

Aurora also sponsors a noncontributory Section 457(b) defined contribution plan (the "457(b) Plan") covering selected employees, where participants may contribute a percentage of qualifying compensation up to certain limits as defined by the 457(b) Plan. The 457(b) Plan assets and liabilities, totaling $77,152,000 and $65,155,000 at December 31, 2014 and 2013, respectively, are included in long-term assets whose use is limited or restricted and pension and other employee benefit liabilities, in the accompanying consolidated balance sheets. The assets of this 457(b) Plan are subject to the claims of the general creditors of Aurora. Income and expense under the 457(b) Plan were each $268,000 and $1,422,000 in 2014 and 2013, respectively. Income and expense under the 457(b) Plan is included in other operating revenue and fringe benefits expense, respectively, in the accompanying consolidated statements of operations and changes in unrestricted net assets.

14. SELF-FUNDED HEALTH, DENTAL, AND OTHER BENEFITS

Aurora sponsors self-funded health and dental insurance plans covering substantially all of their employees and their dependents. Health and dental insurance expense under the plans is based upon actual claims paid, administration fees, and provisions for unpaid and unreported claims at year-end. At December 31, 2014 and 2013, the estimated liability for unpaid and unreported claims of $10,447,000 and $20,589,000, respectively, were included in accrued liabilities. Costs of Aurora's self-funded health and dental insurance program of $53,811,000 and $64,721,000 for the years ended December 31, 2014 and 2013, respectively, for services provided by non-affiliated providers were included in fringe benefits expense.

Aurora also provides salary continuation payments to current and inactive employees who are eligible to receive long-term disability and workers' compensation, under self-funded arrangements. Aurora measures the cost of its unfunded obligations under such programs based upon actuarial calculations and records a liability on a discounted basis. At December 31, 2014 and 2013, Aurora had accrued estimated benefit obligations of $11,600,000 and $11,979,000, respectively, included in accrued liabilities, and $26,968,000 and $26,112,000, respectively, included in self-insured liabilities.

15. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets were available for the following purposes at December 31, 2014 and 2013 (in thousands):

	Temporarily Restricted		Permanently Restricted	
	2014	2013	2014	2013
Health education	$ 8,218	$ 7,047	$ 10,069	$ 10,066
Specific program services	26,822	27,182	6,683	6,552
Research	9,541	5,643	1,506	1,506
Purchase of building and equipment	1,385	1,524	-	-
Indigent care	731	637	214	214
Total restricted net assets	$ 46,697	$ 42,033	$ 18,472	$ 18,338

At December 31, 2014 and 2013, permanently restricted net assets represent the principal amount of gifts that are to be held in perpetuity. Investment income on the related assets is expendable to support health care and other services and is reported as temporarily restricted investment income.

Aurora's endowment consists of 48 individual funds, including both donor-restricted endowment funds and funds designated by the Aurora Health Care Foundation, Inc. (Foundation) Board of Directors (the Foundation Board) to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. During 2013, the Foundation Board removed the designation to function as endowments on the unrestricted funds.

The Foundation Board has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit stipulations to the contrary. As a result of this interpretation, Aurora classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Aurora. Aurora considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Aurora, and (7) the investment policies of Aurora.

Aurora has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Aurora’s investment objective is to achieve its targeted long-term rate of return while avoiding excessive risk. Risk is effectively managed through diversification, which is achieved by employing various investment managers and mutual funds to direct investments over a broad spectrum of assets, including equities and fixed-income securities.

Aurora has a spending policy that at least 5% of the funds available for expenditure held by the Foundation at the beginning of the fiscal year will be expended on an annual basis. The amount available for expenditure would exclude the corpus of permanently restricted and term donor-restricted endowment funds.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Aurora to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2014 and 2013.

Information regarding the composition of the endowment investments and activity as of and for the years ended December 31, 2014 and 2013, is as follows (in thousands):

	Board-Designated Unrestricted	Donor-Restricted Temporarily Restricted	Permanently Restricted	Total
Endowment net assets—December 31, 2012	$ 49,813	$ 5,873	$ 18,310	$ 73,996
Investment return:				
Investment income	709	4,629	-	5,338
Net change in unrealized gains	-	114	-	114
Total investment return	709	4,743	-	5,452
Contributions	-	-	28	28
Appropriation of endowment assets for expenditure	-	(807)	-	(807)
Other changes—removal of board designation	(50,522)	-	-	(50,522)
Other changes—transfers between funds	-	(84)	-	(84)
Endowment net assets—December 31, 2013	-	9,725	18,338	28,063
Investment return:				
Investment income	-	1,748	-	1,748
Net change in unrealized gains	-	35	-	35
Total investment return	-	1,783	-	1,783
Contributions	-	1	39	40
Appropriation of endowment assets for expenditure	-	(700)	-	(700)
Other changes—transfers between funds	-	-	95	95
Endowment net assets—December 31, 2014	$ -	$ 10,809	$ 18,472	$ 29,281

16. FUNCTIONAL EXPENSES

Aurora provides health care services to residents within its geographic areas. Expenses related to providing these services for the years ended December 31, 2014 and 2013, are as follows (in thousands):

	2014	2013
Health care services	$ 3,554,957	$ 3,419,943
General and administrative	658,111	672,211
Total	$ 4,213,068	$ 4,092,154

General and administrative expenses primarily include information technology, legal, finance, purchasing, patient billing, and human resources.

17. COMMITMENTS AND CONTINGENCIES

Operating Lease Agreements—Aurora has various noncancelable operating lease agreements, primarily for medical support buildings and equipment, which have remaining fixed terms ranging from one to 15 years at December 31, 2014. Some leases contain renewal options, fair value purchase options, and escalation clauses. Aurora subleases certain of its medical support buildings.

Net future minimum lease payments under non-cancelable operating leases with initial or remaining lease terms in excess of one year at December 31, 2014, are as follows (in thousands):

	Lease Payments	Sublease Income	Net Future Minimum Lease Payments
2015	$ 62,203	$ (804)	$ 61,399
2016	54,289	(441)	53,848
2017	50,940	(159)	50,781
2018	49,230	(160)	49,070
2019	48,666	(164)	48,502
Thereafter	213,093	(599)	212,494
Total	$ 478,421	$ (2,327)	$ 476,094

Aurora West Allis Medical Center has the right to operate the hospital under the terms of a lease agreement with the City of West Allis (the City). In accordance with the lease agreement, the City has title to all assets and any subsequent additions (with the exception of certain equipment used by Aurora for laboratory services). Aurora West Allis Medical Center has exclusive right to the use of the assets and the obligation to maintain and replace them. The historical cost to Aurora of the leased facilities is included with Aurora's property, plant, and equipment. The agreement provides for annual payments of $305,000 in lieu of annual lease payments. The lease expires in 2063.

Litigation—Aurora is subject to various regulatory investigations, legal proceedings, and claims which are incidental to its normal business activities.

Aurora believes it has made adequate provision for potential exposures relating to its legal matters. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the consolidated results of operations or net assets of Aurora.

Vendor Arrangements—Aurora has a long-term agreement with a vendor for the implementation of a computerized patient record system. Under the terms of the arrangements, Aurora will pay a combination of implementation, technology, installation, and support fees in exchange for a perpetual license to use such software. Estimated payments by year under the agreement are as follows (in thousands):

2015	$ 2,872
2016	2,872
2017	2,154
Thereafter	-
Total	$ 7,898

Aurora routinely enters into long-term arrangements covering volume purchases of medical supplies and equipment. Certain of the agreements, which are generally cancelable without penalty, require Aurora to meet targeted levels of expenditures in order to maintain favorable pricing terms.

Insurance Coverage—Aurora is commercially insured for workers' compensation stop-loss, auto, property, boiler and machinery, umbrella/excess liability, directors' and officers' liability, and other customary business liabilities.

18. GENERAL AND PROFESSIONAL LIABILITY INSURANCE

Aurora formed Aurora Liability Assurance, Ltd. (ALA) to assume its primary professional and general liability risks. Commercial insurance companies have issued policies covering these liabilities and ceded the risks back to ALA through reinsurance agreements. Aurora's professional and general liability insurance is on an occurrence basis, while managed care errors and omissions liability risks are written on a claims-made basis.

Aurora's hospitals, clinics, surgery centers, physicians, and certified registered nurse anesthetists providers that provide health care in Wisconsin are qualified health care providers as defined by Wisconsin state statute, and have separate professional liability limits of $1,000,000 per claim and $3,000,000 annual aggregate applied to each qualified provider. Losses in excess of these amounts are fully covered through mandatory participation in the State of Wisconsin Injured Patients and Families Compensation Fund (the "Fund").

Aurora also has professional liability coverage for its providers and affiliates that do not qualify for the Fund coverage, as well as general liability for all of its entities. These coverages provide a number of shared professional liability limits and shared general liability limits totaling $2,000,000 per occurrence and $4,000,000 annual aggregate for most providers. Losses in excess of these amounts are covered by Aurora's umbrella/excess insurance.

Independent actuaries evaluate the required provision for outstanding losses related to the professional liability, general liability, and managed care errors and omissions policies whose risk is ceded back to ALA. At December 31, 2014 and 2013, Aurora has recorded a liability for outstanding losses, including incurred but not reported, discounted at 4.0% and 5.0%, respectively, totaling $39,239,000 and $38,434,000, respectively. Of this amount, a portion of the liability for outstanding losses was included in accrued expenses and a portion was included in self-insured liabilities in the accompanying consolidated balance sheets. In the opinion of management, the ultimate disposition of claims incurred to date will not have a material adverse effect on Aurora's consolidated financial position or results of operations.

ALA maintains a reinsurance trust account, which in total represents security required by the reinsurance agreement between ALA and the insurance companies.

19. AURORA HEALTH CARE, INC. AND AFFILIATES

Following is a list of corporations and subsidiaries that are included in the accompanying consolidated financial statements. The Obligated Group Members are denoted by an asterisk (*).

- Aurora Health Care, Inc.*
- Aurora Health Care Metro, Inc.* (d/b/a Aurora St. Luke's Medical Center, Aurora St. Luke's South Shore and Aurora Sinai Medical Center)
- West Allis Memorial Hospital, Inc. (d/b/a Aurora West Allis Medical Center)
- Aurora Medical Center of Washington County, Inc.* (d/b/a Aurora Medical Center Washington County)
- Aurora Medical Center Grafton, LLC* (d/b/a Aurora Medical Center Grafton)
- BayCare Aurora, LLC (d/b/a Aurora BayCare Medical Center)
- Aurora Health Care North, Inc.* (d/b/a Aurora Medical Center Manitowoc County)
- Aurora Health Care Central, Inc.* (d/b/a Aurora Sheboygan Memorial Medical Center)
- Aurora Medical Center of Oshkosh, Inc.* (d/b/a Aurora Medical Center Oshkosh)

- Aurora Health Care Southern Lakes, Inc.* (d/b/a Aurora Lakeland Medical Center, Aurora Memorial Hospital of Burlington, Aurora Medical Center Kenosha, and Aurora Medical Center Summit)
- Aurora Psychiatric Hospital, Inc. (d/b/a Aurora Psychiatric Hospital)
- Kradwell School, Inc.
- Aurora Medical Group, Inc.*
- Midwest Area Physicians, LLC
- AMG Illinois, Ltd.
- Aurora Quick Care, LLC
- Aurora Advanced Healthcare, Inc.
- Visiting Nurse Association of Wisconsin, Inc.
- Aurora UW Academic Medical Group, Inc.
- Aurora Family Service, Inc.
- Aurora Health Care Ventures, Inc.
- Lakeshore Medical Clinic, Ltd.
- Aurora Pharmacy, Inc.
- Diversified Care, Inc.
- Aurora Retail Stores, Inc.
- Advanced Healthcare, Inc.
- East Mequon Surgery Center, LLC
- North Shore Surgical Center
- Aurora Consolidated Laboratories, a Co-Tenancy
- Aurora Research Institute, LLC
- Aurora Health Network, Inc.
- Aurora Accountable Care Organization, LLC
- Aurora Health Care Foundation, Inc.
- Aurora Health Foundation, Inc.
- Vince Lombardi Cancer Foundation, Inc.
- Aurora Liability Assurance, Ltd. (Cayman Island corporation)
- Health Care Re, Ltd. (Cayman Island corporation)

20. SUBSEQUENT EVENTS

On April 15, 2015, Aurora issued $40,000,000 of Series 2015A variable rate taxable b. The proceeds from the Series 2015A bonds were used to refund $40,000,000 of the outstanding Series 2010A fixed rate bonds.

Aurora evaluated events and transactions subsequent to December 31, 2014 through May 5, 2015, the date of financial statement issuance. During this period, there were no subsequent events requiring recognition in or disclosure to the consolidated financial statements.

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