Aurora Health Care®

Aurora Health Care, Inc. and Affiliates

Unaudited Consolidated Financial Statements and Other Information
For the Period Ended June 30, 2016

Document Dated as of August 26, 2016

AURORA HEALTH CARE, INC. AND AFFILIATES
TABLE OF CONTENTS

FINANCIAL INFORMATION:

SUPPLEMENTAL CONSOLIDATING INFORMATION FOR THE PERIOD ENDED JUNE 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION:

AURORA HEALTH CARE, INC. AND AFFILIATES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 210,936	$ 176,626
Investments	1,409,867	1,272,107
Assets whose use is limited or restricted	6,463	10,793
Patient accounts receivable — net of allowance for doubtful accounts of $101,828 and $96,351 in 2016 and 2015, respectively	715,520	760,058
Other receivables	75,418	81,626
Inventory	65,913	67,572
Prepaids and other current assets	49,471	56,728
Estimated third-party payor settlements	6,396	7,494
Total current assets	2,539,984	2,433,004
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
Board-designated and other	157,478	153,491
Contractually-restricted	145,257	135,558
Donor restricted	56,180	54,295
Debt service reserve	32,540	32,207
Total assets whose use is limited or restricted	391,455	375,551
PROPERTY, PLANT, AND EQUIPMENT — Net	1,959,344	1,955,988
OTHER ASSETS:		
Intangible assets — net	15,973	16,245
Investments in unconsolidated entities	78,564	73,788
Other	49,375	48,410
Total other assets	143,912	138,443
TOTAL	$ 5,034,695	$ 4,902,986

(Continued)

AURORA HEALTH CARE, INC. AND AFFILIATES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2016	December 31, 2015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current installments of long-term debt	$ 137,245	$ 136,542
Accounts payable	180,902	228,344
Accrued salaries and wages	260,008	277,070
Other accrued expenses	162,813	203,344
Estimated third-party payor settlements	17,364	22,061
Total current liabilities	758,332	867,361
LONG-TERM DEBT — Less current installments	1,407,029	1,421,061
OTHER LIABILITIES:		
Pension and other employee benefit liabilities	231,837	225,428
Self-insured liabilities	63,064	64,898
Deferred gain	39,113	41,863
Other	66,762	65,191
Total other liabilities	400,776	397,380
Total liabilities	2,566,137	2,685,802
NET ASSETS:		
Unrestricted:		
Controlling interest	2,315,008	2,066,225
Noncontrolling interest in subsidiaries	90,789	88,447
Total unrestricted net assets	2,405,797	2,154,672
Temporarily restricted	44,028	43,779
Permanently restricted	18,733	18,733
Total net assets	2,468,558	2,217,184
TOTAL	$ 5,034,695	$ 4,902,986

See accompanying notes to unaudited consolidated financial statements.

(Concluded)

AURORA HEALTH CARE, INC. AND AFFILIATES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS
(In thousands)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	$ 1,202,532	$ 1,144,158
Less provision for bad debts	32,415	29,711
Net patient service revenue less provision for bad debts	1,170,117	1,114,447
Other revenue	104,742	91,014
Total revenue	1,274,859	1,205,461
EXPENSES:		
Salaries, wages and fringe benefits	677,913	616,399
Professional fees	19,087	21,154
Supplies	240,395	226,448
Depreciation and amortization	53,056	52,580
Interest	14,058	14,524
Maintenance and service contracts	28,392	27,700
Building and equipment rental	16,201	17,853
Hospital tax assessment	23,947	23,429
Utilities	11,072	11,456
Purchased services	35,318	34,837
Other expenses	41,241	34,949
Total expenses	1,160,680	1,081,329
OPERATING INCOME	114,179	124,132
NONOPERATING INCOME (LOSS):		
Investment income (loss)	31,042	(10,094)
Other nonoperating income — net	—	1,917
Total nonoperating income (loss) — net	31,042	(8,177)
EXCESS OF REVENUE OVER EXPENSES	145,221	115,955
Pension-related changes other than periodic pension cost	1,533	2,663
Net assets released from restriction for purchase of property and equipment	77	544
Distributions to noncontrolling interests	(7,304)	(21,397)
Other — net	(11)	89
INCREASE IN UNRESTRICTED NET ASSETS	$ 139,516	$ 97,854

See accompanying notes to unaudited consolidated financial statements.

AURORA HEALTH CARE, INC. AND AFFILIATES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS
(In thousands)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	$ 2,390,334	$ 2,270,593
Less provision for bad debts	70,949	50,352
Net patient service revenue less provision for bad debts	2,319,385	2,220,241
Other revenue	204,006	196,542
Total revenue	2,523,391	2,416,783
EXPENSES:		
Salaries, wages and fringe benefits	1,370,260	1,255,306
Professional fees	37,871	39,489
Supplies	468,130	444,685
Depreciation and amortization	104,575	104,654
Interest	27,965	29,423
Maintenance and service contracts	53,252	55,879
Building and equipment rental	32,811	36,422
Hospital tax assessment	48,102	46,647
Utilities	23,073	23,446
Purchased services	65,910	66,593
Other expenses	80,272	71,346
Total expenses	2,312,221	2,173,890
OPERATING INCOME	211,170	242,893
NONOPERATING INCOME:		
Investment income	59,137	10,464
Other nonoperating income — net	740	2,217
Total nonoperating income — net	59,877	12,681
EXCESS OF REVENUE OVER EXPENSES	271,047	255,574
Pension-related changes other than periodic pension cost	3,065	5,139
Net assets released from restriction for purchase of property and equipment	304	621
Distributions to noncontrolling interests	(23,279)	(28,509)
Other — net	(12)	97
INCREASE IN UNRESTRICTED NET ASSETS	$ 251,125	$ 232,922

See accompanying notes to unaudited consolidated financial statements.

AURORA HEALTH CARE, INC. AND AFFILIATES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
THREE MONTHS ENDED JUNE 30, 2016 AND 2015
(In thousands)

	Controlling Interest Unrestricted	Noncontrolling Interest Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS — March 31, 2015	$ 1,770,201	$ 91,119	$ 1,861,320	$ 48,456	$ 18,472	$ 1,928,248
Excess of revenue over expenses	103,957	11,998	115,955	—	—	115,955
Pension-related changes other than net periodic pension costs	2,663	—	2,663	—	—	2,663
Contributions	—	—	—	1,737	—	1,737
Investment income	—	—	—	(154)	—	(154)
Net assets released from restrictions for operations	—	—	—	(1,459)	—	(1,459)
Net assets released from restrictions for purchase of property and equipment	544	—	544	(544)	—	—
Distributions to noncontrolling interest	—	(21,397)	(21,397)	—	—	(21,397)
Other — net	89	—	89	1	—	90
Increase (decrease) in net assets	107,253	(9,399)	97,854	(419)	—	97,435
NET ASSETS — June 30, 2015	$ 1,877,454	$ 81,720	$ 1,959,174	$ 48,037	$ 18,472	$ 2,025,683
NET ASSETS — March 31, 2016	2,183,313	82,968	2,266,281	44,165	18,733	2,329,179
Excess of revenue over expenses	130,096	15,125	145,221	—	—	145,221
Pension-related changes other than net periodic pension costs	1,533	—	1,533	—	—	1,533
Contributions	—	—	—	1,527	—	1,527
Investment income	—	—	—	854	—	854
Net assets released from restrictions for operations	—	—	—	(2,479)	—	(2,479)
Net assets released from restrictions for purchase of property and equipment	77	—	77	(77)	—	—
Distributions to noncontrolling interest	—	(7,304)	(7,304)	—	—	(7,304)
Other — net	(11)	—	(11)	38	—	27
Increase (decrease) in net assets	131,695	7,821	139,516	(137)	—	139,379
NET ASSETS — June 30, 2016	$ 2,315,008	$ 90,789	$ 2,405,797	$ 44,028	$ 18,733	$ 2,468,558

See accompanying notes to unaudited consolidated financial statements.

AURORA HEALTH CARE, INC. AND AFFILIATES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(In thousands)

	Controlling Interest Unrestricted	Noncontrolling Interest Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS — December 31, 2014	$ 1,639,621	$ 86,631	$ 1,726,252	$ 46,697	$ 18,472	$ 1,791,421
Excess of revenue over expenses	231,976	23,598	255,574	—	—	255,574
Pension-related changes other than net periodic pension costs	5,139	—	5,139	—	—	5,139
Contributions	—	—	—	3,142	—	3,142
Investment income	—	—	—	1,034	—	1,034
Net assets released from restrictions for operations	—	—	—	(2,318)	—	(2,318)
Net assets released from restrictions for purchase of property and equipment	621	—	621	(621)	—	—
Distributions to noncontrolling interest	—	(28,509)	(28,509)	—	—	(28,509)
Other — net	97	—	97	103	—	200
Increase (decrease) in net assets	237,833	(4,911)	232,922	1,340	—	234,262
NET ASSETS — June 30, 2015	$ 1,877,454	$ 81,720	$ 1,959,174	$ 48,037	$ 18,472	$ 2,025,683
NET ASSETS — December 31, 2015	2,066,225	88,447	2,154,672	43,779	18,733	2,217,184
Excess of revenue over expenses	245,426	25,621	271,047	—	—	271,047
Pension-related changes other than net periodic pension costs	3,065	—	3,065	—	—	3,065
Contributions	—	—	—	3,317	—	3,317
Investment income	—	—	—	1,170	—	1,170
Net assets released from restrictions for operations	—	—	—	(3,947)	—	(3,947)
Net assets released from restrictions for purchase of property and equipment	304	—	304	(304)	—	—
Distributions to noncontrolling interest	—	(23,279)	(23,279)	—	—	(23,279)
Other — net	(12)	—	(12)	13	—	1
Increase in net assets	248,783	2,342	251,125	249	—	251,374
NET ASSETS — June 30, 2016	$ 2,315,008	$ 90,789	$ 2,405,797	$ 44,028	$ 18,733	$ 2,468,558

See accompanying notes to unaudited consolidated financial statements.

AURORA HEALTH CARE, INC. AND AFFILIATES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30,	
	2016	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 251,374	$ 234,262
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	(3,065)	(5,139)
Realized and unrealized (gains) losses on investments, net	(46,528)	2,179
Gain on sale of property, plant, and equipment	(478)	(2,793)
Loss on early extinguishment of debt	—	556
Amortization of intangible assets and other items	2,028	2,156
Amortization of deferred gains	(2,750)	(2,751)
Depreciation and amortization	104,575	104,654
Provision for bad debts	70,949	50,352
Distribution to noncontrolling interest	30,547	28,509
Increase in accounts receivable	(26,411)	(128,621)
Decrease in accounts payable and accrued expenses	(99,343)	(81,789)
Decrease in estimated third-party payor settlements	(3,599)	(3,011)
Increase (decrease) in pension and other employee benefit liabilities	9,474	(34,136)
Decrease in self-insured liabilities	(1,834)	(204)
Other changes in assets and liabilities, net	17,767	(15,730)
Net cash provided by operating activities	302,706	148,494
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(111,768)	(116,852)
Proceeds from sales of property, plant, and equipment	416	5,848
Investment in unconsolidated entities	(11,185)	(6,000)
Distributions from unconsolidated entities	2,654	2,246
Purchases of investments	(161,754)	(231,223)
Sales of investments	58,949	207,838
Net cash used in investing activities	(222,688)	(138,143)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	—	40,000
Repayments of long-term debt	(15,161)	(55,240)
Distribution to noncontrolling interest	(30,547)	(28,509)
Net cash used in financing activities	(45,708)	(43,749)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34,310	(33,398)
CASH AND CASH EQUIVALENTS:		
Beginning of period	176,626	238,772
End of period	$ 210,936	$ 205,374

See notes to accompanying unaudited consolidated financial statements.

1. DESCRIPTION OF BUSINESS

Aurora Health Care, Inc. and its affiliates (collectively, "Aurora", "we", "our" or "us") constitute an integrated health care system providing health care services to communities throughout eastern Wisconsin and northern Illinois. Aurora 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.

Aurora Health Care, Inc. (the Corporation) is a Wisconsin nonstock, not-for-profit corporation. The Corporation is the parent corporation of a group of nonprofit and for profit corporations and other organizations that own and operate 14 acute-care hospital campuses, one psychiatric hospital, a network of approximately 160 physician clinic facilities, home health services, over 70 retail pharmacies, and other health care related services.

The accompanying unaudited consolidated financial statements include the Corporation and its wholly owned or controlled affiliates. All intercompany accounts and transactions have been eliminated in the preparation of the unaudited consolidated financial statements.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited consolidated financial statements of Aurora as of June 30, 2016, and for the three and six months ended June 30, 2016 and 2015, include all adjustments that management considers necessary to present such information on a basis consistent with that of the audited consolidated financial statements. Certain adjustments have been made to the unaudited consolidated financial statements as of and for the three and six month periods ended June 30, 2015 to conform with the presentation in the unaudited consolidated financial statements as of and for the three and six month periods ended June 30, 2016. Consistent with our audited consolidated financial statements as of and for the years ended December 31, 2015 and 2014, we have reclassified certain write-offs from charity care to bad debt as part of the implementation of the Internal Revenue Service Regulation 501(r). These adjustments increased patient service revenue (net of contractual allowances and discounts) and the provision for bad debts by $8.2 million and $14.3 million for the three and six month periods ended June 30, 2015, respectively and had no impact on operating income or the excess of revenue over expenses.

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim reporting, and accordingly, do not include all of the disclosures required in annual financial statements. As such, these unaudited consolidated financial statements should be read in conjunction with the information included under Management's Discussion and Analysis of Results of Operations and Financial Position included in this quarterly report, and the audited consolidated financial statements as of and for the years ended December 31, 2015 and 2014, and the related notes. The audited consolidated financial statements are available from the Municipal Securities Rulemaking Board (the "MSRB") on its Electronic Municipal Market Access ("EMMA") system, found at http://emma.msrb.org. Additional information can be obtained from the Investor Relations site on Aurora's website found at https://www.aurorahealthcare.org/about-aurora/investor-relations-financial-information.

The results of operations for the six months ended June 30, 2016, are not necessarily indicative of the operating results to be expected for the entire year ending December 31, 2016.

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.

New Accounting Pronouncements - In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. This ASU introduces a lessee model that brings most leases on the balance sheet. The standard also aligns certain of the underlying principles of the new lessor model with those in ASU No. 2014-09, the new revenue recognition standard. This ASU is effective for Aurora as of January 1, 2019. Management of Aurora is currently in the process of evaluating the impact of this guidance on its consolidated financial position, results of operations and cash flows.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, 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, 2018. Management of Aurora is currently in the process of evaluating the impact of this guidance on its consolidated financial position, results of operations and cash flows.

3. PATIENT SERVICE REVENUE AND PATIENT RECEIVABLES

Wisconsin assesses a fee or tax on gross patient service 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 six months ended June 30, 2016 and 2015, patient service revenue includes $55.3 million and $52.6 million, respectively, related to this program, and expenses include $48.1 million and $46.6 million, 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 six months ended June 30, 2016 and 2015:

	June 30, 2016	June 30, 2015
Managed care and all other	64%	63%
Medicare	27	28
Medicaid	8	8
Self-pay	1	1
	100%	100%

The self-pay revenue above includes only revenue from patients without insurance. The revenue related to amounts due from patients for co-insurance and deductibles is included with the related primary insurance coverage.

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 $0.7 million and $5.9 million for each of the six months ended June 30, 2016 and 2015, respectively.

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

Aurora's allowance for doubtful accounts increased $5.5 million (5.7%), from 11.3% of gross accounts receivable less contractual allowances at December 31, 2015 to 12.5% at June 30, 2016. The increase in the allowance for doubtful accounts is due to an increase in receivables from patients without insurance. Self-pay accounts, those for which the patient does not have insurance for hospital services, were reserved 100% at June 30, 2016 and December 31, 2015.

The composition of patient accounts receivable, net of contractual allowances (before the allowance for doubtful accounts) is summarized as follows as of June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Managed care and all other	47%	50%
Medicare	17	18
Medicaid	5	5
Self-pay	31	27
	100%	100%

The self-pay patient accounts receivable above includes amounts due from patients for co-insurance, deductibles, and amounts due from patients without insurance.

4. 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 at June 30, 2016 and December 31, 2015, due to their short-term maturities. The estimated fair value of long-term debt, based on discounted cash flows at estimated current borrowing rates, was $1,396.0 million and $1,386.4 million at June 30, 2016 and December 31, 2015, 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 June 30, 2016 and December 31, 2015 are as follows (in thousands):

	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Recurring fair value measurements:				
Cash equivalents	$ 30,665	$ 24,201	$ 6,464	$ —
Fixed-income securities:				
U.S. Treasury	91,142	—	91,142	—
Corporate bonds and other debt securities	186,214	—	186,214	—
Federal agency	92,871	—	92,871	—
Fixed income mutual funds	882,149	882,149	—	—
Domestic equity securities:				
Large-cap	16,484	16,484	—	—
Mid-cap	18,561	18,561	—	—
Small-cap	19,889	19,889	—	—
Real estate	192	192	—	—
Equity mutual funds and exchange-traded funds	319,003	319,003	—	—
International equity securities	124,201	124,201	—	—
Other	6,712	6,462	—	250
Total recurring fair value measurements	$ 1,788,083	$ 1,411,142	$ 376,691	$ 250
Cash	209,528			
Assets valued at net asset value	21,110			
Total cash and cash equivalents, investments and assets whose use is limited	$ 2,018,721			
Nonrecurring fair value measurements:				
Long-lived asset held for use	$ 1,985	$ —	$ 1,985	$ —
Long-lived assets held for sale	6,019	—	6,019	—
Total nonrecurring fair value measurements	$ 8,004	$ —	8,004	$ —
Liabilities				
Recurring fair value measurements:				
Other noncurrent liabilities — interest rate swap agreement	$ (2,437)	$ —	$ (2,437)	$ —

Assets	December 31, 2015	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	$ 27,821	$ 19,610	$ 8,211	$ —
Fixed-income securities:				
U.S. Treasury	80,456	—	80,456	—
Corporate bonds and other debt securities	187,999	—	187,999	—
Federal agency	89,889	—	89,889	—
Fixed income mutual funds	793,033	793,033	—	—
Domestic equity securities:				
Large-cap	16,156	16,156	—	—
Mid-cap	11,006	11,006	—	—
Small-cap	19,124	19,124	—	—
Real estate	279	279	—	—
Equity mutual funds and exchange-traded funds	300,598	300,598	—	—
International equity securities	107,183	107,183	—	—
Other	5,683	5,434	—	249
Total recurring fair value measurements	$ 1,639,227	$ 1,272,423	$ 366,555	$ 249
Cash	175,236			
Assets valued at net asset value	20,614			
Total cash and cash equivalents, investments and assets whose use is limited	$ 1,835,077			
Nonrecurring fair value measurements:				
Long-lived asset held for use	$ 1,985	$ —	$ 1,985	$ —
Long-lived assets held for sale	6,073	—	6,073	—
Total nonrecurring fair value measurements	$ 8,058	$ —	$ 8,058	$ —
Liabilities				
Recurring fair value measurements:				
Other noncurrent liabilities — interest rate swap agreement	$ (2,437)	$ —	$ (2,437)	$ —

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; certificates of deposit, and derivatives, 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 the six months ended June 30, 2016.

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.

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.

Interest Rate Swap Instrument — The fair value of the interest rate swap instrument is 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 June 30, 2016 and December 31, 2015 (dollars in thousands):

	Fair Value				
	June 30, 2016	**December 31, 2015**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Real estate investment trust	$ 12,890	$ 12,774	$—	Quarterly	90 days
International equity limited partnership	8,220	7,840	—	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 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.

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 fair value of this fund is determined using the calculated net asset value provided by the fund.

5. INVESTMENTS IN UNCONSOLIDATED ENTITIES AND NONCONTROLLING INTEREST IN SUBSIDIARIES

In April 2016, Aurora partnered with Anthem Blue Cross and Blue Shield in Wisconsin ("Anthem") to form a new, joint venture health insurance company, Wisconsin Collaborative Insurance Company ("WCIC"), which will offer a commercial health insurance product called Well Priority. Aurora acquired a 50% interest in the joint venture for cash consideration of $5.0 million and accounts for this investment under the equity method of accounting within investments in unconsolidated entities in the accompanying unaudited consolidated balance sheets.

Aurora has a 49% minority interest in Bay Area Medical Center ("BAMC"), a 99 bed general acute care hospital located in Marinette, Wisconsin. Aurora’s investment in Bay Area Medical Center is accounted for under the equity method of accounting and is presented within investments in unconsolidated entities in the accompanying unaudited consolidated balance sheets. Aurora's investment in BAMC as of June 30, 2016 and December 31, 2015, is $41.2 million and $46.4 million, respectively. The carrying amount of Aurora’s investment in BAMC is $32.7 million less than the underlying equity in the net assets of BAMC as of June 30, 2016 and December 31, 2015. 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.

In August 2015, Aurora and BAMC combined their medical group practices in Marinette, Wisconsin and its surrounding communities to form Aurora Bay Area Medical Group ("ABAMG"). ABAMG provides inpatient, outpatient and other necessary professional medical services. Aurora holds a 27% ownership interest in ABAMG based on an initial cash contribution of $1.8 million. Aurora's investment in ABAMG is accounted for under the equity method and is presented within investments in unconsolidated entities in the accompanying unaudited consolidated balance sheets. In conjunction with the formation of ABAMG in August 2015, Aurora sold its surgery center in the Marinette market to BAMC for cash of $9.9 million and recorded a gain on the sale of assets of $9.2 million in 2015. Additionally, as part of this transaction, Aurora began leasing employees and buildings to ABAMG, and subsequently recognized $11.2 million of other revenue for the period ended June 30, 2016. Aurora has made additional capital contributions to ABAMG of $3.0 million during the six months ended June 30, 2016. Aurora's investment in ABAMG was $0.9 million and $0.7 million as of June 30, 2016 and December 31, 2015, respectively.

In June 2015, Aurora acquired a 6.25% interest in StartUp Health Holdings, Inc., ("StartUp Health") for cash consideration of $5.0 million. StartUp Health is a global health innovation company with more than 100 digital health portfolio companies. Aurora's goal is to help accelerate the review and adoption of innovations aimed at transforming the delivery of care. Aurora's investment in StartUp Health was $5.0 million as of June 30, 2016 and December 31, 2015, and is accounted for under the equity method of accounting within investments in unconsolidated entities in the accompanying unaudited consolidated balance sheets.

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 $5.9 million and $5.6 million as of June 30, 2016 and December 31, 2015, respectively, is accounted for under the equity method of accounting and is presented within investments in unconsolidated entities in the accompanying unaudited 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 six month period ended June 30, 2016 and as of and for the year ended December 31, 2015, is as follows (in thousands):

	As of and for the Six Months Ended June 30, 2016				
	Bay Area Medical Center (1)	**ABAMG**	**Surgery Centers**	**Other Investees**	**Total**
Total assets	$ 221,426	$ 11,012	$ 12,757	$ 24,024	$ 269,219
Total liabilities	70,555	7,732	2,104	51,475	131,866
Equity	150,871	3,280	10,653	(27,451)	137,353
Total revenue	60,472	16,160	4,039	65,594	146,265
Net income (loss)	(13,963)	(10,483)	571	8,759	(15,116)

(1) ABAMG is included in the consolidated financial results of Bay Area Medical Center.

	As of and for the Twelve Months Ended December 31, 2015				
	Bay Area Medical Center [(1)]	**ABAMG**	**Surgery Centers**	**Other Investees**	**Total**
Total assets	$ 228,678	$ 6,117	$ 12,456	$ 24,117	271,368
Total liabilities	67,305	3,412	2,184	51,509	124,410
Equity	161,373	2,705	10,272	(27,392)	146,958
Total revenue	103,461	9,748	17,422	68,448	199,079
Net income (loss)	4,184	(7,795)	3,460	8,981	8,830

(1) ABAMG is included in the consolidated financial results of Bay Area Medical Center.

6. LONG-TERM DEBT

Long-term debt at June 30, 2016 and December 31, 2015 is summarized as follows (in thousands):

	June 30, 2016	December 31, 2015
Wisconsin Health and Educational Facilities Authority (WHEFA) fixed-rate bonds:		
Series 1993 (5.25% weighted average coupon for 2016 and 5.58% for 2015)	$ 81,220	$ 81,220
Series 2009A (5.12% weighted average coupon for 2016 and 5.28% for 2015)	23,650	23,650
Series 2009B (3.22% weighted average coupon for 2016 and 2015)	132,475	132,475
Series 2010A (5.43% weighted average coupon for 2016 and 5.42% for 2015)	162,375	166,780
Series 2010B (5.00% weighted average coupon for 2016 and 2015)	80,640	80,640
Series 2012A (4.77% weighted average coupon for 2016 and 4.76% for 2015)	212,015	212,015
Series 2013A (5.19% weighted average coupon for 2016 and 2015)	115,750	115,750
	808,125	812,530
WHEFA variable-rate bonds:		
Series 1999C (0.24% effective rate for 2016 and 0.03% for 2015)	50,000	50,000
Series 2008A (0.31% effective rate for 2016 and 0.12% for 2015)	80,000	80,000
Series 2008B (0.25% effective rate for 2016 and 0.12% for 2015)	79,470	79,470
Series 2010C (0.13% effective rate for 2016 and 0.11% for 2015)	102,905	102,905
Series 2012B (0.18% effective rate for 2016 and 0.03% for 2015)	39,350	39,350
Series 2012C (0.18% effective rate for 2016 and 0.03% for 2015)	39,350	39,350
Series 2012D (0.23% effective rate for 2016 and 0.04% for 2015)	58,630	58,630
	449,705	449,705
Unamortized original issue premium, net	11,923	12,682
Total WHEFA debt	1,269,753	1,274,917
Capital lease obligations and financing arrangements	227,705	239,646
Taxable Bond Series 2015A (0.84% effective rate for 2016 and 0.62% for 2015)	40,000	40,000
Term note	9,859	10,264
Notes payable	6,285	6,573
Deferred financing costs - net	(9,328)	(13,797)
Total long-term debt	1,544,274	1,557,603
Less amounts classified as current:		
Current installments	(69,770)	(69,067)
Long-term rate bonds classified as current	(67,475)	(67,475)
Total amounts classified as current	(137,245)	(136,542)
Long-term debt — net of current portion	$ 1,407,029	$ 1,421,061

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, $47.4 million is collateralized by bond insurance.

On April 15, 2015, Aurora redeemed $40.0 million of Series 2010A Fixed Rate Revenue Bonds with the proceeds of its Aurora Health Care, Inc. Taxable Bonds (the "2015A Bonds"). The 2015A Bonds were directly placed with Northern Trust Company. The 2015A Bonds bear interest at a taxable, variable rate and are subject to a mandatory tender on April 15, 2018.

The variable-rate demand bonds ("VRDBs") are collateralized by $467.0 million of irrevocable direct-pay letters of credit issued by commercial banks, which provide interim financing to Aurora in the event that remarketing efforts fail for tendered bonds and are drawn upon in the period to pay scheduled debt service on the bonds. The letters of credit expire at various dates through 2019 and have various repayment terms. For $327.6 million of the 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 $139.4 million 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 June 30, 2016 and December 31, 2015, no draws were outstanding under the letters of credit.

At June 30, 2016 and December 31, 2015, Aurora had outstanding $132.5 million 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 as of June 30, 2016 and December 31, 2015 (dollars in thousands):

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	

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. Without a liquidity facility dedicated to these bonds, the bond holder is required to put these bonds to Aurora on the mandatory tender date. At June 30, 2016 and December 31, 2015, $67.5 million of the long-term bonds are classified as current due to these requirements. The remainder of the long-term rate bonds are classified as long-term at June 30, 2016 and December 31, 2015.

At June 30, 2016 and December 31, 2015, Aurora had a $60.0 million 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 June 30, 2016 and December 31, 2015, two letters of credit issued under the line of credit totaling $37.7 million were outstanding. There were no outstanding draws on the line of credit or letters of credit as of June 30, 2016 or December 31, 2015.

7. 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 Pension Plan based on the amount calculated by the Pension Plan's actuaries to meet the minimum Employee Retirement Income Security Act (ERISA) funding requirements. During the six months ended June 30, 2016, Aurora made no contributions to the Pension Plan. The Pension Plan assets and obligations are measured at December 31.

Estimated amounts of the components of net periodic pension income for the six months ended June 30, 2016 and 2015 were as follows (in thousands):

	June 30, 2016	June 30, 2015
Interest cost on projected benefit obligation	$ 31,567	$ 33,856
Expected return on plan assets	(35,046)	(41,186)
Net amortization and deferral	3,065	5,139
Net periodic pension income	$ (414)	$ (2,191)

The amount of net periodic pension (income) will be adjusted at year-end to reflect actual results, based upon the final annual actuarial valuation.

The net actuarial loss not yet recognized as a component of periodic pension (income) cost was $391.1 million and $394.1 million as of June 30, 2016 and December 31, 2015, and is included in unrestricted net assets in the accompanying unaudited consolidated balance sheets.

Assumptions used to determine the net periodic pension (income) cost for six months ended June 30, 2016 and 2015 were as follows:

	2016	2015
Discount rate	4.70%	4.32%
Expected long-term rate of return on assets	5.50%	6.25%

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 asset allocation of the Pension Plan assets at June 30, 2016 and December 31, 2015, was as follows:

	June 30, 2016		December 31, 2015	
	Strategic Target	Actual	Strategic Target	Actual
Equity securities	33%	29%	33%	32%
Fixed-income securities	64%	66%	64%	65%
Real estate	3%	3%	3%	3%
Cash and cash equivalents	—%	2%	—%	—%
Total	100%	100%	100%	100%

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 salaries, wages and fringe benefits expense in the accompanying unaudited consolidated statements of operations and changes in unrestricted net assets for the six months ended June 30, 2016 and 2015 is $76.5 million and $71.4 million, respectively, for contributions to the Defined Contribution Plans.

Aurora also sponsors a noncontributory Section 457(b) defined contribution plan (the "457(b) Plan") covering select 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, each totaling $94.4 million and $84.6 million at June 30, 2016 and December 31, 2015, respectively, are included in long-term assets whose use is limited or restricted and pension and other employee benefit liabilities, in the accompanying unaudited consolidated balance sheets. The assets of this 457(b) Plan are subject to the claims of the general creditors of Aurora. Net investment income under the 457(b) Plan was $3.5 million and $1.5 million for the six months ended June 30, 2016 and 2015, respectively. Net investment income from the 457(b) Plan is included in other operating revenue with an equal offsetting expense in salaries, wages and fringe benefits in the accompanying unaudited consolidated statements of operations and changes in unrestricted net assets.

8. GENERAL AND PROFESSIONAL LIABILITY INSURANCE

Commercial insurance companies have issued policies covering Aurora's primary professional, general and managed care errors and omission liability risks. 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 anesthetist 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 $1.0 million per claim and $3.0 million 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 $2.0 million per occurrence and $4.0 million annual aggregate for most providers. Losses in excess of these amounts are covered by Aurora's umbrella/excess insurance.

The professional, general and managed care liabilities discussed above have been ceded back to Aurora Liability Assurance, Ltd. (ALA), a wholly-owned subsidiary of Aurora, through reinsurance agreements. Independent actuaries evaluate the required provision for outstanding losses related to these risks. At June 30, 2016 and December 31, 2015, Aurora has recorded a liability for outstanding losses, including incurred but not reported, discounted at 4.0%, totaling $37.7 million and $37.9 million, 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 unaudited 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.

9. SUBSEQUENT EVENTS

For the six months ended June 30, 2016, Aurora evaluated events and transactions for potential recognition and disclosure through August 26, 2016, the date of financial statement issuance.

On August 15, 2016, Aurora issued $218.0 million of fixed rate taxable bonds (Series 2016A and Series 2016B) which were placed directly with two commercial banks. The proceeds of the Series 2016A and 2016B Bonds were used to redeem $81.2 million of the Series 1993 Fixed Rate Revenue Bonds and $67.5 million of the Series 2009B-2 Fixed Rate Revenue Bonds. The remaining proceeds will be primarily used to fund various capital projects. In addition, Aurora terminated it's fixed-to-variable interest rate swap agreement which was associated with the 1993 Fixed Rate Revenue Bonds bond series.

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SUPPLEMENTARY CONSOLIDATING INFORMATION

AURORA HEALTH CARE, INC. AND AFFILIATES

UNAUDITED CONSOLIDATING BALANCE SHEET INFORMATION
(In thousands)

	June 30, 2016				December 31, 2015			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	$ (84,062)	$ 300,071	$ (5,073)	$ 210,936	$ (104,566)	$ 285,258	$ (4,066)	$ 176,626
Investments	1,409,867	—	—	1,409,867	1,272,107	—	—	1,272,107
Assets whose use is limited or restricted	—	6,463	—	6,463	5,001	5,792	—	10,793
Patient accounts receivable — net	502,386	218,071	(4,937)	715,520	534,622	225,292	144	760,058
Due from affiliates	268	100,508	(100,776)	—	—	124,040	(124,040)	—
Other receivables	49,966	29,420	(3,968)	75,418	58,014	30,309	(6,697)	81,626
Inventory	40,321	25,592	—	65,913	40,676	26,896	—	67,572
Prepaids and other current assets	50,394	11,753	(12,676)	49,471	56,500	9,866	(9,638)	56,728
Estimated third-party payor settlements	5,964	432	—	6,396	7,040	454	—	7,494
Total current assets	1,975,104	692,310	(127,430)	2,539,984	1,869,394	707,907	(144,297)	2,433,004
ASSETS WHOSE USE IS LIMITED OR RESTRICTED	129,516	261,939	—	391,455	118,498	257,053	—	375,551
PROPERTY, PLANT AND EQUIPMENT — Net	1,594,867	347,927	16,550	1,959,344	1,614,095	326,350	15,543	1,955,988
OTHER ASSETS:								
Intangible assets — net	4,275	12,612	(914)	15,973	4,676	12,483	(914)	16,245
Investments in unconsolidated entities	282,461	14,129	(218,026)	78,564	287,818	13,874	(227,904)	73,788
Other	273,616	53,435	(277,676)	49,375	256,993	54,722	(263,305)	48,410
Total other assets	560,352	80,176	(496,616)	143,912	549,487	81,079	(492,123)	138,443
TOTAL	$ 4,259,839	$ 1,382,352	$ (607,496)	$ 5,034,695	$ 4,151,474	$ 1,372,389	$ (620,877)	$ 4,902,986

(Continued)

AURORA HEALTH CARE, INC. AND AFFILIATES

UNAUDITED CONSOLIDATING BALANCE SHEET INFORMATION
(In thousands)

	June 30, 2016				December 31, 2015			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Current installments of long-term debt	$ 124,521	$ 24,294	$ (11,570)	$ 137,245	$ 123,629	$ 21,385	$ (8,472)	$ 136,542
Accounts payable	137,886	43,016	—	180,902	160,312	68,032	—	228,344
Accrued salaries and wages	196,381	63,627	—	260,008	220,127	56,943	—	277,070
Other accrued expenses	148,188	23,702	(9,077)	162,813	176,433	31,008	(4,097)	203,344
Due to Affiliates	100,508	268	(100,776)	—	124,040	—	(124,040)	—
Estimated third-party payor settlements	15,574	1,790	—	17,364	19,044	3,017	—	22,061
Total current liabilities	723,058	156,697	(121,423)	758,332	823,585	180,385	(136,609)	867,361
LONG-TERM DEBT — Less current installments	1,385,639	79,352	(57,962)	$ 1,407,029	1,399,158	66,652	(44,749)	1,421,061
OTHER LIABILITIES:								
Pension and other employee benefit liabilities	211,485	20,352	—	231,837	204,279	21,149	—	225,428
Self-insured liabilities	32,347	31,919	(1,202)	63,064	33,028	33,064	(1,194)	64,898
Deferred gain	39,113	—	—	39,113	41,863	—	—	41,863
Other	48,005	22,016	(3,259)	66,762	50,550	20,951	(6,310)	65,191
Total other liabilities	330,950	74,287	(4,461)	400,776	329,720	75,164	(7,504)	397,380
Total liabilities	2,439,647	310,336	(183,846)	2,566,137	2,552,463	322,201	(188,862)	2,685,802
NET ASSETS:								
Unrestricted:								
Controlling interest	1,541,712	980,683	(207,387)	2,315,008	1,317,577	965,910	(217,262)	2,066,225
Noncontrolling interest in subsidiaries	88,909	1,880	—	90,789	94,292	(5,845)	—	88,447
Total unrestricted net assets	1,630,621	982,563	(207,387)	2,405,797	1,411,869	960,065	(217,262)	2,154,672
Temporarily restricted	175,860	65,698	(197,530)	44,028	173,431	66,368	(196,020)	43,779
Permanently restricted	13,711	23,755	(18,733)	18,733	13,711	23,755	(18,733)	18,733
Total net assets	1,820,192	1,072,016	(423,650)	2,468,558	1,599,011	1,050,188	(432,015)	2,217,184
TOTAL	$ 4,259,839	$ 1,382,352	$ (607,496)	$ 5,034,695	$ 4,151,474	$ 1,372,389	$ (620,877)	$ 4,902,986

(Concluded)

AURORA HEALTH CARE, INC. AND AFFILIATES
UNAUDITED CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
FOR THE PERIODS ENDED JUNE 30, 2016 AND 2015
(In thousands)

	Three Months Ended June 30, 2016				Three Months Ended June 30, 2015			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
REVENUES:								
Patient service revenue (net of contractual allowances and discounts)	$ 873,741	$ 340,361	$ (11,570)	$ 1,202,532	$ 831,068	$ 324,432	$ (11,342)	$ 1,144,158
Less provision for bad debts	24,073	8,342	—	32,415	22,883	6,828	—	29,711
Net patient service revenue less provision for bad debts	849,668	332,019	(11,570)	1,170,117	808,185	317,604	(11,342)	1,114,447
Other revenue	60,797	90,545	(46,600)	104,742	69,374	84,809	(63,169)	91,014
Total revenue	910,465	422,564	(58,170)	1,274,859	877,559	402,413	(74,511)	1,205,461
EXPENSES:								
Salaries, wages and fringe benefits	517,530	184,195	(23,812)	677,913	483,250	174,611	(41,462)	616,399
Professional fees	12,429	6,685	(27)	19,087	15,451	5,758	(55)	21,154
Supplies	151,938	88,460	(3)	240,395	142,206	84,242	—	226,448
Depreciation and amortization	44,067	8,989	—	53,056	43,806	8,774	—	52,580
Interest	17,366	(3,308)	—	14,058	13,845	679		14,524
Maintenance and service contracts	25,495	2,949	(52)	28,392	24,870	2,921	(91)	27,700
Building and equipment rental	10,641	7,785	(2,225)	16,201	11,663	7,904	(1,714)	17,853
Hospital tax assessment	19,411	4,536	—	23,947	18,843	4,586		23,429
Utilities	8,235	2,855	(18)	11,072	8,699	2,774	(17)	11,456
Purchased services	27,542	8,624	(848)	35,318	26,702	8,501	(366)	34,837
Other expenses	(7,604)	56,644	(7,799)	41,241	(9,961)	55,236	(10,326)	34,949
Total expenses	827,050	368,414	(34,784)	1,160,680	779,374	355,986	(54,031)	1,081,329
Operating income (loss)	83,415	54,150	(23,386)	114,179	98,185	46,427	(20,480)	124,132
NONOPERATING INCOME:								
Investment income (loss)	27,602	3,440	—	31,042	(9,789)	(305)	—	(10,094)
Other nonoperating income — net	123	(123)	—	—	2,118	(201)	—	1,917
Total nonoperating income (loss) — net	27,725	3,317	—	31,042	(7,671)	(506)	—	(8,177)
EXCESS OF REVENUES OVER EXPENSES	111,140	57,467	(23,386)	145,221	90,514	45,921	(20,480)	115,955
Pension-related changes other than net periodic pension cost	1,533	—	—	1,533	2,663	—	—	2,663
Net assets released from restrictions for purchase of property and equipment	77	—	—	77	544	—	—	544
Distributions to noncontrolling interests	(7,304)	—	—	(7,304)	(21,397)	—	—	(21,397)
Other — net	(11)	—	—	(11)	89	—	—	89
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 105,435	$ 57,467	$ (23,386)	$ 139,516	$ 72,413	$ 45,921	$ (20,480)	$ 97,854

AURORA HEALTH CARE, INC. AND AFFILIATES
UNAUDITED CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
FOR THE PERIODS ENDED JUNE 30, 2016 AND 2015
(In thousands)

	Six Months Ended June 30, 2016				Six Months Ended June 30, 2015			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
REVENUES:								
Patient service revenue (net of contractual allowances and discounts)	$ 1,743,235	$ 676,091	$ (28,992)	$ 2,390,334	$ 1,652,265	$ 638,372	$ (20,044)	$ 2,270,593
Less provision for bad debts	52,692	18,257	—	70,949	36,093	14,259	—	50,352
Net patient service revenue less provision for bad debts	1,690,543	657,834	(28,992)	2,319,385	1,616,172	624,113	(20,044)	2,220,241
Other revenue	111,698	177,110	(84,802)	204,006	136,366	159,041	(98,865)	196,542
Total revenue	1,802,241	834,944	(113,794)	2,523,391	1,752,538	783,154	(118,909)	2,416,783
EXPENSES:								
Salaries, wages and fringe benefits	1,054,893	366,946	(51,579)	1,370,260	964,678	348,417	(57,789)	1,255,306
Professional fees	24,712	13,205	(46)	37,871	28,298	11,299	(108)	39,489
Supplies	289,950	178,183	(3)	468,130	282,471	162,214	—	444,685
Depreciation and amortization	85,568	19,007	—	104,575	86,580	18,074	—	104,654
Interest	28,276	(311)	—	27,965	28,348	1,075		29,423
Maintenance and service contracts	47,867	5,466	(81)	53,252	50,833	5,208	(162)	55,879
Building and equipment rental	20,959	15,728	(3,876)	32,811	23,679	16,158	(3,415)	36,422
Hospital tax assessment	38,904	9,198	—	48,102	37,691	8,956	—	46,647
Utilities	17,315	5,795	(37)	23,073	17,595	5,886	(35)	23,446
Purchased services	51,323	16,152	(1,565)	65,910	48,292	17,160	1,141	66,593
Other expenses	(15,943)	112,715	(16,500)	80,272	(14,656)	106,887	(20,885)	71,346
Total expenses	1,643,824	742,084	(73,687)	2,312,221	1,553,809	701,334	(81,253)	2,173,890
Operating income (loss)	158,417	92,860	(40,107)	211,170	198,729	81,820	(37,656)	242,893
NONOPERATING INCOME:								
Investment income	53,665	5,472	—	59,137	4,703	5,761	—	10,464
Other nonoperating income (loss) — net	858	(118)	—	740	2,362	(145)	—	2,217
Total nonoperating income — net	54,523	5,354	—	59,877	7,065	5,616	—	12,681
EXCESS OF REVENUES OVER EXPENSES	212,940	98,214	(40,107)	271,047	205,794	87,436	(37,656)	255,574
Pension-related changes other than net periodic pension cost	3,065	—	—	3,065	5,139	—	—	5,139
Net assets released from restrictions for purchase of property and equipment	304	—	—	304	621	—	—	621
Distributions to noncontrolling interests	(23,279)	—	—	(23,279)	(28,509)	—	—	(28,509)
Other — net	(12)	—	—	(12)	97	—	—	97
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 193,018	$ 98,214	$ (40,107)	$ 251,125	$ 183,142	$ 87,436	$ (37,656)	$ 232,922

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION

This quarterly report includes the consolidated financial statements and analysis for Aurora Health Care, Inc., a Wisconsin nonstock, nonprofit corporation (the "Corporation"), and its affiliates. References to "Aurora", "we", "our" and "us" in this document are to the Corporation and all of the affiliates and subsidiaries consolidated with it pursuant to accounting principles generally accepted in the United States of America ("GAAP"). References to the Corporation are references only to the parent corporation, and should not be read to include any of the Corporation's affiliates and subsidiaries.

We recommend that you read this discussion together with our unaudited consolidated financial statements and related notes included elsewhere in this quarterly report, as well as the audited consolidated financial statements of Aurora as of and for the year ended December 31, 2015. The audited consolidated financial statements are available from the Municipal Securities Rulemaking Board (the "MSRB") on its Electronic Municipal Market Access ("EMMA") system, found at http://emma.msrb.org.

Additional information can be obtained from the Investor Relations site on Aurora's website found at https://www.aurorahealthcare.org/about-aurora/investor-relations-financial-information.

Certain statements included in this quarterly report constitute forward-looking statements that involve risks and uncertainties. Actual results may differ significantly from the results discussed in the forward-looking statements as a result of known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. We do not plan to issue any updates or revisions to those forward-looking statements if or when the expectations, or events, conditions or circumstances on which such statements are based occur.

AURORA HEALTH CARE, INC. AND AFFILIATES

KEY FINANCIAL RATIOS
FOR THE PERIOD ENDED JUNE 30, 2016

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating Performance:				
Operating margin[1]	9.0%	10.3%	8.4%	10.1%
EBIDA percent[2]	16.7%	15.2%	16.0%	16.1%

	As of June 30 2016	As of December 31, 2015
Liquidity:		
Days cash on hand[3]	146.6	137.4
Financial Position/Leverage Ratios:		
Net AR days outstanding[4]	56.1	61.4
Unrestricted cash to debt[5]	115%	103%
Cash to puttable debt[6]	363%	327%
Debt to capitalization[7]	39%	42%
Debt to cash flow[8]	2.4	2.4
Debt service coverage ratio[9]	7.8x	6.0x

(1) Operating income/Total revenue.

(2) (Excess of revenues over expenses + Interest expense + Depreciation and amortization expense)/Total revenue.

(3) (Unrestricted cash and investments)/((Total expenses – Depreciation and amortization expense)/actual number of days in a period).

(4) Accounts receivable, net/(Net patient service revenue/actual number of days in a period).

(5) (Unrestricted cash and investments)/(Current installments of long-term debt + Long-term debt, less current installments).

(6) (Unrestricted cash and investments)/Total variable rate demand bonds outstanding.

(7) (Current installments of long-term debt + Long-term debt, less current installments)/(Current installments of long-term debt + Long-term debt, less current installments + Total Unrestricted net assets).

(8) (Current installments of long-term debt + Long-term debt, less current installments)/(Excess of revenue over expenses + Depreciation and amortization expense) for the four consecutive quarters.

(9) (Excess of revenues over expenses + Interest expense + Depreciation and amortization expense)/(Principal payments + Interest expense) for the four consecutive quarters.

AURORA HEALTH CARE, INC. AND AFFILIATES

HISTORICAL UTILIZATION

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Adult inpatient days	110,880	109,114	226,480	222,807
Adult average daily census	1,232	1,199	1,244	1,231
Adult average length of stay	4.3	4.3	4.4	4.4
Adult discharges	25,715	25,260	51,281	50,188
Emergency room visits	97,408	99,067	199,577	194,429
Observation and bedded outpatients	9,733	9,151	19,058	17,749
Surgical cases	28,660	27,560	56,145	53,459
Physician clinic, hospital outpatient and other visits	1,838,583	1,763,119	3,679,564	3,508,794

ANALYSIS OF RESULTS OF OPERATIONS

Results of Operations – Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Operating income was $114.2 million for the three months ended June 30, 2016, resulting in an operating margin of 9.0%, as compared to operating income of $124.1 million and an operating margin of 10.3% for the three months ended June 30, 2015. Nonoperating income was $31.0 million for the three months ended June 30, 2016 compared to nonoperating loss of $8.2 million for the same period in 2015. The increase in nonoperating income from the prior period is largely due to an increase in unrealized investment gains as a result of a higher concentration of equity investments during the current period. These investments are significantly impacted by overall changes in the financial markets. Overall, Aurora reported an excess of revenue over expenses of $145.2 million for the three months ended June 30, 2016 compared to $116.0 million for the same period in the prior year.

Patient service revenue increased $58.4 million (5.1%) in the three months ended June 30, 2016, compared to the same period in 2015. Patient service revenue increased primarily due to the annual price increase effective January 1, 2016 and an increase in volume; observation and bedded outpatients, physician clinic, hospital outpatient and other visits, surgical cases and adult discharges increased 6.4%, 4.3%, 4.0%, and 1.8%, respectively for the three months ended June 30, 2016 compared to the same period in the prior year.

Provision for bad debts increased $2.7 million (9.1%) in the three months ended June 30, 2016, compared to the same period in the prior year primarily due to volume. The provision for bad debt as a percentage of gross patient service revenue was 0.8% for the three months ended June 30, 2016 and 2015.

Other revenue increased $13.7 million (15.1%) in the three months ended June 30, 2016, compared to the same period in the prior year. The increase in other revenue was primarily driven by a $9.4 million increase in pharmacy sales of specialty drugs offset by a $7.0 million decrease in 340B revenue due to a change in the program qualification criteria. Additionally, during the three months ended June 30, 2016, risk sharing revenue increased by $2.9 million due to additional risk share arrangements entered into with various insurance organizations. Additional revenue of $3.3 million was also generated in the current period due to the lease of employees and property to Aurora Bay Area Medical Group ("ABAMG") which was formed in August of 2015.

Salaries, wages and fringe benefits expense increased $61.5 million (10.0%) in the three months ended June 30, 2016, compared to the same period in the prior year. The increase in salaries, wages and fringe benefits expense is primarily due to the annual merit increase of 2.8% which became effective in July of 2015. The increase is also due to a 5.8% increase in full time equivalents in response to an increase in volume from the same period in the prior year. The increase in full time equivalents has resulted in corresponding increases in benefit related expenses such as health expense, paid time off and employer paid FICA tax.

Supplies expense increased $13.9 million (6.2%) in the three month period ended June 30, 2016, compared to the same period in the prior year primarily due to increased volumes. Supplies expense as a percent of patient service revenue has remained consistent at 20.0% for the three months ended June 30, 2016 compared to 19.8% for the three months ended June 30, 2015.

The remaining expenses including; professional fees, depreciation and amortization, interest, maintenance and service contracts, building and equipment rental, hospital tax assessment, utilities, purchased services, and other expenses remained relatively consistent for the three months ended June 30, 2016 compared to the three months ended June 30, 2015, increasing $3.9 million (1.6%), in the aggregate.

Results of Operations – Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Operating income was $211.2 million for the six months ended June 30, 2016 , resulting in an operating margin of 8.4%, as compared to operating income of $242.9 million and an operating margin of 10.1% for the six months ended June 30, 2015. Nonoperating income was $59.9 million for the six months ended June 30, 2016 compared to nonoperating income of $12.7 million for the same period in 2015. The increase in nonoperating income is largely due to an increase in unrealized investment gains as a result of a higher concentration of equity investments during the current period. These investments are significantly impacted by overall changes in the financial markets. Overall, Aurora reported an excess of revenue over expenses of $271.0 million for the six months ended June 30, 2016 compared to $255.6 million for the same period in the prior year.

Patient service revenue increased $119.7 million (5.3%) in the six months ended June 30, 2016, compared to the same period in 2015. Patient service revenue increased primarily due to the annual price increase effective January 1, 2016 and an increase in volume; observation and bedded outpatients, surgical cases, physician clinic, hospital outpatient and other visits and emergency room visits increased 7.4%, 5.0%, 4.9%, and 2.6%, respectively for the six months ended June 30, 2016 compared to the same period in the prior year.

Provision for bad debts increased $20.6 million (40.9%) in the six months ended June 30, 2016, compared to the same period in the prior year. Bad debt as a percentage of gross patient service revenue increased from 0.7% for the six months ended June 30, 2015 to 0.9% for six months ended June 30, 2016 due to an increase in revenue from self-pay patients.

Other revenue increased $7.5 million (3.8%) in the six months ended June 30, 2016, compared to the same period of the prior year. The increase in other revenue is primarily related to $7.1 million of revenue generated from the lease of employees and property to Aurora Bay Area Medical Group ("ABAMG") which was formed in August of 2015. Additionally, during the period there was a $4.4 million increase in pharmacy sales of specialty drugs and an increase in risk sharing revenue of $3.2 million due to additional risk share arrangements entered into with various insurance organizations. These increases were partially offset by a $13.2 million decrease in 340B revenue due to a change in the program qualification criteria.

Salaries, wages and fringe benefits expense increased $115.0 million (9.2%) in the six months ended June 30, 2016, compared to the same period in the prior year. The increase in salaries, wages and fringe benefits expense is primarily due to the annual merit increase of 2.8% which became effective in July of 2015. The increase is also due to a 6.2% increase in full time equivalents in response to an increase in volume from the same period in the prior year. The increase in full time equivalents has resulted in corresponding increases in benefit related expenses such as health expense, paid time off and employer paid FICA tax.

Supplies expense increased $23.4 million (5.3%) in the six months ended June 30, 2016, compared to the same period in the prior year primarily due to increased volumes. Supplies expense as a percent of patient service revenue has remained consistent at 19.6% for the six months ended June 30, 2016 as compared to 19.6% for the six months ended June 30, 2015.

The remaining expenses including; professional fees, depreciation and amortization, interest, maintenance and service contracts, building and equipment rental, hospital tax assessment, utilities, purchased services, and other expenses remained relatively consistent for the six months ended June 30, 2016 as compared to the six months ended June 30, 2015, decreasing $0.1 million (0.0%), in the aggregate.

ANALYSIS OF FINANCIAL CONDITION

Liquidity – Cash and Investments

Aurora's objectives for its investment portfolios are to target returns over the long-term within management determined reasonable and prudent levels of risk and to preserve and enhance its financial structure. The asset allocation of the portfolios, in aggregate, is broadly diversified across domestic and international equity, fixed income asset classes and cash equivalents and is designed to maximize the probability of achieving the long-term investment objectives at an appropriate level of risk while maintaining a level of liquidity to meet current business requirements. Portfolio performance is monitored throughout the year by comparing actual results to specific asset class appropriate benchmarks.

Pension plan investments are primarily maintained in a master trust fund administered using a bank as trustee. All other investments are held in bank accounts whereby the bank provides custody and safekeeping services. Management of Aurora's investments is conducted by external investment management organizations that are monitored by an investment committee to Aurora's Board of Directors, management and a third-party external advisor. Aurora has established formal investment policies that support Aurora's investment objectives.

The following table sets forth the allocation of Aurora's cash and cash equivalents, investments, and assets whose use is limited or restricted at June 30, 2016 and December 31, 2015 (dollars in thousands):

	June 30, 2016		December 31, 2015	
Cash and cash equivalents	$ 240,183	11.9%	$ 203,058	11.1%
Fixed-income securities	1,252,376	62.1%	1,151,377	62.7%
Equity securities	506,551	25.1%	462,186	25.2%
Real estate investments	12,890	0.6%	12,774	0.7%
Other	6,721	0.3%	5,682	0.3%
Total	2,018,721	100.0%	1,835,077	100.0%
Less restricted investments *	(240,440)		(232,852)	
Total unrestricted cash and investments	$ 1,778,281		$ 1,602,225	
Days cash on hand	146.6		137.4	

* Restricted investments include donor restricted funds, contractually restricted funds and funds held by a trustee.

Aurora's unrestricted cash and investments increased by $176.1 million or (11.0)% from December 31, 2015 to June 30, 2016. The increase in unrestricted cash and investments was primarily due to $302.7 million of cash generated from operations, offset by $111.8 million of capital expenditures, $30.5 million of distributions to minority shareholders and $15.2 million of repayments of long-term debt.

Investment income for the six months ended June 30, 2016 and 2015, consisted of the following (in thousands):

	2016	2015
Interest income and dividends	$ 18,624	$ 16,675
Net realized (losses) gains on securities	(2,438)	2,475
Changes in unrealized gains on investments, trading	48,965	(4,654)
Total	$ 65,151	$ 14,496

Investment income for the six months ended June 30, 2016 and 2015, is classified in the unaudited consolidated statements of operations and changes in unrestricted net assets and unaudited consolidated statement of changes in net assets as follows (in thousands):

	2016	2015
Other revenue	$ 4,844	$ 2,998
Investment income	59,137	10,464
Temporarily restricted net assets	1,170	1,034
Total	$ 65,151	$ 14,496

Liquidity – Accounts Receivable

Net accounts receivable days outstanding decreased from 61.4 days as of December 31, 2015 to 56.1 days as of June 30, 2016. The decrease in net accounts receivable days outstanding is largely due to a reduction of the coding backlog that existed at December 31, 2015 as a result of ICD-10.

Indebtedness

Master Indenture Obligations: The Corporation has certain outstanding long-term indebtedness in the form of revenue bonds issued by the Wisconsin Health and Educational Facilities Authority on its behalf (the "Revenue Bonds"). The Corporation's obligation to pay debt service on the Revenue Bonds is secured by Obligations issued under a Second Restated Master Trust Indenture, dated January 1, 2012, between the Members of the Obligated Group created thereunder and U.S. Bank National Association, as Master Trustee (the "Master Indenture"). The obligations of the Corporation to repay advances made under the J.P. Morgan Line of Credit and the Letters of Credit described below are also secured by Obligations issued under the Master Indenture.

At June 30, 2016 and December 31, 2015, the aggregate principal amount of the Revenue Bonds outstanding was as follows (in thousands):

	June 30, 2016	December 31, 2015
Fixed rate revenue bonds	$ 687,573	$ 692,737
Long-term rate revenue bonds	132,475	132,475
Variable rate revenue bonds	449,705	449,705
Total	$ 1,269,753	$ 1,274,917

Fixed Rate Revenue Bonds: At June 30, 2016 and December 31, 2015 the Corporation had outstanding $687.6 million (including $11.9 million of unamortized original premium, net) and $692.7 million (including $12.7 million of unamortized original premium, net) of Fixed Rate Bonds, respectively. The weighted average interest rate on the Fixed Rate Revenue Bonds was 4.79% at June 30, 2016 and 4.83% at December 31, 2015.

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 amount described below. 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. Failure of the Corporation to pay the purchase price on the applicable tender date would constitute an event of default under the related bond documents.

Series	Principal Amount (in thousands)	Mandatory Tender Date
Series 2009B-1	$65,000	August 15, 2017
Series 2009B-2	67,475	August 15, 2016*

* The 2009B-2 bonds were redeemed on August 15, 2016 with proceeds of the Series 2016 Bonds.

Variable Rate Demand Bonds (“VRDBs”): At June 30, 2016 and December 31, 2015, the Corporation had outstanding $449.7 million of VRDBs. The VRDBs bear interest at variable rates (currently in daily, weekly, or Unit Pricing interest rate modes) and are subject to optional tender for purchase by their holders. At June 30, 2016 and December 31, 2015, all of the VRDBs are secured by letters of credit issued by commercial banks (the “Letters of Credit”). Subject to certain requirements in the related Reimbursement Agreements, the Letters of Credit may be drawn on to pay the purchase price of the VRDBs in the event they are not remarketed. The Letters of Credit expire at various dates through 2019 (as set forth in the table below) and have various repayment terms. Principal payments for any advances under each of the Letters of Credit begin the earlier of one year from the date of the advance and two months after the expiration date of the Letter of Credit. The principal payments for any advance under the Letters of Credit amortize over a two or three-year period. Each Letter of Credit is subject to extension of its expiration date at the sole discretion of the related commercial bank.

Bank		Par (in thousands)	Expiration
J.P. Morgan	$	50,822	09/29/2017
J.P. Morgan		84,384	09/29/2017
J.P. Morgan		83,825	09/29/2017
Bank of America		108,543	01/31/2019
Bank of Montreal		39,945	2/7/2018
Bank of Montreal		39,945	2/7/2018
Bank of Montreal		59,517	2/7/2018
Total	$	466,981	

Line of Credit: At June 30, 2016 and December 31, 2015, the Corporation had a $60.0 million line of credit, under which letters of credit can also be issued, with J.P. Morgan Chase Bank, N.A., bearing interest at the commercial bank floating rate or LIBOR plus a spread, based upon the option of the Corporation. As of June 30, 2016 and December 31, 2015, two letters of credit issued under the line of credit totaling $37.7 million, were outstanding. There are currently no outstanding draws on the line of credit or letters of credit.

Other Indebtedness: Aurora is obligated under capital lease and financing arrangements entered into in connection with certain sale-leaseback transactions and capital leases of buildings which are reflected as long-term debt in the consolidated unaudited financial statements of Aurora. These arrangements, which relate to various administrative and medical support buildings, had initial lease terms of 15 to 25 years. At June 30, 2016 and December 31, 2015, the outstanding amount of capital lease obligations and financing arrangements was $227.7 million and $239.6 million, respectively.

On April 15, 2015, Aurora redeemed $40.0 million of Fixed Rate Revenue Bonds with proceeds of $40.0 million Aurora Health Care, Inc. Taxable Bonds Series 2015A (the “2015A Bonds”). The 2015A Bonds were directly placed with Northern Trust Company. The 2015A Bonds bear interest at a taxable, variable rate and are subject to mandatory tender on April 15, 2018.

On August 15, 2016, Aurora issued $218 million of fixed rate taxable bonds (Series 2016A and Series 2016B) which were placed directly with two commercial banks. The proceeds of the Series 2016A and 2016B Bonds were used to redeem $81.2 million of the Series 1993 Fixed Rate Revenue Bonds and $67.5 million of the Series 2009B-2 Fixed Rate Revenue Bonds. The remaining proceeds will be primarily used to fund various capital projects.

Aurora is also obligated under a term note and various other debt. The term note is an obligation of Aurora BayCare Medical Center, and is collateralized by a mortgage on the orthopedic and sports medicine complex and a pledge of Aurora BayCare Medical Center’s interest in, and proceeds from, certain lease agreements.

Aurora's total long-term debt at June 30, 2016 and December 31, 2015 is as follows (in thousands):

	June 30, 2016	December 31, 2015
Total revenue bonds	$ 1,269,753	$ 1,274,917
Capital lease obligations and financing arrangements	227,705	239,646
Taxable bond	40,000	40,000
Term note	9,859	10,264
Various notes payable	6,285	6,573
Deferred financing costs - net	(9,328)	(13,797)
Total long-term debt	$ 1,544,274	$ 1,557,603

Interest Rate Swap Agreement

Aurora has a fixed-to-variable interest rate swap agreement (the "Swap Agreement") with Merrill Lynch Capital Services, Inc. ("MLCS") with respect to the Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 1993 (Aurora Health Care Obligated Group), maturing in August 2023 (the "Series 1993 Bonds"). During the term of the Swap Agreement, Aurora continues to pay interest on the Series 1993 Bonds at their fixed interest rates, and pays MLCS a variable-rate based on the Securities Industry and Financial Markets Association Index (SIFMA) plus a spread calculated on a notional amount equal to the principal amount of the Series 1993 Bonds outstanding plus a premium. In turn, Aurora receives fixed-rate payments from MLCS based on a notional amount equal to the principal amount of the Series 1993 Bonds outstanding. At June 30, 2016 and December 31, 2015, the fair value of the Swap Agreement was a liability of $2.4 million.

The Swap Agreement terminates in February 2018. In addition, the terms of the Swap Agreement require Aurora to transfer collateral to MLCS if its liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based on the rating of the Series 1993 Bonds. Aurora's payment obligations under the Swap Agreement are secured by an Obligation issued under the Master Indenture. As of June 30, 2016 and December 31, 2015, no collateral was required. The Corporation received net swap payments of $1.8 million and $1.9 million during the six months ended June 30, 2016 and 2015, respectively.

In connection with the redemption of the Series 1993 Fixed Revenue Bonds on August 15, 2016, the Swap Agreement was terminated.

LEGAL AND REGULATORY COMPLIANCE

Aurora operates in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been instituted or asserted against it from time to time. While it is impossible to predict the likelihood of future claims or inquiries, Aurora expects that new matters will be initiated against it in regular course. The results of claims, lawsuits and investigations cannot be predicted, and it is possible that the ultimate resolution of these matters, individually or in the aggregate, may have a material adverse effect on Aurora's business, financial position, results of operations, or cash flows.

There are currently no pending legal proceedings and investigations that are not in the ordinary course of business, within applicable insurance coverages, or for which management has determined the amount of ultimate liability with respect to such proceedings and investigations will materially affect Aurora's consolidated results of operations or net assets.

Compliance and Internal Audit Programs

Aurora has a corporate compliance department and maintains a corporate compliance program intended to be consistent with laws and government guidance relating to compliance programs in health care entities. The program includes mandatory education of all employees about certain significant legal and regulatory requirements applicable to the organization, including HIPAA and other privacy regulations, and includes steps to monitor and promote compliance with these requirements. All employees are provided a copy of the Aurora Code of Ethical Conduct and sign a document acknowledging they have read it and understand it reflects Aurora's policy. A "hotline" is available to all employees and physicians to report any areas of potential concern. In addition, Aurora has adopted policies designed to address specific risk areas and has instituted processes intended to correct problems identified through the hotline or its other compliance activities. The corporate compliance department reports functionally to the Chief Administrative Officer and administratively to the Audit Committee to the Board of Directors.

Aurora also has an internal audit department responsible for providing independent and objective assurance and consulting services designed to add value and improve Aurora's operations and control environment. The internal audit department reports functionally to the Chief Administrative Officer and administratively to the Audit Committee to the Board of Directors. The responsibilities of the internal audit department include assessing the effectiveness of internal controls, reviewing compliance with applicable laws and regulations and assessing the reliability of financial reporting.

Debt Compliance Program

Aurora has adopted a debt compliance policy, which establishes uniform guidelines in connection with its tax-exempt bonds and other financial arrangements. The purpose of the policy is to ensure compliance with all federal tax laws relating to tax-exempt bonds including, but not limited to, rules relating to ownership and use of bond-financed property and investment of bond proceeds; compliance with all securities laws relating to Aurora and its bonds including ongoing public disclosure requirements and compliance with all financial and other covenants imposed under the Master Indenture, loan agreements and other agreements related to its bonds and financial arrangements. Preparing and maintaining documentation necessary to provide a record of compliance is an integral aspect of the policy.

FINANCIAL REPORTING INITIATIVES

Aurora continues to strengthen and improve its internal control environment and create efficiencies in the financial reporting process. Aurora's internal controls program is based upon concepts established in the Sarbanes-Oxley Act of 2002 ("SOX"), even though Aurora is not subject to the provisions of SOX. The internal controls program is focused on ensuring the integrity and reliability of financial information, strengthening internal controls in the reporting process, reducing the risk of fraud and increasing efficiencies in the financial reporting process.

BOND RATINGS

Aurora's outstanding bonds have been assigned ratings of A (positive outlook) and A2 (stable outlook) by Fitch and Moody's, respectively, as of June 30, 2016.

INDUSTRY RISKS

For a description of industry risks, see "Risk Factors" in Exhibit I to the 2015 Annual Financial Report dated May 13, 2016. The Annual Financial Report can be accessed from the MSRB on its EMMA system, found at http://emma.msrb.org. Additional information can be obtained from the Investor Relations site on Aurora's website found at https://www.aurorahealthcare.org/about-aurora/investor-relations-financial-information.