Aurora Health Care®

Aurora Health Care, Inc. and Affiliates

Unaudited Consolidated Financial Statements and Other Information
For the Period Ended March 31, 2016

Document Dated as of May 27, 2016

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

	March 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 128,746	$ 176,626
Investments	1,305,777	1,272,107
Assets whose use is limited or restricted	5,178	10,793
Patient accounts receivable — net of allowance for doubtful accounts of $97,287 and $96,351 in 2016 and 2015, respectively	739,854	760,058
Other receivables	73,368	81,626
Inventory	67,265	67,572
Prepaids and other current assets	45,286	56,728
Estimated third-party payor settlements	7,747	7,494
Total current assets	2,373,221	2,433,004
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
Board-designated and other	153,630	153,491
Contractually-restricted	145,333	135,558
Donor restricted	56,035	54,295
Debt service reserve	32,455	32,207
Total assets whose use is limited or restricted	387,453	375,551
PROPERTY, PLANT, AND EQUIPMENT — Net	1,974,965	1,955,988
OTHER ASSETS:		
Intangible assets — net	15,688	16,245
Investments in unconsolidated entities	73,391	73,788
Other	49,452	48,410
Total other assets	138,531	138,443
TOTAL	$ 4,874,170	$ 4,902,986

(Continued)

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

	March 31, 2016	December 31, 2015
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current installments of long-term debt	$ 136,782	$ 136,542
Accounts payable	184,708	228,344
Accrued salaries and wages	235,128	277,070
Other accrued expenses	145,509	203,344
Estimated third-party payor settlements	22,002	22,061
Total current liabilities	724,129	867,361
LONG-TERM DEBT — Less current installments	1,416,265	1,421,061
OTHER LIABILITIES:		
Pension and other employee benefit liabilities	232,370	225,428
Self-insured liabilities	63,426	64,898
Deferred gain	40,488	41,863
Other	68,313	65,191
Total other liabilities	404,597	397,380
Total liabilities	2,544,991	2,685,802
NET ASSETS:		
Unrestricted:		
Controlling interest	2,183,313	2,066,225
Noncontrolling interest in subsidiaries	82,968	88,447
Total unrestricted net assets	2,266,281	2,154,672
Temporarily restricted	44,165	43,779
Permanently restricted	18,733	18,733
Total net assets	2,329,179	2,217,184
TOTAL	$ 4,874,170	$ 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 March 31,	
	2016	**2015**
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	$ 1,187,802	$ 1,120,365
Less provision for bad debts	38,534	14,571
Net patient service revenue less provision for bad debts	1,149,268	1,105,794
Other revenue	99,264	105,528
Total revenue	1,248,532	1,211,322
EXPENSES:		
Salaries, wages and fringe benefits	692,347	638,907
Professional fees	18,784	18,335
Supplies	227,735	218,238
Depreciation and amortization	51,519	52,074
Interest	13,907	14,899
Maintenance and service contracts	24,860	28,179
Building and equipment rental	16,610	18,568
Hospital tax assessment	24,155	23,218
Utilities	12,001	11,990
Purchased services	30,592	31,756
Other expenses	39,031	36,397
Total expenses	1,151,541	1,092,561
OPERATING INCOME	96,991	118,761
NONOPERATING INCOME:		
Investment income	28,095	20,558
Other nonoperating income — net	740	300
Total nonoperating income — net	28,835	20,858
EXCESS OF REVENUE OVER EXPENSES	125,826	139,619
Pension-related changes other than periodic pension cost	1,532	2,476
Net assets released from restriction for purchase of property and equipment	227	77
Distributions to noncontrolling interests	(15,975)	(7,112)
Other - net	(1)	8
INCREASE IN UNRESTRICTED NET ASSETS	$ 111,609	$ 135,068

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 MARCH 31, 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	128,019	11,600	139,619	—	—	139,619
Pension-related changes other than net periodic pension costs	2,476	—	2,476	—	—	2,476
Contributions	—	—	—	1,405	—	1,405
Change in unrealized gains and losses on investments	—	—	—	875	—	875
Investment income	—	—	—	313	—	313
Net assets released from restrictions for operations	—	—	—	(859)	—	(859)
Net assets released from restrictions for purchase of property and equipment	77	—	77	(77)	—	—
Distributions to noncontrolling interest	—	(7,112)	(7,112)	—	—	(7,112)
Other — net	8	—	8	102	—	110
Increase in net assets	130,580	4,488	135,068	1,759	—	136,827
NET ASSETS — March 31, 2015	$ 1,770,201	$ 91,119	$ 1,861,320	$ 48,456	$ 18,472	$ 1,928,248
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	115,330	10,496	125,826	—	—	125,826
Pension-related changes other than net periodic pension costs	1,532	—	1,532	—	—	1,532
Contributions	—	—	—	1,790	—	1,790
Change in unrealized gains and losses on investments	—	—	—	285	—	285
Investment income	—	—	—	30	—	30
Net assets released from restrictions for operations	—	—	—	(1,468)	—	(1,468)
Net assets released from restrictions for purchase of property and equipment	227	—	227	(227)	—	—
Distributions to noncontrolling interest	—	(15,975)	(15,975)	—	—	(15,975)
Other — net	(1)	—	(1)	(24)	—	(25)
Increase (decrease) in net assets	117,088	(5,479)	111,609	386	—	111,995
NET ASSETS — March 31, 2016	$ 2,183,313	$ 82,968	$ 2,266,281	$ 44,165	$ 18,733	$ 2,329,179

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 111,995	$ 136,827
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	(1,532)	(2,476)
Realized and unrealized gains on investments, net	(22,029)	(15,628)
Gain on sale of property, plant, and equipment	(574)	(314)
Amortization of intangible assets and other items	1,012	1,051
Amortization of deferred gains	(1,375)	(1,375)
Depreciation and amortization	51,519	52,074
Provision for bad debts	38,534	14,571
Distribution to noncontrolling interest	23,243	7,112
Increase in accounts receivable	(18,330)	(81,726)
Decrease in accounts payable and accrued expenses	(139,612)	(193,470)
(Decrease) increase in estimated third-party payor settlements	(312)	662
Increase (decrease) in pension and other employee benefit liabilities	8,474	(32,037)
(Decrease) increase in self-insured liabilities	(1,472)	1,877
Other changes in assets and liabilities, net	23,310	(6,484)
Net cash provided by (used in) operating activities	72,851	(119,336)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(73,257)	(48,585)
Proceeds from sales of property, plant, and equipment	269	314
Investment in unconsolidated entities	(2,193)	(1,000)
Distributions from unconsolidated entities	934	1,099
Purchases of investments	(52,897)	—
Sales of investments	34,969	(15,311)
Net cash used in investing activities	(92,175)	(63,483)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(5,313)	(5,003)
Distribution to noncontrolling interest	(23,243)	(7,112)
Net cash used in financing activities	(28,556)	(12,115)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(47,880)	(194,934)
CASH AND CASH EQUIVALENTS:		
Beginning of period	176,626	238,772
End of period	$ 128,746	$ 43,838

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 March 31, 2016, and for the three months ended March 31, 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. 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, 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 within Aurora's website found at https://www.aurorahealthcare.org/about-aurora/investor-relations-financial-information.

The results of operations for the three months ended March 31, 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. 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. 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 three months ended March 31, 2016 and 2015, patient service revenue includes $29.9 million and $26.6 million, respectively, related to this program, and expenses include $24.2 million and $23.2 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 three months ended March 31, 2016 and 2015:

	March 31,	
	2016	**2015**
Managed care and all other	64%	63%
Medicare	26	27
Medicaid	8	9
Self-pay	2	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 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 $1.0 million for each of the three months ended March 31, 2016 and 2015.

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 remained consistent at 11.6% of gross accounts receivable less contractual allowances at March 31, 2016 compared to 11.3% at December 31, 2015. Self-pay accounts, those for which the patient does not have insurance for hospital services were reserved 100% at March 31, 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 March 31, 2016 and December 31, 2015:

	March 31, 2016	**December 31, 2015**
Managed care and all other	49%	50%
Medicare	17	18
Medicaid	5	5
Self-pay	29	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, due to their short-term maturities, at March 31, 2016 and December 31, 2015. The estimated fair value of long-term debt, based on discounted cash flows at estimated current borrowing rates, was $1,394.2 million and $1,386.4 million at March 31, 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 March 31, 2016 and December 31, 2015 are as follows (in thousands):

	March 31, 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	$ 26,753	$ 22,091	$ 4,662	$ —
Fixed-income securities:				
U.S. Treasury	86,457	—	86,457	—
Corporate bonds and other debt securities	186,872	—	186,843	29
Federal agency	94,035	—	93,900	135
Fixed income mutual funds	808,509	808,509	—	—
Domestic equity securities:				
Large-cap	16,487	16,487	—	—
Mid-cap	11,024	11,024	—	—
Small-cap	25,442	25,442	—	—
Real estate	225	225	—	—
Equity mutual funds and exchange-traded funds	309,891	309,891	—	—
International equity securities	107,831	107,831	—	—
Other	6,373	6,124	—	249
Total recurring fair value measurements	$ 1,679,899	$ 1,307,624	$ 371,862	$ 413
Cash	127,104			
Assets valued at net asset value	20,151			
Total cash and cash equivalents, investments and assets whose use is limited	$ 1,827,154			
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)	$ —

Assets	December 31, 2015	Quoted Prices in Active Markets for Identical Assets	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; 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 three months ended March 31, 2016 or 2015.

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 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 March 31, 2016 and December 31, 2015 (dollars in thousands):

	Fair Value March 31, 2016	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real estate investment trust	$ 12,652	$-	Quarterly	90 days
International equity limited partnership	$ 7,499	$-	Monthly	15 days

	Fair Value December 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real estate investment trust	$ 12,774	$-	Quarterly	90 days
International equity limited partnership	$ 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

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 March 31, 2016 and December 31, 2015, is $43.6 million and $46.4 million, respectively. The carrying amount of Aurora's investment in BAMC is $32.8 million and $32.7 million less than the underlying equity in the net assets of BAMC as of March 31, 2016 and December 31, 2015, respectively. 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 $5.7 million of other revenue for the period ended March 31, 2016. Aurora’s investment in ABAMG was $1.0 million and $0.7 million as of March 31, 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 March 31, 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 March 31, 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 three month period ended March 31, 2016 and as of and for the year ended December 31, 2015, is as follows (in thousands):

	March 31, 2016				
	Bay Area Medical Center (1)	**ABAMG**	**Surgery Centers**	**Other Investees**	**Total**
Total assets	$ 225,026	$ 7,328	$ 12,554	$ 24,035	$ 268,943
Total liabilities	70,032	3,540	2,142	51,519	127,233
Equity	154,994	3,788	10,412	(27,484)	141,710
Total revenue	30,838	8,420	1,230	63,579	104,067
Net income	(7,251)	(4,446)	137	8,708	(2,852)

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

	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	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 March 31, 2016 and December 31, 2015 is summarized as follows (in thousands):

	March 31, 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)	166,780	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
	812,530	812,530
WHEFA variable-rate bonds:		
Series 1999C (0.06% effective rate for 2016 and 0.03% for 2015)	50,000	50,000
Series 2008A (0.20% effective rate for 2016 and 0.12% for 2015)	80,000	80,000
Series 2008B (0.16% effective rate for 2016 and 0.12% for 2015)	79,470	79,470
Series 2010C (0.12% effective rate for 2016 and 0.11% for 2015)	102,905	102,905
Series 2012B (0.05% effective rate for 2016 and 0.03% for 2015)	39,350	39,350
Series 2012C (0.05% effective rate for 2016 and 0.03% for 2015)	39,350	39,350
Series 2012D (0.05% effective rate for 2016 and 0.04% for 2015)	58,630	58,630
	449,705	449,705
Unamortized original issue premium, net	12,303	12,682
Total WHEFA debt	1,274,538	1,274,917
Capital lease obligations and financing arrangements	231,631	239,646
Taxable Bond Series 2015A (0.83% effective rate for 2016 and 0.62% for 2015)	40,000	40,000
Term note	10,062	10,264
Notes payable	6,430	6,573
Deferred financing costs - net	(9,614)	(13,797)
Total long-term debt	1,553,047	1,557,603
Less amounts classified as current:		
Current installments	(69,307)	(69,067)
Long-term rate bonds classified as current	(67,475)	(67,475)
Total amounts classified as current	(136,782)	(136,542)
Long-term debt — net of current portion	$ 1,416,265	$ 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 March 31, 2016 and December 31, 2015, no draws were outstanding under the letters of credit.

At March 31, 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 March 31, 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. At March 31, 2016 and December 31, 2015, $67.5 million of the long-term rate 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 are classified as long-term at March 31, 2016 and December 31, 2015.

At March 31, 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 March 31, 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 March 31, 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. The Pension Plan was frozen on December 31, 2012. 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 three months ended March 31, 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 three months ended March 31, 2016 and 2015 were as follows (in thousands):

	March 31, 2016	March 31, 2015
Interest cost on projected benefit obligation	$ 15,784	$ 16,893
Expected return on plan assets	(17,523)	(20,590)
Net amortization and deferral	1,532	2,476
Net periodic pension income	$ (207)	$ (1,221)

The amount of net periodic pension (income) cost 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 $392.6 million and $394.1 million as of March 31, 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 three months ended March 31, 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 March 31, 2016 and December 31, 2015, was as follows:

	March 31, 2016		December 31, 2015	
	Strategic Target	Actual	Strategic Target	Actual
Equity securities	33%	30%	33%	32%
Fixed-income securities	64%	66%	64%	65%
Real estate	3%	3%	3%	3%
Cash and cash equivalents	—%	1%	—%	—%
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 three months ended March 31, 2016 and 2015 is $39.0 million and $38.2 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 $92.4 million and $84.6 million at March 31, 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, respectively, 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 (loss) under the 457(b) Plan was income of $1.6 million and income of $1.6 million for the three months ended March 31, 2016 and 2015, respectively. Net investment income (loss) 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 March 31, 2016 and December 31, 2015, Aurora has recorded a liability for outstanding losses, including incurred but not reported, discounted at 4.0%, totaling $36.9 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 three months ended March 31, 2016, Aurora evaluated events and transactions for potential recognition and disclosure through May 27, 2016, the date of financial statement issuance.

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 will account for this investment under the equity method of accounting within investments in unconsolidated entities in the accompanying unaudited consolidated balance sheets.

The joint venture partnership combines Aurora's care delivery system with Anthem's insurance expertise to create a new and better way of delivering health care to consumers. The plan, which utilizes a patient-centered approach to care, is designed to deliver lower overall cost of care, healthier consumers and higher patient satisfaction.

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SUPPLEMENTARY CONSOLIDATING INFORMATION

AURORA HEALTH CARE, INC. AND AFFILIATES

UNAUDITED CONSOLIDATING BALANCE SHEET INFORMATION
(In thousands)

	March 31, 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	$ (147,438)	$ 281,792	$ (5,608)	$ 128,746	$ (104,566)	$ 285,258	$ (4,066)	$ 176,626
Investments	1,305,777	—	—	1,305,777	1,272,107	—	—	1,272,107
Assets whose use is limited or restricted	—	5,178	—	5,178	5,001	5,792	—	10,793
Patient accounts receivable — net	523,559	221,162	(4,867)	739,854	534,622	225,292	144	760,058
Due from affiliates	126	139,967	(140,093)	—	—	124,040	(124,040)	—
Other receivables	74,426	27,254	(28,312)	73,368	58,014	30,309	(6,697)	81,626
Inventory	40,780	26,485	—	67,265	40,676	26,896	—	67,572
Prepaids and other current assets	44,870	10,030	(9,614)	45,286	56,500	9,866	(9,638)	56,728
Estimated third-party payor settlements	7,093	654	—	7,747	7,040	454	—	7,494
Total current assets	1,849,193	712,522	(188,494)	2,373,221	1,869,394	707,907	(144,297)	2,433,004
ASSETS WHOSE USE IS LIMITED OR RESTRICTED	127,393	260,060	—	387,453	118,498	257,053	—	375,551
PROPERTY, PLANT AND EQUIPMENT — Net	1,615,964	341,916	17,085	1,974,965	1,614,095	326,350	15,543	1,955,988
OTHER ASSETS:								
Intangible assets — net	4,419	12,183	(914)	15,688	4,676	12,483	(914)	16,245
Investments in unconsolidated entities	265,336	12,251	(204,196)	73,391	287,818	13,874	(227,904)	73,788
Other	286,069	53,895	(290,512)	49,452	256,993	54,722	(263,305)	48,410
Total other assets	555,824	78,329	(495,622)	138,531	549,487	81,079	(492,123)	138,443
TOTAL	$ 4,148,374	$ 1,392,827	$ (667,031)	$ 4,874,170	$ 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)

	March 31, 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	$ 124,021	$ 21,233	$ (8,472)	$ 136,782	$ 123,629	$ 21,385	$ (8,472)	$ 136,542
Accounts payable	129,757	54,951	—	184,708	160,312	68,032	—	228,344
Accrued salaries and wages	181,851	53,277	—	235,128	220,127	56,943	—	277,070
Other accrued expenses	119,317	58,554	(32,362)	145,509	176,433	31,008	(4,097)	203,344
Due to Affiliates	139,967	126	(140,093)	—	124,040	—	(124,040)	—
Estimated third-party payor settlements	18,953	3,049	—	22,002	19,044	3,017	—	22,061
Total current liabilities	713,866	191,190	(180,927)	$ 724,129	823,585	180,385	(136,609)	867,361
LONG-TERM DEBT — Less current installments	1,395,053	93,842	(72,630)	$ 1,416,265	1,399,158	66,652	(44,749)	1,421,061
OTHER LIABILITIES:								
Pension and other employee benefit liabilities	211,187	21,183	—	232,370	204,279	21,149	—	225,428
Self-insured liabilities	32,167	32,455	(1,196)	63,426	33,028	33,064	(1,194)	64,898
Deferred gain	40,488	—	—	40,488	41,863	—	—	41,863
Other	51,204	21,570	(4,461)	68,313	50,550	20,951	(6,310)	65,191
Total other liabilities	335,046	75,208	(5,657)	404,597	329,720	75,164	(7,504)	397,380
Total liabilities	2,443,965	360,240	(259,214)	2,544,991	2,552,463	322,201	(188,862)	2,685,802
NET ASSETS:								
Unrestricted:								
Controlling interest	1,435,809	941,048	(193,544)	2,183,313	1,317,577	965,910	(217,262)	2,066,225
Noncontrolling interest in subsidiaries	81,277	1,691	—	82,968	94,292	(5,845)	—	88,447
Total unrestricted net assets	1,517,086	942,739	(193,544)	2,266,281	1,411,869	960,065	(217,262)	2,154,672
Temporarily restricted	173,612	66,093	(195,540)	44,165	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	1,704,409	1,032,587	(407,817)	2,329,179	1,599,011	1,050,188	(432,015)	2,217,184
TOTAL	$ 4,148,374	$ 1,392,827	$ (667,031)	$ 4,874,170	$ 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 MARCH 31, 2016 AND 2015
(In thousands)

	Three Months Ended March 31, 2016				Three Months Ended March 31, 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)	$ 869,494	$ 335,730	$ (17,422)	$ 1,187,802	$ 815,127	$ 313,940	$ (8,702)	$ 1,120,365
Less provision for bad debts	28,619	9,915	—	38,534	7,140	7,431	—	14,571
Net patient service revenue less provision for bad debts	840,875	325,815	(17,422)	1,149,268	807,987	306,509	(8,702)	1,105,794
Other revenue	50,901	86,565	(38,202)	99,264	66,992	74,232	(35,696)	105,528
Total revenue	891,776	412,380	(55,624)	1,248,532	874,979	380,741	(44,398)	1,211,322
EXPENSES:								
Salaries, wages and fringe benefits	537,363	182,751	(27,767)	692,347	481,428	173,806	(16,327)	638,907
Professional fees	12,283	6,520	(19)	18,784	12,847	5,541	(53)	18,335
Supplies	138,012	89,723	—	227,735	140,265	77,973	—	218,238
Depreciation and amortization	41,501	10,018	—	51,519	42,774	9,300	—	52,074
Interest	10,910	2,997	—	13,907	14,503	396	—	14,899
Maintenance and service contracts	22,372	2,517	(29)	24,860	25,963	2,287	(71)	28,179
Building and equipment rental	10,318	7,943	(1,651)	16,610	12,016	8,253	(1,701)	18,568
Hospital tax assessment	19,493	4,662	—	24,155	18,848	4,370	—	23,218
Utilities	9,080	2,940	(19)	12,001	8,896	3,112	(18)	11,990
Purchased services	23,781	7,528	(717)	30,592	21,590	8,659	1,507	31,756
Other expenses	(8,339)	56,071	(8,701)	39,031	(4,695)	51,651	(10,559)	36,397
Total expenses	816,774	373,670	(38,903)	1,151,541	774,435	345,348	(27,222)	1,092,561
Operating income (loss)	75,002	38,710	(16,721)	96,991	100,544	35,393	(17,176)	118,761
NONOPERATING INCOME:								
Investment income	26,063	2,032		28,095	14,492	6,066	—	20,558
Other nonoperating income — net	735	5		740	244	56	—	300
Total nonoperating income — net	26,798	2,037	—	28,835	14,736	6,122	—	20,858
EXCESS OF REVENUES OVER EXPENSES	101,800	40,747	(16,721)	125,826	115,280	41,515	(17,176)	139,619
Pension-related changes other than net periodic pension cost	1,532	—	—	1,532	2,476	—	—	2,476
Net assets released from restrictions for purchase of property and equipment	227	—	—	227	77	—	—	77
Distributions to noncontrolling interests	(15,975)	—	—	(15,975)	(7,112)	—	—	(7,112)
Other — net	(1)	—	—	(1)	8	—	—	8
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 87,583	$ 40,747	$ (16,721)	$ 111,609	$ 110,729	$ 41,515	$ (17,176)	$ 135,068

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 within 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 MARCH 31, 2016

	Three Months Ended March 31,	
	2016	2015
Operating Performance:		
Operating margin[1]	7.8%	9.8%
EBIDA percent[2]	15.3	17.1

	As of March 31 2016	As of December 31, 2015
Liquidity:		
Days cash on hand[3]	131.4	137.0
Financial Position/Leverage Ratios:		
Net AR days outstanding[4]	58.6	61.4
Unrestricted cash to debt[5]	102%	103%
Cash to puttable debt[6]	323%	327%
Debt to capitalization[7]	41%	42%
Debt to cash flow[8]	2.5	2.4
Debt service coverage ratio[9]	5.6X	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
FOR THE PERIOD ENDED MARCH 31, 2016

	Three Months Ended March 31,	
	2016	**2015**
Adult inpatient days	115,600	113,693
Adult average daily census	1,270	1,263
Adult average length of stay	4.5	4.6
Adult discharges	25,566	24,928
Emergency room visits	94,999	87,675
Observation and bedded outpatients	9,325	8,598
Surgical cases	27,485	25,895
Physician clinic, hospital outpatient and other visits	1,840,981	1,745,675

ANALYSIS OF RESULTS OF OPERATIONS

Results of Operations – Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

Operating income was $97.0 million for the three months ended March 31, 2016, resulting in an operating margin of 7.8%, as compared to operating income of $118.8 million and an operating margin of 9.8% for the three months ended March 31, 2015. Nonoperating income was $28.8 million for the three months ended March 31, 2016 compared to nonoperating income of $20.9 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 shift in the investment mix during the current period to a higher concentration of equity investments. These investments are significantly impacted by overall changes in the financial markets. Overall, Aurora reported an excess of revenue over expenses of $125.8 million for the three months ended March 31, 2016 compared to $139.6 million for the same period in the prior year.

Patient service revenue increased $67.4 million (6.0%) in the three months ended March 31, 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, emergency room visits, physician clinic, hospital outpatient and other visits and surgical cases increased 8.5%, 8.4%, 5.5%, and 6.1%, respectively for the three months ended March 31, 2016 compared to the same period in the prior year.

Provision for bad debts increased $24.0 million (164.5%) in the three months ended March 31, 2016, compared to the same period in the prior year. The increase in the provision for bad debts is due to the reclassification of certain write-offs from charity care to bad debt as part of the implementation of the Internal Revenue Service Regulation 501(r). Charity care and bad debt as a percentage of patient service revenue increased slightly from 4.4% for the three months ended March 31, 2015 to 5.4% for three months ended March 31, 2016.

Other revenue decreased $6.3 million (5.9%) in the three months ended March 31, 2016, compared to the same period in the prior year. The decrease in other revenue is primarily due to lower pharmacy revenue as a result of a decrease in the sale of specialty drugs, as well as, lower 340B revenue due to a change in the qualification criteria in consideration of new program requirements.

Salaries, wages and fringe benefits expense increased $53.4 million (8.4%) in the three months ended March 31, 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 salary adjustment of 2.8% which became effective in July of 2015. The increase is also due to a 6.6% 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 FICA tax.

Supplies expense increased $9.5 million (4.4%) in the three month period ended March 31, 2016, compared to the same period in the prior year. Supplies expense as a percent of patient service revenue has decreased from 19.5% for the three months ended March 31, 2015 to 19.2% for the three months ended March 31, 2016. The increase in supplies expense is due to increased volumes.

The remaining expenses including; professional fees, 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 March 31, 2016 as compared to the three months ended March 31, 2015, decreasing $3.4 million (1.9%), 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 March 31, 2016 and December 31, 2015 (dollars in thousands):

	March 31, 2016		December 31, 2015	
Cash and cash equivalents	$ 153,857	8.4%	$ 203,058	11.1%
Fixed-income securities	1,175,874	64.3%	1,151,377	62.7%
Equity securities	478,400	26.2%	462,186	25.2%
Real estate investments	12,652	0.7%	12,774	0.7%
Other	6,371	0.3%	5,682	0.3%
Total	1,827,154	99.9%	1,835,077	100.0%
Less restricted investments *	(239,001)		(232,852)	
Total unrestricted cash and investments	$ 1,588,153		$ 1,602,225	
Days cash on hand	131.4		137.0	

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

Aurora's unrestricted cash and investments decreased by $14.1 million or 0.9% from December 31, 2015 to March 31, 2016. The decrease in unrestricted cash and investments was primarily due to $73.3 million of capital expenditures, $23.2 million of distributions to minority shareholders, offset by $72.8 million of cash generated from operations.

Investment income for the three months ended March 31, 2016 and 2015, consisted of the following (in thousands):

	2016	2015
Interest income and dividends	$ 8,624	$ 8,385
Net realized (losses) gains on securities	(2,197)	2,537
Changes in unrealized gains on investments, trading	24,226	13,091
Total	$ 30,653	$ 24,013

Investment income for the three months ended March 31, 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	$ 2,243	$ 2,267
Investment income	28,095	20,558
Temporarily restricted net assets	315	1,188
Total	$ 30,653	$ 24,013

Liquidity – Accounts Receivable

Net accounts receivable days outstanding decreased from 61.4 days as of December 31, 2015 to 58.6 days as of March 31, 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 March 31, 2016 and December 31, 2015, the aggregate principal amount of the Revenue Bonds outstanding was as follows (in thousands):

	March 31, 2016	December 31, 2015
Fixed rate revenue bonds	$ 692,358	$ 692,737
Long-term rate revenue bonds	132,475	132,475
Variable rate revenue bonds	449,705	449,705
Total	$ 1,274,538	$ 1,274,917

Fixed Rate Revenue Bonds: At March 31, 2016 and December 31, 2015 the Corporation had outstanding $692.4 million (including $12.3 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 5.10% at March 31, 2016 and 5.14% 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*

* Expected to be extended or refunded with proceeds of refunding Revenue Bonds on the tender date.

Variable Rate Demand Bonds (“VRDBs”): At March 31, 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 March 31, 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	108,544	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	$ 466,982	

Line of Credit: At March 31, 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 March 31, 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 March 31, 2016 and December 31, 2015, the outstanding amount of capital lease obligations and financing arrangements was $231.6 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.

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 March 31, 2016 and December 31, 2015 is as follows (in thousands):

	March 31, 2016	December 31, 2015
Total revenue bonds	$ 1,274,538	$ 1,274,917
Capital lease obligations and financing arrangements	231,631	239,646
Taxable bond	40,000	40,000
Term note	10,062	10,264
Various notes payable	6,430	6,573
Deferred financing costs - net	(9,614)	(13,797)
Total long-term debt	$ 1,553,047	$ 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 March 31, 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 March 31, 2016 and December 31, 2015, no collateral was required.

The Corporation received net swap payments of $0.9 million and $1.0 million during the three months ended March 31, 2016 and 2015, respectively.

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 March 31, 2016.

BUSINESS UPDATE

Aurora entered into a collaborative agreement with UW Health System to bring specialty pediatric services to the Northeastern Wisconsin market effective January 1, 2016. These services include neurosurgery, urology, pulmonology and nephrology and are now offered at the Aurora BayCare Medical Center and the Aurora Medical Center in Oshkosh. Through this collaboration Aurora is now able to offer pediatric specialty care to children in Northeast Wisconsin.

MANAGEMENT

Aurora announced the following changes within its executive leadership team which were effective in April 2016;

Rick Klein, was promoted to Chief of Business Strategy and Payor Relations. This promotion recognized the importance of his responsibility for Aurora's strategic business plan, as well as oversight of relationships with insurers and other payors.

Patrick Falvey was promoted to Chief Transformation Officer. He will lead strategies designed to enable Aurora to evolve to better meet both local and national market changes.

Carrie Killoran was promoted to Executive Vice President of the newly created Central Region. She previously served as president of the patient service market that includes the area north of Milwaukee to

Sheboygan. In her new role, she will oversee that market as well as one that includes Waukesha and Jefferson counties.

Nan Nelson, currently Senior Vice President, Finance and System Budgeting, was promoted to Executive Vice President, Finance. Her role will expand to include leadership of financial planning services for all markets as well as corporate accounting.

In April 2016, Steve Bablitch retired from his position as Chief of Strategic Business Affairs, and will serve as a consultant to Aurora for business strategy.

In May 2016, Jeffrey Bahr was selected as the new president of the Aurora Health Care Medical Group, effective January 1, 2017. Dr. Bahr is currently a practicing internist and vice president of the Primary Care Clinical Program within Aurora.

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 within Aurora's website found at https://www.aurorahealthcare.org/about-aurora/investor-relations-financial-information.