Aurora Health Care®

Aurora Health Care, Inc. and Affiliates

Unaudited Consolidated Financial Statements and Other Information
For the Year Ended December 31, 2017

This document is dated March 29, 2018

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REFERENCES TO AURORA 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 COPRORATION ARE REFERENCES ONLY TO THE PARENT CORPORATION, AND SHOULD NOT BE READ TO INCLUDE ANY OF THE CORPORATION'S AFFILIATES AND SUBSIDIARIES.

AURORA

Aurora Health Care, Inc., 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 (collectively, "Aurora") that own and operate health care facilities, and provide ancillary health care-related services throughout eastern Wisconsin, northern Illinois, and the upper peninsula of Michigan. The Corporation and substantially all of its affiliates are not-for-profit corporations described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and have been recognized as tax exempt on related income pursuant to Section 501(a) of the Code.

Aurora is one of the largest providers of inpatient and outpatient health care in the State of Wisconsin, as well as the largest private employer in the state. Aurora provides integrated health care services at approximately 240 geographic sites in eastern Wisconsin, northern Illinois, and the upper peninsula of Michigan, including primary and specialty care, pharmacies, behavioral health care, emergency care, rehabilitation, home care, and end-of-life care. Aurora's operations include 14 acute-care hospitals and one psychiatric hospital (collectively, the “Aurora Hospital Facilities”), 158 physician clinic facilities (collectively, the “Aurora Clinic Facilities”), one of the largest home health care organizations in Wisconsin, 67 retail pharmacies, and other health care and related service organizations.

For the year ended December 31, 2017, Aurora provided services to approximately 1.2 million unique patients in approximately 7.6 million patient encounters. During that same period, Aurora reported adult inpatient days of approximately 451,000; admissions of approximately 105,000; and physician clinic, hospital outpatient and other visits of 7.6 million. Aurora had $5.7 billion in assets as of December 31, 2017 and total operating revenue of approximately $5.3 billion for the year ended December 31, 2017. At December 31, 2017, Aurora employed 1,864 physicians.

BUSINESS STRATEGY

Operating in an environment of continuous change, Aurora continues to focus on a common purpose, “We help each other live well.” This purpose is woven into Aurora’s business strategies of delivering high

quality, cost-effective care for all patients. The business strategy is based on a belief that integrated care is the best care for patients and attracts best-in-class caregivers. Value is added through grouping physician, hospital, lab, pharmacy and other medical claims for each diagnosis to calculate the full cost of treatment from the moment of diagnosis to the patient's return to health.

Aurora's five year strategic plan, launched in 2016, was developed with three basic platforms:

Best People - Aurora aspires to be a destination employer for executives, physicians and other caregivers with exceptional leadership and a highly engaged workforce, with diversity and inclusion embedded in Aurora's work.

Best Brand - Aurora aspires to be a leading health care brand, nationally recognized for consumer centricity, quality and efficiency by knowing consumers, concentrating on building brand strength and a differentiated consumer experience.

Best Value - Aurora aspires to be among the best values in health care, driven by medical excellence and integration, emphasizing innovation, clinical integration and operations optimization, transition to value-based care, financial health and leveraging informatics for competitive advantage.

An integral component is achieving top performance on the quality of care. Monthly reporting focuses on multiple areas, including: services delivered in hospitals, emergency rooms, medical offices and home health visits and clinical quality for hospital, medical group, home health, lab and pharmacy, service lines and through The Aurora Network.

SYSTEM STRENGTHS

Market Leadership: Aurora is a market leader in acute care admissions in several service areas, including Greater Milwaukee South and Waukesha, Sheboygan, Calumet and Greater Milwaukee North, and Burlington and Walworth, which enhances Aurora's ability to (1) attract payers and enter into long-term managed care contracts, (2) assume risk-based payments, and (3) recruit physicians and other medical personnel.

Integrated System: Aurora provides a full spectrum of care through its established network of physicians, acute care hospitals and complimentary outpatient services, psychiatric hospital, pharmacy and home health. The breadth of its network assists Aurora in managing costs and patient care, providing operational efficiencies, cost savings and increasing the quality of patient care, also benefits from a diverse revenue base and substantial intra-system referrals, with smaller community facilities transferring patients to the larger Aurora hospital facilities, such as Aurora St. Luke's Medical Center.

Aurora also attributes higher patient loyalty, improved quality metrics, more efficient care delivery, and increased usage of acute care physician/ancillary services to the breadth of its delivery system. Integrated care delivery has also enabled Aurora to participate successfully in initiatives such as accountable care organizations, with focused efforts around quality, efficiency and cost savings.

Information Technology: Aurora uses a universal, shared, electronic health record, Epic, also referred to as SmartChart. Aurora's use of a single health record is driving cost efficiency, which has had a positive effect on operating income and better positioned Aurora for value-based purchasing. This technology, together with Aurora's strength as an integrated health system, is expected to continue to improve patient care and better position Aurora for population health management.

Quality and Cost: In a report published by "HCTrends" in January 2015 that correlates quality achievements and cost efficiency, Aurora was recognized as one of the lowest cost and highest quality providers in southeastern Wisconsin. Patients from all 50 states have been treated at Aurora St. Luke's Medical Center (Aurora's flagship hospital), evidencing Aurora's national recognition for quality of care. Aurora has exceeded management's expectations on the Hospital Value-Based Purchasing program (a provision of the Affordable Care Act), earning additional reimbursement at all of Aurora's 14 acute-care hospitals.

Strategic Partnerships: Aurora has entered into strategic joint ventures and other arrangements with third parties to provide greater access to high quality, cost-efficient care in the communities it serves. This includes its joint venture with Anthem Blue Cross Blue Shield in 2016 to form Wisconsin Collaborative Insurance Company, which is described below. In addition, Aurora is a member in AboutHealth LLC, a network of six health care organizations in Wisconsin developed to advance clinical quality, efficiency and customer experience among the organizations. Also, in December 2016, Aurora announced an agreement with Walgreens to own and provide all clinical services at eight retail health clinics located inside Walgreens stores across eastern Wisconsin. In the spring of 2017, five existing clinics were transitioned into Aurora QuickCare Clinic at Walgreens locations and three locations were newly opened.

Employed and Closely Aligned Physicians: Through the Aurora Medical Group, Aurora employs 1,864 physicians, more than half of its medical staff 3,344 physicians. Aurora characterizes its non-employed physicians as closely aligned. The significant number of employed and closely aligned physicians has helped to stabilize Aurora's revenue stream and provide a reliable and predictable referral base. With a single medical group, practices are more consistently aligned, providing for efficiencies and improved outcomes. It is a model that better enables Aurora's continued recruitment and solid rate of retention that has resulted in a stable employed and closely aligned physician count. Primary care providers and their patients also have better access to specialists. In 2017, revenue generated from employed and closely aligned physicians accounted for approximately 92% of Aurora's net patient service revenue.

The Aurora Network: Aurora developed The Aurora Network, a network comprised of Aurora hospitals and clinics, physicians employed by Aurora and certain other independent physicians, with the goal of improving quality, outcomes, and the patient experience. The Aurora Network was first offered on January 1, 2013 when Aurora joined with two major health insurers, Anthem and Aetna, to market The Aurora Network to Wisconsin employers. Effective January 1, 2015 Aurora added another narrow network partner, Arise Health Plan, and the network with Anthem was broadened to include additional health systems. Aurora also contracts with Common Ground Healthcare Cooperative to market products that are offered on the health insurance exchange.

Insurance Products: In April of 2016, Anthem and Aurora formed a new, joint venture health insurance company, Wisconsin Collaborative Insurance Company ("WCIC"). WCIC offers a commercial health insurance product called Well Priority. Well Priority, focuses on efficient care, effective care management and diverse wellness programs designed to deliver lower overall cost of care, healthier consumers and higher patient satisfaction.

Well Priority products utilize Anthem's Blue Priority network. Health systems participating in the Blue Priority network include: Aspirus, Bay Area Medical Center, Bellin Health, Children's Hospital of Wisconsin, Fort HealthCare, Gundersen Health System, Meriter, ProHealth Care, Sauk Prairie Healthcare, ThedaCare, University of Wisconsin Hospitals, Clinics and American Family Children's Hospital, and Watertown Regional Medical Center.

AWARDS AND RECOGNITIONS

Aurora is nationally recognized for quality. Recent awards and recognitions include:

- U.S. News & World Report, Best Regional Hospitals Ranking (August 2017): Nationally ranked in five specialties (Aurora St. Luke's Medical Center). High performing in six specialties (Aurora St. Luke's Medical Center). Recognized ranking for Northeastern Wisconsin (Aurora Medical Center Grafton).

- Truven Health Analytics (March 2017): Top 100 Hospital among small community hospitals (Aurora Medical Center Manitowoc County and Aurora Medical Center Oshkosh).

AURORA ST. LUKE'S MEDICAL CENTER

Aurora contains Aurora St. Luke's Medical Center, which is the largest acute care facility in Wisconsin. As a quaternary hospital, Aurora St. Luke's Medical Center offers a broad range of highly specialized services which include state-of-the-art treatment options such as endovascular cardiac valve surgery, robotically assisted heart surgery, Cyberknife technology and others. For the year ended December 31, 2017, Aurora St. Luke's Medical Center represented 23% of Aurora's total revenue.

Aurora St. Luke's Medical Center was ranked the No. 1 hospital in Southeastern Wisconsin by U.S. News & World Report's 2017 rankings. The medical center was also ranked the No. 2 hospital in Wisconsin, and five specialties received national Top 50 honors - cardiology and heart surgery, gastroenterology and GI surgery, geriatrics, gynecology, and pulmonology. Aurora St. Luke's Medical Center was also recognized by The American Heart Association and American Stroke Association for its performance in treating cardiac and stroke patients and was one of only 26 hospitals to receive "Triple Recognition." Additionally, Becker's Hospital Review named Aurora St. Luke's Medical Center one of 100 hospitals and health systems across the country with great women's health programs in 2017. Aurora St. Luke's Medical Center was recognized for serving women in the community with exceptional programs in women's health, breast cancer diagnosis and treatment, gynecology and women's heart care.

SERVICE LINE EXCELLENCE AND UNIQUENESS

Heart and Vascular Services

Aurora leads the market for cardiovascular health services in Wisconsin. For over 50 years, it has been a part of developments in heart and vascular care that have become the standard of treatment. U.S. News & World Report ranks Aurora as providing Wisconsin's best heart and vascular care, performing the highest numbers of many cardiovascular procedures in southeastern Wisconsin.

In the area of heart and vascular services, Aurora physicians have led with a number of firsts, including:

- **Heart transplan**t - Aurora surgeons completed Wisconsin's first heart transplant in 1968 - just one year after the first heart transplant in the world. Since that time almost 900 transplants have been performed, more than any other health care system in the state.
- **Transcatheter Aortic Valve Replacement (TAVR)** - Aurora has the largest and most experienced TAVR program in Wisconsin with interventional cardiologists performing the first TAVR procedure in Wisconsin. Today, Aurora performs more replacements than any other health system in the region, having helped more than 1,000 people who are unable to have surgical heart valve replacement.
- **4-D ultrasound** - Aurora is the first health care system in the world to use new 4-D cardiovascular ultrasound technology from GE Healthcare, helping to see the heart like never before.
- **Ventricular assist devices (VADs)** - Aurora is a leader in ventricular assist devices (VADs) for people with advanced heart failure. Since 1986, nearly 800 VADs have been implanted.

- **Hybrid ablation for AFib** - Aurora is the first health care provider in Wisconsin to pioneer the hybrid ablation technique to treat patients with atrial fibrillation. Other "firsts" include the first atrial defibrillator implant in the U.S., the first catheter ablation in Wisconsin and the first epicardial catheter ablation of AFib in America.

Neuroscience

Aurora operates the Neuroscience Innovation Institute (ANII), an advanced facility for neurological disorders committed to minimally invasive surgical options. The team includes several world-renowned neurologists, neurosurgeons and specialists.

- **Operating Room of the Future** - Aurora uses aviation technology to create maps of the brain and make surgery easier to navigate. This leads to improved results with fewer long-term complications.

- **Expanded Endonasal Approach** - This minimally invasive approach allows access to skull base tumors without open skull base surgery. Surgeons are able to remove brain tumors with fewer complications, less risk of infection and faster recovery times.

- **Minimally Invasive Robotic Techniques** - Through integrated robotic technologies, many patients are able to remain awake during surgery, use their smartphones and devices during the procedure, and even go home the following day.

- **Brain Mapping** - Brain mapping allows creation of a customized map of a patient's brain, including functions like memory, speech and movement. The map enables the medical team to diagnose chronic and acute conditions and navigate surgical procedures.

Aurora Cancer Care

Aurora Cancer Care focuses on successful treatment programs and individualized care. Patient satisfaction surveys rate Aurora in the top 10 percent of cancer treatment providers in the country. Aurora has earned the Outstanding Achievement Award from the American College of Surgeons Commission on Cancer. Nationwide, of all cancer programs surveyed, only 19 percent have received this award.

- In January 2017, Aurora Cancer Care became the first center in Wisconsin to perform a new treatment for pancreatic and liver cancers that has been shown to increase survival rates in patients with inoperable or unresectable tumors. Surgeons at Aurora St. Luke's Medical Center completed Wisconsin's first surgery using the NanoKnife® Irreversible Electroporation (IRE) system, a procedure that uses electrical current to destroy cancerous tumors. The breakthrough technology has been shown to double the survival rate in locally advanced and traditionally unresectable pancreatic cancers, according to a 2015 study in the Annals of Surgery.

- Aurora Cancer Care established a Precision Medicine Clinic - a new program enabling more care options for patients whose cancer is resistant to conventional treatment options like radiation and chemotherapy. Aurora is the first facility in Wisconsin to feature Syapse, which works together with Aurora's electronic health records to provide clinicians the ability to access and compare

real-world treatment and outcomes data from other leading cancer centers across the nation. This enables more treatment options for the 8,000 new cancer patients Aurora treats each year and also allows for smarter choices on treatments based on analyzing biological markers in tumors to see what's worked well with similar tumors from across the country.

Orthopedics

Aurora provides highly specialized bone, joint and muscle care across its service area. The latest orthopedic and sports medicine procedures are available, along with more traditional tried and true methods.

- Aurora orthopedic physicians were among the first in Wisconsin to offer several new joint replacement procedures, like anterior hip replacement, bilateral knee replacement and stemless shoulder replacement.
- Aurora maintains a Joint Registry - a database where every joint replacement that has been performed is entered. The registry better enables providers to learn more about what works best for the people receiving treatment.

PROPOSED AFFILIATION

In December of 2017, Aurora and Advocate Health Care, Inc. (together with its affiliates and subsidiaries, "Advocate"), signed a definitive Affiliation Agreement to combine and create Advocate Aurora Health, Inc. Advocate is one of the largest health care providers in the State of Illinois, with eleven acute care hospitals and an integrated children's hospital, primary and specialty physician services, outpatient centers, population health management services and home health and hospice care in northern and center Illinois. Advocate has approximately 5,300 physicians on the medical staffs of its hospitals.

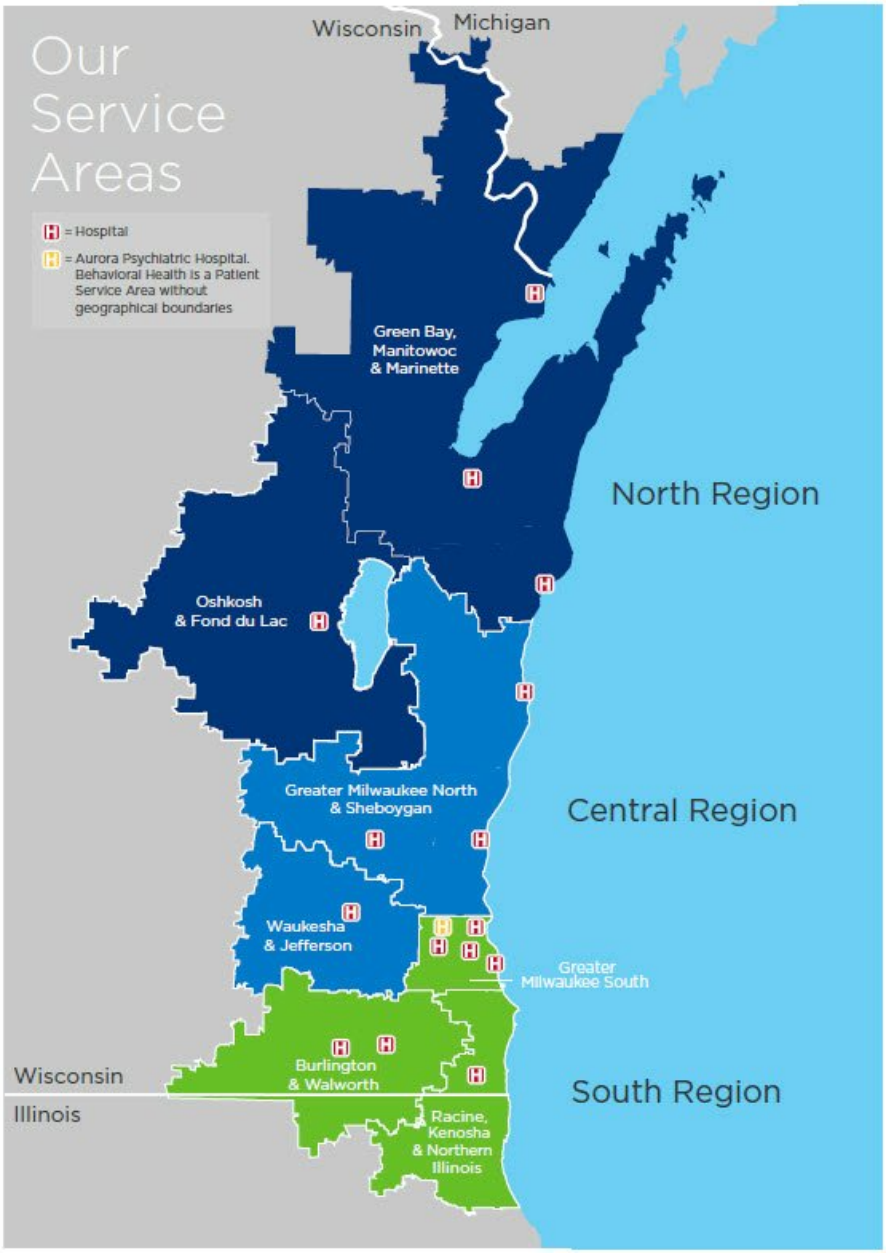
To consummate the affiliation, a Delaware exempt corporation (non-profit) named Advocate Aurora Health, Inc. ("Advocate Aurora Health") was formed, which will become the sole corporate member of Aurora and Advocate. The "closing" of the affiliation is expected to occur on April 1, 2018. The closing of the affiliation remains subject to various conditions, as a result, there can be no assurance that the affiliation will be consummated.

If the affiliation is consummated, Advocate Aurora Health will be the tenth largest not-for-profit, integrated health care system in the United States, serving nearly three million patients each year. It would comprise 27 hospitals and more than 500 sites of care and employ more than 3,300 physicians and nearly 70,000 associates and caregivers. With combined annual revenues of approximately $11.0 billion Advocate Aurora Health would offer significant resources and the financial flexibility to expand investment and scale innovation.

Advocate and Aurora have not agreed to assume any liability for or otherwise guarantee the other party's debt as part of the affiliation. However, Advocate and Aurora have agreed in the related Affiliation Agreement to consider refinancing or restructuring all or a portion of the existing debt to permit the consolidation of the parties to combine into a single obligated group. Any such refinancing or restructuring would be dependent on market conditions, management considerations and other factors. As a result, there can be no assurance that any Advocate debt or Aurora debt will be refinanced or restructured in connection with the affiliation.

BUSINESS OF AURORA

The following discussion includes descriptions of Aurora's facilities and operating data, including facilities that are wholly owned, majority owned, or controlled by Aurora.



Behavioral Health is an additional PSA which is not defined by geographical boundaries and therefore is not separately illustrated on the map above. Aurora has a 49% minority interest in Bay Area Medical Center ("BAMC") a general acute care hospital located in Marinette, Wisconsin as illustrated on the map above which is not included in Aurora's consolidated results of operations of Aurora Health Care.

SERVICE AREA

Aurora's service area covers approximately the eastern third of Wisconsin (the "State"), a geographic area with a population of 3.5 million (or 60.3% of Wisconsin's population), as well as portions of two counties in northern Illinois that are contiguous to the Wisconsin border and the upper peninsula of Michigan.

Aurora's patient care operations are organized into eight patient service areas ("PSA's"), which are based on patient utilization patterns within a particular geographical area, other than the Behavioral Health PSA which is not defined by a geographical boundary. The PSA's are managed by region: North, Central, and South. The population of each PSA as of December 31, 2017 and the percentage of Aurora's total revenues generated by each PSA for the year ended December 31, 2017 are listed below.

PSA	Population[(1)]	Percentage of Total Revenue for Year ended December 31, 2017
North Region		
Green Bay, Manitowoc and Marinette	576,000	13%
Oshkosh and Fond du Lac	503,000	5%
Central Region		
Waukesha and Jefferson	314,000	5%
Greater Milwaukee North, Sheboygan and Calumet	957,000	20%
South Region		
Greater Milwaukee South	601,000	43%
Burlington and Walworth	269,000	6%
Racine, Kenosha and Northern Illinois	290,000	7%
Behavioral Health[(2)]	N/A	1%

[(1)] Source - 2017 Esri population projections, excluding northern Illinois counties; all numbers are approximates.

[(2)] Behavioral Health not defined by geographical boundaries so population statistics are not applicable.

AURORA HOSPITAL FACILITIES

The Aurora Hospital Facilities include 15 hospitals with 1,989 available beds. Each Aurora Hospital Facility is accredited by The Joint Commission. With the exception of Aurora BayCare Medical Center, the Aurora Hospital Facilities are owned or operated by an entity exempt from federal income taxation by virtue of Sections 501(a) and 501(c) of the Code, and are currently exempt from Wisconsin real property taxes. Aurora BayCare Medical Center is owned and operated by BayCare Aurora, LLC ("Aurora BayCare"), a for-profit Wisconsin limited liability company.

The Aurora Hospital Facilities, their location, licensed beds and available beds as of December 31, 2017 are set forth below:

Facility/PSA	Location	Licensed Beds	Available Beds
Greater Milwaukee South			
Aurora St. Luke's Medical Center	Milwaukee	938	607
Aurora St. Luke's South Shore	Cudahy	275	104
Aurora West Allis Medical Center	West Allis	350	195
Aurora Sinai Medical Center	Milwaukee	386	159
Sheboygan, Calumet and Greater Milwaukee North			
Aurora Sheboygan Memorial Medical Center	Sheboygan	185	130
Aurora Medical Center Washington County	Hartford	71	35
Aurora Medical Center – Grafton	Grafton	116	116
Greater Green Bay, Manitowoc and Marinette			
Aurora BayCare Medical Center	Green Bay	167	149
Aurora Medical Center Manitowoc County	Two Rivers	69	62
Oshkosh and Fond du Lac			
Aurora Medical Center – Oshkosh	Oshkosh	84	61
Burlington and Walworth			
Aurora Lakeland Medical Center	Elkhorn	109	67
Aurora Memorial Hospital of Burlington	Burlington	123	55
Racine, Kenosha and Northern Illinois			
Aurora Medical Center – Kenosha	Kenosha	74	74
Waukesha and Jefferson			
Aurora Medical Center – Summit	Summit	110	84
Behavioral Health			
Aurora Psychiatric Hospital	Wauwatosa	105	91
Totals		**3,162**	**1,989**

The geographic location of the Aurora Hospital Facilities is illustrated on the map on page 9.

AURORA CLINIC FACILITIES

The following table summarizes the clinic facilities operated by Aurora as of December 31, 2017, categorized by PSA.

PSA	Number of Clinic Sites
Greater Milwaukee South	50
Sheboygan, Calumet and Greater Milwaukee North	34
Greater Green Bay, Manitowoc and Marinette	23
Oshkosh and Fond du Lac	12
Burlington and Walworth	14
Racine, Kenosha and Northern Illinois	12
Waukesha and Jefferson	6
Behavioral Health	7
Total	**158**

The Aurora Clinic Facilities include smaller local clinic facilities that focus on primary and preventive health care, in addition to larger specialty facilities, ambulatory surgery centers, and outpatient facilities located at the campuses of the Aurora Hospital Facilities.

PROPERTY TAX EXEMPTION

Aurora's Hospital Facilities and Aurora's Clinic Facilities are currently exempt from Wisconsin property tax. These tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities are routinely challenged on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges are based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins.

TAX EXEMPT STATUS

As nonprofit, tax-exempt organizations, the Aurora entities that own and operate the Aurora Hospital Facilities (excluding Aurora BayCare Medical Center) and the majority of the Aurora Clinic Facilities are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organization and operation, including their operation for charitable purposes; However, at the same time, Aurora conducts large-scale complex business transactions and is a major employer in its geographic areas. There can often be tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are in compliance with the regulatory requirements for nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the health care organizations.

Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation and others.

The Affordable Care Act of 2010 (the "ACA") also contains requirements for tax-exempt hospitals through Section 501(r) of the Code. Under the ACA, each tax-exempt hospital facility is required to (i) conduct a community health needs assessment at least every three years and adopt an implementation strategy to meet the identified community needs, (ii) adopt, implement and widely publicize a written financial assistance policy that includes the Section 501(r) minimum statutory and regulatory requirements and a policy to provide emergency medical treatment without discrimination, (iii) limit charges to individuals who qualify for financial assistance under such tax-exempt hospital's financial assistance policy to no more than the amounts generally billed to individuals who have insurance covering such care and refrain from using "gross charges" when billing such individuals, and (iv) refrain from taking extraordinary collection actions without first making reasonable efforts to determine whether the individual is eligible for assistance under such tax-exempt hospital's financial assistance policy.

In general, certain failures to comply with Section 501(r) requirements may be corrected if such failures are not willful or egregious and certain correction and disclosure procedures are followed. However, in other circumstances, an organization's failure to meet one or more Section 501(r) requirements could endanger the organization's Section 501(c)(3) status as of the first day of the tax year in which a failure occurs. In addition, an organization may be subject to certain excise taxes if a hospital facility fails to maintain the requirements concerning community health needs assessments.

A loss of Aurora's nonprofit status would result in a significant increase in operating costs, including, among other things, the payment of Federal and State income tax, loss of real property tax exemption, limitation on the ability to fundraise and increased borrowing costs.

LICENSING AND REGULATION

Each of the Aurora Hospital Facilities is licensed as a Wisconsin hospital and is certified to participate in the Medicare program and the State of Wisconsin's Medicaid program, which each is accredited by The Joint Commission.

In addition to the licensing requirements, the Aurora Hospital Facilities outpatient centers and related healthcare businesses are subject to extensive federal, state and local regulation relating to, among other things, licensure, contractual arrangements, conduct of operations, privacy of patient information, ownership of facilities, physician relationships, addition of facilities and services, and reimbursement rates for services. The laws, rules and regulations governing the healthcare industry are extremely complex and, in certain areas, the industry has little or no regulatory or judicial interpretation for guidance.

The potential consequences for violating such laws, rules or regulations may impact reimbursement of government program payments and/or lead to the assessment of civil monetary penalties, including treble damages, fines, which could be significant, exclusion from participation in federal healthcare programs, or criminal sanctions against current or former employees, any of which could have a material adverse effect on Aurora's business, financial condition or cash flows.

MARKET DYNAMICS

Aurora is a leader in the Greater Milwaukee South and Waukesha, Sheboygan, Calumet and Greater Milwaukee North, and Burlington and Walworth service areas based on adult acute care admissions. Through June 30, 2017, the Aurora Hospital Facilities in Greater Milwaukee South and Waukesha and Jefferson accounted for approximately 40% of the total PSA adult acute care admissions and approximately 60% of total Aurora adult acute care admissions. During that same period, its share of admissions in the remaining PSA's remained relatively consistent.

Aurora's success is dependent in part on its market strength. However, the healthcare business is highly competitive, and competition among hospitals and other healthcare providers for patients have intensified in recent years. Healthcare consumers are now able to access hospital performance data on quality measures and patient satisfaction, as well as standard charges for services, to compare competing providers; if any of Aurora's hospitals achieve poor results (or results that are lower than Aurora's competitors) on quality measures or patient satisfaction surveys, or if Aurora's standard charges are higher than Aurora's competitors, Aurora may attract fewer patients. Additional quality measures and future trends toward clinical transparency may have an unanticipated impact on Aurora's competitive position and patient volumes.

In the future, Aurora expects to encounter increased competition from system-affiliated hospitals and healthcare companies, as well as health insurers and private equity companies seeking to acquire providers, in Aurora's service areas. Aurora also faces competition from specialty hospitals (some of which are physician-owned) and unaffiliated freestanding outpatient centers for market share in high margin services and for quality physicians and personnel. In recent years, the number of freestanding specialty hospitals, surgery centers, emergency departments, urgent care centers and diagnostic imaging centers in the geographic areas in which Aurora operates has increased significantly. If Aurora's competitors are better able to attract patients, recruit physicians and specialized staff, expand services or obtain favorable managed care contracts at their facilities than Aurora is, Aurora may experience an overall decline in patient volumes.

The following table summarizes Aurora's percent of adult acute care admissions by PSAs with similar geographic boundaries (or, that contain acute care facilities) for the three months ended March 31, 2017 and the years ended December 31, 2016 and 2015.

Percentage of Adult Acute Care Admissions by PSA

	June 30, 2017[1]	December 31, 2016	2015
Greater Milwaukee South and Waukesha and Jefferson[2]:			
Aurora	40%	40%	40%
Ascension Health	23	24	25
Froedtert & Community Health	26	25	24
ProHealth	11	11	11
	100%	100%	100%
Greater Green Bay and Manitowoc:			
Aurora	31%	31%	30%
Bellin Health	24	24	24
Hospital Sister's Health System	38	38	38
Franciscan Sister of Christian Charity	7	7	8
	100%	100%	100%
Oshkosh and Fond du Lac:			
Aurora	10%	9%	8%
Ascension Health	31	32	32
Agnesian Health	18	18	18
ThedaCare	41	41	42
	100%	100%	100%
Sheboygan, Calumet, and Greater Milwaukee North:			
Aurora	58%	57%	54%
Hospital Sister's Health System	9	9	10
Ascension Health	18	19	21
Froedtert & Community Health	15	15	15
	100%	100%	100%
Burlington and Walworth:			
Aurora	80%	80%	82%
Mercy Health System	20	20	18
	100%	100%	100%
Racine, Kenosha and Northern Illinois [3]:			
Aurora	22%	21%	20%
Ascension Health	49	49	49
United Health System [4]	29	30	31
	100%	100%	100%

(1) Source: Wisconsin Hospital Association: Inpatient Admissions - 2017 based on all payer types, including charity care. Most recent data is as of June 30, 2017. The percentages by PSA are based on the site of admission, not the origin of the patient, and accordingly do not reflect those patients residing in an area who receive care outside of such area.

(2) Includes Greater Milwaukee South and Waukesha and Jefferson PSA's.

(3) Aurora does not own or operate a hospital facility in Illinois, so information for northern Illinois has not been included.

(4) United Health System is part of Froedtert & Community Health as of April 2017.

Historical Utilization

The following table summarizes utilization statistics for Aurora for the years ended December 31, 2017, 2016, and 2015:

	Year Ended December 31,		
	2017	**2016**	**2015**
Adult inpatient days	451,005	446,257	442,413
Adult average daily census	1,236	1,219	1,212
Adult average length of stay	4.3	4.3	4.4
Adult discharges	104,788	102,858	100,888
Emergency room visits	402,410	397,118	394,607
Observation and bedded outpatients	39,593	38,688	36,925
Surgical cases	118,685	116,196	111,208
Physician clinic, hospital outpatient and other visits (includes emergency room visits)	7,648,323	7,406,894	7,124,035

SOURCES OF PATIENT SERVICE REVENUE

Patient service revenue earned by Aurora comes from a variety of sources, which differ among the individual facilities and service areas. A substantial portion of the patient service revenue of Aurora is derived from third-party payors that reimburse or pay for the services provided to patients covered by such third parties. These third-party payors include the federal Medicare program, state Medicaid program and commercial insurance carriers, including preferred provider organizations and health maintenance organizations. Many of those programs make payments to Aurora at rates other than the direct charges that Aurora would charge for such services, which rates may be determined other than on the basis of the actual costs incurred in providing services to such patients. Some private insurance carriers reimburse their insureds or make direct payment to hospitals for medical expenses based on billed charges.

The composition of patient service revenue by payor, net of contractual allowances and discounts (before the provision for bad debts), was as follows for the years ended December 31, 2017, 2016, and 2015:

	Year Ended December 31,		
	2017	**2016**	**2015**
Managed Care and all other	64%	65%	63%
Medicare	27	26	27
Medicaid	8	8	8
Self-pay*	1	1	2
	100%	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.

Managed Care Contracts

The amount of Aurora's managed care net patient revenues during the year ended December 31, 2017 was $2.8 billion, which represented approximately 55% of Aurora's total patient service revenue. Approximately 86% of Aurora's managed care patient service revenue for the year ended December 31, 2017 was derived from Aurora's top five managed care payers. Aurora's ability to maintain favorable contracts with HMOs, insurers offering preferred provider arrangements and other managed care plans significantly affects the revenues and operating results of Aurora's hospitals and clinics. Furthermore, Aurora may experience a short-term or long-term adverse effect on Aurora's net patient service revenue if Aurora cannot replace or otherwise mitigate the impact of expired contracts with national payers.

In addition, private payers are increasingly attempting to control healthcare costs through direct contracting with hospitals to provide services on a discounted basis, increased utilization reviews and greater enrollment in managed care programs, such as HMOs and PPOs. The trend toward consolidation among private managed care payers tends to increase their bargaining power over prices and fee structures. Aurora's future success will depend, in part, on Aurora's ability to renew existing managed care contracts and enter into new managed care contracts on competitive terms. Any material reductions in the contracted rates Aurora receive for Aurora's services or any significant difficulties in collecting receivables from managed care payers could have a material adverse effect on Aurora's financial condition, results of operations or cash flows. Any material adverse effects resulting from future reductions in payments from private payers could be exacerbated if Aurora is not able to manage Aurora's operating costs effectively.

Medicare and Medicaid

For the year ended December 31, 2017, approximately 27% of Aurora's patient service revenue was related to the Medicare program, and approximately 8% of Aurora's patient service revenue was related to the State of Wisconsin Medicaid program, in each case excluding Medicare and Medicaid managed care programs. The Medicare and Medicaid programs are subject to: statutory and regulatory changes, administrative rulings, interpretations and determinations concerning patient eligibility requirements,

funding levels and the method of calculating payments or reimbursements, among other things; requirements for utilization review; and federal and state funding restrictions, all of which could materially increase or decrease payments from these government programs in the future, as well as affect the cost of providing services to Aurora's patients and the timing of payments to Aurora's facilities, which could in turn adversely affect Aurora's overall business, financial condition, results of operations or cash flows. Any material adverse effects resulting from future reductions in payments from government programs could be exacerbated if Aurora is not able to manage Aurora's operating costs effectively.

The Affordable Care Act

The expansion of health insurance coverage under the Patient Protection and Affordable Care Act of 2010 (the "ACA") has resulted in an increase in the number of patients using Aurora's facilities with either private or public program coverage and a decrease in uninsured and charity care admissions. Although a substantial portion of both Aurora's patient volumes and, as result, Aurora's revenues has historically been derived from government healthcare programs, reductions to Aurora's reimbursement under the Medicare and Medicaid programs as a result of the ACA have been partially offset by increased revenues from providing care to previously uninsured individuals.

The ACA has been politically controversial since its inception and has faced numerous legal, legislative, and executive challenges, including replacement and repeal efforts. The potential impacts of any repeal or replacement efforts on the System's business or financial condition are impossible to predict and may be material. Specifically, any action that reduces the number of health insurance enrollees, shifts health care demand, or changes the healthcare delivery system or insurance markets could have a material adverse effect on the Aurora's business or financial condition.

The Republican Party has increasingly focused on the repeal and replacement of the Act. In 2017, both the United States House and Senate introduced bills aimed at repealing and replacing certain portions of the Act. However, the legislature has thus far failed to pass any legislative proposals to "repeal and replace" or "repeal only" the Act. Most recently, the Senate has introduced a new bill, the "Graham-Cassidy Bill" focused on tax credits, repealing certain of provisions of the Act including the individual and employer mandate and limiting Medicaid expansion among other things. Management of the Obligated Group cannot predict whether these efforts will be successful or whether a bill repealing and replacing all, or portions of, the Act will become law. The Congressional Budget Office ("CBO") has issued reports predicting that if any bills that have been introduced by Congress prior to the Graham-Cassidy Bill became law, the number of uninsured would increase and Medicaid spending would decrease significantly. The CBO has not as of the writing of this statement, issued a report on the Graham-Cassidy Bill.

Government efforts to repeal or modify the Act may have an adverse effect on Aurora's business, results of operations, cash flow, capital resources, and liquidity. Also, there can be no assurances that any current health care laws and regulations, in addition to the Act, will remain in the current form. There can be no assurances that any potential changes to the laws and regulations governing health care would not have a material adverse financial or operational impact on the Obligated Group.

Furthermore, executive actions may also impact Act implementation and the Act insurance exchange markets. President Donald Trump issued an executive order permitting federal agencies with authority under the Act "to waive, defer, grant exemptions from, or delay" parts of the Act that place "unwarranted economic and regulatory burdens" on states, individuals or health care providers. It is impossible to predict what effect this mandate may have on the health care market; it may be interpreted by the Department of Health and Human Services ("HHS") to allow HHS to grant waivers to the "individual mandate" and potentially reduce the number of healthy individuals on the health insurance exchanges. It is impossible to predict what impact any future executive action will have on Aurora's business or financial condition, though such effects may be material.

In addition, on January 30, 2017, President Trump issued an executive order requiring federal agencies to remove two previously implemented regulations for every new regulation added. On February 24, 2017, President Trump issued an executive order directing each federal agency to set up a "regulatory reform task force" to review existing regulations and eliminate those which are costly or unnecessary. Based on these executive orders and the present political climate, there can be no assurances that any existing health care laws and regulations will remain in their current form. Further, there can be no assurances that any potential changes to the laws and regulations governing health care would not have a material adverse financial or operational impact on the Obligated Group Members.

The ACA has increased the prevalence of high deductible insurance plans. These plans require patients to meet high deductibles prior to the insurer paying for amounts due from a health care provider. These high deductible plans result in additional self-pay patient balances and ultimately result in higher credit risk within Aurora's patient receivable balances. The increase in self-pay balances could adversely impact Aurora's financial position due to increased write-offs of self-pay balances on these high deductible plans.

Other Patient Service Revenues

Certain Aurora affiliates participate in the 340B Drug Pricing Program (the "340B Program"), a federal program that requires drug manufacturers participating in the Medicaid drug rebate program to provide outpatient drugs to enrolled "covered entities" at or below the statutorily-defined ceiling price.

HRSA issued a proposed rule on August 28, 2015 which addresses key policy issues related to the 340B Program, including but not limited to, eligibility requirements for participating hospitals, outpatient facilities and patients, registration requirements, drug eligibility, and manufacturer compliance. If adopted in its current form, the proposed rule could, among other things, restrict Aurora from purchasing drugs from the 340B Program. Such restrictions could have a material adverse effect on the Obligated Group. On January 30, 2017, the Trump administration withdrew this proposed rule. On January 5, 2017, HRSA issued a final rule called the 340B Pricing Program Ceiling Price and Manufacturers Civil Monetary Penalties Regulation. Additionally, eligibility for the 340B Program is determined annually and there is no guarantee that eligibility in one year will result in eligibility in future years.

In November of 2017 HHS finalized a proposed regulation to dramatically reduce Medicare reimbursement for hospitals participating in the 340B Program. The final regulation resulted in hospitals receiving a reduction in Medicare reimbursement of 28.5 percent for drugs purchased through the 340B Program. These Medicare reimbursement reductions took effect on January 1, 2018 and are estimated to

reduce Medicare Part B drug reimbursement to 340B DSH hospitals and rural referral centers in 2018 by $1.6 billion. The impact of the reduced Medicare reimbursement for the 340B Program on Aurora is estimated to be $19.5 million.

The American Hospital Association, the Association of American Medical Colleges, and America's Essential Hospitals have filed a law suit against the U.S. Department of Health and Human Services (HHS) in the U.S. District Court for the District of Columbia to reverse these Medicare reimbursement reductions for hospitals participating in the 340B Program. The District Court has granted a request by the three hospital organizations for their request for an expedited hearing schedule and it is anticipated that completion of all briefings in the case will be concluded by the beginning of April. The outcome of the litigation is uncertain and the Medicare reimbursement cuts for the 340B Program will remain in effect unless the District Court rules in favor of the three hospital organizations.

Medical Staff

Aurora currently employs approximately 56% of its medical staff, including 1,864 physicians. Total medical staff, including employed physicians, is currently comprised of approximately 3,344 physicians, with just over 66% of the medical staff considered specialists. In 2017, revenue generated from employed and closely aligned physicians accounted for approximately 92% of Aurora’s net patient service revenue.

The success of Aurora's business depends in significant part on the number, quality, specialties, and admitting and scheduling practices of the licensed physicians who have been admitted to the medical staffs of Aurora's hospitals and who affiliate with Aurora and use Aurora's facilities as an extension of their practices. Members of Aurora's hospitals medical staffs, who often serve on medical staffs of other facilities Aurora does not operate, are free to terminate their association with Aurora's hospitals or admit their patients to competing facilities at any time.

Aurora may encounter increased competition from health insurers and private equity companies seeking to acquire providers from Aurora's service areas. In some of Aurora's service areas, physician recruitment and retention are affected by a shortage of physicians in certain specialties and the difficulties that physicians can experience in obtaining affordable malpractice insurance or finding insurers willing to provide such insurance. Furthermore, Aurora's ability to recruit and employ physicians is closely regulated. For example, the types, amount and duration of compensation and assistance Aurora can provide to recruited physicians are limited by the Physician Self-Referral (Stark) law, the Anti-kickback Statute, state anti-kickback statutes and related regulations. Underlying these rules and regulations is the requirement that all arrangements with physicians must be of a fair market value and commercially reasonable. If Aurora is unable to attract and retain sufficient numbers of quality physicians by providing adequate support personnel, technologically advanced equipment, and facilities that meet the needs of those physicians and their patients, physicians may be discouraged from referring patients to Aurora's facilities, admissions and outpatient visits may decrease and Aurora's operating performance may decline.

Employees

As of December 31, 2017, Aurora had approximately 34,200 employees, representing the equivalent to approximately 29,400 full-time staff. Aurora is the largest private employer in the State of Wisconsin. As

of December 31, 2017, approximately 85 of Aurora's employees are members of a collective bargaining unit. Management is not aware of any union organizing activities with respect to any of its other employees. Management considers its relationship with employees to be favorable.

The operations of Aurora's facilities are dependent on having the right number of qualified employees, including leaders, nurses, therapists, pharmacists and technicians, as well as Aurora's employed physicians. Aurora competes with other healthcare providers in recruiting and retaining employees, and, like others in the healthcare industry, Aurora experience shortages of specially trained employees in certain disciplines and geographic areas over time. As a result, from time to time, Aurora may be required to enhance wages, benefits and other programs to recruit and retain experienced employees, make greater investments in education and training for new graduates, or use overtime and hire more expensive temporary or contract employees to fill gaps in staffing. In general, Aurora's failure to recruit and retain qualified employees, or to control labor costs, could have a material adverse effect on execution of Aurora's strategy, financial condition, results of operations or cash flows. Additionally, the healthcare industry is a target for union organizing efforts, and should such organizing efforts be successful, collective bargaining agreements have the potential to adversely affect labor costs.

Medical Education Programs

Aurora sponsors numerous medical education programs and has affiliation agreements with multiple colleges. There are approximately 720 medical student rotations and 186 residents and fellows receiving training at Aurora facilities annually.

Insurance Programs

General and Professional Liability Insurance Coverage. The Wisconsin Injured Patients and Families Compensation Fund (the “Fund”) was created by Section 655.26 of the Wisconsin Statutes to cover professional liability claims against certain Wisconsin health care providers, including hospitals and physicians, to the extent such claims result in awards in excess of defined limits of required primary insurance coverage. Currently, the required primary coverage limits are $1.0 million for each occurrence and $3.0 million for all occurrences in any policy year. Aurora carries the required primary liability insurance coverage for each of its eligible health care affiliates and each individual employed physician through Continental Casualty Company.

The Fund assesses a fee on Wisconsin health care providers on an annual basis in an amount based partially on both the Fund’s administrative expenses and on the loss experience of the particular type of health care provider. Under current Wisconsin law, if a covered health care provider complies with the statutory rules regarding primary insurance coverage, malpractice claimants against the health care provider must look solely to the Fund for the portion of any awards that are in excess of the primary coverage limits and the health care provider cannot be held liable for such amounts. Operation of the Fund is governed by statute, and there can be no assurance that the State of Wisconsin will continue the Fund indefinitely in its present form.

Aurora also has professional liability coverage for its providers and affiliates that do not qualify for 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.

As of December 31, 2017, all of Aurora's primary liability insurance policies for general and professional liability are reinsured by Aurora Liability Assurance, Ltd. ("ALA"), a captive insurance company wholly-owned by the Corporation. ALA maintains a reinsurance trust account, which in total represents security required by the reinsurance agreement between ALA and the Continental Casualty Company. As of December 31, 2017, 2016 and 2015, assets held in the trust were $49.7 million, $53.8 million, and $54.1 million, respectively, and the estimated liability for claims, including incurred but not reported, and future servicing costs were $32.0 million, $35.2 million, and $37.9 million, respectively.

Aurora's professional and general liability insurance does not cover all claims against it, which may not continue to be available at a reasonable cost for Aurora to maintain at adequate levels as the healthcare industry has seen significant increases in the cost of such insurance due to increased litigation. Aurora cannot predict the outcome of current or future legal actions against Aurora or the effect that judgments or settlements in such matters may have on Aurora or on Aurora's insurance costs. Additionally, all professional and general liability insurance Aurora purchase is subject to policy limitations. If the aggregate limit of any of Aurora's professional and general liability policies is exhausted, in whole or in part, it could deplete or reduce the limits available to pay any other material claims applicable to that policy period. Any losses not covered by or in excess of the amounts maintained under insurance policies will be funded from Aurora's working capital. Furthermore, one or more of Aurora's insurance carriers could become insolvent and unable to fulfill its or their obligations to defend, pay or reimburse Aurora when those obligations become due. In that case or if payments of claims exceed Aurora's estimates or are not covered by Aurora's insurance, it could have a material adverse effect on Aurora's business, financial condition, results of operations or cash flows.

On July 5, 2017, the Wisconsin state appeals court ruled that the State's $750,000 cap on noneconomic damages in medical malpractice actions is facially unconstitutional because it imposes illogical burdens on catastrophically injured patients. The effects of this ruling could include, among other things, an increase in malpractice insurance premiums and a disincentive for physicians to practice in Wisconsin, both of which could have a negative impact on the financial condition and operations of Aurora. In addition, the removal of the cap on noneconomic damages could result in larger claims against the Fund, which could weaken the financial condition of the Fund.

In addition to general and professional liability coverage, Aurora maintains the following:

Workers' Compensation. The Corporation also provides statutory workers' compensation insurance for employees. As of December 31, 2017, through the workers' compensation insurance policy with Sentry Casualty Company, the Corporation assumed a portion of each workers' compensation claim occurrence up to a stop loss amount. Loss amounts exceeding that amount remain the responsibility of the insurance company. Aurora measures the cost of its unfunded obligations under such programs based upon actuarial estimates and records a liability on a discounted basis.

Other Insurance Coverages. In addition to the insurance programs discussed above, Aurora purchases commercial policies for property, crime, directors' and officers' liability, automobile liability, helipad and

non-owned aircraft liability, fiduciary liability, pollution liability, and cyber liability, with varying amounts of coverage and deductibles that it evaluates periodically.

Community Benefit

Aurora operates to benefit the people in the communities it serves and to carry out its purpose, being that, "We help each other live well." In pursuing its purpose, Aurora advocates for and provides services to help meet health care and related socioeconomic needs of the poor and disadvantaged individuals and the broader community both as an individual organization and in partnership with local health departments, nonprofit agencies, civic organizations and other community agencies. The combination of expertise and shared accountability allows Aurora to advocate for and advance best practices to improve the health of the communities Aurora serves.

Aurora provides health care services without charge to patients who meet the criteria of its charity care policy. The amount of charity care provided, determined on the basis of cost, is estimated based on entity-specific cost-to-charge ratios. In addition to charity care, Aurora provides services to Medicaid and other public programs, primarily Tricare, for financially needy patients, for which the payments received are less than the cost of providing services. The unpaid costs attributed to providing services under these programs are considered a community benefit.

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

A summary of the cost of uncompensated care, community benefits provided, and the unpaid cost of Medicare for the years ended December 31, 2017, 2016, and 2015, is as follows (in thousands):

	2017	2016	2015
Cost of charity care provided	$ 58,298	$ 47,477	$ 29,771
Unpaid cost of Medicaid	332,098	335,431	320,475
Unpaid cost of other public Programs	12,205	9,254	9,452
Total cost of uncompensated care	402,601	392,162	359,698
Community health improvement, education services and community benefit operations	13,917	10,973	7,865
Health professional education	9,558	8,919	10,463
Subsidized health services	4,583	5,996	9,255
Cash and in-kind contributions for community benefit	6,955	7,258	8,149
Total community benefit programs	35,013	33,146	35,732
Unpaid cost of Medicare	746,485	645,988	579,806
Total cost of uncompensated care, community benefit programs, and unpaid cost of Medicare	$ 1,184,099	$ 1,071,296	$ 975,236

Aurora in partnership with the Greater Milwaukee Foundation established the "Better Together Fund" to focus on specific areas of community need. Aurora made an additional $3.0 million contribution to the fund in 2017. To date Aurora has awarded more than $15 million to over 50 agencies to support health initiatives in the communities it serves through the fund. These contributions support community health centers and other organizations in eastern Wisconsin to improve access to primary and behavioral health care as well as treatment and prevention programs for sexual assault and domestic violence.

Legal and Regulatory Compliance

Aurora operates in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings are instituted or asserted against it from time to time. 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, could have a material adverse effect on Aurora’s consolidated financial position or results of operations.

Compliance and Internal Audit Programs

Aurora has a corporate compliance department that 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 regarding certain significant legal and regulatory requirements applicable to the organization, including HIPAA and other privacy regulations, which also includes steps to monitor and promote compliance with these requirements. All employees are provided a link to the Aurora Code of Ethical Conduct as part of their mandatory annual

education and, before completing the training, are required to acknowledge receipt and agree that they have read it and understand that it reflects Aurora's policy. A "hotline" is available to all employees and physicians to report any areas of potential concern. In addition, Aurora adopted policies designed to address specific risk areas and 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 and Compliance 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 and Compliance Committee and the Board of Directors. The responsibilities of the internal audit department include assessing the effectiveness of internal controls and reviewing compliance with applicable laws and regulations.

Debt Compliance Program

Aurora 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.

Internal Control over Financial Reporting Program

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. The program includes the review of all aspects of the financial reporting process, identification of potential risks and ensures the risks have been mitigated utilizing a management self-assessment process.

Additional Risk Factors

Aurora's business is subject to a number of risks and uncertainties - many of which are beyond Aurora's control - that may cause Aurora's actual operating results or financial performance to be materially different from Aurora's expectations. If one or more of the events discussed in this report were to occur, actual outcomes could differ materially from those expressed in or implied by any forward-looking statements Aurora makes in this report or Aurora's other filings with emma.msrb.org, and Aurora's business, financial condition, results of operations or liquidity could be materially adversely affected.

Aurora's business and financial results could be harmed by a national or localized outbreak of a highly contagious or epidemic disease.

If an outbreak of an infectious disease were to occur in Aurora's service area, Aurora's business and financial results could be adversely affected. The treatment of a highly contagious disease at one of Aurora's facilities may result in a temporary shutdown or diversion of patients. In addition, unaffected individuals may decide to defer elective procedures or otherwise avoid medical treatment, resulting in reduced patient volumes and operating revenues. Furthermore, Aurora cannot predict the costs associated with the potential treatment of an infectious disease outbreak by Aurora's hospitals or preparation for such treatment.

Aurora's business could be negatively affected by security threats, catastrophic events and other disruptions affecting Aurora's information technology and related systems.

As a provider of healthcare services, information technology is a critical component of the day-to-day operation of Aurora's business. Aurora relies on Aurora's information technology to process, transmit and store sensitive and confidential data, including protected health information, personally identifiable information, and Aurora's proprietary and confidential business performance data. Aurora utilizes electronic health records and other health information technology, along with additional technology systems, in connection with Aurora's operations, including for, among other things, billing and supply chain and labor management. Aurora's systems, in turn, interface with and rely on third-party systems. Although Aurora monitors and routinely test Aurora's security systems and processes and have a diversified data network that provides redundancies as well as other measures designed to protect the security and availability of the data Aurora processes, transmits and stores, Aurora's information technology and infrastructure have been, and will likely continue to be, subject to computer viruses, attacks by hackers, or breaches due to employee error or malfeasance. While Aurora is not aware of having experienced a material breach of cybersecurity, the preventive actions Aurora takes to reduce the risk of such incidents and protect Aurora's information technology may not be sufficient in the future. As cybersecurity threats continue to evolve, Aurora may not be able to anticipate certain attack methods in order to implement effective protective measures, and Aurora may be required to expend significant additional resources to continue to modify and strengthen Aurora's security measures, investigate and remediate any vulnerabilities in Aurora's information systems and infrastructure, or invest in new technology designed to mitigate security risks. Third parties to whom Aurora outsources certain of Aurora's functions, or with whom Aurora's systems interface, are also subject to the risks outlined above and may not have or use appropriate controls to protect confidential information. A breach or attack affecting one of Aurora's third-party service providers or partners could harm Aurora's business even if Aurora does not control the service that is attacked. Further, successful cyber-attacks at other healthcare services companies, whether or not Aurora is impacted, could lead to a general loss of customer confidence in Aurora's industry that could negatively affect Aurora, including harming the market perception of the effectiveness of Aurora's security measures or of the healthcare industry in general, which could result in reduced use of Aurora's services. Though Aurora has insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event.

Furthermore, Aurora's networks and technology systems are subject to disruption due to events such as a major fires, telecommunications failure, terrorist attack or other catastrophic event. Any such breach or system interruption could result in the unauthorized disclosure, misuse or loss of confidential, sensitive or proprietary information, could negatively impact Aurora's ability to conduct normal business operations (including the collection of revenues), and could result in potential liability under privacy, security, consumer protection or other applicable laws, regulatory penalties, negative publicity and damage to Aurora's reputation, any of which could have a material adverse effect on Aurora's business, financial position, results of operations or cash flows.

Economic factors have affected, and may continue to impact, Aurora's business, financial condition and results of operations.

Aurora believes broad economic factors - including high unemployment rates in some of Aurora's service areas and instability in consumer spending - have affected Aurora's volumes and Aurora's ability to collect outstanding receivables. The United States economy remains unpredictable. If industry trends (including reductions in commercial managed care enrollment and patient decisions to postpone or cancel elective and non-emergency healthcare procedures) or general economic conditions worsen, Aurora may not be able to sustain future profitability, and Aurora's liquidity and ability to repay Aurora's outstanding debt may be harmed.

Furthermore, the availability of liquidity and credit to fund the continuation and expansion of many business operations worldwide has been limited in recent years. Aurora's ability to access the capital markets on acceptable terms may be severely restricted at a time when Aurora would like, or need, to access those markets, which could have a negative impact on Aurora's growth plans, Aurora's flexibility to react to changing economic and business conditions, and Aurora's ability to refinance existing debt. An economic downturn or other economic conditions could also adversely affect the counterparties to Aurora's agreements, including the lenders under Aurora's credit facilities, causing them to fail to meet their obligations to Aurora.

As a result of factors that have negatively affected Aurora's industry generally and Aurora's business specifically, Aurora have been required to record various charges in Aurora's results of operations. Aurora's impairment tests presume stable, improving or, in some cases, declining operating results in Aurora's hospitals, which are based on programs and initiatives being implemented that are designed to achieve the hospitals' most recent projections. If these projections are not met, or negative trends occur that impact Aurora's future outlook, future impairments of long-lived assets and may occur, and Aurora may incur additional restructuring charges.

SELECTED FINANCIAL INFORMATION OF AURORA

The following condensed consolidated financial information of Aurora as of and for each of the three years ended December 31, 2017, 2016 and 2015, has been derived from the audited consolidated financial statements of Aurora and should be read in conjunction with the audited consolidated financial statements of Aurora as of and for the years ended December 31, 2017, 2016 and 2015, and the related notes thereto. 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 section within Aurora's website found at https://www.aurorahealthcare.org/about-aurora/investor-relations-financial-information.

Aurora Health Care, Inc. and Affiliates
Condensed Consolidated Balance Sheet Information
(In thousands)

	December 31,		
	2017	**2016**	**2015**
Cash and cash equivalents	$ 192,883	$ 107,664	$ 176,626
Investments	1,834,050	1,614,843	1,272,107
Assets whose use is limited or restricted	5,059	5,484	10,793
Patient accounts receivable — net	715,431	731,746	760,058
Other receivables	84,939	102,791	81,626
Inventory	69,583	70,031	67,572
Prepaids and other current assets	57,030	48,026	56,728
Estimated third-party payor settlements	13,910	9,989	7,494
Total current assets	2,972,885	2,690,574	2,433,004
Assets whose use is limited or restricted	444,121	398,048	375,551
Property, plant, and equipment, net	2,106,327	2,066,286	1,955,988
Intangible assets — net	14,219	15,786	16,245
Investments in unconsolidated entities	69,822	72,313	73,788
Other assets	53,230	56,835	48,410
Total Assets	$ 5,660,604	$ 5,299,842	$ 4,902,986
Current installments of long-term debt	$ 146,444	$ 161,936	$ 136,542
Accounts payable	242,734	222,528	228,344
Accrued salaries and wages	246,774	259,225	277,070
Other accrued expenses	192,252	213,684	203,344
Estimated third-party payor settlements	28,358	34,041	22,061
Total current liabilities	856,562	891,414	867,361
Long-term debt, less current installments	1,335,185	1,403,091	1,421,061
Pension and other employee benefit liabilities	270,833	243,574	225,428
Self-insured liabilities	58,770	61,592	64,898
Deferred gain	31,161	36,662	41,863
Other	64,887	61,822	65,191
Total liabilities	2,617,398	2,698,155	2,685,802
Unrestricted net assets:			
Controlling interest	2,862,327	2,439,653	2,066,225
Noncontrolling interest in subsidiaries	115,051	100,119	88,447
Total unrestricted net assets	2,977,378	2,539,772	2,154,672
Temporarily restricted net assets	46,859	43,171	43,779
Permanently restricted net assets	18,969	18,744	18,733
Total net assets	3,043,206	2,601,687	2,217,184
Total Liabilities and Net Assets	$ 5,660,604	$ 5,299,842	$ 4,902,986

Aurora Health Care, Inc. and Affiliates
Condensed Consolidated Statements of Operations and Changes in Unrestricted Net Assets
(In thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
REVENUE:			
Patient service revenue	$ 5,069,034	$ 4,837,262	$ 4,647,940
Less provision for bad debts	170,262	140,151	132,805
Net patient service revenue	4,898,772	4,697,111	4,515,135
Other revenue	435,332	427,702	414,912
Total revenue	5,334,104	5,124,813	4,930,047
EXPENSES:			
Salaries, wages and fringe benefits	2,972,910	2,805,198	2,564,106
Professional fees	94,285	82,707	79,893
Supplies	1,018,328	987,058	929,228
Depreciation and amortization	221,591	207,842	198,644
Interest	56,446	57,687	57,378
Maintenance and service contracts	124,103	119,659	111,637
Building and equipment rental	67,115	65,850	71,087
Hospital tax assessment	96,794	97,201	94,739
Utilities	48,174	48,751	47,118
Purchased services	136,055	137,940	123,854
Other expenses	159,251	141,582	153,111
Pension settlement loss	—	—	36,848
Total expenses	4,995,052	4,751,475	4,467,643
OPERATING INCOME	339,052	373,338	462,404
NONOPERATING INCOME (LOSS):			
Investment income (loss)	150,878	95,603	(1,949)
Other nonoperating (loss) income - net	(16,033)	202	(17,725)
Total nonoperating income (loss) — net	134,845	95,805	(19,674)
Excess of revenue over expenses [(1)]	473,897	469,143	442,730
Pension-related changes other than periodic pension cost	(508)	(49,680)	25,234
Net assets released from restriction for purchase of property and equipment	1,595	3,292	2,643
Distributions to noncontrolling interests	(37,366)	(37,277)	(42,581)
Other	(12)	(378)	394
Increase in unrestricted net assets	$ 437,606	$ 385,100	$ 428,420

(1) Aurora Medical Group has a majority (approximately 62%) interest in Aurora BayCare. Additionally, the Corporation has a controlling financial interest in three surgery centers. The accounts of Aurora BayCare and the three surgery centers are included in the consolidated financial statements of Aurora. Excess of revenue over expenses includes $52.3 million, $48.9 million, and $44.4 million for the years ended December 31, 2017, 2016, and 2015, respectively, attributable to the noncontrolling interests in Aurora BayCare and the surgery centers.

FINANCIAL RATIOS

The financial ratios presented below reflect the consolidated results of Aurora as of and for the years ended December 31, 2017, 2016, and 2015:

	Year Ended December 31,		
	2017	**2016**	**2015**
Operating Performance:			
Operating margin [1]	6.4%	7.3%	9.4%
EBIDA percent [2]	14.1%	14.3%	14.2%

	As of December 31,		
	2017	**2016**	**2015**
Liquidity:			
Days cash on hand [3]	169.1	152.0	137.4
Net AR days outstanding [4]	53.3	57.0	61.4
Financial Position/Leverage Ratios:			
Unrestricted cash to debt [5]	149%	121%	103%
Cash to puttable debt [6]	463%	390%	327%
Debt to capitalization [7]	33%	38%	42%
Debt to cash flow [8]	2.1	2.3	2.4
Debt service coverage ratio [9]	5.5	5.9x	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).

[9] (Excess of revenues over expenses + Interest expense + Depreciation and amortization expense)/(Principal payments + Interest expense).

THE OBLIGATED GROUP

The Obligated Group includes the Corporation and the affiliates below. Each member of the Obligated Group agreed to be jointly and severally obligated for Master Notes issued under the Master Indenture.

The Obligated Group

- Aurora Health Care, Inc.
- Aurora Health Care Metro, Inc.
- Aurora Health Care Central, Inc.
- Aurora Health Care Southern Lakes, Inc.
- Aurora Medical Center of Washington County, Inc.
- Aurora Health Care North, Inc.
- Aurora Medical Center of Oshkosh, Inc.
- Aurora Medical Group, Inc.
- Aurora Medical Center Grafton, LLC

The Obligated Group operates 13 of Aurora's 15 Hospital Facilities and 116 of Aurora's 158 Clinic Facilities.

Obligated Group and Non-Obligated Group Financial Information:

The information provided for the Obligated Group as of and for the years ended December 31, 2017, 2016 and 2015 is derived from the unaudited consolidating financial information underlying the audited consolidated financial statements of Aurora. The Obligated Group select financial information below includes all adjustments that management considers necessary to present such information in conformity with GAAP applied on a basis substantially consistent with that of the audited consolidated financial statements.

The financial information for the Obligated Group includes the financial results of certain wholly and partially owned or controlled entities of Aurora which have not assumed any financial obligation related to payment of or security for any notes issued under the Master Indenture ("Non-Member Entities") but are recognized as investment interests of the Obligated Group in accordance with GAAP.

The aggregate total revenue, total assets, and total net assets of the Obligated Group and Non-Obligated Group Entities as of and for the years ended December 31, 2017, 2016, and 2015, is as follows (in thousands):

	December 31,					
	2017		2016		2015	
Total Revenue						
Obligated Group	$ 3,817,984	72%	$ 3,660,311	71%	$ 3,524,330	71%
Non-Obligated Group	1,516,120	28%	1,464,502	29%	1,405,717	29%
Consolidated System	$ 5,334,104	100%	$ 5,124,813	100%	$ 4,930,047	100%
Total Assets [(1)(2)]						
Obligated Group	$ 4,926,219	87%	$ 4,547,232	86%	$ 4,151,474	85%
Non-Obligated Group	734,385	13%	752,610	14%	751,512	15%
Consolidated System	$ 5,660,604	100%	$ 5,299,842	100%	$ 4,902,986	100%
Total Net Assets [(1)(2)]						
Obligated Group	$ 2,345,364	77%	$ 1,929,714	74%	$ 1,599,011	72%
Non-Obligated Group	697,842	23%	671,973	26%	618,173	28%
Consolidated System	$ 3,043,206	100%	$ 2,601,687	100%	$ 2,217,184	100%

(1) The selected financial information has been prepared pursuant to the provisions of the Master Indenture. Such information reflects the Obligated Group as defined in the Master Indenture, with the exception of the Obligated Group Members' investment in certain Non-Member Entities whose stock is wholly or majority owned by an Obligated Group member and the net assets of charitable foundations set forth in footnote (2). The total net assets of these wholly or majority owned Non-Member Entities are $273.6 million, $242.3 million, and $239.8 million as of December 31, 2017, 2016, and 2015, respectively. Such amounts have been included in the total assets of the Obligated Group in the Selected Financial Information above.

(2) Certain Obligated Group Members have ownership interests in the net assets of charitable foundations that raise funds on behalf of Aurora. The total net assets of these foundations are $214.6 million, $189.5 million, and $182.7 million as of December 31, 2017, 2016, and 2015, respectively. Such amounts have been included in the total assets of the Obligated Group in the Selected Financial Information above.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Results of Operations – Year Ended December 31, 2017 Compared to Year Ended December 31, 2016
Operating income was $339.1 million in 2017, resulting in an operating margin of 6.4%, as compared to operating income of $373.3 million and an operating margin of 7.3% in 2016. The decrease in operating income period over period relates primarily to increases in salaries wages and fringe benefits, professional fees, supplies expense, depreciation and amortization, and other expenses services, offset by an increase in total revenue during the period. These trends are discussed in further detail below.

Patient service revenue increased $231.8 million (4.8%) in the year ended December 31, 2017, compared to the same period in 2016. Patient service revenue increased primarily due to the annual price increase effective January 1, 2017, as well as an increase in volumes. Physician clinic, hospital outpatient and other visits, observation and bedded outpatients, surgical cases, and adult discharges increased 3.3%, 2.3%, 2.1%, and 1.9%, respectively, compared to the same period in the prior year. This was offset by an increase in charity care which as a percentage of gross patient service revenue increased from 1.1% for the year ended December 31, 2016 to 1.3% for the year ended December 31, 2017, due to a higher amount of uninsured patients qualifying for charity care.

Provision for bad debts increased $30.1 million (21.5%) in the year ended December 31, 2017, compared to the same period in the prior year. The increase in the provision for bad debt was primarily due to an increase in amounts due from patients for co-insurance and deductibles and an increase in revenue from patients without insurance. Bad debt as a percentage of patient service revenue (net of contractual allowances and discounts) increased from 0.9% for the year ended December 31, 2016 to 1.1% for the year ended December 31, 2017.

Other revenue increased $7.6 million (1.8%) for the year ended December 31, 2017, compared to the same period in the prior year. This increase was primarily driven by a $9.3 million increase in investment income on certain defined contribution funds due to favorable market conditions and an increase in the fund balances. Additionally, income from investments in joint ventures increased by $6.4 million due to stronger performance of these investment entities. These increases were offset by a decrease in EHR incentive payments of $6.6 million. EHR incentive payments have continued to decrease since under the terms of the program incentive payments decline with each year of participation. Additionally, risk share, quality, and administrative revenue related to managed care arrangements declined by $3.0 million due to unfavorable trends under certain agreements.

Operating expenses, excluding depreciation and amortization, interest, and other expenses as a percentage of total revenue, remained consistent at 85% for the years ended December 31, 2017 and 2016.

Salaries, wages and fringe benefits expense increased $167.7 million (6.0%) for the year ended December 31, 2017, compared to the same period in the prior year. Salaries and wages expense increased $142.7 million during the period. This increase was driven by a 3.5% increase in full time equivalents ("FTE's") year over year in response to an increase in volume year over year and the annual merit increase of 3.0% which was effective in July 2017. Fringe benefits expense increased $25.0 million compared to the prior year due to an increase in employee related benefits resulting from the increase in FTE's and an

increase in investment income on certain defined contribution plans of $9.3 million resulting from favorable market conditions and an increase in fund balance.

Professional fees increased $11.6 million (14.0%) in the year ended December 31, 2017, compared to the same period in the prior year. The increase in professional fees during the year related to consulting and due diligence work for Aurora's expected merger with Advocate Health Care of Downers Grove, Illinois. Further discussion of the merger can be located within the "Business Strategy" section of this annual report. Additionally, Aurora's agreement with its lab management consultant changed in January 2017, resulting in $5.3 million of additional expense; whereas, these amounts were previously reduced by certain quality and cost containment guarantees.

Supplies expense increased $31.3 million (3.2%) in the year ended December 31, 2017, compared to the same period in the prior year. The increase in supplies expense was primarily due to the increase in volume from the prior year. Supplies expense as a percent of total revenue has decreased from 19.3% for the year December 31, 2016 to 19.1% for the year ended December 31, 2017 due to a decrease in minor equipment purchases during the year. The comparative decrease in minor equipment purchases is primarily due to an increase in purchases in 2016 to support two new ambulatory surgery centers in Germantown and Burlington, Wisconsin.

Depreciation increased $13.7 million (6.6%) in the year ended December 31, 2017, compared to the same period in the prior year. This increase was due to capital expenditures during the current year, as well as a full year of depreciation on the new ambulatory surgery centers in Germantown and Burlington, Wisconsin. These ambulatory surgery centers were placed in service late in 2016; therefore, depreciation on these facilities increased in 2017 as they were in service for the entirety of the year.

Other expenses increased $17.7 million (12.5%) in the year ended December 31, 2017, compared to the same period in the prior year. This increase was driven by a variety of transactions related to changes to Aurora's business strategy, financial results, and community outreach. In 2017, Aurora impaired $3.0 million of capital costs associated with a project which was abandoned when Aurora commenced plans to build a replacement hospital in Sheboygan. Additionally, Aurora's income tax expense increased as deferred tax assets were reduced due the impact of new tax legislation. Community outreach expense increased $3.0 million due to contributions made by Aurora during the year to the "Better Together Fund".

All other expenses, including interest, maintenance and service contracts, building and equipment rental, hospital tax assessment, utilities, and purchased services remained consistent for the year ended December 31, 2017 as compared to the year ended December 31, 2016, increasing $1.6 million (0.3%) in the aggregate.

Nonoperating income was $134.8 million in 2017 compared to $95.8 million of nonoperating income for the same period in 2016. The increase in nonoperating income from prior year is due to favorable market conditions which resulted in a $49.3 million increase in realized and unrealized investment gains for the year ended December 31, 2017 compared to the year ended December 31, 2016. These increases in nonoperating income were partially offset by a loss of $13.4 million due to the write-off of assets which

no longer met Aurora's capitalization policy. Overall, Aurora reported an excess of revenue over expenses of $473.9 million in 2017 compared to $469.1 million in 2016.

Results of Operations – Year Ended December 31, 2016 Compared to Year Ended December 31, 2015
Operating income was $373.3 million in 2016, resulting in an operating margin of 7.3%, as compared to operating income of $462.4 million and an operating margin of 9.4% in 2015. The decrease in operating income period over period relates primarily to increases in salaries wages and fringe benefits, supplies expense and purchased services, offset by an increase in total revenue during the period. These trends are discussed in further detail below. Nonoperating income was $95.8 million in 2016 compared to $19.7 million of nonoperating loss for the same period in 2015. The increase from prior year is due to favorable market conditions which results in a $91.0 million increase in unrealized gains for the year ended December 31, 2016 compared to year ended December 31, 2015. Additionally, other nonoperating income increased due to one-time activity in 2015 including a $25.3 million loss on the disposal of fixed assets as a result of the completion of a comprehensive fixed asset physical inventory, which was offset by a $9.2 million gain on the sale of the Marinette surgery center. Overall, Aurora reported an excess of revenue over expenses of $469.1 million in 2016 compared to $442.7 million in 2015.

Patient service revenue increased $189.3 million (4.1%) in the year ended December 31, 2016, compared to the same period in 2015. The increase in revenue was due to higher volumes than prior year, most significantly observation and bedded outpatients, surgical cases, physician clinic, hospital outpatient and other visits, and adult discharges which increased 4.8%, 4.5%, 4.0%, and 2.0%, respectively, offset by an increase in charity care. Charity care as a percentage of gross patient service revenue increased from 0.7% for the year ended December 31, 2015 to 1.1% for the year ended December 31, 2016, due to the automation of the process to identify patients who qualify for charity care which has resulted in more write-offs as charity care.

Provision for bad debts increased $7.3 million (5.5%) in the year ended December 31, 2016, compared to the same period in the prior year. The increase in the provision for bad debt was primarily due to an increase in volumes and corresponding revenues period over period. Bad debt as a percentage of patient service revenue was consistent with prior year at 0.9% for the years ended December 31, 2016 and December 31, 2015.

Other revenue increased $12.8 million (3.1%) for the year ended December 31, 2016, compared to the same period in the prior year. This increase was primarily driven by a $22.9 million increase in favorable risk share, quality, and administrative revenue related to managed care agreements. Other revenue also increased $10.2 million due to investment income on certain defined contribution funds due to favorable market conditions and an increase in the fund balances. These increases were offset by a decrease in 340B contract pharmacy revenue of $25.6 million, due to a current year change in the determination of a qualifying prescription under the 340B program.

Operating expenses, excluding depreciation and amortization, interest, other and pension settlement loss, as a percentage of total revenue, increased from 82% in 2015 to 85% in 2016.

Salaries, wages and fringe benefits expense increased $241.1 million (9.4%) for the year ended December 31, 2016, compared to the same period in the prior year. Salaries and wages expense increased

$186.3 million during the period. This increase was driven by a 6% increase in full time equivalents ("FTE's") year over year and the annual merit increase of 2.9% which was effective in July 2016. Fringe benefits expense increased $56.1 million compared to the prior period due to an increase in employee related benefits such as FICA, 401(k) and health insurance costs.

Supplies expense increased $57.8 million (6.2%) in the year ended December 31, 2016, compared to the same period in the prior year. The increase in supplies expense is primarily due to the increase in volume from the prior year. The increase in supplies is also due to higher drug and implant expense which increased $12.1 million and $9.1 million, respectively. Drug and implant costs were impacted by increased volumes and price increases as well as the increased use of higher cost specialty drugs and more expensive cardiac and orthopedic implants. Supplies expense as a percent of total revenue has increased from 18.8% for the year December 31, 2015 to 19.3% for the year ended December 31, 2016 due to the cost increases discussed above.

Depreciation increased $9.2 million (4.6%) in the year ended December 31, 2016, compared to the same period in the prior year. This increase was due to capital expenditures during the current year, as well as the acceleration of depreciation on the apartments adjacent to the Aurora West Allis Medical center, which was demolished in 2016 to make way for the expansion of the parking structure.

Maintenance and service contracts increased $8.0 million (7.2%) in the year ended December 31, 2016, compared to the same period in the prior year. This increase is due to service contracts associated with additional IT equipment to support a new data center and other operations.

All other expenses, including professional fees, interest, building and equipment rental, hospital tax assessment, utilities, purchased services, and other expenses remained consistent in the year ended December 31, 2016 as compared to the year ended December 31, 2015, increasing $4.5 million (0.7%) 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 as of December 31, 2017, 2016, and 2015 (dollars in thousands):

	December 31,					
	2017		2016		2015	
Cash and cash equivalents	$ 618,633	25.0%	$ 132,659	6.2%	$ 203,057	11.1%
Fixed-income securities:						
U.S. Treasury	65,532	2.6%	94,596	4.4%	80,456	4.4%
Corporate bonds and other debt securities	148,453	6.0%	194,651	9.2%	187,999	10.2%
Federal agency	57,763	2.3%	97,665	4.6%	89,889	4.9%
Fixed income mutual funds	791,695	32.0%	990,518	46.6%	793,033	43.2%
Domestic equity securities:						
Large-cap	19,175	0.8%	17,961	0.8%	16,156	0.9%
Mid-cap	20,472	0.8%	19,257	0.9%	11,006	0.6%
Small-cap	23,803	1.0%	22,106	1.0%	19,124	1.0%
Real estate	31,734	1.3%	470	—%	279	—%
Equity mutual funds and exchange-traded funds	493,325	19.9%	384,410	18.1%	300,598	16.4%
Real estate investments	35,174	1.4%	13,953	0.7%	12,774	0.7%
International equity securities	150,419	6.1%	142,192	6.7%	107,183	5.8%
International equity limited partnerships	10,871	0.4%	8,497	0.4%	7,840	0.4%
Other	9,064	0.4%	7,104	0.3%	5,683	0.3%
Total	2,476,113		2,126,039		1,835,077	
Less restricted investments [1]	(265,093)		(239,364)		(232,852)	
Total unrestricted cash and investments	$ 2,211,020		$ 1,886,675		$ 1,602,225	
Days cash on hand [2]	169.1		152.0		137.4	

[1] Restricted investments include donor restricted funds, contractually restricted funds and funds held by a trustee

[2] Days cash on hand is calculated in accordance with Aurora's internal financial reporting methodology. Is not intended to conform to the Master Indenture calculation. See "Covenant Compliance" below.

Aurora's unrestricted cash and investments increased by $324.3 million or 17.2% from December 31, 2016 to December 31, 2017. The increase in unrestricted cash and investments was primarily due to $630.5 million of cash flow generated from operations, $58.7 million of proceeds from long-term debt, offset by $145.5 million of repayments of long-term debt, and $277.5 million in capital expenditures.

Aurora's unrestricted cash and investments increased by $284.5 million or 17.8% from December 31, 2015 to December 31, 2016. The increase in unrestricted cash and investments was primarily due to $620.5 million of cash flow generated from operations, $218.0 million of proceeds from long-term debt, offset by $215.6 million of payments on long-term debt, $39.3 million of distributions to minority shareholders, and $346.7 million in capital expenditures.

All investment income or loss is included in nonoperating income (loss), other than investment income or loss on funds held for professional liability coverage, certain employee benefit investments and any donor restricted investment income or loss.

Total investment income (loss) for the years ended December 31, 2017, 2016, and 2015 consisted of the following (in thousands):

	2017	2016	2015
Interest income and dividends	$ 55,445	$ 47,454	$ 41,179
Net realized gains on securities	26,549	2,547	3,442
Changes in unrealized gains (losses) on investments	96,586	59,827	(47,351)
Total	$178,580	$109,828	$ (2,730)

LIQUIDITY – ACCOUNTS RECEIVABLE

Net accounts receivable days outstanding decreased from 57.0 days as of December 31, 2016 to 53.3 days as of December 31, 2017. The primary reason for the decrease in net accounts receivable days outstanding was strong cash collections during the current year.

Net accounts receivable days outstanding decreased from 61.4 days as of December 31, 2015 to 57.0 days at December 31, 2016. The primary reason for the decrease in net accounts receivable days outstanding was due to resolution of billing delays related to coding issues as a result of ICD-10 which were present at December 31, 2015, which were no longer present at December 31, 2016.

MASTER INDENTURE AND BANK AGREEMENTS

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 Taxable Bonds, the J.P. Morgan Line of Credit, the Credit Agreement and the Letters of Credit described below are also secured by Obligations issued under the Master Indenture.

Aurora’s Master Indenture and bank agreements contain various covenants that, among other things, limit Aurora’s ability, and Aurora’s subsidiaries, to:

- incur, assume or guarantee additional indebtedness;
- incur liens;
- make certain investments;
- provide subsidiary guarantees;

- consummate asset sales;
- enter into sale and lease-back transactions;
- enter into transactions with affiliates; and
- consolidate, merge or sell all or substantially all of Aurora's assets.

These restrictions are subject to a number of important exceptions and qualifications.

In addition, the terms of Aurora's Master Trust Indenture and bank agreements require Aurora to maintain certain financial ratios. Aurora's ability to meet these restrictive covenants and financial ratios may be affected by events beyond Aurora's control, and Aurora cannot assure that Aurora will meet those tests. These restrictions could limit Aurora's ability to obtain future financing, make acquisitions of needed capital expenditures, withstand economic downturns in Aurora's business or the economy in general, conduct operations, or otherwise take advantage of business opportunities that may arise. Furthermore, a breach of any of these covenants could cause an event of default, which, if not cured or waived, could require Aurora to repay the indebtedness immediately. Under these conditions, we are not certain whether Aurora would have, or be able to obtain, sufficient funds to make accelerated payments.

Aurora has the ability to incur additional indebtedness in the future, subject to the restrictions contained in Aurora's Master Trust Indenture and bank agreements. Aurora may decide to incur additional secured or unsecured debt in the future to finance Aurora's operations, judgments or settlements, or other business purposes.

Indebtedness

Aurora's total long-term debt at December 31, 2017, 2016, and 2015 is as follows (in thousands):

	December 31,		
	2017	**2016**	**2015**
Total revenue bonds	$ 988,571	$ 1,091,166	$ 1,274,917
Taxable bonds	235,760	258,000	40,000
Capital lease obligations and financing arrangements	202,205	220,829	239,646
Term note	—	—	10,264
Credit facility	58,500	—	—
Various notes payable	5,595	5,943	6,573
Deferred financing costs - net	(9,002)	(10,911)	(13,797)
Total long-term debt	$ 1,481,629	$ 1,565,027	$ 1,557,603

Fixed Rate Revenue Bonds: At December 31, 2017, 2016, and 2015, the Corporation had outstanding $551.5 million (including $10.0 million of unamortized original premium, net), $582.7 million (including $11.8 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 5.09%, 4.89%, and 5.14% at December 31, 2017, 2016, and 2015, respectively.

Long-Term Rate Bond: The Long-Term Rate Bonds bore interest at fixed rates for specified periods, and were subject to mandatory tender at the end of such periods, on the date and in the principal amount described below. There was 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 constituted an event of default under the related bond documents.

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

At December 31, 2016 and 2015 $65.0 million and $67.5 million, respectively, of the Long-Term Rate Bonds were classified as current due to these requirements, with the remainder being classified as long-term. In August 2016, $67.5 million of the Series 2009B-2 Fixed Rate Revenue Bonds were paid off by the issuance of $218.0 million of fixed rate taxable bonds discussed below. In August 2017 the remaining $65.0 million Long-Term Rate bond was refunded with proceeds from the Credit Facility discussed below.

Variable Rate Demand Bonds ("VRDBs"): At December 31, 2017, 2016, and 2015 the Corporation had outstanding $454.1 million, $460.6 million, and $467.0 million, of VRDBS, respectively. 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. 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 2021 (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
Bank of America	$ 108,080	1/31/2019
J.P. Morgan	50,822	9/28/2020
J.P. Morgan	84,384	9/28/2020
J.P. Morgan	83,825	9/28/2020
Bank of Montreal	36,544	2/7/2021
Bank of Montreal	36,544	2/7/2021
Bank of Montreal	53,918	2/7/2021
Total	$ 454,117	

Taxable Bonds: At December 31, 2017, 2016, and 2015, the Corporation had outstanding $235.8 million, $258.0 million and $40.0 million, respectively, of fixed rate taxable bonds. The weighted average interest

rate on the taxable bonds was 1.89%, 1.98%, and 0.62% at December 31, 2017, 2016, and 2015, respectively. At December 31, 2017, $40.0 million of taxable bonds are subject to a mandatory tender on April 15, 2021. The Taxable Bonds are secured by Obligations issued under the Master Indenture.

On August 15, 2016, Aurora issued $218.0 million of Series 2016A and 2016B fixed rate taxable bonds which were directly placed with two commercial banks. The proceeds of the 2016A and 2016B Bonds were used to redeem $81.2 million of the Series 1993 Fixed Rate Revenue Bonds, $67.5 million of the Series 2009B-2 Fixed Rate Revenue Bonds and pay off the balance on the term note of $9.8 million. The remaining proceeds were used primarily to fund various capital projects. Aurora had a fixed-to-variable interest rate swap which was terminated in connection with this transaction.

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 a direct placement and bear interest at a taxable, variable rate.

Lines of Credit: In August 2017, Aurora entered into a $250.0 million line of credit with a syndicate of commercial banks. The credit facility bears interest at a base rate plus margin based on Aurora's current bond ratings. Proceeds of a $58.5 million draw in August 2017 and $6.5 million of debt reserve funds were used to refund a mandatory tender of $65.0 million on the 2009B bonds. The $58.5 million draw remains outstanding as of December 31, 2017. The weighted average interest rate on the outstanding draw was 1.87% as of December 31, 2017. Aurora's repayment obligations under the credit agreement are secured by Obligations under the Aurora Indenture.

At December 31, 2017, 2016, and 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. At December 31, 2017 three letters of issued under the line of credit totaling $40.5 million were outstanding. In 2016 and 2015, two letters of credit issued under the line of credit totaling $38.8 million and $37.7 million, respectively, 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 which are reflected as long-term debt in the consolidated 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 December 31, 2017, 2016, and 2015, the outstanding amount of capital lease obligations and financing arrangements was $202.2 million, $220.8 million, and $239.6 million, respectively.

In January 2018, Aurora purchased nineteen properties that were previously leased for cash consideration of $433.0 million. Aurora was obligated under capital lease and financing arrangements entered into in connection with certain leasing and sale-leaseback transactions for eighteen of these properties. The transaction resulted in the realization of deferred gains related to these properties of $5.7 million. In connection with this transaction, Aurora derecognized $48.9 million of net capital lease assets and $78.4 million of capital lease liabilities. The net gain was recorded as a reduction to the carrying value of the properties acquired.

At December 31, 2015, Aurora was obligated under a term note. The term note was an obligation of Aurora BayCare and was collateralized by a mortgage on the orthopedic and sports medicine complex and a pledge of Aurora BayCare's interest in, and proceeds from, certain lease agreements, and required monthly principal and interest payments at LIBOR, plus 1.375%. The Term Note was paid in full in 2016.

Interest Expense

The interest expense associated with Aurora's indebtedness offsets a portion of Aurora's operating income. During 2017, Aurora's interest expense was $56.4 million and represented approximately 14.3% of Aurora's $395.5 million of operating income before interest expense. As a result, relatively small percentage changes in Aurora's interest expense can result in a relatively large percentage change in Aurora's excess of revenue over expenses, both positively and negatively.

Tax Reform

Tax reform legislation (the "Tax Act") was signed into law on December 22, 2017. The Tax Act contained a proposal to eliminate the exclusion of interest on tax-exempt bonds issued for the benefit of 501(c)(3) organizations from gross income after December 31, 2017. The Tax Act did not contain this provision, but did eliminate the exemption for interest on advance refunding bonds. Future proposals to alter or eliminate the exclusion of interest on tax-exempt bonds could be made again in the future, which could result in an increased cost of capital to Aurora.

The Tax act also contained a reduction in Federal income tax rates, which has weakened the value of tax-exempt debt, resulting in higher rates of interest. This weakening may result in, among other things, increased borrowing costs and interest rates on Aurora's variable rate debt.

Other Risks Related to Indebtedness

Aurora's ability to make scheduled payments on or to refinance Aurora's indebtedness depends on Aurora's financial and operating performance, which is subject to prevailing economic and competitive conditions, financial, business and other factors beyond Aurora's control.

Aurora may be forced to reduce or delay capital expenditures, including those required for operating Aurora's existing hospitals, for integrating Aurora's historical acquisitions or for future corporate development activities. Aurora also may be forced to sell assets or operations, seek additional capital, restructure or refinance Aurora's indebtedness. Aurora cannot assure that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations, or that these actions would be permitted under the terms of Aurora's existing or future debt agreements, including the Master Indenture and bank agreements.

In addition, the following risks are inherent in maintaining a capital structure that includes substantial indebtedness.

- Aurora's indebtedness may limit Aurora's ability to adjust to changing market conditions and place Aurora at a competitive disadvantage compared to Aurora's competitors that have less debt.
- Aurora may be more vulnerable in the event of a deterioration in Aurora's business, in the healthcare industry or in the economy generally, or if federal or state governments substantially limit or reduce reimbursement under the Medicare or Medicaid programs.
- Aurora's debt service obligations reduce the amount of funds available for Aurora's operations, capital expenditures and corporate development activities, and may make it more difficult for Aurora to satisfy its financial obligations.
- Aurora's indebtedness could limit Aurora's ability to obtain additional financing to fund future capital expenditures, working capital, acquisitions or other needs.
- Some of Aurora's borrowings accrue interest at variable rates, exposing us to the risk of increased interest rates.

Capital Expenditures

In 2017, 2016, and 2015, Aurora's capital expenditures were $277.5 million, $346.7 million, and $296.7 million, respectively. The capital expenditures reflect Aurora's focus on strategic capabilities and growth. In the last several years, a large part of Aurora's capital allocation was directed at facility repositioning and information technology. Consistent with its strategic initiatives, Aurora's capital expenditures in 2017 and those budgeted for 2018 reflect a continued shift in capital allocation from information technology to strategic capabilities and growth, as represented by funding for a planned ambulatory surgery center in Kenosha County, a planned replacement hospital and ambulatory surgery center in Sheboygan, and a planned ambulatory surgery center in greater Milwaukee south. Anticipated capital expenditures for these projects are $122.1 million for the Kenosha County ambulatory surgery center, $307.6 million for the Sheboygan projects, and $55.5 million for the greater Milwaukee south ambulatory surgery center. The expenditures for these projects will extend from 2017 through 2020. Although Aurora continues to invest in information technology, more of these costs are expensed as Aurora moves to software as a service.

	Actual 2016	Actual 2017	Budget 2018
Strategic capabilities and growth	9%	16%	34%
Routine replacement	36%	41%	29%
Information technology	10%	15%	8%
System (Diagnostic, Facilities & Nursing)	45%	28%	29%
Total capital expenditures	100%	100%	100%

Historically, Aurora has funded the majority of its capital needs from both excess cash derived from operations and the proceeds of long-term indebtedness. Annual capital expenditures are expected to be approximately $360.0 million in 2018, exclusive of merger and acquisition activity.

The capital budget reflects Aurora's plan to strategically invest in various sites and services, as well as to expand and upgrade existing infrastructure and invest in strategic capabilities and growth. The capital spending plans are based upon budgeted operating performance during those periods, so actual capital expenditures in the period may vary significantly from these expected amounts. Aurora currently expects its affiliates to satisfy certain financial targets and cash flow requirements before extending commitments for capital expenditures.

Retirement Plans

Aurora maintains a noncontributory, 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 in the Pension Plan are based on years of service and the employee's final average earnings, as defined. At a minimum the Corporation funds the amount calculated by the Pension Plan's consulting actuaries to meet the minimum Employee Retirement Income Security Act ("ERISA") funding requirements. The Pension Plan was frozen on December 31, 2012.

During 2015, an option was provided to all terminated, vested participants of the Pension Plan to receive a lump sum settlement. Certain participants elected this option which was measured and paid on December 1, 2015. This settlement resulted in a reduction to the projected benefit obligation of $129.3 million and a settlement loss of $36.8 million.

Aurora recognizes the funded status (that is, the difference between the fair value of the plan assets and the projected benefit obligation) of the Pension Plan in its consolidated balance sheet. The Pension Plan assets and obligations are measured as of December 31. Actuarial gains and losses that arise and are not recognized as net periodic pension cost in the same periods are recognized as a component of net assets. Aurora recognized pension (income) cost for the years ended December 31, 2017, 2016 and 2015 of $(1.5) million, $(0.6) million, and $32.8 million (including the settlement loss), respectively.

The assumption for the expected return on the Pension Plan's assets is based on historical returns and adherence to the asset allocations set forth in the pension plan's investment policies. The expected return on the Pension Plan's assets for determining pension cost was 5.50% in 2017, 2016 and 2015. The discount rate used to measure the projected benefit obligation was 3.79%, 4.42%, and 4.70% as of December 31, 2017, 2016, and 2015, respectively.

The Pension Plan's assets are invested in a portfolio designed to preserve principal and obtain competitive investment returns and long-term investment growth, consistent with actuarial assumptions, while minimizing unnecessary investment risk. A summary of the Pension Plan's asset allocation targets by asset class and actual allocations by asset class at the measurement dates of December 31 was as follows:

	2017		2016		2015	
	Strategic Target	Actual	Strategic Target	Actual	Strategic Target	Actual
Equity securities	33%	33%	33%	33%	33%	32%
Fixed-income securities	64	61	64	62	64	65
Real estate	3	3	3	3	3	3
Cash and cash equivalents	—	3	—	2	—	—
Total	100%	100%	100%	100%	100%	100%

At the December 31, 2017 measurement date, the projected benefit obligation in excess of the fair value of plan assets for the Pension Plan was $116.0 million (92.9% funded) compared to $117.0 million (92.1% funded) at December 31, 2016.

At the December 31, 2016 measurement date, the projected benefit obligation in excess of the fair value of plan assets for the Pension Plan was $117.0 million (92.1% funded) compared to $118.0 million (91.4% funded) at December 31, 2015. This decrease in unfunded pension liability resulted from a $50.0 million contribution made to the Pension Plan. Offset by a decrease in the discount rate from 4.70% at December 31, 2015 to 4.42% at December 31, 2016, which resulted in an increase in Aurora's pension obligation of $56.3 million.

Pension-related changes other than net periodic pension costs decreased net assets by $0.5 million for the year ended December 31, 2017, decreased net assets by $49.7 million for the year ended December 31, 2016 and increased net assets by $25.2 million for the year ended December 31, 2015.

Aurora contributed $50.0 million and $72.3 million to the Pension Plan during the years ended December 31, 2016 and 2015, respectively. There were no employer contributions made in 2017. Aurora plans to continue to fund the Pension Plan to meet the minimum required funding levels.

The Corporation and certain affiliates sponsor defined contribution and retirement savings plans (the "Defined Contribution Plans"), whereby the Corporation 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. During 2017, 2016, and 2015, included in salaries, wages and fringe benefits expense is $152.1 million, $144.9 million, and $136.9 million, respectively, for contributions to the Defined Contribution Plans.

The Corporation also sponsors a noncontributory Section 457(b) defined contribution plan (the "457(b) Plan") covering selected employees, where participants may contribute a percentage of qualifying compensation up to certain limits as defined by the 457(b) Plan. The 457(b) Plan assets and liabilities, totaling $130.6 million, $102.6 million, and $84.6 million December 31, 2017, 2016, and 2015, respectively, are included in long-term assets whose use is limited or restricted and pension and other employee benefit liabilities, in Aurora's consolidated financial statements. The assets of this 457(b) Plan are subject to the claims of the general creditors of Aurora.

Covenant Compliance

As discussed under the heading "The Master Indenture and Bank Agreements" above, Aurora is subject to certain covenants in its Master Indenture and other agreements relating to its Indebtedness. These covenants include requirements relating to maintenance of property, continuation of operations, issuance of additional debt, and maintenance of certain financial ratios and indicators such as days' cash on hand, historical debt service coverage ratio, maximum annual debt service coverage ratio, and adjusted cash and investments to measured indebtedness. Aurora was in compliance with these covenants at December 31, 2017. The calculation relating to the financial covenant included in the Master Indenture, Historical Debt Service Coverage Ratio, is required to be calculated for Aurora on a consolidated basis, and is presented below:

Aurora Health Care, Inc. and Affiliates
Historical Debt Service Coverage Ratio
(dollars in thousands)

	December 31,		
	2017	**2016**	**2015**
Income Available for Debt Service:			
Excess of revenue over expenses	$ 473,897	$ 469,143	$ 442,730
Depreciation and amortization	221,591	207,842	198,644
Interest expense	56,446	57,687	57,378
Total income available for debt service	751,934	734,672	698,752
Less Extraordinary or nonrecurring revenue and expense:			
Gain or loss resulting from either the early extinguishment or refinancing of Indebtedness	(441)	(2,070)	(543)
Gain or loss resulting from pension terminations, settlements or curtailments	—	—	(36,848)
Total extraordinary or nonrecurring revenue and expenses	(441)	(2,070)	(37,391)
Less unrealized gains or losses:			
Unrealized gains (losses) on investments	96,586	59,827	(44,170)
Less: asset impairment charges	(9,021)	—	(4,221)
Total adjustments	87,124	57,757	(85,782)
Income Available for Debt Service	$ 664,810	$ 676,915	$ 784,534
Debt Service Requirements:			
Interest payments due in current year	$ 56,342	$ 59,636	$ 57,900
Principal payments due in current year	80,388	69,841	58,061
Debt Service Requirements	$ 136,730	$ 129,477	$ 115,961
Historical Debt Service Coverage Ratio	4.86	5.23	6.77

Required covenant level is 1.1 for a consultant call in and 1.0 for an event of default.

Aurora Health Care, Inc. and Affiliates
Days' Cash on Hand
(dollars in thousands)

	December 31,		
	2017	**2016**	**2015**
Adjusted Cash and Investments			
Cash and cash equivalents	$ 192,883	$ 107,664	$ 176,626
Investments	1,834,050	1,614,843	1,272,107
Assets whose use is limited – current	5,059	5,484	10,793
Assets whose use is limited - non current	444,121	398,048	375,551
Less: Trustee held funds	(713)	(755)	(955)
Less: Donor restricted funds	(61,104)	(53,821)	(54,542)
Less: Other third-party restricted funds	(203,276)	(184,788)	(177,603)
Less: Short-Term Indebtedness	(58,500)	0	0
Adjusted Cash and Investments	$ 2,152,520	$ 1,886,675	$ 1,601,977
Days of Operating Expenses			
Operating expenses	4,995,052	4,751,475	4,467,643
Plus: Provision for bad debts	170,262	140,151	132,805
Less: Depreciation and amortization	(221,591)	(207,842)	(198,644)
Adjusted Operating Expenses	$ 4,943,723	$ 4,683,784	$ 4,401,804

	December 31,		
	2017	**2016**	**2015**
Number of days in applicable testing period	365	366	365
Operating Expenses per Day	$ 13,544	$ 12,797	$ 12,060
Days' Cash on Hand	159	147	137

Required covenant level is 40 days for a consultant call in and 25 days for an event of default.

Critical Accounting Policies

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

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

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

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

For receivables associated with services provided to patients who have third-party coverage, Aurora analyzes contractually due amounts and provides an allowance for contractual adjustments, as well as an allowance for doubtful accounts, if necessary. For receivables associated with self-pay patients, Aurora records a significant provision for bad debts and charity care in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts in the period they are determined to be uncollectible.

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

Income Taxes — Aurora evaluates its uncertain tax positions on an annual basis. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are classified as non-current in the accompanying consolidated balance sheets.

Aurora assesses the realization of its deferred tax assets to determine whether an income tax valuation allowance is required. Based on all available evidence, both positive and negative, and the weight of that evidence to the extent such evidence can be objectively verified, Aurora determines whether it is more likely than not that all or a portion of the deferred tax assets will be realized.

In December 2017, the President signed into law the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act reduced the corporate federal tax rate from 35% to 21%, which resulted in a decrease in Aurora's net deferred tax asset and a corresponding increase in tax expense.

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

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

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

Bond Ratings

Aurora’s outstanding bonds have been assigned ratings of A+ (stable outlook) and A2 (stable outlook) by Fitch and Moody’s, respectively. Additional information on Aurora's bond rating can be obtained from the Investor Relations section on Aurora's website found at https://www.aurorahealthcare.org.

GOVERNANCE

Corporation

Board Structure. The Corporation is governed by a Board of Directors consisting of at least 3 but not more than 20 self-electing members (excluding the ex officio members) (the "Aurora Board"). Each director (excluding the ex officio members) holds office for a three-year term and may serve for no more than three successive full terms (other than the chairman who may serve one additional three-year term in certain circumstances).

Members and officers of the Aurora Board are:

Name	Business Affiliation	Member of Board Since	Current Term Expires
Joanne B. Bauer	Retired President Kimberly-Clark Health Care	2013	2019
Thomas Bolger	CEO Johnson Financial Group	2009	2018
John Daniels	Chairman Emeritus Quarles & Brady LLP	2008	2020
Stephen Dickson	Retired Vice President and Controller WEC Energy Group, Inc.	2015	2018
Joanne Disch, PhD, RN, FAAN	Chair Clinical Professor & Director Densford International Center for Nursing Leadership University of Minnesota School of Nursing	2008	2020
Dr. Tejal Gandhi	Chief Executive Officer National Patient Safety Foundation	2016	2019
Nan Gardetto	President and Founder The EveryDayGood Foundation	2010	2019
Charles Harvey	Retired Chief Diversity Officer Johnson Controls	2013	2019
Daniel Minahan	President & COO Continental Properties, Co., Inc.	2007	2019

Chris L. Shimojima	Founder, The Pocket Suite, LLC Former CEO, Provide Commerce Inc.	2015	2018
Tim Sullivan	CEO REV Group, Inc.	2010	2019
Nick Turkal, M.D.	President and CEO Aurora Health Care, Inc.	2006	Ex Officio
Rick Weiss	Retired Partner Foley & Lardner LLP	2010	2019
Chris White	Vice President - Safety and Security Air Wisconsin Airlines Corporation	2008	2017

Committee Structure. The bylaws of the Corporation provide for eight standing committees: the Executive Committee, the Compensation Committee, the Quality Committee, the Finance Committee, the Audit and Compliance Committee, the Investment Committee, the Governance Committee, and the Strategic Affairs Committee. The bylaws also permit the Chairman of the Aurora Board and the Board itself to create additional committees from time to time.

Executive Committee. The Executive Committee to the Aurora Board (the "Executive Committee") has at least three directors elected by the Board. The Executive Committee is authorized to exercise the powers of the Aurora Board when the Aurora Board is not in session.

Compensation Committee. The Compensation Committee consists of at least three independent members appointed from time to time by the Chairman of the Board. The Committee exercises the full authority of the Aurora Board to: (a) review and approve the compensation and benefits of the President/Chief Executive Officer and those executives reporting directly to him or her; (b) review and approve the aggregate compensation and benefits philosophy and plans for employees of Aurora; and (c) retain and meet with independent consultants, as appropriate, to assure that Aurora's compensation and benefit plans are reasonable, competitive and fiscally responsible.

Quality Committee. The Quality Committee is composed of at least six members, as appointed by the Chairman of the Aurora Board from time to time. The Quality Committee is responsible for overseeing Aurora's clinical quality, safety, service and risk management matters.

Finance Committee. The Finance Committee consists of at least seven members appointed by the Chairman of the Aurora Board. The Finance Committee advises the Aurora Board on all matters relating to financial affairs, including the review of operating and capital budgets, review and approve new debt obligations, the debt structure, and short-term and long-term financing plans; and review Aurora's current and projected financial performance.

Audit and Compliance Committee. The Audit and Compliance Committee consists of members who are independent of management and free of any relationship that, in the opinion of the Aurora Board, would interfere with their exercise of independent judgment as committee members. The Audit and Compliance Committee consists of members who have experience in the area of financial reporting, including at least one individual who is deemed an "expert" on accounting and financial reporting matters. The Audit and Compliance Committee is responsible for receiving reports, providing advice, making recommendations and providing assistance to Aurora's Board in overseeing Aurora's accounting and financial reporting practices, including communications with Aurora's independent auditors, internal audit, and compliance functions. The Audit and Compliance Committee is also responsible for reviewing actions taken to address IT cybersecurity risk.

Investment Committee. The Investment Committee consists of at least six members as are appointed from time to time by the Chairman of the Aurora Board. The Investment Committee is responsible for overseeing and monitoring Aurora's investments, and has responsibilities and authority to: (a) make recommendations on an annual basis to the Aurora Board regarding asset allocations; (b) determine which entities will be utilized for investment placement; (c) hire, retain and evaluate financial advisors as deemed necessary; (d) recommend investment policies for Aurora's investment portfolios to the Aurora Board; (e) oversee and monitor the investment of Aurora's investment portfolios; and (f) at least annually prepare a detailed review of investment performance and strategy for the Aurora Board.

Governance Committee. The Governance Committee is composed of at least three members, as appointed by the Chairman of the Aurora Board from time to time. The Governance Committee is responsible for providing assistance to the Aurora Board in corporate governance related matters, including, but not limited to: (a) develop, monitor and evaluate corporate governance principles, guidelines or policies; (b) nominate or recommend to the Aurora Board persons to be elected as Directors and officers for Aurora; (c) make recommendations to the Aurora Board regarding the qualifications of candidates for the Aurora Board and the director selection process; (d) consider amendments to the Corporation's Articles of Incorporation and Bylaws and the charter documents of its subsidiaries and make recommendations to the Aurora Board concerning such proposed amendments; (e) review and make recommendations to the Board regarding matters relating to the structure and operation of the Aurora Board; (f) oversee the evaluation of the Aurora Board and the self-assessment of Directors; and (g) assist management in evaluating potential candidates for key executive positions, including chief executive officer, and oversee development of executive succession plans.

Strategic Affairs Committee. The Strategic Affairs Committee is composed of five members. Members of the Strategic Affairs Committee are appointed by the Chairman of the Aurora Board, the majority of who are current members of the Board. The Strategic Affairs Committee is responsible for reviewing and considering Aurora's key strategic initiatives including but not limited to involvement in the development of Aurora's long-term strategic plan, and evaluation of key strategic opportunities.

Transactions with Officers and Directors. Aurora has entered into transactions from time to time with business organizations with which one or more officers or directors of Aurora or Affiliates of Aurora are associated. Under existing policy, such transactions or affiliations are permitted only after compliance

with the Corporation's conflict of interest policy which may include full discussion of the potential conflict of interest with the Aurora Board and approval by a majority of the disinterested members of Aurora Board. All such transactions to date have been in the ordinary course of Aurora's business. Richard Weiss, director of the Aurora Board, is a retired partner with the law firm of Foley & Lardner LLP, which serves as legal counsel to Aurora on various matters. In addition, John Daniels, a director of the Aurora Board, is Chairman Emeritus at the law firm of Quarles & Brady LLP, which serves as legal counsel to Aurora on human resource and other matters, and serves as bond counsel and general counsel to the Wisconsin Health and Educational Facilities Authority, which issues tax-exempt bonds on Aurora's behalf.

Board Compensation. Directors of the Aurora Board are compensated for their time spent attending and preparing for Aurora Board and committee meetings. Also, members of the Audit and Compliance Committee are compensated for their time spent attending and preparing for Audit and Compliance Committee meetings.

Affiliates

Each Aurora affiliate has a governing body. Certain powers with respect to governance and management, including the power to appoint and remove directors, are reserved through by-law provisions to the sole member of such affiliate or delegated to another affiliate. In the case of all first tier subsidiary affiliates and certain second tier subsidiary affiliates which are members of the Obligated Group, the Aurora Board must approve, among other things: (i) any change in mission or services of the affiliate; (ii) the incurrence of debt or the guarantee of debt by the affiliate; (iii) the sale or other disposition of any affiliated, controlled or joint venture entity or real or personal property or other assets of the affiliate; and (iv) the annual operating and capital expenditure budgets. Aurora, indirectly through its first tier subsidiary affiliates, in effect has the same governance control over lower tier subsidiary affiliates.

MANAGEMENT

List of Key Employees

A management team with significant healthcare experience and diverse backgrounds leads Aurora. Aurora's executive management team has extensive and diverse experience in the healthcare industry. Certain members of the Corporation's management team are currently on the board of other companies and healthcare organizations, which adds to their diverse experience, as well as depth and knowledge of the industry.

The following individuals represent the President and Executive Vice Presidents of Aurora:

Jeffrey K. Bahr, MD, age 45, Chief Clinical Officer and President, Aurora Health Care Medical Group: Dr. Jeff Bahr joined Aurora Health Care in 2002. As chief clinical officer, he is responsible for system clinical program development and practice optimization. In his role as president of the Aurora Health Care Medical Group, Dr. Bahr is responsible for the strategy of the medical group practice and providing leadership to physicians across eastern Wisconsin and northern Illinois. He is a practicing internist and previously served as vice president of the Primary Care Clinical Program within Aurora. In this role, Dr. Bahr co-led initiatives in growth, service quality, clinical quality, caregiver engagement and workforce planning. In addition to his departmental leadership role, Dr. Bahr served as medical director for medical group operations and practice optimization. Dr. Bahr became a member of Alpha Omega Alpha in 2001, and in 2012 was awarded fellowship status in the American College of Physicians. He is board certified in internal medicine, having completed his residency in internal medicine at the Medical College of Wisconsin Affiliated Hospitals where he also served as chief resident and instructor in the Department of Medicine. Dr. Bahr received his bachelor's degree from Marquette University and his medical degree from the Medical College of Wisconsin in Milwaukee.

Jeff Bard, age 50, Executive Vice President, North Region and President, Oshkosh/Fond du Lac Patient Service Market: Jeff Bard joined Aurora Health Care in 2007. As executive vice president for Aurora's North Region, he provides operational and strategic leadership for clinic, hospital and Aurora at Home operations serving Green Bay, Marinette, Manitowoc, Oshkosh and Fond du Lac. He is responsible for driving clinical and service excellence, caregiver and physician engagement, strategic growth and financial performance. As president of Aurora's Oshkosh and Fond du Lac patient service market, he partners with local physician leadership to set strategic direction for 12 clinics and Aurora's Oshkosh hospital. He also oversees Food and Nutrition Services and Environmental Services. Jeff previously was director of clinic operations at ProHealth Care, overseeing daily operations for over 100 primary and specialty care physicians. Outside of Aurora, Jeff is member of the Health Management Academy's Regional/Hospital Chief Executive Officer Forum and the Academy's Administrative Fellowship Program. He is a board member of the Oshkosh Chamber of Commerce and the YMCA of Oshkosh. Jeff earned two master's degrees at the University of Minnesota.

Michael Brophy, age 59, Chief of Staff and Chief Communications Officer: Michael Brophy rejoined Aurora Health Care in 2009. He serves as chief of staff to Aurora CEO Nick Turkal, MD, and as the system's chief communications officer. In these roles, Mike is responsible for reputation management and

media relations, consumer engagement and marketing, executive communications and employee communications. In addition, he helps to manage the Office of the CEO, including internal and external communications for the CEO. Mike previously served as vice president of communications and primary spokesperson for Milwaukee-based Midwest Airlines, where he managed media relations, employee communications, government affairs and community outreach. He was director of corporate communications and director of public affairs for Miller Brewing Company for 13 years. Mike was also director of communications for two regions of Aurora Health Care, and has worked in several advertising agencies and public relations firms, state government and as a political campaign consultant. Outside of Aurora, Mike is vice chair of the Penfield Children's Center Board of Directors, and a member of the Board of Visitors for the University of Wisconsin-Madison School of Journalism and Mass Communications. He earned bachelor's degrees in Journalism, French and History from the University of Wisconsin-Madison.

Patrick Falvey, PhD, age 53, Executive Vice President and Chief Transformation Officer: Patrick Falvey, PhD, joined Aurora Health Care in 1992, and has served in multiple leadership roles overseeing productivity, operations, quality, care management, strategy and research. As chief transformation officer, he leads strategies designed to enable Aurora to evolve to better meet local and national market changes. His areas of responsibility include analytics, Aurora Ventures, including Aurora Pharmacy, care management and quality, operations improvement, and supply chain logistics. Patrick's key Aurora accomplishments include having Aurora receive top honors in CMS' Hospital Quality Incentive demonstration and QUEST for consecutive years, moving all Aurora medical centers to top-quartile performance in productivity results, redesigning the clinical research departments, and having all five hospitals under his responsibility achieve financial, productivity and quality targets with improvement in service measures. Outside of Aurora, Patrick is on the board of the Wisconsin Collaborative for Healthcare Quality (finance chair), the Children's Community Center (past president and current finance chair), and is a member of the AboutHealth Quality Committee. He holds a bachelor's degree from the University of Wisconsin-Whitewater, a master's degree from the University of Wisconsin-Oshkosh, and a doctorate from the University of Wisconsin-Milwaukee.

Cristy Garcia-Thomas, age 49, Chief Experience Officer and President, Aurora Health Care Foundation: Cristy Garcia-Thomas joined Aurora Health Care in 2011. As chief experience officer, she is responsible for leading Aurora's overall experience for patients, employees and community partners and is responsible for driving Aurora's culture. She oversees Aurora's service quality, diversity and inclusion, government and community relations, social responsibility and well community programs, which include Aurora Family Service, the Walker's Point Clinic, Parish Nursing, and Aurora Healing and Advocacy Services programs. She chairs the Social Responsibility Committee. Cristy is a member of Aurora's office of the CEO and executive leadership team. As president of the Aurora Health Care Foundation, Cristy oversees funds raised and invested for Aurora. Prior to joining Aurora, Cristy served as the president of the United Performing Arts Fund (UPAF). Her role at UPAF included strategic planning, revenue growth, fundraising, marketing, community relationships, profit and loss, and general management functions. Before joining UPAF, she was publisher and vice president of the Specialty Media Division of the Milwaukee Journal Sentinel and worked for The Wichita (Kan.) Eagle. Cristy currently serves on the board of directors for Delta Dental, Greater Milwaukee Committee, the United Community Center and

the Wisconsin Club. She is campaign co-chair for the 2018 United Way of Greater Milwaukee and Waukesha County. She is a member of the Greater Milwaukee Committee, the United Way of Greater Milwaukee Women's Leadership Council, the National Forum for Latino Healthcare Executives and TEMPO Milwaukee. Cristy has served on the boards of Aurora Health Care and Girl Scouts and is a past board chair of TEMPO Milwaukee. She has received TEMPO Milwaukee's Mentor Award in 2017, Hispanic Chamber of Commerce of Wisconsin Latina of the Year Award in 2014, The Business Journal's Women of Influence Award in 2013, The Business Journal's 40 under 40 Award, the Hispanic Professionals of Greater Milwaukee Executive of the Year, the United States Post Office Women Putting a Stamp on Milwaukee Award, and the Milwaukee Business Journal's Power List. Cristy holds a bachelor's degree from Kansas State University and completed executive-level programs at Northwestern University and Harvard Business School.

Michael Grebe, age 51, Chief Legal Officer: Michael Grebe joined Aurora Health Care in 2017. As chief legal officer, he oversees and leads the Aurora legal team and helps the system navigate the complex health care environment. His areas of responsibility include commercial, corporate, intellectual property, labor and employment, litigation, and real estate. Michael brings a unique set of business, strategic and leadership skills to Aurora's executive team. Prior to Aurora, he served as executive vice president and general counsel at HUSCO International, Inc. and was a partner at Milwaukee's Quarles & Brady LLP law firm. He has also served as a key strategic advisor to numerous corporations and businesses. Michael is a member of the University of Wisconsin Board of Regents. Michael earned his bachelors' degree from Dartmouth College and his law degree from the University of Wisconsin-Madison.

Gail L. Hanson, age 62, Chief Financial Officer and Treasurer: Gail Hanson joined Aurora Health Care in 2011. As chief financial officer and treasurer, she is responsible for capital and operating budgets, accounting, affiliation due diligence, the business office, and finance and treasury services. She oversees external audit and preparation of annual financial reports. Prior to joining Aurora, Gail served as deputy executive director for the State of Wisconsin Investment Board for six years, overseeing all operational aspects, including accounting, governance and general management functions. She also was treasurer and chief financial officer of Cobalt Corporation and held positions of increasing responsibility at Blue Cross Blue Shield United of Wisconsin. She is a board member of the Kern Family Foundation and the State of Wisconsin Deferred Compensation Board, as well as a board member and audit committee chair for Artisan Partner Funds and Northwestern Mutual Series Funds. Additionally, she serves on the board of Milwaukee Women inc (MWi). Gail is a certified public accountant and chartered financial analyst and holds a bachelor's degree from the University of Michigan and a master's degree from the University of Chicago Booth School of Business.

Rachelle Hart, Age 54, Senior Vice President and General Counsel: Shelly Hart joined Aurora Health Care in 2010 as deputy general counsel and became general counsel in 2013. In this role, she is responsible for health law, regulatory, provider, and labor and employment matters for Aurora. Shelly is a corporate officer and member of Aurora's executive leadership team. Prior to joining Aurora, she was a partner in the Milwaukee office of Foley & Lardner LLP, where her practice involved the representation of health systems, hospitals, medical clinics, physicians, nursing homes and other health care providers for more than 20 years. Shelly serves on the board of directors of the Jewish Home and Care Center, the Jewish Home and Care Center Foundation, and the Aurora Health Care Foundation. She has received

numerous professional and civic awards, including being selected as Top Corporate Counsel by the Milwaukee Business Journal in 2017, named to the elite group of Women in Law in 2014 by the Wisconsin Law Journal and chosen for the prestigious "40 Under 40" award by the Milwaukee Business Journal. Shelly received both her bachelor's and law degree from the University of Wisconsin-Madison.

Carrie Killoran, age 45, Executive Vice President, Central Region and President, Greater Milwaukee North and Sheboygan/Calumet Patient Service Market: Carrie Killoran joined Aurora Health Care in 2009. As executive vice president for Aurora's Central Region, Carrie provides operational and strategic leadership for clinic, hospital and Aurora at Home operations for a geographic area ranging from north of Milwaukee to Sheboygan as well as Waukesha and Jefferson counties. She is responsible for driving clinical and service excellence, caregiver and physician engagement, strategic growth and financial performance. As president of Aurora's Greater Milwaukee North and Sheboygan/Calumet patient service market, she works with local physician leaders on strategic direction for multiple clinics and Aurora hospitals in Hartford, Grafton and Sheboygan. Prior to her current role, Carrie served as senior vice president and chief compliance/integrity officer, overseeing Aurora's compliance and audit programs and policies. Before joining Aurora, Carrie was a partner at two Milwaukee law firms, Quarles & Brady LLP and Michael Best & Friedrich LLP, as well as vice president and associate general counsel for Wheaton Franciscan Healthcare. Outside of Aurora, Carrie holds numerous professional memberships, including the American College of Healthcare Executives, Health Care Compliance Association and American Health Lawyers Association. She also received "40 Under 40" award recognition from the Milwaukee Business Journal. Carrie received her bachelor's degree from Macalester College and a law degree and master's degree from Harvard University.

Mary Beth Kingston, RN, age 62, Executive Vice President and Chief Nursing Officer: Mary Beth Kingston, RN, joined Aurora Health Care in 2012. As executive vice president and chief nursing officer, she co-leads the strategy for integrated services, and provides strategic direction for nursing, clinical education and chief nurse executives. Mary Beth is responsible for developing and mentoring nursing leadership, as well as advancing the professional practice of nursing, nursing research and leading system nursing shared governance. She is also responsible for Dialysis Service, eICU, and Interpreter Services. Prior to joining Aurora, Mary Beth was vice president and chief nurse executive at Einstein Healthcare Network in Philadelphia. During her 35-year career, Mary Beth served in a variety of other nursing and administrative roles, including chief nursing officer at Graduate Hospital in Philadelphia; president of Bates and Associates, a health care consulting firm; vice president of operations and chief nursing officer at Delaware County Memorial Hospital in the Crozer Keystone Health System; and associate director of emergency services at the Hospital of the University of Pennsylvania. Outside of Aurora, Mary Beth serves on the boards of the Milwaukee Urban League, and Mount Mary University, both in Milwaukee. She was a Robert Wood Johnson Executive Nurse Fellow from 2009-2012 and a 2007 recipient of the Pennsylvania Nightingale Award for Nursing Administration. Mary Beth served on the board of the American Organization of Nurse Executives (AONE) from 2014-2016 and currently serves in the role of President-Elect. She earned a bachelor's degree at West Chester University, a master's degree at the University of Pennsylvania, and is currently pursuing her PhD.

Rick Klein, age 60, Chief of Business Strategy and Payor Relations: Rick Klein joined Aurora Health Care in 1986. As chief of business strategy and payor relations, he is responsible for Aurora's strategic

business plan, as well as oversight of relationships with insurers and other payors. Additional responsibility includes affiliations along with growth and market development. Rick was instrumental in the creation of the AboutHealth network, the eight-member statewide health care collaboration in Wisconsin designed to enhance clinical quality, increase efficiency, and improve customer experiences through shared practices. Currently, Rick serves as an AboutHealth board member. Previously, Rick has served Aurora as executive vice president, Enterprise Business Group; senior vice president and vice president of business development; as well as vice president of marketing. Prior to joining Aurora, Rick was the assistant vice president of marketing for the former Firstar Corp., Wisconsin's largest bank. He is on the leadership council of United Way of Greater Milwaukee and Waukesha County and is a past board member of the Georgetown Scholarship Society. Rick holds a bachelor's degree from Georgetown University and a master's degree from Northwestern University's Kellogg School of Management.

Mike Lappin, age 52, Chief Administrative Officer and Corporate Secretary: Mike Lappin joined Aurora Health Care in 2009 as its first general counsel and was responsible for establishing Aurora's in-house legal department. As chief administrative officer, Mike is responsible for overseeing compliance, human resources, information technology, internal audit, and legal services, as well as affiliations, acquisitions, joint ventures and other transactions. Mike serves as Aurora's corporate secretary. Prior to joining Aurora, Mike practiced law for more than 16 years at Quarles & Brady LLC, a broad-based business firm which had six offices and approximately 450 lawyers across the country. His practice focused on representing clients in acquiring and selling businesses, negotiating commercial contracts and providing general business advice. Mike has served on the board of directors of numerous organizations, including the Wisconsin Health Insurance Risk Sharing Plan, Juvenile Diabetes Research Foundation, Milwaukee Jewish Federation, Jewish Family Services, Visiting Nurse Association, United Way of Greater Milwaukee, Boys & Girls Club, the Mequon-Thiensville Education Foundation and the Mequon-Thiensville Basketball Association. Mike received his bachelor's degree from Duke University and a law degree and master's degree from the University of Wisconsin-Madison.

Nan Nelson, age 54, Executive Vice President, Finance: Nan Nelson has been with Aurora Health Care since 2013. As executive vice president, finance, she has oversight of system financial planning, accounting, and forecasting and budgeting. She previously served as senior vice president of finance for Aurora's Greater Milwaukee South region, where she also oversaw system operating and capital budgets as well as integrating functions. Prior to joining Aurora, Nan was chief financial officer for ProHealthCare. She is a certified public accountant and a member of the Healthcare Financial Management Association. She earned a bachelor's degree from the University of Wisconsin-Whitewater and her master's degree from Concordia University.

Dennis Potts, age 63, Chief Operating Officer: Dennis Potts joined Aurora Health Care in 1979. In his role of Chief Operating Officer he is responsible for health system operations, hospital operations, clinic operations, ancillary operations, and real estate and facilities development. Additionally, Dennis provides operational and strategic leadership for key clinical programs and operations for Aurora's South Region, which includes Aurora St. Luke's Medical Center - Aurora's flagship quaternary medical center - and other hospitals and clinics between Milwaukee and northern Illinois. He is responsible for increasing service and clinical quality outcomes, fostering collaboration and integration, managing profit and loss margins, and strategies to drive growth and employee engagement. He also oversees Aurora at Home and

Aurora Behavioral Health. Prior to his current role, Dennis served as executive vice president for Aurora's South Region and previously was executive vice president and president at Aurora St. Luke's Medical Center. Dennis serves on the board of the Wisconsin Donor Network. He holds a bachelor's degree from Cardinal Stritch University and a master's degree from the University of Wisconsin-Milwaukee.

Amy Rislov, age 48, Chief Human Resources Officer: Amy Rislov joined Aurora Health Care in 1997. As chief human resources officer, she is responsible for all aspects of human resources and loss prevention, along with talent and organizational development, and workforce strategy for the system. Amy enables a high performance culture by delivering talent strategies to meet the organization's priorities, including efforts around diversity and inclusion, as well as learning and development. Outside of Aurora, Amy is a member of the Society of Human Resource Management, the American Society for Healthcare Human Resources Administration, TEMPO Milwaukee (past president), the Academy CHRO Forum, and is Chair of the Center for Health Care Careers of Southeastern Wisconsin. She is a board member of Next Door, Meta House and a former board member of United Way Waukesha County, the Arthritis Foundation of Wisconsin, and the Waukesha County Economic Development Corporation. Amy received her bachelor's degree from the University of Wisconsin-Madison and her master's degree from Cardinal Stritch University.

Rachel Roller, age 40, Senior Vice President, Community and Government Relations: Rachel Roller joined Aurora Health Care in 2007. As senior vice president of community and government relations, she serves as the primary liaison between Aurora and government officials at the local, state and federal levels, in addition to key community stakeholders. Rachel is responsible for directing policy research, monitoring legislative and administrative matters, and developing and executing appropriate government outreach. Her responsibilities also include leading Aurora's community relations and sponsorship strategies. Rachel serves on Aurora's executive leadership team. She chairs Aurora's community health collaborative committee, which advises leadership on support of not-for-profit community organizations and initiatives serving vulnerable patient populations. Prior to Aurora, Rachel worked in state government where she provided chief policy, budgetary and political counsel to members of the Wisconsin State Senate and lieutenant governor. She is a member of the American Hospital Association Government Relations Officers Network, American Medical Group Association Government Relations Leadership Council, Premier Government Action Network, Health Management Academy, Healthcare Quality Coalition, Wisconsin Hospital Association Public Policy Council and Milwaukee Health Care Partnership Alliance. Rachel's community involvement includes the YMCA of Metropolitan Milwaukee board, M7 Regional Economic Development Advisory Council and Alzheimer's Association of Southeast Wisconsin public policy committee, as well as previous memberships on the United Way of Greater Milwaukee and Waukesha County campaign cabinet and Public Policy Forum board. She earned a bachelor's degree from the University of Wisconsin-Madison.

Preston Simons, age 58, Chief Information Officer: Preston Simons joined Aurora Health Care in 2015. As chief information officer, Preston leads Aurora's effort to use technology and innovative IT tools and services to help deliver a person-focused, best-in-class integrated health care experience. He is responsible for IT opportunity discovery, information strategy, applications development, infrastructure, business operations, cybersecurity, customer support, and IT investment portfolio management. Prior to joining Aurora, Preston was CIO of Abbott Laboratories, a Fortune 100 medical device and life sciences

company. He previously served as the IT leader in several health systems, a health insurance plan and in the pharmaceutical industry. He also had significant responsibilities for operating the IT and infrastructure of AbbVie, which was spun off from Abbott Laboratories in 2013. Preston is a member of the Managed Care Executive Group, Healthcare Information Management Systems Society of the American Hospital Association, and the Society for Information Management. Additionally, he has had a leading role in the Chicago CIO Institute. Preston holds a bachelor's degree from the Illinois Institute of Technology and a master's degree from the Booth School of Business at the University of Chicago.

Nick W. Turkal, MD, age 62, President and Chief Executive Officer: Dr. Nick Turkal joined Aurora Health Care in 1990 and was named president and chief executive officer in 2006. During the course of his career, he has cared for patients in rural private practice while holding a variety of leadership positions with Aurora. In addition to leading Aurora, Dr. Turkal continues to be board certified in family practice, holds memberships in a number of professional organizations and sees patients on a regular basis. Dr. Turkal holds true to certain core beliefs that help guide decisions: stay true to your purpose; actively listen; and never become complacent. He has been recognized locally, regionally and nationally for his leadership and vision on innovation, new care models and community partnerships. Dr. Turkal has been honored by local organizations for his commitment to the community. Dr. Turkal is a member of the Creighton University Board of Trustees; board chair of AboutHealth, a Wisconsin network of integrated health care systems; a board member of StartUp Health, a health care transformation company; member of the American Hospital Association Governing Council for Health Care Systems; and a board member for TPG Medical Solutions. He is a past chair of the Wisconsin Hospital Association Board of Directors. He has also served on the board of Premier and the Greater Milwaukee Committee, a coalition of businesses based in Milwaukee. Dr. Turkal received his bachelor's degree from Creighton University and his medical degree from the Creighton University School of Medicine.

Key Employees Subsequent Event

In March 2018, several key employees of Aurora Health Care announced their retirement as the health system prepared to merge with Advocate Health Care. These key employees included Michael Brophy, Chief of Staff and Chief Communications Officer; Gail Hanson, Chief Financial Officer and Treasurer; and Preston Simons, Chief Information Officer.