Aurora Health Care®

Aurora Health Care, Inc. and Affiliates

Unaudited Consolidated Financial Statements and
Other Information
For the Period Ended March 31, 2015

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

ASSETS	March 31, 2015	December 31, 2014
CURRENT ASSETS:		
Cash and cash equivalents	$ 43,838	$ 238,772
Investments	1,172,534	1,157,604
Assets whose use is limited or restricted	10,197	5,560
Patient accounts receivable — net of allowance for doubtful accounts of $109,014 and $151,242 in 2015 and 2014, respectively	673,463	613,971
Other receivables	62,005	74,490
Inventory	64,168	64,805
Prepaids and other current assets	55,006	44,255
Estimated third-party payor settlements	8,096	9,361
Total current assets	2,089,307	2,208,818
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
Board-designated and other	160,964	160,407
Contractually-restricted	140,150	132,567
Donor restricted	59,442	56,139
Debt service reserve	31,817	31,890
Total assets whose use is limited or restricted	392,373	381,003
PROPERTY, PLANT, AND EQUIPMENT — Net	1,882,807	1,869,492
OTHER ASSETS:		
Intangible assets — net	18,336	18,884
Investments in unconsolidated entities	67,497	66,135
Deferred financing costs — net	15,331	15,739
Other	37,364	37,114
Total other assets	138,528	137,872
TOTAL	$4,503,015	$4,597,185

(Continued)

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

LIABILITIES AND NET ASSETS	March 31, 2015	December 31, 2014
CURRENT LIABILITIES:		
Current installments of long-term debt	$ 58,243	$ 56,882
Accounts payable	166,418	201,593
Accrued salaries and wages	217,064	310,848
Other accrued expenses	119,433	179,804
Estimated third-party payor settlements	21,842	22,446
Total current liabilities	583,000	771,573
LONG-TERM DEBT — Less current installments	1,566,930	1,573,091
OTHER LIABILITIES:		
Pension and other employee benefit liabilities	247,929	282,442
Self-insured liabilities	63,222	63,934
Deferred gain	45,989	47,364
Other	67,697	67,360
Total other liabilities	424,837	461,100
Total liabilities	2,574,767	2,805,764
NET ASSETS:		
Unrestricted:		
Controlling interest	1,770,201	1,639,621
Noncontrolling interest in subsidiaries	91,119	86,631
Total unrestricted net assets	1,861,320	1,726,252
Temporarily restricted	48,456	46,697
Permanently restricted	18,472	18,472
Total net assets	1,928,248	1,791,421
TOTAL	$ 4,503,015	$ 4,597,185

See notes to unaudited consolidated financial statements. (Concluded)

AURORA HEALTH CARE, INC. AND AFFILIATES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS

(In thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	$ 1,120,365	$ 1,013,232
Less provision for bad debts	14,571	18,302
Net patient service revenue less provision for bad debts	1,105,794	994,930
Other revenue	105,528	91,732
Total revenue	1,211,322	1,086,662
EXPENSES:		
Salaries and wages	531,378	497,205
Fringe benefits	107,529	92,479
Professional fees	18,335	17,977
Supplies	218,238	181,461
Depreciation and amortization	52,074	51,660
Interest	14,899	15,777
Maintenance and service contracts	28,179	26,196
Building and equipment rental	18,568	18,554
Hospital tax assessment	23,218	23,970
Utilities	11,990	12,245
Purchased services	31,756	26,184
Other expenses	36,397	35,970
Total expenses	1,092,561	999,678
OPERATING INCOME	118,761	86,984
NONOPERATING INCOME:		
Investment income	20,558	11,348
Other nonoperating income — net	300	215
Total nonoperating income — net	20,858	11,563
EXCESS OF REVENUE OVER EXPENSES FROM CONTINUING OPERATIONS	139,619	98,547
PENSION-RELATED CHANGES OTHER THAN PERIODIC PENSION COST	2,476	1,643
NET ASSETS RELEASED FROM RESTRICTION FOR PURCHASE OF PROPERTY AND EQUIPMENT	77	125
DISTRIBUTIONS TO NONCONTROLLING INTERESTS	(7,112)	(7,915)
OTHER — Net	8	37
INCREASE IN UNRESTRICTED NET ASSETS	$ 135,068	$ 92,437

See notes to unaudited consolidated financial statements.

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013
(In thousands)

	Controlling Interest Unrestricted	Noncontrolling Interest Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS — December 31, 2013	$ 1,261,395	$ 77,447	$ 1,338,842	$ 42,033	$ 18,338	$ 1,399,213
Excess of revenue over expenses	88,780	9,767	98,547	-	-	98,547
Pension-related changes other than net periodic pension costs	1,643	-	1,643	-	-	1,643
Change in unrealized gains and losses on investments	-	-	-	14	-	14
Contributions	-	-	-	3,420	-	3,420
Investment income	-	-	-	467	-	467
Change in beneficial interests in assets held by others and remainder trusts	-	-	-	11	-	11
Net assets released from restrictions for operations	-	-	-	(453)	-	(453)
Net assets released from restrictions for purchase of property and equipment	125	-	125	(125)	-	-
Distributions to noncontrolling interest	-	(7,915)	(7,915)	-	-	(7,915)
Other — net	37	-	37	7	-	44
Increase in net assets	90,585	1,852	92,437	3,341	-	95,778
NET ASSETS — March 31, 2014	$ 1,351,980	$ 79,299	$ 1,431,279	$ 45,374	$ 18,338	$ 1,494,991
NET ASSETS — December 31, 2014	1,639,621	86,631	1,726,252	46,697	18,472	1,791,421
Excess of revenue over expenses from continuing operations	128,019	11,600	139,619	-	-	139,619
Pension-related changes other than net periodic pension costs	2,476	-	2,476	-	-	2,476
Change in unrealized gains and losses on investments	-	-	-	875	-	875
Contributions	-	-	-	1,405	-	1,405
Investment income	-	-	-	313	-	313
Change in beneficial interests in assets held by others and remainder trusts	-	-	-	(25)	-	(25)
Net assets released from restrictions for operations	-	-	-	(859)	-	(859)
Net assets released from restrictions for purchase of property and equipment	77	-	77	(77)	-	-
Distributions to noncontrolling interest	-	(7,112)	(7,112)	-	-	(7,112)
Other — net	8	-	8	127	-	135
Increase in net assets	130,580	4,488	135,068	1,759		136,827
NET ASSETS — March 31, 2015	$ 1,770,201	$ 91,119	$ 1,861,320	$ 48,456	$ 18,472	$ 1,928,248

See notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 136,827	$ 95,778
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Restricted contributions and investment income	(8)	3
Pension-related changes other than net periodic pension cost	(2,476)	(1,643)
Realized and unrealized gains on investments — net	(15,628)	(8,134)
Gain on sale of property, plant, and equipment	(314)	(226)
Impairment of long-lived assets	-	48
Amortization of intangible assets and other items	1,051	1,607
Amortization of deferred gains	(1,375)	(1,519)
Depreciation and amortization	52,074	51,660
Provision for bad debts	14,571	18,302
Distribution to noncontrolling interest	7,112	7,915
Increase in accounts receivable	(81,726)	(38,716)
Decrease in accounts payable and accrued expenses	(193,470)	(179,641)
Decrease in estimated third-party payor settlements, net	662	(623)
Decrease in pension and other employee benefit liabilities	(32,037)	(37,233)
Increase in self-insured liabilities	1,877	(4,457)
Other changes in assets and liabilities — net	(6,484)	(2,948)
Net cash used in operating activities	(119,344)	(99,827)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(48,585)	(31,050)
Investment in unconsolidated entities	(1,000)	(600)
Distributions from unconsolidated entities	1,099	871
Proceeds from sales of property, plant, and equipment	314	226
Purchases of investments, net	(15,311)	(8,255)
Net cash used in investing activities	(63,483)	(38,808)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt, capital leases, and financing arrangements	$ (5,003)	$ (4,535)
Distributions to noncontrolling interest	(7,112)	(7,915)
Restricted contributions and investment income	8	(3)
Net cash used in financing activities	(12,107)	(12,453)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(194,934)	(151,088)
CASH AND CASH EQUIVALENTS:		
Beginning of Period	238,772	310,076
End of period	$ 43,838	$ 158,988

See notes to unaudited consolidated financial statements.

1. DESCRIPTION OF BUSINESS

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

Aurora Health Care, Inc. (the Corporation) is a Wisconsin nonstock, not-for-profit corporation. The Corporation is the parent corporation of a group of nonprofit and for profit corporations and other organizations that own and operate 14 acute-care hospital campuses, one psychiatric hospital, a network of over 150 physician clinic facilities, home health services, over 70 retail pharmacies, and other health care and related services.

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

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited consolidated financial statements of Aurora as of March 31, 2015, and for the three months ended March 31, 2015 and 2014, include all adjustments that management considers necessary to present such information on a basis consistent with that of the audited consolidated financial statements. The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim reporting, and accordingly, do not include all of the disclosures required in annual financial statements. As such, these unaudited consolidated financial statements should be read in conjunction with the information included under Management’s Discussion and Analysis of Results of Operations and Financial Position, and the audited consolidated financial statements as of and for the years ended December 31, 2014 and 2013, and the related notes.

The results of operations for the three months ended March 31, 2015, are not necessarily indicative of the operating results to be expected for the entire year ending December 31, 2015.

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

3. ACQUISITIONS AND DIVESTITURES

On August 19, 2014, Aurora acquired a 49% minority interest in Bay Area Medical Center (BAMC), a 99 bed general acute care hospital located in Marinette, Wisconsin, for $49,450,000, consisting of cash consideration of $43,000,000 and $6,450,000 of other consideration. Aurora's investment in Bay Area Medical Center of $49,644,000 and $49,781,000 as of March 31, 2015 and December 31, 2014, respectively, is accounted for under the equity method of accounting within investments in unconsolidated entities in the accompanying unaudited consolidated balance sheets. The carrying amount of Aurora's investment in BAMC is $28,699,000 and $28,699,000 less than the underlying equity in the net assets of BAMC as of March 31, 2015 and December 31, 2014, respectively. This difference represents a contingent gain which would be recognized in the event of dissolution of BAMC or if Aurora's interest in BAMC were to change requiring BAMC to be included in the consolidated financial statements of Aurora.

The summarized financial position and results of operations for the entities accounted for under the equity method as of and for the three month period ended March 31, 2015 and as of and for the year ended December 31, 2014, is as follows (in thousands):

	Three Months Ended March 31, 2015	Year Ended December 31, 2014
Total assets	$ 217,499	$ 220,250
Total liabilities	54,615	60,110
Equity	159,884	160,140
Total revenue	25,013	104,399
Net (loss) income	(911)	5,981

4. PATIENT SERVICE REVENUE AND PATIENT RECEIVABLES

Wisconsin assesses a fee or tax on the gross patient service revenue of hospitals. The revenues from this assessment are used to increase payments made to hospitals for services provided to Medicaid and other medically indigent patients. Aurora's patient service revenue reflects this increase in payment for services to Medicaid and other medically indigent patients, and hospital tax assessment expense reflects the fees assessed by the State. For the three months ended March 31, 2015 and 2014, patient service revenue includes $26,582,000 and $26,392,000, respectively, related to this program, and expenses include $23,218,000 and $23,970,000, respectively, of tax assessment fees.

The composition of patient service revenue, net of contractual allowances and discounts (before the provision for bad debts), by payor is as follows for the three months ended March 31, 2015 and 2014:

	2015	2014
Managed care and all other	63 %	62 %
Medicare	27	29
Medicaid	9	8
Self-pay	1	1
	100 %	100 %

Laws and regulations governing government and other payment programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated third-party settlements could change by a material amount. Changes in estimates relating to prior years increased patient service revenue by approximately $1,020,000 and $785,000 for the three months ended March 31, 2015 and 2014, respectively.

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

Aurora's allowance for doubtful accounts decreased from 20% of gross accounts receivable less contractual allowances at December 31, 2014, to14% of gross accounts receivable less contractual allowances at March 31, 2015. Aurora's allowance for doubtful accounts decreased $42,228,000 from $151,242,000 at December 31, 2014, to $109,014,000 at March 31, 2015. The decrease is due to an improvement in the collection of the portion of the balance which is the patient's responsibility after insurance. Self-pay accounts, those for which the patient does not have insurance, are reserved 100%.

The composition of patient accounts receivable, net of contractual allowances (before the allowance for doubtful accounts) is summarized as follows as of March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Managed care and all other	45 %	48 %
Medicare	19	17
Medicaid	5	5
Self-pay	31	30
	100 %	100 %

5. FAIR VALUE

Financial instruments consist of primarily cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, estimated third-party settlements, and long-term debt. Except for long-term debt, the fair values of these instruments approximate their carrying amounts, due to their short-term maturities, at March 31, 2015 and December 31, 2014.

The fair values of financial assets and liabilities that are measured by the level of significant input as of March 31, 2015 and December 31, 2014, are as follows (in thousands):

Assets	March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring fair value measurements:				
Cash equivalents	$ 54,895	$ 20,703	$ 34,192	$ -
Fixed-income securities:				
U.S. Treasury	80,840	-	80,840	-
Corporate bonds and other debt securities	219,639	-	219,563	76
Federal agency	112,910	-	112,910	-
Fixed income mutual funds	908,236	908,236	-	-
Domestic equity securities:				
Large-cap	16,358	16,358		-
Mid-cap	11,688	11,688	-	-
Small-cap	23,293	23,293	-	-
Real estate	330	330	-	-
Equity mutual funds and exchange-traded funds	90,219	90,219	-	-
Real estate investment trust	11,042	-	-	11,042
International equity securities	56,707	56,707	-	-
International equity limited partnership	9,949	-	9,949	-
Other	4,958	4,724	-	234
Total recurring fair value measurements	1,601,064	$ 1,132,258	$457,454	$ 11,352
Cash	17,878			
Accrued interest				
Total cash and cash equivalents, investments and assets whose use is limited	$1,618,942			
Nonrecurring fair value measurements:				
Long-lived asset held for use	$ 1,985	$ -	$ 1,985	$ -
Long-lived assets held for sale	8,996	-	8,996	-
Total nonrecurring fair value measurements	$ 10,981	$ -	$ 10,981	$ -
Liabilities				
Recurring fair value measurements — other noncurrent liabilities — interest rate swap agreement	$ (2,589)	$ -	$ (2,589)	$ -

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Aurora holds interests in a real estate investment trust and an international equity limited partnership where the fair value of the investment held is estimated based on the net asset value of the fund. The following table summarizes the attributes relating to the nature and risk of such investments at March 31, 2015 and December 31, 2014 (dollars in thousands):

	Fair Value March 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real estate investment trust	$ 11,042	$ -	quarterly	90 days
International equity limited partnership	$ 9,949	-	monthly	15 days

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

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

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

The following table presents additional information about Level 3 assets measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014 (dollars in thousands):

	Corporate Bonds and Other Debt	Real Estate Investment Trust	Other	Total
Balance at December 31, 2014	$ 551	$ 11,042	$ 234	$ 11,827
Purchases	-	-	-	-
Interest and dividend income	-	-	-	-
Unrealized gain (loss)	-	-	-	-
Sales and other settlements	(475)	-	-	(475)
Balance at March 31, 2015	$ 76	$ 11,042	$ 234	$ 11,352

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

6. LONG-TERM DEBT

Long-term debt at March 31, 2015 and December 31, 2014, is summarized as follows (in thousands):

	March 31, 2015	December 31, 2014
Wisconsin Health and Educational Facilities Authority (WHEFA) fixed-rate bonds:		
Series 1993 (5.25% weighted average coupon for 2015 and 2014)	$ 86,295	$ 86,295
Series 2009A (5.04% weighted average coupon for 2015 and 2014)	24,550	24,550
Series 2009B (3.42% weighted average coupon for 2015 and 2014)	132,475	132,475
Series 2010A (5.45% weighted average coupon for 2015 and 2014)	210,980	210,980
Series 2010B (5.00% weighted average coupon for 2015 and 2014)	98,340	98,340
Series 2012A (4.74% weighted average coupon for 2015 and 2014)	214,875	214,875
Series 2013A (5.19% weighted average coupon for 2015 and 2014)	115,750	115,750
Total fixed-rate bonds	883,265	883,265
Wisconsin Health and Educational Facilities Authority variable-rate bonds:		
Series 1999C (0.02% effective rate for 2015 and 0.05% for 2014)	50,000	50,000
Series 2008A (0.12% effective rate for 2015 and 0.15% for 2014)	80,000	80,000
Series 2008B (0.13% effective rate for 2015 and 0.16% for 2014)	80,000	80,000
Series 2010C (0.09% effective rate for 2015 and 0.12% for 2014)	103,080	103,080
Series 2012B (0.01% effective rate for 2015 and 0.04% for 2014)	40,950	40,950
Series 2012C (0.01% effective rate for 2015 and 0.04% for 2014)	40,950	40,950
Series 2012D (0.03% effective rate for 2015 and 0.05% for 2014)	61,745	61,745
Total variable-rate bonds	456,725	456,725
Unamortized original issue premium, net	13,611	13,984
Total WHEFA debt	1,353,601	1,353,974
Capital lease obligations and financing arrangements	252,002	256,526
Term note	10,872	11,075
Notes payable	8,698	8,398
Total long-term debt	1,625,173	1,629,973
Less amounts classified as current	(58,243)	(56,882)
Long-term debt — net of current portion	$ 1,566,930	$ 1,573,091

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

The variable-rate demand bonds are collateralized by $474,135,000 of irrevocable direct-pay letters of credit issued by commercial banks, which provide interim financing to Aurora in the event that remarketing efforts fail for tendered bonds and are drawn upon in throughout the period to pay scheduled debt service on the bonds. The letters of credit expire at various dates through 2018 and have various repayment terms. For $328,317,000 of the letters of credit, principal payments are due quarterly, beginning the earlier of one year from the date of the advance or two months after the expiration date of the letter of credit and shall amortize over a three-year period, not to exceed three years from the letter of credit’s stated expiration date. For the remaining $145,818,000 of the letters of credit, principal payments are due quarterly, beginning the earlier of one year from the date of the advance or two months after the expiration date of the letter of credit and shall amortize over a two-year period, not to exceed two years from the letter of credit's stated expiration date. At March 31, 2015 and December 31, 2014, no draws were outstanding under the standby letters of credit.

At March 31, 2015 and December 31, 2014, Aurora had outstanding $132,475,000 of long-term rate bonds. The long-term rate bonds bear interest at fixed rates for specified periods, and are subject to mandatory tender at the end of such periods, on the date and in the principal amounts below as of March 31, 2015 and December 31, 2014 (dollars in thousands):

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

There is no liquidity facility in effect with respect to the long-term rate bonds to pay the purchase price on the mandatory tender dates.

At March 31, 2015 and December 31, 2014, Aurora had a $60,000,000 line of credit with a commercial bank, bearing interest at either the commercial bank floating rate or LIBOR plus 1.00%, based upon the option of Aurora. As of March 31, 2015 and December 31, 2014, two letters of credit issued under the line of credit totaling $37,166,000 and $36,291,000, respectively, were outstanding. There were no outstanding draws on the line of credit or letters of credit as of December 31, 2014 or 2013.

7. EMPLOYEES' BENEFIT PLANS

Aurora has a defined benefit pension plan (the "Pension Plan") covering substantially all of its employees hired before January 1, 2013, with at least 1,000 hours of work in a calendar year. The Pension Plan was frozen on December 31, 2012. Benefits are based on years of service and the employees' final average earnings, as defined. Aurora funds the amount calculated by the Pension Plan's consulting actuaries to meet the minimum Employee Retirement Income Security Act (ERISA) funding requirements. During the three months ended March 31, 2015, Aurora contributed $40,200,000 to the Pension Plan. The Pension Plan assets and obligations are measured at December 31.

Estimated amount of the components of net periodic pension (income) cost for the three-months ended March 31, 2015 and 2014 were as follows (in thousands):

	March 31, 2015	March 31, 2014
Interest cost on projected benefit obligation	$ 16,893	$ 17,047
Expected return on plan assets	(20,590)	(18,284)
Net amortization and deferral	2,476	1,643
Net periodic pension (income) cost	$ (1,221)	$ 406

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

The net actuarial loss not yet recognized as a component of net periodic pension cost was $416,897,000 and $419,373,000 as of March 31, 2015 and December 31, 2014, respectively.

Assumptions used to determine the net periodic pension (income) cost for the three months ended March 31, 2015 and 2014, were as follows:

	2015	2014
Discount rate	4.32 %	5.22 %
Expected long-term rate of return on assets	6.25	6.25

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

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

The asset allocation of Aurora's Pension Plan assets at March 31, 2015 and December 31, 2014, is as follows:

	2015		2014	
	Strategic Target	Actual	Strategic Target	Actual
Equity securities	33 %	30 %	33 %	30 %
Fixed-income securities	64	66	64	66
Real estate	-	2	-	2
Cash and cash equivalents	3	2	3	2
Total	100 %	100 %	100 %	100 %

Aurora and certain affiliates sponsor defined contribution and retirement savings plans (the "Defined Contribution Plans"), whereby Aurora contributes a percentage of participants' qualifying compensation up to certain limits as outlined in the Defined Contribution Plans or other amounts as designated by the affiliates' board of directors. Included in fringe benefits expense in the accompanying consolidated statements of operations and changes in unrestricted net assets for the three months ended March 31, 2015 and 2014 is $38,170,000 and $34,196,000, respectively, for contributions to the Defined Contribution Plans.

Aurora also sponsors a noncontributory Section 457(b) defined contribution plan (the "457(b) Plan") covering selected employees, where participants may contribute a percentage of qualifying compensation up to certain limits as defined by the 457(b) Plan. The 457(b) Plan assets and liabilities, totaling $84,788,000 and $77,152,000 at March 31, 2015 and December 31, 2014, respectively, are included in long-term assets whose use is limited or restricted and pension and other employee benefit liabilities, in the accompanying consolidated balance sheets. The assets of this 457(b) Plan are subject to the claims of the general creditors of Aurora. Income and expense under the 457(b) Plan were each $1,637,000 and $1,288,000 for the three months ended March 31, 2015 and 2014, respectively. Income and expense under the 457(b) Plan is included in other operating revenue and fringe benefits expense, respectively, in the accompanying consolidated statements of operations and changes in unrestricted net assets.

8. GENERAL AND PROFESSIONAL LIABILITY INSURANCE

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

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

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

Independent actuaries evaluate the required provision for outstanding losses related to the professional liability, general liability, and managed care errors and omissions policies whose risk is ceded back to ALA. At March 31, 2015 and December 31, 2014, Aurora has recorded a liability for outstanding losses, including incurred but not reported, discounted at 4.0% totaling $37,841,000 and $39,239,000, respectively. Of this amount, a portion of the liability for outstanding losses was included in accrued expenses and a portion was included in self-insured liabilities in the accompanying consolidated balance sheets. In the opinion of management, the ultimate disposition of claims incurred to date will not have a material adverse effect on Aurora's consolidated financial position or results of operations.

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

9. SUBSEQUENT EVENTS

For the three-months ended March 31, 2015, Aurora evaluated events and transactions for potential recognition and disclosure through May 29, 2015, the date of financial statement issuance.

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

* * * * * *

SUPPLEMENTARY CONSOLIDATING INFORMATION

AURORA HEALTH CARE, INC. AND AFFILIATES

UNAUDITED CONSOLIDATING BALANCE SHEET INFORMATION
(In thousands)

	March 31, 2015				December 31, 2014			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	$ (132,021)	$ 180,250	$ (4,391)	$ 43,838	$ 11,415	$ 230,749	$ (3,392)	$ 238,772
Investments	1,172,534			1,172,534	1,157,604			1,157,604
Assets whose use is limited or restricted	5,001	5,196		10,197		5,560		5,560
Patient accounts receivable — net	495,870	183,386	(5,793)	673,463	452,627	167,018	(5,674)	613,971
Due from affiliates	100	143,915	(144,015)			138,784	(138,784)	
Other receivables	29,338	32,667		62,005	39,527	34,963		74,490
Inventory	36,291	27,877		64,168	36,796	28,009		64,805
Prepaids and other current assets	56,696	14,375	(16,065)	55,006	48,867	11,560	(16,172)	44,255
Estimated third-party payor settlements	7,678	418		8,096	8,943	418		9,361
Total current assets	1,671,487	588,084	(170,264)	2,089,307	1,755,779	617,061	(164,022)	2,208,818
ASSETS WHOSE USE IS LIMITED OR RESTRICTED	118,354	274,019		392,373	114,047	266,956		381,003
PROPERTY, PLANT AND EQUIPMENT — Net	1,562,112	304,827	15,868	1,882,807	1,561,863	292,760	14,869	1,869,492
ADVANCES TO AURORA HEALTH CARE								
OTHER ASSETS:								
Intangible assets — net	5,050	14,685	(1,399)	18,336	5,054	15,229	(1,399)	18,884
Investments in unconsolidated entities	223,463	3,050	(159,016)	67,497	221,409	4,412	(159,686)	66,135
Deferred financing costs — net	15,326	5		15,331	15,734	5		15,739
Other	270,246	54,327	(287,209)	37,364	264,249	54,211	(281,346)	37,114
Total other assets	514,085	72,067	(447,624)	138,528	506,446	73,857	(442,431)	137,872
TOTAL	$ 3,866,038	$ 1,238,997	$ (602,020)	$ 4,503,015	$ 3,938,135	$ 1,250,634	$ (591,584)	$ 4,597,185

AURORA HEALTH CARE, INC. AND AFFILIATES

UNAUDITED CONSOLIDATING BALANCE SHEET INFORMATION
(In thousands)

	March 31, 2015				December 31, 2014			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Current installments of long-term debt	$ 54,792	$ 11,923	$ (8,472)	$ 58,243	$ 53,375	$ 11,979	$ (8,472)	$ 56,882
Accounts payable	133,168	33,250		166,418	164,116	37,477		201,593
Accrued salaries and wages	167,209	49,855		217,064	241,877	68,971		310,848
Other accrued expenses	109,793	20,341	(10,701)	119,433	166,302	24,289	(10,787)	179,804
Estimated third-party payor settlements	19,066	2,776		21,842	19,717	2,729		22,446
Due to affiliates	143,029	986	(144,015)		138,784		(138,784)	
Total current liabilities	627,057	119,131	(163,188)	583,000	784,171	145,445	(158,043)	771,573
LONG-TERM DEBT, Less current installments	1,532,924	87,228	(53,222)	1,566,930	1,538,234	88,079	(53,222)	1,573,091
OTHER LIABILITIES:								
Pension and other employee benefit liabilities	225,383	22,546		247,929	259,899	22,543		282,442
Self-insured liabilities	30,881	33,359	(1,018)	63,222	28,941	35,968	(975)	63,934
Deferred gain	45,989			45,989	47,364			47,364
Other	55,200	18,422	(5,925)	67,697	55,889	17,470	(5,999)	67,360
Total other liabilities	357,453	74,327	(6,943)	424,837	392,093	75,981	(6,974)	461,100
Total liabilities	2,517,434	280,686	(223,353)	2,574,767	2,714,498	309,505	(218,239)	2,805,764
NET ASSETS:								
Unrestricted								
Controlling interest	1,058,555	860,660	(149,014)	1,770,201	943,723	845,631	(149,733)	1,639,621
Noncontrolling interest in subsidiaries	88,255	2,864		91,119	83,736	2,895		86,631
Total unrestricted net assets	1,146,810	863,524	(149,014)	1,861,320	1,027,459	848,526	(149,733)	1,726,252
Temporarily restricted	188,337	71,301	(211,182)	48,456	182,720	69,212	(205,235)	46,697
Permanently restricted	13,457	23,486	(18,471)	18,472	13,458	23,391	(18,377)	18,472
Total net assets	1,348,604	958,311	(378,667)	1,928,248	1,223,637	941,129	(373,345)	1,791,421
TOTAL	$ 3,866,038	$ 1,238,997	$ (602,020)	$ 4,503,015	$ 3,938,135	$ 1,250,634	$ (591,584)	$ 4,597,185

(Concluded)

AURORA HEALTH CARE, INC. AND AFFILIATES

UNAUDITED CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
(In thousands)

	Three Months Ended March 31, 2015				Three Months Ended March 31, 2014			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments and Eliminations	Consolidated
REVENUES:								
Patient service revenue (net of contractual allowances and discounts)	$ 815,127	$ 313,940	$ (8,702)	$ 1,120,365	$ 731,622	$ 314,324	$ (32,714)	$ 1,013,232
Less provision for bad debt	7,140	7,431		14,571	13,313	4,989		18,302
Net patient service revenue less provision for bad debt	807,987	306,509	(8,702)	1,105,794	718,309	309,335	(32,714)	994,930
Other revenue	66,992	74,232	(35,696)	105,528	54,426	39,178	(1,872)	91,732
Total revenue	874,979	380,741	(44,398)	1,211,322	772,735	348,513	(34,586)	1,086,662
EXPENSES:								
Salaries and wages	398,398	139,514	(6,534)	531,378	372,408	124,797		497,205
Fringe benefits	83,030	34,292	(9,793)	107,529	69,895	55,370	(32,786)	92,479
Professional fees	12,847	5,541	(53)	18,335	12,967	5,010		17,977
Supplies	140,265	77,973		218,238	115,387	66,074		181,461
Depreciation and amortization	42,774	9,300		52,074	42,501	9,159		51,660
Interest	14,503	396		14,899	15,310	467		15,777
Maintenance and service contracts	25,963	2,287	(71)	28,179	23,879	2,317		26,196
Building and equipment rental	12,016	8,253	(1,701)	18,568	12,219	6,335		18,554
Hospital tax assessment	18,848	4,370		23,218	19,536	4,434		23,970
Utilities	8,896	3,112	(18)	11,990	9,222	3,023		12,245
Purchased services	21,590	8,659	1,507	31,756	18,822	7,362		26,184
Other expenses	(4,695)	51,651	(10,559)	36,397	2,074	35,696	(1,800)	35,970
Total expenses	774,435	345,348	(27,222)	1,092,561	714,220	320,044	(34,586)	999,678
Operating income (loss)	100,544	35,393	(17,176)	118,761	58,515	28,469		86,984
NONOPERATING INCOME (LOSS):								
Investment income	14,492	6,066		20,558	8,538	2,810		11,348
Other nonoperating income (loss)	244	56		300	211	4		215
Total nonoperating income (loss) — net	14,736	6,122		20,858	8,749	2,814		11,563
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	115,280	41,515	(17,176)	139,619	67,264	31,283		98,547
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	2,476			2,476	1,643			1,643
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASE OF PROPERTY AND EQUIPMENT	77			77	125			125
DISTRIBUTIONS TO NONCONTROLLING INTERESTS	(7,112)			(7,112)	(7,915)			(7,915)
OTHER — Net	8			8	37			37
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 110,729	$ 41,515	$ (17,176)	$ 135,068	$ 61,154	$ 31,283	$	$ 92,437

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

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

We recommend that you read this discussion together with our unaudited consolidated financial statements and related notes included elsewhere in this report, as well as the audited consolidated financial statements of Aurora as of and for the years ended December 31, 2014 and 2013. 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.

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

AURORA HEALTH CARE, INC. AND AFFILIATES

KEY FINANCIAL RATIOS
FOR THE PERIOD ENDED MARCH 31, 2015

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Operating Performance:		
Operating margin[1]	9.8 %	8.0 %
EBIDA percent[2]	17.1	15.3

	As of March 31, 2015	As of December 31, 2014
Liquidity:		
Days cash on hand[3]	119.6	141.8
Financial Position/Leverage Ratios:		
Net AR days outstanding[4]	54.8	52.1
Unrestricted cash to debt[5]	85%	96%
Cash to puttable debt[6]	303%	341%
Debt to capitalization[7]	47%	49%
Debt to cash flow[8]	2.1	2.2
Debt service coverage ratio[9]	10.4x	6.8x

[1] Operating income /Total revenue.

[2] (Excess of revenues over expenses from continuing operations + 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 from continuing operations + Depreciation and amortization expense).

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

AURORA HEALTH CARE, INC. AND AFFILIATES

HISTORICAL UTILIZATION
FOR THE PERIOD ENDED MARCH 31, 2015

	Three Months Ended March 31,	
	2015	**2014**
Adult inpatient days	113,693	108,164
Adult average daily census	1,263	1,202
Adult average length of stay	4.6	4.5
Adult discharges	24,928	23,829
Emergency room visits	87,675	78,704
Observation and bedded outpatients	8,598	8,589
Surgical cases	25,899	24,860
Physician clinic, hospital outpatient and other visits	1,745,675	1,614,598

ANALYSIS OF RESULTS OF OPERATIONS

Results of Operations – Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

Operating income was $118.8 million for the three months ended March 31, 2015, resulting in an operating margin of 9.8%, as compared to operating income of $87.0 million and an operating margin of 8.0% for the three months ended March 31, 2014. Nonoperating income was $20.9 million for the three months ended March 31, 2015 compared to $11.6 million for the same period in 2014. The increase from the prior period is due to higher investment income attributable to overall changes in the financial markets. Overall, Aurora reported an excess of revenue over expenses of $139.6 million for the three months ended March 31, 2015 compared to $98.5 million for the same period in the prior year.

Patient service revenue increased $107.1 million (10.6%) in the three months ended March 31, 2015, compared to the same period in 2014. Patient service revenue increased primarily due to an increase in volume. Adult inpatient days increased 5.1%, emergency room visits increased 11.4%, and physician, clinic, hospital outpatient, and other visits increase 8.1% as compared to the same period in 2014. Patient service revenue also increased due to a price increase on January 1, 2015.

Provision for bad debts decreased $3.7 million (20.4%) in the three months ended March 31, 2015, compared to the same period in the prior year. The decrease is due to an improvement in the collection from patients for the portion of a bill which is the patient's responsibility after insurance.

Other revenue increased $13.8 million (15.0%) in the three months ended March 31, 2015, compared to the same period in the prior year. The increase in other revenue is primarily due to increased pharmacy revenue as a result of an increase in specialty pharmacy sales.

Salaries and wages expense increased $34.2 million (6.9%) in the three months ended March 31, 2015, compared to the same period in the prior year. The increase in salaries and wages is primarily due to the annual salary adjustment of 2.8% which became effective in July of 2014. The increase is also due to an increase in full time equivalents as a result of an increase in volume from the same period in the prior year.

Fringe benefits expense increased $15.1 million (16.3%) in the three months ended March 31, 2015, compared to the same period in the prior year. This increase is due to an increase in expense for the self-insured health plan due to an increase in claims as compared to the same period in the prior year. The remainder of the increase is due to the annual salary adjustment and increase in full time equivalents mentioned above.

Supplies expense increased $36.8 million (20.3%) in the three month period ended March 31, 2015, compared to the same period in the prior year. A change in the fixed asset capitalization policy was made in 2014, to increase the threshold to measure an expenditure for capitalization from $1,000 to $5,000. This policy change was effective on January 1, 2014, but the impact of the policy change was not recorded until June of 2014. The increase in supplies as a result of the policy change is approximately $5.3 million. The increase in supplies expense is also due to an increase in the utilization of specialty pharmacy supplies as noted above, which have a higher average cost than other pharmacy supplies. The remainder of the increase is a result of the increase in volume from the same period in the prior year.

Purchased services increased $5.6 million (21.3%) in the three months ended March 31, 2015, as compared to the same period in the prior year. This increase is primarily due to an increase in outside specialty physician services.

All other expenses, including professional fees, depreciation and amortization, interest, maintenance and service contracts, building and equipment rental, hospital tax assessment, utilities, and other expense, remained consistent for the three months ended March 31, 2015 as compared to the three months ended March 31, 2014, increasing $1.3 million (0.6%) 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 reasonable and prudent levels of risk and to preserve and enhance its strong 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 the needs of ongoing portfolio management. This allocation is formalized into a strategic policy benchmark that guides the management of the portfolios and provides a standard to use in evaluating the portfolios' performance.

Investments are primarily maintained in a master trust fund administered using a bank as trustee. The management of Aurora's investments is conducted by external investment management organizations that are monitored by an investment committee of Aurora's Board of Directors, management and a third-party external advisor. Aurora has established formal investment policies that support Aurora's investment objectives and provide an appropriate balance between return and risk.

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 March 31, 2015 and December 31, 2014 (dollars in thousands):

	March 31, 2015		December 31, 2014	
Cash and cash equivalents	$72,773	4.5%	$268,499	15.1%
Fixed-income securities	1,321,625	81.6%	1,299,788	72.9%
Equity securities	208,544	12.9%	196,492	11.0%
Real estate investment trust	11,042	0.7%	11,042	0.6%
Other	4,958	0.3%	7,118	0.4%
Total cash and investments	1,618,942		1,782,939	
Less restricted investments[1]	(236,610)		(226,161)	
Total unrestricted cash and investments	$1,382,332		$1,556,778	
Days cash on hand	119.6		141.8	

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

Aurora's unrestricted cash and investments decreased by $174.4 million or 11.2% from December 31, 2014 to March 31, 2015. The decrease in unrestricted cash and investments was primarily due to $145.4 million of annual cash payments for management incentive compensation and contributions to the Defined Contribution Plans and the Aurora Pension Plan, $48.5 million of capital expenditures, $5.0

million of scheduled principal payments on long-term debt, and $7.1 million of distributions to minority shareholders, offset by $26.1 million of cash generated from operations. The decrease in unrestricted cash and investments was also impacted by the delay in coding, mentioned below, which increased our days in accounts receivable.

Investment income and losses for the three months ended March 31, 2015 and 2014, consisted of the following (in thousands):

	2015	2014
Interest income and dividends	$ 8,385	$ 5,955
Net realized gains on securities	2,537	2,313
Changes in unrealized gains on investments, trading	13,091	5,821
Total	$ 24,013	$ 14,089

Investment income and losses for the three months ended March 31, 2015 and 2014, were classified in the unaudited consolidated statements of operations and changes in unrestricted net assets and unaudited consolidated statements of changes in net assets as follows (in thousands):

	2015	2014
Other operating revenue	$ 2,267	$ 2,260
Investment income	20,558	11,348
Temporarily restricted net assets	1,188	481
Total	$ 24,013	$ 14,089

Liquidity – Accounts Receivable

Net accounts receivable days outstanding increased from 52.1 days as of December 31, 2014 to 54.8 days as of March 31, 2015. The primary reason for the increase in net accounts receivable days outstanding is due to certain system upgrades causing system access issues which affected the productivity of Aurora's coders.

Indebtedness

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

At March 31, 2015 and December 31, 2014, the aggregate principal amount of the Revenue Bonds outstanding was as follows (in thousands):

	March 31, 2015	December 31, 2014
Fixed rate revenue bonds	$ 764,401	$ 764,774
Long-term rate revenue bonds	132,475	132,475
Variable rate revenue bonds	456,725	456,725
Total	$ 1,353,601	$ 1,353,974

Fixed Rate Revenue Bonds: At March 31, 2015 and December 31, 2014, the Corporation had outstanding $764.4 million (including $13.6 million of unamortized original premium, net) and $764.8 million (including $14.0 million of unamortized original premium, net) of Fixed Rate Bonds, respectively. The weighted average interest rate on the Fixed Rate Revenue Bonds was 5.12% at March 31, 2015 and December 31, 2014.

On April 15, 2015, Aurora redeemed $40,000,000 of Fixed Rate Revenue Bonds with proceeds of its $40,000,000 Aurora Health Care, Inc. Taxable Bonds Series 2015A (the "2015A Bonds"). The 2015A Bonds were directly placed with Northern Trust Company. They bear interest at a taxable, variable rate and are subject to mandatory tender on April 15, 2018.

Long-Term Rate Bonds: The Long-Term Rate Bonds bear interest at fixed rates for specified periods, and are subject to mandatory tender at the end of such periods, on the date and in the principal amount described below. There is no liquidity facility in effect with respect to the Long-Term Rate Bonds to pay the purchase price on the mandatory tender dates. Failure of the Corporation to pay the purchase price on the applicable tender date would constitute an event of default under the related bond documents.

Series	Principal Amount	Mandatory Tender Date
Series 2009B-1	$65.0 million	August 15, 2017
Series 2009B-2	$67.5 million	August 15, 2016

Variable Rate Demand Bonds ("VRDBs"): At March 31, 2015, the Corporation had outstanding $456.7 million of VRDBs. The VRDBs bear interest at variable rates (currently in daily, weekly, or Unit Pricing interest rate modes) and are subject to optional tender for purchase by their holders. At March 31, 2015, all of the VRDBs are secured by letters of credit issued by commercial banks (the "Letters of Credit"). Subject to certain requirements in the related Reimbursement Agreements, the Letters of Credit may be drawn on to pay the purchase price of the VRDBs in the event they are not remarketed. The Letters of Credit expire at various dates through 2018 (as set forth in the table below) and have various repayment terms. Principal payments for any advances under each of the Letters of Credit begin the earlier of one year from the date of the advance and two months after the expiration date of the Letter of Credit. The principal payments for any advance under the Letters of Credit amortize over a two or three-year period. Each Letter of Credit is subject to extension of its expiration date at the sole discretion of the related commercial bank.

Bank	Par (in thousands)	Expiration
J.P. Morgan	$50,822	09/29/2017
J.P. Morgan	84,384	09/29/2017
J.P. Morgan	84,384	09/29/2017
Bank of America	108,728	12/09/2016
Bank of Montreal	41,569	02/07/2018
Bank of Montreal	41,569	02/07/2018
Bank of Montreal	62,679	02/07/2018
Total	$ 474,135	

Line of Credit. At March 31, 2015 and December 31, 2014, the Corporation had a $60.0 million line of credit, under which letters of credit can also be issued, with J.P. Morgan Chase Bank, N.A., bearing interest at the commercial bank floating rate or LIBOR plus a spread, based upon the option of the Corporation. As of March 31, 2015 and December 31, 2014, two letters of credit issued under the line of credit totaling $37.2 million and $36.3 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. Aurora is also obligated under capital leases for certain medical imaging equipment that expire at various dates during the next three years. The equipment leases are collateralized by the leased equipment. At March 31, 2015 and December 31, 2014, the outstanding amount of capital lease obligations and financing arrangements was $252.0 million and $256.5 million, respectively.

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

Aurora’s total long-term debt at March 31, 2015 and December 31, 2014 is as follows (in thousands):

	March 31, 2015	December 31, 2014
Total Revenue Bonds	$ 1,353,601	$ 1,353,974
Capital lease obligations and financing	252,002	256,526
Term note	10,872	11,075
Various notes payable	8,698	8,398
Total	$ 1,625,173	$ 1,629,973

Interest Rate Swap Agreement

Aurora has a fixed-to-variable interest rate swap agreement (the "Swap Agreement") with Merrill Lynch Capital Services, Inc. ("MLCS") with respect to the Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 1993 (Aurora Health Care Obligated Group), maturing in August 2023 (the "Series 1993 Bonds"). During the term of the Swap Agreement, Aurora continues to pay interest on the Series 1993 Bonds at their fixed interest rates, and pays MLCS a variable-rate based on the Securities Industry and Financial Markets Association Index (SIFMA) plus a spread calculated on a notional amount equal to the principal amount of the Series 1993 Bonds outstanding plus a premium. In turn, Aurora receives fixed-rate payments from MLCS based on a notional amount equal to the principal amount of the Series 1993 Bonds outstanding. At March 31, 2015 and December 31, 2014, the fair value of the Swap Agreement was a liability of $2.6 million.

The Swap Agreement terminates in February 2018. Pursuant to the terms of the Swap Agreement, MLCS also has the right to optionally terminate the Agreement on December 1, 2015. Upon such termination, Aurora would be required to pay to MLCS an amount equal to the outstanding par amount of the Series 1993 Bonds multiplied by the difference between the underlying market value of the Series 1993 Bonds and the outstanding par amount of the Series 1993 Bonds. In addition, the terms of the Swap Agreement require Aurora to transfer collateral to MLCS if its liability, determined on a mark-to-market basis, exceeds a specified threshold that varies based on the rating of the Series 1993 Bonds. Aurora's payment obligations under the Swap Agreement are secured by an Obligation issued under the Master Indenture. As of March 31, 2015 and December 31, 2014, no collateral was required.

The Corporation received net swap payments of $1.0 million during each of the three months ended March 31, 2015 and 2014, respectively.

LEGAL AND REGULATORY COMPLIANCE

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

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

Pending Matter

Implantable Cardioverter Defibrillators ("ICDs") Investigations – In 2010, the Department of Justice served subpoenas on and issued letters to a number of hospitals and health systems across the country, including Aurora, as part of a fraud investigation into whether hospitals billed Medicare for ICDs for patients whose conditions did not satisfy coverage criteria set forth in the Center for Medicare and Medicaid Services National Coverage Determination. As the investigation is being conducted under the False Claims Act, those targeted by the government are at risk for significant damages under the False Claims Act's treble damages and civil penalties provision. Management of Aurora has cooperated fully with the investigation and expects it to be resolved by the end of 2015. Management does not expect the resolution of this investigation to have a material adverse effect on Aurora's financial position, results of operations, or cash flows.

Compliance and Internal Audit Programs

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

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

Debt Compliance Program

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

FINANCIAL REPORTING INITIATIVES

In 2013, Aurora began an initiative to evaluate its internal control environment and to create efficiencies in Aurora's financial reporting processes. The initiative 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 goals of the initiative are to ensure the integrity and reliability of financial information, strengthen internal controls in the reporting process, reduce the risk of fraud and improve efficiencies in the financial reporting process. The initiative will review all aspects of the financial reporting process, identify potential risks and ensure the risks have been mitigated utilizing a management self-assessment process.

BOND RATINGS

Aurora's outstanding bonds have been assigned ratings of A (stable outlook) and A3 (positive outlook) by Fitch and Moody's, respectively.

INDUSTRY RISKS

For a description of industry risks, see "Risk Factors" in Exhibit I to the 2014 Annual Financial Report dated May 27, 2015. The Annual Financial Report can be accessed from the MSRB on its EMMA system, found at http://emma.msrb.org.