Aurora Health Care®

Aurora Health Care, Inc. and Affiliates

Unaudited Consolidated Financial Statements and Other Information
For the Period Ended September 30, 2017

Document Dated as of November 21, 2017

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

	September 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 180,377	$ 107,664
Investments	1,757,658	1,614,843
Assets whose use is limited or restricted	5,748	5,484
Patient accounts receivable — net of allowance for doubtful accounts of $96,701 and $97,349 in 2017 and 2016, respectively	702,099	731,746
Other receivables	89,497	102,791
Inventory	68,749	70,031
Prepaids and other current assets	54,450	48,026
Estimated third-party payor settlements	7,105	9,989
Total current assets	2,865,683	2,690,574
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
Board-designated and other	183,803	164,168
Contractually-restricted	176,031	154,267
Donor restricted	60,013	53,821
Debt service reserve	19,037	25,792
Total assets whose use is limited or restricted	438,884	398,048
PROPERTY, PLANT, AND EQUIPMENT — Net	2,079,584	2,066,286
OTHER ASSETS:		
Intangible assets — net	14,999	15,786
Investments in unconsolidated entities	76,159	72,313
Other	54,304	56,835
Total other assets	145,462	144,934
TOTAL	$ 5,529,613	$ 5,299,842

(Continued)

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

	September 30, 2017	December 31, 2016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current installments of long-term debt	$ 210,515	$ 161,936
Accounts payable	190,115	222,528
Accrued salaries and wages	267,639	259,225
Other accrued expenses	193,636	213,684
Estimated third-party payor settlements	33,713	34,041
Total current liabilities	895,618	891,414
LONG-TERM DEBT — Less current installments	1,274,284	1,403,091
OTHER LIABILITIES:		
Pension and other employee benefit liabilities	258,335	243,574
Self-insured liabilities	60,051	61,592
Deferred gain	32,516	36,662
Other	60,658	61,822
Total other liabilities	411,560	403,650
Total liabilities	2,581,462	2,698,155
NET ASSETS:		
Unrestricted:		
Controlling interest	2,774,734	2,439,653
Noncontrolling interest in subsidiaries	108,827	100,119
Total unrestricted net assets	2,883,561	2,539,772
Temporarily restricted	45,686	43,171
Permanently restricted	18,904	18,744
Total net assets	2,948,151	2,601,687
TOTAL	$ 5,529,613	$ 5,299,842

See accompanying notes to unaudited consolidated financial statements.

(Concluded)

AURORA HEALTH CARE, INC. AND AFFILIATES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS

(In thousands)

	Three Months Ended September 30,	
	2017	**2016**
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	$ 1,247,151	$ 1,171,891
Less provision for bad debts	47,159	30,678
Net patient service revenue less provision for bad debts	1,199,992	1,141,213
Other revenue	107,623	107,117
Total revenue	1,307,615	1,248,330
EXPENSES:		
Salaries, wages and fringe benefits	743,808	700,610
Professional fees	24,646	21,494
Supplies	252,830	248,045
Depreciation and amortization	53,516	49,924
Interest	14,416	15,206
Maintenance and service contracts	30,397	32,771
Building and equipment rental	16,490	16,439
Hospital tax assessment	24,337	24,527
Utilities	12,974	13,422
Purchased services	33,383	32,664
Other expenses	40,080	39,116
Total expenses	1,246,877	1,194,218
OPERATING INCOME	60,738	54,112
NONOPERATING INCOME:		
Investment income — net	37,541	30,390
Other nonoperating income (loss) — net	53	(1,275)
Total nonoperating income — net	37,594	29,115
EXCESS OF REVENUE OVER EXPENSES	98,332	83,227
Pension-related changes other than periodic pension cost	2,102	1,560
Net assets released from restriction for purchase of property and equipment	92	303
Distributions to noncontrolling interests	(7,936)	(7,651)
Other — net	(8)	(550)
INCREASE IN UNRESTRICTED NET ASSETS	$ 92,582	$ 76,889

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2017	**2016**
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	$ 3,728,165	$ 3,562,225
Less provision for bad debts	123,257	101,627
Net patient service revenue less provision for bad debts	3,604,908	3,460,598
Other revenue	322,585	311,123
Total revenue	3,927,493	3,771,721
EXPENSES:		
Salaries, wages and fringe benefits	2,207,678	2,070,870
Professional fees	67,162	59,365
Supplies	737,894	716,175
Depreciation and amortization	165,122	154,499
Interest	42,064	43,171
Maintenance and service contracts	91,390	86,023
Building and equipment rental	50,353	49,250
Hospital tax assessment	72,714	72,629
Utilities	37,353	36,495
Purchased services	96,360	98,574
Other expenses	112,000	119,389
Total expenses	3,680,090	3,506,440
OPERATING INCOME	247,403	265,281
NONOPERATING INCOME:		
Investment income — net	116,268	89,527
Other nonoperating income (loss) — net	1,235	(535)
Total nonoperating income — net	117,503	88,992
EXCESS OF REVENUE OVER EXPENSES	364,906	354,273
Pension-related changes other than periodic pension cost	6,307	4,625
Net assets released from restriction for purchase of property and equipment	1,231	607
Distributions to noncontrolling interests	(28,644)	(30,930)
Other — net	(11)	(561)
INCREASE IN UNRESTRICTED NET ASSETS	$ 343,789	$ 328,014

See accompanying notes to unaudited consolidated financial statements.

AURORA HEALTH CARE, INC. AND AFFILIATES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
THREE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(In thousands)

	Controlling Interest Unrestricted	Noncontrolling Interest Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS — June 30, 2016	$ 2,315,008	$ 90,789	$ 2,405,797	$ 44,028	$ 18,733	$ 2,468,558
Excess of revenue over expenses	72,375	10,852	83,227	—	—	83,227
Pension-related changes other than net periodic pension costs	1,560	—	1,560	—	—	1,560
Contributions	—	—	—	1,855	—	1,855
Investment income	—	—	—	1,759	—	1,759
Net assets released from restrictions for operations	—	—	—	(3,203)	—	(3,203)
Net assets released from restrictions for purchase of property and equipment	303	—	303	(303)	—	—
Distributions to noncontrolling interest	—	(7,651)	(7,651)	—	—	(7,651)
Other — net	(550)	—	(550)	63	—	(487)
Increase in net assets	73,688	3,201	76,889	171	—	77,060
NET ASSETS — September 30, 2016	$ 2,388,696	$ 93,990	$ 2,482,686	$ 44,199	$ 18,733	$ 2,545,618
NET ASSETS — June 30, 2017	$ 2,687,444	$ 103,535	$ 2,790,979	$ 45,062	$ 18,744	$ 2,854,785
Excess of revenue over expenses	85,104	13,228	98,332	—	—	98,332
Pension-related changes other than net periodic pension costs	2,102	—	2,102	—	—	2,102
Contributions	—	—	—	1,471	160	1,631
Investment income	—	—	—	1,193	—	1,193
Net assets released from restrictions for operations	—	—	—	(2,053)	—	(2,053)
Net assets released from restrictions for purchase of property and equipment	92	—	92	(92)	—	—
Distributions to noncontrolling interest	—	(7,936)	(7,936)	—	—	(7,936)
Other — net	(8)	—	(8)	105	—	97
Increase in net assets	87,290	5,292	92,582	624	160	93,366
NET ASSETS — September 30, 2017	$ 2,774,734	$ 108,827	$ 2,883,561	$ 45,686	$ 18,904	$ 2,948,151

See accompanying notes to unaudited consolidated financial statements.

AURORA HEALTH CARE, INC. AND AFFILIATES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(In thousands)

	Controlling Interest Unrestricted	Noncontrolling Interest Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS — December 31, 2015	$ 2,066,225	$ 88,447	$ 2,154,672	$ 43,779	$ 18,733	$ 2,217,184
Excess of revenue over expenses	317,800	36,473	354,273	—	—	354,273
Pension-related changes other than net periodic pension costs	4,625	—	4,625	—	—	4,625
Contributions	—	—	—	5,172	—	5,172
Investment income	—	—	—	2,929	—	2,929
Net assets released from restrictions for operations	—	—	—	(7,150)	—	(7,150)
Net assets released from restrictions for purchase of property and equipment	607	—	607	(607)	—	—
Distributions to noncontrolling interest	—	(30,930)	(30,930)	—	—	(30,930)
Other — net	(561)	—	(561)	76	—	(485)
Increase in net assets	322,471	5,543	328,014	420	—	328,434
NET ASSETS — September 30, 2016	$ 2,388,696	$ 93,990	$ 2,482,686	$ 44,199	$ 18,733	$ 2,545,618
NET ASSETS — December 31, 2016	$ 2,439,653	$ 100,119	$ 2,539,772	$ 43,171	$ 18,744	$ 2,601,687
Excess of revenue over expenses	327,554	37,352	364,906	—	—	364,906
Pension-related changes other than net periodic pension costs	6,307	—	6,307	—	—	6,307
Contributions	—	—	—	6,392	160	6,552
Investment income	—	—	—	5,242	—	5,242
Net assets released from restrictions for operations	—	—	—	(5,710)	—	(5,710)
Net assets released from restrictions for purchase of property and equipment	1,231	—	1,231	(1,231)	—	—
Distributions to noncontrolling interest	—	(28,644)	(28,644)	—	—	(28,644)
Other — net	(11)	—	(11)	(2,178)	—	(2,189)
Increase in net assets	335,081	8,708	343,789	2,515	160	346,464
NET ASSETS — September 30, 2017	$ 2,774,734	$ 108,827	$ 2,883,561	$ 45,686	$ 18,904	$ 2,948,151

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 346,464	$ 328,434
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	(6,307)	(4,625)
Realized and unrealized gains on investments, net	(99,553)	(72,888)
Loss (gain) on sale of property, plant, and equipment	1,268	(948)
Loss on early extinguishment of debt	441	2,070
Impairment of long-lived assets	4,021	—
Amortization of intangible assets and other items	2,922	2,949
Amortization of deferred gains	(4,146)	(4,125)
Depreciation and amortization	165,122	154,499
Provision for bad debts	123,257	101,627
Distribution to noncontrolling interest	33,895	38,198
Increase in accounts receivable	(93,610)	(59,354)
Decrease in accounts payable and accrued expenses	(37,298)	(31,255)
Increase (decrease) in estimated third-party payor settlements	2,556	(2,428)
Increase (decrease) in pension and other employee benefit liabilities	21,068	(35,176)
Decrease in self-insured liabilities	(1,541)	(1,012)
Other changes in assets and liabilities, net	8,541	17,580
Net cash provided by operating activities	467,100	433,546
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(189,816)	(232,825)
Proceeds from sales of property, plant, and equipment	929	1,781
Investment in unconsolidated entities	(10,671)	(13,178)
Distributions from unconsolidated entities	4,403	4,024
Purchases of investments	(422,040)	(311,866)
Sales of investments	337,678	96,506
Net cash used in investing activities	(279,517)	(455,558)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	58,715	218,000
Repayments of long-term debt	(139,690)	(209,568)
Distribution to noncontrolling interest	(33,895)	(38,198)
Net cash used in financing activities	(114,870)	(29,766)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	72,713	(51,778)
CASH AND CASH EQUIVALENTS:		
Beginning of period	107,664	176,626
End of period	$ 180,377	$ 124,848

See accompanying notes to unaudited consolidated financial statements.

1. DESCRIPTION OF BUSINESS

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

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

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

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited consolidated financial statements of Aurora as of September 30, 2017, and for the three and nine months ended September 30, 2017 and 2016, 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 included in this quarterly report, and the audited consolidated financial statements as of and for the years ended December 31, 2016 and 2015, and the related notes. The audited consolidated financial statements are available from the Municipal Securities Rulemaking Board (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 on Aurora's website found at https://www.aurorahealthcare.org.

The results of operations for the nine months ended September 30, 2017 are not necessarily indicative of the operating results to be expected for the entire year ending December 31, 2017.

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

New Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principal of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

Management of Aurora is currently evaluating the requirements of the new standard to ensure that processes, systems and internal controls are in place to collect the necessary information to implement the standard, which will be effective for Aurora as of January 1, 2018. The guidance may be adopted using either a full retrospective or modified retrospective approach. Management of Aurora currently anticipates using the modified retrospective method to adopt this ASU. Management of Aurora also intends to utilize the portfolio approach practical expedient to analyze contracts within Aurora's core service lines. This practical expedient allows Aurora to evaluate the criteria for revenue recognition over a portfolio of similar contracts as opposed to evaluating each individual contract for alignment with the ASU. The adoption of this ASU will result in significant changes to the presentation and disclosures related to revenue within Aurora's consolidated financial statements. The primary change will be a reduction in the provision for bad debts which relates to self-pay patients and amounts due from patients for co-pays and deductibles. Under the ASU, these amounts will be a direct reduction to patient service revenue. Aurora is still in the process of analyzing the impact of the ASU on reserve methodologies and revenue recognition for various reimbursement programs. This work is expected to be completed in the fourth quarter of 2017. We do not anticipate that this ASU will materially impact our financial position, results of operations, or cash flows.

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

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to simplify how a not-for-profit presents net assets and other information in the financial statements. Specifically focusing on the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, lack of consistency in the type of information provided about expenses and investment return, and misunderstandings about and opportunities to enhance the utility of the statement of cash flows. This ASU will be effective for Aurora as of January 1, 2018. Management of Aurora is currently in the process of evaluating the impact of this guidance on its consolidated financial position, results of operations and cash flows.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which amends guidance in Accounting Standards Codification (ASC) 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity of practice that has resulted from the lack of consistent principles on this topic. This ASU is effective for Aurora beginning January 1, 2018. Management of Aurora expects this ASU to have an immaterial impact on its statements of cash flows, with the primary change being the movement of certain distributions from equity method investees from cash used in investing activities to cash flows from operations.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires the service cost component of net periodic benefit cost related to defined benefit pension and postretirement benefit plans to be reported in the same financial statement line as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented separately from service costs and outside of operating income in the statement of operations. Only the service cost component of net periodic benefit cost will be eligible for capitalization in assets. This ASU is effective for Aurora beginning January 1, 2018. Management of Aurora currently does not believe this ASU will have a significant impact on its consolidated financial position, results of operations, or cash flows.

3. PATIENT SERVICE REVENUE AND PATIENT RECEIVABLES

Wisconsin assesses a fee or tax on gross patient service revenue. The revenues from this assessment are used to increase payments made to hospitals for services provided to Medicaid and other medically indigent patients. Aurora's patient service revenue reflects this increase in payment for services to Medicaid and other medically indigent patients, and hospital tax assessment expense reflects the fees assessed by the State. For the nine months ended September 30, 2017 and 2016, patient service revenue includes $85.2 million and $87.3 million, respectively, related to this program, and expenses include $72.7 million and $72.6 million, respectively, of tax assessment fees.

The composition of patient service revenue, net of contractual allowances and discounts (before the provision for bad debts), by payor is as follows for the nine months ended September 30, 2017 and 2016:

	September 30,	
	2017	**2016**
Managed care and all other	63%	66%
Medicare	27	26
Medicaid	9	8
Self-pay	1	—
	100%	100%

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

Laws and regulations governing government and other payment programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated third-party settlements could change by a material amount. Changes in estimates relating to prior years increased patient service revenue by approximately $3.6 million and $4.1 million for the nine months ended September 30, 2017 and 2016, respectively.

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

The composition of patient accounts receivable, net of contractual allowances (before the allowance for doubtful accounts) is summarized as follows as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Managed care and all other	45%	51%
Medicare	18	16
Medicaid	5	4
Self-pay	32	29
	100%	100%

The self-pay patient accounts receivable above includes amounts due from patients for co-insurance, deductibles, and amounts due from patients without insurance. Self-pay patient accounts receivable also includes amounts due from patients on installment payment plans.

Aurora's allowance for doubtful accounts decreased $0.6 million (0.7%), from 11.7% of gross accounts receivable less contractual allowances at December 31, 2016 to 12.1% at September 30, 2017.

4. FAIR VALUE

Financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, estimated third-party settlements, and long-term debt. Except for long-term debt, the fair values of these instruments approximate their carrying amounts at September 30, 2017 and December 31, 2016, due to their short-term maturities. The estimated fair value of long-term debt, based on discounted cash flows at estimated current borrowing rates, was $1,327.0 million and $1,394.0 million at September 30, 2017 and December 31, 2016, respectively, and is categorized as Level 2 within the fair value hierarchy.

The fair values of financial assets and liabilities that are measured by the level of significant input as of September 30, 2017 and December 31, 2016 are as follows (in thousands):

	September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Recurring fair value measurements:				
Cash equivalents	$ 25,911	$ 20,606	$ 5,305	$ —
Fixed-income securities:				
U.S. Treasury	93,554	—	93,554	—
Corporate bonds and other debt securities	208,658	—	208,658	—
Federal agency	86,159	—	86,159	—
Fixed income mutual funds	955,517	955,517	—	—
Domestic equity securities:				
Large-cap	20,180	20,180	—	—
Mid-cap	21,215	21,215	—	—
Small-cap	23,309	23,309	—	—
Real estate	51,968	51,968	—	—
Equity mutual funds and exchange-traded funds	511,523	511,523	—	—
International equity securities	170,148	170,148	—	—
Other	8,877	8,625	—	252
Total recurring fair value measurements	$ 2,177,019	$ 1,783,091	$ 393,676	$ 252
Cash	180,976			
Assets valued at net asset value	24,672			
Total cash and cash equivalents, investments and assets whose use is limited	$ 2,382,667			
Nonrecurring fair value measurements:				
Long-lived assets held for sale	$ 4,109	$ —	$ 4,109	$ —
Total nonrecurring fair value measurements	$ 4,109	$ —	$ 4,109	$ —

Assets	December 31, 2016	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	$ 26,006	$ 22,037	$ 3,969	$ —
Fixed-income securities:				
U.S. Treasury	94,596	—	94,596	—
Corporate bonds and other debt securities	194,651	—	194,651	—
Federal agency	97,665	—	97,665	—
Fixed income mutual funds	990,518	990,518	—	—
Domestic equity securities:				
Large-cap	17,961	17,961	—	—
Mid-cap	19,257	19,257	—	—
Small-cap	22,106	22,106	—	—
Real estate	470	470	—	—
Equity mutual funds and exchange-traded funds	384,410	384,410	—	—
International equity securities	142,192	142,192	—	—
Other	7,104	6,853	—	251
Total recurring fair value measurements	$ 1,996,936	$ 1,605,804	$ 390,881	$ 251
Cash	106,653			
Assets valued at net asset value	22,450			
Total cash and cash equivalents, investments and assets whose use is limited	$ 2,126,039			
Nonrecurring fair value measurements:				
Long-lived assets held for sale	$ 5,467	$ —	$ 5,467	$ —
Total nonrecurring fair value measurements	$ 5,467	$ —	$ 5,467	$ —

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

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

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

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

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

Aurora believes its valuation methods and classification in fair value levels are appropriate and consistent with other market participants based on information readily available from its service providers. Transfers between fair value levels are only done when new or additional information regarding the observability of pricing inputs is received that could result in a different classification as of the reporting date. Aurora measures the transfer between fair value levels as of the end of the reporting period, December 31. There were no significant transfers between fair value levels during the nine months ended September 30, 2017.

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.

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 September 30, 2017 and December 31, 2016 (dollars in thousands):

	Fair Value				
	September 30, 2017	**December 31, 2016**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Real estate investment trust	$ 14,400	$ 13,953	$ 50,000	Quarterly	90 days
International equity limited partnership	10,272	8,497	—	Monthly	15 days
Total	$ 24,672	$ 22,450			

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

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

The international equity limited partnership's investment objective is long-term total return. The fund pursues its investment objective primarily by investing in equity securities of non-U.S. emerging market companies. The fair value of this fund is determined using the calculated net asset value provided by the fund.

5. INVESTMENTS IN UNCONSOLIDATED ENTITIES AND NONCONTROLLING INTEREST IN SUBSIDIARIES

In April 2016, Aurora partnered with Anthem Blue Cross and Blue Shield of Wisconsin (Anthem) to form a new joint venture, called the Wisconsin Collaborative Insurance Company (WCIC). WCIC is a health insurance company. Aurora acquired a 50% interest in the joint venture for cash consideration of $5.0 million and accounts for this investment under the equity method of accounting within investments in unconsolidated entities in the accompanying unaudited consolidated balance sheets. Aurora made additional capital contributions to WCIC of $4.1 million during the nine months ended September 30, 2017. Aurora's investment in WCIC as of September 30, 2017 and December 31, 2016 was $5.1 million and $1.8 million, respectively.

Aurora has a 6.25% interest in StartUp Health Holdings, Inc., (StartUp Health), a global health innovation company with more than 100 digital health portfolio companies. Aurora's goal in investing in StartUp Health is to help accelerate the review and adoption of innovations aimed at transforming the delivery of care. Aurora's investment in StartUp Health was $5.1 million and $5.0 million as of September 30, 2017 and December 31, 2016, respectively. Aurora's investment in StartUp Health is accounted for under the equity method of accounting and is presented within investments in unconsolidated entities in the accompanying unaudited consolidated balance sheets.

Aurora has a 49% interest in Bay Area Medical Center (BAMC), a 99 bed general acute care hospital located in Marinette, Wisconsin. Aurora's investment in BAMC is accounted for under the equity method of accounting and is presented within investments in unconsolidated entities in the accompanying unaudited consolidated balance sheets. Aurora's investment in BAMC as of September 30, 2017 and December 31, 2016, was $30.9 million and $36.3 million, respectively. The carrying amount of Aurora's investment in BAMC was $33.8 million and $33.0 million less than the underlying equity in the net assets of BAMC as of September 30, 2017 and December 31, 2016, 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 increase requiring BAMC to be included in the consolidated financial statements of Aurora.

Aurora has a 27% interest in Aurora Bay Area Medical Group (ABAMG), which provides inpatient, outpatient and other necessary professional medical services in Marinette, Wisconsin and its surrounding communities. BAMC owns the remaining 73% of ABAMG. Aurora's investment in ABAMG is accounted for under the equity method and is presented within investments in unconsolidated entities in the accompanying unaudited consolidated balance sheets. Aurora leases employees and buildings to ABAMG and recognized $14.7 million and $16.7 million of other revenue for the nine months ended September 30, 2017 and 2016, respectively under these leasing agreements. Aurora made additional capital contributions to ABAMG of $4.3 million during the nine months ended September 30, 2017. Aurora's investment in ABAMG was $0.5 million and $0.8 million as of September 30, 2017 and December 31, 2016, respectively.

Aurora has a 50% investment in the Menomonee Falls Ambulatory Surgery Center, LLC, and a 20% investment in Froedtert Surgery Center, LLC (collectively, the "Surgery Centers"). The Surgery Centers provide various types of outpatient surgical procedures. Aurora's investment in the Surgery Centers of $5.7 million as of September 30, 2017 and December 31, 2016, is accounted for under the equity method of accounting and is presented within investments in unconsolidated entities in the accompanying unaudited consolidated balance sheets. The carrying amount of Aurora's investment in the Surgery Centers is different from the underlying equity in the net assets of the investees due to goodwill recorded upon the initial investment in the Surgery Centers.

The summarized financial position and results of operations for the entities accounted for under the equity method as of and for the nine month period ended September 30, 2017 and as of and for the year ended December 31, 2016, is as follows (in thousands):

	As of and for the Nine Months Ended September 30, 2017				
	Bay Area Medical Center [1]	**ABAMG**	**Surgery Centers**	**Other Investees**	**Total**
Total assets	$ 218,532	$ 7,406	$ 12,876	$ 32,249	$ 271,063
Total liabilities	88,252	5,624	1,679	62,549	158,104
Equity	130,280	1,782	11,197	(30,300)	112,959
Total revenue	71,021	18,174	8,759	122,171	220,125
Net income (loss)	2,950	(17,114)	269	4,444	(9,451)

[1] ABAMG is included in the consolidated financial results of Bay Area Medical Center.

	As of and for the Twelve Months Ended December 31, 2016				
	Bay Area Medical Center [1]	**ABAMG**	**Surgery Centers**	**Other Investees**	**Total**
Total assets	$ 198,957	$ 6,896	$ 13,109	$ 28,800	247,762
Total liabilities	60,441	4,004	2,143	62,461	129,049
Equity	138,516	2,892	10,966	(33,661)	118,713
Total revenue	86,666	30,958	15,682	73,174	206,480
Net income (loss)	(3,902)	(21,928)	1,764	5,978	(18,088)

[1] ABAMG is included in the consolidated financial results of Bay Area Medical Center.

6. LONG-TERM DEBT

Long-term debt at September 30, 2017 and December 31, 2016 is summarized as follows (in thousands):

	September 30, 2017	December 31, 2016
Wisconsin Health and Educational Facilities Authority (WHEFA) fixed-rate bonds:		
Series 2009A (5.15% weighted average coupon for 2017 and 5.12% for 2016)	$ 22,500	$ 22,750
Series 2009B (1.25% weighted average coupon for 2017 and 3.22% for 2016)	—	65,000
Series 2010A (5.45% weighted average coupon for 2017 and 5.43% for 2016)	157,750	162,375
Series 2010B (5.00% weighted average coupon for 2017 and 2016)	41,620	61,895
Series 2012A (4.77% weighted average coupon for 2017 and 2016)	203,885	208,120
Series 2013A (5.19% weighted average coupon for 2017 and 2016)	115,750	115,750
	541,505	635,890
WHEFA variable-rate bonds:		
Series 1999C (0.79% effective rate for 2017 and 0.43% for 2016)	50,000	50,000
Series 2008A (0.95% effective rate for 2017 and 0.49% for 2016)	80,000	80,000
Series 2008B (0.88% effective rate for 2017 and 0.43% for 2016)	79,470	79,470
Series 2010C (0.89% effective rate for 2017 and 0.36% for 2016)	102,465	102,690
Series 2012B (0.71% effective rate for 2017 and 0.36% for 2016)	36,000	37,700
Series 2012C (0.71% effective rate for 2017 and 0.36% for 2016)	36,000	37,700
Series 2012D (0.77% effective rate for 2017 and 0.41% for 2016)	53,115	55,930
	437,050	443,490
Unamortized original issue premium, net	10,459	11,786
Total WHEFA debt	989,014	1,091,166
Taxable bonds:		
Taxable Bond Series 2015A (1.41% effective rate for 2017 and 0.88% for 2016)	40,000	40,000
Taxable Bond Series 2016A (1.97% effective rate for 2017 and 2016)	112,250	125,000
Taxable Bond Series 2016B (1.99% effective rate for 2017 and 2016)	83,510	93,000
Total taxable bonds	235,760	258,000
Capital lease obligations and financing arrangements	205,159	220,829
Line of credit (1.83% effective rate for 2017)	58,500	—
Notes payable	5,731	5,943
Deferred financing costs - net	(9,365)	(10,911)
Total long-term debt	1,484,799	1,565,027
Less amounts classified as current:		
Current installments	(179,236)	(144,480)
Long-term debt classified as current due to contractual requirements	(31,279)	(17,456)
Total amounts classified as current	(210,515)	(161,936)
Long-term debt — net of current portion	$ 1,274,284	$ 1,403,091

Pursuant to loan agreements with WHEFA, Aurora system entities have borrowed the proceeds of the revenue bonds listed above from WHEFA (WHEFA Bonds). Aurora's obligation to repay WHEFA is secured by Obligations issued under a Master Trust Indenture (the Aurora Indenture). All outstanding debt under the Aurora Indenture represents joint and several obligations of the members of the Obligated Group and are secured by a pledge of unrestricted receivables and a mortgage on Aurora St. Luke's Medical Center. Of the total fixed-rate WHEFA bonds, $47.4 million is collateralized by bond insurance. Additionally, certain of the WHEFA variable-rate bonds are secured by letters of credit, as described below.

Aurora has three series of taxable bonds outstanding, which were issued directly by Aurora and placed with multiple commercial banks (the Taxable Bonds). The outstanding principal amount of the Taxable Bonds is $235.8 million and $258.0 million at September 30, 2017 and December 31, 2016, respectively. The Series 2015A Taxable Bonds are subject to a mandatory tender on April 15, 2018 and are classified as current due to this requirement. Aurora's repayment obligations for the Taxable Bonds are secured by Obligations issued under the Aurora Indenture.

The variable-rate demand bonds (VRDBs) are collateralized by $454.1 million of irrevocable direct-pay letters of credit issued by commercial banks. Under certain circumstances, the VRDBs are subject to mandatory purchase by Aurora. The letters of credit provide interim financing to Aurora in the event Aurora is unable to remarket tendered bonds. The letters of credit expire at various dates through 2020 and have various repayment terms. For $327.1 million of the letters of credit, principal payments are due quarterly, beginning the earlier of one year from the date of the advance or two months after the expiration date of the letter of credit and amortize over a three-year period, not to exceed three years from the letter of credit's stated expiration date. For the remaining $127.0 million letters of credit, principal payments are due quarterly, beginning the earlier of one year from the date of the advance or two months after the expiration date of the letter of credit and shall amortize over a two-year period, not to exceed two years from the letter of credit's stated expiration date. At September 30, 2017 and December 31, 2016, no draws were outstanding under the letters of credit. Aurora's repayment obligations to the commercial banks that provide the letters of credit are secured by Obligations issued under the Aurora Indenture.

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 a 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 September 30, 2017. Aurora's repayment obligations under the credit agreement are secured by Obligations issued under the Aurora Indenture.

At September 30, 2017 and December 31, 2016, Aurora had a $60.0 million line of credit with a commercial bank, bearing interest at a commercial bank floating rate or LIBOR plus 1.00%, based upon the option of Aurora. As of September 30, 2017 and December 31, 2016, three letters of credit issued under the line of credit totaling $38.8 million were outstanding. There were no outstanding draws on the line of credit or letters of credit as of September 30, 2017 or December 31, 2016. Aurora's repayment obligations under the line of credit are secured by Obligations issued under the Aurora Indenture.

7. EMPLOYEES' BENEFIT PLANS

Aurora has a defined benefit pension plan (the Pension Plan) covering substantially all of its employees, hired before January 1, 2013, with at least 1,000 hours of work in a calendar year. Benefits are based on years of service and the employees' final average earnings, as defined. Aurora funds the Pension Plan based on the amount calculated by the Pension Plan's actuaries to meet the minimum Employee Retirement Income Security Act (ERISA) funding requirements. During the nine months ended

September 30, 2017, Aurora made no contributions to the Pension Plan. The Pension Plan assets and obligations are measured at December 31.

Estimated amounts of the components of net periodic pension income for the nine months ended September 30, 2017 and 2016 were as follows (in thousands):

	2017	2016
Interest cost on projected benefit obligation	$ 47,905	$ 47,475
Expected return on plan assets	(55,562)	(52,650)
Net amortization and deferral, and prior service credit	6,169	4,650
Net periodic pension income	$ (1,488)	$ (525)

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

The net actuarial loss not yet recognized as a component of periodic pension income was $437.5 million and $443.7 million as of September 30, 2017 and December 31, 2016, and is included in unrestricted net assets in the accompanying unaudited consolidated balance sheets.

Assumptions used to determine the net periodic pension income for nine months ended September 30, 2017 and 2016 were as follows:

	2017	2016
Discount rate	4.42%	4.70%
Expected long-term rate of return on assets	5.50%	5.50%

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

The expected long-term rate of return is based on the asset allocation of the total portfolio considering capital return assumptions from various sources. Aurora's investment objective is to achieve its targeted long-term rate of return while avoiding excessive risk. Risk is effectively managed through diversifying the asset allocation across a broad spectrum of assets including domestic and international equities and fixed income securities with varying correlations to movements in interest rates along the yield curve. These investments are readily marketable and can be sold to fund benefit payment obligations as they become payable. Overall funded status risk of the Pension Plan is managed by matching the duration of plan assets to plan liabilities to mitigate the impact of changes in interest rates on funded status.

The asset allocation of the Pension Plan assets at September 30, 2017 and December 31, 2016, was as follows:

	September 30, 2017		December 31, 2016	
	Strategic Target	Actual	Strategic Target	Actual
Equity securities	33%	34%	33%	33%
Fixed-income securities	64	61	64	62
Real estate	3	3	3	3
Cash and cash equivalents	—	2	—	2
Total	100%	100%	100%	100%

Aurora and certain affiliates sponsor defined contribution and retirement savings plans (the Defined Contribution Plans), whereby Aurora contributes a percentage of participants' qualifying compensation up to certain limits as outlined in the Defined Contribution Plans or other amounts as designated by the affiliates' board of directors. Included in salaries, wages and fringe benefits expense in the accompanying unaudited consolidated statements of operations and changes in unrestricted net assets for the nine months ended September 30, 2017 and 2016 is $118.7 million and $110.0 million, respectively, for contributions to the Defined Contribution Plans.

Aurora also sponsors a noncontributory Section 457(b) defined contribution plan (the 457(b) Plan) covering select employees, where participants may contribute a percentage of qualifying compensation up to certain limits as defined by the 457(b) Plan. The 457(b) Plan assets and liabilities, each totaling $124.7 million and $102.6 million at September 30, 2017 and December 31, 2016, respectively, are included in long-term assets whose use is limited or restricted and pension and other employee benefit liabilities, in the accompanying unaudited consolidated balance sheets. The assets of this 457(b) Plan are subject to the claims of the general creditors of Aurora. Net investment income from the 457(b) Plan was $12.9 million and $7.0 million, for the nine months ended September 30, 2017 and 2016, respectively. Net investment income from the 457(b) Plan is included in other operating revenue with an equal offsetting expense in salaries, wages and fringe benefits in the accompanying unaudited consolidated statements of operations and changes in unrestricted net assets.

8. GENERAL AND PROFESSIONAL LIABILITY INSURANCE

Commercial insurance companies have issued policies covering Aurora's primary professional, general and managed care errors and omission liability risks. Aurora's professional and general liability insurance is on an occurrence basis, while managed care errors and omissions liability risks are written on a claims-made basis.

Aurora's hospitals, clinics, surgery centers, physicians, and certified registered nurse anesthetist providers that provide health care in Wisconsin are qualified health care providers as defined by Wisconsin state statute, and have separate professional liability limits of $1.0 million per claim and $3.0 million annual aggregate applied to each qualified provider. Losses in excess of these amounts are fully covered through mandatory participation in the State of Wisconsin Injured Patients and Families Compensation Fund (the Fund).

Aurora also has professional liability coverage for its providers and affiliates that do not qualify for the Fund coverage, as well as general liability for all of its entities. These coverages provide a number of shared professional liability limits and shared general liability limits totaling $2.0 million per occurrence

and $4.0 million annual aggregate for most providers. Losses in excess of these amounts are covered by Aurora's umbrella/excess insurance.

The professional, general and managed care liabilities discussed above have been ceded back to Aurora Liability Assurance, Ltd. (ALA), a wholly-owned subsidiary of Aurora, through reinsurance agreements. Independent actuaries evaluate the required provision for outstanding losses related to these risks. At September 30, 2017 and December 31, 2016, Aurora has recorded a liability for outstanding losses, including incurred but not reported, discounted at 4.0%, totaling $34.3 million and $35.2 million, respectively. Of this amount, a portion of the liability for outstanding losses was included in accrued expenses and a portion was included in self-insured liabilities in the accompanying unaudited consolidated balance sheets. In the opinion of management, the ultimate disposition of claims incurred to date will not have a material adverse effect on Aurora's consolidated financial position or results of operations. ALA maintains a reinsurance trust account, which in total represents security required by the reinsurance agreement between ALA and the insurance companies. At September 30, 2017 and December 31, 2016, assets held in the trust account were $51.9 million and $53.8 million, respectively.

9. SUBSEQUENT EVENTS

Aurora evaluated events and transactions subsequent to September 30, 2017 through November 21, 2017, the date of financial statement issuance.

In October 2017, the expiration dates of the letters of credit supporting the Series 2012B, Series 2012C, and Series 2012D variable-rate demand bonds were extended to February 2021.

In November 2017, we extended the mandatory tender date of the Series 2015A Taxable Bonds from April 15, 2018 to April 15, 2021.

On November 21 2017, we entered into an agreement to purchase nineteen properties for $433.0 million. We are currently 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 is anticipated to close in early January 2018. Cash and investments will be used to fund this purchase.

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SUPPLEMENTAL CONSOLIDATING INFORMATION

AURORA HEALTH CARE, INC. AND AFFILIATES

UNAUDITED CONSOLIDATING BALANCE SHEET INFORMATION
(In thousands)

	September 30, 2017				December 31, 2016			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
ASSETS								
CURRENT ASSETS:								
Cash and cash equivalents	$ (115,422)	$ 303,861	$ (8,062)	$ 180,377	$ (192,004)	$ 308,952	$ (9,284)	$ 107,664
Investments	1,757,658	—	—	1,757,658	1,614,843	—	—	1,614,843
Assets whose use is limited or restricted	—	5,748	—	5,748	—	5,484	—	5,484
Patient accounts receivable — net	520,558	186,601	(5,060)	702,099	542,493	195,162	(5,909)	731,746
Due from affiliates	142	137,266	(137,408)	—	142	151,017	(151,159)	—
Other receivables	71,646	17,851	—	89,497	89,528	21,787	(8,524)	102,791
Inventory	40,654	28,095	—	68,749	42,498	27,533	—	70,031
Prepaids and other current assets	64,698	3,955	(14,203)	54,450	52,650	7,234	(11,858)	48,026
Estimated third-party payor settlements	6,330	775	—	7,105	8,799	1,190	—	9,989
Total current assets	2,346,264	684,152	(164,733)	2,865,683	2,158,949	718,359	(186,734)	2,690,574
ASSETS WHOSE USE IS LIMITED OR RESTRICTED	148,235	290,649	—	438,884	131,021	267,027	—	398,048
PROPERTY, PLANT AND EQUIPMENT — Net	1,640,707	419,338	19,539	2,079,584	1,646,781	398,744	20,761	2,066,286
OTHER ASSETS:								
Intangible assets — net	5,827	10,613	(1,441)	14,999	5,079	12,148	(1,441)	15,786
Investments in unconsolidated entities	293,724	27,142	(244,707)	76,159	282,088	19,098	(228,873)	72,313
Other	327,792	46,877	(320,365)	54,304	323,314	52,345	(318,824)	56,835
Total other assets	627,343	84,632	(566,513)	145,462	610,481	83,591	(549,138)	144,934
TOTAL	$ 4,762,549	$ 1,478,771	$ (711,707)	$ 5,529,613	$ 4,547,232	$ 1,467,721	$ (715,111)	$ 5,299,842

(Continued)

AURORA HEALTH CARE, INC. AND AFFILIATES

UNAUDITED CONSOLIDATING BALANCE SHEET INFORMATION
(In thousands)

	September 30, 2017				December 31, 2016			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Current installments of long-term debt	$ 207,651	$ 16,128	$ (13,264)	$ 210,515	$ 159,215	$ 13,564	$ (10,843)	$ 161,936
Accounts payable	143,452	46,663	—	190,115	162,396	60,132	—	222,528
Accrued salaries and wages	210,061	57,578	—	267,639	209,014	50,211	—	259,225
Other accrued expenses	173,555	28,613	(8,532)	193,636	190,562	41,104	(17,982)	213,684
Due to Affiliates	137,266	142	(137,408)	—	151,018	141	(151,159)	—
Estimated third-party payor settlements	31,743	1,970	—	33,713	32,347	1,694	—	34,041
Total current liabilities	903,728	151,094	(159,204)	895,618	904,552	166,846	(179,984)	891,414
LONG-TERM DEBT — Less current installments	1,256,742	99,723	(82,181)	$ 1,274,284	1,383,192	115,343	(95,444)	1,403,091
OTHER LIABILITIES:								
Pension and other employee benefit liabilities	237,169	21,166	—	258,335	222,257	21,317	—	243,574
Self-insured liabilities	32,157	29,258	(1,364)	60,051	32,445	30,527	(1,380)	61,592
Deferred gain	32,516	—	—	32,516	36,662	—	—	36,662
Other	37,105	22,854	699	60,658	38,409	23,076	337	61,822
Total other liabilities	338,947	73,278	(665)	411,560	329,773	74,920	(1,043)	403,650
Total liabilities	2,499,417	324,095	(242,050)	2,581,462	2,617,517	357,109	(276,471)	2,698,155
NET ASSETS:								
Unrestricted:								
Controlling interest	1,947,864	1,060,522	(233,652)	2,774,734	1,637,568	1,020,447	(218,362)	2,439,653
Noncontrolling interest in subsidiaries	106,313	2,514	—	108,827	98,125	1,994	—	100,119
Total unrestricted net assets	2,054,177	1,063,036	(233,652)	2,883,561	1,735,693	1,022,441	(218,362)	2,539,772
Temporarily restricted	195,237	67,710	(217,261)	45,686	180,304	64,401	(201,534)	43,171
Permanently restricted	13,718	23,930	(18,744)	18,904	13,718	23,770	(18,744)	18,744
Total net assets	2,263,132	1,154,676	(469,657)	2,948,151	1,929,715	1,110,612	(438,640)	2,601,687
TOTAL	$ 4,762,549	$ 1,478,771	$ (711,707)	$ 5,529,613	$ 4,547,232	$ 1,467,721	$ (715,111)	$ 5,299,842

(Concluded)

AURORA HEALTH CARE, INC. AND AFFILIATES
UNAUDITED CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION
FOR THE PERIODS ENDED SEPTEMBER 30, 2017 AND 2016
(In thousands)

	Three Months Ended September 30, 2017				Three Months Ended September 30, 2016			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
REVENUES:								
Patient service revenue (net of contractual allowances and discounts)	$ 906,857	$ 352,616	$ (12,322)	$ 1,247,151	$ 854,174	$ 328,668	$ (10,951)	$ 1,171,891
Less provision for bad debts	35,816	11,343	—	47,159	22,835	7,843	—	30,678
Net patient service revenue less provision for bad debts	871,041	341,273	(12,322)	1,199,992	831,339	320,825	(10,951)	1,141,213
Other revenue	54,400	93,922	(40,699)	107,623	67,104	89,784	(49,771)	107,117
Total revenue	925,441	435,195	(53,021)	1,307,615	898,443	410,609	(60,722)	1,248,330
EXPENSES:								
Salaries, wages and fringe benefits	567,792	200,284	(24,268)	743,808	547,768	186,251	(33,409)	700,610
Professional fees	18,242	6,449	(45)	24,646	14,396	7,136	(38)	21,494
Supplies	151,840	100,990	—	252,830	153,886	94,164	(5)	248,045
Depreciation and amortization	43,845	9,671	—	53,516	41,681	8,243	—	49,924
Interest	15,107	(691)	—	14,416	16,331	(1,125)	—	15,206
Maintenance and service contracts	27,707	2,725	(35)	30,397	28,987	3,839	(55)	32,771
Building and equipment rental	10,459	7,662	(1,631)	16,490	10,341	7,716	(1,618)	16,439
Hospital tax assessment	19,825	4,512	—	24,337	19,825	4,702	—	24,527
Utilities	10,076	2,916	(18)	12,974	10,181	3,259	(18)	13,422
Purchased services	24,413	8,983	(13)	33,383	23,203	10,535	(1,074)	32,664
Other expenses	(10,548)	59,890	(9,262)	40,080	(9,497)	56,778	(8,165)	39,116
Total expenses	878,758	403,391	(35,272)	1,246,877	857,102	381,498	(44,382)	1,194,218
Operating income (loss)	46,683	31,804	(17,749)	60,738	41,341	29,111	(16,340)	54,112
NONOPERATING INCOME:								
Investment income — net	30,125	7,416	—	37,541	24,200	6,190	—	30,390
Other nonoperating income (loss) — net	32	21	—	53	(1,726)	451	—	(1,275)
Total nonoperating income — net	30,157	7,437	—	37,594	22,474	6,641	—	29,115
EXCESS OF REVENUES OVER EXPENSES	76,840	39,241	(17,749)	98,332	63,815	35,752	(16,340)	83,227
Pension-related changes other than net periodic pension cost	2,102	—	—	2,102	1,560	—	—	1,560
Net assets released from restrictions for purchase of property and equipment	92	—	—	92	303	—	—	303
Distributions to noncontrolling interests	(7,936)	—	—	(7,936)	(7,651)	—	—	(7,651)
Other — net	(8)	—	—	(8)	(550)	—	—	(550)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 71,090	$ 39,241	$ (17,749)	$ 92,582	$ 57,477	$ 35,752	$ (16,340)	$ 76,889

AURORA HEALTH CARE, INC. AND AFFILIATES

UNAUDITED CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS INFORMATION FOR THE PERIODS ENDED SEPTEMBER 30, 2017 AND 2016

(In thousands)

	Nine Months Ended September 30, 2017				Nine Months Ended September 30, 2016			
	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated	Obligated Group	Non-Obligated Group	Consolidating Adjustments & Eliminations	Consolidated
REVENUES:								
Patient service revenue (net of contractual allowances and discounts)	$ 2,719,825	$ 1,042,164	$ (33,824)	$ 3,728,165	$ 2,597,409	$ 1,004,759	$ (39,943)	$ 3,562,225
Less provision for bad debts	91,809	31,448	—	123,257	75,527	26,100	—	101,627
Net patient service revenue less provision for bad debts	2,628,016	1,010,716	(33,824)	3,604,908	2,521,882	978,659	(39,943)	3,460,598
Other revenue	177,947	272,835	(128,197)	322,585	178,802	266,894	(134,573)	311,123
Total revenue	2,805,963	1,283,551	(162,021)	3,927,493	2,700,684	1,245,553	(174,516)	3,771,721
EXPENSES:								
Salaries, wages and fringe benefits	1,684,551	592,276	(69,149)	2,207,678	1,602,661	553,197	(84,988)	2,070,870
Professional fees	47,597	19,612	(47)	67,162	39,108	20,341	(84)	59,365
Supplies	447,510	290,394	(10)	737,894	443,836	272,347	(8)	716,175
Depreciation and amortization	135,720	29,402	—	165,122	127,249	27,250	—	154,499
Interest	46,043	(3,979)	—	42,064	44,607	(1,436)	—	43,171
Maintenance and service contracts	81,734	9,691	(35)	91,390	76,854	9,305	(136)	86,023
Building and equipment rental	31,539	24,141	(5,327)	50,353	31,300	23,444	(5,494)	49,250
Hospital tax assessment	59,475	13,239	—	72,714	58,729	13,900	—	72,629
Utilities	28,938	8,469	(54)	37,353	27,496	9,054	(55)	36,495
Purchased services	69,532	27,916	(1,088)	96,360	74,526	26,687	(2,639)	98,574
Other expenses	(34,400)	176,062	(29,662)	112,000	(25,440)	169,493	(24,664)	119,389
Total expenses	2,598,239	1,187,223	(105,372)	3,680,090	2,500,926	1,123,582	(118,068)	3,506,440
Operating income (loss)	207,724	96,328	(56,649)	247,403	199,758	121,971	(56,448)	265,281
NONOPERATING INCOME:								
Investment income — net	92,255	24,013	—	116,268	77,865	11,662	—	89,527
Other nonoperating income (loss) — net	779	456	—	1,235	(868)	333	—	(535)
Total nonoperating income — net	93,034	24,469	—	117,503	76,997	11,995	—	88,992
EXCESS OF REVENUES OVER EXPENSES	300,758	120,797	(56,649)	364,906	276,755	133,966	(56,448)	354,273
Pension-related changes other than net periodic pension cost	6,307	—	—	6,307	4,625	—	—	4,625
Net assets released from restrictions for purchase of property and equipment	1,231	—	—	1,231	607	—	—	607
Distributions to noncontrolling interests	(28,644)	—	—	(28,644)	(30,930)	—	—	(30,930)
Other — net	(11)	—	—	(11)	(561)	—	—	(561)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 279,641	$ 120,797	$ (56,649)	$ 343,789	$ 250,496	$ 133,966	$ (56,448)	$ 328,014

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

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

We recommend that you read this discussion together with our unaudited consolidated financial statements and related notes included elsewhere in this quarterly report, as well as the audited consolidated financial statements of Aurora as of and for the year ended December 31, 2016. The audited consolidated financial statements are available from the Municipal Securities Rulemaking Board (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 on Aurora's website found at https://www.aurorahealthcare.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. We do not plan to issue any updates or revisions to those forward-looking statements if or when the expectations, or events, conditions or circumstances on which such statements are based occur.

AURORA HEALTH CARE, INC. AND AFFILIATES

KEY FINANCIAL RATIOS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Performance:				
Operating margin[1]	4.6%	4.3%	6.3%	7.0%
EBIDA percent[2]	12.7%	11.9%	14.6%	14.6%

	As of September 30, 2017	As of December 31, 2016
Liquidity:		
Days cash on hand[3]	164.8	152.0
Financial Position/Leverage Ratios:		
Net AR days outstanding[4]	53.2	57.0
Unrestricted cash to debt[5]	143%	121%
Cash to puttable debt[6]	445%	390%
Debt to capitalization[7]	34%	38%
Debt to cash flow[8]	2.1	2.3
Debt service coverage ratio[9]	5.5x	5.9x

[1] Operating income/Total revenue.

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

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

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

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

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

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

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

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

AURORA HEALTH CARE, INC. AND AFFILIATES

HISTORICAL UTILIZATION

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Adult inpatient days	111,444	107,660	336,001	334,140
Adult average daily census	1,238	1,196	1,231	1,219
Adult average length of stay	4.3	4.2	4.3	4.4
Adult discharges	26,060	25,474	78,358	76,755
Emergency room visits	100,994	100,273	302,180	299,850
Observation and bedded outpatients	10,012	9,949	29,261	29,007
Surgical cases	28,375	28,139	86,898	84,284
Physician clinic, hospital outpatient and other visits (includes emergency room visits)	1,873,421	1,829,148	5,682,531	5,508,712

ANALYSIS OF RESULTS OF OPERATIONS

Results of Operations – Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Operating income was $60.7 million for the three months ended September 30, 2017, resulting in an operating margin of 4.6%, as compared to operating income of $54.1 million and an operating margin of 4.3% for the three months ended September 30, 2016. Nonoperating income was $37.6 million for the three months ended September 30, 2017 compared to nonoperating income of $29.1 million for the same period in 2016. The increase in nonoperating income from the prior period is largely due to an increase in investment income, as a result of favorable changes in the financial markets. Overall, Aurora reported an excess of revenue over expenses of $98.3 million for the three months ended September 30, 2017 compared to $83.2 million for the same period in the prior year.

Patient service revenue increased $75.3 million (6.4%) in the three months ended September 30, 2017, compared to the same period in the prior year. Patient service revenue increased primarily due to the annual price increase effective January 1, 2017, as well as an increase in volumes. Adult inpatient days, physician clinic, hospital outpatient and other visits, adult discharges, and surgical cases increased 3.5%, 2.4%, 2.3%, and 0.8%, respectively, for the three months ended September 30, 2017 compared to the same period in the prior year.

Provision for bad debts increased $16.5 million (53.7%) in the three months ended September 30, 2017, compared to the same period in the prior year due to an increase in amounts receivable from patients for co-insurance, deductibles, and amounts due from patients without insurance and increases in volumes over the comparative period. The provision for bad debts as a percentage of patient service revenue (net of contractual allowances and discounts) was 3.8% and 2.6%, respectively, for the three months ended September 30, 2017 and 2016.

Salaries, wages and fringe benefits expense increased $43.2 million (6.2%) in the three months ended September 30, 2017, compared to the same period in the prior year. The increase in salaries, wages and fringe benefits expense was driven by a 3.4% increase in full time equivalents (FTEs) over the comparative period and the annual merit increase of 3.0%, which became effective in July of 2017. The increase in FTEs is in response to an increase in patient volume compared to the same period in the prior year. The increase in FTEs has resulted in corresponding increases in employee related benefit expenses.

Professional fees increased $3.2 million (14.7%) in the three months ended September 30, 2017, compared to the same period in the prior year. The increase in professional fees expense is primarily due to changes within our lab operations which have resulted in additional consulting charges.

Supplies increased $4.8 million (1.9%) in the three months ended September 30, 2017, compared to the same period of the prior year primarily due to an increase in patient volumes. Supplies expense as a percent of total revenue decreased from 19.9% to 19.3% over the comparative period. The decrease in supplies expense compared to total revenue is due to the opening of new ambulatory surgery centers in 2016. Prior to opening these ambulatory surgery centers minor equipment and supplies purchases increased to prepare the surgery centers for operation.

Depreciation and amortization increased $3.6 million (7.2%) in the three months ended September 30, 2017, compared to the same period in the prior year. The increase is primarily driven by additional capital expenditures over the comparative period including new ambulatory surgery centers in Germantown and Burlington, Wisconsin.

The remaining expenses including; interest, maintenance and service contracts, building and equipment rental, hospital tax assessment, utilities, purchased services, and other expenses, decreased for the three months ended September 30, 2017 compared to the three months ended September 30, 2016, by $2.1 million (1.2%), in the aggregate primarily due to the timing of expenditures.

Results of Operations – Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Operating income was $247.4 million for the nine months ended September 30, 2017, resulting in an operating margin of 6.3%, as compared to operating income of $265.3 million and an operating margin of 7.0% for the nine months ended September 30, 2016. Nonoperating income was $117.5 million for the nine months ended September 30, 2017 compared to nonoperating income of $89.0 million for the same period in 2016. The increase in nonoperating income is largely due to an increase in investment income, both realized and unrealized investment gains - net, and interest income as a result of favorable changes in the financial markets. Overall, Aurora reported an excess of revenue over expenses of $364.9 million for the nine months ended September 30, 2017 compared to $354.3 million for the same period in the prior year.

Patient service revenue increased $165.9 million (4.7%) in the nine months ended September 30, 2017, compared to the same period in the prior year. Patient service revenue increased primarily due to the annual price increase effective January 1, 2017 and an increase in volume. Physician clinic, hospital outpatient and other visits, surgical cases, adult discharges and observation and bedded outpatients increased 3.2%, 3.1%, 2.1%, and 0.9%, respectively for the nine months ended September 30, 2017 compared to the same period in the prior year.

Provision for bad debts increased $21.6 million (21.3%) in the nine months ended September 30, 2017, compared to the same period in the prior year due to an increase in amounts due from patients for co-insurance, deductibles and an increase in revenue from patients without insurance. The provision for bad debts as a percentage of patient service revenue (net of contractual allowances and discounts) was 3.3% and 2.9%, respectively for the nine months ended September 30, 2017 and 2016.

Other revenue increased $11.5 million (3.7%) in the nine months ended September 30, 2017, compared to the same period of the prior year. The increase in other revenue is primarily driven by a $6.0 million increase in investment income on certain defined contribution funds resulting from favorable market conditions and an increase in fund balances. Investment income on these defined contribution plans are recorded as other revenue with an offset to fringe benefit expense in the financial statements. Income from unconsolidated affiliates increased $4.7 million due to the favorable operating results from these companies. Additionally, the increase in other revenue was driven by an increase of $1.8 million in revenue from risk share, quality, and administrative revenue related to managed care arrangements.

Salaries, wages and fringe benefits expense increased $136.8 million (6.6%) in the nine months ended September 30, 2017, compared to the same period in the prior year. The increase in salaries, wages and fringe benefits expense is primarily due to the annual merit increase of 3.0% which became effective in July of 2017 and a 3.9% increase in full time equivalents (FTEs) in response to an increase in volume period over period. Fringe benefits expense also increased due to higher investment income on certain defined contribution funds resulting from favorable market conditions and an increase in fund balances.

Professional fees expense increased $7.8 million (13.1%) in the nine months ended September 30, 2017, compared to the same period in the prior year. The increase in professional fees expense is primarily due to changes within our lab operations which have resulted in additional consulting charges. Additional consulting fees were also incurred during the current year related to ongoing projects.

Supplies expense increased $21.7 million (3.0%) in the nine months ended September 30, 2017, compared to the same period in the prior year due to increased volumes. Supplies expense as a percent of total revenue has decreased from 19.0% for the nine months ended September 30, 2016 to 18.8% for the nine months ended September 30, 2017. This decrease was driven by a decrease in minor equipment purchases, which were elevated in the prior year due to the opening of two new ambulatory surgery centers.

Depreciation and amortization expense increased $10.6 million (6.9%) in the nine months ended September 30, 2017, compared to the same period in the prior year. The increase is primarily driven by additional capital expenditures over the comparative period, including new ambulatory surgery centers in Germantown and Burlington, WI, which opened in September and October 2016, respectively.

Maintenance and service contracts expense increased $5.4 million (6.2%) in the nine months ended September 30, 2017, compared to the same period in the prior year. The increase is primarily due to new Information Technology (IT) service contracts supporting new facilities and expanded operations.

Other expenses decreased $7.4 million (6.2)% in the nine months ended September 30, 2017, compared to the same period in the prior year. This decrease is primarily due to favorable medical malpractice claims experience by our insurance captive as well as, a decrease in income tax expense during the current year and the timing of expenses.

The remaining expenses including; interest, building and equipment rental, hospital tax assessment, utilities, and purchased services decreased for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016, by $1.3 million (0.4%), in the aggregate primarily due to the timing of expenditures.

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 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.

The following table sets forth the allocation of Aurora's cash and cash equivalents, investments, and assets whose use is limited or restricted at September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017		December 31, 2016	
Cash and cash equivalents	$ 206,887	8.7%	$ 132,659	6.2%
Fixed-income securities	1,343,886	56.4	1,377,430	64.8
Equity securities	808,617	33.9	594,893	28.0
Real estate investments	14,400	0.6	13,953	0.7
Other	8,877	0.4	7,104	0.3
Total	2,382,667	100.0%	2,126,039	100.0%
Less restricted investments [1]	(260,829)		(239,364)	
Total unrestricted cash and investments	$ 2,121,838		$ 1,886,675	
Days cash on hand [2]	164.8		152.0	

[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, and is not intended to conform to the Master Indenture calculation.

Aurora's unrestricted cash and investments increased by $235.2 million or 12.5% from December 31, 2016 to September 30, 2017. The increase in unrestricted cash and investments was primarily due to $467.1 million of cash generated from operations, offset by $189.8 million of capital expenditures and net repayments on long-term debt of $80.9 million.

Total investment income for the nine months ended September 30, 2017 and 2016, consisted of the following (in thousands):

	2017	2016
Interest income and dividends	$ 37,197	$ 28,625
Net realized gains (losses) on securities	8,039	(1,118)
Changes in unrealized gains on investments	91,514	74,005
Total	$ 136,750	$ 101,512

Investment income for the nine months ended September 30, 2017 and 2016, is classified in the unaudited consolidated statements of operations and changes in unrestricted net assets and unaudited consolidated statement of changes in net assets as follows (in thousands):

	2017	2016
Other revenue	$ 15,240	$ 9,056
Investment income	116,268	89,527
Temporarily restricted net assets	5,242	2,929
Total	$ 136,750	$ 101,512

Liquidity – Accounts Receivable

Net accounts receivable days outstanding decreased from 57.0 days as of December 31, 2016 to 53.2 days as of September 30, 2017. The decrease in net accounts receivable days outstanding is primarily due to strong cash collections during the current year and the automation of write-offs resulting in a reduction to the patient accounts receivable balance.

Indebtedness

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

At September 30, 2017 and December 31, 2016, the aggregate principal amount of the Revenue Bonds outstanding was as follows (in thousands), net of unamortized original premium:

	September 30, 2017	December 31, 2016
Fixed rate revenue bonds	$ 551,964	$ 582,676
Long-term rate revenue bond	—	65,000
Variable rate revenue bonds	437,050	443,490
Total	$ 989,014	$ 1,091,166

Fixed Rate Revenue Bonds: At September 30, 2017 and December 31, 2016 the Corporation had outstanding $552.0 million (including $10.5 million of unamortized original premium, net) and $582.7 million (including $11.8 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% for the nine months ended September 30, 2017 and 4.89% for the year ended December 31, 2016.

Long-Term Rate Bond: At December 31, 2016, Aurora had outstanding a $65.0 million long-term rate bond. The long-term rate bond was subject to mandatory tender on August 15, 2017 and was refunded with proceeds from the Credit Facility discussed below.

Variable Rate Demand Bonds (VRDBs): At September 30, 2017 and December 31, 2016, the Corporation had outstanding $437.1 million and $443.5 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. At September 30, 2017 and December 31, 2016, 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 2020 (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	9/28/2020
J.P. Morgan	84,384	9/28/2020
J.P. Morgan	83,825	9/28/2020
Bank of Montreal	36,544	2/7/2018
Bank of Montreal	36,544	2/7/2018
Bank of Montreal	53,918	2/7/2018
Bank of America	108,080	1/31/2019
Total	$ 454,117	

Taxable Bonds: At September 30, 2017 and December 31, 2016, the Corporation had outstanding $235.8 million and $258.0 million, respectively, of fixed rate taxable bonds. The weighted average interest rate on the taxable bonds was 1.88% and 1.98% at September 30, 2017 and December 31, 2016, respectively. At

September 30, 2017, $40.0 million of the taxable bonds are subject to a mandatory tender on April 15, 2018, and are classified as current due to this requirement. The Taxable Bonds are secured by Obligations issued under the Master Indenture.

Other Indebtedness: Aurora is obligated under capital lease and financing arrangements entered into in connection with certain sale-leaseback transactions and capital leases of buildings which are reflected as long-term debt in the unaudited 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 September 30, 2017 and December 31, 2016, the outstanding amount of capital lease obligations and financing arrangements was $205.2 million and $220.8 million, respectively. On November 21 2017, we entered into an agreement to purchase nineteen properties for $433.0 million. We are currently obligated under capital lease and financing arrangements entered into in connection with certain leasing and sale-leaseback transactions for eighteen of these properties. See “9. Subsequent Events” above.

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 a 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 September 30, 2017. Aurora’s repayment obligations under the credit agreement are secured by Obligations issued under the Aurora Indenture.

At September 30, 2017 and December 31, 2016, 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 September 30, 2017 and December 31, 2016, three letters of credit issued under the line of credit totaling $38.8 million, were outstanding. There are currently no outstanding draws on the line of credit or letters of credit. The line of credit is secured by an Obligation issued under the Master Indenture.

Aurora’s total long-term debt at September 30, 2017 and December 31, 2016 is as follows (in thousands):

	September 30, 2017	**December 31, 2016**
Total revenue bonds	$ 989,014	$ 1,091,166
Taxable bonds	235,760	258,000
Capital lease obligations and financing arrangements	205,159	220,829
Credit facility	58,500	—
Various notes payable	5,731	5,943
Deferred financing costs — net	(9,365)	(10,911)
Total long-term debt	$ 1,484,799	$ 1,565,027

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 and maintains a corporate compliance program intended to be consistent with laws and government guidance relating to compliance programs in health care entities. The program includes mandatory education of all employees about certain significant legal and regulatory requirements applicable to the organization, including HIPAA and other privacy regulations, and includes steps to monitor and promote compliance with these requirements. All employees are provided a copy of the Aurora Code of Ethical Conduct and attest annually 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 has adopted policies designed to address specific risk areas and has instituted processes intended to correct problems identified through the hotline or its other compliance activities. The corporate compliance department reports functionally to the Chief Administrative Officer and administratively to the Audit 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 to the Board of Directors. The responsibilities of the internal audit department include assessing the effectiveness of internal controls, reviewing compliance with applicable laws and regulations and assessing the reliability of financial reporting.

Debt Compliance Program

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

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 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 A2 (stable outlook) by Fitch and Moody's, respectively, as of September 30, 2017. 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.

MANAGEMENT

In November 2017, Gerard Colman resigned from his position as Chief Operating Officer to pursue other opportunities. Dennis Potts Executive Vice President, South Region will assume the role of interim Chief Operating Officer.