

Advocate Aurora Health, Inc.

Consolidated Financial Statements and Supplementary Information
As of and for the Years Ended December 31, 2022 and 2021



ADVOCATE AURORA HEALTH, INC.
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Report of Independent Auditors

The Board of Directors
Advocate Health, Inc.

Opinion

We have audited the consolidated financial statements of Advocate Aurora Health, Inc. (the Organization), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

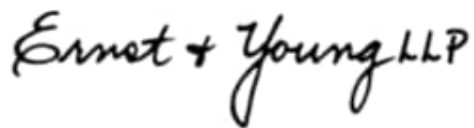
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other information

Management is responsible for the other information. The other information comprises the Condensed Consolidated Financial Statements and Other Information but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



April 11, 2023

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 372,898	\$ 703,725
Assets limited as to use	153,557	139,742
Patient accounts receivable	1,796,499	1,816,705
Other current assets	934,604	706,253
Third-party payors receivables	23,400	22,154
Collateral proceeds under securities lending program	17,402	18,550
Total current assets	<u>3,298,360</u>	<u>3,407,129</u>
Assets limited as to use	10,981,192	12,394,605
Property and equipment, net	5,971,542	5,943,011
Other assets		
Reinsurance receivable	116,786	42,100
Goodwill and intangible assets, net	476,564	271,178
Investments in unconsolidated entities	216,176	259,127
Operating lease right-of-use assets	305,311	283,398
Other noncurrent assets	512,339	538,013
Total other assets	<u>1,627,176</u>	<u>1,393,816</u>
Total assets	<u>\$ 21,878,270</u>	<u>\$ 23,138,561</u>

(Continued)

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Current liabilities		
Long-term debt and commercial paper, current portion	\$ 101,204	\$ 96,185
Long-term debt subject to short-term financing arrangements	165,035	166,350
Operating lease liabilities, current portion	73,026	68,247
Accrued salaries and employee benefits	1,165,861	1,296,458
Accounts payable and other accrued liabilities	1,111,552	1,562,089
Third-party payors payables	357,177	354,186
Accrued insurance and claims costs, current portion	204,592	151,230
Collateral under securities lending program	17,402	18,550
Total current liabilities	<u>3,195,849</u>	<u>3,713,295</u>
Noncurrent liabilities		
Long-term debt, less current portion	3,255,423	3,298,508
Operating lease liabilities, less current portion	276,116	248,062
Accrued insurance and claims cost, less current portion	634,468	615,576
Accrued losses subject to insurance recovery	116,786	42,100
Obligations under swap agreements	29,514	91,217
Other noncurrent liabilities	922,567	798,824
Total noncurrent liabilities	<u>5,234,874</u>	<u>5,094,287</u>
Total liabilities	8,430,723	8,807,582
Net assets		
Without donor restrictions		
Controlling interest	13,037,580	13,911,862
Noncontrolling interests in subsidiaries	171,791	167,440
Total net assets without donor restrictions	<u>13,209,371</u>	<u>14,079,302</u>
With donor restrictions	238,176	251,677
Total net assets	<u>13,447,547</u>	<u>14,330,979</u>
Total liabilities and net assets	<u>\$ 21,878,270</u>	<u>\$ 23,138,561</u>

See accompanying notes to consolidated financial statements.

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
(in thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Revenue		
Patient service revenue	\$ 12,065,771	\$ 11,702,581
Capitation revenue	1,197,327	1,196,109
Other revenue	1,281,148	1,163,442
Total revenue	14,544,246	14,062,132
Expenses		
Salaries, wages and benefits	8,560,787	7,665,848
Supplies, purchased services and other	4,735,148	4,530,877
Contracted medical services	518,834	564,586
Depreciation and amortization	599,706	563,409
Interest	118,319	106,101
Total expenses	14,532,794	13,430,821
Operating income before nonrecurring expenses	11,452	631,311
Nonrecurring expenses	35,339	37,759
Operating (loss) income	(23,887)	593,552
Nonoperating (loss) income		
Investment (loss) income, net	(723,225)	1,303,546
Loss on debt refinancing	(33)	(14,468)
Change in fair value of interest rate swaps	61,703	27,403
Other nonoperating (loss) income, net	(20,266)	12,220
Total nonoperating (loss) income, net	(681,821)	1,328,701
Revenue (less than) in excess of expenses	(705,708)	1,922,253
Less income attributable to noncontrolling interests	(45,124)	(73,130)
Revenue (less than) in excess of expenses - attributable to controlling interest	\$ (750,832)	\$ 1,849,123

(Continued)

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
(in thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Net assets without donor restrictions, controlling interest		
Revenue (less than) in excess of expenses - attributable to controlling interest	\$ (750,832)	\$ 1,849,123
Pension-related changes other than net periodic pension costs	(133,071)	48,236
Net assets released from restrictions for purchase of property and equipment	4,159	9,709
Other, net	5,462	(7,925)
(Decrease) increase in net assets without donor restrictions, controlling interest	(874,282)	1,899,143
Net assets without donor restrictions, noncontrolling interests		
Revenues in excess of expenses	45,124	73,130
Distributions to noncontrolling interests	(40,773)	(60,335)
Increase in net assets without donor restrictions, noncontrolling interests	4,351	12,795
Net assets with donor restrictions		
Contributions	11,702	18,693
Investment (loss) income, net	(8,261)	21,106
Net assets released from restrictions for operations	(12,760)	(11,102)
Net assets released from restrictions for purchase of property and equipment	(3,864)	(9,709)
Other, net	(318)	9
(Decrease) increase in net assets with donor restrictions	(13,501)	18,997
(Decrease) increase in net assets	(883,432)	1,930,935
Net assets at beginning of period	14,330,979	12,400,044
Net assets at end of period	\$ 13,447,547	\$ 14,330,979

See accompanying notes to consolidated financial statements.

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash flows from operating activities		
(Decrease) Increase in net assets	\$ (883,432)	\$ 1,930,935
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	590,030	555,983
Amortization of operating lease right-of-use assets	64,119	79,398
Loss on debt refinancing	33	14,468
Loss (gain) on sale of property and equipment	836	(13,117)
Change in fair value of swap agreements	(61,703)	(27,403)
Pension-related changes other than net periodic pension cost	133,071	(48,236)
Net assets released from restrictions for operations	(12,760)	(11,102)
Distribution to noncontrolling interests	46,809	60,335
Distributions from unconsolidated entities	35,746	11,442
Changes in operating assets and liabilities		
Trading securities, net	1,423,034	(1,330,868)
Patient accounts receivable	20,300	(245,966)
Accounts payable and accrued liabilities	(707,054)	(56,718)
Third-party payors receivables and payables, net	1,745	30,163
Other assets and liabilities, net	(83,489)	(342,705)
Net cash provided by operating activities	<u>567,285</u>	<u>606,609</u>
Cash flows from investing activities		
Capital expenditures	(498,759)	(570,166)
Proceeds from sale of property and equipment	3,814	2,019
(Purchases) sales of investments designated as non-trading, net	(303)	4
Investments in unconsolidated entities, net	(18,569)	(38,021)
Acquisition of Senior Helpers, net of cash acquired	—	(183,672)
Acquisition of MobileHelp, net of cash acquired	(286,133)	—
Other	(7,896)	(2,879)
Net cash used in investing activities	<u>(807,846)</u>	<u>(792,715)</u>
Cash flows from financing activities		
Proceeds from issuance of debt	—	182,157
Repayments of long-term debt	(46,898)	(231,668)
Distribution to noncontrolling interests	(46,809)	(60,335)
Proceeds from restricted contributions and income on investments	3,441	39,799
Net cash used in financing activities	<u>(90,266)</u>	<u>(70,047)</u>
Net decrease in cash and cash equivalents	(330,827)	(256,153)
Cash and cash equivalents at beginning of period	<u>703,725</u>	<u>959,878</u>
Cash and cash equivalents at end of period	<u>\$ 372,898</u>	<u>\$ 703,725</u>
Supplemental disclosures of noncash information		
Operating lease right-of-use assets in exchange for new operating lease liabilities	\$ 105,805	\$ 46,016

See accompanying notes to consolidated financial statements.

ADVOCATE AURORA HEALTH, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(dollars in thousands)

1. ORGANIZATION AND BASIS OF PRESENTATION

Description of Business

Advocate Aurora Health, Inc., a Delaware nonprofit corporation (the "Parent Corporation"), owns and operates primarily not-for-profit healthcare facilities in Illinois and Wisconsin. The Parent Corporation is the sole corporate member of Advocate Health Care Network, an Illinois not-for-profit corporation ("Advocate") and Aurora Health Care, Inc., a Wisconsin nonstock not-for-profit corporation ("Aurora"). The Parent Corporation, Advocate, Aurora and their controlled subsidiaries are collectively referred to herein as the "System." The System was formed in furtherance of the parties' common and unifying charitable health care mission to promote and improve the quality and expand the scope and accessibility of affordable health care and health care-related services for the communities they serve.

Effective December 2022, the System and Atrium Health, Inc., a North Carolina not-for-profit corporation, ("Atrium") entered into a joint operating agreement pursuant to which they created Advocate Health, Inc. ("Advocate Health"), a Delaware nonprofit corporation, to manage and oversee an integrated health care delivery and academic system that will focus on meeting patients' needs by redefining how, when and where care is delivered. The System and Atrium are the two corporate members of Advocate Health. The System maintains its separate legal existence and no sale, transfer or other conveyance of assets or assumption of debt and liabilities occurred in connection with the formation of Advocate Health.

The System provides a continuum of care through its 25 acute care hospitals, an integrated children's hospital, a psychiatric hospital, primary and specialty physician services, outpatient centers, physician office buildings, pharmacies, rehabilitation and home health and hospice care in northern Illinois and eastern Wisconsin.

Principles of Consolidation

Included in the System's consolidated financial statements are all of its wholly owned or controlled subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

2. SIGNIFICANT EVENTS

Due to the COVID-19 pandemic, the behavior of businesses and people globally was altered in a manner that had a negative impact on global and local economies including significant investment market volatility, various temporary business closures resulting in increased unemployment and other effects which have and could continue to result in supply disruptions, lower collections on patient accounts receivable and/or decisions to defer medical treatments at the System's facilities.

The continuing and total impact of the COVID-19 pandemic on the System is difficult to predict and could adversely impact the business, investment portfolio, financial condition or results of operations and, accordingly, may have a material adverse impact on the financial condition of the System. The System continues to monitor liquidity and cash flow and has taken, and continues to take, steps to protect its fiscal health, including a focus on maintaining liquidity to meet its obligations. In addition, the System applied for certain COVID-19 related resources, including supplies, financial support,

payroll tax deferrals and relief and other assistance made available through local, state and federal governments.

The System received \$1,113 and \$34,354 for the years ended December 31, 2022 and 2021, respectively in grant payments from the U.S. Department of Health and Human Services from the Provider Relief Fund established under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which has been recognized as revenue and included in other operating revenue within the accompanying consolidated statement of operations and changes in net assets. Payments from the Provider Relief Fund are intended to cover unreimbursed healthcare related expenses and lost revenue from patient care attributed to COVID-19 and are not required to be repaid provided the recipient attests to and complies with the terms and conditions of the grant funds. Management of the System believes the System is in compliance with the terms and conditions of the Provider Relief Fund distributions and will continue to monitor compliance. The CARES Act also entitled eligible employers to an employee retention tax credit designed to encourage employers to keep employees on their payroll. The refundable tax credit is limited to 50% of up to \$10 in qualified wages paid to each employee by an eligible employer whose business had been financially impacted by COVID-19. The System recognized \$37,060 for the year ended December 31, 2020 for the employee retention tax credit, this amount is included as a receivable that is included in other current assets in the accompanying consolidated balance sheets as of December 31, 2022 and December 31, 2021. The recognition of the COVID-19 support falls under the grant accounting guidance of accounting principles generally accepted in the United States. This guidance requires all significant terms and conditions to have been met for recognition to occur. Management of the System will continue to monitor compliance with the terms and conditions of the CARES Act grant funds and the impact of the pandemic on the System's revenues and expenses.

In addition, the System received \$773,000 for the year ended December 31, 2020 from the Centers for Medicare and Medicaid Services ("CMS") as an advance payment for Medicare services. The funds were provided through the expansion of the Medicare Accelerated and Advance Payment Program to ensure providers and suppliers had the resources needed to combat the COVID-19 pandemic. The advances are being recouped by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped, unless the System elects to repay the advances prior to full recoupment. Subsequent to the twenty-nine month recoupment period any unpaid remaining balance is subject to an interest charge of 4 percent per annum. For the years ended December 31, 2022 and 2021, CMS payments of approximately \$505,000 and \$257,000 were recouped, respectively. Medicare accelerated and advance payments of approximately \$11,000 and \$516,000 are included in accounts payable and other accrued liabilities within the accompanying consolidated balance sheets at December 31, 2022 and December 31, 2021, respectively. The CARES Act also permitted employers to defer the employer portion of social security taxes through December 31, 2020. Employers were required to remit one-half of the amount deferred by December 31, 2021 and the remaining half by December 31, 2022. During 2020 the System deferred approximately \$215,000 of these taxes and approximately \$107,500 were remitted during 2021 and the remaining amount was remitted during 2022 to fulfill this payment obligation. At December 31, 2022 and December 31, 2021, \$0 and approximately \$107,500, respectively is included in accrued salaries and employee benefits within the accompanying consolidated balance sheets.

The System was awarded approximately \$17,700 in Federal American Rescue Plan Act funds by the Illinois Department of Healthcare and Family Services. These funds were meant to cover premium pay and payroll and benefit expenses for employees who spent time mitigating or responding to COVID-19 from March 2021 through June 2022. The System recognized \$12,800 and \$4,900 for the years ended December 31, 2022 and 2021, respectively as revenue that is included in other operating revenue within the accompanying consolidated statement of operations and changes in net assets.

The System was awarded approximately \$36,000 in Federal Emergency Management Agency funds to reimburse the System for personal protective equipment used during the COVID-19 pandemic. For the year ended December 31, 2022, the entirety of these funds were recognized as revenue and included in other operating revenue within the accompanying consolidated statement of operations and changes in net assets.

On April 1, 2021, the System purchased the stock of SH Corporate Company, Inc. and SHF Acquisition Company, Inc. (collectively "Senior Helpers") for \$183,672, net of cash acquired, to further the System's strategy.

On April 1, 2022, the System purchased MobileHelp Group Holdings, LLC ("MobileHelp") for \$286,133, net of cash acquired, to further the System's strategy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities and amounts disclosed in the notes to the consolidated financial statements at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Although estimates are considered to be fairly stated at the time made, actual results could differ materially from those estimates.

Cash Equivalents

The System considers all highly liquid investments with a maturity of three months or less when purchased, other than those included in the investment portfolio, to be cash equivalents.

Investments

The System has designated substantially all of its investments as trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices or otherwise observable inputs. Investments in private equity limited partnerships and derivative products (hedge funds) are reported at fair value using net asset value as a practical expedient. Commingled funds are carried at fair value based on other observable inputs. Investment income or loss (including realized gains and losses, interest, dividends and unrealized gains and losses) is included in the nonoperating section of the accompanying consolidated statements of operations and changes in net assets, unless the income or loss is restricted by donor or law or is related to assets designated for self-insurance programs. Investment income on self-insurance trust funds is reported in other revenue in the accompanying consolidated statements of operations and changes in net assets. Investment income or loss that is restricted by donor or law is reported as a change in net assets with donor restrictions.

Assets Limited as to Use

Assets limited as to use consist of investments set aside by the System for future capital improvements and certain medical education and other health care programs. The System retains control of these investments and may, at its discretion, subsequently use them for other purposes. Additionally, assets limited as to use include investments held by trustees or in trust under debt agreements, self-insurance trusts, assets held in reinsurance trust accounts and donor-restricted funds.

Patient Service Revenue and Accounts Receivable

Patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including managed care payors and government programs and excludes revenues for services provided to patients under capitated arrangements) and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, patients and third-party payors are billed within days after the services are performed or after discharge. Revenue is recognized as performance obligations are satisfied. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and final settlements are determined.

As the System's performance obligations relate to contracts with a duration of less than one year, the System has applied the optional exemption provided in the guidance and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which typically occurs within days or weeks of the end of the reporting period.

The System does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component, due to the expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less.

The System has entered into payment arrangements with patients that allow for payments over a term in excess of one year. The System has evaluated historical collections in excess of one year and current market interest rates to determine whether a significant financing component exists that would require an adjustment to the promised amount of consideration from patients and third-party payors. The System has determined that the impact of implicit financing arrangements for payment agreements in excess of one year is insignificant to the accompanying consolidated statements of operations and changes in net assets.

The System does not incur significant incremental costs in obtaining contracts with patients. Any costs incurred are expensed in the period of occurrence, as the amortization period of any asset that the System would have recognized is one year or less in duration.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount.

Inventories

Inventories, consisting primarily of medical supplies, pharmaceuticals and durable medical equipment, are stated at the lower of cost or net realizable value.

Reinsurance Receivables

Reinsurance receivables are recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts.

Goodwill and Intangible Assets, Net

Goodwill of \$267,385 and \$151,655 and intangible assets of \$209,179 and \$119,523 are included in goodwill and intangible assets, net in the accompanying consolidated balance sheets as of December 31, 2022 and 2021, respectively. The System has elected to amortize goodwill prospectively using the straight-line method over a 10-year period. Intangible assets with expected useful lives are amortized over that period. Amortization is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets. Amortization expense was \$50,837 and \$25,129 for the years ended December 31, 2022 and 2021, respectively.

Asset Impairment

The System considers whether indicators of impairment are present and, if indicators are present, performs the necessary tests to determine if the carrying value of an asset is recoverable. Impairment write-downs are recognized in the accompanying consolidated statements of operations and changes in net assets as a component of operating expense at the time the impairment is identified. There were no material impairment charges recorded for the years ended December 31, 2022 and 2021.

Property and Equipment, Net

Property and equipment are reported at cost or, if donated, at fair value at the date of the gift. Costs of computer software developed or obtained for internal use, including external and internal direct costs of materials and labor directly associated with internal-use software development projects, are capitalized during the application development stage and included in property and equipment. Internal labor and interest expense incurred during the period of construction of significant capital projects are capitalized as a component of the costs of the asset.

Property and equipment capitalized under direct financing leases are recorded at the present value of future lease payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Property and equipment capitalized under direct financing leases are amortized using the straight-line method over the related lease term. Amortization of property and equipment under financing leases is included in the accompanying consolidated statements of operations and changes in net assets in depreciation and amortization expense.

Property and equipment assets are depreciated on the straight-line method over a period ranging from 3 years to 80 years.

Operating Lease Right-of-use Assets

The System records an operating lease right-of-use asset (an asset that represents the System's right to use the leased asset for the lease term) for leases that do not meet the criteria as a sales-type lease or a direct financing lease.

The System records operating lease right-of-use assets at the present value of future lease payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Operating lease right-of-use assets are amortized using the straight-line method over the related lease term. Amortization of operating lease right-of-use assets is included in supplies, purchased services and other expense in the accompanying consolidated statements of operations and changes in net assets.

Investments in Unconsolidated Entities

Investments in unconsolidated entities are accounted for using the equity method or as an equity security without a readily determinable fair value. The System applies the equity method of accounting for investments in unconsolidated entities when its ownership or membership interest is 50% or less and the System has the ability to exercise significant influence over the operating and financial policies of the investee. The income (loss) on these unconsolidated entities is included in other revenue in the accompanying consolidated statements of operations and changes in net assets. All other unconsolidated entities are accounted for as an equity security without a readily determinable fair value. These unconsolidated entities are initially recorded at cost, tested for impairment at least annually and adjusted as market transactions occur that would indicate a fair value adjustment is needed. The income (loss) on these unconsolidated entities is included in nonoperating (loss) income in the accompanying consolidated statements of operations and changes in net assets.

Derivative Financial Instruments

The System enters into transactions to manage its interest rate, credit and market risks. Derivative financial instruments, including exchange-traded and over-the-counter derivative contracts and interest rate swaps, are recorded as either assets or liabilities at fair value. Subsequent changes in a derivative's fair value are recognized in nonoperating (loss) income, net.

Bond Issuance Costs, Discounts and Premiums

Bond issuance costs, discounts and premiums are amortized over the term of the bonds using the effective interest method and are included in long-term debt, less current portion in the accompanying consolidated balance sheets.

General and Professional Liability Risks

The provision for self-insured general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The System measures the cost of its unfunded obligations under such programs based upon actuarial calculations and records a liability on a discounted basis.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those assets whose use by the System has been limited by donors to a specific time period or purpose or consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity. Net assets with donor restrictions are used in accordance with the donor's wishes primarily to purchase property and equipment, to fund medical education or to fund health programs.

Assets released from restrictions to fund purchases of property and equipment are reported as increases to net assets without donor restrictions in the accompanying consolidated statements of operations and changes in net assets. Those assets released from restriction for operating purposes are reported in the accompanying consolidated statements of operations and changes in net assets as other revenue. When restricted, earnings are recorded as net assets with donor restrictions until amounts are expended in accordance with the donor's specifications.

Nonrecurring Expenses

The System has incurred salaries, purchased services and other expenses in connection with the implementation of an enterprise resource planning system in 2022 and 2021, which was placed into service on April 1, 2022. Also included in nonrecurring expenses are costs related to the joint operating agreement with Atrium as described in Note 1. ORGANIZATION AND BASIS OF PRESENTATION. Due to the nature of these expenses, the costs were reported as nonrecurring in the accompanying consolidated statements of operations and changes in net assets.

Other Nonoperating (Loss) Income, Net

Revenues and expenses related to the delivery of health care services are reported in operations. Income and losses that arise from transactions that are peripheral or incidental to the System's main purpose are included in other nonoperating (loss) income, net. Other nonoperating (loss) income, net primarily consists of fund-raising expenses, contributions to charitable organizations, income taxes and the net non-service components of the periodic benefit expense of the System's pension plans.

Revenue (Less Than) in Excess of Expenses and Changes in Net Assets

The accompanying consolidated statements of operations and changes in net assets includes the revenue (less than) in excess of expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from revenue (less than) in excess of expenses, primarily include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), pension-related changes other than net periodic pension costs and distributions to noncontrolling interests.

Accounting Pronouncements Not Yet Adopted

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This guidance provides optional expedients and exceptions for applying current GAAP to contracts, hedging relationships and other transactions affected by the transition from the use of London Interbank Offered Rate ("LIBOR") to an alternative reference rate. In response to concerns about structural risks of interbank offered rates, and, particularly, the risk of cessation of LIBOR, regulators in several jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction based and less susceptible to manipulation. This guidance provides companies the option to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, which adds implementation guidance to ASU 2020-04 to clarify certain optional expedients in Topic 848. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which defers the sunset date of Topic 848 to December 31, 2024. Management has evaluated the impact of this guidance and does not expect it to have a material impact on the System's consolidated financial statements.

4. COMMUNITY BENEFIT

The System provides health care services without charge to patients who meet the criteria of its charity care policies. Charity care services are not reported as patient service revenue, because payment is not anticipated while the related costs to provide the health care are included in operating expenses. Qualifying patients can receive up to 100% discounts from charges and extended payment plans. The

System's cost of providing charity care was \$102,000 and \$126,600 for the years ended December 31, 2022 and 2021, respectively, as determined using total cost to charge ratios.

In addition to the provision of charity care, the System provides significant financial support to its communities to sustain and improve health care services.

These activities include:

- The unreimbursed cost of providing care to patients covered by the Medicare and Medicaid programs.
- The cost of providing services that are not self-sustaining, for which patient service revenues are less than the costs required to provide the services. Such services benefit uninsured and low-income patients, as well as the broader community, but are not expected to be financially self-supporting.
- Other community benefits include the unreimbursed costs of community benefits programs and services for the general community, not solely for those demonstrating financial need, including the unreimbursed cost of medical education, health education, immunizations for children, support groups, health screenings and fairs.

5. REVENUE AND RECEIVABLES

Patient service revenue

Patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including managed care payors and government programs and excludes revenues for services provided to patients under capitated arrangements) and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, patients and third-party payors are billed shortly after discharge. Revenue is recognized as performance obligations are satisfied.

Performance obligations are identified based on the nature of the services provided. Revenue associated with performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Performance obligations satisfied over time relate to patients receiving inpatient acute care services. The System measures the performance obligation from admission into the hospital to the point when there are no further services required for the patient, which is generally the time of discharge. For outpatient services, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed. In the case of these outpatient services, recognition of the obligation over time yields the same result as recognizing the obligation at a point in time. Management believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

The System uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and major payor classes and types of services provided for outpatient revenue. Based on the historical collection trends and other analyses, the System believes revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The System determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions,

including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with policy and/or implicit price concessions based on the historical collection experience of patient accounts. The System determines the transaction price associated with services provided to patients who have third-party payor coverage based on reimbursement terms per contractual agreements, discount policies and historical experience. For uninsured patients who do not qualify for charity care, the System determines the transaction price associated with services based on charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on historical collection experience for applicable patient portfolios. Patients who meet the System's criteria for charity care are provided care without charge; such amounts are not reported as revenue. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and historical settlement activity, including an assessment to ensure it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available or as years are settled or are no longer subject to such audits, reviews and investigations.

For the years ended December 31, 2022 and 2021, changes in the System's estimates of implicit price concessions, discounts and contractual adjustments or other reductions to expected payments for performance obligations related to prior years were not significant.

In the normal course of business, the System does receive payments in advance for certain services provided and would consider these amounts to represent contract liabilities. The amounts received in the normal course of business at December 31, 2022 and 2021 were not material. In 2020 the CMS accelerated and advance payments received in relation to the COVID-19 pandemic for Medicare services are deemed contract liabilities at December 31, 2022 and 2021. See Note 2. SIGNIFICANT EVENTS.

Currently, the State of Illinois utilizes supplemental reimbursement programs to increase reimbursement to providers to offset a portion of the cost of providing care to Medicaid and indigent patients. These programs are designed with input from the CMS and are funded with a combination of state and federal resources, including assessments levied on the providers. Under these supplemental programs, the System recognizes revenue and related expenses in the period in which amounts are estimable and collection is reasonably assured. Reimbursement and the assessment under these programs are reflected in the accompanying consolidated statements of operations and changes in net assets are as follows:

	Classification	Year Ended December 31, 2022	Year Ended December 31, 2021
Reimbursement	Patient service revenue	\$ 331,438	\$ 321,123
Assessment	Supplies, purchased services and other	173,141	181,784

The State of 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. The System'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. Reimbursement and the assessment under these programs are reflected in the accompanying consolidated statements of operations and changes in net assets are as follows:

	Classification	Year Ended December 31, 2022	Year Ended December 31, 2021
Reimbursement	Patient service revenue	\$ 123,358	\$ 136,679
Assessment	Supplies, purchased services and other	99,010	99,140

Management has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the payor's geographical location, the line of business that renders services to patients and the timing of when revenue is recognized and billed.

The composition of patient service revenue by payor is as follows:

	Year Ended December 31, 2022		Year Ended December 31, 2021	
Managed care	\$ 6,506,440	53 %	\$ 6,534,404	55 %
Medicare	3,813,381	32 %	3,371,753	29 %
Medicaid - Illinois	909,095	8 %	825,834	7 %
Medicaid - Wisconsin	534,105	4 %	539,922	5 %
Self-pay and other	302,750	3 %	430,668	4 %
	<u>\$ 12,065,771</u>	<u>100 %</u>	<u>\$ 11,702,581</u>	<u>100 %</u>

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the primary payor category in the table above.

Capitation Revenue

The System has agreements with various managed care organizations under which the System provides or arranges for medical care to members of the organizations in return for a monthly payment per member. Revenue is earned each month as a result of the System agreeing to provide or arrange for their medical care.

Other Revenue

Other revenue is recognized at an amount that reflects the consideration to which the System expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration due from customers, third-party payors and others. Primary categories of other revenue include grant revenue related to the COVID-19 pandemic as described in Note 2. SIGNIFICANT EVENTS, retail pharmacy revenue, clinical integration revenue, managed care risk/quality shared savings revenue and other miscellaneous revenue.

Revenue disaggregation by state and business line are as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Illinois	\$ 6,614,232	\$ 6,388,560
Wisconsin	6,648,866	6,510,130
Total patient service revenue and capitation	13,263,098	12,898,690
Other revenue	1,281,148	1,163,442
Total revenue	<u>\$ 14,544,246</u>	<u>\$ 14,062,132</u>
Hospital	\$ 8,910,925	\$ 8,640,613
Clinic	2,773,500	2,711,468
Home Care	267,091	259,692
Other	114,255	90,808
Total patient service revenue	12,065,771	11,702,581
Capitated revenue	1,197,327	1,196,109
Other revenue	1,281,148	1,163,442
Total revenue	<u>\$ 14,544,246</u>	<u>\$ 14,062,132</u>

Patient accounts receivable

The System's patient accounts receivable is reported at the amount that reflects the consideration to which it expects to be entitled, in exchange for providing patient care. Patient accounts receivable are reported at net realizable value based on certain assumptions. For third-party payors, including Medicare, Medicaid and Managed Care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay, the net realizable value is determined using estimates of historical collection experience including an analysis by aging category. These estimates are adjusted for expected recoveries and any anticipated changes in trends, including significant changes in payor mix and economic conditions or trends in federal and state governmental health care coverage.

The composition of patient accounts receivable is summarized as follows:

	December 31, 2022		December 31, 2021	
Managed care	\$ 913,665	51 %	\$ 935,709	52 %
Medicare	390,456	22 %	356,959	20 %
Medicaid - Illinois	105,857	6 %	177,188	10 %
Medicaid - Wisconsin	48,172	3 %	50,111	3 %
Self-pay and other	338,349	18 %	296,738	15 %
	<u>\$ 1,796,499</u>	<u>100 %</u>	<u>\$ 1,816,705</u>	<u>100 %</u>

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

6. INVESTMENTS

The System invests in a diversified portfolio of investments, including alternative investments, such as real asset funds, hedge funds and private equity limited partnerships, whose fair value was \$5,990,443 and \$5,856,960 at December 31, 2022 and 2021, respectively. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods typically ranging from 1 to 90 days. Certain of these investments have redemption restrictions that may restrict redemption for up to 11 years. However, the potential for the System to sell its interest in these funds in a secondary market prior to the end of the fund term does exist for prices at or other than the carrying value.

At December 31, 2022, the System had additional commitments to fund alternative investments, including callable distributions of \$2,040,918 over the next seven years.

In the normal course of operations and within established investment policy guidelines, the System may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options and forward contracts. These instruments are used primarily to maintain the System's strategic asset allocation and hedge security price movements. These instruments require the System to deposit cash or securities collateral with the broker or custodian. Collateral provided was \$7,529 and \$16,589 at December 31, 2022 and 2021, respectively. The gross notional value of the derivatives outstanding was \$331,094 and \$282,289 at December 31, 2022 and 2021, respectively.

By using derivative financial instruments, the System exposes itself to credit and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty and, therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that may require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in the underlying reference security. The market risk associated with market changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Receivables and payables for investment trades not settled are presented within other current assets and accounts payable and other accrued liabilities in the accompanying consolidated balance sheets. Unsettled sales resulted in receivables due from brokers of \$13,769 and \$25,384 at December 31, 2022 and 2021, respectively. Unsettled purchases resulted in payables due to brokers of \$69,023 and \$135,997 at December 31, 2022 and 2021, respectively.

Investment returns for assets limited as to use and cash and cash equivalents are composed of the following:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Interest income and dividends	\$ 61,893	\$ 99,332
Income from alternative investments	327,168	926,066
Net realized gains	63,760	273,325
Net unrealized (losses) gains	(1,134,151)	79,580
Total	<u>\$ (681,330)</u>	<u>\$ 1,378,303</u>

Investment returns are included in the accompanying consolidated statements of operations and changes in net assets as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Other revenue	\$ 50,156	\$ 53,651
Investment (loss) income, net	(723,225)	1,303,546
Net assets with donor restrictions	(8,261)	21,106
Total	<u>\$ (681,330)</u>	<u>\$ 1,378,303</u>

The cash and cash equivalents and assets limited as to use presented within the accompanying consolidated balance sheets are comprised of the following:

	December 31, 2022	December 31, 2021
Internally designated for capital and other	\$ 10,301,972	\$ 11,572,323
Held for self-insurance	564,195	649,513
Donor restricted	98,293	155,009
Investments under securities lending program	16,732	17,760
Total noncurrent assets limited as to use	10,981,192	12,394,605
Cash and cash equivalents	372,898	703,725
Current assets limited as to use	153,557	139,742
Total cash and cash equivalents and assets limited as to use	<u>\$ 11,507,647</u>	<u>\$ 13,238,072</u>

As part of the management of the investment portfolio, the System has entered into an arrangement whereby securities owned by the System are loaned primarily to brokers and investment banks. The loans are arranged through a bank. Borrowers are required to post collateral for securities borrowed equal to no less than 102% of the value of the security on a daily basis, at a minimum. The bank is responsible for reviewing the creditworthiness of the borrowers. The System has also entered into an arrangement whereby the bank is responsible for the risk of borrower bankruptcy and default. At December 31, 2022 and 2021, the System loaned \$16,732 and \$17,760, respectively, in securities and accepted collateral for these loans in the amount \$17,402 and \$18,550, respectively, which represents cash and governmental securities, and are included in current liabilities and current assets, respectively, in the accompanying consolidated balance sheets.

7. FAIR VALUE

The System accounts for certain assets and liabilities at fair value and categorizes assets and liabilities measured at fair value in the accompanying consolidated financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs that 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.

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.

Level 3 — Inputs that are unobservable for the asset or liability for which there is little or no market data.

The following section describes the valuation methodologies used by the System to measure financial assets and liabilities at fair value. In general, where applicable, the System uses quoted prices in active markets for identical assets and liabilities to determine fair value. This pricing methodology applies to

Level 1 investments, such as domestic and international equities, exchange-traded funds and agency securities.

If quoted prices in active markets for identical assets and liabilities are not available to determine the fair value, then quoted prices for similar assets and liabilities or inputs other than quoted prices that are observable either directly or indirectly are used. These investments are included in Level 2 and consist primarily of corporate notes and bonds, foreign government bonds, mortgage-backed securities, fixed-income securities, including fixed-income government obligations, commercial paper and certain agency, United States and international equities, which are not traded on an active exchange. The fair value for the obligations under swap agreements included in Level 2 is estimated using industry-standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves. The fair values of the obligation under swap agreements include adjustments related to the System's credit risk.

Investments owned by the System are exposed to various kinds and levels of risk. Equity securities and equity funds expose the System to market risk, performance risk and liquidity risk for both domestic and international investments. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a company's operating performance. Fixed-income securities and fixed-income mutual funds expose the System to interest rate risk, credit risk and liquidity risk. As interest rates change, the value of many fixed-income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities. Liquidity risk tends to be higher for equities related to small capitalization companies and certain alternative investments. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value, resulting in additional gains and losses in the near term.

The carrying values of cash and cash equivalents, accounts receivable and payable, other current assets and accrued liabilities are reasonable estimates of their fair values, due to the short-term nature of these financial instruments.

The fair values of financial assets and liabilities measured at fair value on a recurring basis are as follows:

	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Cash and short-term investments	\$ 789,689	\$ 540,092	\$ 249,597	\$ —
Corporate bonds and other debt securities	720,424	—	720,424	—
United States government bonds	586,517	—	586,517	—
Bond and other debt security funds	465,762	96,219	369,543	—
Non-government fixed-income obligations	32,307	—	32,307	—
Equity securities	761,237	746,574	14,663	—
Equity funds	2,143,486	121,424	2,022,062	—
	5,499,422	\$ 1,504,309	\$ 3,995,113	\$ —
Investments at net asset value				
Alternative investments	6,008,225			
Total investments	<u>\$ 11,507,647</u>			
Collateral proceeds received under securities lending program				
	<u>\$ 17,402</u>		<u>\$ 17,402</u>	
Liabilities				
Obligations under swap agreements	<u>\$ (29,514)</u>		<u>\$ (29,514)</u>	
Obligations to return capital under securities lending program	<u>\$ (17,402)</u>		<u>\$ (17,402)</u>	

	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Cash and short-term investments	\$ 1,251,915	\$ 895,856	\$ 356,059	\$ —
Corporate bonds and other debt securities	816,147	—	816,147	—
United States government bonds	667,877	—	667,877	—
Bond and other debt security funds	559,769	99,237	460,532	—
Non-government fixed-income obligations	34,374	—	34,374	—
Equity securities	1,202,388	1,174,214	28,174	—
Equity funds	2,819,140	147,118	2,672,022	—
	7,351,610	\$ 2,316,425	\$ 5,035,185	—
Investments at net asset value				
Alternative investments	5,886,462			
Total investments	<u>\$ 13,238,072</u>			
Collateral proceeds received under securities lending program				
	<u>\$ 18,550</u>		<u>\$ 18,550</u>	
Liabilities				
Obligations under swap agreements	<u>\$ (91,217)</u>		<u>\$ (91,217)</u>	
Obligations to return capital under securities lending program	<u>\$ (18,550)</u>		<u>\$ (18,550)</u>	

8. PROPERTY AND EQUIPMENT, NET

The components of property and equipment, net are summarized as follows:

	December 31, 2022	December 31, 2021
Land and improvements	\$ 479,733	\$ 470,257
Buildings and fixed equipment	8,570,318	7,819,014
Movable equipment and computer software	2,726,704	2,554,215
Construction-in-progress	279,791	629,941
	12,056,546	11,473,427
Accumulated depreciation and amortization	(6,085,004)	(5,530,416)
Property and equipment, net	<u>\$ 5,971,542</u>	<u>\$ 5,943,011</u>

Property and equipment, net include assets recorded as finance leases and under other financing arrangements. See additional disclosure in Note 9. LEASES.

Depreciation expense was \$549,086 and \$536,567 for the years ended December 31, 2022 and 2021, respectively.

9. LEASES

The System leases office and clinical space, land and equipment. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets. The System combines lease and non-lease components, except for medical equipment leases.

The depreciable lives of assets are limited by the expected lease terms. Most leases include options to renew. The majority of leases do not provide an implicit rate; therefore, the System has elected to use its incremental borrowing rate, which is the interest rate the System would borrow on a collateralized basis over a similar term, as the discount rate. The System used its incremental borrowing rate on January 1, 2019 for operating leases that commenced prior to that date.

Operating and finance leases are classified as follows within the accompanying consolidated balance sheets:

Leases	Classification	December 31, 2022	December 31, 2021
Assets			
Operating	Operating lease right-of-use assets	\$ 305,311	\$ 283,398
Finance	Property and equipment, net	226,039	226,766
Total lease assets		<u>\$ 531,350</u>	<u>\$ 510,164</u>
Liabilities			
Current			
Operating	Operating lease liabilities, current portion	\$ 73,026	\$ 68,247
Finance	Long-term debt and commercial paper, current portion	17,942	16,669
Noncurrent			
Operating	Operating lease liabilities, less current portion	276,116	248,062
Finance	Long-term debt, less current portion	247,979	248,069
Total lease liabilities		<u>\$ 615,063</u>	<u>\$ 581,047</u>

Finance lease assets are recorded net of accumulated amortization of \$90,244 and \$69,861 as of December 31, 2022 and 2021, respectively.

Lease costs are classified as follows within the accompanying consolidated statements of operations and changes in net assets:

Lease cost	Classification	December 31, 2022	December 31, 2021
Operating lease cost	Supplies, purchased services and other	\$ 76,869	\$ 82,822
Short term lease cost	Supplies, purchased services and other	17,187	13,956
Variable lease cost	Supplies, purchased services and other	37,133	36,358
Finance lease cost			
Amortization of lease assets	Depreciation and amortization	18,795	11,998
Interest on lease liabilities	Interest	18,898	11,482
Sublease income	Other revenue	(2,140)	(2,503)
Net lease cost		<u>\$ 166,742</u>	<u>\$ 154,113</u>

Lease terms, discount rates and other supplemental information are as follows:

	December 31, 2022	December 31, 2021
Weighted average remaining lease term (in years)		
Operating	6.0	5.2
Finance	9.6	10.4
Weighted average discount rate		
Operating	2.39 %	2.05 %
Finance	8.17 %	8.52 %
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 81,534	\$ 86,743
Operating cash flows from finance leases	18,898	11,482
Financing cash flows from finance leases	17,370	9,246

Future maturities of lease liabilities at December 31, 2022 are as follows:

	Operating Leases	Finance Leases	Total
2023	\$ 80,121	\$ 34,990	\$ 115,111
2024	68,669	38,435	107,104
2025	61,602	37,817	99,419
2026	54,196	37,858	92,054
2027	36,978	37,133	74,111
Thereafter	75,628	204,879	280,507
Future minimum lease payments	377,194	391,112	768,306
Less remaining imputed interest	28,052	125,191	153,243
Total	\$ 349,142	\$ 265,921	\$ 615,063

10. INTEREST IN MASONIC FAMILY HEALTH FOUNDATION

The System has an interest in the net assets of the Masonic Family Health Foundation ("MFHF"), an independent organization, under the terms of an asset purchase agreement (the "Agreement"). Substantially all of MFHF's net assets are designated to support the operations and/or capital needs of one of the System's medical facilities. Additionally, 90% of MFHF's investment yield, net of expenses, on substantially all of MFHF's investments is designated for the support of one of the System's medical facilities. MFHF must pay the System, annually, 90% of the investment yield or an agreed-upon percentage of the beginning of the year net assets.

The interest in the net assets of MFHF amounted to \$94,302 and \$122,793 at December 31, 2022 and 2021, respectively, and is presented within investments in unconsolidated entities in the accompanying consolidated balance sheets. The System's interest in the investment (loss) income is reflected in the investment (loss) income, net line in the accompanying consolidated statements of operations and changes in net assets and amounted to \$(23,905) and \$17,853 for the years ended December 31, 2022 and 2021, respectively. Cash distributions of \$4,077 and \$3,584 were received by the System from MFHF under terms of the Agreement during the years ended December 31, 2022 and 2021, respectively. In addition, MFHF made \$0 and \$694 in contributions to the System for program support during the years ended December 31, 2022 and 2021, respectively.

The summarized financial position and results of operations for MFHF accounted for under the equity method as of and for the periods ended is outlined below:

	December 31, 2022	December 31, 2021
Total assets	\$ 99,802	\$ 127,838
Total liabilities	4,786	4,440
Net assets	95,016	123,398
Total revenue	\$ (22,495)	\$ 19,867
Revenue (less than) in excess of expenses	(28,382)	14,014

11. LONG-TERM DEBT

Long-term debt, net of unamortized original issue discount or premium and unamortized deferred bond issuance costs, consisted of the following:

	December 31, 2022	December 31, 2021
Revenue bonds and revenue refunding bonds		
Series 2003A (weighted average rate of 1.38% during 2022 and 2021), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	\$ —	\$ 2,637
Series 2003C (weighted average rate of 1.60% during 2022 and 2021), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	—	2,640
Series 2008A (weighted average rate of 4.35% during 2022 and 2021), principal payable in varying annual installments through November 2030; interest based on prevailing market conditions at time of remarketing	111,901	114,310
Series 2008C (weighted average rate of 1.22% and 0.05% during 2022 and 2021, respectively), principal payable in varying annual installments through November 2038; interest based on prevailing market conditions at time of remarketing	271,703	271,672
Series 2011A, 4.00%, principal payable in annual installments through April 2022	—	221
Series 2011B (weighted average rate of 1.49% and 0.34% during 2022 and 2021, respectively), principal payable in varying annual installments through April 2051, subject to a put provision that provides for a cumulative seven-month notice and remarketing period; interest tied to a market index plus a spread	69,029	69,006
Series 2011C (weighted average rate of 2.05% and 0.67% during 2022 and 2021, respectively), principal payable in varying annual installments through April 2049, subject to a put provision on September 3, 2024; interest tied to a market index plus a spread	49,601	49,570
Series 2011D (weighted average rate of 2.05% and 0.67% during 2022 and 2021, respectively), principal payable in varying annual installments through April 2049, subject to a put provision on September 3, 2024; interest tied to a market index plus a spread	49,601	49,570
Series 2013A, 5.00%, principal payable in varying annual installments through June 2024	13,213	15,014
Series 2014, 4.00% to 5.00%, principal payable in varying annual installments through August 2038	88,293	97,886
Series 2015, 4.13%, principal payable in varying annual installments through May 2045	31,306	31,342
Series 2015B, 4.00% to 5.00%, principal payable in varying annual installments through May 2044	13,997	15,980
Series 2018A, 4.00% to 5.00%, principal payable in varying annual installments through August 2044	104,023	104,603
Series 2018B (weighted average rate of 5.00% during 2022 and 2021), principal payable in varying annual installments through August 2054; interest based on prevailing market conditions at time of remarketing	192,279	197,045
Series 2018C (weighted average rate of 2.37% and 1.31% during 2022 and 2021, respectively), principal payable in varying annual installments through August 2054, interest tied to a market index plus a spread or prevailing market conditions at remarketing	195,087	196,879
	<u>1,190,033</u>	<u>1,218,375</u>

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Taxable bonds		
Taxable Bond Series 2018, 3.83% to 4.27%, principal payable in varying annual installments through August 2048	802,466	803,497
Taxable Bond Series 2019, 3.39%, principal payable in October 2049	442,107	442,067
Taxable Bond Series 2020A, 2.21% to 3.01%, principal payable in varying annual installments through June 2050	696,196	696,009
	<u>1,940,769</u>	<u>1,941,573</u>
Finance lease obligations and financing arrangements	270,423	270,876
Commercial paper, weighted average interest rate of 1.74% and 0.14% during 2022 and 2021, respectively	50,000	50,000
Taxable Term Loan, (weighted average rate of 2.68% during 2022 and 2021), principal payable in varying annual installments through September 2024	70,437	80,219
	<u>3,521,662</u>	<u>3,561,043</u>
Less amounts classified as current		
Long-term debt, current portion	(51,204)	(46,185)
Commercial paper	(50,000)	(50,000)
Long-term debt and commercial paper, current portion	(101,204)	(96,185)
Long-term debt subject to short-term financing arrangements	(165,035)	(166,350)
	<u>(266,239)</u>	<u>(262,535)</u>
	<u>\$ 3,255,423</u>	<u>\$ 3,298,508</u>

Maturities of long-term debt, capital leases, and sinking fund requirements, assuming remarketing of the variable rate demand revenue refunding bonds, for the five years ending December 31, 2027, are as follows: 2023 - \$51,204; 2024 - \$123,605; 2025 - \$47,416; 2026 - \$42,072; and 2027 - \$43,502.

The System's outstanding bonds are secured by obligations issued under the Second Amended and Restated Master Trust Indenture dated as of August 1, 2018, as the same may be amended from time to time, between Advocate Aurora Health, Inc., the other affiliates identified therein as the Members of the Obligated Group and U.S. Bank National Association, as master trustee ("the System Master Indenture"). Under the terms of the bond indentures and other arrangements, various amounts are to be on deposit with trustees, and certain specified payments are required for bond redemption and interest payments. The System Master Indenture and other debt agreements, including bank agreements, also place restrictions on the System and require the System to maintain certain financial ratios.

The System's unsecured variable rate revenue bonds, Series 2011B of \$69,660, Series 2018B-2 of \$46,310 and Series 2018C-3 of \$49,065, while subject to a long-term amortization period, may be put to the System at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after December 31, 2022, the principal amount of such bonds has been classified as a current obligation as long-term debt subject to short-term financing arrangements in the accompanying consolidated balance sheets. Management believes the likelihood of a material amount of bonds being put to the System is remote. However, to address this possibility, the System has taken steps to provide various sources of liquidity, including assessing alternate sources of financing, including lines of credit and/or net assets without donor restrictions as a source of self-liquidity.

The System has standby bond purchase agreements with banks to provide liquidity support for the Series 2008C Bonds. In the event of a failed remarketing of a Series 2008C Bond upon its tender by an existing holder and subject to compliance with the terms of the standby bond purchase agreement, the standby bank would provide the funds for the purchase of such tendered bonds, and the System would

be obligated to repay the bank for the funds it provided for such bond purchase (if such bond is not subsequently remarketed), with the first installment of such repayment commencing on the date one year and one day after the bank purchases the bond. As of December 31, 2022, there were no bank-purchased bonds outstanding. To the extent that the standby bond purchase agreement expiration date is within 12 months after December 31, 2022, the principal amount of such bonds would be classified as a current obligation in the accompanying consolidated balance sheets. The standby bond purchase agreements expire as follows: \$87,694 in September 2024, \$58,225 in September 2025 and \$129,456 in January 2026.

In April 2021, the System issued additional Series 2018 Taxable Bonds in the principal amount of \$85,000 and additional Series 2019 Taxable Bonds in the principal amount of \$85,210 ("Additional Taxable Bonds"). The proceeds of the Additional Taxable Bonds were used to refinance a portion of the Series 2012, Series 2013A, Series 2014, Series 2015 Bonds and to pay certain financing costs. In connection with this transaction, the System recognized a loss on refinancing in the amount of \$14,421.

As of December 31, 2022, the System authorized the issuance of up to \$1,000,000 in commercial paper aggregate principal outstanding. As of December 31, 2022, \$50,000 of commercial paper notes was outstanding, with maturities ranging from 9 to 41 days. As of December 31, 2021, \$50,000 of commercial paper was outstanding, with maturities ranging from 7 to 48 days.

At December 31, 2022, the System had lines of credit with banks aggregating to \$1,150,000 in available commitments. These lines of credit provide for various interest rates and payment terms and as of December 31, 2022 expire as follows: \$350,000 in December 2023, \$150,000 in August 2024, \$325,000 in December 2024 and \$325,000 in December 2025. These lines of credit may be used to redeem bonded indebtedness, to pay costs related to such redemptions, for capital expenditures for general working capital purposes or to provide for certain letters of credit. At December 31, 2022, letters of credit totaling \$65,550 have been issued under one of these lines. At December 31, 2022, no amounts were outstanding on these lines or letters of credit.

The System maintains an interest rate swap program on certain of its variable rate debt, as described in Note 12. INTEREST RATE SWAP PROGRAM.

The System's interest paid amount includes all debt agreements including revenue bonds and revenue refunding bonds, taxable bonds, finance lease obligations, financing arrangements and interest rate swaps. The System's interest paid, net of capitalized interest, amounted to \$126,333 and \$113,633 for the years ended December 31, 2022 and 2021, respectively. The System capitalized interest of \$5,698 and \$13,027 for the years ended December 31, 2022 and 2021, respectively.

12. INTEREST RATE SWAP PROGRAM

The System has interest rate-related derivative instruments to manage the exposure of its variable rate debt instruments. By using derivative financial instruments to manage the risk of changes in interest rates, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty and, therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that may require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a derivative financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by

establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The System also mitigates risk through periodic reviews of its derivative positions in the context of its total blended cost of capital.

At December 31, 2022, the System maintains an interest rate swap program on its Series 2008C variable rate demand revenue bonds. These bonds expose the System to variability in interest payments due to changes in interest rates. The System believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, the System entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps convert the variable rate cash flow exposure on the variable rate demand revenue bonds to synthetically fixed cash flows. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in the principal outstanding under various bond series.

The System has two swaps that are being held as a swap portfolio as the related debt is no longer outstanding.

The following is a summary of the outstanding positions under these interest rate swap agreements at December 31, 2022:

Bond Series	Notional Amount	Maturity Date	Rate Received	Rate Paid
2008C-1	\$ 129,900	November 1, 2038	61.7% of LIBOR + 26bps	3.605 %
2008C-2B	58,425	November 1, 2038	61.7% of LIBOR + 26bps	3.605 %
2008C-3A	88,000	November 1, 2038	61.7% of LIBOR + 26bps	3.605 %
Swap portfolio	50,000	November 1, 2038	61.7% of LIBOR + 26bps	3.605 %
Swap portfolio	24,265	February 1, 2038	70.0% of LIBOR	3.314 %

The swaps are not designated as hedging instruments and, therefore, hedge accounting has not been applied. As such, unrealized changes in fair value of the swaps are classified as changes in fair value of swaps in the accompanying consolidated statements of operations and changes in net assets. The net cash settlement payments, representing the realized changes in fair value of the swaps, are included as interest expense in the accompanying consolidated statements of operations and changes in net assets.

The fair value of the interest rate swap agreements was a liability of \$29,514 and \$91,217 as of December 31, 2022 and 2021, respectively. No collateral was posted under these swap agreements as of December 31, 2022 and 2021.

Amounts recorded in the accompanying consolidated statements of operations and changes in net assets are as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Net cash payments on interest rate swap agreements (interest expense)	\$ 8,432	\$ 11,487
Change in fair value of interest rate swaps	\$ 61,703	\$ 27,403

The interest rate swap instruments contain provisions that require the System to maintain an investment grade credit rating on its bonds from certain major credit rating agencies. If the System's bonds were to fall below investment grade, it would be in violation of these provisions and the counterparties to the swap instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on interest rate swap instruments in net liability positions.

13. RETIREMENT PLANS

The System maintains various employee retirement benefit plans available to qualifying employees and retirees.

The Advocate Health Care Network Pension Plan ("Advocate Plan") was frozen effective December 31, 2019 to new participants and participants ceased accruing additional pension benefits. The accompanying consolidated balance sheets contain an other noncurrent liability related to the Advocate Plan totaling \$174,023 and \$75,012 at December 31, 2022 and December 31, 2021, respectively. During the years ended December 31, 2022 and 2021, \$0 and \$30,000, respectively, in cash contributions were made to the Advocate Plan.

The Advocate Aurora Health Pension Plan ("AAH Plan") was created through a merger of the Condell Health Network Retirement Plan (frozen effective January 1, 2008) and the Aurora Health Care, Inc. Pension Plan (frozen effective December 31, 2012). The accompanying consolidated balance sheets contain an other noncurrent liability related to the AAH Plan of \$105,335 and \$57,617 at December 31, 2022 and December 31, 2021, respectively. During the years ended December 31, 2022 and 2021, no contributions were made to the AAH Plan.

A summary of changes in the plan assets, projected benefit obligation and the resulting funded status for the year ended December 31, 2022 is as follows:

	Advocate	AAH	Total
Change in plan assets:			
Plan assets at fair value at beginning of period	\$ 982,077	\$ 1,405,674	\$ 2,387,751
Actual return on plan assets	(55,218)	(378,408)	(433,626)
Benefits paid	(63,650)	(44,774)	(108,424)
Plan assets at fair value at end of period	<u>\$ 863,209</u>	<u>\$ 982,492</u>	<u>\$ 1,845,701</u>
Change in projected benefit obligation:			
Projected benefit obligation at beginning of period	\$ 1,057,089	\$ 1,463,291	\$ 2,520,380
Interest cost	39,130	43,849	82,979
Actuarial loss (gain)	4,663	(374,539)	(369,876)
Benefits paid	(63,650)	(44,774)	(108,424)
Projected benefit obligation at end of period	<u>\$ 1,037,232</u>	<u>\$ 1,087,827</u>	<u>\$ 2,125,059</u>
Plan assets less than projected benefit obligation	<u>\$ (174,023)</u>	<u>\$ (105,335)</u>	<u>\$ (279,358)</u>
Accumulated benefit obligation at end of period	<u>\$ 1,037,232</u>	<u>\$ 1,087,827</u>	<u>\$ 2,125,059</u>

A summary of changes in the plan assets, projected benefit obligation and the resulting funded status for the year ended December 31, 2021 is as follows:

	Advocate	AAH	Total
Change in plan assets:			
Plan assets at fair value at beginning of period	\$ 952,588	\$ 1,449,588	\$ 2,402,176
Actual return on plan assets	53,662	(2,694)	50,968
Employer contributions	30,000	—	30,000
Benefits paid	(54,173)	(41,220)	(95,393)
Plan assets at fair value at end of period	<u>\$ 982,077</u>	<u>\$ 1,405,674</u>	<u>\$ 2,387,751</u>
Change in projected benefit obligation:			
Projected benefit obligation at beginning of period	\$ 1,086,913	\$ 1,516,082	\$ 2,602,995
Interest cost	28,119	41,650	69,769
Actuarial gain	(3,770)	(53,221)	(56,991)
Benefits paid	(54,173)	(41,220)	(95,393)
Projected benefit obligation at end of period	<u>\$ 1,057,089</u>	<u>\$ 1,463,291</u>	<u>\$ 2,520,380</u>
Plan assets less than projected benefit obligation	<u>\$ (75,012)</u>	<u>\$ (57,617)</u>	<u>\$ (132,629)</u>
Accumulated benefit obligation at end of period	<u>\$ 1,057,089</u>	<u>\$ 1,463,291</u>	<u>\$ 2,520,380</u>

The AAH Plan actuarial gain of \$374,539 for the year ending December 31, 2022 was primarily driven by an increase in discount rates and an increase in the expected long-term rate of return on plan assets. The AAH Plan actuarial gain of \$53,221 for the year ending December 31, 2021 was primarily driven by an increase in discount rates which was slightly offset by an actuarial loss due to updated mortality improvement assumptions.

The Advocate Plan paid lump sums totaling \$60,526 and \$51,104 in 2022 and 2021, respectively. The amount in 2022 and 2021 was greater than the sum of the Advocate Plan's service cost and interest cost, resulting in a settlement charge in the amount of \$17,789 and \$12,102, respectively.

Pension plan expense included in the accompanying consolidated statements of operations and changes in net assets is as follows for the year ended December 31, 2022:

	Advocate	AAH	Total
Interest cost	\$ 39,130	\$ 43,849	\$ 82,979
Expected return on plan assets	(44,909)	(52,179)	(97,088)
Amortization of:			
Actuarial loss	3,491	6,034	9,525
Prior service cost	—	3	3
Settlement	17,789	—	17,789
Net pension expense (income)	<u>\$ 15,501</u>	<u>\$ (2,293)</u>	<u>\$ 13,208</u>

Pension plan expense included in the accompanying consolidated statements of operations and changes in net assets is as follows for the year ended December 31, 2021:

	Advocate	AAH	Total
Interest cost	28,119	41,650	69,769
Expected return on plan assets	(42,421)	(43,487)	(85,908)
Amortization of:			
Actuarial loss	4,477	10,410	14,887
Prior service cost	—	3	3
Settlement	12,102	—	12,102
Net pension expense	<u>\$ 2,277</u>	<u>\$ 8,576</u>	<u>\$ 10,853</u>

The components of net periodic benefit costs, other than the service cost component, are included in other nonoperating (loss) income, net in the accompanying consolidated statements of operations and changes in net assets.

The net change recognized in net assets without donor restrictions as a component of pension-related changes other than net periodic pension cost was as follows for the year ended December 31, 2022:

	Advocate	AAH	Total
Net change recognized	\$ 83,510	\$ 50,011	\$ 133,521

The net change recognized in net assets without donor restrictions as a component of pension-related changes other than net periodic pension cost was as follows for the year ended December 31, 2021:

	Advocate	AAH	Total
Net change recognized	\$ 31,590	\$ 17,454	\$ 49,044

Included in net assets without donor restrictions at December 31, 2022 are the following amounts that have not yet been recognized in net pension expense:

	Advocate	AAH	Total
Unrecognized prior credit	\$ —	\$ 93	\$ 93
Unrecognized actuarial loss	327,637	390,465	718,102
	<u>\$ 327,637</u>	<u>\$ 390,558</u>	<u>\$ 718,195</u>

Expected employee benefit payments to be paid from the pension plans are as follows:

	Advocate	AAH	Total
2023	\$ 67,536	\$ 54,663	\$ 122,199
2024	68,730	58,219	126,949
2025	69,244	61,099	130,343
2026	67,474	64,485	131,959
2027	67,999	66,946	134,945
2028-2032	352,072	363,684	715,756
Total	<u>\$ 693,055</u>	<u>\$ 669,096</u>	<u>\$ 1,362,151</u>

Expected contributions to the pension plans are as follows:

	Advocate	AAH	Total
2023	\$ 10,000	\$ —	\$ 10,000

Employer contributions were paid from employer assets. No plan assets are expected to be returned to the employer. All benefits paid under the Advocate Plan and AAH Plan (collectively referred to as the "Plans") were paid from the Plans' assets.

The System's asset allocation and investment strategies are designed to earn returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, economic sectors and manager style to minimize the risk of loss. The System utilizes investment managers specializing in each asset category and, where appropriate, provides the investment manager with specific guidelines that include allowable and/or prohibited investment types. The System regularly monitors manager performance and compliance with investment guidelines.

The System's target and actual pension asset allocations for the Plans are as follows:

Asset Category - Advocate Plan	December 31, 2022		December 31, 2021	
	Target	Actual	Target	Actual
De-risking portfolio	70 %	70 %	70 %	70 %
Domestic and international equity securities	21	20	21	21
Alternative investments	6	7	6	6
Cash and fixed-income securities	3	3	3	3
	100 %	100 %	100 %	100 %

Asset Category - AAH Plan	December 31, 2022		December 31, 2021	
	Target	Actual	Target	Actual
De-risking portfolio	85 %	82 %	85 %	83 %
Domestic and international equity securities	12	15	12	14
Real estate	1	1	1	1
Cash and fixed-income securities	2	2	2	2
	100 %	100 %	100 %	100 %

The de-risking portfolio is comprised of cash and fixed-income instruments designed to hedge Plan liabilities.

At December 31, 2022, the Advocate Plan had commitments to fund alternative investments, including callable distributions of \$15,026 over the next four years.

In the normal course of operations and within established investment policy guidelines, the Plans may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options and forward contracts. These instruments are used primarily to maintain the Plans' strategic asset allocation and hedge security price movements. These instruments require the Plans to deposit cash collateral with the broker or custodian.

Derivative contract information at December 31, 2022 are as follows:

	Advocate	AAH	Total
Cash and security collateral provided	\$ 15,659	\$ 6,819	\$ 22,478
Gross notional value	\$ (398,544)	\$ 232,011	\$ (166,533)

Derivative contract information at December 31, 2021 are as follows:

	Advocate	AAH	Total
Cash and security collateral provided	\$ 15,978	\$ 6,065	\$ 22,043
Gross notional value	\$ (539,122)	\$ 262,962	\$ (276,160)

By using derivative financial instruments, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty and, therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that may require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in the underlying reference security. The market risk associated with market changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Receivables and payables for investment trades not settled are presented within Advocate Plan assets. Unsettled sales resulted in receivables due from brokers of \$118 and \$8,515 at December 31, 2022 and 2021, respectively. Unsettled purchases resulted in payables of \$647 and \$17,265 at December 31, 2022 and 2021, respectively.

Receivables and payables for investment trades not settled are presented within AAH Plan assets. Unsettled sales resulted in receivables due from brokers of \$9 and \$7,808 at December 31, 2022 and 2021, respectively. Unsettled purchases resulted in payables of \$995 and \$16,500 at December 31, 2022 and 2021, respectively.

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 7. FAIR VALUE. Real estate commingled funds for which an active market exists are included in Level 2. The System opted to use the net asset value per share, or its equivalent, as a practical expedient for the fair value of the Plans' interest in hedge funds, private equity limited partnerships and real estate commingled funds. There is inherent uncertainty in such valuations and the estimated fair values may differ from the values that would have been used had a ready market for these investments existed. Private equity limited partnerships and real estate commingled funds typically have finite lives ranging from five to ten years, at the end of which all invested capital is returned. For hedge funds, the typical lockup period is one year, after which invested capital can be redeemed on a quarterly basis with at least 30 days' but no more than 90 days' notice. The Plans' investment assets are exposed to the same kinds and levels of risk as described in Note 7. FAIR VALUE.

The following are the Plans' financial instruments at December 31, 2022, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7. FAIR VALUE:

Description	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and short-term investments	\$ 87,955	\$ 627	\$ 87,328	\$ —
Corporate bonds and other debt securities	748,185	—	748,185	—
United States government obligations	540,677	—	540,677	—
Bond and other debt security funds	44,071	—	44,071	—
Equity securities	13,393	13,393	—	—
Equity funds	335,434	9,418	326,016	—
Real estate funds	16,407	—	16,407	—
	1,786,122	\$ 23,438	\$ 1,762,684	\$ —
Investments at net asset value				
Alternative investments	59,579			
Total investments	<u>\$ 1,845,701</u>			

The following are the Plans' financial instruments at December 31, 2021, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7. FAIR VALUE:

Description	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and short-term investments	\$ 78,247	\$ 43,778	\$ 34,469	\$ —
Corporate bonds and other debt securities	984,539	—	984,539	—
United States government obligations	740,439	—	740,439	—
Bond and other debt security funds	53,923	—	53,923	—
Equity securities	19,900	19,900	—	—
Equity funds	432,928	12,474	420,454	—
Real estate funds	16,180	—	16,180	—
	2,326,156	\$ 76,152	\$ 2,250,004	\$ —
Investments at net asset value				
Alternative investments	61,595			
Total investments	<u>\$ 2,387,751</u>			

Assumptions used to determine benefit obligations are as follows:

	December 31, 2022	December 31, 2021
Discount rate - Advocate Plan	5.19 %	2.85 %
Discount rate - AAH Plan	5.23 %	3.05 %
Assumed rate of return on assets - Advocate Plan	6.00 %	4.50 %
Assumed rate of return on assets - AAH Plan	4.50 %	3.80 %
Interest crediting rate - Advocate Plan	4.10 %	1.80 %

Assumptions used to determine net pension expense are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Discount rate - Advocate Plan	2.85 %	2.49 %
Discount rate - AAH Plan	3.05 %	2.79 %
Assumed rate of return on assets - Advocate Plan	4.50 %	4.40 %
Assumed rate of return on assets - AAH Plan	3.80 %	3.40 %
Interest crediting rate - Advocate Plan	1.80 %	1.35 %

The assumed rate of return on each of the Plan's assets is based on historical and projected rates of return for asset classes in which the portfolio is invested.

The 2022 and 2021 mortality assumption for the Plans was the amounts-weighted aggregate rates from the Pri-2012 mortality study, with white-collar adjustments projected generationally from 2012 with Scale MP-2021.

In addition to these Plans, the System sponsors a defined contribution plan for its employees. Expense related to the plan, is included in salaries, wages and benefits expense in the accompanying consolidated statements of operations and changes in net assets, were \$312,816 and \$296,894 for the years ended December 31, 2022 and 2021, respectively.

14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Purchases of property and equipment	\$ 19,422	\$ 17,579
Medical education and other health care programs	218,754	234,098
	<u>\$ 238,176</u>	<u>\$ 251,677</u>

15. FUNCTIONAL OPERATING EXPENSES

Operating expenses directly attributable to a specific functional area of the System are reported as expenses of those functional areas. Expenses other than interest expense are directly allocated to functional departments at the time they are incurred. Interest expense that relates to debt financing is allocated based on the use of the related funds. General and administrative expenses primarily include legal, finance, marketing, purchasing and human resources. Health care services require the benefit of and the expense of general and administrative services; therefore, these costs are further allocated to health care services. A majority of fundraising costs are reported as other nonoperating (loss) income, net in the accompanying consolidated statements of operations and changes in net assets.

Functional operating expenses for the year ended December 31, 2022 are as follows:

	Health care services	General and administrative	Consolidated
Salaries, wages and benefits	\$ 7,810,612	\$ 750,010	\$ 8,560,622
Supplies, purchased services and other	4,139,707	630,728	4,770,435
Contracted medical services	518,834	—	518,834
Depreciation and amortization	563,195	36,728	599,923
Interest	118,319	—	118,319
Total operating expenses	13,150,667	1,417,466	14,568,133
Allocation of general and administrative	1,417,466	(1,417,466)	—
Total operating expenses after allocation	<u>\$ 14,568,133</u>	<u>\$ —</u>	<u>\$ 14,568,133</u>

Functional operating expenses for the year ended December 31, 2021 are as follows:

	Health care services	General and administrative	Consolidated
Salaries, wages and benefits	\$ 6,936,615	\$ 727,322	\$ 7,663,937
Supplies, purchased services and other	3,937,999	632,548	4,570,547
Contracted medical services	564,586	—	564,586
Depreciation and amortization	495,608	67,801	563,409
Interest	106,101	—	106,101
Total operating expenses	12,040,909	1,427,671	13,468,580
Allocation of general and administrative	1,427,671	(1,427,671)	—
Total operating expenses after allocation	<u>\$ 13,468,580</u>	<u>\$ —</u>	<u>\$ 13,468,580</u>

16. LIQUIDITY

The System's financial assets available within one year of the consolidated balance sheets date for general expenditures are as follows:

	December 31, 2022	December 31, 2021
Current assets		
Cash and cash equivalents	\$ 372,898	\$ 703,725
Assets limited as to use	153,557	139,742
Patient accounts receivable	1,796,499	1,816,705
Third-party payors receivables	23,400	22,154
Collateral proceeds under securities lending program	17,402	18,550
Total current assets	2,363,756	2,700,876
Assets limited as to use		
Internally designated for capital and other	10,301,972	11,572,323
Held for self-insurance	564,195	649,513
Donor restricted	98,293	155,009
Investments under securities lending program	16,732	17,760
Total assets limited as to use	10,981,192	12,394,605
Total financial assets	\$ 13,344,948	\$ 15,095,481
Less		
Amounts unavailable for general expenditures		
Alternative investments	(3,000,238)	(2,727,059)
Total amounts unavailable for general expenditure	(3,000,238)	(2,727,059)
Amounts unavailable to management without approval		
Held for self-insurance	(717,752)	(789,255)
Donor restricted	(98,293)	(155,009)
Investments under securities lending program	(16,732)	(17,760)
Total amounts unavailable to management without approval	(832,777)	(962,024)
Total financial assets available to management for general expenditure within one year	\$ 9,511,933	\$ 11,406,398

17. COMMITMENTS AND CONTINGENCIES

Aurora West Allis Medical Center has the right to operate the hospital under the terms of a lease agreement with the City of West Allis ("the City"). In accordance with the lease agreement, the City has title to all assets and any subsequent additions (with the exception of certain equipment used by Aurora for laboratory services). Aurora West Allis Medical Center has an exclusive right to the use of the assets and the obligation to maintain and replace them. The historical cost to the System of the leased facilities is included within the System's property and equipment, net. The agreement provides for annual payments of less than \$100 in lieu of annual lease payments and includes payment escalations each subsequent year. The lease expires in 2063.

The System is committed to constructing additions and renovations to its medical facilities that are expected to be completed in future years. The estimated cost of these commitments is \$879,407, of which \$553,775 has been incurred as of December 31, 2022.

The System entered into agreements for information technology services provided by third parties. The maximum amount of future payments that the System could be required to make under these agreements is approximately \$102,000 over the next eight years and approximately \$3,000 and \$22,000 is included in accounts payable and other accrued liabilities and other noncurrent liabilities, respectively in the accompanying consolidated balance sheets at December 31, 2022. The System has

also entered into various other agreements. The future commitments under these agreements are \$27,500 over the next three years.

18. GENERAL AND PROFESSIONAL LIABILITY RISKS

The System is self-insured for substantially all general and professional liability risks. The self-insurance programs combine various levels of self-insured retention with excess commercial insurance coverage. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Revocable trust funds, administered by a trustee and captive insurance companies, have been established for the self-insurance programs. Actuarial consultants have been retained to determine the estimated cost of claims, as well as to determine the amount to fund into the irrevocable trust and captive insurance companies.

The System's hospitals, clinics, surgery centers, physicians and certified registered nurse anesthetist providers that provide health care in Wisconsin are qualified health care providers that are fully covered for losses in excess of statutory limits through mandatory participation in the State of Wisconsin Injured Patients and Families Compensation Fund.

The estimated cost of claims is actuarially determined based on past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accrued insurance liabilities and contributions to the trust were determined using a discount rate of 3.00% as of December 31, 2022 and 2021. Total accrued insurance liabilities would have been \$81,651 and \$78,450 greater at December 31, 2022 and 2021, respectively, had these liabilities not been discounted.

The System entities are defendants in certain litigation related to professional and general liability risks, and other matters. Although the outcome of the litigations cannot be determined with certainty, management believes, after consultation with legal counsel, that the ultimate resolution of the litigations will not have a material adverse effect on the System's operations or financial condition.

19. LEGAL, REGULATORY AND OTHER CONTINGENCIES

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. During the last few years, due to nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, exclusion from the Medicare and Medicaid programs and revocation of federal or state tax-exempt status. Moreover, the System expects that the level of review and audit to which it and other health care providers are subject will increase.

Various federal and state agencies have initiated investigations, which are in various stages of discovery, relating to reimbursement, billing practices and other matters of the System. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact, if any, such claims or penalties would have on the System. To foster compliance with applicable laws and regulations, the System maintains a compliance program designed to detect and correct potential violations of laws and regulations related to its programs.

20. INCOME TAXES AND TAX STATUS

The subsidiaries of the System are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) and their related income is exempt from federal income tax. Accordingly, no income taxes are recorded for the majority of the income in the accompanying consolidated financial statements for these entities. Unrelated business income is generated by certain of these entities through the provision of services or other activities not directly related to the provision of patient care.

At December 31, 2022, the System had \$153,352 of federal and \$113,825 of state net operating loss carryforwards with unutilized amounts of state net operating loss carryforwards expiring between 2022 and 2039. At December 31, 2021, the System had \$98,410 of federal and \$113,825 of state net operating loss carryforwards with unutilized amounts of state net operating loss carryforwards expiring between 2021 and 2037. As a result of the Tax Cuts and Jobs Act of 2017, net operating losses generated after 2017 do not expire for federal purposes. Of the \$153,352 of federal net operating loss carryforwards at December 31, 2022, \$138,431 was generated after 2017.

The System calculated income taxes for its taxable subsidiaries. Taxable income differs from pretax book income primarily due to certain income and deductions for tax purposes being recorded in the consolidated financial statements in different periods. Deferred income tax assets and liabilities are recorded for the tax effect of these differences using enacted tax rates for the years in which the differences are expected to reverse.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible.

The System had deferred tax assets of \$71,943 and \$51,248, including \$41,562 and \$30,326 related to net operating loss carryforwards, as of December 31, 2022 and 2021, respectively. These deferred tax assets were partially offset by valuation allowances of \$40,580 and \$14,534, respectively, which were recorded due to the uncertainty regarding the use of the deferred tax assets.

The System had deferred tax liabilities of \$30,748 and \$23,655 as of December 31, 2022 and 2021, respectively, resulting in a net deferred tax asset of \$615 and \$13,059 as of December 31, 2022 and 2021, respectively.

Provisions (credits) for federal, state and deferred income taxes are included in other nonoperating (loss) income, net in the accompanying consolidated statements of operations and changes in net assets as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Federal	\$ (15,041)	\$ (1,019)
State	—	(303)
Deferred	12,443	(8,668)
	<u>\$ (2,598)</u>	<u>\$ (9,990)</u>

21 SUBSEQUENT EVENTS

The System evaluated events and transactions subsequent to December 31, 2022 through April 11, 2023, the date of consolidated financial statement issuance.

In January 2023, \$46,310 of the Series 2018B-2 Bonds were remarketed for a new long-term rate period and will next be subject to mandatory purchase on June 24, 2026. In connection with the remarketing, \$3,260 of the Series 2018B-2 Bonds were redeemed and a loss on refinancing was recorded in the amount of \$19.

In January 2023, \$49,065 of the Series 2018C-3 Bonds were remarketed for a new long-term rate period and will next be subject to mandatory purchase on June 24, 2026. In connection with the remarketing, \$3,455 of the Series 2018C-3 Bonds were redeemed and a loss on refinancing was recorded in the amount of \$21.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Board of Directors

Advocate Health, Inc.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying details of consolidated balance sheets and details of consolidated statements of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

April 11, 2023

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATING BALANCE SHEET
December 31, 2022
(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 686,524	\$ (313,626)	\$ —	\$ 372,898
Assets limited as to use	142,005	11,552	—	153,557
Patient accounts receivable	1,591,249	224,273	(19,023)	1,796,499
Other current assets	768,824	165,780	—	934,604
Third-party payors receivables	21,037	2,363	—	23,400
Receivable from subsidiaries	418,484	300,078	(718,562)	—
Collateral proceeds under securities lending program	17,402	—	—	17,402
Total current assets	3,645,525	390,420	(737,585)	3,298,360
Assets limited as to use	10,925,235	365,931	(309,974)	10,981,192
Note receivable from subsidiaries	172,635	—	(172,635)	—
Property and equipment, net	5,494,587	476,955	—	5,971,542
Other assets				
Reinsurance receivable	116,786	—	—	116,786
Goodwill and intangible assets, net	47,689	428,875	—	476,564
Investment in subsidiaries	1,012,938	—	(1,012,938)	—
Investments in unconsolidated entities	172,226	43,950	—	216,176
Operating lease right-of-use assets	259,408	45,903	—	305,311
Other noncurrent assets	491,921	20,418	—	512,339
Total other assets	2,100,968	539,146	(1,012,938)	1,627,176
Total assets	\$ 22,338,950	\$ 1,772,452	\$ (2,233,132)	\$ 21,878,270

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATING BALANCE SHEET
December 31, 2022
(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Current liabilities				
Long-term debt and commercial paper, current portion	\$ 98,345	\$ 25,014	\$ (22,155)	\$ 101,204
Long-term debt subject to short-term financing arrangements	165,035	—	—	165,035
Operating lease liabilities, current portion	61,210	11,816	—	73,026
Accrued salaries and employee benefits	1,072,374	93,487	—	1,165,861
Accounts payable and accrued liabilities	848,605	281,970	(19,023)	1,111,552
Third-party payors payables	356,693	484	—	357,177
Accrued insurance and claims costs, current portion	191,738	12,854	—	204,592
Accounts payable to subsidiaries	288,749	407,658	(696,407)	—
Collateral under securities lending program	17,402	—	—	17,402
Total current liabilities	3,100,151	833,283	(737,585)	3,195,849
Noncurrent liabilities				
Long-term debt, less current portion	3,252,131	175,927	(172,635)	3,255,423
Operating lease liabilities, less current portion	235,957	40,159	—	276,116
Accrued insurance and claims cost, less current portion	592,926	41,542	—	634,468
Accrued losses subject to insurance recovery	116,786	—	—	116,786
Obligations under swap agreements	29,514	—	—	29,514
Due to subsidiaries	309,974	—	(309,974)	—
Other noncurrent liabilities	870,746	51,821	—	922,567
Total noncurrent liabilities	5,408,034	309,449	(482,609)	5,234,874
Total liabilities	8,508,185	1,142,732	(1,220,194)	8,430,723
Net assets				
Without donor restrictions				
Controlling interest	13,666,706	110,259	(739,385)	13,037,580
Noncontrolling interests in subsidiaries	—	445,344	(273,553)	171,791
Total net assets without donor restrictions	13,666,706	555,603	(1,012,938)	13,209,371
With donor restrictions	164,059	74,117	—	238,176
Total net assets	13,830,765	629,720	(1,012,938)	13,447,547
Total liabilities and net assets	\$ 22,338,950	\$ 1,772,452	\$ (2,233,132)	\$ 21,878,270

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2022
(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Revenue				
Patient service revenue	\$ 10,812,322	\$ 1,597,719	\$ (344,270)	\$ 12,065,771
Capitation revenue	557,744	643,841	(4,258)	1,197,327
Other revenue	700,071	936,489	(355,412)	1,281,148
Total revenue	12,070,137	3,178,049	(703,940)	14,544,246
Expenses				
Salaries, wages and benefits	7,497,794	1,088,848	(25,855)	8,560,787
Supplies, purchased services and other	3,692,346	1,296,096	(253,294)	4,735,148
Contracted medical services	179,908	689,605	(350,679)	518,834
Depreciation and amortization	499,940	99,766	—	599,706
Interest	112,642	15,903	(10,226)	118,319
Total expenses	11,982,630	3,190,218	(640,054)	14,532,794
Operating income (loss) before nonrecurring expenses	87,507	(12,169)	(63,886)	11,452
Nonrecurring expenses	35,339	—	—	35,339
Operating income (loss)	52,168	(12,169)	(63,886)	(23,887)
Nonoperating (loss) income				
Investment loss, net	(698,863)	(24,362)	—	(723,225)
Loss on debt refinancing	(33)	—	—	(33)
Change in fair value of interest rate swaps	61,703	—	—	61,703
Other nonoperating (loss) income, net	(12,518)	(7,752)	4	(20,266)
Total nonoperating (loss) income, net	(649,711)	(32,114)	4	(681,821)
Revenue less than expenses	(597,543)	(44,283)	(63,882)	(705,708)
Less income attributable to noncontrolling interests	—	(109,006)	63,882	(45,124)
Revenue less than expenses- attributable to controlling interests	\$ (597,543)	\$ (153,289)	\$ —	\$ (750,832)

Notes to Supplementary Information

1. Credit Group

The supplementary financial information for the Credit Group is in accordance with the Second Amended and Restated Master Trust Indenture dated as of August 1, 2018 between Advocate Aurora Health, Inc, the other affiliates identified therein as the Members of the Obligated Group, the Restricted Affiliates, and U.S. Bank National Association, as master trustee ("the System Master Indenture").

2. Credit Group Members

The Credit Group is comprised of the Obligated Group in combination with the Restricted Affiliates. The Obligated Group includes Advocate Aurora Health, Inc.; Advocate Health Care Network; Advocate Health and Hospitals Corporation; Advocate North Side Health Network; Advocate Condell Medical Center; Advocate Sherman Hospital; Aurora Health Care, Inc.; Aurora Health Care Metro, Inc.; Aurora Health Care Southern Lakes, Inc.; Aurora Health Care Central, Inc. d/b/a Aurora Sheboygan Memorial Medical Center; Aurora Medical Center of Washington County, Inc.; Aurora Health Care North, Inc. d/b/a Aurora Medical Center Manitowoc County; Aurora Medical Center of Oshkosh, Inc.; Aurora Medical Group, Inc.; Aurora Medical Center Grafton LLC; and Aurora Medical Center Bay Area, Inc. The Restricted Affiliates include Advocate Charitable Foundation; Advocate Home Care Products, Inc.; EHS Home Health Care Services, Inc.; Evangelical Services Corporation, d/b/a Advocate Network Services, Inc.; High Technology, Inc.; Meridian Hospice; and West Allis Memorial Hospital Inc. d/b/a Aurora West Allis Medical Center. The Credit Group is with U.S. Bank National Association, as master trustee ("the System Master Indenture").