Advocate Aurora Health, Inc.

Consolidated Financial Statements and Supplementary Information
As of and for the Year Ended December 31, 2019 and as of and for the Nine Months Ended December 31, 2018

Document Dated as of March 26, 2020

ADVOCATE AURORA HEALTH, INC.
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Report of Independent Auditors

The Board of Directors
Advocate Aurora Health, Inc.

We have audited the accompanying consolidated financial statements of Advocate Aurora Health Care, Inc., which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the year ended December 31, 2019, and the period from April 1, 2018, through December 31, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Advocate Aurora Health Care, Inc. at December 31, 2019 and 2018, and the consolidated results of their operations and their cash flows for the year ended December 31, 2019, and the period from April 1, 2018, through December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 26, 2020

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

	December 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 449,712	$ 584,887
Assets limited as to use	106,529	106,244
Patient accounts receivable	1,605,607	1,486,260
Other current assets	619,542	512,556
Third-party payors receivables	15,331	17,793
Collateral proceeds under securities lending program	18,284	18,869
Total current assets	2,815,005	2,726,609
Assets limited as to use	9,140,565	7,712,087
Property and equipment, net	5,901,923	5,626,475
Other assets		
Intangible assets and goodwill, net	76,830	89,329
Investments in unconsolidated entities	212,415	202,331
Reinsurance receivable	52,312	60,741
Operating lease right-of-use assets	352,295	—
Other noncurrent assets	382,024	315,217
Total other assets	1,075,876	667,618
Total assets	$ 18,933,369	$ 16,732,789

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

	December 31, 2019	December 31, 2018
Current liabilities		
Current portion of long-term debt and commercial paper	$ 184,098	$ 49,927
Long-term debt subject to short-term financing arrangements	147,535	162,025
Current portion of operating lease liabilities	77,957	—
Accounts payable and accrued liabilities	1,863,035	1,671,124
Third-party payors payables	303,300	303,633
Current portion of accrued insurance and claim costs	114,741	122,361
Collateral under securities lending program	18,284	18,869
Total current liabilities	2,708,950	2,327,939
Noncurrent liabilities		
Long-term debt, less current portion	2,729,366	2,796,906
Operating lease liabilities	314,106	—
Accrued insurance and claims cost, less current portion	544,839	593,296
Accrued losses subject to insurance recovery	52,312	60,741
Obligations under swap agreements	91,340	65,376
Other noncurrent liabilities	793,792	645,554
Total noncurrent liabilities	4,525,755	4,161,873
Total liabilities	7,234,705	6,489,812
Net assets		
Without donor restrictions		
Controlling interest	11,309,819	9,900,718
Noncontrolling interest in subsidiaries	146,740	118,468
Total net assets without donor restrictions	11,456,559	10,019,186
With donor restrictions	242,105	223,791
Total net assets	11,698,664	10,242,977
Total liabilities and net assets	$ 18,933,369	$ 16,732,789

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, 2019	Nine Months Ended December 31, 2018
Revenue		
Patient service revenue	$ 10,660,969	$ 7,533,468
Capitation revenue	1,264,162	1,035,995
Other revenue	880,292	643,943
Total revenue	12,805,423	9,213,406
Expenses		
Salaries, wages and benefits	6,988,562	4,993,014
Supplies, purchased services and other	3,999,005	2,835,775
Contracted medical services	543,716	478,393
Depreciation and amortization	569,956	410,790
Interest	106,314	81,385
Total expenses	12,207,553	8,799,357
Operating income before nonrecurring expenses	597,870	414,049
Nonrecurring expenses	116,800	55,182
Operating income	481,070	358,867
Nonoperating income (loss)		
Investment income (loss), net	1,053,898	(258,118)
Loss on debt refinancing	(21,665)	(29,859)
Change in fair value of interest rate swaps	(21,079)	993
Other nonoperating income, net	54,473	646
Total nonoperating income (loss), net	1,065,627	(286,338)
Revenue in excess of expenses	1,546,697	72,529
Less noncontrolling interest	(60,749)	(34,383)
Revenue in excess of expenses - attributable to controlling interest	$ 1,485,948	$ 38,146

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

	Year Ended December 31, 2019	Nine Months Ended December 31, 2018
Net assets without donor restrictions, controlling interest		
Revenue in excess of expenses - attributable to controlling interest	$ 1,485,948	$ 38,146
Pension-related changes other than net periodic pension costs	(106,221)	(86,283)
Net assets released from restrictions for purchase of property and equipment	4,839	5,460
Other, net	1,108	(414)
Increase (decrease) in net assets without donor restrictions, controlling interest	1,385,674	(43,091)
Net assets without donor restrictions, noncontrolling interest		
Revenues in excess of expenses	60,749	34,383
Distributions to noncontrolling interest	(32,488)	(20,572)
Other, net	11	(81)
Increase in net assets without donor restrictions, noncontrolling interest	28,272	13,730
Net assets with donor restrictions		
Contributions	27,627	16,614
Investment income (loss), net	14,400	(2,347)
Net assets released from restrictions for operations	(18,596)	(17,720)
Net assets released from restrictions for purchase of property and equipment	(4,839)	(5,460)
Other, net	(278)	858
Increase (decrease) in net assets with donor restrictions	18,314	(8,055)
Increase (decrease) in net assets	1,432,260	(37,416)
Net assets at beginning of period	10,242,977	10,280,393
Adoption of ASC 2016-02 (Leases)	23,427	—
Net assets at end of period	$ 11,698,664	$ 10,242,977

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2019	Nine Months Ended December 31, 2018
Cash flows from operating activities		
Increase (decrease) in net assets	$ 1,432,260	$ (37,416)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	564,270	404,012
Amortization of operating lease right-of-use assets	64,801	—
Loss on debt refinancing	21,665	29,859
Loss (gain) on sale of property and equipment	2,618	(3,853)
Change in fair value of swap agreements	21,079	(993)
Pension-related changes other than net periodic pension cost	106,221	86,283
Net assets released from restrictions for operations	(18,596)	(17,720)
Distribution to noncontrolling interest	29,446	33,101
Distributions from unconsolidated entities	23,707	—
Gain on Bay Area Medical Center acquisition	(81,736)	—
Changes in operating assets and liabilities		
Trading securities, net	(1,433,305)	350,682
Accounts receivable, net	(103,625)	(15,547)
Accounts payable and accrued liabilities	203,877	141,680
Third-party payors receivables and payables, net	1,640	(14,993)
Other assets and liabilities, net	(280,549)	(79,962)
Net cash provided by operating activities	553,773	875,133
Cash flows from investing activities		
Capital expenditures	(653,207)	(552,933)
Proceeds from sale of property and equipment	4,102	7,626
Sales of investments designated as non-trading, net	69	10,093
Investments in unconsolidated entities, net	(31,005)	(3,100)
Investments acquired in Bay Area Medical Center acquisition	34,018	—
Other	(7,534)	3,118
Net cash used in investing activities	(653,557)	(535,196)
Cash flows from financing activities		
Proceeds from issuance of debt	496,074	1,226,853
Repayments of long-term debt	(544,046)	(1,371,174)
Distribution to noncontrolling interest	(29,446)	(33,101)
Proceeds from restricted contributions and income (loss) on investments	42,027	14,267
Net cash used in financing activities	(35,391)	(163,155)
Net (decrease) increase in cash and cash equivalents	(135,175)	176,782
Cash and cash equivalents at beginning of period	584,887	408,105
Cash and cash equivalents at end of period	$ 449,712	$ 584,887
Supplemental disclosures of noncash information		
Operating lease right-of-use assets in exchange for new operating lease liabilities	$ 425,142	$ —

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND BASIS OF PRESENTATION

Description of Business

Advocate Aurora Health, Inc., is a Delaware nonprofit corporation ("the Parent Corporation"). On April 1, 2018, the Parent Corporation became 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.

The System is comprised of various not-for-profit and for-profit entities, the primary activities are the delivery of health care services and the provision of goods and services ancillary thereto.

The System provides a continuum of care through its 26 acute care hospitals, an integrated children's hospital and a psychiatric hospital, primary and specialty physician services, outpatient centers, physician office buildings, pharmacies, rehabilitation and home health and hospice care in northern and central Illinois and eastern Wisconsin.

On April 1, 2019, the System became the sole corporate member of Bay Area Medical Center ("BAMC") through the acquisition of the remaining 51% interest in BAMC and its results have been fully consolidated into the consolidated financial statements of the System as of this date. The acquisition will improve the availability, scope and access to health care in the communities served by BAMC.

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. 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 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 revenues 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 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 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 shortly 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 referred to above 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 generally 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 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 (first-in, first-out) or market. Retail pharmaceutical inventories are stated at replacement cost.

Reinsurance Receivables

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

Intangible Assets and Goodwill, Net

Goodwill of $62,172 and $65,862 is included in intangible assets and goodwill, net in the accompanying consolidated balance sheets as of December 31, 2019 and 2018, respectively. In 2019, the System elected to amortize goodwill prospectively using the straight-line method over a 10-year period in accordance with Accounting Standards Update ("ASU") 2014-02. Goodwill amortization of $6,982 is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets for the year ended December 31, 2019. Intangible assets with expected useful lives are amortized over that period.

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 appropriate. 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.

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 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 the accompanying consolidated statements of operations and changes in net assets in supplies, purchased services and other expense.

Included within operating lease right-of-use assets are assets that the System previously sold and then leased back. Those sale/leaseback transactions, which related to various administrative and medical support buildings, did not meet the accounting criteria as a sales-type lease or a direct financing lease. The buyer-lessors for such transactions are generally unrelated special-purpose entities.

Investments in Unconsolidated Entities

Investments in unconsolidated entities are accounted for using the cost or equity method. 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. All other unconsolidated entities are accounted for using the cost method. The income (loss) on health-related unconsolidated entities is included in other revenue in the accompanying consolidated statements of operations and changes in net assets. The income or loss on non-health-related unconsolidated entities is included within other nonoperating income, net.

Derivative Financial Instruments

The System has entered into transactions to manage its interest rate, credit and market risks. Derivative 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 derivatives fair value are recognized in nonoperating income (loss), 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 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 in the accompanying consolidated statements of operations and changes in net assets as increases to net assets without donor restrictions. 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.

Other Nonoperating Income, Net

Revenues and expenses from delivering health care services and the provision of goods and services ancillary thereto 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 income, net. Other nonoperating income, net primarily consists of a gain on the acquisition of BAMC, fund-raising expenses, contributions to charitable organizations, income taxes and the net non-service components of the periodic benefit expense on the System's pension plans.

Nonrecurring Expenses

The System has incurred salaries, purchased services and other expenses in connection with the formation of the System, the implementation of an electronic medical records and billing system, the implementation of an enterprise resource planning system and, as part of the initiative to reduce operating expenses, an early retirement incentive program and position restructuring. Due to the nature of these expenses, the costs were recorded as nonrecurring in the accompanying consolidated statements of operations and changes in net assets.

Revenue in Excess of Expenses and Changes in Net Assets

The accompanying consolidated statements of operations and changes in net assets include the revenue in excess of expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from revenue 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 Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases* (Topic 842). This guidance introduced a lessee model that brings most leases on to the balance sheet. The standard also aligns certain of the underlying principles of the new lessor model with those in ASU 2014-09, the revenue recognition standard. This standard was adopted by the System effective January 1, 2019, using the modified retrospective approach. The System elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the System to carry forward the historical lease classification.

The System recorded a right-of-use asset of $388,097, which is net of tenant improvements previously recorded prior to adoption of $38,697, and right-of-use liabilities of $426,794 due to the adoption of this standard. Additionally, the System recognized a cumulative-effect adjustment of $23,427 to net assets without donor restrictions on January 1, 2019, related to the deferred gains on various sale-leaseback transactions.

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This guidance requires an entity in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset and which costs to expense as incurred. Also, this guidance requires the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. Further, the guidance requires the entity to present the expense related to the capitalized implementation costs in the same line item in the consolidated statements of operations and changes in net assets as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the consolidated statements of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the consolidated balance sheets in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. This guidance is effective for the fiscal years beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted. The System early adopted this guidance effective January 1, 2019, on a prospective basis. This guidance did not have a material impact on the System's accompanying consolidated balance sheets.

In June 2018, the FASB issued ASU 2018-08, Not-for-profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies whether a transfer of assets is a contribution or an exchange transaction and further clarifies how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. This standard was effective for the System beginning January 1, 2019, on a modified prospective basis. This guidance did not have a material impact on the System's accompanying consolidated statements of operations and changes in net assets.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): *Restricted Cash*. This guidance requires total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the consolidated statements of cash flows. This guidance is effective for the fiscal years beginning after December 15, 2018 and interim periods after December 15, 2019. The System adopted this standard effective January 1, 2019, on a prospective basis. Management has updated the presentation of the accompanying consolidated statements of cash flows to reflect the inclusion of total cash and cash equivalents.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*, which amends guidance in Accounting Standards Codification (ASC) 230 on the classification of certain cash receipts and payments in the statements of cash flows. This standard is effective for the System beginning January 1, 2019, for annual reporting on a prospective basis. This guidance did not have a material impact on the System's consolidated statements of cash flows, with the primary change being the movement of certain distributions from equity method investees from cash used in investing activities to cash flows from operations.

In May 2019, the FASB issued ASU 2019-06, *Intangibles- Goodwill and Other (Topic 350), Business Combinations (Topic 805) and Not-for-Profit Entities (Topic 958)*. This guidance allows not-for-profits to apply accounting alternatives in Topic 350 and Topic 805. A not-for-profit entity can amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the not-for-profit entity demonstrates that a shorter useful life is more appropriate. A not-for-profit entity that elects this accounting alternative is required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. This guidance is effective immediately and should be applied prospectively for goodwill recognized after the alternative is adopted. The guidance will be applied to existing goodwill as of the beginning of the annual period of adoption. The System adopted this guidance in 2019. Goodwill is being amortized straight-line over a 10-year period, which increased amortization expense by $6,982 in the accompanying consolidated statements of operation and changes in net assets for the year ended December 31, 2019.

Reclassifications in the Consolidated Financial Statements

Certain reclassifications were made to the 2018 consolidated financial statements to conform to the classifications used in 2019. There was no impact on previously reported 2018 net assets or revenues in excess of expenses.

3. COMMUNITY BENEFIT

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. Charity care is provided to patients who meet the criteria established under the applicable financial assistance policy. Qualifying patients can receive up to 100% discounts from charges and extended payment plans. The System's cost of providing charity care was $153,307 for the year ended December 31, 2019 and $101,192 for the nine months ended December 31, 2018, 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.

4. 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. Patient service revenue does not include revenue for services provided to patients covered under capitated arrangements.

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 that 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 that 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 year ended December 31, 2019 and nine months ended December 31, 2018, 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 certain instances, the System does receive payment in advance of the services provided and would consider these amounts to represent contract liabilities. Contract liabilities at December 31, 2019 and 2018 were not significant.

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 Centers for Medicare and Medicaid Services 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, 2019	Nine Months Ended December 31, 2018
Reimbursement	Patient service revenue	$ 271,260	$ 197,614
Assessment	Supplies, purchased services and other	165,222	124,898

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, 2019	Nine Months Ended December 31, 2018
Reimbursement	Patient service revenue	$ 117,150	$ 79,600
Assessment	Supplies, purchased services and other	100,777	73,800

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, 2019		Nine Months Ended December 31, 2018	
Managed care	$ 5,829,566	55%	$ 4,232,627	56%
Medicare	3,380,458	31%	2,269,578	30%
Medicaid - Wisconsin	457,583	4%	299,951	4%
Medicaid - Illinois	694,406	7%	529,780	7%
Self-pay and other	298,956	3%	201,532	3%
	$ 10,660,969	100%	$ 7,533,468	100%

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 income from joint ventures, retail pharmacy revenue, grant revenue, cafeteria revenue, rent revenue and other miscellaneous revenue.

Revenue disaggregation by state and business line are as follows:

	Year Ended December 31, 2019	Nine Months Ended December 31, 2018
Illinois	$ 6,086,737	$ 4,543,533
Wisconsin	5,838,394	4,025,930
Total patient service revenue and capitation	11,925,131	8,569,463
Other revenue	880,292	643,943
Total revenue	$ 12,805,423	$ 9,213,406
Hospital	$ 7,859,715	$ 5,606,918
Clinic	2,450,681	1,669,138
Home Care	241,151	167,839
Other	109,422	89,573
Total patient service revenue	10,660,969	7,533,468
Capitated revenue	1,264,162	1,035,995
Other revenue	880,292	643,943
Total revenue	$ 12,805,423	$ 9,213,406

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, 2019		December 31, 2018	
Managed care	$ 698,731	44%	$ 627,409	42%
Medicare	327,723	20%	285,837	19%
Medicaid - Wisconsin	44,357	3%	39,958	3%
Medicaid - Illinois	216,618	13%	229,139	15%
Self-pay and other	318,178	20%	303,917	21%
	$ 1,605,607	100%	$ 1,486,260	100%

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.

5. 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 $4,123,306 and

$3,685,071 at December 31, 2019 and 2018, 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, 2019, the System had additional commitments to fund alternative investments, including recallable distributions of $1,268,012 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. These instruments require the System to deposit cash or securities collateral with the broker or custodian. Collateral provided was $6,770 at December 31, 2019. The notional value of the derivatives in long positions was $104,072 at December 31, 2019. The notional value of the derivatives in a short position was $(58,527) at December 31, 2019.

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 with other current assets and accounts payable and accrued liabilities. Unsettled sales resulted in receivables due from brokers of $41,977 and $37,699 at December 31, 2019 and 2018, respectively. Unsettled purchases resulted in payables of $38,355 and $13,494 at December 31, 2019 and 2018, respectively.

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

	Year Ended December 31, 2019	Nine Months Ended December 31, 2018
Interest income and dividends	$ 84,684	$ 55,944
Income from alternative investments	333,212	19,556
Net realized gains	150,422	156,757
Net unrealized gains (losses)	553,287	(474,189)
Total	$ 1,121,605	$ (241,932)

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

	Year Ended December 31, 2019	Nine Months Ended December 31, 2018
Other revenue	$ 53,307	$ 18,533
Investment income (loss), net	1,053,898	(258,118)
Net assets with donor restrictions	14,400	(2,347)
Total	$ 1,121,605	$ (241,932)

The cash and cash equivalent and assets limited as to use presented within the accompanying consolidated balance sheets is composed of the following:

	December 31, 2019	December 31, 2018
Internally designated for capital and other	$ 8,345,172	$ 6,941,646
Held for self-insurance	645,697	632,372
Donor restricted	132,024	119,759
Investments under securities lending program	17,672	18,310
Total noncurrent assets limited as to use	9,140,565	7,712,087
Cash and cash equivalents	449,712	584,887
Current assets limited as to use	106,529	106,244
Total cash and cash equivalents and assets limited as to use	$ 9,696,806	$ 8,403,218

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, 2019 and 2018, the System loaned $17,672 and $18,310, respectively, in securities and accepted collateral for these loans in the amount $18,284 and $18,869, respectively, which represents cash and governmental securities and are included in current liabilities and current assets, respectively, in the accompanying consolidated balance sheets.

6. 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 fair the 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 entity 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 that 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 that are measured at fair value on a recurring basis are as follows:

	December 31, 2019	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	$ 909,297	$ 872,262	$ 37,035	$ —
Corporate bonds and other debt securities	582,327	—	582,327	—
United States government bonds	583,429	—	583,429	—
Bond and other debt security funds	688,728	102,555	586,173	—
Non-government fixed-income obligations	26,176	—	26,176	—
Equity securities	782,581	782,581	—	—
Equity funds	1,976,779	134,951	1,841,828	—
	5,549,317	$ 1,892,349	$ 3,656,968	$ —
Investments at net asset value				
Alternative investments	4,147,489			
Total investments	$ 9,696,806			
Collateral proceeds received under securities lending program	$ 18,284		$ 18,284	
Liabilities				
Obligations under swap agreements	$ (91,340)		$ (91,340)	
Obligations to return capital under securities lending program	$ (18,284)		$ (18,284)	

	December 31, 2018	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	$ 807,549	$ 430,889	$ 376,660	$ —
Corporate bonds and other debt securities	577,406	—	577,406	—
United States government bonds	609,160	—	609,160	—
Bond and other debt security funds	578,088	102,552	475,536	—
Non-government fixed-income obligations	26,328	—	26,328	—
Equity securities	1,164,533	1,164,533	—	—
Equity funds	933,104	185,247	747,857	—
	4,696,168	$ 1,883,221	$ 2,812,947	—
Investments at net asset value				
Alternative investments	3,707,050			
Total investments	$ 8,403,218			
Collateral proceeds received under securities lending program	$ 18,869		$ 18,869	
Liabilities				
Obligations under swap agreements	$ (65,376)		$ (65,376)	
Obligations to return capital under securities lending program	$ (18,869)		$ (18,869)	

7. PROPERTY AND EQUIPMENT, NET

The components of property and equipment are summarized as follows:

	December 31, 2019	December 31, 2018
Land and improvements	$ 497,363	$ 473,862
Buildings and fixed equipment	7,519,607	7,102,622
Movable equipment and computer software	2,496,988	2,956,722
Construction-in-progress	355,733	306,531
	10,869,691	10,839,737
Accumulated depreciation and amortization	(4,967,768)	(5,213,262)
Property and equipment, net	$ 5,901,923	$ 5,626,475

During 2019, the System wrote off fully depreciated property and equipment totaling $455,363.

Property and equipment include net assets recorded as finance leases and under other financing arrangements. See additional disclosure in Note 8. LEASES.

Depreciation expense was $560,221 for the year ended December 31, 2019 and $409,950 for the nine months ended December 31, 2018.

8. 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 balance sheet. For lease agreements entered into after the adoption of ASU 2016-02 on January 1, 2019, 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 at December 31, 2019:

Leases	**Classification**		
Assets			
Operating	Operating lease right-of-use assets	$	352,295
Finance	Property and equipment, net		161,970
Total lease assets		$	514,265
Liabilities			
Current			
Operating	Current portion of operating lease liabilities	$	77,957
Finance	Current portion of long-term debt and commercial paper		8,445
Noncurrent			
Operating	Operating lease liabilities		314,106
Finance	Long-term debt, less current portion		176,811
Total lease liabilities		$	577,319

Finance lease assets are recorded net of accumulated amortization of $49,743 as of December 31, 2019.

Lease costs are classified as follows within the accompanying consolidated statements of operations and changes in net assets at December 31, 2019:

Lease cost	**Classification**		
Operating lease cost	Supplies, purchased services and other	$	85,037
Short term lease cost	Supplies, purchased services and other		10,686
Variable lease cost	Supplies, purchased services and other		29,099
Finance lease cost			
Amortization of lease assets	Depreciation and amortization		10,719
Interest on lease liabilities	Interest		10,053
Sublease income	Other revenue		(2,593)
Net lease cost		$	143,001

Lease terms, discount rates and other supplemental information as of and for the year ended December 31, 2019 are as follows:

Weighted average remaining lease term (in years)		
Operating		6.0
Finance		12.9
Weighted average discount rate		
Operating		2.34%
Finance		7.44%
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$	86,504
Operating cash flows from finance leases		10,563
Financing cash flows from finance leases		7,605

Future maturities of lease liabilities at December 31, 2019 are as follows:

	Operating Leases	Finance Leases	Total
2020	$ 86,132	$ 19,629	$ 105,761
2021	79,674	20,365	100,039
2022	69,096	20,747	89,843
2023	58,716	20,680	79,396
2024	43,083	21,177	64,260
Thereafter	85,237	196,229	281,466
Future minimum lease payments	421,938	298,827	720,765
Less remaining imputed interest	29,875	113,571	143,446
Total	$ 392,063	$ 185,256	$ 577,319

Future maturities of lease liabilities at December 31, 2018, prior to the adoption of ASU 2016-02, were as follows:

	Long-Term Non-Cancelable Operating Leases	Capital Leases	Total
2019	$ 91,870	$ 7,366	$ 99,236
2020	86,204	8,153	94,357
2021	78,659	8,329	86,988
2022	67,928	9,177	77,105
2023	58,784	9,615	68,399
Thereafter	139,111	128,779	267,890
Total	$ 522,556	$ 171,419	$ 693,975

9. INVESTMENTS IN UNCONSOLIDATED ENTITIES

The System had a 49% interest in Bay Area Medical Center ("BAMC") that was accounted for under the equity method of accounting and was presented within investments in unconsolidated entities in the accompanying consolidated balance sheets until the remaining equity interest was purchased on April 1, 2019. The System's investment in BAMC at December 31, 2018 was $26,547. On April 1, 2019, the System acquired the remaining 51% ownership interest. See the additional discussion of this transaction in Note 20. ACQUISITION OF BAY AREA MEDICAL CENTER. BAMC is a 99-bed general acute care hospital located in Marinette, Wisconsin.

At the time of the acquisition, BAMC and the System owned a 73% and 27% interest, respectively, in Aurora Bay Area Medical Group ("ABAMG"). ABAMG provides inpatient, outpatient and other professional medical services in Marinette, Wisconsin and its surrounding communities. As part of the acquisition of BAMC, the System now owns 100% of ABAMG and its financial results are included in the consolidated financial statements of the System. The System's investment in ABAMG was accounted for under the equity method and was presented within investments in unconsolidated entities in the accompanying consolidated balance sheets. The System’s investment in ABAMG at December 31, 2018 was $703.

In conjunction with the BAMC transaction, the System contributed $25,000 to an independent Foundation. Under the terms of the definitive agreement between the System and BAMC, the use of the $25,000 contribution is designated to support the operations and capital needs of BAMC and/or ABAMG. The interest in the Foundation is reflected in investments in unconsolidated entities in the accompanying consolidated balance sheets, which amounted to $21,186 at December 31, 2019. Cash distributions of

$3,814 were received by BAMC from the Foundation under terms of the agreement during the year ended December 31, 2019.

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 $99,827 and $81,865 at December 31, 2019 and 2018, respectively, and is presented within investments in unconsolidated entities in the accompanying consolidated balance sheets. The System's interest in the investment income (loss) is reflected in the accompanying consolidated statements of operations and changes in net assets and amounted to $17,433 and $(4,270) for the year ended December 31, 2019 and the nine months ended December 31, 2018, respectively. Cash distributions of $3,680 and $0 were received by the System from MFHF under terms of the Agreement during the year ended December 31, 2019 and the nine months ended December 31, 2018, respectively. In addition, MFHF made $0 and $354 contributions to the System for program support during the year ended December 31, 2019 and the nine months ended December 31, 2018, respectively.

At December 31, 2019, the System had a 49.5% ownership interest in RML Health Providers, L.P. ("RML") that is accounted for on an equity basis. RML is an Illinois, not-for-profit limited partnership that operates a 115-bed licensed long-term acute care hospital in Hinsdale, Illinois, and an 86-bed licensed long-term acute care hospital in Chicago, Illinois. The System's investment in RML was $33,462 and $33,883 at December 31, 2019 and 2018, respectively, and is presented within investments in unconsolidated entities in the accompanying consolidated balance sheets.

RML leases the Chicago, Illinois, facility from the System. The lease has a fixed term through June 30, 2025. The System recorded rental income of $1,157 and $847 for the year ended December 31, 2019 and nine months ended December 31, 2018, respectively.

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

	RML	MFHF
As of December 31, 2019		
Total assets	$ 123,345	$ 99,827
Total liabilities	55,118	4,192
Partners' equity/net assets	68,227	95,635
Year Ended December 31, 2019		
Total revenue	111,745	19,160
Revenue in excess of expenses	12,170	13,542
As of December 31, 2018		
Total assets	125,087	85,533
Total liabilities	56,994	3,440
Partners' equity/net assets	68,093	82,093

10. 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, 2019	December 31, 2018
Revenue bonds and revenue refunding bonds		
Series 2003A (weighted average rate of 1.38% during the year ended December 31, 2019 and nine month period ended December 31, 2018), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	$ 7,700	$ 10,153
Series 2003C (weighted average rate of 1.60% during the year ended December 31, 2019 and nine month period ended December 31, 2018), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	7,708	10,169
Series 2008A (weighted average rate of 5.00% during the year ended December 31, 2019 and nine month period ended December 31, 2018), principal payable in varying annual installments through November 2030; interest based on prevailing market conditions at time of remarketing	119,569	123,078
Series 2008C (weighted average rate of 1.50% during the year ended December 31, 2019 and 1.43% during the nine month period ended December 31, 2018), principal payable in varying annual installments through November 2038; interest based on prevailing market conditions at time of remarketing	271,608	320,718
Series 2010D, 5.00%, principal payable in annual installments through April 2019	—	15,014
Series 2011A, 4.00%, principal payable in annual installments through April 2022	652	32,378
Series 2011B (weighted average rate of 1.76% for the year ended December 31, 2019 and 1.78% during the nine month period ended December 31, 2018), 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	69,297	69,274
Series 2011C weighted average rate of 2.52% for the year ended December 31, 2019 and 2.31% during the nine month period ended December 31, 2018), 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	49,753	49,722
Series 2011D weighted average rate of 2.52% for the year ended December 31, 2019 and 2.31% during the nine month period ended December 31, 2018), 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	49,753	49,722
Series 2012, 4.00%, principal payable in varying annual installments through June 2044	40,507	147,826
Series 2013A, 5.00%, principal payable in varying annual installments through June 2027	52,486	93,356
Series 2014, 4.00% to 5.00%, principal payable in varying annual installments through August 2038	160,080	330,682
Series 2015, 4.13% to 5.00%, principal payable in varying annual installments through May 2045	102,590	102,705
Series 2015B, 4.00% to 5.00%, principal payable in varying annual installments through May 2044	72,386	72,428
Series 2018A, 4.00% to 5.00%, principal payable in varying annual installments through August 2044	105,764	106,345
Series 2018B (weighted average rate of 5.00% during the year ended December 31, 2019 and the period August 16, 2018 through December 31, 2018), principal payable in varying annual installments through August 2054; interest based on prevailing market conditions at time of remarketing	206,479	211,196
Series 2018C (weighted average rate of 1.96% for the year ended December 31, 2019 and 2.09% during the period August 16,2018 through December 31, 2018), principal payable in varying annual installments through August 2054, interest tied to a market index plus a spread	198,219	198,182
	1,514,551	1,942,948
Taxable bonds		
Taxable Bond Series 2018, 3.83% to 4.27%, principal payable in varying annual installments through August 2048	709,628	709,392
Taxable Bond Series 2019, 3.39%, principal payable in October 2049	354,703	—
	1,064,331	709,392
Capital lease obligations and financing arrangements	235,249	241,677
Commercial paper, weighted average interest rate of 2.15% for the period March 5, 2019 to December 31, 2019	132,000	—

Taxable Term Loan, (weighted average rate of 2.68% for the year ended December 31, 2019 and 2.61% during the nine month period ended December 31, 2018), principal payable in varying annual installments through September 2024	114,868	114,841
	3,060,999	3,008,858
Less amounts classified as current		
Current portion of long-term debt	(52,098)	(49,927)
Commercial paper	(132,000)	—
Current portion of long-term debt and commercial paper	(184,098)	(49,927)
Long-term debt subject to short-term financing arrangements	(147,535)	(162,025)
	(331,633)	(211,952)
	$ 2,729,366	$ 2,796,906

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, 2024, are as follows: 2020 - $52,098; 2021 - $51,827; 2022 - $55,009; 2023 - $55,588; and 2024 - $124,502.

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 2008A-1 of $42,045, Series 2008A-2 of $35,490 and Series 2011B of $70,000, 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, 2019, 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, 2019, 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, 2019, the principal amount of such bonds has been classified as a current obligation in the accompanying consolidated balance sheets. The standby bond purchase agreements expire as follows: $145,919 in August 2021 and $129,456 in January 2024.

In August 2018, the Wisconsin Health and Educational Facilities Authority ("WHEFA"), for the benefit of the System issued its Revenue Bonds, Series 2018ABC, in the amount of $487,895 and the System issued its Series 2018 Taxable Bonds, in the amount of $714,500. The proceeds of the Series 2018ABC Bonds and the Series 2018 Taxable Bonds were used to refund certain WHEFA Bonds previously issued for the benefit of Aurora, refinance Aurora's taxable bonds, the drawn portion of an Aurora line of credit and to pay certain financing costs. In connection with this transaction, the System recognized a loss on refinancing in the amount of $29,859.

In March 2019, the System issued commercial paper in the amount of $50,000. The proceeds of the commercial paper were used to redeem the Series 2008C-2A bonds of $49,230 plus accrued interest and certain costs related to the issuance of the commercial paper. The remaining proceeds were used for general corporate purposes. The standby bond purchase agreement related to the Series 2008C-2A bonds were canceled effective March 5, 2019.

In connection with the BAMC acquisition, the System assumed $81,465 of outstanding tax-exempt bonds. WHEFA had originally issued Bay Area Series 2015A of $40,000 with a fixed rate and Bay Area Series 2015B of $45,600 with a variable interest rate for the benefit of BAMC (collectively referred to as the "Bay Area Bonds"). The Bay Area Bonds were purchased by a bank in a private placement transaction. Also in connection with the BAMC acquisition, the System acquired an interest rate swap. As the debt related to the swap is no longer outstanding, it is being held as a swap portfolio. These bonds and the swap are secured under the System Master Indenture.

In November 2019, the System issued commercial paper in the amount of $82,000. The proceeds of the commercial paper were used to redeem the Bay Area Bonds in the aggregate principal amount of $81,465 plus accrued interest. The remaining proceeds were used for general corporate purposes.

The commercial paper program permits the issuance of up to $475,000 in aggregate principal outstanding, with maturities limited to 270-day periods. As of December 31, 2019, $132,000 of commercial paper was outstanding with maturities ranging from 27 to 62 days.

In November 2019, the System issued Series 2019 Taxable Bonds in the amount of $357,970. The proceeds of the Series 2019 Taxable Bonds were used to refinance all or a portion of the Series 2011A-2, Series 2012, Series 2013A and Series 2014 Bonds and to pay certain financing costs. In connection with this transaction, The System recognized a loss on refinancing in the amount of $21,103.

The System maintains an interest rate swap program on certain of its variable rate debt as described in Note 11. INTEREST RATE SWAP PROGRAM.

The System's interest paid, net of capitalized interest, amounted to $119,870 for the year ended December 31, 2019 and $80,559 for the nine months ended December 31, 2018. The System capitalized interest of $4,087 for the year ended December 31, 2019 and $1,207 for the nine months ended December 31, 2018.

At December 31, 2019, the System had lines of credit with banks aggregating to $225,000. These lines of credit provide for various interest rates and payment terms and expire as follows: $25,000 in August 2020, $100,000 in August 2021 and $100,000 in December 2022. These lines of credit may be used to redeem bonded indebtedness, to pay costs related to such redemptions, for capital expenditures or for general working capital purposes. At December 31, 2019, under a line of credit there are various letters of credit issued totaling $51,734. At December 31, 2019, no amounts were outstanding on these lines or letters of credit.

11. 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 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, 2019, 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. As the Series 2008C-2A bonds were canceled effective March 5, 2019, the portion of the swap related to these bonds is now held as a swap portfolio.

In connection with the BAMC acquisition, the System acquired an interest rate swap. As the debt related to the swap is no longer outstanding, it is being held as a swap portfolio.

The following is a summary of the outstanding positions under these interest rate swap agreements at December 31, 2019:

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	27,770	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 interest rate 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 $91,340 and $65,376 as of December 31, 2019 and 2018, respectively. No collateral was posted under these swap agreements as of December 31, 2019 and 2018.

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

	Year Ended December 31, 2019	Nine Months Ended December 31, 2018
Net cash payments on interest rate swap agreements (interest expense)	$ 6,711	$ 4,850
Change in fair value of interest rate swaps	$ (21,079)	$ 993

The interest rate swap instruments contain provisions that require the System to maintain an investment grade credit rating on its tax-exempt bonds from certain major credit rating agencies. If the System's tax-exempt 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.

12. RETIREMENT PLANS

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

In June 2019, the System approved a plan to freeze the Advocate defined benefit pension plan (Advocate Plan) that covered substantially all of Advocate's employees. Effective December 31, 2019, the Advocate Plan closed to new participants and participants ceased accruing additional pension benefits. The Advocate Plan was remeasured as of June 30, 2019 and a curtailment of $72 was recorded in nonoperating income (loss), net in the accompanying consolidated statements of operations and changes in net assets. In addition, $86,396 of previously unrecognized net actuarial loss was recognized in net assets without donor restrictions as a component of pension-related changes other than net periodic pension cost. The accompanying consolidated balance sheets contain an other noncurrent liability related to the Advocate Plan totaling $173,939 and $45,570 at December 31, 2019 and 2018, respectively. During the year ended December 31, 2019 and nine months ended December 31,2018, respectively, $22,000 and no contributions were made to the Advocate Plan.

In addition, the accompanying consolidated balance sheets contain an other noncurrent liability and other noncurrent asset related to the Condell Health Network Retirement Plan (Condell Plan) of $1,824 and $1,424 at December 31, 2019 and 2018, respectively. The Condell Plan was frozen effective January 1, 2008 to new participants and participants ceased to accrue additional pension benefits. During the year ended December 31, 2019 and nine months ended December 31, 2018, no contributions were made to the Condell Plan.

The accompanying consolidated balance sheets contain an other noncurrent liability related to the Aurora defined benefit pension plan (Aurora Plan) of $83,321 and $104,979 at December 31, 2019 and 2018, respectively. The Aurora Plan was frozen on December 31, 2012. During the year ended December 31, 2019 and the nine months ended December 31, 2018, respectively, cash contributions of $10,000 and $22,200 were made to the Aurora Plan.

A summary of changes in the plan assets, projected benefit obligation and the resulting funded status for the year ended December 31, 2019 is as follows:

	Advocate	Condell	Aurora	Total
Change in plan assets:				
Plan assets at fair value at beginning of period	$ 929,365	$ 58,230	$ 1,327,366	$ 2,314,961
Actual return on plan assets	117,288	10,604	308,509	436,401
Employer contributions	22,000	—	10,000	32,000
Benefits paid	(56,853)	(4,623)	(57,371)	(118,847)
Plan assets at fair value at end of period	$ 1,011,800	$ 64,211	$ 1,588,504	$ 2,664,515
Change in projected benefit obligation:				
Projected benefit obligation at beginning of period	$ 974,935	$ 56,806	$ 1,432,345	$ 2,464,086
Service cost	57,645	—	—	57,645
Interest cost	38,384	2,327	62,649	103,360
Actuarial loss	258,024	11,525	234,202	503,751
Gain due to curtailment	(86,396)	—	—	(86,396)
Benefits paid	(56,853)	(4,623)	(57,371)	(118,847)
Projected benefit obligation at end of period	$ 1,185,739	$ 66,035	$ 1,671,825	$ 2,923,599
Plan assets less than projected benefit obligation	$ (173,939)	$ (1,824)	$ (83,321)	$ (259,084)
Accumulated benefit obligation at end of period	$ 1,185,739	$ 66,035	$ 1,671,825	$ 2,923,599

A summary of changes in the plan assets, projected benefit obligation and the resulting funded status for the nine-months ended December 31, 2018 is as follows:

	Advocate	Condell	Aurora	Total
Change in plan assets:				
Plan assets at fair value at beginning of period	$ 1,008,843	$ 66,731	$ 1,511,225	$ 2,586,799
Actual return on plan assets	(23,256)	(3,956)	(119,447)	(146,659)
Employer contributions	—	—	22,200	22,200
Benefits paid	(56,222)	(4,545)	(86,612)	(147,379)
Plan assets at fair value at end of period	$ 929,365	$ 58,230	$ 1,327,366	$ 2,314,961
Change in projected benefit obligation:				
Projected benefit obligation at beginning of period	$ 960,935	$ 70,993	$ 1,622,605	$ 2,654,533
Service cost	41,279	—	—	41,279
Interest cost	26,332	1,877	45,375	73,584
Actuarial loss (gain)	2,611	(11,520)	(149,023)	(157,932)
Benefits paid	(56,222)	(4,544)	(86,612)	(147,378)
Projected benefit obligation at end of period	$ 974,935	$ 56,806	$ 1,432,345	$ 2,464,086
Plan assets (less) greater than projected benefit obligation	$ (45,570)	$ 1,424	$ (104,979)	$ (149,125)
Accumulated benefit obligation at end of period	$ 907,526	$ 56,806	$ 1,432,345	$ 2,396,677

The Condell Plan paid lump sums totaling $2,989 and $3,854 in 2019 and 2018, respectively. The amount in 2019 and 2018 was greater than the sum of the Condell Plan's service cost and interest cost, resulting in a settlement charge in the amount of $642 and $787, respectively.

Pension plan expense (income) included in the accompanying consolidated statements of operations and changes in net assets is as follows for the year ended December 31, 2019:

	Advocate	Condell	Aurora	Total
Service cost	$ 57,645	$ —	$ —	$ 57,645
Interest cost	38,384	2,327	62,649	103,360
Expected return on plan assets	(55,543)	(2,413)	(76,183)	(134,139)
Amortization of:				
Actuarial loss	3,634	108	7,631	11,373
Prior service cost	(72)	—	3	(69)
Settlement/curtailment	(72)	642	—	570
Net pension expense (income)	$ 43,976	$ 664	$ (5,900)	$ 38,740

Pension plan expense (income) included in the accompanying consolidated statements of operations and changes in net assets is as follows for the nine months ended December 31, 2018:

	Advocate	Condell	Aurora	Total
Service cost	$ 41,279	$ —	$ —	$ 41,279
Interest cost	26,332	1,877	45,375	73,584
Expected return on plan assets	(49,884)	(2,124)	(57,426)	(109,434)
Amortization of:				
Actuarial loss	3,974	1,259	8,816	14,049
Prior service cost	(2,987)	—	2	(2,985)
Settlement/curtailment	—	787	—	787
Net pension expense (income)	$ 18,714	$ 1,799	$ (3,233)	$ 17,280

The components of net periodic benefit costs other than the service cost component are included in other nonoperating 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, 2019:

	Advocate	Condell	Aurora	Total
Net change recognized	$ 106,393	$ 2,584	$ (5,758)	$ 103,219

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 nine months ended December 31, 2018:

	Advocate	Condell	Aurora	Total
Net change recognized	$ 74,763	$ (7,486)	$ 19,033	$ 86,310

Included in net assets without donor restrictions at December 31, 2019 are the following amounts that have not yet been recognized in net pension expense:

	Advocate	Condell	Aurora	Total
Unrecognized prior credit	$ —	$ —	$ 102	$ 102
Unrecognized actuarial loss	305,168	14,193	454,561	773,922
	$ 305,168	$ 14,193	$ 454,663	$ 774,024

The expected amortization amount to be included in the net periodic pension cost in 2020 is as follows:

	Advocate	Condell	Aurora	Total
Net actuarial loss	$ 5,149	$ 355	$ 11,990	$ 17,494
Prior service (credit)/cost	—	—	3	3
	$ 5,149	$ 355	$ 11,993	$ 17,497

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

	Advocate	Condell	Aurora	Total
2020	$ 72,071	$ 4,853	$ 62,740	$ 139,664
2021	67,845	6,174	67,335	141,354
2022	71,054	5,439	71,363	147,856
2023	70,843	4,536	74,794	150,173
2024	69,337	4,789	77,895	152,021
2025-2029	342,568	22,047	424,167	788,782
Total	$ 693,718	$ 47,838	$ 778,294	$ 1,519,850

Expected contributions to the pension plans are as follows:

	Advocate	Condell	Aurora	Total
2020	$ 20,000	$ —	$ 20,000	$ 40,000

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, Condell Plan and Aurora 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:

	December 31, 2019		December 31, 2018	
Asset Category - Advocate Plan	**Target**	**Actual**	**Target**	**Actual**
De-risking portfolio	75%	58%	—%	—%
Domestic and international equity securities	21	20	35	34
Alternative investments	2	13	45	46
Cash and fixed-income securities	2	9	20	20
	100%	100%	100%	100%

	December 31, 2019		December 31, 2018	
Asset Category - Condell Plan	**Target**	**Actual**	**Target**	**Actual**
De-risking portfolio	75%	85%	65%	65%
Domestic and international equity securities	11	6	15	15
Cash and fixed-income securities	14	9	20	20
	100%	100%	100%	100%

	December 31, 2019		December 31, 2018	
Asset Category - Aurora Plan	**Target**	**Actual**	**Target**	**Actual**
De-risking portfolio	75%	73%	60%	60%
Domestic and international equity securities	21	22	33	33
Real estate	2	2	3	3
Cash and fixed-income securities	2	3	4	4
	100%	100%	100%	100%

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

At December 31, 2019, the Advocate Plan had commitments to fund alternative investments, including recallable distributions of $28,853 over the next five years.

In the normal course of operations and within established investment policy guidelines, the Plan 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 Plan's strategic asset allocation. These instruments require the Plan to deposit cash collateral with the broker or custodian.

Derivative contract information at December 31, 2019 are as follows:

	Advocate	Aurora	Total
Cash and security collateral provided	$ 9,608	$ 4,554	$ 14,162
Notional value - long position	—	283,335	283,335
Notional value - short position	(451,430)	(9,006)	(460,436)

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 $45,871 at December 31, 2019. Unsettled purchases resulted in payables of $45,351 at December 31, 2019.

Receivables and payables for investment trades not settled are presented within Aurora Plan assets. Unsettled sales resulted in receivables due from brokers of $12 at December 31, 2019. Unsettled purchases resulted in payables of $2,987 at December 31, 2019.

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 4. 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 6.

The following are the Plans' financial instruments at December 31, 2019, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 6.:

Description		**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	$ 137,453	$ 32,415	$ 105,038	$ —
Corporate bonds and other debt securities	1,045,015	—	1,045,015	—
United States government obligations	644,077	—	644,077	—
Bond and other debt security funds	126,516	—	126,516	—
Equity securities	67,724	67,724	—	—
Equity funds	482,682	11,841	470,841	—
Real estate funds	17,604	—	17,604	—
	2,521,071	$ 111,980	$ 2,409,091	$ —
Investments at net asset value				
Alternative investments	143,444			
Total investments	$ 2,664,515			

The following are the Plans' financial instruments at December 31, 2018, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 6.:

Description		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	$ 86,131	$ 36,453	$ 49,678	$ —
Corporate bonds and other debt securities	647,429	—	647,429	—
United States government obligations	221,420	—	221,420	—
Non-government fixed-income obligations	571	—	571	—
Bond and other debt security funds	176,550	97,562	78,988	—
Equity securities	229,057	229,057	—	—
Equity funds	398,881	248,639	150,242	—
Real estate funds	19,302	2,516	16,786	—
	1,779,341	$ 614,227	$ 1,165,114	$ —
Investments at net asset value				
Alternative investments	535,620			
Total	$ 2,314,961			

Assumptions used to determine benefit obligations are as follows:

	December 31, 2019	December 31, 2018
Discount rate - Advocate Plan	3.23%	4.38%
Discount rate - Condell Plan	3.37%	4.38%
Discount rate - Aurora Plan	3.37%	4.48%
Assumed rate of return on assets - Advocate Plan	4.50%	7.00%
Assumed rate of return on assets - Condell Plan	2.50%	4.25%
Assumed rate of return on assets - Aurora Plan	4.50%	5.50%
Weighted average rate of increase in future compensation (age-based table) - Advocate Plan	—%	3.77%

Assumptions used to determine net pension expense are as follows:

	December 31, 2019	December 31, 2018
Discount rate - Advocate and Condell Plans	4.38%	3.60%
Discount rate - Aurora Plan	4.48%	3.79%
Assumed rate of return on assets - Advocate Plan	7.00%	7.00%
Assumed rate of return on assets - Condell Plan	4.25%	5.00%
Assumed rate of return on assets - Aurora Plan	5.50%	5.50%
Weighted average rate of increase in future compensation (age-based table) - Advocate Plan	3.77%	3.61%

The assumed rate of return on each Plan's assets is based on historical and projected rates of return for asset classes in which the portfolio is invested. As the Advocate Plan was frozen on December 31, 2019, the assumed rate of return and the target asset allocations were adjusted and actual allocations are being adjusted to more closely align with the new target allocations.

The 2019 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-2019. The 2018 mortality assumption for the Advocate and Condell Plans was the RP-2014 no-collar adjustment with improvements projected generationally using Scale MP-2018. The 2018 mortality assumption for the Aurora

Plan was the RP-2014 100% white-collar adjustment with improvements projected generationally using Scale MP-2018.

In addition to these Plans, the System sponsors various defined contribution plans for its employees. Contributions to these plans, which are included in salaries, wages and benefits expense in the consolidated statements of operations and changes in net assets, were $207,194 for the year ended December 31, 2019 and $140,381 for the nine months ended December 31, 2018.

13. NET ASSETS WITH DONOR RESTRICTIONS

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

	December 31, 2019	December 31, 2018
Purchases of property and equipment	$ 22,763	$ 22,767
Medical education and other health care programs	219,342	201,024
	$ 242,105	$ 223,791

14. 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, 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 income, net in the accompanying consolidated statements of operations and changes in net assets.

Functional operating expenses for the year ended December 31, 2019 are as follows:

	Health care services	General and administrative	Consolidated
Salaries, wages and benefits	$ 6,437,864	$ 619,726	$ 7,057,590
Supplies, purchased services and other	3,526,902	519,823	4,046,725
Contracted medical services	543,716	—	543,716
Depreciation and amortization	478,765	91,243	570,008
Interest	106,314	—	106,314
Total operating expenses	11,093,561	1,230,792	12,324,353
Allocation of general and administrative	1,230,792	(1,230,792)	—
Total operating expenses after allocation	$ 12,324,353	$ —	$ 12,324,353

Functional operating expenses for the nine months ended December 31, 2018 are as follows:

	Health care services	General and administrative	Consolidated
Salaries, wages and benefits	$ 4,634,289	$ 381,527	$ 5,015,816
Supplies, purchased services and other	2,331,949	535,961	2,867,910
Contracted medical services	478,393	—	478,393
Depreciation and amortization	346,655	64,380	411,035
Interest	81,385	—	81,385
Total operating expenses	7,872,671	981,868	8,854,539
Allocation of general and administrative	981,868	(981,868)	—
Total operating expenses after allocation	$ 8,854,539	$ —	$ 8,854,539

15. LIQUIDITY

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

	December 31, 2019	December 31, 2018
Current assets		
Cash and cash equivalents	$ 449,712	$ 584,887
Assets limited as to use	106,529	106,244
Patient accounts receivable	1,605,607	1,486,260
Third-party payors receivables	15,331	17,793
Collateral proceeds under securities lending program	18,284	18,869
Total current assets	2,195,463	2,214,053
Assets limited as to use		
Internally designated for capital and other	8,345,172	6,941,646
Held for self-insurance	645,697	632,372
Donor restricted	132,024	119,759
Investments under securities lending program	17,672	18,310
Total assets limited as to use	9,140,565	7,712,087
Total financial assets	$ 11,336,028	$ 9,926,140
Less		
Amounts unavailable for general expenditures		
Alternative investments	(1,791,717)	(1,457,147)
Total amounts unavailable for general expenditure	(1,791,717)	(1,457,147)
Amounts unavailable to management without approval		
Held for self-insurance	(752,226)	(738,616)
Donor restricted	(132,024)	(119,759)
Investments under securities lending program	(17,672)	(18,310)
Total amounts unavailable to management without approval	(901,922)	(876,685)
Total financial assets available to management for general expenditure within one year	$ 8,642,389	$ 7,592,308

16. 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 $843,863, of which $384,917 has been incurred as of December 31, 2019.

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 $260,000 over the next eleven years and approximately $34,000 is included in accrued liabilities in the accompanying consolidated balance sheets at December 31, 2019. The System has also entered into various other agreements. The future commitments under these agreements is $31,245 over the next six years.

17. 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.

Aurora'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, 2019 and 2018. Total accrued insurance liabilities would have been $71,439 and $76,620 greater at December 31, 2019 and 2018, 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.

18. 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.

19. 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 provided 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, 2019, the System had $52,133 of federal and $74,412 of state net operating loss carryforward with unutilized amounts expiring between 2020 and 2037. At December 31, 2018, the System had $40,338 of federal and $60,481 of state net operating loss carryforward ,with unutilized amounts expiring between 2019 and 2037.

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 $31,692 and $34,812, including $16,708 and $13,167 related to net operating loss carryforwards, as of December 31, 2019 and 2018, respectively. These deferred tax assets were partially offset by valuation allowances of $16,328 and $12,748, respectively, which were recorded due to the uncertainty regarding the use of the deferred tax assets.

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

	Year Ended December 31, 2019	Nine Months Ended December 31, 2018
Federal	$ (891)	$ 392
State	(328)	(516)
Deferred	10,273	(3,356)
	$ 9,054	$ (3,480)

20. ACQUISITION OF BAY AREA MEDICAL CENTER

On April 1, 2019, the System acquired the remaining 51% interest in BAMC. The acquisition will improve the availability, scope and access to health care in the communities served by BAMC. As of April 1, 2019, BAMC and ABAMG are fully consolidated within the consolidated financial statements of the System. Prior to April 1, 2019, the System had a 49% interest in BAMC and a 27% interest in ABAMG.

In conjunction with the BAMC transaction, the System contributed $25,000 to an independent Foundation, a newly formed foundation. This interest in the Foundation is reflected in investments in unconsolidated entities in the accompanying consolidated balance sheets. Under the terms of the definitive agreement between the System and BAMC, the use of the $25,000 contribution is designated to support the operations and capital needs of BAMC and/or ABAMG.

As the System previously had an interest in BAMC, this transaction was accounted for as an acquisition achieved in stages. The System remeasured its previously held equity interest in BAMC to fair market value resulting in a gain of $44,000, which is recorded within other nonoperating income, net in the accompanying consolidated statements of operations and changes in net assets. The System then recorded its 100% interest in BAMC at fair market value, resulting in an inherent contribution of $37,736, which is recorded within other nonoperating income, net on the accompanying consolidated statements of operations and changes in net assets.

The fair value of assets and liabilities of BAMC acquisition at April 1, 2019 consisted of the following:

Current assets	$	37,239
Assets limited as to use		18,795
Property and equipment		157,206
Other noncurrent assets		7,879
Other intangible assets		460
Total assets	$	221,579
Current liabilities		19,812
Long-term debt, less current portion		78,959
Other noncurrent liabilities		12,080
Total liabilities		110,851
Net assets with donor restrictions		792
Net assets without donor restrictions		109,936
Total liabilities and net assets	$	221,579

Total revenue and operating loss from the date of acquisition for BAMC of $109,309 and $(9,599), respectively were included in the consolidated statements of operations and changes in net assets. The BAMC related changes in net assets without donor restrictions of $(13,074) from the date of acquisition is included in the consolidated balance sheets.

The proforma financial information presented below were prepared on a consolidated basis utilizing the accounting records of the System and BAMC as if the acquisition had occurred for the entirety of the periods presented. The proforma presented have been adjusted to eliminate activity between the System and BAMC. Management believes the assumptions underlying the proforma financial information presented, including the assumptions regarding the elimination of intercompany activity are reasonable. Nevertheless, the proforma information may not reflect the results of operations had BAMC been a combined company during the periods presented and is not intended to project the System's results of operations for any future periods.

	Year Ended December 31, 2019	Nine Months Ended December 31, 2018
Total revenue	$ 12,833,303	$ 9,295,172
Operating income	480,701	360,168
Revenues in excess of expenses	1,546,032	74,447

21. AFFILIATION

On April 1, 2018, Advocate Aurora Health, Inc., became the sole corporate member of Advocate Health Care Network and Aurora Health Care, Inc. 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.

The Affiliation was accounted for as a merger in accordance with accounting principles generally accepted in the United States; therefore, the System has accounted for the merger by applying the carryover method.

The following balance sheet was prepared on a consolidated basis utilizing accounting records of Advocate and Aurora as of April 1, 2018. The System's assets and liabilities have been adjusted to include a previously non-consolidated lab joint venture ("A2CL") as well as associated material eliminations of activity and balances due between Advocate and Aurora. Additionally, certain accounting policies have been adjusted to align Advocate and Aurora.

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

	April 1, 2018				
	Aurora	**Advocate**	**A2CL**	**Eliminations**	**Consolidated**
Assets					
Current assets					
Cash and cash equivalents	$ 171,402	$ 235,425	$ 1,278	$ —	$ 408,105
Assets limited as to use	4,523	104,543	—	—	109,066
Patient accounts receivable	744,668	726,045	—	—	1,470,713
Other current assets	193,669	348,921	12,317	(21,510)	533,397
Total current assets	1,114,262	1,414,934	13,595	(21,510)	2,521,281
Assets limited as to use	1,737,381	6,187,437	—	—	7,924,818
Property and equipment, net	2,445,763	2,987,734	—	—	5,433,497
Total other assets	273,788	498,605	1,579	(10,075)	763,897
Total assets	$ 5,571,194	$ 11,088,710	$ 15,174	$ (31,585)	$ 16,643,493
Liabilities and net assets					
Current liabilities					
Current portion of long term-debt	$ 136,239	$ 120,901	$ —	$ —	$ 257,140
Accounts payable and accrued liabilities	623,687	829,635	18,127	(21,510)	1,449,939
Other current liabilities	31,653	425,468	—	—	457,121
Total current liabilities	791,579	1,376,004	18,127	(21,510)	2,164,200
Noncurrent liabilities					
Long-term debt, less current portion	1,266,070	1,539,105	—	—	2,805,175
Accrued Insurance and claims costs, less current portion	27,381	636,856	—	—	664,237
Other noncurrent liabilities	382,919	359,597	—	(13,028)	729,488
Total noncurrent liabilities	1,676,370	2,535,558	—	(13,028)	4,198,900
Total liabilities	2,467,949	3,911,562	18,127	(34,538)	6,363,100
Net assets					
Without donor restrictions					
Controlling interest	2,934,281	7,009,528	(2,953)	2,953	9,943,809
Noncontrolling interest in subsidiaries	104,168	570	—	—	104,738
Total net assets without donor restrictions	3,038,449	7,010,098	(2,953)	2,953	10,048,547
With donor restrictions	64,796	167,050	—	—	231,846
Total net assets	3,103,245	7,177,148	(2,953)	2,953	10,280,393
Total liabilities and net assets	$ 5,571,194	$ 11,088,710	$ 15,174	$ (31,585)	$ 16,643,493

22 SUBSEQUENT EVENTS

The System evaluated events and transactions subsequent to December 31, 2019 through March 26, 2020, the date of financial statement issuance.

On January 9, 2020 the System approved the sale of a majority of the assets and certain liabilities (the disposal group) related to the central Illinois operations of the System. Based on a preliminary review, management expects that an immaterial loss will be incurred on this sale. In January 2020, the related disposal group was reclassified to assets held for sale.

In 2020, the Series 2008A-1 and Series 2008A-2 bonds were remarketed at a premium to their maturity date of November 1, 2030 and a portion of the outstanding par was redeemed in the amount of $5,590 and $4,670, respectively.

Due to the COVID-19, a strain of coronavirus, pandemic, the behavior of businesses and people globally has been altered in a manner that is having negative effects on global and local economies including significant investment market volatility, various temporary business closures resulting in increased unemployment and other effects which could result in supply disruptions and/or decisions to defer medical treatments at the System's facilities. The potential impact on the System is difficult to predict and could adversely impact the business, investment portfolio, financial condition or results of operations and, accordingly, may materially adversely impact the financial condition of the System. The accompanying consolidated financial statements as of and for the year ended December 31, 2019 do not reflect the effects of these subsequent events.

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Supplementary Information

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Report of Independent Auditors on Supplementary Information

The Board of Directors
Advocate Aurora Health, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated 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 consolidated 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. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

March 26, 2020

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATING BALANCE SHEET
December 31, 2019
(in thousands)

Assets	Credit Group	Noncredit Group	Eliminations	Consolidated
Current assets				
Cash and cash equivalents	$ (30,380)	$ 480,092	$ -	$ 449,712
Assets limited as to use	95,993	10,536	-	106,529
Patient accounts receivable	1,365,789	239,818	-	1,605,607
Other current assets	556,807	92,479	(29,744)	619,542
Third-party payors receivables	13,806	1,525	-	15,331
Receivable from subsdiaries	206,863	314,039	(520,902)	-
Collateral proceeds under securities lending program	18,284	-	-	18,284
Total current assets	2,227,162	1,138,489	(550,646)	2,815,005
Assets limited as to use	9,080,564	60,001	-	9,140,565
Note receivable from subsidiaries	181,988	-	(181,988)	-
Property and equipment, net	5,204,133	711,653	(13,863)	5,901,923
Other assets				
Intangible asset and goodwill, net	45,710	32,561	(1,441)	76,830
Investment in subsidiaries	(19,988)	-	19,988	-
Investments in unconsolidated entities	497,262	3,078	(287,925)	212,415
Reinsurance receivable	52,312	-	-	52,312
Operating lease right-of-use assets	300,358	51,937	-	352,295
Other noncurrent assets	677,327	42,460	(337,763)	382,024
Total other assets	1,552,981	130,036	(607,141)	1,075,876
Total assets	$ 18,246,828	$ 2,040,179	$ (1,353,638)	$ 18,933,369

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATING BALANCE SHEET
December 31, 2019
(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Current liabilities				
Current portion of long-term debt and commercial paper	$ 180,436	$ 22,846	$ (19,184)	$ 184,098
Long-term debt subject to short-term financing arrangements	147,535	-	-	147,535
Current portion of operating lease liabilities	68,237	9,720	-	77,957
Accounts payable and accrued liabilities	1,583,677	293,246	(13,888)	1,863,035
Third-party payors payables	297,398	5,902	-	303,300
Current portion of accrued insurance and claims costs	105,363	9,378	-	114,741
Accounts payable to subsidiaries	333,926	186,976	(520,902)	-
Collateral under securities lending program	18,284	-	-	18,284
Total current liabilities	2,734,856	528,068	(553,974)	2,708,950
Noncurrent liabilities				
Long-term debt, less current portion	2,726,593	176,692	(173,919)	2,729,366
Operating lease liabilities	269,068	45,038	-	314,106
Accrued insurance and claims cost, less current portion	513,358	31,481	-	544,839
Accrued losses subject to insurance recovery	52,312	-	-	52,312
Obligations under swap agreements	86,120	5,220	-	91,340
Due to subsidiaries	299,545	(199,022)	(100,523)	-
Other noncurrent liabilities	765,927	28,831	(966)	793,792
Total noncurrent liabilities	4,712,923	88,240	(275,408)	4,525,755
Total liabilities	7,447,779	616,308	(829,382)	7,234,705
Net assets				
Without donor restrictions				
Controlling interest	10,255,465	1,345,301	(290,947)	11,309,819
Noncontrolling interest in subsidiaries	143,819	2,921	-	146,740
Total net assets without donor restrictions	10,399,284	1,348,222	(290,947)	11,456,559
With donor restrictions	399,765	95,637	(253,297)	242,105
Common stock	-	1,863	(1,863)	-
Additional paid-in capital	-	84,672	(84,672)	-
Retained (deficit) earnings/partnership losses	-	(106,523)	106,523	-
Total net assets	10,799,049	1,423,871	(524,256)	11,698,664
Total liabilities and net assets	$ 18,246,828	$ 2,040,179	$ (1,353,638)	$ 18,933,369

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2019
(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Revenue				
Patient service revenue	$ 9,257,991	$ 1,787,776	$ (384,798)	$ 10,660,969
Capitation revenue	555,713	722,997	(14,548)	1,264,162
Other revenue	636,517	695,160	(451,385)	880,292
Total revenue	10,450,221	3,205,933	(850,731)	12,805,423
Expenses				
Salaries, wages and benefits	5,933,210	1,088,285	(32,933)	6,988,562
Supplies, purchased services and other	3,145,211	1,112,355	(258,561)	3,999,005
Contracted medical services	200,148	807,652	(464,084)	543,716
Depreciation and amortization	509,644	62,609	(2,297)	569,956
Interest	96,991	15,195	(5,872)	106,314
Total expenses	9,885,204	3,086,096	(763,747)	12,207,553
Operating income (loss) before nonrecurring expenses	565,017	119,837	(86,984)	597,870
Nonrecurring expenses	115,032	1,768	-	116,800
Operating income (loss)	449,985	118,069	(86,984)	481,070
Nonoperating income (loss)				
Investment income, net	1,007,980	45,918	-	1,053,898
Loss on debt refinancing	(21,665)	-	-	(21,665)
Change in fair value of interest rate swaps	(20,742)	(337)	-	(21,079)
Other nonoperating income (loss), net	48,429	9,103	(3,059)	54,473
Total nonoperating income (loss), net	1,014,002	54,684	(3,059)	1,065,627
Revenue in excess of (less than) expenses	1,463,987	172,753	(90,043)	1,546,697
Less noncontrolling interest	29	(1,435)	(59,343)	(60,749)
Revenue in excess of (less than) expenses- attributable to controlling interest	$ 1,464,016	$ 171,318	$ (149,386)	$ 1,485,948