Advocate Aurora Health, Inc.

Consolidated Financial Statements and Supplementary Information
As of and for the Years Ended December 31, 2020 and 2019

Document Dated as of March 22, 2021

ADVOCATE AURORA HEALTH, INC.
TABLE OF CONTENTS

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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, Inc., which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, 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 of America. 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, Inc. at December 31, 2020 and 2019, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 22, 2021

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

	December 31, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 959,878	$ 449,712
Assets limited as to use	125,053	106,529
Patient accounts receivable	1,570,738	1,605,607
Other current assets	686,686	619,542
Third-party payors receivables	16,933	15,331
Collateral proceeds under securities lending program	19,789	18,284
Total current assets	3,379,077	2,815,005
Assets limited as to use	11,107,210	9,140,565
Property and equipment, net	5,851,977	5,901,923
Other assets		
Reinsurance receivable	50,514	52,312
Goodwill and intangible assets, net	82,752	76,830
Investments in unconsolidated entities	210,303	212,415
Operating lease right-of-use assets	309,678	352,295
Other noncurrent assets	458,132	382,024
Total other assets	1,111,379	1,075,876
Total assets	**$ 21,449,643**	**$ 18,933,369**

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

	December 31, 2020	December 31, 2019
Current liabilities		
Long-term debt and commercial paper, current portion	$ 101,996	$ 184,098
Long-term debt subject to short-term financing arrangements	119,660	147,535
Operating lease liabilities, current portion	79,934	77,957
Accrued salaries and employee benefits	1,207,672	950,391
Accounts payable and other accrued liabilities	1,341,619	912,644
Third-party payors payables	318,801	303,300
Accrued insurance and claim costs, current portion	130,391	114,741
Collateral under securities lending program	19,789	18,284
Total current liabilities	3,319,862	2,708,950
Noncurrent liabilities		
Long-term debt, less current portion	3,310,401	2,729,366
Operating lease liabilities, less current portion	268,575	314,106
Accrued insurance and claims cost, less current portion	593,739	544,839
Accrued losses subject to insurance recovery	50,514	52,312
Obligations under swap agreements	118,620	91,340
Other noncurrent liabilities	1,387,888	793,792
Total noncurrent liabilities	5,729,737	4,525,755
Total liabilities	**9,049,599**	**7,234,705**
Net assets		
Without donor restrictions		
Controlling interest	12,012,719	11,309,819
Noncontrolling interest in subsidiaries	154,645	146,740
Total net assets without donor restrictions	12,167,364	11,456,559
With donor restrictions	232,680	242,105
Total net assets	**12,400,044**	**11,698,664**
Total liabilities and net assets	**$ 21,449,643**	**$ 18,933,369**

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, 2020	Year Ended December 31, 2019
Revenue		
Patient service revenue	$ 10,216,386	$ 10,660,969
Capitation revenue	1,121,428	1,264,162
Other revenue	1,794,375	880,292
Total revenue	13,132,189	12,805,423
Expenses		
Salaries, wages and benefits	7,427,903	6,988,562
Supplies, purchased services and other	4,200,203	3,999,005
Contracted medical services	502,420	543,716
Depreciation and amortization	560,215	569,956
Interest	112,126	106,314
Total expenses	12,802,867	12,207,553
Operating income before nonrecurring expenses	**329,322**	**597,870**
Nonrecurring expenses	116,355	116,800
Operating income	**212,967**	**481,070**
Nonoperating income (loss)		
Investment income, net	593,283	1,053,898
Loss on debt refinancing	(12,244)	(21,665)
Change in fair value of interest rate swaps	(27,280)	(21,079)
Pension settlement loss	(119,658)	—
Other nonoperating (loss) income, net	(38,943)	54,473
Total nonoperating income, net	395,158	1,065,627
Revenue in excess of expenses	608,125	1,546,697
Less noncontrolling interest	(50,093)	(60,749)
Revenue in excess of expenses - attributable to controlling interest	**$ 558,032**	**$ 1,485,948**

(Continued)

ADVOCATE AURORA HEALTH, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(in thousands)

	Year Ended December 31, 2020	Year Ended December 31, 2019
Net assets without donor restrictions, controlling interest		
Revenue in excess of expenses - attributable to controlling interest	$ 558,032	$ 1,485,948
Pension-related changes other than net periodic pension costs	138,208	(106,221)
Net assets released from restrictions for purchase of property and equipment	6,206	4,839
Other, net	454	1,108
Increase in net assets without donor restrictions, controlling interest	702,900	1,385,674
Net assets without donor restrictions, noncontrolling interest		
Revenues in excess of expenses	50,093	60,749
Distributions to noncontrolling interest	(41,948)	(32,488)
Other, net	(240)	11
Increase in net assets without donor restrictions, noncontrolling interest	7,905	28,272
Net assets with donor restrictions		
Contributions	22,971	27,627
Investment income, net	9,948	14,400
Net assets released from restrictions for operations	(17,074)	(18,596)
Net assets released from restrictions for purchase of property and equipment	(6,206)	(4,839)
Central IL net assets with donor restrictions sold	(18,949)	—
Other, net	(115)	(278)
(Decrease) increase in net assets with donor restrictions	(9,425)	18,314
Increase in net assets	**701,380**	**1,432,260**
Net assets at beginning of period	11,698,664	10,242,977
Adoption of ASC 2016-02 (Leases)	—	23,427
Net assets at end of period	**$ 12,400,044**	**$ 11,698,664**

See accompanying notes to consolidated financial statements.

ADVOCATE AURORA HEALTH, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash flows from operating activities		
Increase in net assets	$ 701,380	$ 1,432,260
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	555,515	564,270
Amortization of operating lease right-of-use assets	63,840	64,801
Loss on debt refinancing	12,244	21,665
Loss on sale of property and equipment	12,571	2,618
Change in fair value of swap agreements	27,280	21,079
Pension-related changes other than net periodic pension cost	(138,208)	106,221
Net assets released from restrictions for operations	(17,074)	(18,596)
Distribution to noncontrolling interest	50,205	29,446
Distributions from unconsolidated entities	14,951	23,707
Gain on Bay Area Medical Center acquisition	—	(81,736)
Loss on sale of Central IL disposal group	21,346	—
Central IL net assets with donor restrictions sold	18,949	—
Changes in operating assets and liabilities		
Trading securities, net	(2,025,066)	(1,433,305)
Accounts receivable, net	31,871	(103,625)
Accounts payable and accrued liabilities	1,006,265	203,877
Third-party payors receivables and payables, net	16,896	1,640
Other assets and liabilities, net	240,620	(280,549)
Net cash provided by operating activities	593,585	553,773
Cash flows from investing activities		
Capital expenditures	(703,611)	(653,207)
Proceeds from sale of property and equipment	1,998	4,102
Sales of investments designated as non-trading, net	241	69
Investments in unconsolidated entities, net	(8,016)	(31,005)
Investments acquired in Bay Area Medical Center acquisition	—	34,018
Cash received from sale of Central IL disposal group	190,000	—
Other	(15,879)	(7,534)
Net cash used in investing activities	(535,267)	(653,557)
Cash flows from financing activities		
Proceeds from issuance of debt	695,915	496,074
Repayments of long-term debt	(226,781)	(544,046)
Distribution to noncontrolling interest	(50,205)	(29,446)
Proceeds from restricted contributions and income (loss) on investments	32,919	42,027
Net cash provided by (used in) financing activities	451,848	(35,391)
Net increase (decrease) in cash and cash equivalents	**510,166**	**(135,175)**
Cash and cash equivalents at beginning of period	449,712	584,887
Cash and cash equivalents at end of period	**$ 959,878**	**$ 449,712**
Supplemental disclosures of noncash information		
Operating lease right-of-use assets in exchange for new operating lease liabilities	$ 24,272	$ 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"). The Parent Corporation is the sole corporate member of Advocate Health Care Network, an Illinois not-for-profit corporation ("Advocate") and Aurora Health Care, Inc., a Wisconsin nonstock not-for-profit corporation ("Aurora"). The Parent Corporation, Advocate, Aurora and their controlled subsidiaries are collectively referred to herein as the "System." The System was formed in furtherance of the parties' common and unifying charitable health care mission to promote and improve the quality and expand the scope and accessibility of affordable health care and health care-related services for the communities they serve.

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 24 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. SIGNIFICANT EVENTS

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

At various times in 2020 and at various locations the System postponed or canceled elective procedures to comply with public health protocols. This, along with the growth in the volume of COVID-19 patients, had a negative impact on operations and revenues and has also caused the System to estimate the timing, source and rate of reimbursement for COVID-19 related patient care.

The total impact of the COVID-19 pandemic on the System is difficult to predict and could adversely impact the business, investment portfolio, financial condition or results of operations and, accordingly, may have a material adverse impact on the financial condition of the System. The System is monitoring liquidity and cash flow and has taken, and will continue to take, steps to protect its fiscal health, including a focus on maintaining liquidity to meet its obligations. In addition, the System has applied for certain COVID-19 related resources, including supplies, financial support, payroll tax deferrals and relief and other assistance made available through local, state and federal governments.

As of December 31, 2020, the System received $786,655 in grant payments from the U.S. Department of Health and Human Services ("HHS") from the Provider Relief Fund established under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which has been recognized as revenue and included in other operating revenue within the consolidated statement of operations and changes in net assets. Payments from the Provider Relief Fund are intended to cover unreimbursed healthcare related expenses and lost revenue from patient care attributed to COVID-19 and are not required to be repaid provided the recipient attests to and complies with the terms and conditions of the grant funds. Management of the System believes the System is in compliance with the terms and conditions of the Provider Relief Fund distributions and will continue to monitor compliance. The CARES Act also entitled eligible employers to an employee retention tax credit designed to encourage employers to keep employees on their payroll. The refundable tax credit is limited to 50% of up to $10 in qualified wages paid to each employee by an eligible employer whose business had been financially impacted by COVID-19. As of December 31, 2020, the System recognized approximately $37,000 of revenue for the employee retention tax credit, which is included in other operating revenue within the consolidated statement of operations and changes in net assets and a corresponding receivable that is included in other current assets in the consolidated balance sheets. The recognition of the COVID-19 falls under the grant accounting guidance of accounting principles generally accepted in the United States. This guidance requires all significant terms and conditions to have been met for recognition to occur. Management of the System will continue to monitor compliance with the terms and conditions of the CARES Act grant funds and the impact of the pandemic on the System's revenues and expenses.

In addition, the System received approximately $773,000 from the Centers for Medicare and Medicaid Services ("CMS") as an advance payment for Medicare services during 2020. The funds are provided through the expansion of the Medicare Accelerated and Advance Payment Program to ensure providers and suppliers have the resources needed to combat the COVID-19 pandemic. The advances will be recouped by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped, unless the System elects to repay the advances prior to full recoupment. Recoupments are scheduled to begin in April 2021. Subsequent to the twenty-nine month recoupment period any unpaid remaining balance is subject to an interest charge of 4 percent per annum. Medicare accelerated and advance payments of approximately $285,000 and $488,000 are included in accounts payable and other accrued liabilities and other noncurrent liabilities, respectively, within the consolidated balance sheets at December 31, 2020. The CARES Act also permitted employers to defer the employer portion of social security taxes through December 31, 2020. Employers are required to remit one-half of the amount deferred by December 31, 2021 and the remaining half by December 31, 2022. Through December 31, 2020, the System deferred approximately $215,000 of these taxes. At December 31, 2020, approximately $107,500 is included in accrued salaries and employee benefits and other noncurrent liabilities, respectively, within the consolidated balance sheets.

On July 1, 2020, the System sold a majority of the assets and certain liabilities (the "disposal group") related to operations of the System in Central Illinois. The disposal group had assets sold in excess of liabilities transferred of $205,273, consisting primarily of property and equipment and certain investment interests in unconsolidated entities. The purchase price for the disposal group was $190,000. The System recorded a loss, inclusive of selling costs, of $21,346 that is included in nonrecurring expenses in the consolidated statements of operations and changes in net assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 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.

Goodwill and Intangible Assets, Net

Goodwill of $63,740 and $62,172 is included in goodwill and intangible assets, net in the accompanying consolidated balance sheets as of December 31, 2020 and 2019, 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") 2019-06. Goodwill amortization of $7,255 and $6,982 is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets for the years ended December 31, 2020 and 2019, respectively. 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 recoverable. Impairment write-downs are recognized in the accompanying consolidated statements of operations and changes in net assets as a component of operating expense at the time the impairment is identified. There were no material impairment charges recorded for the years ended December 31, 2020 and 2019.

Property and Equipment, Net

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

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

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

Operating Lease Right-of-use Assets

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

The System records operating lease right-of-use assets at the present value of future lease payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Operating lease right-of-use assets are amortized using the straight-line method over the related lease term. Amortization of operating lease right-of-use assets is included in 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 (loss) 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 derivative's fair value are recognized in nonoperating (loss) income, net.

Bond Issuance Costs, Discounts and Premiums

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

General and Professional Liability Risks

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

Net Assets With Donor Restrictions

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

Assets released from restrictions to fund purchases of property and equipment are reported 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.

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. Also recorded in nonrecurring expenses is the loss incurred on the divestiture of Central Illinois disposal group (see Note 2. SIGNIFICANT EVENTS). 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.

Other Nonoperating (Loss) 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 (loss) income, net. Other nonoperating (loss) 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.

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, and right-of-use liabilities of $426,794 due to the adoption of this standard on January 1, 2019. 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 financial statements.

4. COMMUNITY BENEFIT

The System provides health care services without charge to patients who meet the criteria of its charity care policies. Charity care services are not reported as patient service revenue, because payment is not anticipated while the related costs to provide the health care are included in operating expenses. 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 $106,789 and $153,307 for the years ended December 31, 2020 and 2019, respectively, as determined using total cost to charge ratios.

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

These activities include:

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

5. REVENUE AND RECEIVABLES

Patient service revenue

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

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

The System uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and major payor classes and types of services provided for outpatient revenue. Based on the historical collection trends and other analyses, the System believes 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 years ended December 31, 2020 and 2019, changes in the System’s estimates of implicit price concessions, discounts and contractual adjustments or other reductions to expected payments for performance obligations related to prior years were not significant.

In the normal course of business, the System does receive payments in advance for certain services provided and would consider these amounts to represent contract liabilities. The amounts received in the normal course of business at December 31, 2020 and 2019 were not material. In 2020 the CMS accelerated and advance payments received in relation to the COVID-19 pandemic for Medicare services are deemed contract liabilities at December 31, 2020. See Note 2. SIGNIFICANT EVENTS.

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

	Classification	Year Ended December 31, 2020	Year Ended December 31, 2019
Reimbursement	Patient service revenue	$ 286,105	$ 271,260
Assessment	Supplies, purchased services and other	171,312	165,222

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, 2020	Year Ended December 31, 2019
Reimbursement	Patient service revenue	$ 137,317	$ 117,150
Assessment	Supplies, purchased services and other	101,477	100,777

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, 2020		Year Ended December 31, 2019	
Managed care	$ 5,521,363	53 %	$ 5,829,566	55 %
Medicare	3,124,812	31 %	3,380,458	31 %
Medicaid - Illinois	773,851	8 %	694,406	7 %
Medicaid - Wisconsin	481,215	5 %	457,583	4 %
Self-pay and other	315,145	3 %	298,956	3 %
	$ 10,216,386	100 %	$ 10,660,969	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 grant revenues from the CARES Act, 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, 2020	Year Ended December 31, 2019
Illinois	$ 5,713,977	$ 6,086,737
Wisconsin	5,623,837	5,838,394
Total patient service revenue and capitation	11,337,814	11,925,131
Other revenue	1,794,375	880,292
Total revenue	$ 13,132,189	$ 12,805,423
Hospital	$ 7,611,197	$ 7,859,715
Clinic	2,231,783	2,450,681
Home Care	240,043	241,151
Other	133,363	109,422
Total patient service revenue	10,216,386	10,660,969
Capitated revenue	1,121,428	1,264,162
Other revenue	1,794,375	880,292
Total revenue	$ 13,132,189	$ 12,805,423

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, 2020		December 31, 2019	
Managed care	$ 681,078	43 %	$ 698,731	44 %
Medicare	350,948	22 %	327,723	20 %
Medicaid - Illinois	188,280	12 %	216,618	13 %
Medicaid - Wisconsin	41,694	3 %	44,357	3 %
Self-pay and other	308,738	20 %	318,178	20 %
	$ 1,570,738	100 %	$ 1,605,607	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.

6. INVESTMENTS

The System invests in a diversified portfolio of investments, including alternative investments, such as real asset funds, hedge funds and private equity limited partnerships, whose fair value was $4,504,346 and $4,123,306 at December 31, 2020 and 2019, 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, 2020, the System had additional commitments to fund alternative investments, including recallable distributions of $1,406,684 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 $13,031 and $6,770 at December 31, 2020 and 2019, respectively. The notional value of the derivatives in long positions was $241,232 and $104,072 at December 31, 2020 and 2019, respectively. The notional value of the derivatives in a short position was $(91,862) and $(58,527) at December 31, 2020 and 2019, respectively.

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 other accrued liabilities in the accompanying consolidated balance sheets. Unsettled sales resulted in receivables due from brokers of $49,512 and $38,355 at December 31, 2020 and 2019, respectively. Unsettled purchases resulted in payables of $88,890 and $41,977 at December 31, 2020 and 2019, respectively.

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
Interest income and dividends	$ 83,232	$ 84,684
Income from alternative investments	51,675	333,212
Net realized gains	41,293	150,422
Net unrealized gains	476,794	553,287
Total	$ 652,994	$ 1,121,605

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
Other revenue	$ 49,763	$ 53,307
Investment income, net	593,283	1,053,898
Net assets with donor restrictions	9,948	14,400
Total	$ 652,994	$ 1,121,605

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

	December 31, 2020	December 31, 2019
Internally designated for capital and other	$ 10,291,819	$ 8,345,172
Held for self-insurance	658,466	645,697
Donor restricted	137,980	132,024
Investments under securities lending program	18,945	17,672
Total noncurrent assets limited as to use	11,107,210	9,140,565
Cash and cash equivalents	959,878	449,712
Current assets limited as to use	125,053	106,529
Total cash and cash equivalents and assets limited as to use	$ 12,192,141	$ 9,696,806

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, 2020 and 2019, the System loaned $18,945 and $17,672, respectively, in securities and accepted collateral for these loans in the amount $19,789 and $18,284, respectively, which represents cash and governmental securities, and are included in current liabilities and current assets, respectively, in the accompanying consolidated balance sheets.

7. FAIR VALUE

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

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

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date.

Level 2 — Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

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

The following section describes the valuation methodologies used by the System to measure financial assets and liabilities at fair value. In general, where applicable, the System uses quoted prices in active markets for identical assets and liabilities to determine fair value. This pricing methodology applies to Level 1 investments, such as domestic and international equities, exchange-traded funds and agency securities.

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

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

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

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

	December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Cash and short-term investments	$ 1,861,490	$ 1,296,986	$ 564,504	$ —
Corporate bonds and other debt securities	705,552	—	705,552	—
United States government bonds	615,723	—	615,723	—
Bond and other debt security funds	1,325,705	73,668	1,252,037	—
Non-government fixed-income obligations	18,944	—	18,944	—
Equity securities	826,194	826,194	—	—
Equity funds	2,307,912	143,521	2,164,391	—
	7,661,520	$ 2,340,369	$ 5,321,151	$ —
Investments at net asset value				
Alternative investments	4,530,621			
Total investments	$ 12,192,141			
Collateral proceeds received under securities lending program	$ 19,789		$ 19,789	
Liabilities				
Obligations under swap agreements	$ (118,620)		$ (118,620)	
Obligations to return capital under securities lending program	$ (19,789)		$ (19,789)	

	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)	

8. PROPERTY AND EQUIPMENT, NET

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

	December 31, 2020	December 31, 2019
Land and improvements	$ 461,831	$ 497,363
Buildings and fixed equipment	7,536,013	7,519,607
Movable equipment and computer software	2,520,502	2,496,988
Construction-in-progress	478,335	355,733
	10,996,681	10,869,691
Accumulated depreciation and amortization	(5,144,704)	(4,967,768)
Property and equipment, net	$ 5,851,977	$ 5,901,923

During 2020, the System wrote off fully depreciated property and equipment totaling $233,800.

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

Depreciation expense was $553,634 and $560,221 for the years ended December 31, 2020 and 2019, respectively.

9. LEASES

The System leases office and clinical space, land and equipment. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets. 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:

Leases	**Classification**	December 31, 2020	December 31, 2019
Assets			
Operating	Operating lease right-of-use assets	$ 309,678	$ 352,295
Finance	Property and equipment, net	149,961	161,970
Total lease assets		$ 459,639	$ 514,265
Liabilities			
Current			
Operating	Operating lease liabilities, current portion	$ 79,934	$ 77,957
Finance	Long-term debt and commercial paper, current portion	9,182	8,445
Noncurrent			
Operating	Operating lease liabilities, less current portion	268,575	314,106
Finance	Long-term debt, less current portion	165,507	176,811
Total lease liabilities		$ 523,198	$ 577,319

Finance lease assets are recorded net of accumulated amortization of $57,873 and $49,743 as of December 31, 2020 and 2019, respectively.

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

Lease cost	**Classification**	December 31, 2020	December 31, 2019
Operating lease cost	Supplies, purchased services and other	$ 85,253	$ 85,037
Short term lease cost	Supplies, purchased services and other	13,407	10,686
Variable lease cost	Supplies, purchased services and other	36,740	29,099
Finance lease cost			
Amortization of lease assets	Depreciation and amortization	11,629	10,719
Interest on lease liabilities	Interest	12,093	10,053
Sublease income	Other revenue	(2,434)	(2,593)
Net lease cost		$ 156,688	$ 143,001

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

	December 31, 2020	December 31, 2019
Weighted average remaining lease term (in years)		
Operating	5.5	6.0
Finance	11.6	12.9
Weighted average discount rate		
Operating	2.24 %	2.34 %
Finance	7.54 %	7.44 %
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 88,387	$ 86,504
Operating cash flows from finance leases	11,500	10,563
Financing cash flows from finance leases	8,184	7,605

Future maturities of lease liabilities at December 31, 2020 are as follows:

	Operating Leases	Finance Leases	Total
2021	$ 86,817	$ 19,498	$ 106,315
2022	75,933	21,094	97,027
2023	65,018	21,031	86,049
2024	48,089	21,532	69,621
2025	33,948	21,025	54,973
Thereafter	61,813	169,777	231,590
Future minimum lease payments	371,618	273,957	645,575
Less remaining imputed interest	23,109	99,268	122,377
Total	$ 348,509	$ 174,689	$ 523,198

10. INVESTMENTS IN UNCONSOLIDATED ENTITIES

The System contributed $25,000 to an independent foundation in conjunction with the BAMC transaction. See the additional discussion of this transaction in Note 21. ACQUISITION OF BAY AREA MEDICAL CENTER. Under the terms of the definitive agreement between the System and BAMC, the $25,000 contribution is designated to support the operations and capital needs of BAMC and/or Aurora Bay Area Medical Group ("ABAMG"). The interest in that foundation is reflected in investments in unconsolidated entities in the accompanying consolidated balance sheets, which amounted to $18,668 and $21,186 at December 31, 2020 and 2019, respectively. Cash distributions of $2,518 and $3,814 were received by BAMC from this Foundation under terms of the definitive agreement during the years ended December 31, 2020 and 2019, respectively.

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 $109,017 and $95,307 at December 31, 2020 and 2019, respectively, and is presented within investments in unconsolidated entities in the accompanying consolidated balance sheets. The System's interest in the investment income is reflected in the accompanying consolidated statements of operations and changes in net assets and amounted to $17,287 and $17,433 for the years ended December 31, 2020 and 2019, respectively. Cash distributions of $3,978 and $3,347 were received by the System from MFHF under terms of the Agreement during the years ended December 31, 2020 and 2019, respectively. In addition, MFHF made $537 and $333 in contributions to the System for program support during the years ended December 31, 2020 and 2019, respectively.

At December 31, 2020, 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 $35,235 and $33,462 at December 31, 2020 and 2019, 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 $1,192 and $1,157 for the years ended December 31, 2020 and 2019, 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, 2020		
Total assets	$ 131,256	$ 112,993
Total liabilities	58,482	3,661
Partners' equity/net assets	72,774	109,332
Year Ended December 31, 2020		
Total revenue	123,067	18,613
Revenue in excess of expenses	16,677	13,697
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

11. LONG-TERM DEBT

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

	December 31, 2020	December 31, 2019
Revenue bonds and revenue refunding bonds		
Series 2003A (weighted average rate of 1.38% during 2020 and 2019), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	$ 5,194	$ 7,700
Series 2003C (weighted average rate of 1.60% during 2020 and 2019), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	5,200	7,708
Series 2008A (weighted average rate of 4.41% and 5.00% during 2020 and 2019, respectively), principal payable in varying annual installments through November 2030; interest based on prevailing market conditions at time of remarketing	116,719	119,569
Series 2008C (weighted average rate of 0.58% and 1.50% during 2020 and 2019, respectively), principal payable in varying annual installments through November 2038; interest based on prevailing market conditions at time of remarketing	271,640	271,608
Series 2011A, 4.00%, principal payable in annual installments through April 2022	440	652
Series 2011B (weighted average rate of 0.86% and 1.76% during 2020 and 2019, respectively), principal payable in varying annual installments through April 2051, subject to a put provision that provides for a cumulative seven-month notice and remarketing period; interest tied to a market index plus a spread	68,983	69,297
Series 2011C (weighted average rate of 1.11% and 2.52% during 2020 and 2019, respectively), principal payable in varying annual installments through April 2049, subject to a put provision on September 3,2024; interest tied to a market index plus a spread	49,540	49,753
Series 2011D (weighted average rate of 1.11% and 2.52% during 2020 and 2019, respectively), principal payable in varying annual installments through April 2049, subject to a put provision on September 3, 2024; interest tied to a market index plus a spread	49,540	49,753
Series 2012, 4.00%, principal payable in varying annual installments through June 2044	39,048	40,507
Series 2013A, 5.00%, principal payable in varying annual installments through June 2027	43,918	52,486
Series 2014, 4.00% to 5.00%, principal payable in varying annual installments through August 2038	149,629	160,080
Series 2015, 4.13% to 5.00%, principal payable in varying annual installments through May 2045	88,283	102,590
Series 2015B, 4.00% to 5.00%, principal payable in varying annual installments through May 2044	15,990	72,386
Series 2018A, 4.00% to 5.00%, principal payable in varying annual installments through August 2044	105,184	105,764
Series 2018B (weighted average rate of 5.00% during 2020 and 2019), principal payable in varying annual installments through August 2054; interest based on prevailing market conditions at time of remarketing	201,762	206,479
Series 2018C (weighted average rate of 1.06% and 1.96% during 2020 and 2019, respectively), principal payable in varying annual installments through August 2054, interest tied to a market index plus a spread	198,256	198,219
	1,409,326	1,514,551
Taxable bonds		
Taxable Bond Series 2018, 3.83% to 4.27%, principal payable in varying annual installments through August 2048	709,865	709,628
Taxable Bond Series 2019, 3.39%, principal payable in October 2049	354,813	354,703
Taxable Bond Series 2020A, 2.21% to 3.01%, principal payable in varying annual installments through June 2050	695,822	—
	1,760,500	1,064,331
Finance lease obligations and financing arrangements	214,360	235,249
Commercial paper, weighted average interest rate of 1.06% for the year ended December 31, 2020 and 2.15% for the period March 5, 2019 to December 31, 2019	50,000	132,000
Taxable Term Loan, (weighted average rate of 2.68% during 2020 and 2019), principal payable in varying annual installments through September 2024	97,871	114,868
	3,532,057	3,060,999

	December 31, 2020	December 31, 2019
Less amounts classified as current		
Long-term debt, current portion	(51,996)	(52,098)
Commercial paper	(50,000)	(132,000)
Long-term debt and commercial paper, current portion	(101,996)	(184,098)
Long-term debt subject to short-term financing arrangements	(119,660)	(147,535)
	(221,656)	(331,633)
	$ 3,310,401	$ 2,729,366

Maturities of long-term debt, financing leases, and sinking fund requirements, assuming remarketing of the variable rate demand revenue refunding bonds, for the five years ending December 31, 2025, are as follows: 2021 - $51,996; 2022 - $48,255; 2023 - $52,964; 2024 - $121,479; and 2025 - $45,783.

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

The System's unsecured variable rate revenue bonds, Series 2011B of $69,660 and Series 2018C-1 of $50,000, 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, 2020, 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, 2020, 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, 2020, the principal amount of such bonds would be classified as a current obligation in the accompanying consolidated balance sheets. The standby bond purchase agreements expire as follows: $129,456 in January 2024, $87,694 in September 2024 and $58,225 in September 2025.

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 was canceled effective March 5, 2019.

In connection with the BAMC acquisition, the System assumed $81,465 of outstanding tax-exempt bonds originally issued for the benefit of BAMC, which were redeemed in November 2019 with a portion of the proceeds of $82,000 of the System's commercial paper. 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. This swap is secured under the System Master Indenture.

In November 2019, the System issued its 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 issuance, the System recognized a loss on refinancing in the amount of $21,103.

In May 2020, the System issued its Series 2020A Taxable Bonds in the aggregate principal amount of $700,000. The proceeds of the Series 2020A Taxable Bonds were used for general corporate purposes, to refinance a portion of the Series 2011B, Series 2011C, Series 2011D, Series 2012, Series 2013A, Series 2015 and Series 2015B Bonds, to repay $82,000 of commercial paper and to pay certain financing costs. In connection with this transaction, the System recognized a loss on refinancing in the amount of $12,231.

As of December 31, 2020, the System authorized the issuance of up to $1,000,000 in commercial paper aggregate principal outstanding. As of December 31, 2020, $50,000 of commercial paper notes were outstanding, with maturities ranging from 119 to 122 days. As of December 31, 2019, $132,000 of commercial paper was outstanding, with maturities ranging from 27 to 62 days.

At December 31, 2020, the System had lines of credit with banks aggregating to $1,425,000 in available commitments. These lines of credit provide for various interest rates and payment terms and as of December 31, 2020 expire as follows: $1,225,000 in April 2021, $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 for general working capital purposes or to provide for certain letters of credit. At December 31, 2020, letters of credit issued totaling $58,365 have been issued under one of these lines. At December 31, 2020, no amounts were outstanding on these lines or letters of credit.

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

The System's interest paid amount includes all debt agreements including revenue bonds and revenue refunding bonds, taxable bonds, finance lease obligations, financing arrangements and interest rate swaps. The System's interest paid, net of capitalized interest, amounted to $116,953 and $119,870 for the years ended December 31, 2020 and 2019, respectively. The System capitalized interest of $8,198 and $4,087 for the years ended December 31, 2020 and 2019, respectively.

12. INTEREST RATE SWAP PROGRAM

The System has interest rate-related derivative instruments to manage the exposure of its variable rate debt instruments. By using derivative financial instruments to manage the risk of changes in interest rates, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty and, therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that may require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a 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, 2020, 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 redeemed on 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, 2020:

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	26,170	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 $118,620 and $91,340 as of December 31, 2020 and 2019, respectively. No collateral was posted under these swap agreements as of December 31, 2020 and 2019.

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
Net cash payments on interest rate swap agreements (interest expense)	$ 10,241	$ 6,711
Change in fair value of interest rate swaps	$ (27,280)	$ (21,079)

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

13. RETIREMENT PLANS

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

The Condell Health Network Retirement Plan ("Condell Plan") was frozen effective January 1, 2008 to new participants and participants ceased to accrue additional pension benefits. During the years ended December 31, 2020 and 2019, $3,000 and no contributions, respectively, were made to the Condell Plan.

The Aurora Health Care, Inc. Pension Plan ("Aurora Plan") was frozen on December 31, 2012. During the years ended December 31, 2020 and 2019, no contributions were made to the Aurora Plan.

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 was closed to new participants and participants ceased accruing additional pension benefits. The Advocate Plan was remeasured as of June 30, 2019 and a curtailment gain of $72 was recorded in nonoperating income (loss), net in the accompanying consolidated statements of operations and changes in net assets as of December 31, 2019. 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 at December 31, 2019. The accompanying consolidated balance sheets contain an other noncurrent liability related to the Advocate Plan totaling $134,325 and $173,939 at December 31, 2020 and 2019, respectively. During the years ended December 31, 2020 and 2019, $40,000 and $22,000, respectively, in cash contributions were made to the Advocate Plan.

In September 2020, the System transferred benefit obligations for certain participants of the Advocate Plan, Condell Plan and Aurora Plan through the purchase of annuity contracts. As a result of this transaction, all three Plans were remeasured as of September 30, 2020 and a combined settlement loss of $119,658 was recorded in the nonoperating income (loss) section in the accompanying consolidated statements of operations and changes in net assets as of December 31, 2020.

On December 31, 2020, the Condell Plan liabilities and assets were merged into the Aurora Plan. There was an other noncurrent liability related to the Aurora Plan of $66,494 and $83,321 at December 31, 2020 and 2019, respectively. There was an other noncurrent liability related to the Condell Plan of $1,824 at December 31, 2019.

A summary of changes in the plan assets, projected benefit obligation and the resulting funded status for the year ended December 31, 2020 is as follows:

	Advocate	Condell	Aurora	Total
Change in plan assets:				
Plan assets at fair value at beginning of period	$ 1,011,800	$ 64,211	$ 1,588,504	$ 2,664,515
Actual return on plan assets	28,898	10,975	212,412	252,285
Employer contributions	40,000	3,000	—	43,000
Benefits paid	(128,110)	(16,950)	(412,564)	(557,624)
Effect of Plan merger	—	(61,236)	61,236	—
Plan assets at fair value at end of period	$ 952,588	$ —	$ 1,449,588	$ 2,402,176
Change in projected benefit obligation:				
Projected benefit obligation at beginning of period	$ 1,185,739	$ 66,035	$ 1,671,825	$ 2,923,599
Interest cost	34,835	1,995	51,860	88,690
Actuarial loss	(5,551)	8,543	145,338	148,330
Benefits paid	(128,110)	(16,950)	(412,564)	(557,624)
Effect of Plan merger	—	(59,623)	59,623	—
Projected benefit obligation at end of period	$ 1,086,913	$ —	$ 1,516,082	$ 2,602,995
Plan assets less than projected benefit obligation	$ (134,325)	$ —	$ (66,494)	$ (200,819)
Accumulated benefit obligation at end of period	$ 1,086,913	$ —	$ 1,516,082	$ 2,602,995

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

The Advocate Plan paid lump sums totaling $75,349 in 2020. The amount in 2020 was greater than the sum of the Advocate Plan's service cost and interest cost, resulting in a settlement charge in the amount of $5,455. The Condell Plan paid lump sums totaling $4,235 and $2,989 in 2020 and 2019, respectively. The amount in 2020 and 2019 was greater than the sum of the Condell Plan's service cost and interest cost, resulting in a settlement charge in the amount of $104 and $642, respectively. The Aurora Plan paid lump sums totaling $5,400 in 2020. The amount in 2020 was greater than the sum of the Aurora Plan's service cost and interest cost, resulting in a settlement charge in the amount of $452.

Pension plan expense included in the accompanying consolidated statements of operations and changes in net assets is as follows for the year ended December 31, 2020:

	Advocate	Condell	Aurora	Total
Interest cost	$ 34,835	$ 1,995	$ 51,860	$ 88,690
Expected return on plan assets	(43,456)	(1,473)	(61,085)	(106,014)
Amortization of:				
Actuarial loss	4,897	323	11,475	16,695
Prior service cost	—	—	3	3
Settlement	33,561	1,932	90,175	125,668
Net pension expense	$ 29,837	$ 2,777	$ 92,428	$ 125,042

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

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

The net change recognized in net assets without donor restrictions as a component of pension-related changes other than net periodic pension cost was as follows for the year ended December 31, 2020:

	Advocate	Condell	Aurora	Total
Net change recognized	$ 29,450	$ 3,214	$ 107,641	$ 140,305

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

Included in net assets without donor restrictions at December 31, 2020 are the following amounts that have not yet been recognized in net pension expense:

	Advocate	Aurora	Total
Unrecognized prior credit	$ —	$ 99	$ 99
Unrecognized actuarial loss	275,718	357,902	633,620
	$ 275,718	$ 358,001	$ 633,719

The expected amortization amount to be included in the net periodic pension cost in 2021 is as follows:

	Advocate	Aurora	Total
Net actuarial loss	$ 4,593	$ 10,410	$ 15,003
Prior service (credit)/cost	—	3	3
	$ 4,593	$ 10,413	$ 15,006

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

	Advocate	Aurora	Total
2021	$ 60,586	$ 46,832	$ 107,418
2022	61,578	52,219	113,797
2023	62,241	55,154	117,395
2024	61,506	58,191	119,697
2025	61,336	61,722	123,058
2026-2030	294,108	345,472	639,580
Total	$ 601,355	$ 619,590	$ 1,220,945

Expected contributions to the pension plans are as follows:

	Advocate	Aurora	Total
2021	$ 30,000	$ —	$ 30,000

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, 2020		December 31, 2019	
Asset Category - Advocate Plan	**Target**	**Actual**	**Target**	**Actual**
De-risking portfolio	75 %	67 %	75 %	58 %
Domestic and international equity securities	21	22	21	20
Alternative investments	2	7	2	13
Cash and fixed-income securities	2	4	2	9
	100 %	100 %	100 %	100 %

	December 31, 2020		December 31, 2019	
Asset Category - Condell Plan	**Target**	**Actual**	**Target**	**Actual**
De-risking portfolio	90 %	90 %	75 %	85 %
Domestic and international equity securities	4	4	11	6
Cash and fixed-income securities	6	6	14	9
	100 %	100 %	100 %	100 %

	December 31, 2020		December 31, 2019	
Asset Category - Aurora Plan	**Target**	**Actual**	**Target**	**Actual**
De-risking portfolio	85 %	82 %	75 %	73 %
Domestic and international equity securities	12	15	21	22
Real estate	1	1	2	2
Cash and fixed-income securities	2	2	2	3
	100 %	100 %	100 %	100 %

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

At December 31, 2020, the Advocate Plan had commitments to fund alternative investments, including recallable distributions of $22,369 over the next five years.

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

Derivative contract information at December 31, 2020 are as follows:

	Advocate	Aurora	Total
Cash and security collateral provided	$ 16,922	$ 10,455	$ 27,377
Notional value - long position	$ —	$ 339,520	$ 339,520
Notional value - short position	$ (527,126)	$ (31,680)	$ (558,806)

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 $3,313 and $45,871 at December 31, 2020 and 2019, respectively. Unsettled purchases resulted in payables of $10,846 and $45,351 at December 31, 2020 and 2019, respectively.

Receivables and payables for investment trades not settled are presented within Aurora Plan assets. Unsettled sales resulted in receivables due from brokers of $10,108 and $12 at December 31, 2020 and 2019, respectively. Unsettled purchases resulted in payables of $19,198 and $2,987 at December 31, 2020 and 2019, respectively.

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

The following are the Plans' financial instruments at December 31, 2020, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7. FAIR VALUE:

Description	**December 31, 2020**	**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	$ 58,006	$ 32,876	$ 25,130	$ —
Corporate bonds and other debt securities	985,564	—	985,564	—
United States government obligations	646,797	—	646,797	—
Bond and other debt security funds	128,142	—	128,142	—
Equity securities	22,280	22,280	—	—
Equity funds	473,728	11,648	462,080	—
Real estate funds	17,855	—	17,855	—
	2,332,372	$ 66,804	$ 2,265,568	$—
Investments at net asset value				
Alternative investments	69,804			
Total investments	$ 2,402,176			

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 7. FAIR VALUE:

Description	December 31, 2019	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	$ 2,664,515			

Assumptions used to determine benefit obligations are as follows:

	December 31, 2020	December 31, 2019
Discount rate - Advocate Plan	2.49 %	3.23 %
Discount rate - Condell Plan	— %	3.37 %
Discount rate - Aurora Plan	2.79 %	3.37 %
Assumed rate of return on assets - Advocate Plan	4.40 %	4.50 %
Assumed rate of return on assets - Condell Plan	— %	2.50 %
Assumed rate of return on assets - Aurora Plan	3.40 %	4.50 %

Assumptions used to determine net pension expense are as follows:

	December 31, 2020	December 31, 2019
Discount rate - Advocate and Condell Plans	3.23 %	4.38 %
Discount rate - Condell Plans	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 %

The assumed rate of return on each of the Plan's assets is based on historical and projected rates of return for asset classes in which the portfolio is invested. 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 2020 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-2020. 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.

In addition to these Plans, the System sponsors defined contribution plans for its employees. As of January 1, 2020, three plans merged into one existing plan, the Advocate Health Care Network 401(k) plan. At this time the Advocate Health Care Network 401(k) plan was restated and became known as the Advocate Aurora Health 401(k) plan ("AAH 401(k)"). Effective January 1, 2020, the AAH 401(k) contribution plan was enhanced to add an annual contribution component to the employer match. Expense related to these plans, which are included in salaries, wages and benefits expense in the consolidated statements of operations and changes in net assets, were $300,971 and $207,194 for the years ended December 31, 2020 and 2019, respectively.

14. NET ASSETS WITH DONOR RESTRICTIONS

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

	December 31, 2020	December 31, 2019
Purchases of property and equipment	$ 17,504	$ 22,763
Medical education and other health care programs	215,176	219,342
	$ 232,680	$ 242,105

15. FUNCTIONAL OPERATING EXPENSES

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

Functional operating expenses for the year ended December 31, 2020 are as follows:

	Health care services	**General and administrative**	**Consolidated**
Salaries, wages and benefits	$ 6,789,955	$ 659,016	$ 7,448,971
Supplies, purchased services and other	3,701,429	675,846	4,377,275
Contracted medical services	420,587	—	420,587
Depreciation and amortization	467,340	92,923	560,263
Interest	112,126	—	112,126
Total operating expenses	11,491,437	1,427,785	12,919,222
Allocation of general and administrative	1,427,785	(1,427,785)	—
Total operating expenses after allocation	$ 12,919,222	$ —	$ 12,919,222

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

16. LIQUIDITY

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

	December 31, 2020	December 31, 2019
Current assets		
Cash and cash equivalents	$ 959,878	$ 449,712
Assets limited as to use	125,053	106,529
Patient accounts receivable	1,570,738	1,605,607
Third-party payors receivables	16,933	15,331
Collateral proceeds under securities lending program	19,789	18,284
Total current assets	2,692,391	2,195,463
Assets limited as to use		
Internally designated for capital and other	10,291,819	8,345,172
Held for self-insurance	658,466	645,697
Donor restricted	137,980	132,024
Investments under securities lending program	18,945	17,672
Total assets limited as to use	11,107,210	9,140,565
Total financial assets	$ 13,799,601	$ 11,336,028
Less		
Amounts unavailable for general expenditures		
Alternative investments	(2,110,330)	(1,791,717)
Total amounts unavailable for general expenditure	(2,110,330)	(1,791,717)
Amounts unavailable to management without approval		
Held for self-insurance	(783,519)	(752,226)
Donor restricted	(137,980)	(132,024)
Investments under securities lending program	(18,945)	(17,672)
Total amounts unavailable to management without approval	(940,444)	(901,922)
Total financial assets available to management for general expenditure within one year	$ 10,748,827	$ 8,642,389

17. COMMITMENTS AND CONTINGENCIES

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

The System is committed to constructing additions and renovations to its medical facilities that are expected to be completed in future years. The estimated cost of these commitments is $783,071, of which $565,517 has been incurred as of December 31, 2020.

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 $200,000 over the next ten years and approximately $30,376 is included in accounts payable and other accrued liabilities in the accompanying consolidated balance sheets at December 31, 2020. The System has also entered into various other agreements. The future commitments under these agreements are $26,109 over the next five years.

18. GENERAL AND PROFESSIONAL LIABILITY RISKS

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

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

The estimated cost of claims is actuarially determined based on past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accrued insurance liabilities and contributions to the trust were determined using a discount rate of 3.00% as of December 31, 2020 and 2019. Total accrued insurance liabilities would have been $77,007 and $71,439 greater at December 31, 2020 and 2019, respectively, had these liabilities not been discounted.

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

19. LEGAL, REGULATORY AND OTHER CONTINGENCIES

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

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

20. INCOME TAXES AND TAX STATUS

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

At December 31, 2020, the System had $87,382 of federal and $111,826 of state net operating loss carryforwards with unutilized amounts of state net operating loss carryforwards expiring between 2020 and 2037. At December 31, 2019, the System had $52,133 of federal and $74,412 of state net operating loss carryforwards, with unutilized amounts of state net operating loss carryforwards expiring between 2019 and 2037. As a result of the Tax Cuts and Jobs Act of 2017, net operating losses generated after 2017 do not expire for federal purposes. Of the $87,382 of federal net operating loss carryforwards at December 31, 2020, $76,777 was generated after 2017.

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

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

The System had deferred tax assets of $46,711 and $31,692, including $27,161 and $16,708 related to net operating loss carryforwards, as of December 31, 2020 and 2019, respectively. These deferred tax assets were partially offset by valuation allowances of $21,620 and $16,328, respectively, which were recorded due to the uncertainty regarding the use of the deferred tax assets.

Provisions (credits) 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, 2020	Year Ended December 31, 2019
Federal	$ 5,677	$ (891)
State	2,100	(328)
Deferred	(9,311)	10,273
	$ (1,534)	$ 9,054

21. ACQUISITION OF BAY AREA MEDICAL CENTER

The System had a 49% interest in BAMC that was accounted for under the equity method of accounting until the remaining equity interest was purchased on April 1, 2019. 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 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 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 accompanying consolidated financial statements of the System.

In conjunction with the BAMC transaction, the System contributed $25,000 to a newly formed independent foundation. This interest in that 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 was recorded within nonoperating (loss) income, net in the consolidated statements of operations and changes in net assets as of December 31, 2019. The System then recorded its 100% interest in BAMC at fair market value, resulting in an inherent contribution of $37,736, which was recorded within nonoperating (loss) income, net in the consolidated statements of operations and changes in net assets as of December 31, 2019.

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 2019 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 2019 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 period presented. The proforma information 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
Total revenue	$ 12,833,303
Operating income	480,701
Revenues in excess of expenses	1,546,032

22. SUBSEQUENT EVENTS

The System evaluated events and transactions subsequent to December 31, 2020 through March 22, 2021, the date of consolidated financial statement issuance.

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Supplementary Information

Building a better working world

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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 of America. 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 22, 2021

ADVOCATE AURORA HEALTH, INC.

CONSOLIDATING BALANCE SHEET

December 31, 2020

(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	$ 1,376,822	$ (416,944)	$ —	$ 959,878
Assets limited as to use	114,886	10,167	—	125,053
Patient accounts receivable	1,383,745	186,993	—	1,570,738
Other current assets	606,441	116,821	(36,576)	686,686
Third-party payors receivables	15,969	964	—	16,933
Receivable from subsidiaries	296,800	358,734	(655,534)	—
Collateral proceeds under securities lending program	19,789	—	—	19,789
Total current assets	3,814,452	256,735	(692,110)	3,379,077
Assets limited as to use	11,017,677	89,533	—	11,107,210
Note receivable from subsidiaries	137,772	—	(137,772)	—
Property and equipment, net	5,410,542	453,001	(11,566)	5,851,977
Other assets				
Reinsurance receivable	50,514	—	—	50,514
Goodwill and intangible assets, net	45,833	38,072	(1,153)	82,752
Investment in subsidiaries	(87,424)	—	87,424	—
Investments in unconsolidated entities	508,864	(7,915)	(290,646)	210,303
Operating lease right-of-use assets	272,655	37,023	—	309,678
Other noncurrent assets	745,834	37,095	(324,797)	458,132
Total other assets	1,536,276	104,275	(529,172)	1,111,379
Total assets	**$ 21,916,719**	**$ 903,544**	**$ (1,370,620)**	**$ 21,449,643**

ADVOCATE AURORA HEALTH, INC.

CONSOLIDATING BALANCE SHEET

December 31, 2020

(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Current liabilities				
Long-term debt and commercial paper, current portion	$ 100,573	$ 21,640	$ (20,217)	$ 101,996
Long-term debt subject to short-term financing arrangements	119,660	—	—	119,660
Operating lease liabilities, current portion	70,720	9,214	—	79,934
Accrued salaries and employee benefits	1,101,630	106,042	—	1,207,672
Accounts payable and accrued liabilities	1,213,268	148,927	(20,576)	1,341,619
Third-party payors payables	316,220	2,581	—	318,801
Accrued insurance and claims costs, current portion	119,334	11,057	—	130,391
Accounts payable to subsidiaries	383,985	270,786	(654,771)	—
Collateral under securities lending program	19,789	—	—	19,789
Total current liabilities	3,445,179	570,247	(695,564)	3,319,862
Noncurrent liabilities				
Long-term debt, less current portion	3,305,614	86,035	(81,248)	3,310,401
Operating lease liabilities, less current portion	238,269	30,306	—	268,575
Accrued insurance and claims cost, less current portion	558,237	35,502	—	593,739
Accrued losses subject to insurance recovery	50,514	—	—	50,514
Obligations under swap agreements	118,620	—	—	118,620
Due to subsidiaries	287,566	(149,794)	(137,772)	—
Other noncurrent liabilities	1,344,466	44,373	(951)	1,387,888
Total noncurrent liabilities	5,903,286	46,422	(219,971)	5,729,737
Total liabilities	**9,348,465**	**616,669**	**(915,535)**	**9,049,599**
Net assets				
Without donor restrictions				
Controlling interest	12,031,276	276,012	(294,569)	12,012,719
Noncontrolling interest in subsidiaries	152,922	1,846	(123)	154,645
Total net assets without donor restrictions	12,184,198	277,858	(294,692)	12,167,364
With donor restrictions	384,056	96,564	(247,940)	232,680
Common stock	—	1,862	(1,862)	—
Additional paid-in capital	—	43,581	(43,581)	—
Retained (deficit) earnings/partnership losses	—	(132,990)	132,990	—
Total net assets	**12,568,254**	**286,875**	**(455,085)**	**12,400,044**
Total liabilities and net assets	**$ 21,916,719**	**$ 903,544**	**$ (1,370,620)**	**$ 21,449,643**

ADVOCATE AURORA HEALTH, INC.

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2020

(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Revenue				
Patient service revenue	$ 9,186,603	$ 1,343,867	$ (314,084)	$ 10,216,386
Capitation revenue	510,941	620,662	(10,175)	1,121,428
Other revenue	1,374,734	799,173	(379,532)	1,794,375
Total revenue	11,072,278	2,763,702	(703,791)	13,132,189
Expenses				
Salaries, wages and benefits	6,494,245	971,195	(37,537)	7,427,903
Supplies, purchased services and other	3,427,287	982,348	(209,432)	4,200,203
Contracted medical services	288,186	599,375	(385,141)	502,420
Depreciation and amortization	513,718	48,794	(2,297)	560,215
Interest	107,343	12,455	(7,672)	112,126
Total expenses	10,830,779	2,614,167	(642,079)	12,802,867
Operating income (loss) before nonrecurring expenses	**241,499**	**149,535**	**(61,712)**	**329,322**
Nonrecurring expenses	116,355	—	—	116,355
Operating income (loss)	**125,144**	**149,535**	**(61,712)**	**212,967**
Nonoperating income (loss)				
Investment income, net	568,663	24,620	—	593,283
Loss on debt refinancing	(12,244)	—	—	(12,244)
Change in fair value of interest rate swaps	(27,280)	—	—	(27,280)
Pension settlement loss	(119,658)	—	—	(119,658)
Other nonoperating (loss) income, net	(38,567)	2,793	(3,169)	(38,943)
Total nonoperating income (loss), net	370,914	27,413	(3,169)	395,158
Revenue in excess of (less than) expenses	496,058	176,948	(64,881)	608,125
Less noncontrolling interest	—	(607)	(49,486)	(50,093)
Revenue in excess of (less than) expenses- attributable to controlling interest	**$ 496,058**	**$ 176,341**	**$ (114,367)**	**$ 558,032**

Notes to Supplementary Information

1. Credit Group

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

2. Credit Group Members

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