

Aurora Health Care, Inc. and Affiliates

Consolidated Financial Statements as of and
for the Years Ended December 31, 2013 and 2012,
and Independent Auditors' Report

AURORA HEALTH CARE, INC. AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Aurora Health Care, Inc.:

We have audited the accompanying consolidated financial statements of Aurora Health Care, Inc. and Affiliates ("Aurora"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations and changes in unrestricted net assets, 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 Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Aurora's preparation and fair presentation of the consolidated 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 Aurora'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aurora Health Care, Inc. and Affiliates as of December 31, 2013 and 2012, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

May 7, 2014

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 310,076	\$ 499,908
Investments	847,904	461,186
Assets whose use is limited or restricted	5,652	5,556
Patient accounts receivable — net of allowance for doubtful accounts of \$280,153 and \$318,029 in 2013 and 2012, respectively	520,617	539,898
Other receivables	75,904	81,103
Inventory	64,760	62,479
Prepays and other current assets	<u>38,359</u>	<u>30,245</u>
Total current assets	<u>1,863,272</u>	<u>1,680,375</u>
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
Board-designated and other	166,517	135,532
Contractually-restricted	118,514	105,914
Donor restricted	52,132	47,426
Debt service reserve	<u>32,054</u>	<u>32,384</u>
Total assets whose use is limited or restricted	<u>369,217</u>	<u>321,256</u>
PROPERTY, PLANT, AND EQUIPMENT — Net	<u>1,857,437</u>	<u>1,954,929</u>
OTHER ASSETS:		
Intangible assets — net	24,596	61,940
Investments in unconsolidated entities	12,839	14,524
Deferred financing costs — net	17,375	18,525
Other	<u>36,028</u>	<u>38,934</u>
Total other assets	<u>90,838</u>	<u>133,923</u>
TOTAL	<u>\$4,180,764</u>	<u>\$4,090,483</u>

(Continued)

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current installments of long-term debt	\$ 119,125	\$ 54,754
Accounts payable	222,843	240,979
Accrued salaries and wages	301,208	264,378
Other accrued expenses	196,216	127,059
Estimated third-party payor settlements	<u>33,480</u>	<u>40,581</u>
Total current liabilities	<u>872,872</u>	<u>727,751</u>
LONG-TERM DEBT — Less current installments	<u>1,536,019</u>	<u>1,651,108</u>
OTHER LIABILITIES:		
Pension and other employee benefit liabilities	198,876	559,269
Self-insured liabilities	62,314	61,312
Deferred gain	52,864	58,365
Other	<u>58,606</u>	<u>63,635</u>
Total other liabilities	<u>372,660</u>	<u>742,581</u>
Total liabilities	<u>2,781,551</u>	<u>3,121,440</u>
NET ASSETS:		
Unrestricted:		
Controlling interest	1,261,395	848,504
Noncontrolling interest in subsidiaries	<u>77,447</u>	<u>65,569</u>
Total unrestricted net assets	1,338,842	914,073
Temporarily restricted	42,033	36,660
Permanently restricted	<u>18,338</u>	<u>18,310</u>
Total net assets	<u>1,399,213</u>	<u>969,043</u>
TOTAL	<u>\$4,180,764</u>	<u>\$4,090,483</u>

See notes to consolidated financial statements.

(Concluded)

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
REVENUE:		
Patient service revenue (net of contractual allowances and discounts)	\$ 4,106,789	\$ 4,005,627
Less provision for bad debts	<u>221,135</u>	<u>238,106</u>
Net patient service revenue less provision for bad debts	3,885,654	3,767,521
Other revenue	<u>363,321</u>	<u>357,682</u>
Total revenue	<u>4,248,975</u>	<u>4,125,203</u>
EXPENSES:		
Salaries and wages	2,042,544	1,989,945
Fringe benefits	347,965	374,234
Professional fees	84,949	77,194
Supplies	754,759	745,416
Depreciation and amortization	229,576	222,089
Interest	66,817	70,964
Maintenance and service contracts	98,537	93,554
Building and equipment rental	83,975	92,713
Hospital tax assessment	94,394	92,376
Utilities	46,727	49,509
Purchased services	96,047	91,990
Other expenses	145,864	149,254
Pension curtailment gain and other	<u>-</u>	<u>(62,056)</u>
Total expenses	<u>4,092,154</u>	<u>3,987,182</u>
OPERATING INCOME	<u>156,821</u>	<u>138,021</u>
NONOPERATING INCOME (LOSS):		
Investment income	31,456	55,914
Income from joint ventures	7,414	8,544
Other nonoperating loss - net	<u>(732)</u>	<u>(4,193)</u>
Total nonoperating income — net	<u>38,138</u>	<u>60,265</u>
EXCESS OF REVENUE OVER EXPENSES FROM CONTINUING OPERATIONS	194,959	198,286
INCOME FROM DISCONTINUED OPERATIONS (Including gain on sale of \$59,491 in 2012)	1,046	60,710
PENSION-RELATED CHANGES OTHER THAN PERIODIC PENSION COST	252,111	(55,959)
RECLASSIFICATION OF CUMULATIVE UNREALIZED HOLDING NET GAINS	-	(22,612)
NET ASSETS RELEASED FROM RESTRICTION FOR PURCHASE OF PROPERTY AND EQUIPMENT	2,606	2,453
DISTRIBUTIONS TO NONCONTROLLING INTERESTS	(26,886)	(25,131)
OTHER — Net	<u>933</u>	<u>(46)</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 424,769</u>	<u>\$ 157,701</u>

See notes to consolidated financial statements.

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

	Controlling Interest Unrestricted	Noncontrolling Interest Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS — December 31, 2011	\$ 695,399	\$ 60,973	\$ 756,372	\$ 33,004	\$ 18,279	\$ 807,655
Excess of revenue over expenses from continuing operations	168,559	29,727	198,286	-	-	198,286
Income from discontinued operations (including gain on sale of \$59,491)	60,710	-	60,710	-	-	60,710
Pension-related changes other than net periodic pension costs	(55,959)	-	(55,959)	-	-	(55,959)
Reclassification of cumulative unrealized holding net gains	(22,612)	-	(22,612)	-	-	(22,612)
Change in unrealized gains and losses on investments	-	-	-	2,742	-	2,742
Contributions	-	-	-	5,936	31	5,967
Investment income	-	-	-	924	-	924
Change in beneficial interests in assets held by others and remainder trusts	-	-	-	132	-	132
Net assets released from restrictions for operations	-	-	-	(3,733)	-	(3,733)
Net assets released from restrictions for purchase of property and equipment	2,453	-	2,453	(2,453)	-	-
Distributions to noncontrolling interest	-	(25,131)	(25,131)	-	-	(25,131)
Other — net	(46)	-	(46)	108	-	62
Increase in net assets	153,105	4,596	157,701	3,656	31	161,388
NET ASSETS — December 31, 2012	848,504	65,569	914,073	36,660	18,310	969,043
Excess of revenue over expenses from continuing operations	156,467	38,492	194,959	-	-	194,959
Income from discontinued operations	1,046	-	1,046	-	-	1,046
Pension-related changes other than net periodic pension costs	252,111	-	252,111	-	-	252,111
Change in unrealized gains and losses on investments	-	-	-	574	-	574
Contributions	-	-	-	6,303	28	6,331
Investment income	-	-	-	5,060	-	5,060
Change in beneficial interests in assets held by others and remainder trusts	-	-	-	65	-	65
Net assets released from restrictions for operations	-	-	-	(4,535)	-	(4,535)
Net assets released from restrictions for purchase of property and equipment	2,606	-	2,606	(2,606)	-	-
Distributions to noncontrolling interest	-	(26,886)	(26,886)	-	-	(26,886)
Other — net	661	272	933	512	-	1,445
Increase in net assets	412,891	11,878	424,769	5,373	28	430,170
NET ASSETS — December 31, 2013	\$ 1,261,395	\$ 77,447	\$ 1,338,842	\$ 42,033	\$ 18,338	\$ 1,399,213

See notes to consolidated financial statements.

AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 430,170	\$ 161,388
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Restricted contributions and investment income	(513)	(2,170)
Pension-related changes other than net periodic pension cost	(252,111)	55,959
Realized and unrealized gains on investments, net	(30,949)	(21,227)
Gain on sale of property, plant, and equipment	(1,607)	(2,353)
Gain on sale of dialysis service line	-	(59,491)
Gain on sale of pharmacies	-	(3,110)
Loss on early extinguishment of debt	1,240	3,741
Impairment of long-lived assets	956	10,375
Amortization of intangible assets and other items	36,844	9,243
Amortization of deferred gains	(5,501)	(5,467)
Depreciation and amortization	229,576	222,089
Provision for bad debts	221,135	238,106
Distribution to noncontrolling interest	26,886	25,131
Increase in accounts receivable	(201,854)	(265,180)
Increase in accounts payable and accrued expenses	76,964	52,341
(Decrease) increase in estimated third-party payor settlements	(7,101)	3,705
Decrease in pension and other employee benefit liabilities	(108,282)	(42,365)
Increase (decrease) in self-insured liabilities	1,002	(6,006)
Other changes in assets and liabilities — net	(8,847)	(53,505)
Net cash provided by operating activities	<u>408,008</u>	<u>321,204</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(128,103)	(158,182)
Acquisition of affiliates	(3,200)	(1,423)
Investment in unconsolidated entities	(2,217)	-
Distributions from unconsolidated entities	15,834	-
Proceeds from sales of property, plant, and equipment	1,607	2,353
Net proceeds from sale of dialysis service line	-	65,550
Proceeds from sale of pharmacies	-	5,721
Purchases of investments	(813,416)	(405,290)
Sales of investments	<u>409,590</u>	<u>387,694</u>
Net cash used in investing activities	<u>(519,905)</u>	<u>(103,577)</u>

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AURORA HEALTH CARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt and financing arrangements	\$ 114,234	\$ 394,692
Repayments of long-term debt, capital leases, and financing arrangements	(164,171)	(433,729)
Distributions to noncontrolling interest	(26,886)	(25,131)
Debt issuance costs	(1,625)	(4,031)
Restricted contributions and investment income	<u>513</u>	<u>2,170</u>
Net cash used in financing activities	<u>(77,935)</u>	<u>(66,029)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(189,832)	151,598
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>499,908</u>	<u>348,310</u>
End of year	<u>\$ 310,076</u>	<u>\$ 499,908</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest — net of capitalized interest	<u>\$ 67,721</u>	<u>\$ 66,704</u>
Cash paid for income taxes	<u>\$ 8,537</u>	<u>\$ 4,319</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION:		
Capital expenditures funded through accounts payable	<u>\$ 10,887</u>	<u>\$ 8,379</u>
Capital expenditures funded through assumption of long-term debt	<u>\$ 589</u>	<u>\$ 1,389</u>

See notes to consolidated financial statements.

(Concluded)