Advocate Aurora Health, Inc.

Consolidated Financial Statements and Supplementary Information
As of and for the Years Ended December 31, 2023 and 2022

Document Dated as of April 22, 2024

ADVOCATE AURORA HEALTH, INC.
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Report of Independent Auditors

The Board of Directors
Advocate Health, Inc.

Opinion

We have audited the consolidated financial statements of Advocate Aurora Health, Inc. (the Organization), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization at December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other information

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

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

Ernst + Young LLP

April 22, 2024

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

	December 31, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 857,599	$ 372,898
Assets limited as to use	179,288	153,557
Patient accounts receivable	1,906,747	1,796,499
Other current assets	1,093,683	975,406
Total current assets	4,037,317	3,298,360
Assets limited as to use	11,863,519	11,306,120
Property and equipment, net	5,919,233	5,971,542
Other assets		
Goodwill and intangible assets, net	56,938	476,564
Operating lease right-of-use assets	305,114	305,311
Other noncurrent assets	815,699	520,373
Total other assets	1,177,751	1,302,248
Total assets	**$ 22,997,820**	**$ 21,878,270**

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

	December 31, 2023	December 31, 2022
Liabilities		
Current liabilities		
Long-term debt and commercial paper, current portion	$ 172,759	$ 101,204
Long-term debt subject to short-term financing arrangements	354,720	165,035
Operating lease liabilities, current portion	69,062	73,026
Accrued salaries and employee benefits	1,245,445	1,165,861
Accounts payable and other accrued liabilities	1,164,041	1,128,954
Third-party payors payables	404,496	357,177
Accrued insurance and claims costs, current portion	237,771	204,592
Total current liabilities	3,648,294	3,195,849
Noncurrent liabilities		
Long-term debt, less current portion	2,939,221	3,255,423
Operating lease liabilities, less current portion	273,134	276,116
Accrued insurance and claims cost, less current portion	686,643	634,468
Obligations under swap agreements	31,681	29,514
Other noncurrent liabilities	1,159,793	1,039,353
Total noncurrent liabilities	5,090,472	5,234,874
Total liabilities	**8,738,766**	**8,430,723**
Net assets		
Without donor restrictions		
Controlling interest	13,823,021	13,037,580
Noncontrolling interests in subsidiaries	191,582	171,791
Total net assets without donor restrictions	14,014,603	13,209,371
With donor restrictions	244,451	238,176
Total net assets	**14,259,054**	**13,447,547**
Total liabilities and net assets	**$ 22,997,820**	**$ 21,878,270**

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, 2023	Year Ended December 31, 2022
Revenue		
Patient service revenue	$ 12,987,089	$ 12,065,771
Capitation revenue	1,206,918	1,197,327
Other revenue	1,559,047	1,281,148
Total revenue	15,753,054	14,544,246
Expenses		
Salaries, wages and benefits	8,975,567	8,601,734
Supplies and drugs	3,063,799	2,659,287
Purchased services and other	2,359,535	2,070,036
Contracted medical services	542,880	518,834
Depreciation and amortization	614,084	599,923
Interest	125,568	118,319
Total expenses	15,681,433	14,568,133
Operating income (loss)	**71,621**	**(23,887)**
Nonoperating income (loss)		
Investment income (loss), net	819,180	(723,225)
Other nonoperating (loss) income, net	(57,951)	41,404
Total nonoperating income (loss), net	761,229	(681,821)
Revenue in excess of (less than) expenses	**832,850**	**(705,708)**
Less income attributable to noncontrolling interests	(58,518)	(45,124)
Revenue in excess of (less than) expenses - attributable to controlling interest	**$ 774,332**	**$ (750,832)**

(Continued)

ADVOCATE AURORA HEALTH, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

(in thousands)

	Year Ended December 31, 2023	Year Ended December 31, 2022
Net assets without donor restrictions, controlling interest		
Revenue in excess of (less than) expenses - attributable to controlling interest	$ 774,332	$ (750,832)
Pension-related changes other than net periodic pension costs	9,311	(133,071)
Net assets released from restrictions for purchase of property and equipment	7,319	4,159
Other, net	(5,521)	5,462
Increase (decrease) in net assets without donor restrictions, controlling interest	785,441	(874,282)
Net assets without donor restrictions, noncontrolling interests		
Revenues in excess of expenses	58,518	45,124
Distributions to noncontrolling interests	(38,727)	(40,773)
Increase in net assets without donor restrictions, noncontrolling interests	19,791	4,351
Net assets with donor restrictions		
Contributions	17,861	11,702
Investment income (loss), net	8,737	(8,261)
Net assets released from restrictions for operations	(13,060)	(12,760)
Net assets released from restrictions for purchase of property and equipment	(7,319)	(3,864)
Other, net	56	(318)
Increase (decrease) in net assets with donor restrictions	6,275	(13,501)
Increase (decrease) in net assets	**811,507**	**(883,432)**
Net assets at beginning of period	13,447,547	14,330,979
Net assets at end of period	**$ 14,259,054**	**$ 13,447,547**

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2023	Year Ended December 31, 2022
Cash flows from operating activities		
Increase (decrease) in net assets	$ 811,507	$ (883,432)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	603,847	590,030
Amortization of operating lease right-of-use assets	59,697	64,119
Loss on debt refinancing	40	33
(Gain) loss on sale of property and equipment	(212)	836
Change in fair value of swap agreements	2,167	(61,703)
Pension-related changes other than net periodic pension cost	(9,311)	133,071
Net assets released from restrictions for operations	(13,060)	(12,760)
Distribution to noncontrolling interests	37,539	46,809
Distributions from unconsolidated entities	11,265	35,746
Changes in operating assets and liabilities		
Trading securities, net	(482,997)	1,423,034
Patient accounts receivable	(110,248)	20,300
Third-party payors receivables and payables, net	(30,238)	1,745
Other assets and liabilities, net	206,760	(790,543)
Net cash provided by operating activities	1,086,756	567,285
Cash flows from investing activities		
Capital expenditures	(521,414)	(498,759)
Proceeds from sale of property and equipment	808	3,814
(Purchases) sales of investments designated as non-trading, net	(92)	(303)
Investments in unconsolidated entities, net	(18,504)	(18,569)
Acquisition of MobileHelp, net of cash acquired	—	(286,133)
Other	(913)	(7,896)
Net cash used in investing activities	(540,115)	(807,846)
Cash flows from financing activities		
Repayments of long-term debt, net	(51,000)	(46,898)
Distribution to noncontrolling interests	(37,539)	(46,809)
Proceeds from restricted contributions and income on investments	26,599	3,441
Net cash used in financing activities	(61,940)	(90,266)
Net increase (decrease) in cash and cash equivalents	**484,701**	**(330,827)**
Cash and cash equivalents at beginning of period	372,898	703,725
Cash and cash equivalents at end of period	**$ 857,599**	**$ 372,898**
Supplemental disclosures of noncash information		
Operating lease right-of-use assets in exchange for new operating lease liabilities	$ 59,500	$ 105,805

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND BASIS OF PRESENTATION

Description of Business

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

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

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

Principles of Consolidation

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

2. SIGNIFICANT EVENTS

The federal COVID-19 Public Health Emergency expired in May 2023 and management does not expect COVID-19 to have a material adverse impact on the financial condition of the System going forward. The System still has outstanding applications for certain COVID-19 related resources, including supplies, financial support, payroll tax deferrals and relief and other assistance made available through local, state and federal governments.

The Coronavirus Aid, Relief and Economic Security Act ("CARES Act") 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. At December 31, 2023 and December 31, 2022, $9,878 and $37,060, respectively, is included in other current assets in the accompanying consolidated balance sheets for the employee retention tax credit. The recognition of the COVID-19 support falls under the grant accounting guidance of accounting principles generally accepted in the United States. This guidance requires that all significant terms and conditions to have been met for recognition to occur.

The System was awarded approximately $76,000 in Federal Emergency Management Agency funds to reimburse the System for personal protective equipment used during the COVID-19 pandemic. The System recognized approximately $40,000 and $36,000 for the years ended December 31, 2023 and 2022, respectively, as revenue that is included in other operating revenue within the accompanying consolidated statements of operations and changes in net assets.

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

On December 15, 2023, the System approved the sale of SH Corporate Company, Inc. and SHF Acquisition Company, Inc. (collectively "Senior Helpers") and MobileHelp as they no longer fit the strategic priorities of Advocate Health. The sale of Senior Helpers closed in March 2024 and management expects the MobileHelp sale to close later in 2024. As of December 31, 2023, the related disposal group for Senior Helpers and MobileHelp was reclassified to held for sale. A majority of the disposal group consists of goodwill and intangible assets, $192,323 and $161,497, respectively. The System recorded an impairment of $150,000 related to the expected sale that is included in purchased services and other expenses in the accompanying consolidated statements of operations and changes in net assets for the year ended December 31, 2023.

The following represents the classification of the disposal groups in the accompanying consolidated balance sheets as of December 31, 2023:

Other current assets	$	50,172
Other noncurrent assets		237,126
Other current liabilities		(10,905)
Other noncurrent liabilities		(25,723)
Total disposal group	$	250,670

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Cash Equivalents

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

Investments

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

Assets Limited as to Use

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

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.

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

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

The System determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with policy and/or implicit price concessions based on the historical collection experience of patient accounts. The System determines the transaction price associated with services provided to patients who have third-party payor coverage based on reimbursement terms per contractual agreements, discount policies and historical experience. For uninsured patients who do not qualify for charity care, the System determines the transaction price associated with services based on charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on historical collection experience for applicable patient portfolios. Patients who meet the System's criteria for charity care are provided care without charge; such amounts are not reported as revenue. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

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. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and historical settlement activity, including an assessment to ensure it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available or as years are settled or are no longer subject to such audits, reviews and investigations. As a result, there is a possibility that recorded estimates will change by a material amount.

For the years ended December 31, 2023 and 2022, 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, 2023 and 2022 were not material.

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

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

Inventories

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

Reinsurance Receivables

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

Goodwill and Intangible Assets, Net

Goodwill of $44,096 and $267,385 and intangible assets of $12,842 and $209,179 are included in goodwill and intangible assets, net in the accompanying consolidated balance sheets as of December 31, 2023 and 2022, respectively. The majority of the decrease in goodwill and intangible assets for the year ended December 31, 2023 is due to the reclassification of goodwill and intangible assets of Senior Helpers and MobileHelp as held for sale. See additional disclosure in Note 2. SIGNIFICANT EVENTS. The System has elected to amortize goodwill using the straight-line method over a 10-year period. Intangible assets with expected useful lives are amortized over that period. Amortization is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets. Amortization expense was $55,591 and $50,837 for the years ended December 31, 2023 and 2022, respectively.

Asset Impairment

The System considers whether indicators of impairment are present and, if indicators are present, performs the necessary tests to determine if the carrying value of an asset is recoverable. Impairment write-downs are recognized in the accompanying consolidated statements of operations and changes in net assets as a component of operating expense at the time the impairment is identified. As described in Note 2. SIGNIFICANT EVENTS, for the year ended December 31, 2023, an impairment of $150,000 related to the expected loss on the sale of MobileHelp was included in purchased services and other expenses in the accompanying consolidated statements of operations and change in net assets. There were no material impairment charges recorded for the year ended December 31, 2022.

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

Investments in Unconsolidated Entities

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

Derivative Financial Instruments

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

Bond Issuance Costs, Discounts and Premiums

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

General and Professional Liability Risks

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

Net Assets with Donor Restrictions

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

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

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 retail pharmacy revenue, clinical integration revenue, managed care risk/quality shared savings revenue and other miscellaneous revenue.

Other Nonoperating (Loss) Income, Net

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

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

The accompanying consolidated statements of operations and changes in net assets includes the revenue in excess of (less than) expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from revenue in excess of (less than) 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 June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments- Credit Losses (Topic 326)*. This guidance replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments- Credit Loss (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842)*, which deferred the effective date for the System until fiscal years beginning after December 15, 2022. The System adopted this guidance effective January 1, 2023, on a prospective basis. The guidance did not have a material impact on the System's accompanying consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

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

Reclassifications in the Consolidated Financial Statements

Certain reclassifications were made to the 2022 consolidated financial statements to conform to the classifications used in 2023. There was no impact on previously reported 2022 net assets or revenues less than expenses.

4. COMMUNITY BENEFIT

The System provides health care services without charge or at discounted rates to patients who meet the criteria of its financial assistance policies. Charity care services are not reported as patient service revenue, because payment is not anticipated while the related costs to provide the health care are included in operating expenses. Qualifying patients can receive up to 100% discounts from charges and extended payment plans. The System's cost of providing charity care was $110,000 and $102,000 for the years ended December 31, 2023 and 2022, 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, which 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

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

	Year Ended December 31, 2023		Year Ended December 31, 2022	
Managed care	$ 6,738,790	52 %	$ 6,506,440	53 %
Medicare	4,197,545	32 %	3,813,381	32 %
Medicaid	1,668,531	13 %	1,443,200	12 %
Self-pay and other	382,223	3 %	302,750	3 %
	$ 12,987,089	100 %	$ 12,065,771	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.

Revenue disaggregated by state and service line is as follows:

	Year Ended December 31, 2023	Year Ended December 31, 2022
Illinois	$ 5,920,220	$ 5,417,029
Wisconsin	7,066,869	6,648,742
Total patient service revenue	$ 12,987,089	$ 12,065,771
Hospital	$ 9,772,918	$ 8,910,925
Clinic	2,914,123	2,773,500
Other	300,048	381,346
Total patient service revenue	$ 12,987,089	$ 12,065,771

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

	Classification		Year Ended December 31, 2023		Year Ended December 31, 2022
Reimbursement	Patient service revenue	$	410,119	$	331,438
Assessment	Purchased services and other		216,793		173,141

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 as follows:

	Classification		Year Ended December 31, 2023		Year Ended December 31, 2022
Reimbursement	Patient service revenue	$	120,033	$	123,358
Assessment	Purchased services and other		100,668		99,010

Patient accounts receivable

The composition of patient accounts receivable is summarized as follows:

	December 31, 2023			December 31, 2022		
Managed care	$	877,778	46 %	$	913,665	51 %
Medicare		475,482	25 %		390,456	22 %
Medicaid		164,872	9 %		154,029	9 %
Self-pay and other		388,615	20 %		338,349	18 %
	$	1,906,747	100 %	$	1,796,499	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 $6,309,366 and $5,990,443 at December 31, 2023 and 2022, 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, 2023, the System had additional commitments to fund alternative investments, including recallable distributions of $2,382,003 over the next seven years.

In the normal course of operations and within established investment policy guidelines, the System may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options and forward contracts. These instruments are used primarily to maintain the System's strategic asset allocation and hedge security price movements. These instruments require the System to deposit cash or securities collateral with the broker or custodian. Collateral provided was $17,089 and $7,529 at December 31, 2023 and 2022, respectively. The gross notional value of the derivatives outstanding was $220,940 and $331,094 at December 31, 2023 and 2022, respectively.

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

Receivables and payables for investment trades not settled are presented within other current assets and accounts payable and other accrued liabilities in the accompanying consolidated balance sheets. Unsettled sales resulted in receivables due from brokers of $61,462 and $13,769 at December 31, 2023 and 2022, respectively. Unsettled purchases resulted in payables due to brokers of $102,517 and $69,023 at December 31, 2023 and 2022, respectively.

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

	Year Ended December 31, 2023	Year Ended December 31, 2022
Interest income and dividends	$ 162,493	$ 61,893
Income from alternative investments	260,904	327,168
Net realized (losses) gains	(22,992)	63,760
Net unrealized gains (losses)	474,143	(1,134,151)
Total	$ 874,548	$ (681,330)

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

	Year Ended December 31, 2023	Year Ended December 31, 2022
Other revenue	$ 46,631	$ 50,156
Investment income (loss), net	819,180	(723,225)
Net assets with donor restrictions	8,737	(8,261)
Total	$ 874,548	$ (681,330)

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, 2023	December 31, 2022
Internally designated for capital and other	$ 10,822,009	$ 10,301,972
Held for self-insurance	508,709	564,195
Donor restricted	106,325	98,293
Funds held under retirement plans	412,776	324,928
Investments under securities lending program	13,700	16,732
Total noncurrent assets limited as to use	11,863,519	11,306,120
Cash and cash equivalents	857,599	372,898
Current assets limited as to use	179,288	153,557
Total cash and cash equivalents and assets limited as to use	$ 12,900,406	$ 11,832,575

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, 2023 and 2022, the System loaned $13,700 and $16,732, respectively, in securities and accepted collateral for these loans in the amount $14,557 and $17,402, respectively, which represents cash and governmental securities, and are included in other current liabilities and other current assets in the accompanying consolidated balance sheets.

7. FAIR VALUE

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

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

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

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

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

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

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

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

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

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

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

	December 31, 2023	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	$ 1,112,802	$ 1,098,116	$ 14,686	$ —
Corporate bonds and other debt securities	719,092	—	719,092	—
United States government bonds	652,278	—	652,278	—
Bond and other debt security funds	420,039	109,367	310,672	—
Non-government fixed-income obligations	31,706	—	31,706	—
Equity securities	819,568	804,152	15,416	—
Equity funds	2,403,817	140,723	2,263,094	—
Funds held under retirement plans	412,776	85,091	327,685	—
	6,572,078	$ 2,237,449	$ 4,334,629	$ —
Investments at net asset value				
Alternative investments	6,328,328			
Total investments	$ 12,900,406			
Collateral proceeds received under securities lending program	$ 14,557		$ 14,557	
Liabilities				
Obligations under swap agreements	$ (31,681)		$ (31,681)	
Liabilities under retirement and benefit plans	$ (412,776)		$ (412,776)	
Obligations to return capital under securities lending program	$ (14,557)		$ (14,557)	

	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Cash and short-term investments	$ 789,689	$ 540,092	$ 249,597	$ —
Corporate bonds and other debt securities	720,424	—	720,424	—
United States government bonds	586,517	—	586,517	—
Bond and other debt security funds	465,762	96,219	369,543	—
Non-government fixed-income obligations	32,307	—	32,307	—
Equity securities	761,237	746,574	14,663	—
Equity funds	2,143,486	121,424	2,022,062	—
Funds held under retirement plans	324,928	70,275	254,653	—
	5,824,350	$ 1,574,584	$ 4,249,766	$ —
Investments at net asset value				
Alternative investments	6,008,225			
Total investments	$ 11,832,575			
Collateral proceeds received under securities lending program	$ 17,402		$ 17,402	
Liabilities				
Obligations under swap agreements	$ (29,514)		$ (29,514)	
Other noncurrent liabilities	$ (324,928)		$ (324,928)	
Obligations to return capital under securities lending program	$ (17,402)		$ (17,402)	

8. PROPERTY AND EQUIPMENT, NET

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

	December 31, 2023	December 31, 2022
Land and improvements	$ 493,107	$ 479,733
Buildings and other improvements	8,467,723	8,289,707
Fixed and movable equipment	2,877,402	3,007,315
Construction-in-progress	391,764	279,791
	12,229,996	12,056,546
Accumulated depreciation and amortization	(6,310,763)	(6,085,004)
Property and equipment, net	$ 5,919,233	$ 5,971,542

During 2023, the System wrote off fully depreciated property and equipment totaling $298,333.

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 $558,493 and $549,086 for the years ended December 31, 2023 and 2022, respectively.

9. LEASES

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

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

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

Leases	Classification	December 31, 2023	December 31, 2022
Assets			
Operating	Operating lease right-of-use assets	$ 305,114	$ 305,311
Finance	Property and equipment, net	207,232	226,039
Total lease assets		$ 512,346	$ 531,350
Liabilities			
Current			
Operating	Operating lease liabilities, current portion	$ 69,062	$ 73,026
Finance	Long-term debt and commercial paper, current portion	20,330	17,942
Noncurrent			
Operating	Operating lease liabilities, less current portion	273,134	276,116
Finance	Long-term debt, less current portion	234,016	247,979
Total lease liabilities		$ 596,542	$ 615,063

Finance lease assets are recorded net of accumulated amortization of $114,889 and $90,244 as of December 31, 2023 and 2022, respectively.

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

Lease cost	Classification	December 31, 2023	December 31, 2022
Operating lease cost	Purchased services and other	$ 79,919	$ 76,869
Short term lease cost	Purchased services and other	22,230	17,187
Variable lease cost	Purchased services and other	37,343	37,133
Finance lease cost			
Amortization of lease assets	Depreciation and amortization	24,677	18,795
Interest on lease liabilities	Interest	18,824	18,898
Sublease income	Other revenue	(372)	(2,140)
Net lease cost		$ 182,621	$ 166,742

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

	December 31, 2023	December 31, 2022
Weighted average remaining lease term (in years)		
Operating	6.0	6.0
Finance	8.7	9.6
Weighted average discount rate		
Operating	2.65 %	2.39 %
Finance	8.22 %	8.17 %
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 91,424	$ 81,534
Operating cash flows from finance leases	18,824	18,898
Financing cash flows from finance leases	19,676	17,370

Future maturities of lease liabilities at December 31, 2023 are as follows:

	Operating Leases	Finance Leases	Total
2024	$ 77,005	$ 36,555	$ 113,560
2025	70,643	38,621	109,264
2026	63,979	38,672	102,651
2027	45,539	37,958	83,497
2028	36,665	44,876	81,541
Thereafter	78,170	165,492	243,662
Future minimum lease payments	372,001	362,174	734,175
Less remaining imputed interest	29,805	107,828	137,633
Total	$ 342,196	$ 254,346	$ 596,542

10. INTEREST IN MASONIC FAMILY HEALTH FOUNDATION

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

The interest in the net assets of MFHF amounted to $108,041 and $94,302 at December 31, 2023 and 2022, respectively, and is presented within other noncurrent assets in the accompanying consolidated balance sheets. The System's interest in the investment income (loss) is reflected in the investment income (loss), net line in the accompanying consolidated statements of operations and changes in net assets and amounted to $17,184 and $(23,905) for the years ended December 31, 2023 and 2022, respectively. Cash distributions of $4,586 and $4,077 were received by the System from MFHF under terms of the Agreement during the years ended December 31, 2023 and 2022, respectively.

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

	December 31, 2023	December 31, 2022
Total assets	$ 112,048	$ 99,802
Total liabilities	3,531	4,786
Net assets	108,517	95,016
Total revenue	$ 18,300	$ (22,495)
Revenue in excess of (less than) expenses	13,606	(28,382)

11. LONG-TERM DEBT

Long-term debt consisted of the following:

	December 31, 2023	December 31, 2022
Revenue bonds and revenue refunding bonds		
Series 2008A (weighted average rate of 4.32% and 4.35% during 2023 and 2022, respectively), principal payable in varying annual installments through November 2030; interest based on prevailing market conditions at time of remarketing	86,385	103,810
Series 2008C (weighted average rate of 3.39% and 1.22% during 2023 and 2022, respectively), principal payable in varying annual installments through November 2038; interest based on prevailing market conditions at time of remarketing	272,065	272,065
Series 2011B (weighted average rate of 3.66% and 1.49% during 2023 and 2022, respectively), principal payable in varying annual installments through April 2051, subject to a put provision that provides for a cumulative seven-month notice and remarketing period; interest tied to a market index plus a spread	69,660	69,660
Series 2011C (weighted average rate of 4.95% and 2.05% during 2023 and 2022, 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	49,755	49,755
Series 2011D (weighted average rate of 4.95% and 2.05% during 2023 and 2022, 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	49,755	49,755
Series 2013A, 5.00%, principal payable in varying annual installments through June 2024	7,025	13,090
Series 2014, 4.00% to 5.00%, principal payable in varying annual installments through August 2038	74,695	82,095
Series 2015, 4.13%, principal payable in varying annual installments through May 2045	30,620	30,620
Series 2015B, 4.00% to 5.00%, principal payable in varying annual installments through May 2044	13,665	13,860
Series 2018A, 4.00% to 5.00%, principal payable in varying annual installments through August 2044	97,500	97,500
Series 2018B (weighted average rate of 5.00% during 2023 and 2022), principal payable in varying annual installments through August 2054; interest based on prevailing market conditions at time of remarketing	181,160	184,420
Series 2018C (weighted average rate of 4.30% and 2.37% during 2023 and 2022, respectively), principal payable in varying annual installments through August 2054, interest tied to a market index plus a spread or prevailing market conditions at remarketing	186,845	190,300
	1,119,130	1,156,930
Taxable bonds		
Taxable Bond Series 2018, 3.83% to 4.27%, principal payable in varying annual installments through August 2048	799,510	799,510
Taxable Bond Series 2019, 3.39%, principal payable in October 2049	443,180	443,180
Taxable Bond Series 2020A, 2.21% to 3.01%, principal payable in varying annual installments through June 2050	700,000	700,000
	1,942,690	1,942,690
Finance lease obligations and financing arrangements	258,553	270,423
Commercial paper, weighted average interest rate of 5.14% and 1.74% during 2023 and 2022, respectively	50,000	50,000
Taxable Term Loan, (weighted average rate of 2.68% during 2023 and 2022), principal payable in varying annual installments through September 2024	69,895	70,485
	3,440,268	3,490,528
Net unamortized premiums and unamortized bond issuance costs	26,432	31,134
	3,466,700	3,521,662
Less amounts classified as current		
Long-term debt and commercial paper, current portion	(172,759)	(101,204)
Long-term debt subject to short-term financing arrangements	(354,720)	(165,035)
	(527,479)	(266,239)
	$ 2,939,221	$ 3,255,423

Maturities of long-term debt, capital leases, and sinking fund requirements, assuming remarketing of the variable rate demand revenue refunding bonds, for the five years ending December 31, 2028, are as follows:

2024	$	122,759
2025		48,201
2026		42,840
2027		44,312
2028		444,867

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

The System's unsecured variable rate revenue bonds, Series 2011B of $69,660, Series 2011C of $49,755, Series 2011D of $49,755, Series 2018B-3 of $48,560 and Series 2018C-4 of $50,350, 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, 2023, the principal amount of such bonds has been classified 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, 2023, 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, 2023, the principal amount of such bonds would be classified as a current obligation in the accompanying consolidated balance sheets. The standby bond purchase agreements expire as follows: $87,694 in September 2024, $58,225 in September 2025 and $129,456 in January 2026.

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

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

$3,455 of the Series 2018C-3 Bonds were redeemed and a loss of refinancing was recorded in the amount of $21.

As of December 31, 2023, the System has authorized the issuance of up to $1,000,000 in commercial paper aggregate principal outstanding. As of December 31, 2023, $50,000 of commercial paper notes was outstanding, with maturities ranging from 5 to 43 days. As of December 31, 2022, $50,000 of commercial paper was outstanding, with maturities ranging from 9 to 41 days.

At December 31, 2023, the System had lines of credit with banks aggregating to $1,100,000 in available commitments. These lines of credit provide for various interest rates and payment terms and as of December 31, 2023 expire as follows: $150,000 in August 2024, $325,000 in December 2024, $325,000 in December 2025 and $300,000 in December 2026. 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, 2023, letters of credit totaling $70,507 have been issued under one of these lines. At December 31, 2023, 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 encompasses 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 $132,830 and $126,333 for the years ended December 31, 2023 and 2022, respectively. The System capitalized interest of $4,526 and $5,698 for the years ended December 31, 2023 and 2022, 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 as described in Note 6. INVESTMENTS .

At December 31, 2023, 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. To limit the variability of its interest payments and to take advantage of low interest rates, the System entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps convert the variable rate cash flow exposure on the variable rate demand revenue bonds to synthetically fixed cash flows. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in the principal outstanding under various bond series.

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

The following is a summary of the outstanding positions under these interest rate swap agreements at December 31, 2023:

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	23,200	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 other nonoperating (loss) income, net 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 $31,681 and $29,514 as of December 31, 2023 and 2022, respectively. No collateral was posted under these swap agreements as of December 31, 2023 and 2022.

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

	Year Ended December 31, 2023	Year Ended December 31, 2022
Net cash payments on interest rate swap agreements (interest expense)	$ 572	$ 8,432
Change in fair value of interest rate swaps (other nonoperating (loss) income, net)	$ (2,167)	$ 61,703

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

13. RETIREMENT PLANS

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

The Advocate Health Care Network Pension Plan (“Advocate Plan”) was frozen effective December 31, 2019 to new participants and participants ceased accruing additional pension benefits. The net pension benefit obligation of $161,376 and $174,023 at December 31, 2023 and December 31, 2022, respectively, for the Advocate Plan is included in other noncurrent liabilities in the accompanying consolidated balance sheets. During the years ended December 31, 2023 and 2022, no contributions were made to the Advocate Plan.

The Advocate Aurora Health Pension Plan (“AAH Plan”) was created through a merger of the Condell Health Network Retirement Plan (frozen effective January 1, 2008) and the Aurora Health Care, Inc. Pension Plan (frozen effective December 31, 2012). The net pension benefit obligation of $110,675 and $105,335 at December 31, 2023 and December 31, 2022, respectively, is included in other noncurrent liabilities in the accompanying consolidated balance sheets. During the years ended December 31, 2023 and 2022, no contributions were made to the AAH Plan.

A summary of changes in the plan assets, projected benefit obligation and the resulting funded status for the year ended December 31, 2023 is as follows:

	Advocate	AAH	Total
Change in plan assets:			
Plan assets at fair value at beginning of period	$ 863,209	$ 982,492	$ 1,845,701
Actual return on plan assets	79,100	79,473	158,573
Benefits paid	(49,414)	(47,917)	(97,331)
Plan assets at fair value at end of period	$ 892,895	$ 1,014,048	$ 1,906,943
Change in projected benefit obligation:			
Projected benefit obligation at beginning of period	$ 1,037,232	$ 1,087,827	$ 2,125,059
Interest cost	52,102	55,482	107,584
Actuarial loss	14,351	29,331	43,682
Benefits paid	(49,414)	(47,917)	(97,331)
Projected benefit obligation at end of period	$ 1,054,271	$ 1,124,723	$ 2,178,994
Plan assets less than projected benefit obligation	$ (161,376)	$ (110,675)	$ (272,051)
Accumulated benefit obligation at end of period	$ 1,054,271	$ 1,124,723	$ 2,178,994

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

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

The AAH Plan actuarial gain of $374,539 for the year ending December 31, 2022 was primarily driven by an increase in discount rates and an increase in the expected long-term rate of return on plan assets.

The Advocate Plan paid lump sums totaling $45,541 and $60,526 in 2023 and 2022, respectively. The amount in 2022 was greater than the sum of the Advocate Plan's service cost and interest cost, resulting in a settlement charge in the amount of $17,789.

Pension plan expense is included in other nonoperating (loss) income, net in the accompanying consolidated statements of operations and changes in net assets is as follows for the year ended December 31, 2023:

	Advocate	AAH	Total
Interest cost	$ 52,102	$ 55,482	$ 107,584
Expected return on plan assets	(52,910)	(56,606)	(109,516)
Amortization of:			
Actuarial loss	4,459	—	4,459
Prior service cost	—	3	3
Net pension expense (income)	$ 3,651	$ (1,121)	$ 2,530

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

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

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, 2023:

	Advocate	AAH	Total
Net change recognized	$ (16,298)	$ 6,462	$ (9,836)

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

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

Included in net assets without donor restrictions at December 31, 2023 are the following amounts that have not yet been recognized in net pension expense:

	Advocate	AAH	Total
Unrecognized prior credit	$ —	$ 91	$ 91
Unrecognized actuarial loss	311,339	396,929	708,268
	$ 311,339	$ 397,020	$ 708,359

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

	Advocate	AAH	Total
2024	$ 72,861	$ 58,629	$ 131,490
2025	71,605	61,737	133,342
2026	70,533	65,211	135,744
2027	70,800	67,851	138,651
2028	70,011	70,263	140,274
2029-2033	359,414	374,175	733,589
Total	$ 715,224	$ 697,866	$ 1,413,090

No contributions are expected to the pension plans in 2024.

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

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

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

	December 31, 2023		December 31, 2022	
Asset Category - Advocate Plan	**Target**	**Actual**	**Target**	**Actual**
De-risking portfolio	70 %	68 %	70 %	70 %
Domestic and international equity securities	21	23	21	20
Alternative investments	6	6	6	7
Cash and fixed-income securities	3	3	3	3
	100 %	100 %	100 %	100 %

	December 31, 2023		December 31, 2022	
Asset Category - AAH Plan	**Target**	**Actual**	**Target**	**Actual**
De-risking portfolio	85 %	82 %	85 %	82 %
Domestic and international equity securities	12	15	12	15
Real estate	1	1	1	1
Cash and fixed-income securities	2	2	2	2
	100 %	100 %	100 %	100 %

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

At December 31, 2023, the Advocate Plan had commitments to fund alternative investments, including recallable distributions of $14,549 over the next three years.

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

Derivative contract information at December 31, 2023 are as follows:

	Advocate	AAH	Total
Cash and security collateral provided	$ 17,115	$ 7,307	$ 24,422
Gross notional value	$ (418,971)	$ 253,937	$ (165,034)

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

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

By using derivative financial instruments, the System exposes itself to credit risk and market risk as described in Note 6. INVESTMENTS .

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, 2023, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7. FAIR VALUE:

Description	December 31, 2023	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	$ 54,958	$ 784	$ 54,174	$ —
Corporate bonds and other debt securities	828,052	—	828,052	—
United States government obligations	545,538	—	545,538	—
Bond and other debt security funds	49,068	—	49,068	—
Equity securities	14,177	14,177	—	—
Equity funds	354,901	9,473	345,428	—
Real estate funds	13,610	—	13,610	—
	1,860,304	$ 24,434	$ 1,835,870	$ —
Investments at net asset value				
Alternative investments	49,561			
Total plan investments	1,909,865			
Accruals carried at cost	(2,922)			
Total plan assets	$ 1,906,943			

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

Description	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and short-term investments	$ 89,470	$ 1,155	$ 88,315	$ —
Corporate bonds and other debt securities	748,185	—	748,185	—
United States government obligations	540,677	—	540,677	—
Bond and other debt security funds	44,071	—	44,071	—
Equity securities	13,393	13,393	—	—
Equity funds	335,434	9,418	326,016	—
Real estate funds	16,407	—	16,407	—
	1,787,637	$ 23,966	$ 1,763,671	$ —
Investments at net asset value				
Alternative investments	59,579			
Total plan investments	1,847,216			
Accruals carried at cost	(1,515)			
Total plan assets	$ 1,845,701			

Assumptions used to determine benefit obligations are as follows:

	December 31, 2023	December 31, 2022
Discount rate - Advocate Plan	4.99 %	5.19 %
Discount rate - AAH Plan	5.04 %	5.23 %
Assumed rate of return on assets - Advocate Plan	6.30 %	6.00 %
Assumed rate of return on assets - AAH Plan	5.40 %	4.50 %
Interest crediting rate - Advocate Plan	4.13 %	4.10 %

Assumptions used to determine net pension expense are as follows:

	December 31, 2023	December 31, 2022
Discount rate - Advocate Plan	5.19 %	2.85 %
Discount rate - AAH Plan	5.23 %	3.05 %
Assumed rate of return on assets - Advocate Plan	6.00 %	4.50 %
Assumed rate of return on assets - AAH Plan	4.50 %	3.80 %
Interest crediting rate - Advocate Plan	4.10 %	1.80 %

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

The 2023 and 2022 mortality assumption for the Plans was the amounts-weighted aggregate rates from the Pri-2012 mortality study, with white-collar adjustments projected generationally from 2012 with Scale MP-2021.

In addition to these Plans, the System sponsors a defined contribution plan for its employees. Expense related to the plan, which is included in salaries, wages and benefits expense in the accompanying consolidated statements of operations and changes in net assets, was $332,918 and $312,816 for the years ended December 31, 2023 and 2022, respectively.

14. NET ASSETS WITH DONOR RESTRICTIONS

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

	December 31, 2023	December 31, 2022
Purchases of property and equipment	$ 17,171	$ 19,422
Medical education and other health care programs	227,280	218,754
	$ 244,451	$ 238,176

15. FUNCTIONAL OPERATING EXPENSES

Operating expenses directly attributable to a specific functional area of the System are reported as expenses of those functional areas. Expenses other than interest expense are directly allocated to functional departments at the time they are incurred. Interest expense that relates to debt financing is allocated based on the use of the related funds. General and administrative expenses primarily include legal, finance, marketing, purchasing and human resources. 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, 2023 are as follows:

	Health care services	General and administrative	Consolidated
Salaries, wages and benefits	$ 8,156,018	$ 819,549	$ 8,975,567
Supplies and drugs	3,009,944	53,855	3,063,799
Purchased services and other	1,709,147	650,388	2,359,535
Contracted medical services	542,880	—	542,880
Depreciation and amortization	574,943	39,141	614,084
Interest	125,568	—	125,568
Total operating expenses	$ 14,118,500	$ 1,562,933	$ 15,681,433

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

	Health care services	General and administrative	Consolidated
Salaries, wages and benefits	$ 7,810,612	$ 750,010	$ 8,560,622
Supplies and drugs	2,611,489	47,798	2,659,287
Purchased services and other	1,528,218	582,930	2,111,148
Contracted medical services	518,834	—	518,834
Depreciation and amortization	563,195	36,728	599,923
Interest	118,319	—	118,319
Total operating expenses	$ 13,150,667	$ 1,417,466	$ 14,568,133

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, 2023	December 31, 2022
Current assets		
Cash and cash equivalents	$ 857,599	$ 372,898
Assets limited as to use	179,288	153,557
Patient accounts receivable	1,906,747	1,796,499
Third-party payors receivables	100,958	23,400
Collateral proceeds under securities lending program	14,557	17,402
Total current assets	3,059,149	2,363,756
Assets limited as to use		
Internally designated for capital and other	10,822,009	10,301,972
Held for self-insurance	508,709	564,195
Donor restricted	106,325	98,293
Funds held under retirement plans	412,776	324,928
Investments under securities lending program	13,700	16,732
Total assets limited as to use	11,863,519	11,306,120
Total financial assets	$ 14,922,668	$ 13,669,876
Less		
Amounts unavailable for general expenditures		
Alternative investments	(3,536,782)	(3,000,238)
Total amounts unavailable for general expenditure	(3,536,782)	(3,000,238)
Amounts unavailable to management without approval		
Held for self-insurance	(687,997)	(717,752)
Held for employees under retirement plans	(412,776)	(324,928)
Donor restricted	(106,325)	(98,293)
Investments under securities lending program	(13,700)	(16,732)
Total amounts unavailable to management without approval	(1,220,798)	(1,157,705)
Total financial assets available to management for general expenditure within one year	$ 10,165,088	$ 9,511,933

17. COMMITMENTS AND CONTINGENCIES

Future Obligations

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 $498,224, of which $224,860 has been incurred as of December 31, 2023.

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 $50,000 over the next seven years and approximately $3,000 and $19,000 is included in accounts payable and other accrued liabilities and other noncurrent liabilities, respectively in the accompanying consolidated balance sheets at December 31, 2023. The System has also entered into various other agreements. The future commitments under these agreements are $25,335 over the next three years.

Litigation

From time to time, the System receives and responds to investigations and requests concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes, environmental regulations and other regulations of health care providers from federal and state regulatory agencies. 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.

The System also is involved in litigation such as medical malpractice and contractual disputes, as both plaintiff and defendant, and other routine labor matters, proposed class action complaints, tax examinations, security events resulting in potential privacy incidents, internal compliance activities and regulatory investigations and examinations arising in the ordinary course of business.

Based on System's assessment of the above matters, the uncertainty of litigation, and the preliminary stages of many of the matters, the System cannot estimate the reasonable possible loss or range of loss that may result from these matters, except as stated in the consolidated financial statements, including this note. Management of the System is of the opinion, however, that the resolution of these legal actions will not have a material effect on the financial position of the System.

Two sets of plaintiffs have filed separate putative class action civil lawsuits against the Advocate Aurora Health, Inc. ("AAH"), in 2022 and 2023, alleging violations of Federal and State antitrust law arising out of, among other things, the System's arrangements with certain health plans. The matters are in the discovery and pleadings stages, respectively. The System cannot estimate the reasonable possible loss or range of loss that may result from either of these matters and there can be no assurance that the resolution of either of these matters will not have a material adverse effect on System's consolidated financial position or results of operations.

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 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 4.00% and 3.00% as of December 31, 2023 and 2022, respectively. Total accrued insurance liabilities would have been $122,143 and $81,651 greater at December 31, 2023 and 2022, respectively, had these liabilities not been discounted.

19. RELATED-PARTY TRANSACTIONS

As part of the Advocate Health joint operating agreement as described in Note 1. ORGANIZATION AND BASIS OF PRESENTATION, the System and AHI share certain expenses related to the management of Advocate Health. As of December 31, 2023, the System has a receivable from Advocate Health of $1,870 included in other current assets in the accompanying consolidated balance sheets.

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, 2023, the System had $160,318 of federal and $150,532 of state net operating loss carryforwards with unutilized amounts of state net operating loss carryforwards expiring between 2023 and 2039. At December 31, 2022, the System had $153,352 of federal and $113,825 of state net operating loss carryforwards with unutilized amounts of state net operating loss carryforwards expiring between 2022 and 2039. 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 $160,318 of federal net operating loss carryforwards at December 31, 2023, $145,397 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 and liabilities as follows:

	Year Ended December 31, 2023	Year Ended December 31, 2022
Other deferred tax assets	$ 14,811	$ 30,381
Net operating loss carryforwards	45,781	41,562
Valuation allowances	(45,024)	(40,580)
Net deferred tax assets	15,568	31,363
Deferred tax liabilities	(15,660)	(30,748)
Net deferred tax (liabilities) assets	$ (92)	$ 615

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

	Year Ended December 31, 2023	Year Ended December 31, 2022
Federal	$ 13,270	$ (15,041)
Deferred	709	12,443
	$ 13,979	$ (2,598)

21 SUBSEQUENT EVENTS

The System evaluated events and transactions subsequent to December 31, 2023 through April 22, 2024, the date of consolidated financial statement issuance.

In January 2024, $48,560 of the Series 2018B-3 Bonds were remarketed for a new long-term rate period and will next be subject to mandatory purchase on June 22, 2029. In connection with the remarketing, $4,430 of the Series 2018B-3 Bonds were redeemed and a loss on refinancing was recorded in the amount of $25.

In January 2024, $50,350 of the Series 2018C-4 Bonds were remarketed for a new long-term rate period and will next be subject to mandatory purchase on June 22, 2029. In connection with the remarketing, $4,590 of the Series 2018C-4 Bonds were redeemed and a loss on refinancing was recorded in the amount of $26.

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Supplementary Information

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Report of Independent Auditors on Supplementary Information

The Board of Directors
Advocate Health, Inc.

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

Ernst & Young LLP

April 22, 2024

ADVOCATE AURORA HEALTH, INC.

CONSOLIDATING BALANCE SHEET

December 31, 2023

(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	$ 1,226,001	$ (368,402)	$ —	$ 857,599
Assets limited as to use	166,695	12,593	—	179,288
Patient accounts receivable	1,691,538	235,338	(20,129)	1,906,747
Receivable from subsidiaries	21,111	1,380	(22,491)	—
Other current assets	918,895	174,788	—	1,093,683
Total current assets	4,024,240	55,697	(42,620)	4,037,317
Assets limited as to use	11,765,129	377,391	(279,001)	11,863,519
Note receivable from subsidiaries	154,868	—	(154,868)	—
Property and equipment, net	5,539,766	379,467	—	5,919,233
Other assets				
Goodwill and intangible assets, net	50,044	6,894	—	56,938
Investment in subsidiaries	822,129	—	(822,129)	—
Operating lease right-of-use assets	271,304	33,810	—	305,114
Other noncurrent assets	514,914	300,785	—	815,699
Total other assets	1,658,391	341,489	(822,129)	1,177,751
Total assets	**$ 23,142,394**	**$ 1,154,044**	**$ (1,298,618)**	**$ 22,997,820**

ADVOCATE AURORA HEALTH, INC.

CONSOLIDATING BALANCE SHEET

December 31, 2023

(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Current liabilities				
Long-term debt and commercial paper, current portion	$ 172,113	$ 646	$ —	$ 172,759
Long-term debt subject to short-term financing arrangements	354,720	—	—	354,720
Operating lease liabilities, current portion	62,064	6,998	—	69,062
Accrued salaries and employee benefits	1,186,058	59,387	—	1,245,445
Accounts payable and accrued liabilities	878,322	305,848	(20,129)	1,164,041
Third-party payors payables	401,737	2,759	—	404,496
Accrued insurance and claims costs, current portion	225,178	12,593	—	237,771
Accounts payable to subsidiaries	(1,380)	23,871	(22,491)	—
Total current liabilities	3,278,812	412,102	(42,620)	3,648,294
Noncurrent liabilities				
Long-term debt, less current portion	2,931,196	162,893	(154,868)	2,939,221
Operating lease liabilities, less current portion	244,591	28,543	—	273,134
Accrued insurance and claims cost, less current portion	655,236	31,407	—	686,643
Obligations under swap agreements	31,681	—	—	31,681
Due to subsidiaries	279,001	—	(279,001)	—
Other noncurrent liabilities	1,104,365	55,428	—	1,159,793
Total noncurrent liabilities	5,246,070	278,271	(433,869)	5,090,472
Total liabilities	**8,524,882**	**690,373**	**(476,489)**	**8,738,766**
Net assets				
Without donor restrictions				
Controlling interest	14,447,395	(102,878)	(521,496)	13,823,021
Noncontrolling interests in subsidiaries	—	492,215	(300,633)	191,582
Total net assets without donor restrictions	14,447,395	389,337	(822,129)	14,014,603
With donor restrictions	170,117	74,334	—	244,451
Total net assets	**14,617,512**	**463,671**	**(822,129)**	**14,259,054**
Total liabilities and net assets	**$ 23,142,394**	**$ 1,154,044**	**$ (1,298,618)**	**$ 22,997,820**

ADVOCATE AURORA HEALTH, INC.

CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2023

(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Revenue				
Patient service revenue	$ 11,787,118	$ 1,537,629	$ (337,658)	$ 12,987,089
Capitation revenue	666,791	544,099	(3,972)	1,206,918
Other revenue	840,850	1,102,127	(383,930)	1,559,047
Total revenue	13,294,759	3,183,855	(725,560)	15,753,054
Expenses				
Salaries, wages and benefits	7,997,098	993,334	(14,865)	8,975,567
Supplies and drugs	2,320,028	744,046	(275)	3,063,799
Purchased services and other	2,059,828	573,382	(273,675)	2,359,535
Contracted medical services	237,667	646,842	(341,629)	542,880
Depreciation and amortization	515,174	98,910	—	614,084
Interest	122,285	13,799	(10,516)	125,568
Total expenses	13,252,080	3,070,313	(640,960)	15,681,433
Operating income (loss)	**42,679**	**113,542**	**(84,600)**	**71,621**
Nonoperating income (loss)				
Investment income, net	805,466	13,714	—	819,180
Other nonoperating (loss) income, net	(300,596)	242,632	13	(57,951)
Total nonoperating income, net	504,870	256,346	13	761,229
Revenue in excess of expenses	547,549	369,888	(84,587)	832,850
Less income attributable to noncontrolling interests	—	(143,105)	84,587	(58,518)
Revenue in excess of expenses- attributable to controlling interests	**$ 547,549**	**$ 226,783**	**$ —**	**$ 774,332**

Notes to Supplementary Information

1. Credit Group

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

2. Credit Group Members

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