Axel & Associates, Inc.

MANAGEMENT CONSULTANTS

August 13, 2018

Mr. Mike Constantino
Supervisor, Project Review
Illinois Health Facilities and Services
Review Board
525 West Jefferson
Springfield, IL 62761

RECEIVED

AUG 15 2018

HEALTH FACILITIES &
SERVICES REVIEW BOARD

RE: Project 18-024
Advocate NorthShore Pediatric Partners
Medical Clinics Building

Dear Mike:

Enclosed please find the audited financial statement for NorthShore University HealthSystem, as well as a letter confirming their hospitals' accreditation by the Joint Commission.

Sincerely,

Jacob M. Axel
President

enclosures

675 North Court, Suite 210
Palatine, Illinois 60067

Phone (847) 776-7101
Fax (847) 776-7004

The Joint Commission

May 21, 2018

J.P. Gallagher
CEO
NorthShore University HealthSystem
1301 Central Street, Suite 300
Evanston , IL 60201

Joint Commission ID #: 7343
Program: Hospital Accreditation
Accreditation Activity: Special Announced Event
Accreditation Activity Completed : 5/18/2018

Dear Mr. Gallagher:

The Joint Commission is pleased to grant your organization an accreditation decision of Accredited for all services surveyed under the applicable manual(s) noted below:

- **Comprehensive Accreditation Manual for Hospital**

This accreditation cycle is effective beginning October 7, 2017 and is customarily valid for up to 36 months. Please note, The Joint Commission reserves the right to shorten or lengthen the duration of the cycle.

Should you wish to promote your accreditation decision, please view the information listed under the 'Publicity Kit' link located on your secure extranet site, The Joint Commission Connect.

The Joint Commission will update your accreditation decision on Quality Check®.

Congratulations on your achievement.

Sincerely,

Mark Pelletier

Mark G.Pelletier, RN, MS
Chief Operating Officer
Division of Accreditation and Certification Operations

CONSOLIDATED FINANCIAL STATEMENTS

NorthShore University HealthSystem
Years Ended September 30, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP

EY

Building a better
working world

NorthShore University HealthSystem

Consolidated Financial Statements

Years Ended September 30, 2017 and 2016

Contents

EY
Building a better working world

Ernst & Young LLP
155 North Wacker Drive
Chicago, IL 60606-1787

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Fax: +1 312 879 4000
ey.com

Report of Independent Auditors

The Board of Directors
NorthShore University HealthSystem

We have audited the accompanying consolidated financial statements of NorthShore University HealthSystem and its affiliates (collectively, the Corporation), which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NorthShore University HealthSystem and its affiliates at September 30, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

February 5, 2018

NorthShore University HealthSystem

Consolidated Balance Sheets
(Dollars in Thousands)

	September 30 2017	September 30 2016
Assets		
Current assets:		
Cash and cash equivalents	**$ 59,460**	$ 57,499
Other short-term investments	**1,150**	1,047
Internally designated investments, current portion	**50,705**	48,223
Patient accounts receivable, less allowances for uncollectible and charity accounts (2017 – $113,937; 2016 – $109,206)	**330,838**	323,043
Inventories, prepaid expenses, and other	**75,275**	79,304
Total current assets	**517,428**	509,116
Investments available for general use	**1,695,893**	1,559,893
Investments limited as to use	**206,691**	193,833
Property and equipment:		
Land and improvements	**107,473**	106,110
Buildings	**1,490,024**	1,451,248
Equipment and furniture	**442,733**	441,200
Construction-in-progress	**165,255**	146,320
	2,205,485	2,144,878
Less accumulated depreciation	**1,113,888**	1,091,631
Total property and equipment, net	**1,091,597**	1,053,247
Other noncurrent assets	**239,240**	229,540
Total assets	**$ 3,750,849**	$ 3,545,629

NorthShore University HealthSystem

Consolidated Balance Sheets (continued)

(Dollars in Thousands)

	September 30	
	2017	**2016**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 79,632**	$ 65,893
Accrued expenses	**184,528**	178,683
Current portion of self-insurance	**40,000**	37,928
Due to third-party payors	**106,992**	120,180
Current maturities of long-term debt	**10,793**	10,383
Total current liabilities	**421,945**	413,067
Noncurrent liabilities:		
Long-term debt, less current maturities	**323,979**	334,642
Employee retirement and deferred compensation plans	**126,630**	154,167
Accrued self-insurance and other	**233,518**	228,875
Total noncurrent liabilities	**684,127**	717,684
Net assets:		
Unrestricted	**2,442,811**	2,225,864
Temporarily restricted	**124,873**	112,157
Permanently restricted	**77,093**	76,857
Total net assets	**2,644,777**	2,414,878
Total liabilities and net assets	**$ 3,750,849**	$ 3,545,629

See accompanying notes.

NorthShore University HealthSystem

Consolidated Statements of Operations and Changes in Net Assets
(Dollars in Thousands)

	Year Ended September 30	
	2017	**2016**
Unrestricted revenues and other support		
Net patient service and premium revenue	**$ 2,022,627**	$ 1,998,590
Provision for uncollectible accounts	**(48,807)**	(56,712)
Net patient service and premium revenue	**1,973,820**	1,941,878
Investment earnings supporting current activities	**45,000**	42,000
Net assets released from restrictions used for operations	**12,850**	15,428
Other revenue	**49,319**	51,395
Total unrestricted revenues and other support	**2,080,989**	2,050,701
Expenses		
Salaries and benefits	**1,103,517**	1,063,228
Supplies, services, and other	**699,289**	671,603
Depreciation and amortization	**109,673**	111,031
Insurance	**32,457**	21,854
Medicaid assessment	**43,636**	36,838
Interest	**7,452**	7,263
Total expenses	**1,996,024**	1,911,817
Income from operations	**84,965**	138,884
Nonoperating income		
Dividend and interest income	**32,350**	32,158
Net realized gains on investments	**54,463**	8,090
Net unrealized gains on investments	**126,512**	107,359
Transfer of investment earnings supporting current activities	**(45,000)**	(42,000)
Other, net	**(46,245)**	(110,874)
Total nonoperating loss	**122,080**	(5,267)
Revenues, gains, and other support in excess of expenses	**207,045**	133,617

Continued on next page.

Consolidated Statements of Operations and Changes in Net Assets (continued)

(Dollars in Thousands)

	Year Ended September 30	
	2017	**2016**
Unrestricted net assets		
Revenue, gains, and other support in excess of expenses	**$ 207,045**	$ 133,617
Pension-related changes other than net periodic costs	**10,898**	64,283
Net assets released from restrictions used for capital	**100**	50
Other transfers, net	**(1,096)**	68
Increase in unrestricted net assets	**216,947**	198,018
Temporarily restricted net assets		
Contributions and other	**8,035**	9,705
Net realized gains on investments	**2,059**	5,682
Net unrealized gains on investments	**15,572**	9,025
Net assets released from restrictions	**(12,950)**	(15,478)
Increase in temporarily restricted net assets	**12,716**	8,934
Permanently restricted net assets		
Contributions	**236**	(908)
Increase (decrease) in permanently restricted net assets	**236**	(908)
Increase in net assets	**229,899**	206,044
Net assets at beginning of year	**2,414,878**	2,208,834
Net assets at end of year	**$ 2,644,777**	$ 2,414,878

See accompanying notes.

NorthShore University HealthSystem

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended September 30	
	2017	**2016**
Operating activities		
Increase in net assets	$ **229,899**	$ 206,044
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in net unrealized gains on investments	**(142,084)**	(116,384)
Change in trading portfolio investments, net	**(6,773)**	16,949
Restricted contributions	**(8,271)**	(8,798)
Depreciation and amortization	**109,673**	111,031
Bond premium amortization	**(88)**	(88)
Pension-related changes other than net periodic cost	**(10,898)**	(64,283)
Provision for uncollectible accounts	**48,807**	56,712
Changes in operating assets and liabilities:		
Patient accounts receivable	**(63,447)**	(96,837)
Other current assets	**1,444**	(17,005)
Noncurrent assets and liabilities	**(21,726)**	65,459
Accounts payable and accrued expenses	**21,656**	(5,354)
Due (to) from third-party payors	**(6,344)**	10,546
Net cash provided by operating activities	**151,848**	157,992
Investing activities		
Investments in property and equipment, net	**(147,863)**	(161,027)
Acquisition of other long-term assets, net	**–**	(12)
Net cash used in investing activities	**(147,863)**	(161,039)
Financing activities		
Restricted contributions	**8,271**	8,798
Payments of long-term debt	**(10,295)**	(9,910)
Net cash used in financing activities	**(2,024)**	(1,112)
Increase (decrease) in cash and cash equivalents	**1,961**	(4,159)
Cash and cash equivalents at beginning of year	**57,499**	61,658
Cash and cash equivalents at end of year	$ **59,460**	$ 57,499

See accompanying notes.

1. Organization and Basis of Presentation

NorthShore University HealthSystem (NorthShore) is an integrated health care system dedicated to providing health care services, including inpatient acute and non-acute care, primary and specialty physician services, and various outpatient services. NorthShore operates four acute care facilities, including Evanston Hospital, Highland Park Hospital, Glenbrook Hospital, and Skokie Hospital, that serve the greater Chicago "North Shore" and northern Illinois communities. NorthShore also includes research activities, home health and hospice care, and foundation operations.

NorthShore is the sole corporate member of NorthShore University HealthSystem Faculty Practice Associates (FPA), Radiation Medicine Institute (RMI), and NorthShore University HealthSystem Insurance International (Insurance International). FPA is the sole shareholder of NorthShore Physician Associates (NPA). NPA is the sole shareholder of Community Care Partners (CCP) and NorthShore Physician Associates Value Based Care (VBC), which was established in July 2017 to participate in the Medicare Shared Savings Program. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements include the accounts and transactions of NorthShore and its affiliates (collectively, the Corporation).

NorthShore, FPA, and RMI are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (IRC). NPA, CCP, and VBC are for-profit corporations. Insurance International is a foreign corporation organized in the Cayman Islands, which does not tax the activities of this organization.

The Corporation is the primary teaching affiliate of the University of Chicago Pritzker School of Medicine (Pritzker), under which the Corporation sponsors graduate medical education programs for physicians and other health care-related personnel.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the amounts disclosed in the notes to the consolidated financial statements at the date of the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Estimates affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ.

Cash and Cash Equivalents

Cash equivalents include investments in highly liquid debt instruments, which are not limited as to use, with a remaining maturity of three months or less from the date of purchase.

Patient Accounts Receivable

The Corporation evaluates the collectability of its accounts receivable based on the length of time the receivable is outstanding, the payor class, and the anticipated future uncollectible amounts based on historical experience. Accounts receivable are charged to the allowance for uncollectible accounts when they are deemed uncollectible.

Inventories

Inventories are stated at the lower of cost or market, based on the first-in, first-out (FIFO) method.

Investments

Investments in equity securities and mutual funds are carried at fair value based on quoted market prices. Commingled funds are carried at fair value based on other observable inputs. Debt securities are valued using institutional bids or pricing services. Alternative investments, primarily limited partnerships and hedge funds, are accounted for using the cost or equity method, depending on the extent of the Corporation's ownership within the fund, which is evaluated quarterly.

The Corporation classifies substantially all of its investments as trading. Under a trading classification, all unrestricted realized and unrealized gains and losses are included in revenues, gains, and other support in excess of expenses, unless the income or loss is restricted by donor. Realized and unrealized gains and losses on donor restricted investments are reported as a change in temporarily restricted net assets.

2. Summary of Significant Accounting Policies (continued)

Pursuant to Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, the Corporation has no nonfinancial assets and liabilities that are required to be measured at fair value on a recurring basis as of September 30, 2017 or 2016.

Investments Limited as to Use

Investments limited as to use include investments internally designated by the Board of Directors (the Board) for property and equipment replacement and expansion that the Board, at its discretion, may subsequently use for other purposes and investments externally designated under indenture or donor restriction.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Typical useful lives are 5 to 40 years for buildings and improvements and 3 to 20 years for equipment and furniture. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Total depreciation was $109,489 and $110,530 for the years ended September 30, 2017 and 2016, respectively.

Goodwill and Other Intangible Assets

Goodwill has been recorded at the excess of the purchase price over the fair value of the assets purchased in acquisitions. For 2017, the Corporation performed a quantitative assessment which determined that the Corporation's fair value exceeds its carrying value, and no goodwill was impaired. For 2016, the Corporation performed a qualitative assessment of goodwill which determined that it is more likely than not (>50%) the Corporation's fair value exceeds its carrying amount, and therefore, no goodwill has been impaired. In 2017 and 2016, both valuation approaches were reviewed against several variables, including macroeconomic conditions, industry/market considerations, cost factors, and overall financial performance. The Corporation has goodwill of $116,388 included in other noncurrent assets as of September 30, 2017 and 2016.

Other intangible assets with definite lives, such as noncompete clauses or trade names, are amortized over the estimated useful life of the asset. The Corporation has $268 and $452 included in other noncurrent assets at September 30, 2017 and 2016, respectively. Amortization expense

2. Summary of Significant Accounting Policies (continued)

related to these other intangible assets for the years ended September 30, 2017 and 2016 was $184 and $501, respectively.

Impairments

The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine whether the carrying value of an asset is appropriate. Asset impairments are recognized in operating expenses at the time the impairment is identified. There was no impairment of long-lived assets in fiscal years 2017 or 2016. Impairments of alternative investments are recognized in nonoperating income or changes in temporarily restricted net assets at the time the impairment is identified. Alternative investment impairments for fiscal years 2017 and 2016 are described in Note 4.

Asset Retirement Obligations

The Corporation accounts for the fair value of legal obligations associated with long-lived asset retirements in accordance with ASC 410-20, *Asset Retirement and Environmental Obligations – Asset Retirement Obligations*. The asset retirement obligation, which primarily relates to future asbestos remediation, is recorded in accrued self-insurance and other liabilities and was accreted to its present fair value at September 30, 2017 and 2016, of $6,443 and $7,111, respectively.

General and Professional Liability

The provision for self-insured general and professional liability claims, per actuarial calculations, includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The estimated receivable from the excess insurance carrier is reported in other noncurrent assets.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are assets whose use has been limited by donors or grantors to a specific period of time or a specific purpose. Temporarily restricted gifts, grants, and bequests are reported as an increase in temporarily restricted net assets in the period received. When specific purposes are satisfied, net assets used for capital purposes are reported in the consolidated statements of operations and changes in net assets as additions to unrestricted net assets; net assets

2. Summary of Significant Accounting Policies (continued)

used for operating purposes are reported in the consolidated statements of operations and changes in net assets as unrestricted revenues and other support. Contributions received with donor-imposed restrictions are reported as unrestricted if the restrictions are met in the same reporting period.

Permanently restricted net assets have been restricted by donors to be invested by the Corporation in perpetuity. Certain income from such investments may be temporarily restricted as to use. Associated income that is without donor restrictions is recorded in nonoperating income.

Contributions

Unconditional pledges of others to give cash and other assets to the Corporation are reported at fair value at the date the pledge is received, to the extent estimated to be collectible. Pledges received with donor restrictions that limit the use of the donated assets are reported as increases in temporarily restricted net assets. When donor restrictions are satisfied or met as a result of meeting the specified requirement or the time frame indicated, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions used for operations. Contributions of long-lived fixed assets are recorded at fair value as an increase to property and equipment and an increase to unrestricted net assets.

Net Patient Service Revenue

Net patient service revenue is revenue generated from services provided by the Corporation to patients. The Corporation receives payments for these services either directly from patients or on behalf of patients from third-party payors. Net patient service revenue is reported at the estimated net realizable amounts in the period the related services are provided and is adjusted in future periods as final settlements and payments are made.

2. Summary of Significant Accounting Policies (continued)

Community Service and Care to the Indigent

The Corporation provides care to patients who meet certain criteria established under its charity care policy without charge or at amounts less than the Corporation's established rates. Community service and care to the indigent provided by the Corporation are deducted to arrive at net patient service revenue. The estimated costs incurred by the Corporation to provide these services were $18,794 and $20,408 for the years ended September 30, 2017 and 2016, respectively. These estimates were determined using a ratio of cost-to-gross charges calculated from the Corporation's most recently filed Medicare cost reports and applying that ratio to the gross charges of charity care provided in the period.

Premium Revenue

The Corporation has agreements with health maintenance organizations to provide medical services to subscribing participants. Under these agreements, the Corporation receives monthly payments based on the number of participants, regardless of actual medical services provided to participants. For the years ended September 30, 2017 and 2016, $69,300 and $66,331, respectively, of premium revenue was recorded.

Revenues, Gains, and Other Support in Excess of Expenses

The consolidated statements of operations and changes in net assets include revenues, gains, and other support in excess of expenses. The Board has approved a policy to include certain investment earnings in support of academic initiatives, as well as to provide funding for other activities, such as research. Changes in unrestricted net assets that are excluded from revenues, gains, and other support in excess of expenses include contributions of long-lived assets (including assets acquired using contributions that by donor restriction were used for the purposes of acquiring such assets) and pension-related changes other than net periodic costs.

Other Revenue and Other Nonoperating Income

Other revenue includes all other miscellaneous activities, such as rental income, cafeteria sales, unrestricted donations, and other miscellaneous revenue. Other, net, within nonoperating income, consists primarily of the expenses of the Foundation, investment management expenses, pension settlement charges and transfer of professional liability asset earnings to operating income.

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

Adopted

In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-02, *Consolidation (Topic 807): Amendments to the Consolidation Analysis*. The guidance in this update modifies the analysis that companies must perform to determine whether certain legal entities should be consolidated, including limited partnerships and similar legal entities that would be considered variable interest entities and investments in certain investment funds. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The Corporation adopted the new guidance in the fiscal year 2017, and there was no significant impact on the consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, *Income Statement – Extraordinary and Unusual Items (Subtopic 225-10): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.* This update eliminates from U.S. GAAP the concept of extraordinary items. The Corporation adopted the new guidance in the fiscal year 2017, and there was no significant impact on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* The amendments in this update require that the carrying amount of the debt liability be presented net of debt issuance costs, consistent with the presentation of debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The Corporation early adopted the new guidance for fiscal year 2017, and there was no significant impact on the consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 749): Balance Sheet Classification of Deferred Taxes.* The update requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating into current and noncurrent amounts. The Corporation early adopted the new guidance for fiscal year 2017, and there was no impact on the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Prospective

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers.* The amendments in this update require not-for-profit entities that are conduit bond obligors to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-08 clarifying the implementation guidance on principal versus agent considerations. During third quarter of 2016, the FASB issued ASU 2016-10 and 2016-12. The amendments in these updates further clarify key guidance related to revenue recognition. The Corporation is required to adopt the new guidance in conjunction with ASU 2014-09. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption not permitted. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2018, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instrument: Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* Investments, except for those accounted for under the equity method of accounting, or those that result in consolidating the investment, will be measured at fair value with changes in fair value recognized in nonoperating income. This new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2018, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* Under the new guidance lessees are required to capitalize leases with greater than 12 months term on the balance sheet. Leases will be classified as operating or financing. Both types of leases will be recorded on the balance sheet. Operating leases will reflect lease expense on a straight line basis whereas financing leases will accelerate lease expense in the early period of the lease term and decline with passage of time similar to current accounting for capital leases. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2019, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

In March 2016, the FASB issued ASU 2016-07, *Investments: Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.* The amendments in this update eliminate the requirement to retroactively adjust an investment when it becomes qualified for use under the equity method as a result of an increase in the level of ownership interest or degree of influence. The amendments in this update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2017, however, the Corporation is not expecting this guidance to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments: Credit Losses*. The FASB proposed a single, principles-based model for all entities to account for credit losses on loans, debt securities, trade, lease, and other receivables. The allowance for expected credit losses at each reporting date would represent the current estimate of contractual cash flows not expected to be collected. The ASU applies to financial assets subjected to credit losses that are not already classified as fair value through net income. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2021, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this update replace the three classes of net assets (unrestricted, temporary, and permanent) with two classes (with and without donor restrictions). The ASU also requires additional disclosures relating to net assets and expenses. The Corporation is required to adopt the new guidance for annual reporting periods beginning on October 1, 2018, and subsequent interim periods. The Corporation is currently evaluating the impact this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* The amendments in this update clarify the classification of eight types of transactions in the statement of cash flows to reduce diversity in practices. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2018, however, the Corporation is not expecting this guidance to have a material impact on its consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

In November of 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash.* The guidance requires entities to show the changes in the total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer be required to present transfers between these categories. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2018, however, the Corporation is not expecting this guidance to have a material impact on its consolidated financial statements.

In January of 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The amendments in this update are intended to simplify the accounting for goodwill impairments. Goodwill impairment will be determined by using the difference in fair value and carrying value rather than the original two-step approach. Early adoption is permitted. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2022, however, the Corporation is not expecting this guidance to have a material impact on its consolidated financial statements.

In March of 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this update require an employer to separate the service cost component from the other components of net benefit cost. The service cost component will be reported as part of compensation while the remaining components will be reflected in non-operating income. The update does not change any of the calculations or reporting provisions of current retirement benefit accounting. The amendments in this update should be applied retrospectively for the presentation of the service cost component and other components of net period pension costs and net periodic postretirement benefit costs in the income statement. Since the Corporation's pension plan is currently frozen, it does not have service costs. All other components will be presented as a part of non-operating income. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2019, however, the Corporation is not expecting this guidance to have a material impact on its consolidated financial statements.

(Dollars in Thousands) (continued)

3. Contractual Arrangements with Third-Party Payors

The Corporation has entered into contractual arrangements with various managed care organizations, including Blue Cross Blue Shield (BCBS), the terms of which call for the Corporation to be paid for covered services at predetermined rates. Certain services provided to BCBS program inpatients are paid at interim rates with annual settlements based on allowable reimbursable costs. Outpatient services for this BCBS population are covered by an indemnity fee-for-service policy and, therefore, are not covered under the cost settlement program. The Corporation also provides care to certain patients with government insurance programs, such as Medicare and Medicaid, at predetermined rates. Reported costs and/or services provided, under certain of the arrangements, are subject to audit by the administering agencies. Changes in the various programs, including Medicare and Medicaid, could have an adverse effect on the Corporation.

A provision has been made in the consolidated financial statements for contractual adjustments, representing the difference between the charges for services provided and estimated reimbursement from the various third-party payors. Net patient service revenue increased by $78 and $4,000 for the years ended September 30, 2017 and 2016, respectively, to reflect changes in the estimated Medicare and Medicaid settlements for prior years.

The percentages of gross patient service revenue applicable to specific payors' contractual arrangements for the years ended September 30 are as follows:

	2017	**2016**
Medicare	**44%**	43%
BCBS	**22**	23
Managed care	**19**	17
Medicaid	**9**	9
Other	**6**	8
Total	**100%**	100%

(Dollars in Thousands) (continued)

3. Contractual Arrangements with Third-Party Payors (continued)

The percentages of gross patient accounts receivable applicable to specific payors' contractual arrangements as of September 30 are as follows:

	2017	2016
Medicare	**31%**	33%
Managed care	**20**	24
Medicaid	**27**	20
BCBS	**13**	13
Other	**9**	10
Total	**100%**	100%

The Corporation's estimation of the allowance for doubtful accounts is based primarily upon the type and age of patient accounts receivable and the effectiveness of the Corporation's collection efforts.

The Corporation's policy is to establish reserves for a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. The allowance for uncollectible accounts as a percentage of all accounts receivable was 26% and 25% as of September 30, 2017 and 2016, respectively.

The Corporation's methodology for both years ended September 30, 2017 and 2016 was to reserve for all commercial claims over 360 days.

The Corporation's total reserve for self-pay accounts receivable, including the allowance for uncollectible accounts and charity care, was 86% and 85% of self-pay accounts receivable at September 30, 2017 and 2016, respectively.

On a monthly basis, the Corporation reviews its patient accounts receivable balances and employs various analytics to support the determination of its estimates. These efforts primarily consist of reviewing the following: historical write-off and collection experience, revenue and volume trends by payor (particularly self-pay components), changes in the aging and payor mix of patient accounts receivable (including accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients), trending of days revenue in accounts receivable, and various allowance coverage statistics.

3. Contractual Arrangements with Third-Party Payors (continued)

Total net patient service revenue was $1,953,327 and $1,932,259 for the years ended September 30, 2017 and 2016, respectively. Included in this amount is third-party payor revenue of $1,865,072 and $1,854,542 and self-pay revenue of $88,255 and $77,717 for the years ended September 30, 2017 and 2016, respectively.

The Corporation is subject to routine audits and reviews by various governmental and commercial agencies related to payments received for services provided. In fiscal year 2016, the OIG completed a compliance review for Medicare services provided in 2013 and 2014. As a result of this review, the Corporation refunded $3,900 to CMS in March of 2017. The Corporation has appealed the results of this review.

The Corporation believes that it is in compliance with all applicable Medicare and Medicaid laws and regulations and is not aware of any pending or threatened investigations or allegations of potential wrongdoing.

Current liabilities include $106,992 and $120,180 for September 30, 2017 and 2016, respectively, related to various estimated settlements due to third-party payors, including Medicare, Medicaid, and BCBS. Laws and regulations governing Medicare and Medicaid change frequently, are complex, and are subject to interpretation. Administrative procedures for both Medicare and Medicaid preclude the final settlement until the related cost reports have been audited by the sponsoring agency and settled. As a result, there is a reasonable possibility that these recorded estimates will change as new information becomes available, and the amount of the change may be material.

Under the state of Illinois' Hospital Assessment program (the Program), the Corporation recognized $56,699 and $52,961 of net patient revenue for the years ended September 30, 2017 and 2016, respectively. Additionally, $43,636 and $36,838 of program assessment expense was recognized for the years ended September 30, 2017 and 2016, respectively.

(Dollars in Thousands) (continued)

4. Financial Instruments

The presentation of investments at September 30 is as follows:

	2017	2016
Other short-term investments	**$ 1,150**	$ 1,047
Investments available for general use	**1,695,893**	1,559,893
Investments limited as to use:		
Current portion	**50,705**	48,223
All other (noncurrent)	**206,691**	193,833
Other noncurrent assets	**84,458**	70,414
Total investments	**$ 2,038,897**	$ 1,873,410

Total investment return for the years ended September 30 is summarized as follows:

	2017	2016
Nonoperating:		
Dividend and interest income	**$ 32,350**	$ 32,158
Net realized gains on investments	**54,463**	8,090
Net unrealized gains on investments	**126,512**	107,359
Total nonoperating investment return	**213,325**	147,607
Temporarily restricted:		
Net realized gains	**2,059**	5,682
Net unrealized gains	**15,572**	9,025
Total temporarily restricted investment return	**17,631**	14,707
Total investment return	**$ 230,956**	$ 162,314

Investment fees for the years ended September 30, 2017 and 2016, were $28,549 and $19,326, respectively, and are included in other, net, within nonoperating income.

The Corporation continually reviews its alternative investment portfolio recorded at cost and evaluates whether declines in the fair value of such securities should be considered other than temporary. Factored into this evaluation are general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, and the length of time and extent to which the fair value has been less than cost. For the year ended September 30, 2017, no

4. Financial Instruments (continued)

related investments were impaired. For the year ended September 30, 2016, a previously impaired investment was written down further, resulting in the Corporation recording a loss of $1,576. Also, an overseas fund investment measured at cost was closed resulting in the Corporation recording a loss of $6,590. These items were recorded as net unrealized gains (losses) as investments within nonoperating income.

5. Fair Value Measurements

The Corporation holds certain debt securities, equity securities, and investments in funds that are measured using a prescribed fair value hierarchy and related valuation methodologies. The concept of the highest and best use of an asset is used for valuation. Highest and best use is determined by the use of the asset by market participants, even if the intended use of the asset by the reporting entity is different.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions about current market conditions.

The prescribed fair value hierarchy and related valuation methodologies are as follows:

Level 1 – Quoted market prices for identical instruments in active markets. Active markets are defined by daily trading and investor ability to exit holdings at the daily pricing. Redemption frequency is daily.

Level 2 – Quoted market prices for similar or identical instruments and model-derived valuations in which all significant inputs are observable in the market. The separately managed accounts are based on institutional bid evaluations. Institutional bid evaluations are estimated prices computed by pricing vendors. These prices are determined using observable inputs for similar securities as of the measurement date. Redemption frequency is daily or monthly.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are unobservable. These prices are based on the net asset value reported from the investee and reviewed by an independent third party as its best estimate of fair market value on the reporting date for its investments in limited partnerships and hedge funds. Because there are no

(Dollars in Thousands) (continued)

5. Fair Value Measurements (continued)

observable market transactions for interests in investments in limited partnerships and hedge funds, any investments of this nature would be classified in Level 3 of the fair value hierarchy. Redemption frequency varies from monthly to longer than one year for hedge funds. Limited partnerships are expected to be held for the life of the fund.

The Corporation's financial assets that are carried at fair value at September 30, 2017 were as follows:

Nature of Investment	Level 1	Level 2	Level 3	Total
Common stock	**$ 188,870**	**$ –**	**$ –**	**$ 188,870**
Mutual funds	**223,850**	**–**	**–**	**223,850**
Bond funds	**183,010**	**–**	**–**	**183,010**
Real asset funds	**15,610**	**–**	**–**	**15,610**
Fixed income accounts	**–**	**124,508**	**–**	**124,508**
Total assets at fair value	**$ 611,340**	**$ 124,508**	**$ –**	**$ 735,848**

Total investments at September 30, 2017 are $2,038,897. This amount includes $735,848 in investments recorded at fair value and $804,226 in investments measured at net asset value. In addition, this amount includes $480,066 in limited partnerships and hedge funds recorded at cost, $10,278 in limited partnerships recorded using the equity method, and other assets of $8,479 recorded at cost.

The Corporation's financial assets that are carried at fair value at September 30, 2016 were as follows:

Nature of Investment	Level 1	Level 2	Level 3	Total
Common stock	$ 165,555	$ –	$ –	$ 165,555
Mutual funds	200,109	–	–	200,109
Bond funds	209,744	–	–	209,744
Real asset funds	15,258	–	–	15,258
Fixed income accounts	–	143,518	–	143,518
Total assets at fair value	$ 590,666	$ 143,518	$ –	$ 734,184

5. Fair Value Measurements (continued)

Total investments at September 30, 2016 are $1,873,410. This amount includes $734,184 in investments recorded at fair value and $641,734 in investments measured at net asset value. In addition, this amount includes $476,852 in limited partnerships and hedge funds recorded at cost, $18,103 in limited partnerships recorded using the equity method, and other assets of $2,537 recorded at cost.

ASC 825, *Financial Instruments*, permits entities to elect to measure many financial instruments and certain other items at fair value. The fair value option may be applied instrument by instrument and is irrevocable. The Corporation has made no such elections to date.

There were no transfers between Level 1, Level 2, or Level 3 assets during the years ended September 30, 2017 or 2016.

The carrying values of patient accounts receivable, accounts payable, and accrued expenses are reasonable estimates of their fair values due to the short-term nature of these financial instruments.

The estimated fair value of total debt was $344,257 and $359,187 at September 30, 2017 and 2016, respectively. Under the guidance set forth in ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, the Corporation's debt is classified as a Level 2 liability. The estimated fair value of the fixed rate debt is determined by recalculating the dollar prices of each of the Corporation's outstanding fixed rate bonds using current market yields. The variable rate debt is remarketed daily or weekly, and par value is considered to be fair value. The fair value included a consideration of third-party credit enhancements, which had no impact on the estimated fair value of the debt.

6. Long-Term Debt and Debt with Self-Liquidity

All bonds issued by the Corporation were used to pay or reimburse the Corporation for certain capital projects, to provide for a portion of the interest on the bonds, and to pay certain expenses incurred in connection with the issuance of the bonds. The variable rate bonds are subject to periodic remarketing and can be converted to a fixed rate subject to certain terms of the loan agreements. The Series 2001B, 2001C, 1995, and 1996 bonds have standby bond purchase agreements (SBPAs), and the 2008 commercial paper has a letter of credit (LOC) to provide liquidity support in the event of a failed remarketing.

(Dollars in Thousands) (continued)

6. Long-Term Debt and Debt with Self-Liquidity (continued)

The Series 2001B, 2001C, 1995, and 1996 bonds have standby bond purchase agreements issued by a financial institution that expires on October 15, 2020. In the event these bonds cannot be remarketed, the bond trustee will call the bonds and the bonds will become bank bonds held by the liquidity facility provider. The liquidity facility provider will hold the bonds for 367 days or until a replacement liquidity facility is secured. After the 367-day period, the bonds will begin to amortize over a three-year period. In the event an SBPA cannot be renewed or replaced, the liquidity facility provider will make a loan in the amount necessary to complete the mandatory tender of the bonds. The principal and interest on the loan will be amortized over three years.

The Corporation has an LOC backup facility with a financial institution in conjunction with the 2008 Pooled Program that expires on November 30, 2019. The LOC may be drawn upon by the trustee to make payments of principal and interest on maturing commercial paper in the event that an issuance of commercial paper does not roll over. Repayments on any liquidity advance received prior to the LOC expiration date will be made in equal quarterly installments beginning on the first subsequent quarter-end date.

The self-liquidity bonds held by the Corporation are as follows:

Series	Final Maturity	As of September 30 2017	2016
1990A	2025	$ –	$ 50,000
1992	2026	–	50,000
1998	2032	–	50,000
		$ –	$ 150,000

On December 22, 2016, the Corporation cancelled the full amount of all three self-liquidity bonds series listed in the above table.

Under the terms of the long-term debt arrangements, various amounts are on deposit with trustees, and certain specified payments are required for bond redemption, interest payments, and asset replacement. The terms of certain long-term debt agreements require, among other things, the maintenance of various financial ratios and place limitations on additional indebtedness and pledging of assets. The Corporation remained in compliance with these agreements during the reporting periods.

(Dollars in Thousands) (continued)

6. Long-Term Debt and Debt with Self-Liquidity (continued)

The Corporation has various outstanding LOCs in connection with construction projects and property lease obligations, which amount to $500 and $560 at September 30, 2017 and 2016, respectively. No amounts have been drawn against these LOCs.

For the years ending September 30, maturities of long-term debt, including an $88 bond premium, are as follows:

Fiscal Year	Maturities of Long-Term Debt
2018	$ 10,793
2019	$ 11,193
2020	$ 11,638
2021	$ 12,133
2022	$ 12,623

Interest paid for the years ended September 30, 2017 and 2016, was $7,705 and $6,807, respectively. Interest of $1,300 and $633 was capitalized for the same periods, respectively. In addition, bond premium amortization was $88 for the years ended September 30, 2017 and 2016.

(Dollars in Thousands) (continued)

6. Long-Term Debt and Debt with Self-Liquidity (continued)

Total long-term debt at September 30 is summarized as follows:

Type/Issuer	Series	Amortization Amount Range	Amortization Years From – To	Outstanding Principal September 30 2017	Outstanding Principal September 30 2016	Interest Rate September 30 2017	Interest Rate September 30 2016
Illinois Development Finance Authority Variable Rate Demand Revenue Bonds							
	2001B	$1,800–$5,000	2018–2031	$ **34,300**	$ 36,000	**0.68%**	0.28%
	2001C	1,800– 5,000	2018–2031	**34,300**	36,000	**0.68%**	0.28%
Illinois Health Facilities Authority Variable Rate Adjustable Demand Revenue Bonds							
	1995	$1,445–$8,605	2018–2035	$ **40,020**	$ 41,530	**0.78%**	0.24%
	1996	1,435– 8,560	2018–2035	**40,070**	41,570	**0.77%**	0.27%
Illinois Educational Facilities Authority Commercial Paper Revenue Note							
	2008	$995–$13,305	2032–2038	$ **75,000**	$ 75,000	**0.79%**	0.22%
Illinois Finance Authority Revenue Refunding Bonds							
	2010	$825–$9,685	2018–2037	$ **111,765**	$ 115,650	**4.00%–5.25%**	4.00%–5.25%
Total long-term debt				$ **335,455**	$ 345,750		
Less: current maturities of debt				**10,793**	10,383		
Less: debt issuance costs				**2,409**	2,539		
Plus: 2010 bond premium (current and long-term)				**1,726**	1,814		
Total long-term debt, less current maturities				$ **323,979**	$ 334,642		

For all variable rate securities, the interest rate is a weighted average.

7. Employee Benefit Programs

The Corporation sponsored a funded, noncontributory, defined benefit pension plan (the NorthShore Plan), which was frozen to all participants on December 31, 2013. Assets held by the NorthShore Plan consist primarily of fixed income securities, domestic/international stocks, limited partnership interests, and hedge funds. A plan measurement date of September 30 is used for the NorthShore Plan.

In the spring of 2015, the Corporation surveyed active employees regarding the opportunity to voluntarily receive their frozen NorthShore Plan benefit as a lump-sum distribution while actively employed. The individuals who elected to participate were transferred to a separate pension plan sponsored by the Corporation (the Spin-Off Plan), effective as of June 1, 2015. The Spin-Off Plan was terminated effective as of August 1, 2015. During August 2015, the NorthShore Plan

(Dollars in Thousands) (continued)

7. Employee Benefit Programs (continued)

transferred $216,710 in accumulated plan liabilities and $203,844 in plan assets to the Spin-Off Plan. During the first quarter of fiscal year 2016, the Corporation contributed $15,038 to the Spin-Off Plan and $4,000 in assets were transferred from the NorthShore Plan to the Spin-Off Plan. Total Spin-Off Plan's employee benefit payments of $221,923 were distributed in the first quarter of fiscal year 2016. The Corporation recognized $77,688 in settlement charges, in nonoperating income, for the year ended September 30, 2016 for the Spin-Off Plan. The Corporation did not recognize any settlement charges for the year ended September 30, 2017 for the Spin-Off Plan.

For the year ended September 30, 2017, the Corporation made contributions of $30,000 for plan year 2016.

The summary of the changes in the projected benefit obligation and plan assets for the years ended September 30 is as follows:

	Spin-Off Plan		NorthShore Plan	
	2017	**2016**	**2017**	**2016**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ –	$ 220,801	**$ 269,633**	$ 264,093
Interest cost	–	–	**10,372**	11,778
Actuarial losses	–	–	**(5,648)**	11,432
Benefits paid	–	(220,801)	**(15,044)**	(17,670)
Transfer between plans	–	–	**–**	–
Projected benefit obligation at end of year	$ –	$ –	**$ 259,313**	$ 269,633

(Dollars in Thousands) (continued)

7. Employee Benefit Programs (continued)

The accumulated benefit obligation is equal to the projected benefit obligation for the years ended September 30 as the Plan was frozen of December 31, 2013.

	Spin-Off Plan		NorthShore Plan	
	2017	**2016**	**2017**	**2016**
Change in plan assets:				
Fair value of plan assets at beginning of year	$ –	$ 202,850	$ **197,479**	$ 200,999
Actual return on plan assets	–	35	**17,752**	11,650
Employer contributions	–	15,038	**30,000**	6,500
Benefits paid	–	(221,923)	**(15,044)**	(17,670)
Transfer between plans	–	4,000	**–**	(4,000)
Fair value of plan assets at end of year	$ –	$ –	$ **230,187**	$ 197,479

A summary of changes in the funded status and net periodic pension cost as of and for the years ended September 30 is as follows:

	NorthShore Plan	
	2017	**2016**
Funded status of the plan	$ **(29,126)**	$ (72,154)
Unrecognized net actuarial loss	**94,024**	105,284
Prepaid pension cost	**64,898**	33,130
Accumulated adjustments to unrestricted net assets	**(94,024)**	(105,284)
Amounts recognized in consolidated balance sheets	$ **(29,126)**	$ (72,154)

Changes in the plan's assets and benefit obligation recognized in unrestricted net assets for the years ended September 30 include the following:

	NorthShore Plan	
	2017	**2016**
Current year actuarial loss	$ **(9,186)**	$ 14,276
Recognized loss	**(2,074)**	(1,634)
Transfer between plans	**–**	–
	$ **(11,260)**	$ 12,642

(Dollars in Thousands) (continued)

7. Employee Benefit Programs (continued)

The Corporation's target and actual pension asset allocations are as follows:

Asset Category	Strategic Target	Actual Asset Allocation for the NorthShore Plan at September 30 2017	2016
Equity securities	40%	**29%**	23%
Debt securities	25	**30**	24
Other	35	**41**	53
Total	100%	**100%**	100%

The Corporation holds certain debt securities, equity securities, and investments in funds that must be measured using a prescribed fair value hierarchy and related valuation methodologies. The concept of the "highest and best use" of an asset is used for valuation. Highest and best use is determined by the "use of the asset by market participants, even if the intended use of the asset by the reporting entity is different."

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation's assumptions about current market conditions.

The following table presents total financial instruments for the NorthShore Plan as of September 30, 2017, measured at fair value on a recurring basis by the ASC 820 valuation hierarchy defined in Note 5:

Nature of Investment	Level 1	Level 2	Level 3	Total
Money market funds	**$ 3,295**	**$ –**	**$ –**	**$ 3,295**
Mutual funds	**41,583**	**–**	**–**	**41,583**
Fixed income accounts	**–**	**48,476**	**–**	**48,476**
Total assets at fair value	**$ 44,878**	**$ 48,476**	**$ –**	**93,354**
Investments measured at net asset value				**136,834**
Total pension plan assets				**$ 230,188**

(Dollars in Thousands) (continued)

7. Employee Benefit Programs (continued)

The following table presents total financial instruments for the NorthShore Plan and the Spin-Off Plan as of September 30, 2016, measured at fair value on a recurring basis by the ASC 820 valuation hierarchy defined in Note 5:

Nature of Investment	Level 1	Level 2	Level 3	Total
Money market funds	$ 3,520	$ –	$ –	$ 3,520
Mutual funds	8,162	–	–	8,162
Fixed income accounts	–	41,902	–	41,902
Total assets at fair value	$ 11,682	$ 41,902	$ –	53,584
Investments measured at net asset value				143,895
Total pension plan assets				$ 197,479

The components of net periodic benefit cost included in the consolidated statements of operations and changes in net assets for the years ended September 30 are as follows:

	Spin-Off Plan		NorthShore Plan	
	2017	2016	2017	2016
Interest cost	$ –	$ 790	$ **10,372**	$ 11,778
Expected return on plan assets	–	–	**(14,215)**	(14,494)
Actuarial loss	–	121	**2,074**	1,634
Net periodic benefit cost	$ –	$ 911	$ **(1,769)**	$ (1,082)

Expected employee benefit payments for the NorthShore Plan are $14,594 in 2018, $13,989 in 2019, $14,642 in 2020, $15,197 in 2021, $15,422 in 2022, and $78,367 during the period from 2023 through 2027.

(Dollars in Thousands) (continued)

7. Employee Benefit Programs (continued)

Assumptions used to determine benefit obligations at the measurement date of September 30 are in the table below. To develop the expected long-term rate of return on assets assumption, the Corporation considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

	Spin-Off Plan		NorthShore Plan	
	2017	**2016**	**2017**	**2016**
Discount rate	**N/A**	N/A	**4.09%**	3.95%
Expected return on plan assets	**N/A**	N/A	**6.75**	7.00

Assumptions used to determine net pension expense for the years ended September 30 are as follows:

	Spin-Off Plan		NorthShore Plan	
	2017	**2016**	**2017**	**2016**
Discount rate	**N/A**	N/A	**3.95%**	4.61%
Expected return on plan assets	**N/A**	N/A	**7.00**	7.25

During fiscal year 2017, the Corporation switched from the Adjusted RP-2014 Mortality Table with generational mortality improvement using Scale MP-2016 to using Scale MP-2017 which increased the projected benefit obligation by ($7,915).

The Corporation also sponsors a 403(b) plan that matches employee contributions at an annual discretionary percentage. Matching cash contributions to the defined contribution plan totaled $23,758 and $22,713 in 2017 and 2016, respectively. The related liability at September 30, 2017 and 2016 is $16,310 and $19,230, respectively, which was included in accrued expenses.

In addition, the Corporation sponsors a defined contribution retirement plan (the RCP Plan), in which it enrolled new employees hired after January 1, 2013, and all employees as of January 1, 2014. Cash contributions to the RCP Plan totaled $24,663 and $23,719 in 2017 and 2016, respectively. The Corporation recorded a liability of $18,825 and $18,750 related to the RCP Plan as of September 30, 2017 and 2016, respectively, which was included in accrued expenses.

7. Employee Benefit Programs (continued)

The Corporation also sponsors various supplemental executive retirement plans. The total liability for these plans is $16,585 and $14,758 for the years ended September 30, 2017 and 2016, respectively, and is included in accrued expenses and employee retirement plans based on the expected payout dates. The Company funded $2,540 and $1,555 of the liabilities for these plans as of September 30 2017 and 2016, respectively, and recorded these amounts in other noncurrent assets.

The Corporation also offers an Executive and Physician Income Deferral Plan (457B), which is 100% employee-funded. The plan assets and liabilities for September 30, 2017 and 2016, are $82,021 and $68,951, respectively. These amounts are included in other noncurrent assets and employee retirement and deferred compensation plans for the years ended September 30, 2017 and 2016, respectively.

8. Professional Liability Insurance

The Corporation has claims-made basis policies in excess of the amounts retained by the Corporation for professional and general liability claims. As of September 30, 2015 (beginning with policy year March 26, 2009), claims are subject to deductibles of $10,000 with a $15,000/$15,000 buffer layer. The estimated professional liability losses are calculated with the assistance of consulting actuaries, and an accrual has been made for potential claims to be paid. The discounted reserve balance was $251,645 as of September 30, 2017 and $245,010 as of September 30, 2016, using a 2.5% discount rate for each year. Included in these amounts is a receivable for anticipated insurance recoveries of $13,115 and $13,010 as of September 30, 2017 and 2016, respectively. The undiscounted reserve balance would have been higher by approximately $24,183 and $23,683 as of September 30, 2017 and 2016, respectively. The Corporation is not aware of any factors that would cause insurance expense to vary materially from the amounts provided. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently may not be insured.

9. Litigation and Contingencies

In February 2004, the Federal Trade Commission (FTC) issued a complaint against the Corporation challenging its January 2000 merger with Highland Park Hospital (HPH). On April 28, 2008, the FTC issued a Final Order that requires the Corporation to conduct separate negotiations with private third-party payors for health care services of HPH unless a payor specifically elects to opt out and negotiate jointly for all of the Corporation's hospitals. The Final Order also requires the Corporation to give prior notification to the FTC for any future acquisitions of hospitals within the Chicago Metropolitan Statistical Area through April 2018. The Final Order terminates in April 2028.

In August 2007, three individual private plaintiffs filed a purported antitrust class action lawsuit against the Corporation in Federal District Court in Chicago, Illinois, alleging anticompetitive price increases as a result of the Corporation's January 2000 merger with HPH. In May 2008, an entity titled the Painters District Council No. 30 Health and Welfare Fund filed a nearly identical antitrust class action against the Corporation. All four of the separate suits have been consolidated into one action. On March 30, 2010, the District Court denied the plaintiffs' motion for class certification. The plaintiffs appealed the District Court's denial of class certification to the Seventh Circuit Court of Appeals, and on January 13, 2012, the Seventh Circuit issued an opinion that vacated the District Court's decision and remanded the case back to the District Court for further proceedings. On April 4, 2012, the plaintiffs filed a renewed motion for class certification that the Corporation opposed on July 12, 2012. On December 10, 2013, the District Court granted plaintiffs' renewed motion for class certification. On September 4, 2015, the District Court granted in part the Corporation's motions to compel arbitration against the largest managed care organizations that are alleged to be part of the class. In particular, the District Court found that Aetna, Blue Cross (PPO product), Cigna, United, and Unicare must resolve their dispute with the Corporation (if any) through arbitration, and cannot participate in the class.

Several other managed care organizations (MCOs), including Blue Cross (HMO product) and Humana, remain within the class, as do the MCOs' self-insured customers. Fact discovery closed in November 2015. The parties completed expert discovery in April 2017. The parties filed competing motions for summary judgment, motions to decertify the class, and motions to exclude experts during the spring and summer of 2017. Parties are due back in court for a status hearing in February 2018 and a final resolution in this matter is not expected until late 2018. No trial date has been set. The Corporation has denied all allegations within the plaintiffs' complaints and intends to pursue its rights in defense of the claims. The Corporation is unable to predict the ultimate outcomes, including liability, if any, in this litigation; however, such liabilities could be material.

9. Litigation and Contingencies (continued)

On June 14, 2012, the state of Illinois enacted Illinois Public Act 97-0688, which includes provisions governing property and sales tax exemptions for Illinois nonprofit hospitals. Based on initial interpretations and estimates, the Corporation believes that community benefits provided by each of its hospitals will exceed their respective tax assessments and, therefore, no property tax will be due for the tax years 2012 through 2016. On June 2, 2016, the Illinois Department of Revenue (IDOR) notified the Corporation that the Corporation's sales tax exemption was renewed under Illinois Public Act 97-0688 through July 1, 2021.

Prior to the new legislation, the Corporation filed required applications seeking real estate tax-exempt status for certain of the Corporation's Skokie Hospital and related facilities, which were certified as tax-exempt as part of Rush North Shore Medical Center prior to the merger with the Corporation on January 1, 2009. These applications are now subject to the provisions of Illinois Public Act 97-0688. The IDOR issued real estate tax exemption certificates, which approved the Corporation's tax exemption filing for either full or partial exemption of the Skokie Hospital and related facilities for tax years 2009, 2010, 2011, and 2012. A local school district subsequently intervened and filed letters with the IDOR seeking a hearing on the Skokie Hospital exemptions. On July 2, 2015, the Corporation filed a separate lawsuit in Circuit Court claiming the IDOR lacked jurisdiction over the school district's challenges due to the district's non-compliance with statutory requirements. After various rulings and appeals, the Corporation filed a petition for leave to appeal with the Illinois Supreme Court, who on December 1, 2017 granted the request to hear the matter. The briefing with the Court will occur in 2018. Furthermore, the administrative proceedings before the IDOR have been stayed, and the next status conference with the administrative law judge is scheduled for May 1, 2018.

Separately, on May 5, 2016, Thornmeadow Partners LP, filed a putative class action lawsuit against the Corporation and other unrelated defendants challenging the constitutionality of the Corporation's property tax exemptions. After the favorable ruling by the Illinois Supreme Court in the case involving Carle Clinic for a similar matter, the Plaintiff agreed to withdraw its original complaint and filed an amended complaint. On June 14, 2017, the Corporation filed a motion to dismiss the amended complaint in its entirety and oral arguments were heard on October 4, 2017. On January 17, 2018, the case was dismissed in its entirety with prejudice.

(Dollars in Thousands) (continued)

9. Litigation and Contingencies (continued)

The Corporation is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporation's consolidated financial condition or operations.

10. Commitments

Future minimum lease payments for property and equipment for all noncancelable operating leases for the next five years are as follows:

2018	$	24,213
2019	$	23,070
2020	$	20,735
2021	$	19,614
2022	$	18,840

Lease expense for the years ended September 30, 2017 and 2016 was $25,249 and $24,837, respectively, and is recorded within supplies, services, and other.

At September 30, 2017, the Corporation is committed to $109,250 in construction-related contracts.

At September 30, 2017, the Corporation is committed to fund $137,572 to limited partnerships, which is expected to occur over the next decade. At September 30, 2017, the pension plan is committed to fund $6,866 to limited partnerships, which is expected to occur over the next decade.

Future minimum intangible asset amortization for the next five years is as follows:

2018	$	49
2019	$	35
2020	$	35
2021	$	35
2022	$	35

(Dollars in Thousands) (continued)

11. General, Administrative, and Fund-Raising Expenses

General and administrative expenses incurred in connection with providing inpatient, outpatient, professional, and emergency care services amounted to $317,839 and $312,609 in 2017 and 2016, respectively. Fund-raising expenses for the years ended September 30, 2017 and 2016 were $3,040 and $3,318, respectively.

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	2017	2016
Restricted for:		
Research	**$ 20,270**	$ 18,059
Special purpose	**104,603**	94,098
Total temporarily restricted net assets	**$ 124,873**	$ 112,157

Permanently restricted net assets totaled $77,093 and $76,857 for the years ended September 30, 2017 and 2016, respectively. Earnings from permanently restricted net assets are used toward research, special purpose, and general operations and to fund department chairs, as well as uncompensated care offered to patients who meet certain criteria established under the Corporation's charity care policy.

(Dollars in Thousands) (continued)

12. Temporarily and Permanently Restricted Net Assets (continued)

Activity in the endowment funds was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2015	$ 6,662	$ 44,578	$ 77,765	$ 129,005
Contributions	–	–	(908)	(908)
Investment return	1,242	7,324	–	8,566
Change of value in trust	1,289	9,025	–	10,314
Distributions	(1,242)	(5,704)	–	(6,946)
Net asset reclassification from unrestricted investment	(35)	(134)	–	(169)
Endowment net assets at September 30, 2016	7,916	55,089	76,857	139,862
Contributions	–	–	**236**	**236**
Investment return	**565**	**3,681**	–	**4,246**
Change of value in trust	**2,383**	**15,573**	–	**17,956**
Distributions	**(565)**	**(6,454)**	–	**(7,019)**
Net asset reclassification from unrestricted investment	–	–	–	–
Endowment net assets at September 30, 2017	**$ 10,299**	**$ 67,889**	**$ 77,093**	**$ 155,281**

The state of Illinois passed the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective June 30, 2009. The Corporation has interpreted UPMIFA as sustaining the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. In compliance with this interpretation of UPMIFA, the Corporation classifies permanently restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated in a manner considered with the standard of prudence prescribed by UPMIFA.

The Corporation has adopted a policy of requiring a minimum donation of $1,500 to establish an endowed chair and $1,000 to establish an endowed research project or endowed clinical program.

12. Temporarily and Permanently Restricted Net Assets (continued)

The Corporation has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of endowment assets. Currently, the Corporation expects its endowment funds over time to provide an average rate of return of approximately 5% annually. To achieve this long-term rate of return objective, the Corporation relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). Actual returns in any given year may vary from this amount.

An endowment fund is considered to be underwater when the market value of the endowment is less than the original (and any subsequent) donations received by the Corporation. The Corporation has adopted a policy that such shortfall amounts will be funded by the Corporation from its unrestricted investment funds. There were no underwater endowments as of September 30, 2017. Underwater endowments were $1 as of September 30, 2016.

13. Income Taxes

The Corporation and its related affiliates, except for NPA and CCP, known as NorthShore Exempt Group, have been determined to qualify as a tax-exempt organization under Section 501(c)(3) of the IRC. Most of the income received by NorthShore Exempt Group is exempt from taxation under Section 501(a) of the IRC, as income related to the mission of the organization. Accordingly, there is no material provision for income tax for these entities. Some of the income received by exempt entities is subject to taxation as unrelated business income. NorthShore and its subsidiaries file federal income tax returns and returns for various states in the U.S.

ASC 740, *Income Taxes*, requires that realization of an uncertain income tax position is more likely than not (i.e., greater than 50% likelihood of receiving a benefit) before it is recognized in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. This interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. No amount was recorded for the years ended September 30, 2017 or 2016.

For the year ended September 30, 2017, the Corporation has a net operating loss carryforward of $9,494, which generated assets of $3,823. These assets are offset by a valuation allowance of $2,380.

13. Income Taxes (continued)

For the year ended September 30, 2016, the Corporation had a net operating loss carryforward of $6,809, which generated assets of $2,663. These assets were offset by a valuation allowance of $1,220.

14. Other Events

In September 2014, NorthShore entered into a merger and affiliation agreement with Advocate Health Care Network (Advocate) to form Advocate NorthShore Health Partners (ANHP), a 16 hospital system across 7 Illinois counties together with a broad network of clinically integrated employed and affiliated physicians.

After reviews with the FTC and the Federal Courts, the decision was made to terminate the merger and affiliation agreement in light of the Federal Court rulings effective March 10, 2017.

15. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to September 30, 2017 through February 5, 2018, the date of issuance of the accompanying consolidated financial statements.

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