Consolidated Financial Statements

NorthShore University HealthSystem
Years Ended September 30, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

NorthShore University HealthSystem

Consolidated Financial Statements

Years Ended September 30, 2014 and 2013

Contents

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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, 2014 and 2013, 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NorthShore University HealthSystem and its affiliates at September 30, 2014 and 2013, 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 2, 2015

NorthShore University HealthSystem

Consolidated Balance Sheets

(Dollars in Thousands)

	September 30 2014	September 30 2013
Assets		
Current assets:		
Cash and cash equivalents	**$ 35,949**	$ 41,295
Other short-term investments	**1,037**	36,565
Internally designated investments, current portion	**48,750**	49,575
Patient accounts receivable, less allowances for uncollectible and charity accounts (2014 – $77,532; 2013 – $55,507)	**268,678**	246,113
Inventories, prepaid expenses, and other	**57,212**	66,221
Total current assets	**411,626**	439,769
Investments available for general use	**1,506,470**	1,313,198
Investments limited to use	**192,002**	171,602
Property and equipment:		
Land and improvements	**104,336**	96,199
Buildings	**1,368,255**	1,351,161
Equipment and furniture	**433,173**	517,492
Construction-in-progress	**61,716**	26,548
	1,967,480	1,991,400
Less accumulated depreciation	**1,005,092**	1,023,604
Total property and equipment, net	**962,388**	967,796
Other noncurrent assets	**219,124**	213,001
Total assets	**$ 3,291,610**	$ 3,105,366

NorthShore University HealthSystem

Consolidated Balance Sheets (continued)

(Dollars in Thousands)

	September 30	
	2014	**2013**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 55,726**	$ 55,124
Accrued expenses and current portion of self-insurance	**203,194**	198,718
Due to third-party payors	**92,929**	81,612
Current maturities of long-term debt	**9,638**	9,263
Total current liabilities	**361,487**	344,717
Noncurrent liabilities:		
Long-term debt, less current maturities	**357,562**	367,200
Employee retirement and deferred compensation plans	**134,100**	125,524
Accrued self-insurance and other	**260,527**	262,102
Total noncurrent liabilities	**752,189**	754,826
Net assets:		
Unrestricted	**1,986,563**	1,830,622
Temporarily restricted	**115,268**	100,951
Permanently restricted	**76,103**	74,250
Total net assets	**2,177,934**	2,005,823
Total liabilities and net assets	**$ 3,291,610**	$ 3,105,366

See accompanying notes.

NorthShore University HealthSystem

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended September 30	
	2014	**2013**
Unrestricted revenues and other support		
Net patient service and premium revenue	**$ 1,895,603**	$ 1,765,898
Provision for uncollectible accounts	**(77,359)**	(62,965)
Net patient service and premium revenue after provision	**1,818,244**	1,702,933
Investment earnings supporting current activities	**35,000**	33,000
Net assets released from restrictions used for operations	**13,881**	11,661
Other revenue	**60,348**	68,348
Total unrestricted revenues and other support	**1,927,473**	1,815,942
Expenses		
Salaries and benefits	**975,278**	980,869
Supplies, services, and other	**600,091**	577,582
Depreciation and amortization	**116,628**	118,817
Insurance	**44,563**	45,699
Medicaid assessment	**52,763**	24,828
Interest	**7,119**	7,668
Total expenses	**1,796,442**	1,755,463
Income from operations	**131,031**	60,479
Nonoperating income		
Dividend and interest income	**32,893**	27,735
Net realized gains on investments	**76,414**	52,764
Net unrealized gains on investments	**23,701**	59,117
Transfer of investment earnings supporting current activities	**(35,000)**	(33,000)
Other, net	**(47,050)**	(41,055)
Total nonoperating income	**50,958**	65,561
Revenues, gains, and other support in excess of expenses	**181,989**	126,040

Continued on next page.

NorthShore University HealthSystem

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

(Dollars in Thousands)

	Year Ended September 30	
	2014	**2013**
Unrestricted net assets		
Revenue, gains, and other support in excess of expenses	**$ 181,989**	$ 126,040
Pension-related changes other than net periodic costs	**(23,881)**	105,412
Net assets released from restrictions used for capital	**–**	986
Other transfers, net	**(2,167)**	1,327
Increase in unrestricted net assets	**155,941**	233,765
Temporarily restricted net assets		
Contributions and other	**11,663**	7,702
Net realized gains on investments	**9,274**	5,559
Net unrealized gains on investments	**7,261**	2,132
Net assets released from restrictions	**(13,881)**	(12,647)
Increase in temporarily restricted net assets	**14,317**	2,746
Permanently restricted net assets		
Contributions	**1,853**	1,726
Increase in permanently restricted net assets	**1,853**	1,726
Increase in net assets	**172,111**	238,237
Net assets at beginning of year	**2,005,823**	1,767,586
Net assets at end of year	**$ 2,177,934**	$ 2,005,823

See accompanying notes.

NorthShore University HealthSystem

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended September 30	
	2014	**2013**
Operating activities		
Increase in net assets	**$ 172,111**	$ 238,237
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in net unrealized gains on investments	**(30,962)**	(61,249)
Change in trading portfolio investments, net	**(182,710)**	(47,651)
Restricted contributions	**(13,516)**	(9,428)
Depreciation and amortization	**116,628**	118,817
Bond premium amortization	**(88)**	(88)
Pension-related changes other than net periodic cost	**23,881**	(105,412)
Provision for uncollectible accounts	**77,359**	62,965
Changes in operating assets and liabilities:		
Patient accounts receivable	**(99,924)**	(39,145)
Other current assets	**45,361**	(24,478)
Noncurrent assets and liabilities	**(25,834)**	21,650
Accounts payable and accrued expenses	**5,079**	(5,948)
Due to third-party payors	**11,320**	(6,455)
Net cash provided by operating activities	**98,705**	141,815
Investing activities		
Investments in property and equipment, net	**(108,392)**	(118,771)
Acquisition of other long-term assets, net	**–**	(4,173)
Net cash used in investing activities	**(108,392)**	(122,944)
Financing activities		
Restricted contributions	**13,516**	9,428
Payments of long-term debt	**(9,175)**	(8,860)
Net cash provided by financing activities	**4,341**	568
(Decrease) increase in cash and cash equivalents	**(5,346)**	19,439
Cash and cash equivalents at beginning of year	**41,295**	21,856
Cash and cash equivalents at end of year	**$ 35,949**	$ 41,295

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). CCP was established in August 2014 to facilitate Medicaid managed care services provided to participants in a new program sponsored by the state of Illinois. 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 and CCP 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 (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 also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time that 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 collectibility of its accounts receivable based on the length of time the receivable is outstanding, 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 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) 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, 2014 or 2013.

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 $113,848 and $116,080 for the years ended September 30, 2014 and 2013, 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. In fiscal year 2012, the Corporation adopted Accounting Standards Update (ASU) 2011-08, *Testing Goodwill for Impairment*. The Corporation has goodwill of $116,300 included in other noncurrent assets at both of the years ended September 30, 2014 and 2013. In 2014, the Corporation performed a quantitative assessment of goodwill which determined that the Corporation's fair value exceeds its carrying amount and no goodwill has been impaired. In 2013, the Corporation performed a qualitative assessment which determined that the Corporation's fair value exceeds its carrying amount and no goodwill was impaired. In 2014 and 2013, both valuation approaches were reviewed against several variables, including macroeconomic conditions, industry/market considerations, cost factors, and overall financial performance. As of September 30, 2014 and 2013, no goodwill impairment was recorded.

2. Summary of Significant Accounting Policies (continued)

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 $1,987 and $4,768 included in other noncurrent assets at September 30, 2014 and 2013, respectively. Amortization expense related to these other intangible assets for the years ended September 30, 2014 and 2013, was $2,780 and $2,737, respectively.

Impairments

The Corporation considers whether indicators of impairment are present and performs the necessary tests to determine if 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 2014 or 2013. 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 2014 and 2013 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, 2014 and 2013, of $8,679 and $9,112, 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.

2. Summary of Significant Accounting Policies (continued)

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 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 $26,690 and $30,357 for the years ended September 30, 2014 and 2013, 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 primarily on the number of participants, regardless of actual medical services provided to participants.

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 to support 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 retail pharmacy, 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, and transfer of professional liability earnings to operating income.

2. Summary of Significant Accounting Policies (continued)

Revenue from the government as part of the American Recovery and Reinvestment Act of 2009, such as adopting electronic health record (EHR) technology or becoming “meaningful users” of EHRs, is recorded on a grant accounting basis as part of other revenue.

New Accounting Pronouncements

In October 2012, the FASB issued ASU 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.* The amendments in this update require not-for-profit entities to classify cash receipts from the sale of donated financial assets as cash inflows from operating activities if the donated financial assets were converted nearly immediately into cash. Cash receipts from the sale of donated financial assets that were held as investments should be classified as cash flows from investing activities. Cash receipts from the sale of donated financial assets that were restricted by the donor to long-term purposes should be classified as cash flows from financing activities. This new guidance is effective for fiscal years and interim periods within those years beginning after June 15, 2013, with early adoption permitted. The Corporation adopted the new guidance on October 1, 2013, and there was no significant impact on the consolidated financial statements.

In February 2013, the FASB issued ASU 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date.* The guidance in this update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following: a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2013. The Corporation is required to adopt the new guidance on October 1, 2014, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

In April 2013, the FASB issued ASU 2013-06, *Services Received from Personnel of an Affiliate*. The objective of the amendment is to specify the guidance that not-for-profit entities apply for recognizing and measuring services. It requires that contributed services be recognized at fair value if employees of separately governed affiliated entities regularly perform services that create or enhance nonfinancial assets. This new guidance is effective for fiscal years beginning after June 15, 2014. The Corporation is required to adopt the new guidance on October 1, 2014, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Services Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. The objective of the amendment is to eliminate the potential for differences in balance sheet presentation of deferred tax assets and unrecognized tax benefits. It requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2013. The Corporation is required to adopt the new guidance on October 1, 2014, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (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. This will result in the Corporation making additional judgments, such as estimates of the collectibility of revenue. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption not permitted. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2016, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

Reclassifications

Certain reclassifications were made to the 2013 consolidated financial statements to conform with the classifications made in 2014. The reclassifications had no effect on the changes in net assets or on net assets previously reported.

(Dollars in Thousands)

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 $5,721 and $5,854 for the years ended September 30, 2014 and 2013, 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:

	2014	**2013**
Medicare	**39%**	40%
Medicaid	**8**	7
BCBS	**24**	23
Managed care	**19**	18
Other	**10**	12
Total	**100%**	100%

The Corporation's concentration of credit risk relating to accounts receivable is limited due to the diversity of patients and payors.

(Dollars in Thousands)

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:

	2014	**2013**
Medicare	**26%**	29%
Medicaid	**19**	16
BCBS	**15**	13
Managed care	**22**	24
Other	**18**	18
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 18.9% and 12.2% as of September 30, 2014 and 2013, respectively. The increase in allowance for uncollectible accounts was the result of a change in methodology to fully reserve for all commercial hospital claims over 360 days. The prior year's methodology was to partially reserve for all commercial hospital claims between 360 and 719 days and fully reserve at 720 days.

The Corporation's total reserve for self-pay accounts receivable, including allowance for uncollectible accounts and charity care, was 88% and 91% of self-pay accounts receivable at September 30, 2014 and 2013, 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 $1,827,420 and $1,697,952 for the years ended September 30, 2014 and 2013, respectively. Included in this amount is third-party payor revenue of $1,719,602 and $1,568,955 and self-pay revenue of $107,818 and $128,997 for the years ended September 30, 2014 and 2013, respectively.

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. While no such Medicare or Medicaid regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Current liabilities include $92,929 and $81,612 for September 30, 2014 and 2013, 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.

For the years ended September 30, 2014 and 2013, $68,181 and $67,946, respectively, of premium revenue was generated through agreements with HMO Illinois.

In October 2013, the CMS approved continuing the state of Illinois' Hospital Assessment program (the Program) to July 1, 2018, with additional enhanced amounts that were retroactive to June 10, 2012. Under the Program, the Corporation recognized $55,808 and $27,596 of net patient revenue for the years ended September 30, 2014 and 2013, respectively. Additionally, $52,763 and $24,828 of program assessment expense was recognized for the years ended September 30, 2014 and 2013, respectively. The retroactive portion of the revenue was $15,986 and the retroactive portion of the expense was $15,829 in the year ended September 30, 2014. There were no accelerated payments or receipts in either fiscal year.

(Dollars in Thousands)

4. Financial Instruments

The presentation of investments at September 30 is as follows:

	2014	2013
Other short-term investments	**$ 1,037**	$ 36,565
Investments available for general use	**1,506,470**	1,313,198
Investments limited as to use:		
Current portion	**48,750**	49,575
All other (noncurrent)	**192,002**	171,602
Other noncurrent assets	**55,997**	45,677
Total investments	**$ 1,804,256**	$ 1,616,617

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

	2014	2013
Nonoperating:		
Dividend and interest income	**$ 32,893**	$ 27,735
Net realized gains on investments	**76,414**	52,764
Net unrealized gains on investments	**23,701**	59,117
Total nonoperating investment return	**133,008**	139,616
Temporarily restricted:		
Net realized gains	**9,274**	5,559
Net unrealized gains	**7,261**	2,132
Total temporarily restricted investment return	**16,535**	7,691
Total investment return	**$ 149,543**	$ 147,307

Investment fees for the years ended September 30, 2014 and 2013, were $28,904 and $21,391, respectively, and are included in other, net, within nonoperating income.

4. Financial Instruments (continued)

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. Based on this evaluation, one investment in the current year and one investment in the prior year held at cost were determined to be impaired. As a result of these impairments, the Corporation recorded a loss reserve within nonoperating income of $2,241 and $5,237 for the years ended September 30, 2014 and 2013, respectively.

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.

(Dollars in Thousands)

5. Fair Value Measurements (continued)

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 of the reporting date for its investments in limited partnerships and hedge funds. Because there are no 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. As of September 30, 2014 and 2013 the only Level 3 investments were recorded within the pension plan disclosed in Note 7.

The Corporation's financial assets that are carried at fair value at September 30, 2014, were as follows:

Nature of Investment	Level 1	Level 2	Level 3	Total
Open-ended mutual funds	**$ 58,760**	**$ –**	**$ –**	**$ 58,760**
Domestic equity funds	**107,358**	**198,438**	–	**305,796**
International equity funds	**8,546**	**366,413**	–	**374,959**
Domestic equities	**136,468**	–	–	**136,468**
Real asset funds	**21,387**	**21,969**	–	**43,356**
Bond funds	**258,118**	–	–	**258,118**
Fixed income accounts	–	**133,388**	–	**133,388**
Treasury inflation protected securities	–	–	–	–
Total assets at fair value	**$ 590,637**	**$ 720,208**	**$ –**	**$ 1,310,845**

The Corporation's financial assets that are carried at fair value at September 30, 2013, were as follows:

Nature of Investment	Level 1	Level 2	Level 3	Total
Open-ended mutual funds	$ 48,022	$ –	$ –	$ 48,022
Domestic equity funds	91,665	177,270	–	268,935
International equity funds	18,221	319,939	–	338,160
Domestic equities	148,687	–	–	148,687
Real asset funds	–	21,474	–	21,474
Bond funds	169,570	–	–	169,570
Fixed income accounts	–	162,380	–	162,380
Treasury inflation protected securities	–	21,746	–	21,746
Total assets at fair value	$ 476,165	$ 702,809	$ –	$ 1,178,974

5. Fair Value Measurements (continued)

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, 2014 or 2013.

Total investments at September 30, 2014, are $1,804,256. This amount includes $1,310,845 in investments recorded at fair value. In addition to total investments recorded at fair value, this amount includes $478,585 in limited partnerships and funds recorded at cost, $11,881 in limited partnerships recorded using the equity method, and other assets of $2,945 recorded at cost.

Total investments at September 30, 2013, are $1,616,617. This amount includes $1,178,974 in investments recorded at fair value. In addition to total investments recorded at fair value, this amount includes $428,216 in limited partnerships and funds recorded at cost, $6,805 in limited partnerships recorded using the equity method, and other assets of $2,622 recorded at cost.

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 $377,361 and $379,555 at September 30, 2014 and 2013, respectively. Under the guidance set forth in ASU 2011-04, *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.

The Series 1995 bonds are backed by an SBPA issued by a financial institution that expires on September 22, 2016. The Series 1996 bonds are backed by an SBPA issued by a financial institution that expires on October 10, 2015. 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 two SBPAs in conjunction with the Series 2001B and 2001C bonds with financial institutions. The Series 2001B bonds are backed by an SBPA issued by a financial institution that expires on November 15, 2017. The Series 2001C bonds are backed by an SBPA issued by a financial institution that expires on November 15, 2016. 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 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 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, 2017. 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.

(Dollars in Thousands)

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

The Corporation's obligation to purchase the Series 1990A, 1992, and 1998 debt issues with self-liquidity upon optional or mandatory tender is not supported by a third-party liquidity facility; however, when outstanding, the Corporation maintains liquid assets to redeem its maturing obligations. During fiscal year 2013, the Corporation retired the 1985B and 1987A-E debt issues. As of September 30, 2014 and 2013, there were no bonds with self-liquidity outstanding with third parties.

The self-liquidity bonds held by the Corporation at September 30 are as follows:

	Final Maturity	2014	2013
1990A	2025	**$ 50,000**	$ 50,000
1992	2026	**50,000**	50,000
1998	2032	**50,000**	50,000
		$ 150,000	$ 150,000

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.

The Corporation has various outstanding LOCs in connection with construction projects and property lease obligations, which amount to $1,608 and $2,013 for the years ended September 30, 2014 and 2013, respectively. No amounts have been drawn against these LOCs.

For the years ending September 30, 2015, 2016, 2017, 2018, and 2019, maturities of long-term debt, assuming remarketing of variable rate demand bonds (including an $88 bond premium), are $9,638, $9,998, $10,383, $10,793, and $21,193, respectively. The 2019 maturity amount of $21,193 includes a $10,000 principal repayment on the 1998 self-liquidity bonds that are held by the Corporation.

(Dollars in Thousands)

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

Interest paid for the years ended September 30, 2014 and 2013, was $6,508 and $6,924, respectively. Interest of $834 and $638 was capitalized for the same periods, respectively. In addition, bond premium amortization was $88 for the years ended September 30, 2014 and 2013.

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

		Amortization		Outstanding Principal		Interest Rate	
			Years	September 30		September 30	
Type/Issuer	**Series**	**Amount Range**	**From – To**	**2014**	**2013**	**2014**	**2013**
Illinois Development Finance Authority Variable Rate Demand Revenue Bonds							
	2001B	$1,600 – $5,000	2015 – 2031	**$ 39,200**	$ 40,700	**0.03%**	0.07%
	2001C	1,600 – 5,000	2015 – 2031	**39,200**	40,700	**0.01%**	0.03%
Illinois Health Facilities Authority Variable Rate Adjustable Demand Revenue Bonds							
	1995	$1,440 – $8,605	2015 – 2035	**44,480**	45,900	**0.04%**	0.06%
	1996	1,435 – 8,560	2015 – 2035	**44,515**	45,930	**0.06%**	0.07%
Illinois Educational Facilities Authority Commercial Paper Revenue Notes							
	2008	$995 – $13,305	2032 – 2038	**75,000**	75,000	**0.13%**	0.13%
Illinois Finance Authority Revenue Refunding Bonds							
	2010	$825 – $9,685	2015 – 2037	**122,815**	126,155	**3.00% – 5.25%**	3.00% – 5.25%
Total long-term debt				**365,210**	374,385		
Less current maturities of debt				**9,638**	9,263		
Plus 2010 Series bond premium (current and long-term)				**1,990**	2,078		
Total long-term debt, less current maturities				**$ 357,562**	$ 367,200		

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. As a result, a charge of $2,730 was recorded as a prior service cost and a $44,405 reduction to the benefit obligation was recorded as a curtailment in fiscal year 2013. Additionally, the Corporation recorded a charge of $4,219 related to an early retirement program in fiscal year 2013. There were no such charges recorded in 2014.

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

The Corporation sponsors a new defined contribution retirement plan (New Plan), in which it enrolled new employees hired after January 1, 2013 and all employees as of January 1, 2014.

Assets held by the NorthShore Plan consist primarily of fixed income securities, domestic/international stocks, limited partnerships, and hedge funds. A plan measurement date of September 30 is used for the NorthShore Plan.

For the year ended September 30, 2014, the Corporation made contributions of $30,000 for plan year 2013.

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

	2014	2013
Change in benefit obligation:		
Benefit obligation at beginning of year	**$ 419,819**	$ 502,594
Service cost	**5,367**	25,519
Interest cost	**19,863**	20,395
Special termination benefits	**–**	4,219
Curtailments	**–**	(44,405)
Actuarial losses (gains)	**35,450**	(37,606)
Benefits paid	**(28,085)**	(50,897)
Benefit obligation at end of year	**$ 452,414**	$ 419,819
Accumulated benefit obligation	**$ 452,414**	$ 418,751
Change in plan assets:		
Fair value of plan assets at beginning of year	**$ 349,572**	$ 341,529
Actual return on plan assets	**33,204**	33,940
Employer contributions	**30,000**	25,000
Benefits paid	**(28,085)**	(50,897)
Fair value of plan assets at end of year	**$ 384,691**	$ 349,572

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

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

	2014	2013
Funded status of the plan	**$ (67,723)**	$ (70,247)
Unrecognized net actuarial loss	**117,826**	92,471
Unamortized prior service benefit	**–**	–
Prepaid pension cost	**50,103**	22,224
Accumulated adjustments to unrestricted net assets	**(117,826)**	(92,471)
Amounts recognized in consolidated balance sheets	**$ (67,723)**	$ (70,247)

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

	2014	2013
Current year actuarial loss (gain)	**$ 27,052**	$ (89,711)
Current year amortization of prior service cost	**–**	(3,156)
Recognized loss	**(1,697)**	(10,717)
	$ 25,355	$ (103,584)

The estimated prior service cost and net loss that will be amortized over the next fiscal year are $0 and $2,448, respectively.

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

Asset Category	Strategic Target	Actual Asset Allocation at September 30 2014	2013
Equity securities	39%	**32%**	35%
Debt securities	23	**29**	27
Other	38	**39**	38
Total	100%	**100%**	100%

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

The Corporation holds certain debt securities, equity securities, and investments in funds, which 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 the NorthShore Plan's financial instruments as of September 30, 2014, 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
Domestic equity funds	$ 17,474	$ 40,202	$ –	$ 57,676
International equity funds	–	79,082	–	79,082
Domestic equities	27,945	–	–	27,945
Real asset funds	–	5,224	–	5,224
Bond funds	38,967	–	–	38,967
Fixed income accounts	–	57,347	–	57,347
Treasury inflation protected securities	–	12,306	–	12,306
Limited partnership and hedge funds	–	–	104,259	104,259
Cash equivalents	1,885	–	–	1,885
Total assets at fair value	$ 86,271	$ 194,161	$ 104,259	$ 384,691

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

The following table presents the NorthShore Plan's financial instruments as of September 30, 2013, 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
Domestic equity funds	$ 18,066	$ 39,748	$ –	$ 57,814
International equity funds	–	73,493	–	73,493
Domestic equities	28,536	–	–	28,536
Real asset funds	–	5,103	–	5,103
Bond funds	49,308	–	–	49,308
Fixed income accounts	–	27,236	–	27,236
Treasury inflation protected securities	–	11,652	–	11,652
Limited partnership and hedge funds	–	–	94,902	94,902
Cash equivalents	1,528	–	–	1,528
Total assets at fair value	$ 97,438	$ 157,232	$ 94,902	$ 349,572

The table below sets forth a summary of changes in the fair value of the NorthShore Plan's Level 3 assets for the years ended September 30:

	2014	2013
Balance, beginning of year	**$ 94,902**	$ 91,073
Dividends and interest income	**668**	338
Unrealized gains	**10,589**	7,735
Realized (loss) gains	**(395)**	24
Purchases	**9,617**	8,289
Sales	**(11,122)**	(12,557)
Balance, end of year	**$ 104,259**	$ 94,902
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	**$ 10,589**	$ 7,735

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

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

	2014	2013
Service cost	**$ 5,367**	$ 25,519
Interest cost	**19,863**	20,395
Expected return on plan assets	**(24,806)**	(26,240)
Prior service cost recognized	**–**	3,156
Actuarial loss	**1,697**	10,718
Special termination benefit	**–**	4,219
Net periodic pension cost	**$ 2,121**	$ 37,767

The Corporation anticipates that contributions to the NorthShore Plan's assets will be made during 2015 from employer assets of $25,000. Expected employee benefit payments are $27,717 in 2015, $26,464 in 2016, $28,748 in 2017, $28,127 in 2018, $28,886 in 2019, and $148,675 during the period from 2020 through 2024.

Assumptions used to determine benefit obligations at the measurement date for the years ended September 30 are as follows:

	2014	2013
Discount rate	**4.45%**	4.99%
Expected return on plan assets	**7.25**	7.75
Rate of compensation increase	**N/A**	3.60

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

	2014	2013
Discount rate	**4.99%**	4.16%
Expected return on plan assets	**7.75**	7.75
Rate of compensation increase	**3.60**	3.60

7. Employee Benefit Programs (continued)

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. This resulted in the selection of the 7.25% and 7.75% long-term rate of return on assets assumption for 2014 and 2013, respectively.

The Corporation also sponsors a 403(b) plan that matches employee contributions at an annual discretionary percentage. Matching contributions to the defined contribution plan totaled $15,845 and $18,305 in 2014 and 2013, respectively, and are included in salaries and benefits expense. The related liability at September 30, 2014 and 2013, is $17,358 and $14,079, respectively, which was included in accrued expenses.

In addition, the Corporation recorded a liability of $18,900 related to the New Plan as of September 30, 2014, which was included in accrued expenses.

The Corporation also sponsors a supplemental executive retirement plan. The total plan liability is $11,960 and $12,456 for the years ended September 30, 2014 and 2013, respectively, and is included in accrued expenses and current portion of self-insurance and employee retirement plans based on the expected payout dates.

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, 2014 and 2013, are $54,669 and $45,959, respectively. These amounts are included in other noncurrent assets and employee retirement and deferred compensation plans for the years ended September 30, 2014 and 2013, 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, 2014 (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 $291,046 as of September 30, 2014, using a discount rate of 3% and $290,340 as of September 30, 2013, using a discount rate of 4%. Included in these amounts is a receivable for anticipated insurance recoveries of $18,046 and $17,360 as of September 30, 2014 and 2013, respectively. The undiscounted reserve balance would have been higher by approximately $34,169 and $45,380 as of September 30, 2014 and 2013, 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.

9. Litigation and Contingencies (continued)

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. Fact and expert discovery is ongoing, and a final resolution of the matter is not expected until 2015-2016 at the earliest.

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.

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 non-profit 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, 2013, or 2014. On January 9, 2014, the Illinois Department of Revenue notified the Corporation that the Corporation's sales tax exemption was renewed under Illinois Public Act 97-0688.

(Dollars in Thousands)

9. Litigation and Contingencies (continued)

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 enacted on June 14, 2012. The Illinois Department of Revenue issued real estate tax exemption certificates, which have 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 in the Illinois Department of Revenue's certification and has requested a formal hearing before the Department of Revenue asserting that Public Act 97-0688 is unconstitutional. The Corporation is reviewing this request, and related proceedings are underway with the Department of Revenue.

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 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:

2015	$	16,931
2016		15,958
2017		15,937
2018		14,305
2019		12,644

Lease expense for the years ended September 30, 2014 and 2013, was $25,180 and $22,001, respectively.

At September 30, 2014, the Corporation is committed to $140,178 in construction-related contracts.

(Dollars in Thousands)

10. Commitments (continued)

At September 30, 2014, the Corporation is committed to fund $64,976 to limited partnerships, which is expected to occur over the next decade. At September 30, 2014, the pension plan is committed to fund $16,850 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:

2015	$	1,034
2016		501
2017		184
2018		49
2019		35

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 $291,479 and $273,148 in 2014 and 2013, respectively. Fund-raising expenses for the years ended September 30, 2014 and 2013, were $2,204 and $2,396, respectively.

12. Temporarily and Permanently Restricted Net Assets

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

	2014	**2013**
Restricted for:		
Research	**$ 20,107**	$ 18,089
Special purpose	**95,161**	82,862
Total temporarily restricted net assets	**$ 115,268**	$ 100,951

Permanently restricted net assets totaled $76,103 and $74,250 for the years ended September 30, 2014 and 2013, 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)

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, 2012	$ 7,197	$ 35,393	$ 72,524	$ 115,114
Contributions	–	–	1,726	1,726
Investment return	1,307	7,573	–	8,880
Change of value in trust	263	2,131	–	2,394
Distributions	(1,307)	(4,883)	–	(6,190)
Net asset reclassification from unrestricted investment	(13)	(924)	–	(937)
Endowment net assets at September 30, 2013	7,447	39,290	74,250	120,987
Contributions	–	–	**1,853**	**1,853**
Investment return	**1,801**	**10,403**	–	**12,204**
Change of value in trust	**1,260**	**7,260**	–	**8,520**
Distributions	**(1,801)**	**(5,472)**	–	**(7,273)**
Net asset reclassification from unrestricted investment	–	**(102)**	–	**(102)**
Endowment net assets at September 30, 2014	**$ 8,707**	**$ 51,379**	**$ 76,103**	**$ 136,189**

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. The funded amount was $6 and $108 as of September 30, 2014 and 2013, respectively.

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. Furthermore, this interpretation prescribes the benefit to be recorded 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, 2014 or 2013.

13. Income Taxes (continued)

The Corporation currently has a net operating loss carryforward of $11,379, which generated assets of $4,585. NPA currently has a net operating loss carryforward of $642, which generated assets of $259. These assets are 100% offset by valuation allowances.

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. Both organizations believe this combination will create a preeminent health care system, focused on a patient centered, fully integrated, population health delivery model that will provide improved health care, with higher outcomes, and lower costs to patients of the communities the new organization will support.

The completion of this transaction, targeted for early 2015, is subject to multiple regulatory approvals, including the Federal Trade Commission and the State of Illinois, although approval by the State of Illinois was provided on December 16, 2014.

Among many important topics to be considered by ANHP is the optimal debt structure, with no decisions having been made at this time regarding any debt restructuring for either entity.

15. Subsequent Events

The Corporation evaluated events and transactions occurring subsequent to September 30, 2014 through February 2, 2015, the date of issuance of the consolidated financial statements. During this period, there were no items requiring disclosure or recognition in the consolidated financial statements.

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