Consolidated Financial Statements

NorthShore University HealthSystem
Years Ended September 30, 2015 and 2014
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

NorthShore University HealthSystem

Consolidated Financial Statements

Years Ended September 30, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014, 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 1, 2016

NorthShore University HealthSystem

Consolidated Balance Sheets
(Dollars in Thousands)

	September 30 2015	September 30 2014
Assets		
Current assets:		
Cash and cash equivalents	**$ 61,658**	$ 35,949
Other short-term investments	**987**	1,037
Internally designated investments, current portion	**43,310**	48,750
Patient accounts receivable, less allowances for uncollectible and charity accounts (2015 – $81,514; 2014 – $77,532)	**282,919**	268,678
Inventories, prepaid expenses, and other	**67,260**	57,212
Total current assets	**456,134**	411,626
Investments available for general use	**1,468,857**	1,506,470
Investments limited as to use	**185,434**	192,002
Property and equipment:		
Land and improvements	**104,741**	104,336
Buildings	**1,428,809**	1,368,255
Equipment and furniture	**424,979**	433,173
Construction-in-progress	**70,296**	61,716
	2,028,825	1,967,480
Less accumulated depreciation	**1,026,080**	1,005,092
Total property and equipment, net	**1,002,745**	962,388
Other noncurrent assets	**227,799**	219,124
Total assets	**$ 3,340,969**	$ 3,291,610

NorthShore University HealthSystem

Consolidated Balance Sheets (continued)
(Dollars in Thousands)

	September 30	
	2015	**2014**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 61,535**	$ 55,726
Accrued expenses	**192,922**	163,994
Current portion of self-insurance	**33,400**	39,200
Due to third-party payors	**109,634**	92,929
Current maturities of long-term debt	**9,998**	9,638
Total current liabilities	**407,489**	361,487
Noncurrent liabilities:		
Long-term debt, less current maturities	**347,564**	357,562
Employee retirement and deferred compensation plans	**132,428**	134,100
Accrued self-insurance and other	**244,654**	260,527
Total noncurrent liabilities	**724,646**	752,189
Net assets:		
Unrestricted	**2,027,846**	1,986,563
Temporarily restricted	**103,223**	115,268
Permanently restricted	**77,765**	76,103
Total net assets	**2,208,834**	2,177,934
Total liabilities and net assets	**$ 3,340,969**	$ 3,291,610

See accompanying notes.

NorthShore University HealthSystem

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	Year Ended September 30	
	2015	**2014**
Unrestricted revenues and other support		
Net patient service and premium revenue	**$ 1,901,565**	$ 1,895,603
Provision for uncollectible accounts	**(45,234)**	(77,359)
Net patient service and premium revenue	**1,856,331**	1,818,244
Investment earnings supporting current activities	**37,000**	35,000
Net assets released from restrictions used for operations	**17,252**	13,881
Other revenue	**50,631**	60,348
Total unrestricted revenues and other support	**1,961,214**	1,927,473
Expenses		
Salaries and benefits	**1,008,071**	975,278
Supplies, services, and other	**643,370**	600,091
Depreciation and amortization	**116,402**	116,628
Insurance	**(1,560)**	44,563
Medicaid assessment	**38,625**	52,763
Interest	**7,215**	7,119
Total expenses	**1,812,123**	1,796,442
Income from operations	**149,091**	131,031
Nonoperating income		
Dividend and interest income	**33,632**	32,893
Net realized gains on investments	**54,970**	76,414
Net unrealized (losses) gains on investments	**(80,297)**	23,701
Transfer of investment earnings supporting current activities	**(37,000)**	(35,000)
Other, net	**(29,533)**	(47,050)
Total nonoperating (loss) income	**(58,228)**	50,958
Revenues, gains, and other support in excess of expenses	**90,863**	181,989

Continued on next page.

NorthShore University HealthSystem

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

(Dollars in Thousands)

	Year Ended September 30	
	2015	**2014**
Unrestricted net assets		
Revenue, gains, and other support in excess of expenses	**$ 90,863**	$ 181,989
Pension-related changes other than net periodic costs	**(51,153)**	(23,881)
Other transfers, net	**1,573**	(2,167)
Increase in unrestricted net assets	**41,283**	155,941
Temporarily restricted net assets		
Contributions and other	**8,298**	11,663
Net realized gains on investments	**9,213**	9,274
Net unrealized (losses) gains on investments	**(12,304)**	7,261
Net assets released from restrictions	**(17,252)**	(13,881)
(Decrease) increase in temporarily restricted net assets	**(12,045)**	14,317
Permanently restricted net assets		
Contributions	**1,662**	1,853
Increase in permanently restricted net assets	**1,662**	1,853
Increase in net assets	**30,900**	172,111
Net assets at beginning of year	**2,177,934**	2,005,823
Net assets at end of year	**$ 2,208,834**	$ 2,177,934

See accompanying notes.

NorthShore University HealthSystem

Consolidated Statements of Cash Flows

(Dollars in Thousands)

	Year Ended September 30	
	2015	**2014**
Operating activities		
Increase in net assets	**$ 30,900**	$ 172,111
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in net unrealized losses (gains) on investments	**92,601**	(30,962)
Change in trading portfolio investments, net	**(48,420)**	(182,710)
Restricted contributions	**(9,960)**	(13,516)
Gain on asset sale	**(7,200)**	–
Depreciation and amortization	**116,402**	116,628
Bond premium amortization	**(88)**	(88)
Pension-related changes other than net periodic cost	**51,153**	23,881
Provision for uncollectible accounts	**45,234**	77,359
Changes in operating assets and liabilities:		
Patient accounts receivable	**(59,475)**	(99,924)
Other current assets	**(4,509)**	45,361
Noncurrent assets and liabilities	**(79,110)**	(25,834)
Accounts payable and accrued expenses	**28,937**	5,079
Due to third-party payors	**16,705**	11,320
Net cash provided by operating activities	**173,170**	98,705
Investing activities		
Investments in property and equipment, net	**(155,689)**	(108,392)
Sale of other long-term assets, net	**7,818**	–
Net cash used in investing activities	**(147,871)**	(108,392)
Financing activities		
Restricted contributions	**9,960**	13,516
Payments of long-term debt	**(9,550)**	(9,175)
Net cash provided by financing activities	**410**	4,341
Increase (decrease) in cash and cash equivalents	**25,709**	(5,346)
Cash and cash equivalents at beginning of year	**35,949**	41,295
Cash and cash equivalents at end of year	**$ 61,658**	$ 35,949

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 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, 2015 or 2014.

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 $115,326 and $113,848 for the years ended September 30, 2015 and 2014, 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 2015, the Corporation performed a qualitative assessment of goodwill that included the market and income valuation approaches. The assessment determined that it is more likely than not (>50%) the Corporation's fair value exceeds its carrying amount, and therefore, as of September 30, 2015, no goodwill has been impaired. In 2014, the Corporation performed a quantitative assessment which determined that the Corporation's fair value exceeds its carrying amount and no goodwill was impaired. In 2015 and 2014, 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 and $116,300 included in other noncurrent assets as of September 30, 2015 and 2014, respectively.

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 $955 and $1,987 included in other noncurrent assets at September 30, 2015 and 2014, respectively. Amortization expense related to these other intangible assets for the years ended September 30, 2015 and 2014, was $1,076 and $2,780, 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 2015 or 2014. 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 2015 and 2014 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, 2015 and 2014, of $7,541 and $8,679, 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 $20,153 and $26,690 for the years ended September 30, 2015 and 2014, 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. For the years ended September 30, 2015 and 2014, $67,825 and $68,181, 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 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 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 asset earnings to operating income.

2. Summary of Significant Accounting Policies (continued)

During the course of fiscal year 2015, the Corporation sold the Highland Park hospital outpatient dialysis unit and, as a result, recognized non-operating income of $7,200.

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 February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 adopted the new guidance on October 1, 2014, and there was no significant impact on the consolidated financial statements.

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 adopted the new guidance on October 1, 2014, and there was no significant impact on the consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *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.

2. Summary of Significant Accounting Policies (continued)

This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2013. The Corporation adopted the new guidance on October 1, 2014, and there was no significant impact on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* 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 collectability of revenue. 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 February 2015, the FASB issued ASU 2015-02, *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 is required to adopt the new guidance on October 1, 2016, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *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. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. 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.

2. Summary of Significant Accounting Policies (continued)

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value per share, which have unobservable inputs, will be excluded from the fair value hierarchy table. Other disclosure requirements for these investments are unchanged and will continue to be included in the investment disclosures. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. 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.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. Under the new guidance, entities using the FIFO method for inventory valuation will be required to compare the cost of inventory to only one measure, its net realizable value. The amendment is effective for fiscal periods and interim periods within those years beginning December 15, 2016. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2017, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

Reclassifications

Certain reclassifications were made to the 2014 consolidated financial statements to conform with the classifications made in 2015. The reclassifications had no effect on the changes in net assets or on net assets previously reported.

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

(Dollars in Thousands)

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

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 $1,752 and $5,721 for the years ended September 30, 2015 and 2014, 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:

	2015	**2014**
Medicare	**38%**	39%
Medicaid	**9**	8
BCBS	**24**	24
Managed care	**19**	19
Other	**10**	10
Total	**100%**	100%

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

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

	2015	**2014**
Medicare	**24%**	26%
Medicaid	**20**	19
BCBS	**15**	15
Managed care	**21**	22
Other	**20**	18
Total	**100%**	100%

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

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 22% and 19% as of September 30, 2015 and 2014, respectively.

The Corporation's methodology for both years ended September 30, 2015 and 2014, was to reserve for all commercial hospital 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 88% of self-pay accounts receivable at September 30, 2015 and 2014, 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.

Total net patient service revenue was $1,833,740 and $1,827,420 for the years ended September 30, 2015 and 2014, respectively. Included in this amount is third-party payor revenue of $1,756,176 and $1,719,602 and self-pay revenue of $77,564 and $107,818 for the years ended September 30, 2015 and 2014, 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.

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

Current liabilities include $109,634 and $92,929 for September 30, 2015 and 2014, 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.

In October 2013, the Centers for Medicaid and Medicare Services (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 $39,822 and $55,808 of net patient revenue for the years ended September 30, 2015 and 2014, respectively. Additionally, $38,625 and $52,763 of program assessment expense was recognized for the years ended September 30, 2015 and 2014, 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.

In January 2015, the Department of Healthcare and Family Services was granted approval by the CMS to increase the current Hospital Assessment payments to account for those persons who are newly eligible under the Affordable Care Act, with the Hospital Assessments payment amounts that were retroactive to March 1, 2014. As a result, the Corporation recognized $10,623 of net patient revenue that included a retroactive payment of $5,029 from previous program years for the year ended September 30, 2015.

(Dollars in Thousands)

4. Financial Instruments

The presentation of investments at September 30 is as follows:

	2015	2014
Other short-term investments	**$ 987**	$ 1,037
Investments available for general use	**1,468,857**	1,506,470
Investments limited as to use:		
Current portion	**43,310**	48,750
All other (noncurrent)	**185,434**	192,002
Other noncurrent assets	**60,378**	55,997
Total investments	**$ 1,758,966**	$ 1,804,256

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

	2015	2014
Nonoperating:		
Dividend and interest income	**$ 33,632**	$ 32,893
Net realized gains on investments	**54,970**	76,414
Net unrealized (losses) gains on investments	**(80,297)**	23,701
Total nonoperating investment return	**8,305**	133,008
Temporarily restricted:		
Net realized gains	**9,213**	9,274
Net unrealized (losses) gains	**(12,304)**	7,261
Total temporarily restricted investment return	**(3,091)**	16,535
Total investment return	**$ 5,214**	$ 149,543

Investment fees for the years ended September 30, 2015 and 2014, were $20,920 and $28,904, 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

4. Financial Instruments (continued)

extent to which the fair value has been less than cost. Based on this evaluation, two investments in the current year and two investments 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 $11,033 and $2,241 for the years ended September 30, 2015 and 2014, 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.
>
> *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

(Dollars in Thousands)

5. Fair Value Measurements (continued)

on 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, 2015 and 2014, 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, 2015, were as follows:

Nature of Investment	**Level 1**	**Level 2**	**Level 3**	**Total**
Open-ended mutual funds	**$ 63,127**	**$ –**	**$ –**	**$ 63,127**
Domestic equity funds	**107,135**	**198,469**	**–**	**305,604**
International equity funds	**–**	**336,674**	**–**	**336,674**
Domestic equities	**144,060**	**–**	**–**	**144,060**
Real asset funds	**11,171**	**15,890**	**–**	**27,061**
Bond funds	**199,153**	**–**	**–**	**199,153**
Fixed income accounts	**–**	**148,042**	**–**	**148,042**
Total assets at fair value	**$ 524,646**	**$ 699,075**	**$ –**	**$ 1,223,721**

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
Total assets at fair value	$ 590,637	$ 720,208	$ –	$ 1,310,845

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, 2015 or 2014.

Total investments at September 30, 2015, are $1,758,966. This amount includes $1,223,721 in investments recorded at fair value. In addition to total investments recorded at fair value, this amount includes $518,075 in limited partnerships and hedge funds recorded at cost, $15,659 in limited partnerships recorded using the equity method, and other assets of $1,511 recorded at cost.

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.

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 $368,387 and $377,361 at September 30, 2015 and 2014, 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 November 15, 2016. The Series 1996 bonds are backed by an SBPA issued by a financial institution that expires on October 10, 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 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. As of September 30, 2015 and 2014, 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:

Series	Final Maturity	As of September 30 2015	2014
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 for the years ended September 30, 2015 and 2014. No amounts have been drawn against these LOCs.

For the years ending September 30, 2016, 2017, 2018, 2019, and 2020, maturities of long-term debt, assuming remarketing of variable rate demand bonds (including an $88 bond premium), are $9,998, $10,383, $10,793, $21,193, and $24,138, respectively. The 2019 maturity amount includes a $10,000 principal repayment and the 2020 maturity amount includes a $12,500 principal repayment. Both principal repayments are 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, 2015 and 2014, was $6,254 and $6,508, respectively. Interest of $483 and $834 was capitalized for the same periods, respectively. In addition, bond premium amortization was $88 for the years ended September 30, 2015 and 2014.

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

		Amortization		Outstanding Principal		Interest Rate	
		Amount	Years	September 30		September 30	
Type/Issuer	Series	Range	From – To	2015	2014	2015	2014
Illinois Development Finance Authority Variable Rate Demand Revenue Bonds							
	2001B	$1,600–$5,000	2016–2031	**$ 37,600**	$ 39,200	**0.02%**	0.03%
	2001C	1,600– 5,000	2016–2031	**37,600**	39,200	**0.01%**	0.01%
Illinois Health Facilities Authority Variable Rate Adjustable Demand Revenue Bonds							
	1995	$1,445–$8,605	2016–2035	**$ 43,040**	$ 44,480	**0.02%**	0.04%
	1996	1,435– 8,560	2016–2035	**43,080**	44,515	**0.03%**	0.06%
Illinois Educational Facilities Authority Commercial Paper Revenue Note							
	2008	$995–$13,305	2032–2038	**$ 75,000**	$ 75,000	**0.08%**	0.13%
Illinois Finance Authority Revenue Refunding Bonds							
	2010	$825–$9,685	2016–2037	**$ 119,340**	$ 122,815	**3.25%–5.25%**	3.00%–5.25%
Total long-term debt				**$ 355,660**	$ 365,210		
Less: current maturities of debt				**9,998**	9,638		
Plus: 2010 bond premium (current and long-term)				**1,902**	1,990		
Total long-term debt, less current maturities				**$ 347,564**	$ 357,562		

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 partnerships, and hedge funds. A plan measurement date of September 30 is used for the NorthShore Plan.

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

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 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 $15,073 to the Spin-Off Plan and $4,000 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.

For the year ended September 30, 2015, the Corporation made contributions of $35,000 for plan year 2014.

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

	Spin-Off Plan		NorthShore Plan	
	2015	**2014**	**2015**	**2014**
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ –**	$ –	**$ 452,414**	$ 419,819
Service cost	**–**	–	**–**	5,367
Interest cost	**3,133**	–	**16,912**	19,863
Actuarial losses	**1,029**	–	**33,083**	35,450
Benefits paid	**(71)**	–	**(21,606)**	(28,085)
Transfer between plans	**216,710**	–	**(216,710)**	–
Benefit obligation at end of year	**$ 220,801**	$ –	**$ 264,093**	$ 452,414
Accumulated benefit obligation	**$ 220,801**	$ –	**$ 264,093**	$ 452,414

	Spin-Off Plan		NorthShore Plan	
	2015	**2014**	**2015**	**2014**
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ –**	$ –	**$ 384,691**	$ 349,572
Actual return on plan assets	**(923)**	–	**6,758**	33,204
Employer contributions	**–**	–	**35,000**	30,000
Benefits paid	**(71)**	–	**(21,606)**	(28,085)
Transfer between plans	**203,844**	–	**(203,844)**	–
Fair value of plan assets at end of year	**$ 202,850**	$ –	**$ 200,999**	$ 384,691

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

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:

	Spin-Off Plan		NorthShore Plan	
	2015	**2014**	**2015**	**2014**
Funded status of the plan	**$ (17,951)**	$ –	**$ (63,094)**	$ (67,723)
Unrecognized net actuarial loss	**77,510**	–	**92,642**	117,826
Prepaid pension cost	**59,559**	–	**29,548**	50,103
Accumulated adjustments to unrestricted net assets	**(77,510)**	–	**(92,642)**	(117,826)
Amounts recognized in consolidated balance sheets	**$ (17,951)**	$ –	**$ (63,094)**	$ (67,723)

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

	Spin-Off Plan		NorthShore Plan	
	2015	**2014**	**2015**	**2014**
Current year actuarial loss	**$ 6,380**	$ –	**$ 48,630**	$ 27,052
Recognized loss	**(472)**	–	**(2,213)**	(1,697)
Transfer between plans	**71,602**	–	**(71,602)**	–
	$ 77,510	$ –	**$ (25,185)**	$ 25,355

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

		Actual Asset Allocation for the NorthShore Plan at September 30	
Asset Category	**Strategic Target**	**2015**	**2014**
Equity securities	39%	**27%**	32%
Debt securities	23	**23**	29
Other	38	**50**	39
Total	100%	**100%**	100%

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

The Spin-Off Plan actual asset allocation at September 30, 2015, was 87% in domestic equities and bond funds and 13% in other.

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 and the Spin-Off Plan as of September 30, 2015, 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	**$ 13,714**	**$ 32,595**	**$ –**	**$ 46,309**
International equity funds	**–**	**48,435**	**–**	**48,435**
Domestic equities	**112,821**	**–**	**–**	**112,821**
Bond funds	**57,080**	**–**	**–**	**57,080**
Fixed income accounts	**–**	**42,599**	**–**	**42,599**
Limited partnership and hedge funds	**–**	**–**	**68,824**	**68,824**
Cash equivalents	**27,781**	**–**	**–**	**27,781**
Total assets at fair value	**$ 211,396**	**$ 123,629**	**$ 68,824**	**$ 403,849**

(Dollars in Thousands)

7. Employee Benefit Programs (continued)

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

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:

	2015	2014
Balance, beginning of year	**$ 104,259**	$ 94,902
Dividends and interest income	**479**	668
Unrealized (losses) gains	**(7,520)**	10,589
Realized gains (losses)	**12,428**	(395)
Purchases	**4,355**	9,617
Sales	**(45,177)**	(11,122)
Balance, end of year	**$ 68,824**	$ 104,259
The amount of total (losses) gains for the period included in changes in net assets attributable to the change in unrealized (losses) gains relating to assets still held at the reporting date	**$ (7,520)**	$ 10,589

(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:

	Spin-Off Plan		**NorthShore Plan**	
	2015	**2014**	**2015**	**2014**
Service cost	**$ –**	$ –	**$ –**	$ 5,367
Interest cost	**3,133**	–	**16,912**	19,863
Expected return on plan assets	**(4,428)**	–	**(22,305)**	(24,806)
Actuarial loss	**472**	–	**2,213**	1,697
Net periodic pension cost	**$ (823)**	$ –	**$ (3,180)**	$ 2,121

Expected employee benefit payments for the NorthShore Plan are $17,204 in 2016, $17,535 in 2017, $17,565 in 2018, $17,095 in 2019, $18,912 in 2020, and $88,789 during the period from 2021 through 2025.

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

	Spin-Off Plan		**NorthShore Plan**	
	2015	**2014**	**2015**	**2014**
Discount rate	**4.40%**	N/A	**4.61%**	4.45%
Expected return on plan assets	**7.25**	N/A	**7.25**	7.25
Rate of compensation increase	**N/A**	N/A	**N/A**	N/A

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

	Spin-Off Plan		**NorthShore Plan**	
	2015	**2014**	**2015**	**2014**
Discount rate	**4.40%**	N/A	**4.45%**	4.99%
Expected return on plan assets	**7.25**	N/A	**7.25**	7.75
Rate of compensation increase	**N/A**	N/A	**N/A**	3.60

7. Employee Benefit Programs (continued)

During fiscal year 2015, the Corporation switched from the 2014 RP-2000 mortality table to the Adjusted RP-2014 mortality table with generational mortality improvement using Scale MP-2015.

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% long-term rate of return on assets assumption for 2015 and 2014.

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 $21,639 and $15,845 in 2015 and 2014, respectively. The related liability at September 30, 2015 and 2014, is $18,230 and $17,358, 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 $22,774 and $66 in 2015 and 2014, respectively. The Corporation recorded a liability of $17,550 and $18,900 related to the RCP Plan as of September 30, 2015 and 2014, respectively, which was included in accrued expenses.

The Corporation also sponsors various supplemental executive retirement plans. The total liability for these plans is $14,087 and $13,288 for the years ended September 30, 2015 and 2014, respectively, and is included in accrued expenses and employee retirement plans based on the expected payout dates. The Company funded $1,430 and $1,328 of the liabilities for these plans as of September 30 2015 and 2014, 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, 2015 and 2014, are $59,033 and $54,755, respectively. These amounts are included in other noncurrent assets and employee retirement and deferred compensation plans for the years ended September 30, 2015 and 2014, 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 $260,306 as of September 30, 2015, using a discount rate of 2.5% and $291,046 as of September 30, 2014, using a 3% discount rate. Included in these amounts is a receivable for anticipated insurance recoveries of $17,306 and $18,046 as of September 30, 2015 and 2014, respectively. The undiscounted reserve balance would have been higher by approximately $25,653 and $34,169 as of September 30, 2015 and 2014, respectively. Insurance expense declined $46,000 in fiscal year 2015 as compared to fiscal year 2014. This improvement has resulted from the Corporation's long-standing focus on patient safety that has translated into favorable claims experience and reduction in actuarial projections of long-term loss reserves needed to settle potential future claims. 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

9. Litigation and Contingencies (continued)

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. The current fact discovery deadline is November 30, 2015, and the District Court has indicated expert discovery will run through the second half of 2016. A final resolution of the matter is not expected until the end of calendar year 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 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, 2013, 2014, or 2015. On January 9, 2014, the Illinois Department of Revenue (IDOR) notified the Corporation that the Corporation's sales tax exemption was renewed under Illinois Public Act 97-0688.

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

(Dollars in Thousands)

9. Litigation and Contingencies (continued)

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 IDOR's certification and has requested a formal hearing before the IDOR asserting that Public Act 97-0688 is unconstitutional.

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:

2016	$	22,661
2017		21,612
2018		20,989
2019		18,389
2020		15,063

Lease expense for the years ended September 30, 2015 and 2014, was $24,926 and $26,345, respectively, and is recorded within supplies, services, and other.

At September 30, 2015, the Corporation is committed to $101,032 in construction-related contracts.

At September 30, 2015, the Corporation is committed to fund $93,057 to limited partnerships, which is expected to occur over the next decade. At September 30, 2015, the pension plan is committed to fund $13,648 to limited partnerships, which is expected to occur over the next decade.

(Dollars in Thousands)

10. Commitments (continued)

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

2016	$	501
2017		184
2018		49
2019		35
2020		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 $324,201 and $291,479 in 2015 and 2014, respectively. Fund-raising expenses for the years ended September 30, 2015 and 2014, were $3,005 and $2,204, respectively.

12. Temporarily and Permanently Restricted Net Assets

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

	2015	**2014**
Restricted for:		
Research	**$ 17,814**	$ 20,107
Special purpose	**85,409**	95,161
Total temporarily restricted net assets	**$ 103,223**	$ 115,268

Permanently restricted net assets totaled $77,765 and $76,103 for the years ended September 30, 2015 and 2014, 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, 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
Contributions	**–**	**–**	**1,662**	**1,662**
Investment return	**1,919**	**11,258**	**–**	**13,177**
Change of value in trust	**(2,081)**	**(12,303)**	**–**	**(14,384)**
Distributions	**(1,919)**	**(5,884)**	**–**	**(7,803)**
Net asset reclassification from unrestricted investment	**36**	**128**	**–**	**164**
Endowment net assets at September 30, 2015	**$ 6,662**	**$ 44,578**	**$ 77,765**	**$ 129,005**

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 $170 and $6 as of September 30, 2015 and 2014, 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, 2015 or 2014.

13. Income Taxes (continued)

The Corporation currently has a net operating loss carryforward of $11,335, which generated assets of $4,471. NPA currently has a net operating loss carryforward of $642, which generated assets of $251. CCP currently has a net operating loss carryforward of $76, which generated assets of $18. 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 merger and affiliation between NorthShore and Advocate is subject to multiple regulatory approvals, including the Federal Trade Commission (FTC) and the state of Illinois. The state of Illinois Health Facilities and Services Review Board unanimously approved the proposed merger and affiliation on December 16, 2014. On December 18, 2015, the FTC issued an administrative complaint challenging the proposed merger and affiliation. On December 21, 2015, the FTC and Illinois Attorney General filed a complaint and motion for preliminary injunction in the Northern District of Illinois Federal District Court in Chicago, Illinois. The matter has been set for a full evidentiary hearing and trial before the Federal District Court on April 6, 2016. The NorthShore anticipates a ruling on the proposed merger from the Federal District Court within 60 days from the completion of the hearing.

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, 2015 through February 1, 2016, the date of issuance of the accompanying consolidated financial statements. During this period, there were no items requiring disclosure or recognition in the consolidated financial statements.

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