NorthShore
University HealthSystem

Unaudited Interim Statements for the Periods Ended September 30, 2019 and 2018

Issued: November 27, 2019

NorthShore University HealthSystem
Consolidated Balance Sheets
(Dollars in Thousands)

	September 30 2019	September 30 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 74,229	$ 52,699
Other short-term investments	1,736	1,240
Internally designated investments, current portion	64,150	52,605
Patient accounts receivable	280,053	261,570
Inventories, prepaid expenses, and other	80,590	87,942
Total current assets	500,758	456,056
Investments available for general use	1,898,353	1,875,690
Investments limited as to use	222,225	222,758
Property and equipment:		
Land and improvements	107,656	107,331
Buildings	1,641,834	1,600,879
Equipment and furniture	458,082	426,920
Construction-in-progress	150,676	68,280
Accumulated depreciation	(1,138,685)	(1,075,189)
Total property and equipment, net	1,219,563	1,128,221
Other noncurrent assets	141,150	254,587
Total assets	$ 3,982,049	$ 3,937,312
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 115,474	$ 88,651
Accrued expenses	203,427	201,006
Current portion of self-insurance	52,600	41,500
Due to third-party payors	103,082	119,829
Current maturities of long-term debt	11,638	11,193
Total current liabilities	486,221	462,179
Noncurrent liabilities:		
Long-term debt, less current maturities	299,074	312,917
Employee retirement and deferred compensation plans	164,031	124,034
Accrued self-insurance and other	207,685	195,647
Total noncurrent liabilities	670,790	632,598
Net assets:		
Unrestricted	2,605,432	2,625,580
Temporarily restricted	142,161	139,561
Permanently restricted	77,445	77,394
Total net assets	2,825,038	2,842,535
Total liabilities and net assets	$ 3,982,049	$ 3,937,312

See accompanying notes

NorthShore University HealthSystem

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in Thousands)

	For the Three Month Period Ended September 30		For the Year Ended September 30	
	2019	2018	2019	2018
Unrestricted revenues and other support				
Net patient service and premium revenue	$ 565,474	$ 506,730	$ 2,162,147	$ 2,012,260
Net assets released from restrictions used for operations	5,834	3,425	17,348	14,836
Other revenue	11,530	12,457	54,647	48,616
Total unrestricted revenues and other support	582,838	522,612	2,234,142	2,075,712
Expenses				
Salaries and benefits	294,422	288,677	1,199,151	1,156,576
Supplies, services, and other	207,057	191,725	761,492	723,675
Depreciation and amortization	18,527	16,920	71,858	67,075
Insurance	23,043	(4,927)	57,899	21,850
Medicaid assessment	12,393	12,309	49,602	45,362
Interest	2,131	2,285	9,550	8,722
Total expenses	557,573	506,989	2,149,552	2,023,260
Income from operations before one time goodwill impairment	25,265	15,623	84,590	52,452
Goodwill Impairment	(116,388)	-	(116,388)	-
Income from Operations	(91,123)	15,623	(31,798)	52,452
Nonoperating income				
Dividend and interest income	10,820	9,119	44,186	36,556
Net realized gains (losses) on investments	16,654	62,561	75,190	116,861
Net unrealized gains (losses) on investments	(17,208)	(5,893)	(31,239)	11,418
Other, net	(12,355)	(21,790)	(41,655)	(52,370)
Total nonoperating income (loss)	(2,089)	43,997	46,482	112,465
Revenues in excess of (less than) expenses	$ (93,212)	$ 59,620	$ 14,684	$ 164,917
Unrestricted net assets				
Revenues in excess of (less than) expenses	$ (93,212)	$ 59,620	$ 14,684	$ 164,917
Pension-related changes other than net periodic costs	(35,206)	17,832	(34,777)	17,832
Net assets released from restrictions used for capital	-	-	-	274
Other transfers, net	506	445	(55)	(254)
Increase (decrease) in unrestricted net assets	(127,912)	77,897	(20,148)	182,769
Temporarily restricted net assets				
Contributions and other	2,183	1,957	16,108	8,473
Net realized gains (losses) on investments	970	2,282	13,392	6,918
Net unrealized gains (losses) on investments	989	8,473	(9,552)	14,407
Net assets released from restrictions	(5,834)	(3,425)	(17,348)	(15,110)
Increase (decrease) in temporarily restricted net assets	(1,692)	9,287	2,600	14,688
Permanently restricted net assets				
Contributions	-	100	51	301
Increase in permanently restricted net assets	-	100	51	301
Increase (decrease) in net assets	(129,604)	87,284	(17,497)	197,758
Net assets at beginning of period	2,954,642	2,755,251	2,842,535	2,644,777
Net assets at end of period	$ 2,825,038	$ 2,842,535	$ 2,825,038	$ 2,842,535

See accompanying notes

NorthShore University HealthSystem
Consolidated Statements of Cash Flows
(Dollars in Thousands)

	For the Three Month Period Ended September 30		For the Year Ended September 30	
	2019	2018	2019	2018
Operating activities				
Increase (decrease) in net assets	$ (129,604)	$ 87,284	$ (17,497)	$ 197,758
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Change in net unrealized (gains) losses on investments	16,219	(2,580)	40,791	(25,825)
Change in trading portfolio investments, net	(15,317)	(95,993)	(62,921)	(170,039)
Restricted contributions	(2,184)	(2,057)	(16,159)	(8,774)
Depreciation and amortization	18,527	16,920	71,858	67,075
Bond premium amortization	(22)	(22)	(88)	(88)
Pension-related changes other than net periodic cost	35,206	(17,832)	34,777	(17,832)
Provision for uncollectible accounts	8,154	9,920	52,901	51,642
Changes in operating assets and liabilities:				
Patient accounts receivable	(17,321)	(2,372)	(68,070)	15,998
Other current assets	(4,298)	42,259	(4,688)	(14,657)
Noncurrent assets and liabilities	129,914	(7,621)	130,800	(37,872)
Accounts payable and accrued expenses	41,811	(22,048)	40,344	26,997
Due from third-party payors	(34,444)	97	(20,061)	14,465
Net cash provided by operating activities	46,641	5,955	181,987	98,848
Investing activities				
Investments in property and equipment, net	(64,258)	(36,039)	(163,175)	(103,678)
Net cash used in investing activities	(64,258)	(36,039)	(163,175)	(103,678)
Financing activities				
Restricted contributions	2,184	2,057	16,159	8,774
Payments of long-term debt	(3,870)	(1,435)	(13,441)	(10,705)
Net cash provided by (used in) financing activities	(1,686)	622	2,718	(1,931)
Increase (decrease) in cash and cash equivalents	(19,303)	(29,462)	21,530	(6,761)
Cash and cash equivalents at beginning of period	93,532	82,161	52,699	59,460
Cash and cash equivalents at end of period	$ 74,229	$ 52,699	$ 74,229	$ 52,699

See accompanying notes

Notes to Consolidated Financial Statements

(Dollars in Thousands)

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 member of Community Care Partners (CCP) and NorthShore Physician Associates Value Based Care (VBC). 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 is a for-profit corporation. CCP and VBC are limited liability companies. 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.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. These statements do not include all of the information and footnotes required by GAAP for complete financial statements, although in the opinion of management, all adjustments considered necessary for a fair presentation have been included.

Certain reclassifications were made to the fiscal year 2018 consolidated financial statements to conform with the classifications made in fiscal year 2019. The reclassifications had no effect on the changes in net assets or net assets previously reported.

2. New Accounting Pronouncements

Adopted

In March 2016, the FASB issued ASU 2016-07, *Investments: Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting.* The amendments in this update eliminate the requirement to retroactively adjust an investment when it becomes qualified for use under the equity method as a result of an increase in the level of ownership interest or degree of influence. The Corporation adopted the new guidance for fiscal year 2018, 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*. The amendments in this update require not-for-profit entities that are conduit bond obligors to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-08 clarifying the implementation guidance on principal versus agent considerations. During third quarter of 2016, the FASB issued ASU 2016-10 and 2016-12. The amendments in these updates further clarify key guidance related to revenue recognition. The Corporation is required to adopt the new guidance in conjunction with ASU 2014-09. The Corporation adopted the new guidance for fiscal year 2019 using the full retrospective method.

As a result of ASU 2014-09, *Revenue from Contracts with Customers*, the amounts which were previously reported as provision for uncollectible accounts in the consolidated statements of operations and changes in net assets are now reflected as implicit price concessions and are therefore included as a reduction to net patient service revenue. With the adoption of this guidance, changes in credit assessments not recognized at the date of service are recorded as other expenses on the consolidated statement of operations and changes in net assets. Additionally, with the adoption of this standard, the allowance for doubtful accounts is presented as a component of patient accounts receivable. The adoption of this guidance did not have a material impact on the consolidated results of operations for the twelve months ended September 30, 2019 other than these changes in presentation on the consolidated statement of operations and changes in net assets and consolidated balance sheet.

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

2. New Accounting Pronouncements (continued)

As provided for under the guidance, the Corporation does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Corporation does not incur significant incremental costs in obtaining contracts with patients. As permitted in the guidance, any costs which are incurred are expensed in the period of occurrence, as the amortization period of any asset that the Corporation would have recognized is one year or less in duration.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this update replace the three classes of net assets (unrestricted, temporary, and permanent) with two classes (with and without donor restrictions). The ASU also requires additional disclosures relating to net assets and expenses. The Corporation adopted the new guidance and is effective for annual reporting in fiscal year 2019. The update will change NorthShore's net asset categories on the financial statements, along with changes to the footnotes for underwater endowments, operating expenses, and the new liquidity disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* The amendments in this update clarify the classification of eight types of transactions in the statement of cash flows to reduce diversity in practices. The Corporation adopted the new guidance for fiscal year 2019 and there was no significant impact on the consolidated financial statements.

In November of 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*. The guidance requires entities to show the changes in the total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer be required to present transfers between these categories. The Corporation adopted the new guidance for fiscal year 2019, and there was no significant impact on the consolidated financial statements.

In June of 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* The amendment in this update improves consistency in how entities determine whether a transfer of assets is an exchange transaction or a contribution and whether a contribution is conditional. The Corporation adopted the new guidance for fiscal year 2019, and there was no significant impact on the consolidated financial statements.

2. New Accounting Pronouncements (continued)

In January of 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The amendments in this update are intended to simplify the accounting for goodwill impairments. Goodwill impairment will be determined by using the difference in fair value and carrying value rather than the original two-step approach. Early adoption is permitted. The Corporation early adopted the new guidance effective July 1, 2019.

Prospective

In January 2016, the FASB issued ASU 2016-01, *Financial Instrument: Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* Investments, except for those accounted for under the equity method of accounting, or those that result in consolidating the investment, will be measured at fair value with changes in fair value recognized in nonoperating income. This new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2019, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

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

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

2. New Accounting Pronouncements (continued)

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

3. Changes in Accounting Estimates

The Corporation performed an analysis of the remaining useful lives of certain fixed assets and as a result the estimated useful lives of some assets have been modified. This resulted in a reduction of depreciation expense of approximately $40,750 for the year ended September 30, 2018.

As outlined in *Intangibles – Goodwill and Other (Topic 350)*, the Corporation performs an annual quantitative assessment to determine whether or not the Corporation's fair value exceeds its carrying value. The assessment includes a review of several variables, including macroeconomic conditions, industry/market considerations, cost factors, and overall financial performance. The assessment utilizes a market and discounted cash flow approach to determine fair value. The Corporation's fair value failed to exceed its carrying value and an impairment charge of $116,388 was recorded in the year ended September 30, 2019. This charge eliminated all goodwill from noncurrent assets. There was no impairment recorded in the year ended September 30, 2018.

4. Revenue and Patient Accounts Receivable

Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

4. Revenue and Patient Accounts Receivable (continued)

Performance obligations are determined based on the nature of the services that the Corporation provides. Revenue for performance obligations is recognized over time based on actual charges incurred in relation to total expected (or actual) charges. Performance obligations satisfied over time relate to patients receiving health care services. The Corporation measures the performance obligation from admission into the hospital (inpatient) or check-in (outpatient) to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge (inpatient) or check-out (outpatient). The Corporation believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

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

The Corporation determines the transaction price, which involves significant estimates and judgement, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including adjustments to contractual arrangements with third-party payors, discounts provided to uninsured and underinsured patients in accordance with the Corporation's financial assistance policy, and/or implicit price concessions based on this historical collection experience of patients. The Corporation determines the transaction price associated with services provided to patients who have third-party payor coverage based on the reimbursement terms outlined in contractual agreements, the Corporation's discount policies, and historical experience. For uninsured and under-insured patients who do not qualify for charity care, the Corporation determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on the Corporation's historical collection experience for applicable patient portfolios. Patients who meet the Corporation's criteria for free care are provided care without charge and such amounts are not reported as revenue. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. Settlements with third-party payers for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on correspondence from the payer and the Corporation's historical settlement activity. Estimated settlements are adjusted in future periods as new information becomes available or as years are settled.

(Dollars in Thousands)

4. Revenue and Patient Accounts Receivable (continued)

The Corporation has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the payors, the lines of business that render services to patients, and the timing of when revenue is recognized and billed.

For the twelve months ended September 30, 2019, changes in the Corporation's estimates of implicit price concessions, discounts, and contractual adjustments or other reductions to expected payments for performance obligations in prior years were not significant.

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

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

	For the Three Months Ended September 30		For the Year Ended September 30	
	2019	2018	**2019**	2018
Managed Care	**$ 330,496**	$ 293,512	**$ 1,255,797**	$ 1,191,292
Medicare	**190,927**	170,218	**730,061**	656,978
Medicaid	**32,118**	30,818	**128,099**	115,958
Other	**8,228**	8,794	**33,967**	33,170
Self Pay	**3,705**	3,388	**14,223**	14,862
Total	**$ 565,474**	$ 506,730	**$ 2,162,147**	$ 2,012,260

Deductibles, copayments, and coinsurance under third-party payment programs which are the patient's responsibility are included within the primary payor category in the table above.

(Dollars in Thousands)

4. Revenue and Patient Accounts Receivable (continued)

The composition of net patient service revenue based on the Corporation's main business lines are as follows:

	For the Three Months Ended September 30		For the Year Ended September 30	
	2019	2018	**2019**	2018
Facility Services	**$414,812**	$ 366,421	**$ 1,587,687**	$1,457,845
Physician Services	**143,237**	134,750	**551,235**	531,713
Home Health and Hospice Services	**7,425**	5,559	**23,225**	22,702
Total	**$565,474**	$ 506,730	**$ 2,162,147**	$2,012,260

Premium Revenue

The Corporation has agreements with health maintenance organizations to provide medical services to subscribing participants. Under these agreements, the Corporation receives monthly payments based on the number of participants, regardless of actual medical services provided to participants.

Premium revenue is earned each month as a result of agreeing to provide or arrange for their medical care. Premium revenue, included in physician services, for the three months ended September 30, 2019 and 2018, was $18,047 and $18,614, respectively. For the year ended September 30, 2019 and 2018 premium revenue was $72,546 and $74,811, respectively.

Other Revenue

Other revenue is recognized at an amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration due from customers, third-party payers, and others. Primary categories of other revenue include grant revenue, cafeteria sales, rent revenue, unrestricted donations, and other miscellaneous revenue.

4. Revenue and Patient Accounts Receivable (continued)

Patient Accounts Receivable

The Corporation's patient accounts receivable are reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care.

In certain instances, the Corporation does receive payment in advance of the services provided and would consider these amounts to represent contract liabilities. These liabilities were not significant at September 30, 2019 and 2018.

The revenue related to patient accounts receivable are reported at net realizable value based on certain assumptions. For third-party payors including Medicare, Medicaid, Blue Cross and Managed Care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, and other accounts receivable, the net realizable value is determined using estimates of historical collection experience including an analysis by aging category. These estimates are adjusted for expected recoveries and any anticipated changes in trends including significant changes in payor mix, shared revenue cycle operations, and economic conditions or trends in federal and state governmental healthcare coverage.

5. Investments

Investments in equity securities and mutual funds are carried at fair values 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 partnership and hedge funds, are accounted for using the cost or equity method, depending on the extent of the Corporation's ownership of the fund. Investments held at cost are evaluated for impairment quarterly. For the three months ended September 30, 2019 two investments held at cost were determined to be impaired, resulting in the corporation recording a loss of $2,553. For the year ended September 30, 2019 eight investments held at cost were determined to be impaired, resulting in the Corporation recording a loss of $8,511. There were no impairments for the three months ended September 30, 2018. For the year ended September 30, 2018 one investment held at cost was determined to be impaired, resulting in the Corporation recording a loss of $3,323.

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

(Dollars in Thousands)

5. Investments (continued)

The presentation of investments is as follows:

	As of September 30 2019	As of September 30 2018
Other short-term investments	$ 1,736	$ 1,240
Investments available for general use	1,898,353	1,875,690
Investments limited as to use:		
Current portion	64,150	52,605
All other (noncurrent)	222,225	222,758
Other noncurrent assets	107,138	99,671
Total investments	$ 2,293,602	$ 2,251,964

Total investment returns for the periods indicated are as follows:

	For the Three Months Ended September 30		For the Year Ended September 30	
	2019	2018	2019	2018
Nonoperating :				
Dividend and interest income	$ 10,820	$ 9,119	$ 44,186	$ 36,556
Net realized gains (losses) on investments	16,654	62,561	75,190	116,861
Net unrealized gains (losses) on investments	(17,208)	(5,893)	(31,239)	11,418
Total nonoperating investment return	10,266	65,787	88,137	164,835
Temporarily restricted:				
Net realized gains (losses) on investments	970	2,282	13,392	6,918
Net unrealized gains (losses) on investments	989	8,473	(9,552)	14,407
Total temporarily restricted investment return	1,959	10,755	3,840	21,325
Total investment return	$ 12,225	$ 76,542	$ 91,977	$ 186,160

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

5. Investments (continued)

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 consistent 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.

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 expected.

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 the Corporation’s unrestricted net assets. There were no underwater endowments as of September 30, 2019 and September 30, 2018.

6. 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.

(Dollars in Thousands)

6. Fair Value Measurements (continued)

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 – Valuation 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 as 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.

The Corporation's financial assets carried at fair value at September 30, 2019, were as follows:

Nature of investment	Level 1	Level 2	Level 3	Total
Common Stock	$ 169,300	$ -	$ -	$ 169,300
Mutual Funds	505,119	-	-	505,119
Bond Funds	-	41,633	-	41,633
Fixed Income Accounts	-	257,030	-	257,030
Total Assets at Fair Value	$ 674,419	$ 298,663	$ -	$ 973,082

Total investments at September 30, 2019 are $2,293,602. This amount includes $973,082 in investments recorded at fair value and $821,590 in investments measured at net asset value. In addition, this amount includes $468,926 in limited partnerships and funds recorded at cost, $17,241 in limited partnerships recorded using the equity method, and other assets of $12,763 recorded at cost.

(Dollars in Thousands)

6. Fair Value Measurements (continued)

The Corporation's financial assets carried at fair value at September 30, 2018, were as follows:

Nature of investment	Level 1	Level 2	Level 3	Total
Common Stock	$ 192,335	$ -	$ -	$ 192,335
Mutual Funds	308,266	-	-	308,266
Bond Funds	105,666	-	-	105,666
Fixed Income Accounts	-	215,669	-	215,669
Total Assets at Fair Value	$ 606,267	$ 215,669	$ -	$ 821,936

Total investments at September 30, 2018 are $2,251,964. This amount includes $821,936 in investments recorded at fair value and $878,750 in investments measured at net asset value. In addition, this amount includes $465,835 in limited partnerships and funds recorded at cost, $13,882 in limited partnerships recorded using the equity method, cash in transit of $40,467 and other assets of $31,094 recorded at cost.

ASC 825, *Financial Instruments*, permits entities to elect to measure many financial instruments and certain other items at fair value. The fair value option may be applied instrument by instrument and is irrevocable. The Corporation has made no such elections to date. 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 at $313,412 at September 30, 2019 and $329,160 at September 30, 2018. 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 as 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.

7. Long-Term Debt

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.

(Dollars in Thousands)

7. Long-Term Debt (continued)

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

The Corporation has a letter of credit backup facility with a financial institution in conjunction with the 2008 Pooled Program that expires on May 31, 2022. The letter of credit 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 letter of credit expiration date will be made in equal quarterly installments beginning on the first subsequent quarter-end date.

Under the terms of the long-term debt arrangements, various amounts are on deposit with trustees, as required for bond redemption and interest payments. 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 letters of credit in connection with construction projects and property lease obligations, which amount to $695 as of September 30, 2019 and $500 September 30, 2018, respectively. No amounts have been drawn against these letters of credit.

As of September 30, 2019, the remaining maturities of long-term debt, including an $88 bond premium, are as follows for the fiscal years ended September 30:

Fiscal Year	Maturities Long-Term Debt
2020	$ 11,638
2021	$ 12,133
2022	$ 12,623
2023	$ 13,158
2024	$ 13,703

Interest paid for the three months ended September 30, 2019 and 2018, was $747 and $1,086 respectively. Interest of $223 and $217 was capitalized in the same periods, respectively. In addition, bond premium amortization was $22 for both the three months ended September 30, 2019 and 2018.

(Dollars in Thousands)

7. Long-Term Debt (continued)

Interest paid for the twelve months ended September 30, 2019 and 2018, was $8,883 and $8,322 respectively. Interest of $648 and $1,208 was capitalized in the same periods, respectively. In addition, bond premium amortization was $88 for both the twelve months ended September 30, 2019 and 2018.

Total long-term debt is summarized as follows:

		Amortization		Outstanding Principal		Interest Rate	
		Amount	Years	**September 30**	September 30	**September 30**	September 30
Type/Issuer	**Series**	**Range**	**From - To**	**2019**	2018	**2019**	2018
Illinois Development Finance Authority Variable Rate Demand Revenue Bonds							
	2001B	$ 1,900 - $ 5,000	2020 - 2031	**$ 30,700**	$ 32,500	**1.52%**	1.18%
	2001C	1,900 - 5,000	2020 - 2031	**30,700**	32,500	**1.51%**	1.18%
Illinois Health Facilities Authority Variable Rate Adjustable Demand Revenue Bonds							
	1995	$ 1,490 - $ 8,605	2020 - 2035	**$ 37,030**	$ 38,575	**1.61%**	1.29%
	1996	1,475 - 8,560	2020 - 2035	**37,100**	38,635	**1.61%**	1.30%
Illinois Educational Facilities Authority Commercial Paper Revenue Note							
	2008	$ 995 - $ 13,305	2032 - 2038	**$ 75,000**	$ 75,000	**1.90%**	1.38%
Illinois Finance Authority Revenue Refunding Bonds							
	2010	$ 825 - $ 9,685	2020 - 2037	**$ 100,780**	$ 107,540	**5.00% - 5.25%**	4.60% - 5.25%
Total long-term debt				**$ 311,310**	$ 324,750		
Less: Current maturities of debt				**11,638**	11,193		
Less: Debt Issuance Costs				**2,147**	2,278		
Plus: 2010 bond premium (current and long-term)				**1,549**	1,638		
Total long-term debt, less current maturities				**$ 299,074**	$ 312,917		

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

8. 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)

8. Employee Benefit Programs (continued)

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

	For the Three Months Ended	
	September 30, 2019	September 30, 2018
Interest cost	**$ 2,421**	$ 2,577
Expected return on plan assets	**(3,426)**	(3,840)
Actuarial loss	**401**	503
Net periodic pension benefit cost	**$ (604)**	$ (760)

	For Year Ended	
	September 30, 2019	September 30, 2018
Interest cost	**$ 9,684**	$ 10,308
Expected return on plan assets	**(13,704)**	(15,359)
Actuarial loss	**1,603**	2,010
Net periodic pension benefit cost	**$ (2,417)**	$ (3,041)

The Corporation recognized $9,838 in settlement charges, in nonoperating income, for the year ended September 30, 2018.

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. The Corporation also sponsors a 403(b) plan that matches employee contributions at an annual discretionary percentage.

9. 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, 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 $241,919 as of September 30, 2019 and $215,301 as of September 30, 2018 using a 3.0% discount rate. Included in these amounts is a receivable for anticipated insurance recoveries of $14,184 and $14,201 as of September 30, 2019 and September 30, 2018, respectively. The undiscounted reserve balance would have been higher by approximately $24,387 as of September 30, 2019 and $21,704 as of September 30, 2018. 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.

10. Litigation and Contingencies

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

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

Several other managed care organizations (MCOs), including Blue Cross (HMO product) and Humana, remain within the class. Fact discovery closed in November 2015. The parties completed expert discovery in April 2017. The parties filed competing motions for summary judgment, motions to decertify the class, and motions to exclude experts during the spring and summer of 2017. On March 31, 2018, the District Court issued a partial ruling on the various pending motions. The court granted the Corporation's motion to decertify the class finding that the named Plaintiffs were "inadequate" to represent the proposed class. The Court further limited the class to "direct" purchasers of only "inpatient" services, and found the current Plaintiffs were "indirect" purchasers of only "outpatient" services. On July 2, 2018 the District Court granted plaintiffs' counsels' request to substitute two new patients who claim to meet the amended class definition. During discovery into the two new patients' claims, Plaintiffs' counsel elected to voluntarily dismiss one patient, leaving only one individual patient as the sole proposed class representative. On October 3, 2018, the Corporation filed a renewed and supplemental Motion for Summary Judgement and Motion for Decertification seeking to disqualify the lone remaining Plaintiff as an inadequate class member, as well as obtain judgement against the one remaining patient for failure to establish any injury or harm. On March 29, 2019, the District Court denied the Corporation's motion for Decertification and

10. Litigation and Contingencies (continued)

Summary Judgement against the lone remaining class representative, and stated that the remaining motions for summary judgement and decertification remain under advisement. A decision on the pending motions is expected by the end 2019. The Corporation has denied all allegations within the plaintiffs' complaints and intends to pursue its rights in defense of the claims.

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.

11. Income Taxes

The Corporation and its related affiliates, except for Insurance International, NPA, CCP, and VBC 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 740-10 *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 can be 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 periods ended September 30, 2019 or September 30, 2018.

For the year ended September 30, 2019, the Corporation has a net operating loss carryforward of $8,154, which generated assets of $2,324. These assets are offset by a valuation allowance of $916.

For the year ended September 30, 2018, the Corporation has a net operating loss carryforward of $8,643, which generated assets of $2,464. These assets are offset by a valuation allowance of $1,020.

12. Other Events

On June 27, 2019 the Corporation signed a definitive agreement to form a partnership with Swedish Covenant Hospital (SCH). The Corporation has received state and regulatory approval and expects the transaction to close January 1, 2020.