NorthShore
University HealthSystem

Unaudited Interim Statements for the Periods Ended June 30, 2018 and 2017

Final: August 9, 2018

NorthShore University HealthSystem
Consolidated Balance Sheets
(Dollars in Thousands)

	June 30 2018	September 30 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 82,161	$ 59,460
Other short-term investments	1,212	1,150
Internally designated investments, current portion	79,905	50,705
Patient accounts receivable, less allowances:		
(Jun 2018 - $115,124; Sep 2017 - $113,937)	269,839	330,838
Inventories, prepaid expenses, and other	102,929	75,275
Total current assets	536,046	517,428
Investments available for general use	1,785,828	1,695,893
Investments limited as to use	214,047	206,691
Property and equipment:		
Land and improvements	107,279	107,473
Buildings	1,529,048	1,490,024
Equipment and furniture	400,228	442,733
Construction-in-progress	130,563	165,255
Accumulated depreciation	(1,058,024)	(1,113,888)
Total property and equipment, net	1,109,094	1,091,597
Other noncurrent assets	246,047	239,240
Total assets	$ 3,891,062	$ 3,750,849
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 92,480	$ 79,632
Accrued expenses	191,825	184,528
Current portion of self-insurance	68,900	40,000
Due to third-party payors	120,449	106,992
Current maturities of long-term debt	11,093	10,793
Total current liabilities	484,747	421,945
Noncurrent liabilities:		
Long-term debt, less current maturities	314,442	323,979
Employee retirement and deferred compensation plans	132,260	126,630
Accrued self-insurance and other	204,362	233,518
Total noncurrent liabilities	651,064	684,127
Net assets:		
Unrestricted	2,547,683	2,442,811
Temporarily restricted	130,274	124,873
Permanently restricted	77,294	77,093
Total net assets	2,755,251	2,644,777
Total liabilities and net assets	$ 3,891,062	$ 3,750,849

See accompanying notes

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

	For the Three Month Period Ended June 30		For the Nine Month Period Ended June 30		For the Year Ended September 30
	2018	2017	2018	2017	2017
Unrestricted revenues and other support					
Net patient service and premium revenue	$ 513,774	$ 497,652	$ 1,547,252	$ 1,520,712	$ 2,022,627
Provision for uncollectible accounts	(18,147)	(10,931)	(41,722)	(38,316)	(48,807)
Net patient service and premium revenue	495,627	486,721	1,505,530	1,482,396	1,973,820
Investment earnings supporting current activities	19,500	11,250	58,500	33,750	45,000
Net assets released from restrictions used for operations	4,078	3,844	11,411	9,340	12,850
Other revenue	11,314	12,675	36,159	37,861	49,319
Total unrestricted revenues and other support	530,519	514,490	1,611,600	1,563,347	2,080,989
Expenses					
Salaries and benefits	293,915	277,544	867,899	825,822	1,103,517
Supplies, services, and other	181,436	169,736	531,950	520,658	699,289
Depreciation and amortization	(3,928)	27,328	50,155	82,744	109,673
Insurance	9,105	10,255	26,777	28,496	32,457
Medicaid assessment	11,074	10,848	33,053	32,732	43,636
Interest	2,249	1,903	6,437	5,631	7,452
Total expenses	493,851	497,614	1,516,271	1,496,083	1,996,024
Income from operations	36,668	16,876	95,329	67,264	84,965
Nonoperating income					
Dividend and interest income	10,071	8,408	27,437	24,245	32,350
Net realized gains on investments	24,768	20,285	54,300	39,425	54,463
Net unrealized (losses) gains on investments	(6,933)	38,138	17,311	85,845	126,512
Transfer of investment earnings supporting current activities	(19,500)	(11,250)	(58,500)	(33,750)	(45,000)
Other, net	(10,000)	(16,291)	(30,580)	(34,126)	(46,245)
Total nonoperating (loss) income	(1,594)	39,290	9,968	81,639	122,080
Revenue, gains, and other support in excess of expenses	35,074	56,166	105,297	148,903	207,045
Unrestricted net assets					
Revenue, gains, and other support in excess of expenses	35,074	56,166	105,297	148,903	207,045
Pension-related changes other than net periodic costs	-	-	-	-	10,898
Net assets released from restrictions used for capital	-	-	274	100	100
Other transfers, net	(314)	22	(699)	(1,611)	(1,096)
Increase in unrestricted net assets	34,760	56,188	104,872	147,392	216,947
Temporarily restricted net assets					
Contributions and other	1,843	2,560	6,516	6,780	8,035
Net realized (losses) gains on investments	(35)	294	4,636	976	2,059
Net unrealized gains on investments	4,385	5,751	5,934	12,829	15,572
Net assets released from restrictions	(4,078)	(3,844)	(11,685)	(9,440)	(12,950)
Increase in temporarily restricted net assets	2,115	4,761	5,401	11,145	12,716
Permanently restricted net assets					
Contributions	-	30	201	235	236
Increase in permanently restricted net assets	-	30	201	235	236
Increase in net assets	36,875	60,979	110,474	158,772	229,899
Net assets at beginning of period	2,718,376	2,512,671	2,644,777	2,414,878	2,414,878
Net assets at end of period	$ 2,755,251	$ 2,573,650	$ 2,755,251	$ 2,573,650	$ 2,644,777

See accompanying notes

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

	For the Three Month Period Ended June 30		For the Nine Month Period Ended June 30		For the Year Ended September 30
	2018	2017	2018	2017	2017
Operating activities					
Increase in net assets	$ 36,875	$ 60,979	$ 110,474	$ 158,772	$ 229,899
Adjustments to reconcile increase in net assets to net cash provided by operating activities:					
Change in net unrealized losses (gains) on investments	2,548	(43,889)	(23,245)	(98,674)	(142,084)
Change in trading portfolio investments, net	(50,546)	(16,038)	(74,047)	(4,901)	(6,773)
Restricted contributions	(1,843)	(2,590)	(6,717)	(7,015)	(8,271)
Depreciation and amortization	(3,928)	27,328	50,155	82,744	109,673
Bond premium amortization	(22)	(22)	(66)	(66)	(88)
Pension-related changes other than net periodic cost	-	-	-	-	(10,898)
Provision for uncollectible accounts	18,147	10,931	41,722	38,316	48,807
Changes in operating assets and liabilities:					
Patient accounts receivable	11,376	(10,623)	18,370	(49,459)	(63,447)
Other current assets	(46,014)	80	(56,916)	(4,505)	1,444
Noncurrent assets and liabilities	(25,447)	980	(30,250)	16,820	(21,726)
Accounts payable and accrued expenses	79,444	41,509	49,045	4,709	21,656
Due to (from) third-party payors	14,340	4,162	14,368	1,436	(6,344)
Net cash provided by operating activities	34,930	72,807	92,893	138,177	151,848
Investing activities					
Investments in property and equipment, net	(20,920)	(32,696)	(67,639)	(103,992)	(147,863)
Net cash used in investing activities	(20,920)	(32,696)	(67,639)	(103,992)	(147,863)
Financing activities					
Restricted contributions	1,843	2,590	6,717	7,015	8,271
Payments of long-term debt	(9,270)	(8,795)	(9,270)	(8,795)	(10,295)
Net cash used in financing activities	(7,427)	(6,205)	(2,553)	(1,780)	(2,024)
Increase in cash and cash equivalents	6,583	33,906	22,701	32,405	1,961
Cash and cash equivalents at beginning of period	75,578	55,998	59,460	57,499	57,499
Cash and cash equivalents at end of period	$ 82,161	$ 89,904	$ 82,161	$ 89,904	$ 59,460

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 shareholder of Community Care Partners (CCP) and NorthShore Physician Associates Value Based Care (VBC), which was established in July 2017 to participate in the Medicare Shared Savings Program. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements include the accounts and transactions of NorthShore and its affiliates (collectively, the Corporation).

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

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

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 and are of a normal and recurring nature.

2. New Accounting Pronouncements

Adopted

In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-02, *Consolidation (Topic 807): Amendments to the Consolidation Analysis*. The guidance in this update modifies the analysis that companies must perform to determine whether certain legal entities should be consolidated, including limited partnerships and similar legal entities that would be considered variable interest entities and investments in certain investment funds. This new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after

2. New Accounting Pronouncements (continued)

December 15, 2015, with early adoption permitted. The Corporation adopted the new guidance for fiscal year 2017, and there was no significant impact on the consolidated financial statements.

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

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

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

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.

Prospective

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

2. New Accounting Pronouncements (continued)

the fiscal year beginning on October 1, 2018, and is currently evaluating the impact this guidance will have on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instrument: Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* Investments, except for those accounted for under the equity method of accounting, or those that result in consolidating the investment, will be measured at fair value with changes in fair value recognized in net 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.

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

2. New Accounting Pronouncements (continued)

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

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

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

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

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 is required to adopt the new guidance for the fiscal year beginning on October 1, 2018, however, the

2. New Accounting Pronouncements (continued)

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 $24,863 for the nine month period ending June 30, 2018. Management anticipates a similar impact on future periods.

4. Provision for Uncollectible Accounts

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 30% and 26% as of June 30, 2018 and September 30, 2017, respectively. The Corporation's total reserve for self-pay accounts receivable, including the allowance for uncollectible accounts and charity care, was 85% and 86% of self-pay accounts receivable at June 30, 2018 and September 30, 2017, respectively.

On a monthly basis, the Corporation reviews its 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 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.

For the three months ended June 30, 2018, total patient service revenue, net of contractual allowances and discounts, was $495,268 which included third-party payor revenue of $471,400 and self-pay revenue of $23,868. For the three months ended June 30, 2017, total patient service revenue, net of contractual allowances and discounts, was $479,137 which included third-party payor revenue of $458,510 and self-pay revenue of $20,627.

For the nine months ended June 30, 2018, total patient service revenue, net of contractual allowances and discounts, was $1,491,054 which included third-party payor revenue of $1,421,941 and self-pay revenue of $69,113. For the nine months ended June 30, 2017, total patient service revenue, net of contractual allowances and discounts, was $1,469,561 which included third-party payor revenue of $1,405,179 and self-pay revenue of $64,382.

(Dollars in Thousands)

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 and nine months ended June 30, 2018 one investment held at cost was determined to be impaired, resulting in the corporation recording a loss of $3,323. No related investments were impaired for the three or nine months ended June 30, 2017.

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.

The presentation of investments is as follows:

	As of June 30 2018	As of September 30 2017
Other short-term investments	**$ 1,212**	$ 1,150
Investments available for general use	**1,785,828**	1,695,893
Investments limited as to use:		
Current portion	**79,905**	50,705
All other (noncurrent)	**214,047**	206,691
Other noncurrent assets	**91,858**	84,458
Total investments	**$ 2,172,850**	$ 2,038,897

(Dollars in Thousands)

5. Investments (continued)

Total investment returns for the periods indicated are as follows:

	For the Three Months Ended June 30		For the Nine Months Ended June 30		For the Year Ended September 30
	2018	2017	**2018**	2017	2017
Nonoperating :					
Dividend and interest income	**$ 10,071**	$ 8,408	**$ 27,437**	$ 24,245	$ 32,350
Net realized gains on investments	**24,768**	20,285	**54,300**	39,425	54,463
Net unrealized (losses) gains on investments	**(6,933)**	38,138	**17,311**	85,845	126,512
Total nonoperating investment return	**27,906**	66,831	**99,048**	149,515	213,325
Temporarily restricted:					
Net realized (losses) gains on investments	**(35)**	294	**4,636**	976	2,059
Net unrealized gains on investments	**4,385**	5,751	**5,934**	12,829	15,572
Total temporarily restricted investment return	**4,350**	6,045	**10,570**	13,805	17,631
Total investment return	**$ 32,256**	$ 72,876	**$ 109,618**	$ 163,320	$ 230,956

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 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

5. Investments (continued)

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 June 30, 2018 and September 30, 2017.

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.

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

(Dollars in Thousands)

6. Fair Value Measurements (continued)

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 June 30, 2018, were as follows:

Nature of investment	**Level 1**	**Level 2**	**Level 3**	**Total**
Common Stock	**$ 182,414**	**$ -**	**$ -**	**$ 182,414**
Mutual Funds	**241,493**	**-**	**-**	**241,493**
Bond Funds	**220,806**	**-**	**-**	**220,806**
Real Asset Funds	**17,673**	**-**	**-**	**17,673**
Fixed Income Accounts	**-**	**132,720**	**-**	**132,720**
Total Assets at Fair Value	**$ 662,386**	**$ 132,720**	**$ -**	**$ 795,106**

Total investments at June 30, 2018 are $2,172,850. This amount includes $795,106 in investments recorded at fair value and $829,274 in investments measured at net asset value. In addition, this amount includes $495,545 in limited partnerships and funds recorded at cost, $12,047 in limited partnerships recorded using the equity method, and other assets of $40,878 recorded at cost.

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

Nature of investment	Level 1	Level 2	Level 3	Total
Common Stock	$ 188,870	$ -	$ -	$ 188,870
Mutual Funds	223,850	-	-	223,850
Bond Funds	183,010	-	-	183,010
Real Asset Funds	15,610	-	-	15,610
Fixed Income Accounts	-	124,508	-	124,508
Total Assets at Fair Value	$ 611,340	$ 124,508	$ -	$ 735,848

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

6. Fair Value Measurements (continued)

There were no transfers between Level 1, Level 2, and Level 3 assets during the three months ended June 30, 2018 or 2017.

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 $331,300 at June 30, 2018 and $344,257 at September 30, 2017. 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. The Series 1995, 1996, 2001B, and 2001C 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, 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 an LOC backup facility with a financial institution in conjunction with the 2008 Pooled Program that expires on November 30, 2019. The LOC may be drawn upon by the trustee to make payments of principal and interest on maturing commercial paper in the event that an issuance of commercial paper does not roll over. Repayments on any liquidity advance received prior to the LOC expiration date will be made in equal quarterly installments beginning on the first subsequent quarter-end date.

(Dollars in Thousands)

7. Long-Term Debt (continued)

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 $500 as of June 30, 2018 and September 30, 2017, respectively. No amounts have been drawn against these LOCs.

As of June 30, 2018, 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
2018	$ 1,457
2019	$ 11,193
2020	$ 11,638
2021	$ 12,133
2022	$ 12,623

Interest paid for the three months ended June 30, 2018 and 2017, was $3,360 and $3,307 respectively. Interest of $311 and $324 was capitalized in the same periods, respectively. In addition, bond premium amortization was $22 for both the three months ended June 30, 2018 and 2017.

Interest paid for the nine months ended June 30, 2018 and 2017, was $7,236 and $7,218 respectively. Interest of $991 and $916 was capitalized in the same periods, respectively. In addition, bond premium amortization was $66 for both the nine months ended June 30, 2018 and 2017.

(Dollars in Thousands)

7. Long-Term Debt (continued)

Total long-term debt is summarized as follows:

Type/Issuer	Series	Amortization Amount Range	Amortization Years From	Amortization Years To	Outstanding Principal June 30 2018	Outstanding Principal September 30 2017	Interest Rate June 30 2018	Interest Rate September 30 2017
Illinois Development Finance Authority Variable Rate Demand Revenue Bonds								
	2001B	$1,800 - $ 5,000	2019	2031	**$ 32,500**	$ 34,300	**1.15%**	0.68%
	2001C	1,800 - 5,000	2019	2031	**32,500**	34,300	**1.16%**	0.68%
Illinois Health Facilities Authority Variable Rate Adjustable Demand Revenue Bonds								
	1995	$1,490 - $ 8,605	2019	2035	**$ 38,575**	$ 40,020	**1.26%**	0.78%
	1996	1,435 - 8,560	2018	2035	**40,070**	40,070	**1.28%**	0.77%
Illinois Educational Facilities Authority Commercial Paper Revenue Note								
	2008	$ 995 - $13,305	2032	2038	**$ 75,000**	$ 75,000	**1.39%**	0.79%
Illinois Finance Authority Revenue Refunding Bonds								
	2010	$ 825 - $ 9,685	2019	2037	**$ 107,540**	$ 111,765	**4.60% - 5.25%**	4.00% - 5.25%
Total long-term debt					**$ 326,185**	$ 335,455		
Less: Current maturities of debt					**11,093**	10,793		
Less: Debt Issuance Costs					**2,311**	2,409		
Plus: 2010 bond premium (current and long-term)					**1,660**	1,726		
Total long-term debt, less current maturities					**$ 314,441**	$ 323,979		

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.

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 June 30, 2018	June 30, 2017
Interest cost	**$ 2,577**	$ 2,593
Expected return on plan assets	**(3,840)**	(3,554)
Actuarial loss	**503**	519
Net periodic pension benefit cost	**$ (760)**	$ (442)

(Dollars in Thousands)

8. Employee Benefit Programs (continued)

	For the Nine Months Ended		For Year Ended
	June 30, 2018	June 30, 2017	September 30, 2017
Interest cost	**$ 7,731**	$ 7,779	$ 10,372
Expected return on plan assets	**(11,520)**	(10,662)	(14,215)
Actuarial loss	**1,508**	1,556	2,074
Net periodic pension benefit cost	**$ (2,281)**	$ (1,327)	$ (1,769)

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 (beginning with policy year March 26, 2009), claims are subject to deductibles of $10,000 with a $15,000/$15,000 buffer layer. The estimated professional liability losses are calculated with the assistance of consulting actuaries and an accrual has been made for potential claims to be paid. The discounted reserve balance was $251,574 as of June 30, 2018 and $251,645 as of September 30, 2017 using a 3.0% and 2.5% discount rate, respectively. Included in these amounts is a receivable for anticipated insurance recoveries of $13,115 as of June 30, 2018 and September 30, 2017, respectively. The undiscounted reserve balance would have been higher by approximately $29,011 as of June 30, 2018 and $24,183 as of September 30, 2017. 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.

10. Litigation and Contingencies (continued)

In August 2007, three individual private plaintiffs filed a purported antitrust class action lawsuit against the Corporation in Federal District Court in Chicago, Illinois, alleging anticompetitive price increases as a result of the Corporation's January 2000 merger with HPH. In May 2008, an entity titled the Painters District Council No. 30 Health and Welfare Fund filed a nearly identical antitrust class action against the Corporation. All four of the separate suits have been consolidated into one action. On March 30, 2010, the District Court denied the plaintiffs' motion for class certification. The plaintiffs appealed the District Court's denial of class certification to the Seventh Circuit Court of Appeals, and on January 13, 2012, the Seventh Circuit issued an opinion that vacated the District Court's decision and remanded the case back to the District Court for further proceedings. On April 4, 2012, the plaintiffs filed a renewed motion for class certification that the Corporation opposed on July 12, 2012. On December 10, 2013, the District Court granted plaintiffs' renewed motion for class certification. 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 named the 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. Discovery of the two new named plaintiffs will continue through the summer of 2018. 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 through 2017. On June 2, 2016, the Illinois Department of Revenue (IDOR) notified the Corporation that the Corporation's sales tax exemption was renewed under Illinois Public Act 97-0688 through July 1, 2021.

10. Litigation and Contingencies (continued)

Prior to the new legislation, the Corporation filed required applications seeking real estate tax-exempt status for certain of the Corporation's Skokie Hospital and related facilities, which were certified as tax-exempt as part of Rush North Shore Medical Center prior to the merger with the Corporation on January 1, 2009. These applications are now subject to the provisions of Illinois Public Act 97-0688. The IDOR issued real estate tax exemption certificates, which approved the Corporation's tax exemption filing for either full or partial exemption of the Skokie Hospital and related facilities for tax years 2009, 2010, 2011, and 2012. A local school district subsequently intervened and filed letters with the IDOR seeking a hearing on the Skokie Hospital exemptions. On July 2, 2015, the Corporation filed a separate lawsuit in Circuit Court claiming the IDOR lacked jurisdiction over the school district's challenges due to the district's non-compliance with statutory requirements. After various rulings and appeals, the Corporation filed a petition for leave to appeal with the Illinois Supreme Court, who on December 1, 2017 granted the request to hear the matter. The Corporation and the school district subsequently agreed to withdraw these cases, and the IDOR case was dismissed on June 21, 2018. On June 27, 2018, the Corporation filed a motion to dismiss the appeal before the Illinois Supreme Court.

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 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 June 30, 2018 or September 30, 2017.

11. Income Taxes (continued)

For the three months ended June 30, 2018, the Corporation has a net operating loss carryforward of $9,494, which generated assets of $2,929. These assets are offset by a valuation allowance of $1,486.

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