NorthShore University HealthSystem

Unaudited Interim Statements for the Periods Ended December 31, 2014 and 2013

Issued: February 2, 2015

NorthShore University HealthSystem
Consolidated Balance Sheets
(Dollars in Thousands)

	December 31 2014	September 30 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 62,410	$ 35,949
Other short-term investments	1,026	1,037
Internally designated investments, current portion	48,850	48,750
Patient accounts receivable, less allowances:		
(Dec 2014 - $80,693; Sep 2014 - $77,532)	277,265	268,678
Inventories, prepaid expenses, and other	64,356	57,212
Total current assets	453,907	411,626
Investments available for general use	1,523,863	1,506,470
Investments limited as to use	195,882	192,002
Property and equipment:		
Land and improvements	104,336	104,336
Buildings	1,375,796	1,368,255
Equipment and furniture	441,616	433,173
Construction-in-progress	68,294	61,716
Accumulated depreciation	(1,027,099)	(1,005,092)
Total property and equipment, net	962,943	962,388
Other noncurrent assets	222,588	219,124
Total assets	$ 3,359,183	$ 3,291,610
Liabilities and net assets		
Current liabilities:		
Accounts payable	$ 59,767	$ 55,726
Accrued expenses and current portion of self-insurance	221,402	203,194
Due to third-party payors	83,039	92,929
Current maturities of long-term debt	9,638	9,638
Total current liabilities	373,846	361,487
Noncurrent liabilities:		
Long-term debt, less current maturities	357,540	357,562
Employee retirement plans	136,125	134,100
Accrued self-insurance and other	262,474	260,527
Total noncurrent liabilities	756,139	752,189
Net assets:		
Unrestricted	2,032,640	1,986,563
Temporarily restricted	120,390	115,268
Permanently restricted	76,168	76,103
Total net assets	2,229,198	2,177,934
Total liabilities and net assets	$ 3,359,183	$ 3,291,610

See accompanying notes

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

	For the Three Month Period Ended December 31 2014	For the Three Month Period Ended December 31 2013	For the Year Ended September 30 2014
Unrestricted revenues and other support			
Patient service and premium revenue, net	$ 495,531	$ 486,335	$ 1,895,603
Provision for uncollectible accounts	(14,040)	(18,228)	(77,359)
Net patient service and premium revenue	481,491	468,107	1,818,244
Investment earnings supporting current activities	9,250	8,750	35,000
Net assets released from restrictions used for operations	2,896	2,848	13,881
Other revenue	13,487	17,082	60,348
Total unrestricted revenues and other support	507,124	496,787	1,927,473
Expenses			
Salaries and benefits	256,910	245,222	975,278
Supplies, services, and other	157,722	145,291	600,091
Depreciation and amortization	26,739	28,402	116,628
Insurance	11,957	13,657	44,563
Medicaid assessment	9,233	25,062	52,763
Interest	1,635	1,802	7,119
Total expenses	464,196	459,436	1,796,442
Income from operations	42,928	37,351	131,031
Nonoperating income			
Dividend and interest income	10,163	6,478	32,893
Net realized gains on investments	15,799	26,756	76,414
Net unrealized (losses) gains on investments	(4,264)	29,219	23,701
Transfer of investment earnings supporting current activities	(9,250)	(8,750)	(35,000)
Other, net	(9,452)	(11,473)	(47,050)
Total nonoperating income	2,996	42,230	50,958
Revenue, gains, and other support in excess of expenses	45,924	79,581	181,989
Unrestricted net assets			
Revenue, gains, and other support in excess of expenses	45,924	79,581	181,989
Pension-related changes other than net periodic costs	-	101	(23,881)
Net assets released from restrictions used for capital	-	-	-
Other transfers, net	153	742	(2,167)
Increase in unrestricted net assets	46,077	80,424	155,941
Temporarily restricted net assets			
Contributions and other	4,820	1,863	11,663
Net realized gains on investments	5,727	3,476	9,274
Net unrealized (losses) gains on investments	(2,529)	4,264	7,261
Net assets released from restrictions	(2,896)	(2,848)	(13,881)
Increase in temporarily restricted net assets	5,122	6,755	14,317
Permanently restricted net assets			
Contributions	65	295	1,853
Increase in permanently restricted net assets	65	295	1,853
Increase in net assets	51,264	87,474	172,111
Net assets at beginning of period	2,177,934	2,005,823	2,005,823
Net assets at end of period	$ 2,229,198	$ 2,093,297	$ 2,177,934

See accompanying notes

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

	For the Three Month Period Ended December 31 2014	For the Three Month Period Ended December 31 2013	For the Year Ended September 30 2014
Operating activities			
Increase in net assets	$ 51,264	$ 87,474	$ 172,111
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Change in net unrealized losses (gains) on investments	6,793	(33,483)	(30,962)
Change in trading portfolio investments, net	(28,066)	(58,958)	(182,710)
Restricted contributions	(4,885)	(2,157)	(13,516)
Depreciation and amortization	26,739	28,402	116,628
Bond premium amortization	(22)	(22)	(88)
Pension-related changes other than net periodic cost	-	(101)	23,881
Provision for uncollectible accounts	14,040	18,228	77,359
Changes in operating assets and liabilities:			
Patient accounts receivable	(22,627)	(45,264)	(99,924)
Other Current Assets	(7,232)	35,234	45,361
Noncurrent assets and liabilities	37	8,712	(25,834)
Accounts payable and accrued expenses	22,247	(13,659)	5,079
Due (from) to third-party payors	(9,890)	17,847	11,320
Net cash provided by operating activities	48,398	42,253	98,705
Investing activities			
Investments in property and equipment, net	(26,822)	(14,168)	(108,392)
Acquisition of other long-term assets, net	-	-	-
Net cash used in investing activities	(26,822)	(14,168)	(108,392)
Financing activities			
Restricted contributions	4,885	2,157	13,516
Payments of long-term debt	-	-	(9,175)
Net cash provided by financing activities	4,885	2,157	4,341
Increase (Decrease) in cash and cash equivalents	26,461	30,242	(5,346)
Cash and cash equivalents at beginning of period	35,949	41,295	41,295
Cash and cash equivalents at end of period	$ 62,410	$ 71,537	$ 35,949

See accompanying notes

1. Organization and Basis of Presentation

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

NorthShore is the sole corporate member of NorthShore University HealthSystem Faculty Practice Associates (FPA), Radiation Medicine Institute (RMI), and NorthShore University HealthSystem Insurance International (Insurance International). FPA is the sole shareholder of NorthShore Physician Associates, Inc. (NPA). NPA is the sole shareholder of Community Care Partners (CCP). CCP was established in August 2014 to facilitate Medicaid managed care services provided to participants in a new program sponsored by the state of Illinois. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying consolidated financial statements include the accounts and transactions of NorthShore and its affiliates (collectively, the Corporation).

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

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

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.

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

2. New Accounting Pronouncements

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

In February 2013, the FASB issued ASU 2013-04, *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date.* The guidance in this update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following: a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2013. The Corporation adopted the new guidance on October 1, 2014, and there was no significant impact on the consolidated financial statements.

In April 2013, the FASB issued ASU 2013-06, *Services Received from Personnel of an Affiliate.* The objective of the amendment is to specify the guidance that not-for-profit entities apply for recognizing and measuring services. It requires that contributed services be recognized at fair value if employees of separately governed affiliated entities regularly perform services that create or enhance nonfinancial assets. This new guidance is effective for fiscal years beginning after June 15, 2014. The Corporation adopted the new guidance on October 1, 2014, and there was no significant impact on the consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, *Services Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.* The objective of the amendment is to eliminate the potential for differences in balance sheet presentation of deferred tax assets and unrecognized tax benefits. It requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2013. There is currently no expected impact to the Corporation as it only has net operating loss carryforwards that are fully reserved.

2. New Accounting Pronouncements (continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers.* The amendments in this update requires not-for-profit entities that are conduit bond obligors to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This will result in the Corporation making additional judgments, such as estimates of the collectability of revenue. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption not permitted. The Corporation is required to adopt the new guidance for the fiscal year beginning on October 1, 2016, and is currently evaluating the impact this guidance will have on the consolidated financial statements.

3. 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 19% as of December 31, 2014 and September 30, 2014. The Corporation's total reserve for self-pay accounts receivable, including allowance for uncollectible accounts and charity care, was 89% of self-pay accounts receivable at December 31, 2014 and 88% of self-pay accounts receivable at September 30, 2014.

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 December 31, 2014, total patient service revenue, net of contractual allowances and discounts, was $478,292 which included third-party payor revenue of $461,577 and self-pay revenue of $16,715. For the three months ended December 31, 2013, total patient service revenue, net of contractual allowances and discounts, was $469,504 which included third-party payor revenue of $433,326 and self-pay revenue of $36,178.

(Dollars in Thousands)

4. 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 within the fund. Investments held at cost are evaluated for impairment quarterly. No related investments were impaired for the three months ending December 31, 2014 or 2013 and accordingly, no impairment charge has been recorded in the respective periods.

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 December 31 2014	**As of September 30 2014**
Other short-term investments	**$ 1,026**	$ 1,037
Investments available for general use	**1,523,863**	1,506,470
Investments limited as to use:		
Current portion	**48,850**	48,750
All other (noncurrent)	**195,882**	192,002
Other noncurrent assets	**58,779**	55,997
Total investments	**$ 1,828,400**	$ 1,804,256

(Dollars in Thousands)

4. Investments (continued)

Total investment returns for the periods indicated are as follows:

	For the Three Months Ended December 31 2014	For the Three Months Ended December 31 2013	For the Year Ended September 30 2014
Nonoperating:			
Dividend and interest income	**$ 10,163**	$ 6,478	$ 32,893
Net realized gains on investments	**15,799**	26,756	76,414
Net unrealized (losses) gains on investments	**(4,264)**	29,219	23,701
Total nonoperating investment return	**21,698**	62,453	133,008
Temporarily restricted:			
Net realized gains	**5,727**	3,476	9,274
Net unrealized (losses) gains	**(2,529)**	4,264	7,261
Total temporarily restricted investment return	**3,198**	7,740	16,535
Total investment return	**$ 24,896**	$ 70,193	$ 149,543

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 achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). Actual returns in any given year may vary from expected.

4. Investments (continued)

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 December 31, 2014. The funded amount was $6 as of September 30, 2014.

5. Fair Value Measurements

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

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

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

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

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

Level 3 **–** 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

(Dollars in Thousands)

5. Fair Value Measurements (continued)

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 December 31, 2014, were as follows:

Nature of investment	**Level 1**	**Level 2**	**Level 3**	**Total**
Open-ended mutual funds	**$ 61,421**	**$ -**	**$ -**	**$ 61,421**
Domestic equity funds	**112,822**	**206,528**	**-**	**319,350**
International equity funds	**-**	**371,013**	**-**	**371,013**
Domestic equities	**145,670**	**-**	**-**	**145,670**
Real asset funds	**16,922**	**19,212**	**-**	**36,134**
Bond funds	**227,653**	**-**	**-**	**227,653**
Fixed income accounts	**-**	**148,249**	**-**	**148,249**
Treasury inflation protection securities	**-**	**-**	**-**	**-**
Total assets at fair value	**$ 564,488**	**$ 745,002**	**$ -**	**$ 1,309,490**

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

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

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

There were no transfers between Level 1, Level 2, and Level 3 assets in the three months ended December 31, 2014 or in the comparable period of fiscal year 2014.

Total investments at December 31, 2014 are $1,828,400. This amount includes $1,309,490 in investments recorded at fair value. In addition to total investments recorded at fair value, this amount includes $502,355 in limited partnerships and funds recorded at cost, $13,861 in limited partnerships recorded using the equity method, and other assets of $2,694 recorded at cost.

5. Fair Value Measurements (continued)

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

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

The estimated fair value of total debt was $377,772 at December 31, 2014 and $377,361 at September 30, 2014. 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.

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

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

The Series 1995 bonds are backed by an SBPA issued by a financial institution that expires on September 22, 2016. The Series 1996 bonds are backed by an SBPA issued by a financial institution that expires on October 10, 2015. In the event these bonds cannot be remarketed, the bond trustee will call the bonds and the bonds will become bank bonds held by the liquidity facility provider. The liquidity facility provider will hold the bonds for 367 days or until a replacement liquidity facility is secured. After the 367-day period, the bonds will begin to amortize over a three-year period. In the event an SBPA cannot be renewed or replaced, the liquidity facility provider will make a loan in the amount necessary to complete the mandatory tender of the bonds. The principal and interest on the loan will be amortized over three years.

(Dollars in Thousands)

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

The Corporation has two SBPAs in conjunction with the Series 2001B and 2001C bonds with financial institutions. The Series 2001B bonds are backed by an SBPA issued by a financial institution that expires on November 15, 2017. The Series 2001C bonds are backed by an SBPA issued by a financial institution that expires on November 15, 2016. In the event these bonds cannot be remarketed, the bond trustee will call the bonds and the bonds will become bank bonds held by the liquidity facility provider. The liquidity facility provider will hold the bonds for 367 days or until a replacement facility is secured. After the 367-day period, the bonds will begin to amortize over a three-year period. In the event an SBPA cannot be renewed or replaced, the liquidity provider will make a loan in the amount necessary to complete the mandatory tender of the bonds. The principal and interest on the loan will be amortized over three years.

The Corporation has an LOC backup facility with a financial institution in conjunction with the 2008 Pooled Program that expires on November 30, 2017. The LOC may be drawn upon by the trustee to make payments of principal and interest on maturing commercial paper in the event that an issuance of commercial paper does not roll over. Repayments on any liquidity advance received prior to the LOC expiration date will be made in equal quarterly installments beginning on the first subsequent quarter-end date.

The Corporation’s obligation to purchase the Series 1990A, 1992, and 1998 debt issues with self-liquidity upon optional or mandatory tender is not supported by a third-party liquidity facility; however, when outstanding, the Corporation maintains liquid assets to redeem their maturing obligations. During fiscal year 2013, the Corporation retired the 1985B and 1987A-E debt issues. As of December 31, 2014 and September 30, 2014, there were no bonds with self-liquidity outstanding with third parties.

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

	Final Maturity	As of December 31 2014	As of September 30 2014
1990A	2025	**$ 50,000**	$ 50,000
1992	2026	**50,000**	50,000
1998	2032	**50,000**	50,000
		$ 150,000	$ 150,000

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

(Dollars in Thousands)

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

The Corporation has various outstanding LOCs in connection with construction projects and property lease obligations, which amount to $1,608 as of December 31, 2014 and September 30, 2014. No amounts have been drawn against these LOCs.

For the years ending September 30, 2015, 2016, 2017, 2018, and 2019 remaining maturities of long-term debt, assuming remarketing of variable rate demand bonds (including an $88 bond premium), are $9,616, $9,998, $10,383, $10,793, and $21,193 respectively. The 2019 maturity amount of $21,193 includes a $10,000 principal repayment on the 1998 self-liquidity bonds that are held by the Corporation.

Interest paid for the three months ended December 31, 2014 and 2013, was $3,081 and $3,199 respectively. Interest of $306 and $171 was capitalized in the same periods, respectively. In addition, bond premium amortization was $22 for both the three months ended December 31, 2014 and 2013.

Total long-term debt is summarized as follows:

		Amortization			Outstanding Principal		Interest Rate	
		Amount	Years		December 31	September 30	December 31	September 30
Type/Issuer	**Series**	**Range**	**From**	**To**	**2014**	**2014**	**2014**	**2014**
Illinois Development Finance Authority Variable Rate Demand Revenue Bonds								
	2001B	$1,600 - $5,000	2015 -	2031	**$ 39,200**	$ 39,200	**0.02%**	0.03%
	2001C	1,600 - 5,000	2015 -	2031	**39,200**	39,200	**0.01%**	0.01%
Illinois Health Facilities Authority Variable Rate Adjustable Demand Revenue Bonds								
	1995	1,440 - 8,605	2015 -	2035	**44,480**	44,480	**0.03%**	0.04%
	1996	1,435 - 8,560	2015 -	2035	**44,515**	44,515	**0.06%**	0.06%
Illinois Educational Facilities Authority Commercial Paper Revenue Note								
	2008	995 - 13,305	2032 -	2038	**75,000**	75,000	**0.03%**	0.13%
Illinois Finance Authority Revenue Refunding Bonds								
	2010	825 - 9,685	2015 -	2037	**122,815**	122,815	**3.00% - 5.25%**	3.00% - 5.25%
	Total long-term debt				**365,210**	365,210		
	Less: current maturities of debt				**9,638**	9,638		
	Plus: 2010 bond premium (current and long-term)				**1,968**	1,990		
Total long-term debt less current maturities					**$ 357,540**	$ 357,562		

(Dollars in Thousands)

7. Employee Benefit Programs

The Corporation sponsored a funded, noncontributory, defined benefit pension plan (the NorthShore Plan), which was frozen to all participants on December 31, 2013. The Corporation sponsors a new defined contribution plan (New Plan), in which it enrolled new employees hired after January 1, 2013 and all employees as of January 1, 2014.

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

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 December 31		For the Year Ended September 30
	2014	**2013**	**2014**
Service cost	**$ -**	$ 5,367	$ 5,367
Interest cost	**4,879**	4,966	19,863
Expected return on plan assets	**(6,518)**	(6,201)	(24,806)
Prior service cost recognized	**-**	-	-
Actuarial loss	**612**	424	1,697
Special termination benefit	**-**	-	-
Net periodic pension benefit cost	**$ (1,027)**	$ 4,556	$ 2,121

The Corporation made no cash contributions during the three months ending December 31, 2014 and December 31, 2013. The funding policy is to contribute amounts to meet or exceed the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA).

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

8. Professional Liability Insurance

The Corporation has claims-made basis policies in excess of the amounts retained by the Corporation for professional and general liability claims. As of September 30, 2014 (beginning with policy year March 26, 2009), claims are subject to deductibles of $10,000 with a $15,000/$15,000 buffer layer. The estimated professional liability losses are calculated with the assistance of consulting actuaries and an accrual has been made for potential claims to be paid. The discounted reserve balance was $292,690 as of December 31, 2014 using a discount rate of 3% and $291,046 as of September 30, 2014 using a discount rate of 3%. Included in these amounts is a receivable for anticipated insurance recoveries of $18,046 as of December 31, 2014 and September 30, 2014. The undiscounted reserve balance would have been higher by approximately $34,362 as of December 31, 2014 and $34,169 as of September 30, 2014. The Corporation is not aware of any factors that would cause insurance expense to vary materially from the amounts provided. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently may not be insured.

9. Litigation and Contingencies

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

In August 2007, three individual private plaintiffs filed a purported antitrust class action lawsuit against the Corporation in Federal District Court in Chicago, Illinois, alleging anticompetitive price increases as a result of the Corporation’s January 2000 merger with HPH. In May 2008, an entity titled the Painters District Council No. 30 Health and Welfare Fund filed a nearly identical antitrust class action against the Corporation. All four of the separate suits have been consolidated into one action. On March 30, 2010, the District Court denied the plaintiffs’ motion for class certification. The plaintiffs appealed the District Court’s denial of class certification to the Seventh Circuit Court of Appeals, and on January 13, 2012, the Seventh Circuit issued an opinion that vacated the District Court’s decision and remanded the case back to the District Court for further proceedings. On April 4, 2012, the plaintiffs filed a renewed motion for class certification that the Corporation opposed on July 12, 2012. On December 10, 2013, the District court granted plaintiffs’ renewed motion for class certification. Fact and expert discovery is ongoing and a final resolution of the matter is not expected until 2015-2016 at the earliest.

The Corporation has denied all allegations within the plaintiffs’ complaints and intends to pursue its rights in defense of the claims. The Corporation is unable to predict the ultimate outcomes, including liability, if any, in this litigation; however, such liabilities could be material.

9. Litigation and Contingencies (continued)

On June 14, 2012, the State of Illinois enacted Illinois Public Act 97-0688, which includes provisions governing property and sales tax exemptions for Illinois non-profit hospitals. Based on initial interpretations and estimates, the Corporation believes that community benefits provided by each of their hospitals will exceed their respective tax assessments and, therefore, no property tax will be due for the tax years 2012, 2013, or 2014. On January 9, 2014, the Illinois Department of Revenue notified the Corporation that the Corporation's sales tax exemption was renewed under Illinois Public Act 97-0688.

Prior to the new legislation, the Corporation filed required applications seeking real estate tax-exempt status for certain of the Corporation's Skokie Hospital and related facilities, which were certified as tax-exempt as part of Rush North Shore Medical Center prior to the merger with the Corporation on January 1, 2009. These applications are now subject to the provisions of Illinois Public Act 97-0688 enacted on June 14, 2012. The Illinois Department of Revenue issued real estate tax exemption certificates, which have approved the Corporation's tax exemption filing for either full or partial exemption of the Skokie Hospital and related facilities for tax years 2009, 2010, 2011, and 2012. A local school district subsequently intervened in the Illinois Department of Revenue's certification and has requested a formal hearing before the Department of Revenue asserting that Public Act 97-0688 is unconstitutional. The Corporation is reviewing this request, and related proceedings are underway with the Department of Revenue.

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

10. Income Taxes

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

ASC 740-10 *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

10. Income Taxes (continued)

disclosures regarding unrecognized tax benefits. No amount was recorded for the periods ended December 31, 2014 or 2013.

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

11. Other Events

In September 2014, NorthShore entered into a merger and affiliation agreement with Advocate Health Care Network (Advocate) to form Advocate NorthShore Health Partners (ANHP), a 16 hospital system across 7 Illinois counties together with a broad network of clinically integrated employed and affiliated physicians. Both organizations believe this combination will create a preeminent health care system, focused on a patient centered, fully integrated, population health delivery model that will provide improved health care, with higher outcomes, and lower costs to patients of the communities the new organization will support.

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

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