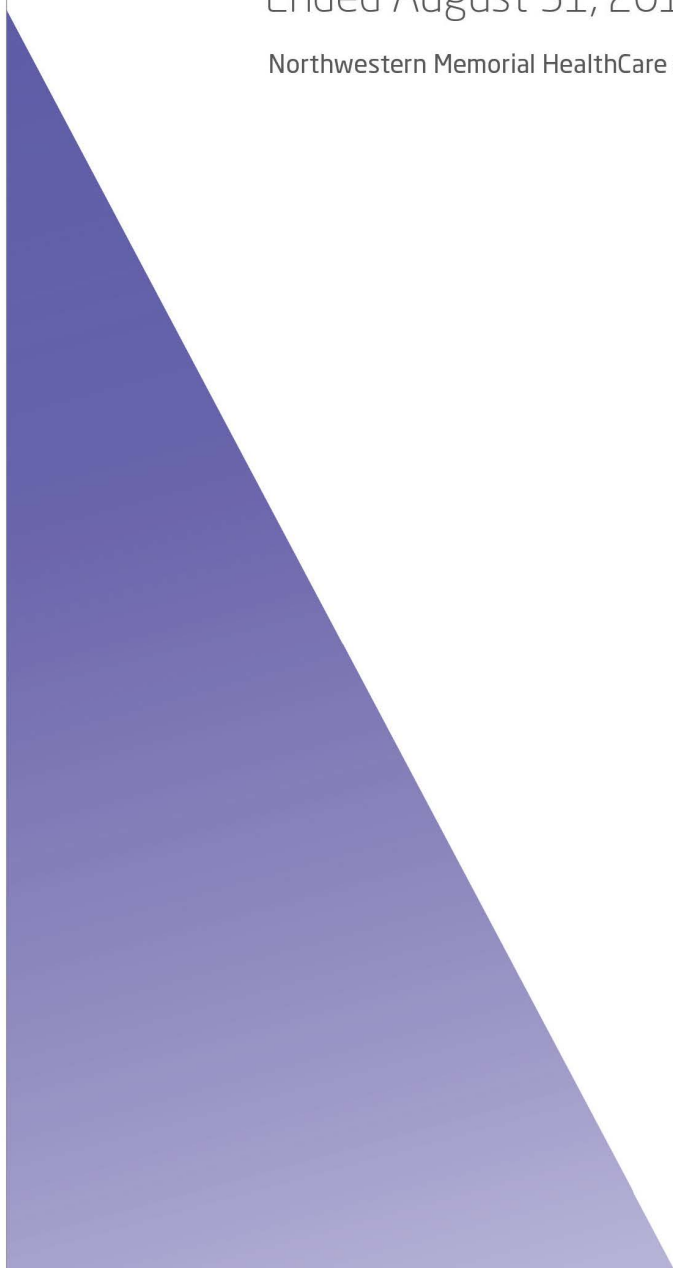




Quarterly Report

As of and for the Fourth Quarter
Ended August 31, 2017

Northwestern Memorial HealthCare and Subsidiaries



**NORTHWESTERN MEMORIAL HEALTH CARE
OFFICER'S CERTIFICATE**

Ladies and Gentlemen:

Pursuant to Section 411(A) of the Amended and Restated Master Trust Indenture dated as of May 1, 2004, as amended and supplemented, between Northwestern Memorial HealthCare ("NMHC") and Wells Fargo Bank, National Association (as successor to J.P. Morgan Trust Company, National Association), as master trustee, the undersigned does hereby certify that attached hereto is a true and correct copy of the balance sheet and statement of operations for NMHC and subsidiaries for the quarterly period ended August 31, 2017, subject to year-end adjustment in the final audited financial statements.

This 30th day of October, 2017.

NORTHWESTERN MEMORIAL HEALTHCARE

By: _____

Name: John A. Orsini

Title: Senior Vice President, CFO and
Treasurer

**NORTHWESTERN MEMORIAL HEALTHCARE
AND SUBSIDIARIES**
Unaudited Condensed Consolidated Financial Statements
As of and for the Fourth Quarter Ended August 31, 2017

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Forward-Looking Information:

Certain statements included or incorporated by reference in this report constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Northwestern Memorial HealthCare and Subsidiaries do not plan to issue any updates or revisions to those forward-looking statements if or when changes to its expectations, or events, conditions or circumstances on which such statements are based, occur.

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidated Balance Sheets
(Dollars in thousands)

	August 31, 2017	August 31, 2016
	(Unaudited)	Note A
Assets		
Current Assets:		
Cash and cash equivalents	\$ 258,463	\$ 218,163
Short-term investments	30,685	10,474
Current portion of investments, including assets limited as to use	136,352	296,029
Patient accounts receivable, net of estimated allowances for uncollectible accounts of \$223,411 at August 31, 2017 and \$174,234 at August 31, 2016	716,277	599,772
Current portion of pledges and grants receivable, net	24,561	20,121
Current portion of insurance recoverable	14,186	11,716
Inventories	64,443	60,338
Other current assets	154,752	139,159
Total current assets	1,399,719	1,355,772
Investments, including assets limited as to use, less current portion	5,490,526	4,843,924
Property and equipment, at cost:		
Land	347,036	348,841
Buildings	3,465,273	3,339,542
Equipment and furniture	1,166,884	1,017,617
Construction in progress	539,340	349,738
	5,518,533	5,055,738
Less accumulated depreciation	2,059,946	1,821,853
	3,458,587	3,233,885
Prepaid pension cost	118,562	43,488
Insurance recoverable, less current portion	69,706	64,339
Other assets, net	189,222	170,778
Total assets	\$ 10,726,322	\$ 9,712,186

Continued on next page.

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidated Balance Sheets (continued)
(Dollars in thousands)

	August 31, 2017	August 31, 2016
	(Unaudited)	Note A
Liabilities and net assets:		
Current Liabilities		
Accounts payable	\$ 230,588	\$ 237,282
Accrued salaries and benefits	314,163	304,521
Grants and academic support payable, current portion	38,753	50,753
Accrued expenses and other current liabilities	115,254	164,279
Due to third-party payors	434,965	406,123
Current accrued liabilities under self-insurance programs	94,256	89,789
Current maturities of long-term debt	30,239	29,565
Short-term debt	87,299	—
Long-term debt subject to short-term remarketing agreements	—	318,795
Total current liabilities	1,345,517	1,601,107
Long-term debt, less current maturities	1,324,776	1,077,180
Accrued liabilities under self-insurance programs, less current portion	495,709	495,352
Grants and academic support payable, less current portion	79,469	98,937
Interest rate swaps	112,586	150,107
Other liabilities	143,428	139,910
Total liabilities	3,501,485	3,562,593
Net assets:		
Unrestricted:		
Undesignated	6,602,984	5,556,407
Board-designated	229,455	221,750
Non-controlling interest in consolidated venture	(3,599)	(2,244)
Total unrestricted	6,828,840	5,775,913
Temporarily restricted	220,917	211,769
Permanently restricted	175,080	161,911
Total net assets	7,224,837	6,149,593
Total liabilities and net assets	\$ 10,726,322	\$ 9,712,186

Note A: The August 31, 2016 financial statement information was derived from and should be read in conjunction with the Northwestern Memorial HealthCare and Subsidiaries 2016 audited consolidated financial statements.

See accompanying notes to the interim condensed consolidated financial statements.

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidated Statements of Operations and Changes in Net Assets
(Unaudited)
(Dollars in thousands)

	Three Months Ended August 31,		Twelve Months Ended August 31,	
	2017	2016	2017	2016
Revenue				
Net patient service revenue	\$ 1,205,693	\$ 1,100,776	\$ 4,749,433	\$ 4,236,441
Provision for uncollectible accounts	78,099	39,201	202,047	154,860
Net patient service revenue after provision for uncollectible accounts	1,127,594	1,061,575	4,547,386	4,081,581
Rental and other revenue	66,589	52,205	256,362	251,852
Net assets released from donor restrictions and federal and state grants	9,087	11,099	27,248	26,440
Total revenue	1,203,270	1,124,879	4,830,996	4,359,873
Expenses				
Salaries	506,664	464,178	1,969,531	1,769,381
Employee benefits	70,100	80,995	297,842	296,776
Supplies	237,812	203,924	877,030	759,795
Purchased services	172,241	158,272	538,642	476,344
Depreciation and amortization	79,767	50,232	287,149	273,778
Insurance	24,925	31,329	104,578	108,793
Rent and utilities	24,774	24,374	91,307	83,612
Repairs and maintenance	35,565	38,963	88,331	87,377
Interest	9,666	12,678	44,106	53,243
Illinois Hospital Assessment	25,671	21,791	103,362	84,484
Other	28,131	28,096	127,949	126,919
Total expenses	1,215,316	1,114,832	4,529,827	4,120,502
Operating (loss) income	(12,046)	10,047	301,169	239,371
Nonoperating gains (losses)				
Investment return	126,590	162,165	655,269	155,708
Change in fair value of interest rate swaps	(2,508)	(16,176)	37,521	(37,212)
Contribution of KishHealth unrestricted net assets	—	(6,196)	—	347,003
Contribution of Marianjoy unrestricted net assets	—	(2,147)	—	42,964
Loss on extinguishment of long term debt	(134)	—	(216)	(4,030)
Grants and academic support provided	(8,149)	(14,100)	(20,172)	(26,748)
Other	4,180	7,049	9,291	1,792
Total nonoperating gains, net	119,979	130,595	681,693	479,477
Excess of revenue over expenses	107,933	140,642	982,862	718,848
Net (loss) gain attributable to non-controlling interest in subsidiaries	(123)	275	(703)	698
Excess of revenue over expenses attributable to NMHC and Subsidiaries	\$ 108,056	\$ 140,367	\$ 983,565	\$ 718,150

Continued on next page.

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidated Statements of Operations and Changes in Net Assets (continued)
(Unaudited)
(Dollars in thousands)

	Three Months Ended August 31,					
	2017			2016		
	Total	Controlling	Non- controlling	Total	Controlling	Non- controlling
Unrestricted net assets						
Excess (deficiency) of revenue over expenses	\$ 107,933	\$ 108,056	\$ (123)	\$ 140,642	\$ 140,367	\$ 275
Net assets released from restrictions used for property and equipment additions	1,675	1,675	—	6,523	6,523	—
Postretirement-benefit-related changes other than net periodic pension cost	60,830	60,830	—	(81,746)	(81,746)	—
Other	(234)	151	(385)	290	609	(319)
Increase (decrease) in unrestricted net assets	170,204	170,712	(508)	65,709	65,753	(44)
Temporarily restricted net assets						
Contributions	12,358	12,358	—	11,565	11,565	—
Investment return	3,707	3,707	—	3,268	3,268	—
Net assets released from restrictions used for:						
Operating expenses, charity care, research and education	(13,217)	(13,217)	—	(12,357)	(12,357)	—
Property and equipment additions	(1,675)	(1,675)	—	(6,523)	(6,523)	—
Change in fair value of split-interest agreements	(195)	(195)	—	1,115	1,115	—
Other	(3,787)	(3,787)	—	(1,217)	(1,217)	—
Increase in temporarily restricted net assets	(2,809)	(2,809)	—	(4,149)	(4,149)	—
Permanently restricted net assets						
Contributions	2,257	2,257	—	45	45	—
Change in fair value of split-interest agreements	548	548	—	206	206	—
Other	3,897	3,897	—	(139)	(139)	—
Increase in permanently restricted net assets	6,702	6,702	—	112	112	—
Change in net assets	174,097	174,605	(508)	61,672	61,716	(44)
Net assets, beginning of period	7,050,740	7,053,831	(3,091)	6,087,921	6,090,121	(2,200)
Net assets, end of period	<u>\$ 7,224,837</u>	<u>\$ 7,228,436</u>	<u>\$ (3,599)</u>	<u>\$ 6,149,593</u>	<u>\$ 6,151,837</u>	<u>\$ (2,244)</u>

Continued on next page.

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidated Statements of Operations and Changes in Net Assets
(Unaudited)
(Dollars in thousands)

	Twelve Months Ended August 31,					
	2017			2016		
	Total	Controlling	Non- controlling	Total	Controlling	Non- controlling
Unrestricted net assets						
Excess (deficiency) of revenue over expenses	\$ 982,862	\$ 983,565	\$ (703)	\$ 718,848	\$ 718,150	\$ 698
Net assets released from restrictions used for property and equipment additions	6,279	6,279	—	15,858	15,858	—
Postretirement benefit-related changes other than net periodic pension cost	64,884	64,884	—	(81,400)	(81,400)	—
Initial value of non-controlling interests in acquired companies	—	—	—	1,141	—	1,141
Distribution to non-controlling interest	(785)	—	(785)	(1,787)	—	(1,787)
Other	(313)	(446)	133	407	1,132	(725)
Increase (decrease) in unrestricted net assets	1,052,927	1,054,282	(1,355)	653,067	653,740	(673)
Temporarily restricted net assets						
Contributions	44,892	44,892	—	39,411	39,411	—
Investment return	14,051	14,051	—	12,585	12,585	—
Net assets released from restrictions used for:						
Operating expenses, charity care, research and education	(34,859)	(34,859)	—	(28,873)	(28,873)	—
Property and equipment additions	(6,279)	(6,279)	—	(15,858)	(15,858)	—
Change in fair value of split-interest agreements	147	147	—	261	261	—
Contribution of KishHealth restricted net assets	—	—	—	788	788	—
Contribution of Marianjoy restricted net assets	—	—	—	3,365	3,365	—
Other	(8,804)	(8,804)	—	(1,339)	(1,339)	—
Increase in temporarily restricted net assets	9,148	9,148	—	10,340	10,340	—
Permanently restricted net assets						
Contributions	5,609	5,609	—	1,330	1,330	—
Change in fair value of split-interest agreements	775	775	—	(778)	(778)	—
Contribution of KishHealth restricted net assets	—	—	—	601	601	—
Other	6,785	6,785	—	(17)	(17)	—
Increase in permanently restricted net assets	13,169	13,169	—	1,136	1,136	—
Change in net assets	1,075,244	1,076,599	(1,355)	664,543	665,216	(673)
Net assets, beginning of period	6,149,593	6,151,837	(2,244)	5,485,050	5,486,621	(1,571)
Net assets, end of period	\$ 7,224,837	\$ 7,228,436	\$ (3,599)	\$ 6,149,593	\$ 6,151,837	\$ (2,244)

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Twelve Months Ended August 31,	
	2017	2016
Operating activities		
Change in net assets	\$ 1,075,244	\$ 664,543
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Postretirement benefit-related changes other than net periodic pension cost	(60,904)	81,400
Change in fair value of interest rate swaps	(37,521)	37,212
Loss on extinguishment of long-term debt	216	4,030
Net unrestricted realized investment return and net change in unrestricted and restricted unrealized investment gains/losses	(657,573)	(156,791)
Restricted contributions, change in fair value of split interest agreements, and realized investment return	(63,170)	(51,848)
Contribution of KishHealth net assets less non-controlling interest	—	(349,533)
Contribution of Marianjoy net assets	—	(46,329)
Depreciation and amortization	287,149	273,778
Provision for uncollectible accounts	202,047	154,860
Changes in operating assets and liabilities:		
Patient accounts receivable	(318,552)	(217,814)
Due to third-party payors	29,161	8,169
Grants and academic support payable	(31,468)	(50,753)
Other operating assets and liabilities	(42,744)	38,494
Net cash provided by operating activities	381,885	389,418
Investing activities		
Purchase of trading securities	(2,501,222)	(1,653,436)
Sale of trading securities	2,456,759	1,595,003
Cash received from contribution of KishHealth	—	40,535
Cash paid for Marianjoy	—	(35,412)
Net unrestricted realized investment return	194,902	63,123
Capital expenditures, net	(512,804)	(461,614)
Net cash used in investing activities	(362,365)	(451,801)
Financing activities		
Proceeds from line of credit	45,000	59,750
Proceeds from commercial paper	87,299	—
Proceeds from issuance of long-term debt	—	80
Payments of line of credit	(104,750)	—
Payments of long-term debt	(69,939)	(89,445)
Restricted contributions, change in fair value of split interest agreements, and realized investment return	63,170	51,848
Net cash provided by financing activities	20,780	22,233
Net increase (decrease) in cash and cash equivalents	40,300	(40,150)
Cash and cash equivalents, beginning of period	218,163	258,313
Cash and cash equivalents, end of the period	\$ 258,463	\$ 218,163

See accompanying notes to the interim condensed consolidated financial statements.

**As of and for the Fourth Quarter Ended
August 31, 2017**

1. Organization and Basis of Presentation

Northwestern Memorial HealthCare (NMHC) is the parent of an integrated nonprofit health care organization, anchored by Northwestern Memorial Hospital (NMH) and Northwestern Medical Group (NMG), that provides health care services to communities in northern Illinois. NMHC partners with Northwestern University's Feinberg School of Medicine (FSM) to form an academic medical center, branded as Northwestern Medicine, that is shaping the future of medicine through outstanding patient care, research and training of resident physicians.

The accompanying condensed consolidated financial statements include the accounts of NMHC and its subsidiaries (collectively referred to herein as Northwestern Memorial). All significant intercompany transactions and balances have been eliminated in consolidation.

These interim financial statements have not been audited; however, in the opinion of management, they include all adjustments necessary for their fair presentation in conformity with U.S. generally accepted accounting principles (U.S. GAAP). These interim statements have been prepared on a basis that is substantially consistent with the accounting principles applied in the audited consolidated financial statements of Northwestern Memorial for the year ended August 31, 2016.

Interim results are not necessarily indicative of results for a full year or any future periods. The information included in these interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2016, which are available on the Electronic Municipal Market Access ("EMMA") website of the Municipal Securities Rulemaking Board.

2. Reclassifications and Change in Accounting Estimates

Certain reclassifications have been made to the 2016 condensed consolidated financial statements to conform with classifications used in 2017. The reclassifications had no effect on the changes in net assets previously reported.

In 2016, NMHC extended the useful lives of certain assets based on an independent assessment. This resulted in a reduction of depreciation expense of \$35,898 for the three and twelve month periods ended August 31, 2016, as compared to the depreciation expense computed using former lives. Management estimated that this extension of the useful lives reduced depreciation expenses by approximately \$9,000 and \$36,000 for the three and twelve month periods ended August 31, 2017.

3. Adoption of Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 requires an entity to recognize revenue for the transfer of promised goods or services to customers in an amount

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements *(continued)*
(Unaudited and in thousands)

that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and disclose sufficient information to enable the financial statement users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, which defers the effective date to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. This ASU allows two alternative methods for application: either retrospectively to each reporting period presented or a modified retrospective approach with a cumulative effect adjustment to net assets at the date of initial application. Northwestern Memorial is evaluating the effect this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to existing accounting standards. The guidance also eliminates current real estate-specific provisions for all entities. This new guidance is effective for Northwestern Memorial for the fiscal years and interim periods within those fiscal years beginning after December 15, 2018, with early adoption permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited. Northwestern Memorial is currently evaluating the effect 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*. ASU 2016-14 will change certain financial statement requirements for not-for-profit (NFP) entities in the scope of Topic 958 in an effort to make the information more meaningful to users and make reporting less complex. NFP entities will no longer be required to distinguish between resources with temporary and permanent restrictions on the face of the financial statements. Additionally, NFP entities will be required to present expenses by their natural and functional classification and present investment returns net of external and direct internal investment expenses. This new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. This guidance is to be applied retrospectively and early adoption is permitted. Northwestern Memorial is currently evaluating the effect this guidance will have on its consolidated financial statements.

4. Acquisitions

Affiliation with KishHealth

On December 1, 2015, KishHealth System (KishHealth) became a wholly owned subsidiary of NMHC pursuant to an affiliation agreement between NMHC and KishHealth. This affiliation positions Northwestern Memorial, under the Northwestern Medicine brand, to expand its integrated academic health delivery system to DeKalb County, offering patients access to leading-edge care closer to where they live and work.

The affiliation was effected through a membership substitution with no consideration paid. For accounting purposes, this transaction is considered an acquisition under Accounting Standards Codification (ASC) 958-805, *Not-for-Profit Entities: Business Combinations*, and a contribution was recorded for the fair value of assets, net of liabilities of KishHealth. No goodwill has been recorded as a result of this transaction.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

The acquisition-date fair value of identifiable assets and liabilities of KishHealth at December 1, 2015, consisted of the following:

Fair value of identifiable net assets:	
Cash and cash equivalents	\$ 40,535
Other current assets	210,407
Property and equipment	166,399
Other long-term assets	83,812
Current liabilities	(66,218)
Long-term debt	(74,025)
Other long-term liabilities	(11,377)
Noncontrolling interested in unrestricted net assets	(1,141)
Temporarily restricted net assets	(788)
Permanently restricted net assets	(601)
Contribution of unrestricted net assets	<u>\$ 347,003</u>

The valuation of property and equipment; other current and long-term assets, including identifiable intangible assets and current and long-term liabilities has been completed. In valuing these assets and liabilities, fair values were based on, but not limited to, independent appraisals, discounted cash flows, replacement costs and actuarially determined values.

Operating expenses for the year ended August 31, 2016, include costs related to the integration of KishHealth into Northwestern Memorial, including transition costs of benefit plans, incentive plans and operating programs with other health practitioners, as well as costs of valuation and integration consulting.

Affiliation with Marianjoy

On March 1, 2016, Marianjoy, Inc. (Marianjoy) became a wholly owned subsidiary of NMHC pursuant to a Member Substitution Agreement and Real Estate Purchase Agreement (collectively, the acquisition) between NMHC and Marianjoy's corporate parent, Wheaton Franciscan Services, Inc. (WFSI). This acquisition expands the offerings of Northwestern Memorial, under the Northwestern Medicine brand, to include physical medicine and rehabilitation care in DuPage County and surrounding areas.

Under these agreements, NMHC transferred \$35,412 to WFSI in exchange for Marianjoy's unrestricted net assets at the time of closing less Marianjoy's debt and cash, which were not acquired, and land purchased from WFSI. For accounting purposes, this transaction is considered an acquisition under ASC 958-805.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

The acquisition-date fair value of identifiable assets and liabilities of Marianjoy at March 1, 2016, consisted of the following:

Fair value of identifiable net assets:	
Other current assets	\$ 13,385
Property and equipment	68,996
Other long-term assets	3,921
Current liabilities	(4,561)
Temporarily restricted net assets	<u>(3,365)</u>
	78,376
Less consideration paid	<u>(35,412)</u>
Contribution of unrestricted net assets	<u><u>\$ 42,964</u></u>

The valuation of property and equipment, other current and long-term assets, including identifiable intangible assets, current and long-term liabilities and non-controlling interest has been completed. In valuing these assets and liabilities acquired, fair values were based on, but not limited to independent appraisals, discounted cash flows, replacement costs and actuarially determined values.

Operating expenses for the year ended August 31, 2016, include costs related to the integration of Marianjoy into Northwestern Memorial, including transition costs of benefit plans, incentive plans and operating programs with other health practitioners, as well as costs of valuation and integration consulting.

Following are the unaudited operating results and changes in net assets attributable to KishHealth and Marianjoy for the three and twelve month periods ended August 31, 2017 included in the accompanying condensed consolidated statements of operations and changes in net assets:

	<u>Three Months</u>	<u>Twelve Months</u>
Total operating revenue	\$ 96,991	\$ 375,624
Excess of revenue over expenses	3,193	37,410
Change in unrestricted net assets	9,468	43,521
Change in temporarily restricted net assets	(1,071)	(126)

Following are the unaudited supplemental pro forma operating results of Northwestern Memorial for the twelve month period ended August 31, 2016 as if the KishHealth and Marianjoy affiliations had occurred on September 1, 2015:

	<u>Twelve Months</u>
Total operating revenue	\$ 4,470,588
Operating income	244,997
Excess of revenue over expenses attributable to NMHC and subsidiaries	329,608

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

The pro forma information provided should not be construed to be indicative of Northwestern Memorial's results of operations had the acquisition been consummated on September 1, 2015, and is not intended to project Northwestern Memorial's results of operations for any future period.

5. Investments and Other Financial Instruments

The composition of investments, including assets limited as to use, and cash and cash equivalents and short-term investments, is as follows:

	August 31, 2017	August 31, 2016
Measured at fair value:		
Cash and short-term investments	\$ 321,507	\$ 351,099
Mutual funds	228,599	415,364
Corporate bonds	312,980	143,740
U.S. government and agency issues	268,858	264,074
Equity securities	220,543	234,344
Other fixed income	13,393	202
	1,365,880	1,408,823
Measured at net asset value as practical expedient:		
Common collective trusts and commingled funds	685,948	703,072
Interest in 103-12 investment entities	291,304	232,998
	977,252	936,070
Accounted for under the equity method:		
Alternative investments	3,572,894	3,023,697
	\$ 5,916,026	\$ 5,368,590

Investments, including assets limited as to use, and cash and cash equivalents and short-term investments, consist of the following:

	August 31, 2017	August 31, 2016
Assets limited as to use:		
Trustee-held funds	\$ 67,082	\$ 90,473
Self-insurance programs	579,780	572,661
Board-designated funds	181,417	176,268
Total assets limited as to use	828,279	839,402
Donor-restricted funds	337,025	319,544
Unrestricted, undesignated funds	4,461,574	3,981,007
Total investments, excluding short-term investments	5,626,878	5,139,953
Other financial instruments:		
Cash and cash equivalents and short-term investments	289,148	228,637
	\$ 5,916,026	\$ 5,368,590

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

The composition and presentation of investment returns are as follows:

	Three Months Ended August 31,		Twelve Months Ended August 31,	
	2017	2016	2017	2016
Interest and dividend income	\$ 6,343	\$ 7,735	\$ 25,135	\$ 39,222
Investment expenses	(1,985)	(1,124)	(5,613)	(4,516)
Realized gains/(losses) on alternative investments, net	53,037	7,308	123,759	34,924
Realized gains on other investments, net	24,340	(3,572)	62,870	4,565
Unrealized gains/(losses) on alternative investments	42,126	89,122	348,167	18,886
Unrealized gains on other investments	6,251	68,509	115,062	76,705
Change in value of joint ventures	262	(2,095)	497	428
	<u>\$ 130,374</u>	<u>\$ 165,883</u>	<u>\$ 669,877</u>	<u>\$ 170,214</u>
Reported as:				
Rental and other revenue	\$ 77	\$ 450	\$ 557	\$ 1,921
Nonoperating investment return	126,590	162,165	655,269	155,708
Temporarily restricted - investment return	3,707	3,268	14,051	12,585
	<u>\$ 130,374</u>	<u>\$ 165,883</u>	<u>\$ 669,877</u>	<u>\$ 170,214</u>

Northwestern Memorial's investments measured at fair value include mutual funds; common equities; corporate and US government debt issues; state, municipal and foreign government debt issues; commingled funds; common collective trusts; and 103-12 entities.

Commingled investments, common collective trusts and 103-12 entities are commingled funds formed from the pooling of investments under common management. Unlike a mutual fund, these investments are not registered investment companies and, therefore, are exempt from registering with the Securities and Exchange Commission.

The investment strategy for the mutual funds, commingled funds, common collective trusts and 103-12 entities involves maximizing the overall long-term return by investing in a wide variety of assets, including domestic large cap equities, domestic small cap equities, international developed equities, blended equities, (i.e. a mix of domestic and international equities), natural resources and private investment limited partnerships (LPs).

Northwestern Memorial's non-pension plan investments measured under the equity method of accounting include absolute return hedge funds, equity long/short hedge funds, real estate, natural resources and LPs, collectively referred to as alternative investments. Alternative investments in the pension plan assets are measured at fair value.

Absolute return hedge funds include funds with the ability to opportunistically allocate capital among several strategies. Generally, these funds diversify across strategies in an effort to deliver consistently

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements *(continued)*
(Unaudited and in thousands)

positive returns regardless of the movement within global markets, exhibit relatively low volatility and are redeemable quarterly with a 60-day notice period. Equity long/short hedge funds include hedge funds that invest both long and short in U.S. and international equities. These funds typically focus on diversifying or hedging across particular sectors, regions or market capitalizations and are generally redeemable quarterly with a 60-day notice period. Absolute return and equity long/short managers are redeemable quarterly or annually with a 45- to 90-day notice period.

Real estate includes LPs that invest in land and buildings and seek to improve property level operations by increasing lease rates, recapitalizing properties, rehabilitating aging/distressed properties, and repositioning properties to maximize revenue. Real estate LPs typically use moderate leverage. Natural resources include a diverse set of LPs that invest in oil and natural gas-related companies, commodity-oriented companies, and timberland. Private equity includes LPs formed to make equity and debt investments in operating companies that are not publicly traded. These LPs typically seek to influence decision-making within the operating companies. Investment strategies in this category may include venture capital, buyouts and distressed debt. These three categories of investments cannot be redeemed with the funds. Distributions from each fund will be received as the underlying assets of the fund are expected to be liquidated periodically over the lives of the LPs, which generally run 10 to 12 years.

Because of the timing of the preparation and delivery of financial statements for limited partnership investments, the use of the most recently available financial statements provided by the general partners results in a quarter delay in the inclusion of the limited partnership results in Northwestern Memorial's statements of operations and changes in net assets. Due to this delay, these financial statements do not yet reflect the market conditions experienced in the last two months of the fourth quarter of fiscal 2017 for the limited partnerships that are reported under the fair value option.

As of August 31, 2017, \$2,732,171 of alternative investments is subject to various redemption limits and lockup provisions, of which \$2,172,743 expires within one year and \$559,428 expires after one year from the balance sheet date.

At August 31, 2017, Northwestern Memorial had commitments to fund approximately an additional \$945,000 to alternative investment entities. This funding is expected to occur over the next 12 years.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements *(continued)*
(Unaudited and in thousands)

6. Fair Value Measurements

Northwestern Memorial follows the requirements of ASC 820, *Fair Value Measurement*, in regards to measuring the fair value of certain assets and liabilities as well as disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received for an asset or paid for a transfer of a liability in an orderly transaction on the measurement date.

The methodologies used to determine the fair value of assets and liabilities reflect market participant objectives and are based on the application of a three-level valuation hierarchy that prioritizes observable market inputs over unobservable inputs. The three levels are defined as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Examples of level 2 inputs are quoted prices for similar assets or liabilities in inactive markets or pricing models with inputs that are observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are significant to the fair value of the asset or the liability and less observable. These inputs reflect the assumptions market participants would use in the estimation of the fair value of the asset or liability.

Fair Values

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

The following table presents the financial instruments measured at fair value on a recurring basis at August 31, 2017:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 258,463	\$ —	\$ —	\$ 258,463
Investments:				
Short-term investments:				
Currency	27	—	—	27
Fixed Income	30,658	—	—	30,658
Total short-term investments	30,685	—	—	30,685
Mutual funds:				
Fixed income	98,130	—	—	98,130
U.S. equities	130,469	—	—	130,469
Total mutual funds	228,599	—	—	228,599
Other fixed income	—	13,393	—	13,393
Bonds:				
Corporate bonds	—	312,980	—	312,980
U.S. government and agencies' issues	—	268,858	—	268,858
Total bonds	—	581,838	—	581,838
Equity securities	220,037	506	—	220,543
Cash equivalents in investment accounts	32,359	—	—	32,359
Total investments	511,680	595,737	—	1,107,417
Beneficial interest in trusts	—	14,203	—	14,203
Total assets	<u>\$ 770,143</u>	<u>\$ 609,940</u>	<u>\$ —</u>	<u>\$ 1,380,083</u>
Investments recorded at fair value based on NAV				977,252
Total assets measured at fair value				<u>\$ 2,357,335</u>
Liabilities:				
Interest rate swaps	\$ —	\$ 112,586	\$ —	\$ 112,586

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

The following table presents the financial instruments measured at fair value on a recurring basis at August 31, 2016:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 218,163	\$ —	\$ —	\$ 218,163
Investments:				
Short-term investments:				
Currency	27	—	—	27
Fixed Income	10,447	—	—	10,447
Total short-term investments	10,474	—	—	10,474
Mutual funds:				
Fixed income	212,714	—	—	212,714
International equities	9,431	—	—	9,431
U.S. equities	193,219	—	—	193,219
Total mutual funds	415,364	—	—	415,364
Other fixed income	—	202	—	202
Bonds:				
Corporate bonds	—	143,740	—	143,740
U.S. government and agencies' issues	—	264,074	—	264,074
Total bonds	—	407,814	—	407,814
Equity securities	233,927	417	—	234,344
Cash equivalents in investment accounts	122,462	—	—	122,462
Total investments	782,227	408,433	—	1,190,660
Beneficial interest in trusts	—	13,181	—	13,181
Total assets	<u>\$ 1,000,390</u>	<u>\$ 421,614</u>	<u>\$ —</u>	<u>\$ 1,422,004</u>
Investments recorded at fair value based on NAV				936,070
Total assets measured at fair value				<u>\$ 2,358,074</u>
Liabilities:				
Interest rate swaps	\$ —	\$ 150,107	\$ —	\$ 150,107

There were no transfers into or out of Level 1 or Level 2 during the twelve months ended August 31, 2017 or the year ended August 31, 2016.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

Reconciliation to the Condensed Consolidated Balance Sheets

A reconciliation of the fair value of financial assets to the condensed consolidated balance sheets at August 31, 2017 and August 31, 2016 is as follows:

	<u>August 31, 2017</u>	<u>August 31, 2016</u>
Short-term investments measured at fair value	\$ 30,685	\$ 10,474
Investments, including assets limited as to use measured at fair value	2,053,984	2,116,256
Total investments at fair value	2,084,669	2,126,730
Alternative investments accounted for under equity method included in investments, including assets limited as to use	3,572,894	3,023,697
Total investments	<u>\$ 5,657,563</u>	<u>\$ 5,150,427</u>
Other long-term assets:		
Beneficial interests in trusts at fair value	\$ 14,203	\$ 13,181
Other long-term assets, net	175,019	157,597
Total other long-term assets, net	<u>\$ 189,222</u>	<u>\$ 170,778</u>

Valuation Techniques and Inputs

Beneficial Interests in Trusts - The fair value of beneficial interests in trusts is based on Northwestern Memorial Foundation's (the Foundation) percentage of the fair value of the trusts' assets adjusted for any outstanding liabilities (discounted using a rate per Internal Revenue Service (IRS) regulations), based on each trust arrangement.

Interest Rate Swaps - The fair value of interest rate swaps is based on generally accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative and quoted prices from dealer counterparties and other independent market sources. The valuation incorporates observable interest rates and yield curves for the full term of the swaps. The valuation is also adjusted to incorporate nonperformance risk for NMHC or the respective counterparty. The adjustment is based on the credit spread for entities with similar credit characteristics as NMHC or market-related data for the respective counterparty. Northwestern Memorial pays various fixed rates and receives cash flows based on rates equal to a percentage of the London Interbank Offered Rate (LIBOR) plus a spread for certain interest rate swaps.

Investments - The fair value of Level 1 investments, which consist of equity securities and mutual funds, is based on quoted market prices that are valued on a daily basis. Level 2 investments consist of U.S. government securities, corporate bonds, commingled funds, common collective trusts, interest in 103-12 entities and fixed income instruments issued by municipalities and foreign government agencies. The fair value of the U.S. government and agency securities and corporate bonds is established based on values obtained from nationally recognized pricing services that value the investments based on similar securities and matrix pricing of similar quality and maturity securities.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements *(continued)*
(Unaudited and in thousands)

The fair values of commingled funds, common collective trusts and 103-12 entities are based on the ownership interest in the net asset value (NAV) per share or its equivalent, of the respective fund.

Northwestern Memorial's investments are exposed to various kinds and levels of risk. Equity securities and equity mutual funds expose Northwestern Memorial to market risk, performance risk and liquidity risk. Market risk is the risk associated with major movements of the equity markets. Performance risk is that risk associated with a company's operating performance. Fixed income securities and fixed income mutual funds expose Northwestern Memorial to interest rate risk, credit risk and liquidity risk. As interest rates change, the value of many fixed income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities. Liquidity risk tends to be higher for equities related to small capitalization companies and certain alternative investments. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value, resulting in additional gains and losses in the near term.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities and short-term borrowings are reasonable estimates of their fair values due to their short-term nature.

The fair value of the long-term debt portfolio, including the current portion, was \$1,414,681 at August 31, 2017 and \$1,527,365 at August 31, 2016. The fair value of this Level 2 liability is based on quoted market prices for the same or similar issues and the relationship of those bond yields with various market indices. The market data used to determine yield and calculate fair value represents Aa/AA-rated tax-exempt municipal health care bonds. The effect of third-party credit valuation adjustments, if any, is immaterial.

The fair value of pledges receivable, a Level 2 asset, is based on discounted cash flow analysis and approximates the carrying value of \$42,241 and \$40,343 at August 31, 2017 and August 31, 2016, respectively.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

7. Long-Term Debt

Long-term debt consists of the following:

	August 31, 2017	August 31, 2016
Revenue Bonds, Series 2015A and 2015B (KishHealth System), payable in monthly installments through March 1, 2035 (fixed coupon rate of 2.80%)	\$ 11,158	\$ 11,642
Revenue Bonds, Series 2013 (NMHC), payable in annual installments beginning August 15, 2031 through August 15, 2043 (fixed coupon rates from 4.00% to 5.00%)	111,235	111,235
Revenue Bonds, Series 2011A and 2011B (CDH), with interest at a variable rate payable in annual installments through November 1, 2038, (weighted average interest rate of 0.98% and 0.67% for the twelve months ended August 31, 2017 and 2016, respectively)	116,300	117,950
Revenue Bonds, Series 2011C (Delnor), with interest at a variable rate payable in annual installments through November 1, 2038, (weighted average interest rate of 0.92% and 0.78% for the twelve months ended August 31, 2017 and 2016, respectively)	56,595	57,070
Revenue Bonds, Series 2009A (NMH), payable in annual installments through August 15, 2039 (fixed coupon rates range from 5.00% to 6.00%)	291,760	299,220
Revenue Bonds, Series 2009B (NMH), payable in annual installments through August 15, 2030 (fixed coupon rates range from 5.00% to 5.75%)	37,700	39,930
Revenue Bonds, Series 2009 (CDH) payable in annual installments through November 1, 2039 (fixed coupon rates range from 5.00% to 5.25%)	84,165	86,255
Revenue Bonds, Series 2009B (CDH) payable in annual installments through November 1, 2039 (fixed coupon rates range from 4.0% to 5.75%)	215,330	221,565
Variable Rate Demand Revenue Bonds, Series 2008A (NMH), payable in annual installments through August 15, 2038 (weighted average interest rate of 0.68% and 0.15% for the twelve months ended August 31, 2017 and 2016, respectively)	74,250	78,775
Variable Rate Demand Revenue Bonds, Series 2007A (NMH), payable in annual installments through August 15, 2042 (weighted average interest rate of 0.73% and 0.19% for the twelve months ended August 31, 2017 and 2016, respectively)	204,700	206,000

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

	August 31, 2017	August 31, 2016
Revenue Bonds, Series 2003A–Series 2003C (Delnor) payable in annual installments through May 15, 2033 (fixed coupon rates range from 5.00% - 5.25%)	19,950	22,350
Variable Rate Demand Revenue Bonds, Series 2002C (NMH) (weighted average interest rate was 0.15% for the twelve months ended August 31, 2016), paid off on October 4, 2016	—	27,450
Revenue Bonds, Series 2002B–Series 2002D (Delnor) payable in annual installments beginning May 15, 2020 through May 1, 2032 (fixed coupon rate of 5.25%)	35,000	35,000
Delnor medical office building loan, interest fixed at 6.34%, paid off on July 3, 2017	—	13,548
NMHC variable rate note dated October 4, 2016, matures October 4, 2019 (weighted average interest rate of 1.31% and 0.95% for the twelve months ended August 31, 2017 and 2016, respectively)	105,000	105,000
The Midland Surgical Center, LLC line of credit due July 10, 2019, interest payments required monthly at a variable rate not less than 3.75%, and loan with maturity date of December 10, 2018.	357	449
NMHC line of credit (weighted average interest rate of 1.08% for the twelve months ended August 31, 2016)	—	59,750
NMHC commercial paper dated October 4, 2016 (weighted average interest rate of 0.97% for the ten months ended August 31, 2017)	87,299	—
	1,450,799	1,493,189
Less:		
Unamortized discount, net and debt issuance costs	8,485	7,899
Current maturities	30,239	29,565
Long-term debt subject to short-term remarketing agreements	—	318,795
Line of credit, included in Accrued expenses and other current liabilities	—	59,750
Commercial paper, included in Short-term debt	87,299	—
	\$ 1,324,776	\$ 1,077,180

Per the Amended and Restated Master Trust Indenture dated as of May 1, 2004, as supplemented and amended (the NMHC Master Indenture), the Obligated Group includes NMHC, NMH, Northwestern Lake Forest Hospital (NLFH), Central DuPage Hospital (CDH), Cadence, Delnor-Community Hospital (Delnor) and Cadence Physician Group (CPG), the Foundation, Northwestern Medical Faculty Foundation d/b/a Northwestern Medical Group (NMG), Northwestern Foundation

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements *(continued)*
(Unaudited and in thousands)

for Research and Education d/b/a Northwestern Medical Group Management Services (NMGMS), and Lake Forest Health and Fitness Institute (HFI), with Wells Fargo Bank, N.A., as master trustee. Supplemental Master Trust Indentures were issued so that all the debt as of November 30, 2014, is either secured or guaranteed by the NMHC Obligated Group.

Effective December 18, 2015, KishHealth, Kishwaukee Community Hospital, Valley West Community Hospital and Kishwaukee Physician Group, Inc. became members of the Obligated Group created under the NMHC Master Indenture. The Series 2015A and Series 2015B Bonds were restructured and secured by direct note obligations within the NMHC Obligated Group. The KishHealth system's Illinois Finance Authority Hospital Revenue Refunding Bonds, Series 2008, were legally defeased by placing sufficient assets in escrow funded by a debt reserve fund and a draw of \$59,750 on a Northwestern Memorial line of credit, resulting in a loss on extinguishment of \$4,030 for the year ended August 31, 2016.

Effective May 31, 2016, Marianjoy Inc., Marianjoy Rehabilitation Hospital & Clinic, Inc., Rehabilitation Medicine Clinic, Inc. and Marianjoy Foundation, Inc. became members of the Obligated Group created under the NMHC Master Indenture.

On September 1, 2017, NMHC implemented a number of actions to streamline our organization structure; some of which impacted members of the Obligated Group. LivingWell Cancer Resource Center was merged into CPG; Marianjoy was merged into NMHC; NMGMS was merged into NMG; Delnor-Community Residential Living, Inc. d/b/a Delnor Glen into Delnor; Marianjoy Foundation was dissolved transferring assets to the Foundation and Tri-Cities Surgery Center, LLC was dissolved transferring assets to Delnor. None of these actions had a material impact on the Obligated Group.

Northwestern Memorial had lines of credit of \$50,000 and \$80,000 that were to expire in May 2019 and September 2018, respectively. At August 31, 2016, Northwestern Memorial had drawn \$59,750 on the \$80,000 line of credit and restricted \$467 of the \$50,000 line to secure a letter of credit. The remaining amounts were available for operations. In October 2016, the lines of credit in the amounts of \$50,000 and \$80,000 were replaced with two \$65,000 lines of credit. At August 31, 2017, Northwestern Memorial had restricted \$1,556 of one of the \$65,000 lines of credit to secure a letter of credit. Northwestern Memorial has the option to borrow at various rates expressed as an adjustment to LIBOR, prime rate or other bank-offered rates. At August 31, 2017, no amounts were borrowed under the lines of credit.

Northwestern Memorial has standby bond purchase agreements (SBPAs) with multiple banks that cover all of its variable rate demand revenue bonds (VRDBs). The short-term credit rating for each series of VRDBs is based on the respective bank's short-term credit rating. The long-term credit rating for each series of VRDBs is based on Northwestern Memorial's long-term credit rating. Changes in credit ratings may impact the interest paid on or remarketing of the VRDBs. As of August 31, 2017, the banks provided liquidity support in the event of a failed remarketing as follows:

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

	<u>Par Value</u>	<u>Expiration date</u>
Subseries 2007A-2, 2007A-4	\$ 102,350	October 2019
Series 2008A	74,250	October 2020
Subseries 2007A-1, 2007A-3	102,350	October 2020

The SBPAs include reporting and financial requirements and other covenants. If an SBPA is not renewed or replaced prior to its expiration, or if some portion, or all, of the related VRDBs are not successfully remarketed (failed remarketing) during the term of the SBPAs, the related VRDBs convert to a term loan at the earlier of the expiration date of the related SBPA or after 90 consecutive days of failed remarketing. The principal payment on the term loan would then be payable over a three-year term. The earliest principal payment on any term loan associated with the bonds is 367 days from the initial failed remarketing date. Therefore the VRDBs, all SBPAs with maturities greater than one year less any current portion, are classified as long-term debt in the accompanying condensed consolidated balance sheets.

In October 2016, the SBPAs for the \$103,000 Illinois Finance Authority Variable Rate Demand Revenue Bonds, Subseries 2007A-1 and Subseries 2007A-3 (NMH) and for the \$78,775 Illinois Finance Authority Variable Rate Demand Revenue Bonds, Series 2008A (NMH) were each extended for four years. The SBPA for the \$103,000 Illinois Finance Authority Variable Rate Demand Revenue Bonds, Subseries 2007A-2 and Subseries 2007A-4 was replaced by a new standby bond purchase agreement provider. At August 31, 2016, the expiration date for these SBPAs was less than one year from the balance sheet date and as such the related debt was classified as short-term.

In October 2016, the Illinois Finance Authority Variable Rate Demand Revenue Bonds, Series 2011A, 2011B, and 2011C (CDH-Delnor Health System) in the aggregate amount of \$175,020 were purchased by different banks at variable rates for a period of seven years, five years, and three years, respectively.

In October 2016, the existing \$105,000 CDH-Delnor Health System variable rate note was replaced with a \$105,000 NMHC variable rate note with a different lender and extended to 2019.

In October 2016, NMHC issued commercial paper in the aggregate amount of \$87,299. Proceeds were used to redeem all outstanding \$27,450 NMH Series 2002C Bonds and pay down a \$59,750 NMHC line of credit.

In July 2017, NMHC paid Morton Bank \$13,534 to extinguish the existing Delnor medical office building loan.

8. Derivatives

Northwestern Memorial's only derivative financial instruments are interest rate swaps approximately equal to its Series 2007A and Series 2011A-C variable rate bonds for the sole purpose of risk management. These bonds expose Northwestern Memorial to variability in interest payments due to changes in interest rates. To manage fluctuations in cash flows resulting from

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

interest rate risk, Northwestern Memorial entered into various interest rate swap agreements. These swaps limit the variable-rate cash flow exposure on the variable rate bonds to synthetically fixed cash flows. By using interest rate swaps to manage the risk of changes in interest rates, Northwestern Memorial exposes itself to credit risk and market risk. Credit risk is the risk that a counterparty will fail to perform under the terms of a derivative contract. When the fair value of a swap is positive, the counterparty owes Northwestern Memorial, which creates credit risk for Northwestern Memorial. When the fair value of a swap is zero or negative, the counterparty does not owe Northwestern Memorial. Northwestern Memorial minimizes the credit risk in its swap contracts by entering into transactions that either require the counterparty to post collateral for the benefit of Northwestern Memorial based on the credit rating of the counterparty and the fair value of the swap contract or whose cash flows are insured by a third party. For certain interest rate swaps, Northwestern Memorial is required to post collateral for the benefit of the counterparty when the negative fair value of the swap exceeds a defined threshold. The aggregate fair value liability of the swaps on the condensed consolidated balance sheets reflect a reduction of \$3,555 and \$4,707 for non-performance risk at August 31, 2017 and August 31, 2016, respectively. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of its swap positions in the context of their total blended cost of capital.

The following is a summary of the outstanding positions under existing interest rate swap agreements:

Notional Amount		Maturity Date	Rate Paid	Rate Received
August 31, 2017	August 31, 2016			
\$ 102,350	\$ 103,000	August 2042	3.89%	63% of 1-Month LIBOR + 28 bps
102,350	103,000	August 2042	3.89	63% of 1-Month LIBOR + 28 bps
61,650	62,175	November 2038	3.82	67% of 3-Month LIBOR
61,650	62,175	November 2038	3.52	67% of 3-Month LIBOR
35,000	35,000	May 2032	4.18	67% of 1-Month LIBOR
19,950	22,350	May 2033	2.89	67% of 1-Month LIBOR
<u>\$ 382,950</u>	<u>\$ 387,700</u>			

The fair value of derivative instruments is as follows:

	Derivatives Liabilities		
	Balance Sheet Location	August 31, 2017	August 31, 2016
Derivatives not designated as hedging instruments:			
Interest rate contracts	Interest rate swap liabilities	\$ 112,586	\$ 150,107

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

The effects of derivative instruments on the condensed consolidated statements of operations and changes in net assets are as follows:

	Three Months Ended August 31,		Twelve Months Ended August 31,	
	2017	2016	2017	2016
Derivatives not designated as hedging instruments:				
Operating expense - interest	\$ (1,865)	\$ (2,170)	\$ (7,266)	\$ (8,884)
Nonoperating - change in fair value of interest rate swaps	(2,508)	(16,176)	37,521	(37,212)

Northwestern Memorial's derivative instruments contain provisions that require its debt to remain above certain credit ratings from Standard & Poor's and Moody's. If Northwestern Memorial's debt were to fall below those levels, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. Northwestern Memorial has posted collateral of \$330 and \$24,203 as of August 31, 2017 and August 31, 2016, respectively. If the credit-risk-related contingent features underlying these agreements were triggered to the fullest extent on August 31, 2017, Northwestern Memorial would be required to post \$115,811 of additional collateral to its counterparties.

In October 2016, three interest rate swaps were novated under the same notional amounts and contract terms to a new counterparty except for the one swap that was subject to a collateral requirement. As a result of this transaction, none of these novated swaps require collateral.

9. Endowments

Northwestern Memorial's endowment consists of individual donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the donor-imposed restrictions.

Northwestern Memorial has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), as adopted by the State of Illinois (State), as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulation to the contrary. As a result of this interpretation, Northwestern Memorial classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure consistent with donor intent or, where silent, the standard of prudence prescribed by UPMIFA.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements *(continued)*
(Unaudited and in thousands)

In accordance with UPMIFA, Northwestern Memorial considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of Northwestern Memorial and the endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from investment income
- Other resources of Northwestern Memorial
- The investment policies of Northwestern Memorial.

Northwestern Memorial has adopted investment and spending policies for endowment assets designed to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that must be held in perpetuity or for a donor-specified period. Under this policy, endowment assets are allocated a fixed annual return, which is currently set at 6%.

Northwestern Memorial has a policy that limits annual spending from endowment funds to 4% of the endowment fund balance at the midpoint of the preceding fiscal year. In establishing this policy, Northwestern Memorial considered the long-term expected return on its endowment. Accordingly, over the long term, Northwestern Memorial expects the spending policy to allow its endowment to grow at an average annual rate of 2%. This is consistent with its objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term, as well as to provide additional real growth through new gifts and investment return.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements *(continued)*
(Unaudited and in thousands)

The changes in endowment net assets for the twelve months ended August 31, 2017 and 2016 are summarized below:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 1, 2015	\$ 55,431	\$ 160,775	\$ 216,206
Contributions	225	1,330	1,555
Investment return	7,812	—	7,812
Appropriation for expenditure	(5,989)	—	(5,989)
Change in value of trusts	(23)	(778)	(801)
Contribution of KishHealth restricted net	—	601	601
Other	(140)	(17)	(157)
Endowment net assets, August 31, 2016	57,316	161,911	219,227
Contributions	460	5,609	6,069
Investment return	7,353	—	7,353
Appropriation for expenditure	(5,602)	—	(5,602)
Change in value of trusts	—	775	775
Other	(705)	6,785	6,080
Endowment net assets, August 31, 2017	<u>\$ 58,822</u>	<u>\$ 175,080</u>	<u>\$ 233,902</u>

10. Self-Insurance Programs and Related Insurance Recoverable

Northwestern Memorial's self-insurance liabilities and the related amount recoverable from reinsurers are reported in the condensed consolidated balance sheets at present value based on a discount rate of 1.5% as of August 31, 2017 and August 31, 2016. Provisions for the professional and general liability risks are based on an actuarial estimate of losses using actual loss data adjusted for industry trends and current conditions and an evaluation of claims by Northwestern Memorial's legal counsel. The provision for estimated self-insured claims includes estimates of ultimate costs for both reported claims and claims incurred but not reported.

11. Net Patient Service Revenue

Northwestern Memorial recognizes net patient service revenue associated with services provided to patients who have third-party payment coverage with Medicare, Medicaid, Blue Cross, other managed care programs and other third-party payors on the basis of the contractual rates for the services rendered at the time services are provided. Payment arrangements with those payors include prospectively determined rates per admission or visit, reimbursed costs, discounted charges and per diem rates. Reported costs and/or services provided under certain of the arrangements are subject to retroactive audit and adjustment. Net patient service revenue decreased by \$1,524 and increased by \$2,157 in the three months ended August 31, 2017 and 2016, respectively, and increased \$33,843 and \$8,900 in the twelve months ended August 31, 2017 and 2016, as a result of changes in estimates due to settlements of prior fiscal years' cost reports and the disposition of other payor audits and settlements. Changes in Medicare and Medicaid programs and reduction in funding levels could have an adverse effect on Northwestern Memorial.

Northwestern Memorial also provides care to self-pay patients. Under its Financial Assistance Policy (the Policy), Northwestern Memorial provides medically necessary care to patients in its community with inadequate financial resources at discounts of up to 100% of charges using a sliding scale that is based on patient household income as a percentage (up to 600%) of the federal poverty level guidelines. The Policy also contains a catastrophic financial assistance provision that limits a patient's total financial responsibility to Northwestern Memorial. Since Northwestern Memorial does not pursue collection of these amounts, they are not reported as net patient service revenue. Northwestern Memorial implemented presumptive eligibility screening procedures for free care in fiscal year 2014. Northwestern Memorial recognizes net patient service revenue on services provided to these patients at the discounted rate at the time services are rendered.

Net patient service revenue, net of contractual allowances and discounts, is reduced by the provision for uncollectible accounts, and net patient accounts receivable are reduced by an allowance for uncollectible accounts. These amounts are based primarily on management's assessment of historical and expected write-offs and net collections, along with the aging status for each major payor source. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. Based on historical experience, a portion of Northwestern Memorial's self-pay patients who do not qualify for charity care will be unable or unwilling to pay for the services provided. Thus, a provision is recorded for uncollectible accounts in the period services are provided related to these patients.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

After all reasonable collection efforts have been exhausted in accordance with Northwestern Memorial's policies, accounts receivable are written off and charged against the allowance for uncollectible accounts.

For receivables associated with self-pay patients, Northwestern Memorial records an allowance for uncollectible accounts in the period of service on the basis of past experience. These adjustments are accrued on an estimated basis and are adjusted as needed in future periods.

Net patient service revenue (including patient co-pays and deductibles), net of contractual allowances and discounts (but before the provision for uncollectible accounts) by primary payor source was as follows:

	Three Months Ended August 31,		Twelve Months Ended August 31,	
	2017	2016	2017	2016
Third-party payors	\$1,164,403	\$1,097,017	\$4,643,685	\$4,180,832
Self-pay	41,290	3,759	105,748	55,609
	<u>\$1,205,693</u>	<u>\$1,100,776</u>	<u>\$4,749,433</u>	<u>\$4,236,441</u>

Northwestern Memorial grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. At August 31, 2017 and August 31, 2016, patient accounts receivable, including patient co-pays and deductibles by major primary payor source, before deducting estimated uncollectibles, were as follows:

	August 31, 2017	August 31, 2016
Medicare	14%	15%
Medicaid	11	9
Blue Cross	16	16
Other managed care	32	33
Other third-party payors	8	11
Patients	19	16
	<u>100%</u>	<u>100%</u>

The allowance for uncollectible accounts was \$223,411 and \$174,234, or 24.0% and 22.4% of the related patient accounts receivable, net of contractual adjustments as of August 31, 2017 and August 31, 2016, respectively.

Hospital Assessment Program

In December 2008, the Illinois Hospital Assessment Program was approved by the Federal Centers for Medicare and Medicaid Services (CMS) for the period from July 1, 2008 through June 30, 2013. In July 2012, this program was extended to December 31, 2014, as part of the Save Medicaid Access and Resources Together (SMART) Act. In June 2014, this program was extended to June 30, 2018 as part of the Omnibus Medicaid Bill Senate Bill 741. In October 2013, the Enhanced Illinois Hospital

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

Assessment Program as authorized under Illinois Public Act 97-688 was approved by CMS retroactive to June 10, 2012. Together, these two programs are referred to herein as (HAP). Under HAP, the state receives additional federal Medicaid funds for the State's healthcare system, administered by the Illinois Department of Healthcare and Family Services. HAP includes payments to NMHC hospitals from the state and assessments against NMHC hospitals, which are paid to the state in the same year.

In June 2014, Omnibus Medicaid Bill Senate Bill 741 authorized a new supplemental program (Access Program) to cover new Medicaid beneficiaries under the Affordable Care Act (ACA), which was approved by CMS in January 2015. In May 2016 the State of Illinois passed HB 4678 (Expanded Access Program) which implemented a framework to increase ACA access funds to Illinois hospitals. The new ACA access funds are attributable to the ACA adults enrolled in managed care products. In September 2016 the Illinois Department of Family and Healthcare Services submitted its certification of the new Medicaid managed care organization rates to CMS. After agreements between managed care organizations and providers were executed, payments for this new program and an adjustment to the assessments began in November 2016 and were retroactive to January 1, 2016.

A summary of the amounts recognized for the HAP and Access programs is as follows:

	Three Months Ended		Twelve Months Ended	
	August 31,		August 31,	
	2017	2016	2017	2016
Net patient service revenue				
HAP	\$ 28,200	\$ 28,202	\$ 112,813	\$ 109,208
Access Program	5,724	4,622	20,418	20,292
Expanded Access Program	6,282	—	42,557	—
	<u>40,206</u>	<u>32,824</u>	<u>175,788</u>	<u>129,500</u>
Illinois Hospital Assessment	25,671	21,793	103,362	84,486
Net excess of HAP and ACA revenue over Illinois assessment	<u>\$ 14,535</u>	<u>\$ 11,031</u>	<u>\$ 72,426</u>	<u>\$ 45,014</u>

The Expanded Access Program Revenue and Illinois Hospital Assessment expense for the twelve months ended August 31, 2017 includes retroactive portions from January 1, 2016 through August 31, 2016 of \$16,728 and \$2,004, respectively.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

12. Employee Benefit Obligations

Northwestern Memorial's non-contributory, defined-benefit pension plans (Plans) cover certain Northwestern Memorial employees employed prior to January 1, 2013 in NMHC, NMH and NLFH. The Plans were hard frozen as of December 31, 2012, such that no participant will earn any additional or new benefits under the Plans on or after January 1, 2013.

Net periodic pension benefit cost included in employee benefits expense in the accompanying condensed consolidated statements of operations and changes in net assets is comprised of the following:

	Three Months Ended August 31,		Twelve Months Ended August 31,	
	2017	2016	2017	2016
Plan expenses	\$ 352	\$ 423	\$ 1,407	\$ 1,686
Interest cost on projected benefit obligation	4,783	6,608	19,130	26,120
Expected return on the Plans' assets	(11,583)	(11,627)	(46,330)	(46,517)
Amortization of net loss	941	421	3,763	1,459
	<u>\$ (5,507)</u>	<u>\$ (4,175)</u>	<u>\$ (22,030)</u>	<u>\$ (17,252)</u>

Northwestern Memorial made no contributions for the three and twelve month periods ended August 31, 2017 and has no current plans to contribute to the Plans during the fiscal year ending August 31, 2018.

At August 31, 2016, Northwestern Memorial changed the discount rate method used to measure the service and interest cost starting in fiscal 2017 to the spot rate approach from the yield curve methodology used historically. This change had no impact on the projected benefit obligated as of August 31, 2017. This method does not apply to the service cost as both plans have been frozen, but results in different discount rates utilized for purposes of measuring the interest cost of the two plans. Northwestern Memorial has made this change to provide a more precise measurement of interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. The future impact of this change is expected to be nominal.

13. Commitments and Contingencies

Academic, Programs and Other Support

Consistent with its mission, Northwestern Memorial provides academic, program and other support to other not-for-profit entities. The present value of the total remaining commitments related to this support is \$118,222 and \$149,690 at August 31, 2017 and August 31, 2016, respectively, which is reported as Grants and academic support payable, current portion and Grants and academic support payable, less current portion in the accompanying condensed consolidated balance sheets.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements *(continued)*
(Unaudited and in thousands)

Northwestern Memorial will provide continuing funding to Northwestern University in support of the research and education mission of the FSM. This continuing funding is based on the average net patient service revenue and operating results of Northwestern Memorial. The expense incurred of \$7,352 and \$12,214 for the three months ended August 31, 2017 and 2016, respectively and \$63,898 and \$57,864 for the twelve months ended August 31, 2017 and 2016, respectively is recorded in Other expense in the accompanying condensed consolidated statements of operations and changes in net assets; and a related liability of \$452 and \$52 is reported in Accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheets as of August 31, 2017 and August 31, 2016, respectively.

Capital Projects

Various capital projects are currently being constructed and are expected to be placed in service over the next three years. The total estimated cost of these projects is approximately \$1,699,000. As of August 31, 2017, project commitments totaled \$1,160,600, of which \$916,118 has been incurred. These commitments include the construction of a replacement hospital on the Lake Forest Campus as agreed to in the 2010 affiliation agreement with Lake Forest Hospital. All governmental reviews, approvals and building permits have been received. Construction began in February 2015. Building occupancy and hospital opening is planned to be staggered in fiscal 2018.

Regulatory

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded amounts will change by a material amount in the near term. During the last few years, as a result of nationwide investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the Medicare and Medicaid programs.

In addition, an increasing number of the operations and practices of not-for-profit healthcare providers has been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges are broader than concerns about compliance with federal and state statutes and regulations of core business practices of the health care organizations. The laws and regulations regarding these practices are also subject to interpretation and challenge. Areas that have come under examination have included pricing practices, billing and collection practices, charity care, community benefit, executive compensation, exemption of property from real property taxation and others. Northwestern Memorial expects that the level of review and audit to which it and other health care providers are subject will increase. There can be no assurance that regulatory authorities will not challenge Northwestern Memorial's compliance with these laws and regulations or that the laws and regulations themselves will not be subject to challenge, and it is not possible to determine the impact, if any, such claims, penalties or challenges would have on Northwestern Memorial.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements *(continued)*
(Unaudited and in thousands)

Northwestern Memorial is aware of, has investigated, and made disclosure to the United States Department of Health and Human Services Office for Civil Rights (OCR) certain privacy breaches. OCR has requested information for these breaches. NMHC has responded to OCR's requests for information with respect to one breach related to the theft of a password-protected, unencrypted laptop that contained patient identifiable health information. OCR has also requested information on a separate matter relating to whether a NMHC affiliate had a Business Associate Agreement with a vendor that has been implicated in privacy breaches not involving NMHC records. OCR has been taking a more aggressive enforcement position relating to similar privacy matters by comparable health care organizations, including multiple seven-figure settlements against the disclosing party. NMHC is unable to determine which, if any, fines might be imposed by OCR or other actions that might be taken as result of any privacy breaches or OCR investigations.

Litigation

Northwestern Memorial is a defendant in various other 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 Northwestern Memorial's financial condition or operations.

In March 2016, a settlement was reached with various vendors and insurance companies over costs incurred and to be incurred to remediate certain facility issues. Costs incurred related to these issues have been expensed as incurred in operating expenses. The settlement amount of \$50,000 is recorded in Rental and other revenue in the condensed consolidated statements of operations and changes in net assets for the three and twelve months ended August 31, 2016.

14. Centegra Letter of Intent

In April 2016, NMHC and Centegra Health System (Centegra) executed a non-binding letter of intent that provides for a period of exclusive discussions regarding a potential affiliation between NMHC and Centegra. NMHC cannot predict whether these discussions will result in an agreement between the two organizations. Any definitive agreement would be subject to both parties' governing bodies and applicable regulatory approvals.

15. Subsequent Events

Northwestern Memorial evaluated events and transactions occurring subsequent to August 31, 2017 through October 30, 2017, the date of issuance of these financial statements. During this period, there were no subsequent events requiring recognition in the condensed consolidated financial statements and no unrecognized subsequent events requiring disclosure other than those disclosed in Note 7.

Supplementary Information

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidating Balance Sheet
August 31, 2017
(Unaudited)
(Dollars in thousands)

	Obligated Group (Note 1)	Non-Obligated Group	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 241,033	\$ 67,644	\$ (50,214)	\$ 258,463
Short-term investments	30,685	—	—	30,685
Current portion of investments, including assets limited as to use	65,876	70,476	—	136,352
Patient accounts receivable, net of estimated uncollectible accounts of \$223,411 at August 31, 2017	697,931	18,346	—	716,277
Current portion of pledges and grants receivable, net	23,924	637	—	24,561
Current portion of insurance recoverable	82,107	7,225	(75,146)	14,186
Inventories	64,395	48	—	64,443
Other current assets	141,017	76,293	(62,558)	154,752
Due from affiliates	61,017	10,645	(71,662)	—
Total current assets	1,407,985	251,314	(259,580)	1,399,719
Investments, including assets limited as to use, less current portion	5,396,767	104,438	(10,679)	5,490,526
Property and equipment, at cost:				
Land	346,047	989	—	347,036
Buildings	3,406,672	58,601	—	3,465,273
Equipment and furniture	1,108,999	57,885	—	1,166,884
Construction-in-progress	538,612	728	—	539,340
	5,400,330	118,203	—	5,518,533
Less accumulated depreciation	2,035,152	24,794	—	2,059,946
	3,365,178	93,409	—	3,458,587
Prepaid pension cost	118,562	—	—	118,562
Insurance recoverable, less current portion	332,063	64,966	(327,323)	69,706
Other assets, net	337,820	318,188	(466,786)	189,222
Total assets	\$ 10,958,375	\$ 832,315	\$ (1,064,368)	\$ 10,726,322

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidating Balance Sheet (continued)
August 31, 2017
(Unaudited)
(Dollars in thousands)

	Obligated Group (Note 1)	Non-Obligated Group	Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 230,596	\$ (8)	\$ —	\$ 230,588
Accrued salaries and benefits	308,617	5,546	—	314,163
Grants and academic support payable, current portion	38,753	—	—	38,753
Accrued expenses and other current liabilities	101,253	90,662	(76,661)	115,254
Due to third-party payors	431,133	3,832	—	434,965
Current accrued liabilities under self-insurance programs	158,231	70,476	(134,451)	94,256
Due to cash pool	50,214	—	(50,214)	—
Current maturities of long-term debt	30,212	27	—	30,239
Short-term debt	87,299	—	—	87,299
Due to affiliates	10,712	60,950	(71,662)	—
Total current liabilities	1,447,020	231,485	(332,988)	1,345,517
Long-term debt, less current maturities	1,324,446	116,097	(115,767)	1,324,776
Accrued liabilities under self-insurance programs, less current portion	717,361	349,247	(570,899)	495,709
Grants and academic support payable, less current portion	79,469	—	—	79,469
Interest rate swaps	112,586	314	(314)	112,586
Due to investment pool participants	10,679	—	(10,679)	—
Other liabilities	142,565	863	—	143,428
Total liabilities	3,834,126	698,006	(1,030,647)	3,501,485
Net assets:				
Unrestricted:				
Undesignated	6,504,123	131,633	(32,772)	6,602,984
Board-designated	229,452	3	—	229,455
Non-controlling interest in consolidated venture	(3,216)	566	(949)	(3,599)
Total unrestricted	6,730,359	132,202	(33,721)	6,828,840
Temporarily restricted	219,411	1,506	—	220,917
Permanently restricted	174,479	601	—	175,080
Total net assets	7,124,249	134,309	(33,721)	7,224,837
Total liabilities and net assets	\$ 10,958,375	\$ 832,315	\$ (1,064,368)	\$ 10,726,322

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidating Statement of Revenue and Expense
Three Months Ended August 31, 2017
(Unaudited)
(Dollars in thousands)

	Obligated Group (Note 1)	Non-Obligated Group	Eliminations	Consolidated
Revenue				
Net patient service revenue	\$ 1,187,452	\$ 24,255	\$ (6,014)	\$ 1,205,693
Provision for uncollectible accounts	76,310	1,789	—	78,099
Net patient service revenue after provision for uncollectible accounts	1,111,142	22,466	(6,014)	1,127,594
Rental and other revenue	61,941	27,225	(22,577)	66,589
Net assets released from donor restrictions and federal and state grants	8,445	642	—	9,087
Total revenue	1,181,528	50,333	(28,591)	1,203,270
Expenses				
Salaries	493,910	12,754	—	506,664
Employee benefits	65,285	3,219	1,596	70,100
Supplies	235,031	2,781	—	237,812
Purchased services	168,136	12,956	(8,851)	172,241
Depreciation and amortization	77,682	2,085	—	79,767
Insurance	24,068	20,596	(19,739)	24,925
Rent and utilities	23,645	2,048	(919)	24,774
Repairs and maintenance	33,650	1,917	(2)	35,565
Interest	9,669	1,739	(1,742)	9,666
Illinois Hospital Assessment	25,671	—	—	25,671
Other	28,180	626	(675)	28,131
Total expenses	1,184,927	60,721	(30,332)	1,215,316
Operating (loss) income	(3,399)	(10,388)	1,741	(12,046)
Nonoperating gains (losses)				
Investment return	125,143	3,190	(1,743)	126,590
Change in fair value of interest rate swaps	(2,666)	158	—	(2,508)
Loss on extinguishment of long term debt	(134)	—	—	(134)
Grants and academic support provided	(8,149)	—	—	(8,149)
Other	4,213	(33)	—	4,180
Total nonoperating gains (losses), net	118,407	3,315	(1,743)	119,979
Excess (deficit) of revenue over expenses	115,008	(7,073)	(2)	107,933
Net gain (loss) attributable to non-controlling interest in subsidiaries	1,140	272	(1,535)	(123)
Excess (deficit) of revenue over expenses attributable to NMHC and Subsidiaries	\$ 113,868	\$ (7,345)	\$ 1,533	\$ 108,056

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidating Statement of Revenue and Expense
Twelve Months Ended August 31, 2017
(Unaudited)
(Dollars in thousands)

	Obligated Group (Note 1)	Non-Obligated Group	Eliminations	Consolidated
Revenue				
Net patient service revenue	\$ 4,667,024	\$ 98,765	\$ (16,356)	\$ 4,749,433
Provision for uncollectible accounts	192,670	9,377	—	202,047
Net patient service revenue after provision for uncollectible accounts	4,474,354	89,388	(16,356)	4,547,386
Rental and other revenue	240,698	95,627	(79,963)	256,362
Net assets released from donor restrictions and federal and state grants	24,603	2,645	—	27,248
Total revenue	4,739,655	187,660	(96,319)	4,830,996
Expenses				
Salaries	1,918,812	50,719	—	1,969,531
Employee benefits	285,608	12,567	(333)	297,842
Supplies	867,104	9,926	—	877,030
Purchased services	521,629	47,002	(29,989)	538,642
Depreciation and amortization	278,091	9,058	—	287,149
Insurance	96,763	68,754	(60,939)	104,578
Rent and utilities	87,705	7,435	(3,833)	91,307
Repairs and maintenance	81,194	7,142	(5)	88,331
Interest	44,125	6,741	(6,760)	44,106
Illinois Hospital Assessment	103,362	—	—	103,362
Other	125,751	3,417	(1,219)	127,949
Total expenses	4,410,144	222,761	(103,078)	4,529,827
Operating income (loss)	329,511	(35,101)	6,759	301,169
Nonoperating gains (losses)				
Investment return	650,845	13,190	(8,766)	655,269
Change in fair value of interest rate swaps	36,596	925	—	37,521
Loss on extinguishment of long term debt	(216)	—	—	(216)
Grants and academic support provided	(20,172)	—	—	(20,172)
Other	9,157	134	—	9,291
Total nonoperating gains (losses), net	676,210	14,249	(8,766)	681,693
Excess (deficit) of revenue over expenses	1,005,721	(20,852)	(2,007)	982,862
Net (loss) gain attributable to non-controlling interest in subsidiaries	—	272	(975)	(703)
Excess (deficit) of revenue over expenses attributable to NMHC and Subsidiaries	\$ 1,005,721	\$ (21,124)	\$ (1,032)	\$ 983,565

**Obligated Group
Utilization Statistics
(Unaudited)**

	Obligated Group			
	Three Months Ended August 31,		Twelve Months Ended August 31,	
	2017	2016	2017	2016
Sources of Net Patient Service Revenue *				
Medicare	25.9%	19.3%	24.8%	23.6%
Medicaid	4.4%	8.2%	4.3%	4.4%
Charge-based	2.8%	7.3%	4.7%	4.3%
Managed Care	66.9%	65.2%	66.2%	67.7%
Total	100.0%	100.0%	100.0%	100.0%
Utilization of Services				
Admissions (Acute)	23,912	23,158	88,810	84,988
Observation Cases	10,498	9,882	39,849	41,543
Equivalent Admissions	51,826	51,955	208,204	195,736
Average Length of Stay	4.1	4.8	4.9	4.6
Patient Days	98,084	111,750	432,705	395,167
Average Occupancy (staffed beds)	61.1%	70.3%	68.0%	62.3%
Average Occupancy Incl. Observations	70.9%	79.2%	77.2%	71.5%
Deliveries	4,810	5,015	18,200	18,460
Emergency Room Visits:				
Inpatient	10,031	10,394	41,085	39,647
Outpatient	61,985	62,660	246,215	239,890
Total	72,016	73,054	287,300	279,537
Registrations - Outpatient other than Emergency Room	581,699	582,400	2,343,363	2,191,629
Surgeries:				
Inpatient	5,558	5,687	22,247	21,885
Outpatient	9,553	11,471	48,549	45,553
Total	15,111	17,158	70,796	67,438
Beds, Licensed	1,809	1,893	1,809	1,893
Beds, Staffed	1,744	1,728	1,744	1,734
Total Observation Days	15,693	14,143	58,651	58,601
Medicare Case Mix Index	1.958	1.948	1.935	1.913
Overall Case Mix Index	1.653	1.639	1.658	1.621

*Excluding revenue from Hospital Assessment Program and provision for uncollectible accounts.

Northwestern Memorial HealthCare
Note to Supplementary Information
(Unaudited and in thousands)

1. Obligated Group

The supplementary financial information for the Obligated Group is in accordance with the Amended and Restated Master Trust Indenture between NMHC, as the Obligated Group Agent, and Wells Fargo Bank, N.A., as successor Master Trustee to J.P. Morgan Trust Company, National Association, dated as of May 1, 2004, as amended and supplemented by each Supplemental Master Trust Indenture thereto through and including the Twenty-Sixth Supplemental Master Trust Indenture dated as of May 31, 2016.