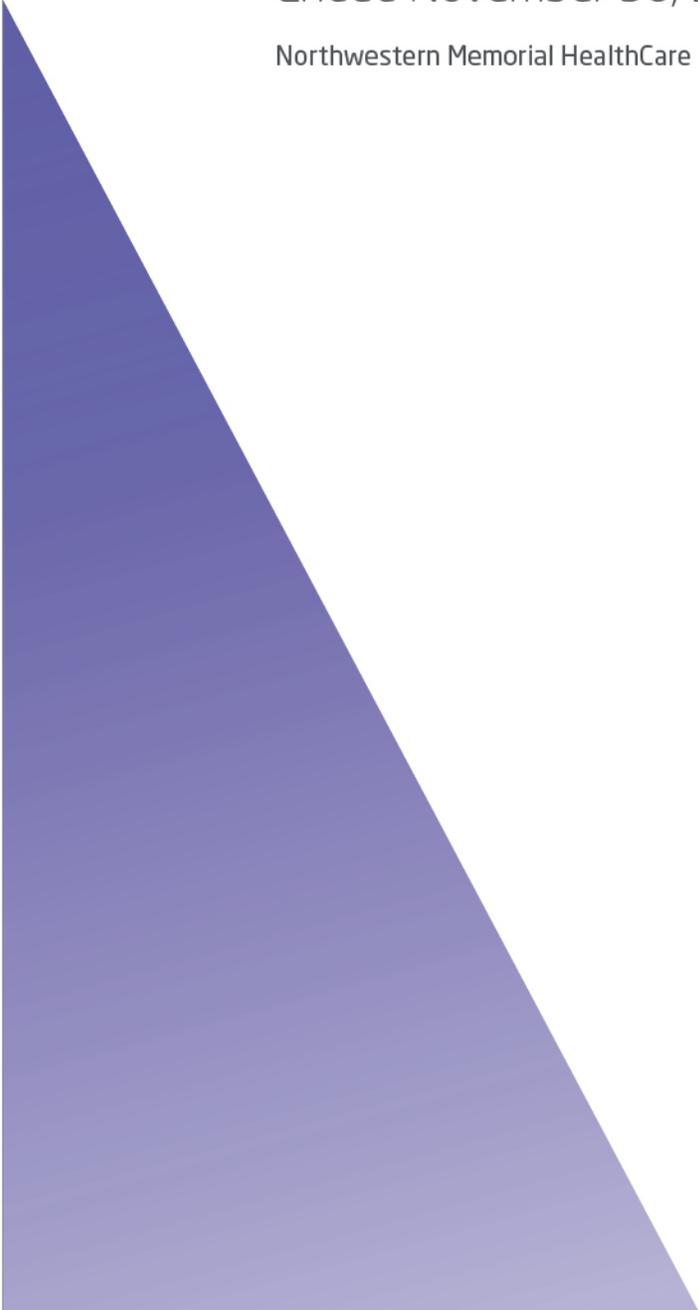




# Quarterly Report

As of and for the First Quarter  
Ended November 30, 2018

Northwestern Memorial HealthCare and Subsidiaries



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

Ladies and Gentlemen:

Pursuant to Section 411(A) of the Second Amended and Restated Master Trust Indenture dated as of December 1, 2017, as amended and supplemented (the "Master Indenture"), among Northwestern Memorial HealthCare, certain of its affiliates identified therein and Wells Fargo Bank, National Association (as master trustee), the undersigned does hereby certify that attached hereto is a true and correct copy of a financial report of the System (as defined for such quarterly fiscal period), which includes a combined/consolidated balance sheet and statements of operations, changes in net assets and cash flows for the quarterly period ended November 30, 2018.

This 14th day of January, 2019.

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 First Quarter Ended November 30, 2018**

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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)

	<b>November 30, 2018</b>	<b>August 31, 2018</b>
	<b>(Unaudited)</b>	<b>Note A</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 328,501	\$ 407,249
Short-term investments	153,882	51,998
Current portion of investments, including assets limited as to use	149,780	148,848
Patient accounts receivable	865,264	769,567
Current portion of pledges and grants receivable, net	23,271	16,107
Current portion of insurance recoverable	19,833	12,642
Inventories	86,269	71,565
Other current assets	128,664	131,284
<b>Total current assets</b>	<b>1,755,464</b>	<b>1,609,260</b>
Investments, including assets limited as to use, less current portion	5,928,649	5,980,955
Property and equipment, at cost:		
Land	399,404	353,975
Buildings	4,309,091	3,970,145
Equipment and furniture	1,429,974	1,353,766
Construction in progress	154,559	126,535
	6,293,028	5,804,421
Less accumulated depreciation	2,309,485	2,221,667
	3,983,543	3,582,754
Prepaid pension cost	185,444	180,063
Pledges and grants receivable, less current portion	53,813	44,856
Insurance recoverable, less current portion	95,177	89,224
Other assets, net	173,910	175,739
<b>Total assets</b>	<b>\$ 12,176,000</b>	<b>\$ 11,662,851</b>

*Continued on next page.*

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

	<b>November 30, 2018</b>	<b>August 31, 2018</b>
	<b>(Unaudited)</b>	<b>Note A</b>
<b>Liabilities and net assets:</b>		
Current Liabilities		
Accounts payable	\$ 208,663	\$ 239,682
Accrued salaries and benefits	261,661	285,043
Grants and academic support payable, current portion	34,950	33,932
Accrued expenses and other current liabilities	188,372	130,799
Due to third-party payors	605,909	545,759
Current accrued liabilities under self-insurance programs	134,434	105,659
Current maturities of long-term debt	137,000	24,571
Long-term debt subject to short term remarketing	155,725	—
Short-term debt	27,466	27,466
Total current liabilities	1,754,180	1,392,911
Long-term debt, less current maturities	1,517,647	1,394,396
Accrued liabilities under self-insurance programs, less current portion	562,790	541,589
Grants and academic support payable, less current portion	77,127	76,954
Interest rate swaps	68,543	73,350
Other liabilities	151,764	150,502
Total liabilities	4,132,051	3,629,702
Net assets:		
Unrestricted:		
Undesignated	7,348,433	7,364,425
Board-designated	244,921	242,870
Non-controlling interest in consolidated venture	478	626
Total unrestricted	7,593,832	7,607,921
Temporarily restricted	262,214	242,596
Permanently restricted	187,903	182,632
Total net assets	8,043,949	8,033,149
<b>Total liabilities and net assets</b>	<b>\$ 12,176,000</b>	<b>\$ 11,662,851</b>

*Note A: The August 31, 2018 financial statement information was derived from and should be read in conjunction with the Northwestern Memorial HealthCare and Subsidiaries 2018 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)**

	<b>Three Months Ended November 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenue</b>		
Net patient service revenue	1,420,878	1,198,011
Rental and other revenue	83,209	73,445
Net assets released from donor restrictions and federal and state grants	7,544	4,831
Total revenue	<u>1,511,631</u>	<u>1,276,287</u>
<b>Expenses</b>		
Salaries	591,656	511,186
Employee benefits	89,836	84,848
Supplies	290,912	235,200
Purchased services	155,980	120,420
Depreciation and amortization	90,372	70,325
Insurance	32,912	31,328
Rent and utilities	27,581	22,931
Repairs and maintenance	26,655	18,336
Interest	15,002	10,519
Illinois Hospital Assessment	38,529	25,713
Other	40,156	36,654
Total expenses	<u>1,399,591</u>	<u>1,167,460</u>
<b>Operating income</b>	112,040	108,827
<b>Nonoperating (losses) gains</b>		
Investment return	(251,138)	218,377
Contribution of Centegra net assets	123,758	—
Change in fair value of interest rate swaps	4,807	12,872
Grants and academic support provided	(9,845)	(9,675)
Other	7,370	7,036
Total nonoperating (losses) gains, net	<u>(125,048)</u>	<u>228,610</u>
<b>(Deficiency) excess of revenue over expenses</b>	(13,008)	337,437
Net gain (loss) attributable to non-controlling interest in subsidiaries	302	(62)
<b>(Deficiency) excess of revenue over expenses attributable to NMHC and Subsidiaries</b>	<u>\$ (13,310)</u>	<u>\$ 337,499</u>

*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 November 30,			2017		
	2018			2017		
	Total	Controlling	Non- controlling	Total	Controlling	Non- controlling
<b>Unrestricted net assets</b>						
(Deficiency) excess of revenue over expenses	\$ (13,008)	\$ (13,310)	\$ 302	\$ 337,437	\$ 337,499	\$ (62)
Postretirement-benefit-related changes other than net periodic pension cost	355	355	—	—	—	—
Initial value of noncontrolling interests in acquired companies	—	—	—	141	141	—
Distribution to non-controlling interest	(686)	—	(686)	(614)	—	(614)
Other	(750)	(986)	236	(5,988)	(10,844)	4,856
(Decrease) increase in unrestricted net assets	(14,089)	(13,941)	(148)	330,976	326,796	4,180
<b>Temporarily restricted net assets</b>						
Contributions	16,963	16,963	—	9,478	9,478	—
Investment return	4,067	4,067	—	3,718	3,718	—
Net assets released from restrictions used for:						
Operating expenses, charity care, research and education	(6,459)	(6,459)	—	(6,531)	(6,531)	—
Change in fair value of split-interest agreements	(266)	(266)	—	138	138	—
Contribution of Centegra restricted net assets	6,505	6,505	—	—	—	—
Other	(1,192)	(1,192)	—	216	216	—
Increase in temporarily restricted net assets	19,618	19,618	—	7,019	7,019	—
<b>Permanently restricted net assets</b>						
Contributions	4,949	4,949	—	3,967	3,967	—
Change in fair value of split-interest agreements	(628)	(628)	—	205	205	—
Other	950	950	—	—	—	—
Increase in permanently restricted net assets	5,271	5,271	—	4,172	4,172	—
Change in net assets	10,800	10,948	(148)	342,167	337,987	4,180
Net assets, beginning of period	8,033,149	8,032,523	626	7,224,837	7,228,436	(3,599)
Net assets, end of period	<u>\$ 8,043,949</u>	<u>\$ 8,043,471</u>	<u>\$ 478</u>	<u>\$ 7,567,004</u>	<u>\$ 7,566,423</u>	<u>\$ 581</u>

*See accompanying notes to the interim condensed consolidated financial statements.*

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

	<b>Three Months Ended November 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Change in net assets	\$ 10,800	\$ 342,167
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Postretirement benefit-related changes other than net periodic pension cost	(355)	(141)
Change in fair value of interest rate swaps	(4,807)	(12,872)
Net unrestricted realized investment return and net change in unrestricted and restricted unrealized investment gains/losses	250,719	(218,825)
Restricted contributions, change in fair value of split interest agreements, and realized investment return	(24,665)	(17,058)
Contribution of Centegra net assets	(130,263)	—
Depreciation and amortization	90,372	70,325
Changes in operating assets and liabilities:		
Patient accounts receivable	(24,526)	(3,770)
Due to third-party payors	10,005	63,616
Grants and academic support payable	1,191	657
Other operating assets and liabilities	(44,516)	(90,772)
Net cash provided by operating activities	133,955	133,327
<b>Investing activities</b>		
Purchase of investments	(969,058)	(457,717)
Sale of investments	738,311	476,477
Cash received from contribution of Centegra	12,406	—
Net unrestricted realized investment return	96,697	35,070
Capital expenditures, net	(104,525)	(137,880)
Net cash used in investing activities	(226,169)	(84,050)
<b>Financing activities</b>		
Payments of long-term debt	(11,199)	(11,151)
Restricted contributions, change in fair value of split interest agreements, and realized investment return	24,665	17,058
Net cash provided by financing activities	13,466	5,907
Net (decrease) increase in cash and cash equivalents	(78,748)	55,184
Cash and cash equivalents, beginning of period	407,249	258,463
Cash and cash equivalents, end of the period	\$ 328,501	\$ 313,647

*See accompanying notes to the interim condensed consolidated financial statements.*

**As of and for the First Quarter Ended  
November 30, 2018**

**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, 2018.

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, 2018, which are available on the Electronic Municipal Market Access ("EMMA") website of the Municipal Securities Rulemaking Board.

**2. Adoption of Accounting Standards**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "*Revenue from Contracts with Customers (Topic 606)*". ASU 2014-09 converged and replaced existing revenue recognition guidance, including industry specific guidance, and requires an entity 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. An entity should 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. On September 1, 2018, this standard was adopted by Northwestern Memorial on a full retrospective approach basis. The adoption of the new accounting standard impacted the presentation of the statement of operations for a significant component of its provision for bad debts. Subsequent to the adoption of the new standard, the majority of what is currently classified as the provision for bad debts is now reflected as an implicit price concession as defined in the standard and therefore a reduction to net patient revenue. Northwestern Memorial will consider certain changes in collectability on its self-pay patient accounts receivable resulting from certain credit and collection issues not assessed at the date of service and recognize such amounts in the provision for bad debts included in operating expenses on the statement of operations. The prior period financial

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

statements presented were adjusted to reflect these changes. The adoption of the standard resulted in no material impact to the financial position, results of operations and cash flows.

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 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 impact this guidance will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*". 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 impact this guidance will have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, "*Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*", which changes the presentation of periodic benefit cost components. Under ASU 2017-07, service costs will continue to be presented within operating expenses but amortization of prior service credits and other components of net periodic benefit cost in Nonoperating gains (losses) in the consolidated statements of operation and changes in net assets. Northwestern Memorial has evaluated the effect of this guidance on the consolidated financial statements and has determined that this guidance will reduce operating income but will have no effect on revenues in excess of expenses. On September 1, 2018, this standard was adopted by Northwestern Memorial on a retrospective basis having restated the prior period condensed consolidated statement of operations.

In June 2018, the FASB issued ASU 2018-08, "*Not-for-Profit Entities (Topic 958) - Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*". ASU 2018-08 provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. On September 1, 2018, this statement was adopted by Northwestern Memorial on a modified prospective basis resulting in no impact to the financial position, results of operations and cash flows.

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

### **3. Reclassification**

Certain reclassifications have been made to the 2018 consolidated financial statements to conform with classifications used in 2019. The reclassifications had no effect on total assets, total liabilities, total revenue or total revenue in excess of expenses previously reported.

### **4. Net Patient Service Revenue**

Northwestern Memorial recognizes Net patient service revenue at the amount that reflects the consideration expected to be paid for providing patient care. Net patient service revenue is recognized as performance obligations based on the nature of the services provided by Northwestern Memorial are satisfied. Performance obligations satisfied over time relate to patients in Northwestern Memorial hospitals receiving inpatient acute care services from admission to the point when services are no longer required, which is generally at the time of discharge. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Outpatient services are performance obligations satisfied at a point in time and revenue is recognized when goods or services are provided and Northwestern Memorial does not believe it is required to provide additional goods or services. Management believes this method provides a fair depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

Northwestern Memorial has elected to apply the optional exemption provided in FASB Accounting Standards Codification (ASC) 606-10-50-14(a) because all of its performance obligations relate to contracts with a duration of less than one year. Therefore, Northwestern Memorial is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

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

Northwestern Memorial determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions, including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with policy and/or implicit price concessions based on the historical collection experience of patient accounts. Northwestern Memorial determines the transaction price associated with services provided to patients who have third-party payor coverage with Medicare, Medicaid, Blue Cross, other managed care programs and other third-party payors based on reimbursement terms per contractual agreements, discount policies and

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

historical experience. Payment arrangements with those payors include prospectively determined rates per admission or visit, reimbursed costs, discounted charges per diem rates and value based. Reported costs and/or services provided under certain of the arrangements are subject to retroactive audit and adjustment. Net patient service revenue increased by \$515 and decreased by \$3,578 in the three months ended November 30, 2018 and 2017, respectively, 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. Future changes in Medicare and Medicaid programs and reduction in funding levels could have an adverse effect on Northwestern Memorial. There were no other significant changes to the judgements used to determine the transaction price in prior periods.

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, the discounted amounts are not reported as net patient service revenue. Northwestern Memorial uses presumptive eligibility screening procedures for free care and recognizes net patient service revenue on services provided to self-pay patients at the discounted rate at the time services are rendered.

In certain instances, Northwestern Memorial receives payment in advance of the services provided and considers these amounts to represent contract liabilities. Contract liabilities at November 30, 2018 were not significant.

Management has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the payors and line of business that renders services to patients. The composition of Net patient service revenue by payor was as follows:

	<b>Three Months Ended November 30,</b>	
	<b>2018</b>	<b>2017</b>
Net patient service revenue:		
Medicare	\$ 367,511	\$ 299,722
Medicaid	119,571	89,451
Blue Cross	563,692	453,888
Other managed care	322,807	325,718
Commercial and other	42,130	23,756
Self pay	5,167	5,476
Total Net patient service revenue	<u>\$ 1,420,878</u>	<u>\$ 1,198,011</u>

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

The composition of the Net patient service revenue by service line was as follows:

	<b>Three Months Ended November 30,</b>	
	<b>2018</b>	<b>2017</b>
Hospitals	\$ 1,118,062	\$ 924,339
Physician groups	285,493	248,989
Other	17,323	24,683
<b>Total</b>	<b>\$ 1,420,878</b>	<b>\$ 1,198,011</b>

Rental and other revenue is recognized at an amount that reflects the consideration Northwestern Memorial expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration due from customers, third-party payors and others. Primary categories of other revenue include pharmacy revenue, grant revenue, corporate billing, rent and lease revenue and other.

Northwestern Memorial grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. At November 30, 2018 and August 31, 2018, patient accounts receivable, including patient co-pays and deductibles by major primary payor source, were as follows:

	<b>November 30, 2018</b>	<b>August 31, 2018</b>
Medicare	15%	18%
Medicaid	12	11
Blue Cross	23	22
Other managed care	24	25
Commercial and other	7	7
Self pay	19	17
	100%	100%

## 5. 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 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

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

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.

HAP and the Expanded Access Program was to end on June 30, 2018. In June, 2018, the Illinois General Assembly approved SB 1773, which was signed by the Governor and is now Illinois Public Law 100-581; the law as amended redesigns both programs. CMS approved the new program on June 20, 2018. Supplemental payments for the new HAP program began in July, 2018 and are reflected below. In addition to the supplemental payments, the new HAP program provides for increase Illinois Medicaid and Illinois Medicaid Managed Care inpatient rates. The new HAP program is currently set to expire on June 30, 2020.

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

	<b>Three Months Ended November 30,</b>	
	<b>2018</b>	<b>2017</b>
Net patient service revenue		
HAP	\$ 48,321	\$ 28,208
Access Program	—	5,205
Expanded Access Program	—	6,261
	48,321	39,674
Illinois Hospital Assessment	38,529	25,713
Net excess of HAP and ACA revenue over Illinois assessment	\$ 9,792	\$ 13,961

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

**6. 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:

	<b>November 30, 2018</b>	<b>August 31, 2018</b>
Measured at fair value:		
Cash and short-term investments	\$ 690,554	\$ 502,382
Mutual funds	214,180	262,719
Corporate bonds	332,275	305,081
U.S. government and agency issues	273,385	258,970
Equity securities	206,355	222,356
Other fixed income	13,723	23,926
	<u>1,730,472</u>	<u>1,575,434</u>
Measured at net asset value as practical expedient:		
Common collective trusts and commingled funds	705,355	765,371
Interest in 103-12 investment entities	278,861	297,217
	<u>984,216</u>	<u>1,062,588</u>
Accounted for under the equity method:		
Alternative investments	3,846,124	3,951,028
	<u>\$ 6,560,812</u>	<u>\$ 6,589,050</u>

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

	<b>November 30, 2018</b>	<b>August 31, 2018</b>
Assets limited as to use:		
Trustee-held funds	\$ 648	\$ 651
Self-insurance programs	608,134	627,438
Board-designated funds	192,326	190,188
Total assets limited as to use	<u>801,108</u>	<u>818,277</u>
Donor-restricted funds	372,054	360,442
Unrestricted, undesignated funds	4,905,267	4,951,084
Total investments, excluding short-term investments	<u>6,078,429</u>	<u>6,129,803</u>
Other financial instruments:		
Cash and cash equivalents and short-term investments	482,383	459,247
	<u>\$ 6,560,812</u>	<u>\$ 6,589,050</u>

**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:

	<b>Three Months Ended November 30,</b>	
	<b>2018</b>	<b>2017</b>
Interest and dividend income	\$ 7,561	\$ 5,529
Investment expenses	(743)	(594)
Realized gains on alternative investments, net	43,611	16,461
Realized gains on other investments, net	30,767	16,772
Net change in unrealized (losses) gains on alternative investments	(167,373)	107,139
Net change in unrealized (losses) gains on other investments	(161,132)	76,734
Change in value of joint ventures	241	171
	\$ (247,068)	\$ 222,212
Reported as:		
Rental and other revenue	\$ 3	\$ 117
Nonoperating investment return	(251,138)	218,377
Temporarily restricted - investment return	4,067	3,718
	\$ (247,068)	\$ 222,212

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 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

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

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 two month delay in the inclusion of the limited partnership results in Northwestern Memorial's consolidated statements of operations and changes in net assets due to results recorded based on September 30 investment statements. Due to this delay, these consolidated financial statements do not yet reflect the market conditions experienced in the last two months of the first quarter of fiscal 2019 or 2018 for the limited partnership investments.

As of November 30, 2018, \$2,764,843 of alternative investments is subject to various redemption limits and lockup provisions, of which \$2,414,034 expires within one year and \$350,809 expires after one year from the balance sheet date.

At November 30, 2018, Northwestern Memorial had commitments to fund approximately an additional \$770,000 to alternative investment entities. This funding is expected to occur over the next 12 years.

## **7. 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.

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

- 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 November 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 328,501	\$ —	\$ —	\$ 328,501
Investments:				
Short-term investments:				
Currency	15,192	—	—	15,192
Fixed Income	138,690	—	—	138,690
Total short-term investments	153,882	—	—	153,882
Mutual funds:				
Fixed income	63,235	—	—	63,235
U.S. equities	150,945	—	—	150,945
Total mutual funds	214,180	—	—	214,180
Other fixed income	—	13,723	—	13,723
Bonds:				
Corporate bonds	—	332,275	—	332,275
U.S. government and agencies' issues	—	273,385	—	273,385
Total bonds	—	605,660	—	605,660
Equity securities	206,271	84	—	206,355
Cash equivalents in investment accounts	208,171	—	—	208,171
Total investments	782,504	619,467	—	1,401,971
Beneficial interest in trusts	—	16,501	—	16,501
Total assets	<u>\$ 1,111,005</u>	<u>\$ 635,968</u>	<u>\$ —</u>	<u>\$ 1,746,973</u>
Investments recorded at fair value based on NAV				984,216
Total assets measured at fair value				<u>\$ 2,731,189</u>
Liabilities:				
Interest rate swaps	\$ —	\$ 68,543	\$ —	\$ 68,543

**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, 2018:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 407,249	\$ —	\$ —	\$ 407,249
<b>Investments:</b>				
Short-term investments:				
Currency	15,136	—	—	15,136
Fixed Income	36,862	—	—	36,862
Total short-term investments	51,998	—	—	51,998
Mutual funds:				
Fixed income	95,944	—	—	95,944
U.S. equities	166,775	—	—	166,775
Total mutual funds	262,719	—	—	262,719
Other fixed income	—	23,926	—	23,926
<b>Bonds:</b>				
Corporate bonds	—	305,081	—	305,081
U.S. government and agencies' issues	—	258,970	—	258,970
Total bonds	—	564,051	—	564,051
Equity securities	221,948	408	—	222,356
Cash equivalents in investment accounts	43,135	—	—	43,135
Total investments	579,800	588,385	—	1,168,185
Beneficial interest in trusts	—	15,048	—	15,048
Total assets	<u>\$ 987,049</u>	<u>\$ 603,433</u>	<u>\$ —</u>	<u>\$ 1,590,482</u>
Investments recorded at fair value based on NAV				<u>1,062,588</u>
Total assets measured at fair value				<u>\$ 2,653,070</u>
<b>Liabilities:</b>				
Interest rate swaps	\$ —	\$ 73,350	\$ —	\$ 73,350

There were no transfers into or out of Level 1 or Level 2 during the periods ended November 30, 2018 or year ended August 31, 2018.

**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 November 30, 2018 and August 31, 2018 is as follows:

	<b>November 30, 2018</b>	<b>August 31, 2018</b>
Short-term investments measured at fair value	\$ 153,882	\$ 51,998
Investments, including assets limited as to use measured at fair value	2,232,305	2,178,775
Total investments at fair value	2,386,187	2,230,773
Alternative investments accounted for under equity method included in investments, including assets limited as to use	3,846,124	3,951,028
Total investments	<u>\$ 6,232,311</u>	<u>\$ 6,181,801</u>
Pledges and grants receivable, less current portion:		
Beneficial interests in trusts at fair value	\$ 16,501	\$ 15,048
Pledges and grants receivable, less current portion, net	37,312	29,808
Total pledges and grants receivable, less current portion	<u>\$ 53,813</u>	<u>\$ 44,856</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. equities, government and agencies' issues and corporate bonds, and fixed income instruments issued by municipalities and foreign government. The fair value of the U.S. government and agencies' issues 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. The fair values of commingled funds, common collective trusts and 103-12

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

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 \$1,811,465 at November 30, 2018 and \$1,434,210 at August 31, 2018. 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 \$59,524 and \$46,791 at November 30, 2018 and August 31, 2018, respectively.

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

**8. Long-Term Debt**

Long-term debt consists of the following:

	<b>November 30, 2018</b>	<b>August 31, 2018</b>
Revenue Bonds, Series 2017A (NMHC), payable in annual installments through July 15, 2047 (fixed coupon rates range from 3.00% to 5.00%)	\$ 538,225	\$ 538,225
Revenue Bonds, Series 2017B (NMHC), payable in annual installments through July 25, 2057 (fixed coupon rate of 5.00% through December 15, 2022)	162,380	162,380
Revenue Bonds, Series 2015A and 2015B (NMHC), payable in monthly installments through March 1, 2035 (fixed coupon rate of 2.80%)	10,536	10,662
Revenue Bonds, Series 2014A (Centegra Health System), payable in varying installments through September 1, 2042, with interest payable at varying fixed effective tax-exempt interest rates from 4.63% to 5.00%	133,545	—
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 2012 (Centegra Health System), payable in varying installment through September 1, 2038, with interest payable at varying fixed effective tax-exempt interest rates from 4.00% to 5.00%	184,700	—
Revenue Bonds, Series 2011A and 2011B (NMHC), with interest at a variable rate payable with annual principle installments through November 1, 2038, (weighted average interest rate of 2.32% and 1.25% for the three months ended November 30, 2018 and 2017, respectively)	112,900	114,600
Revenue Bonds, Series 2011C (Delnor), with interest at a variable rate payable with annual principle installments through November 1, 2038, (weighted average interest rate of 2.26% and 1.19% for the three months ended November 30, 2018 and 2017, respectively)	55,440	56,050
Revenue Bonds, Series 2014B (Centegra Health System), with interest at a variable rate payable with annual principle installments through September 1, 2044, (weighted average interest rate of 2.23% for the three months ended November 30, 2018)	33,490	—
Revenue Bonds, Series 2014C (Centegra Health System), with interest at a variable rate payable with annual principle installments through September 1, 2044 (weighted average interest rate of 3.03% for the three months ended November 30, 2018)	24,250	—

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

	<b>November 30, 2018</b>	<b>August 31, 2018</b>
Variable Rate Demand Revenue Bonds, Series 2008A (NMH), payable in annual installments through August 15, 2038 (weighted average interest rate of 1.58% and 0.87% for the three months ended November 30, 2018 and 2017, respectively)	69,330	69,330
Variable Rate Demand Revenue Bonds, Series 2007A (NMH), payable in annual installments through August 15, 2042 (weighted average interest rate of 1.55% and 0.90% for the three months ended November 30, 2018 and 2017, respectively)	203,400	203,400
NMHC variable rate note dated October 4, 2016, matures October 4, 2019 (weighted average interest rate of 2.67% and 1.67% for the three months ended November 30, 2018 and 2017, 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	325	330
NMHC commercial paper dated October 4, 2016 (weighted average interest rate of 2.27% for the three months ended November 30, 2018 and 1.31% for the two months ended November 31, 2017)	27,466	27,466
	<b>1,772,222</b>	<b>1,398,678</b>
Less:		
Unamortized (premium) discount, net and debt issuance costs	(65,616)	(47,755)
Long-term debt subject to short-term remarketing	155,725	—
Current maturities	137,000	24,571
Commercial paper, included in Short-term debt	27,466	27,466
	<b>\$ 1,517,647</b>	<b>\$ 1,394,396</b>

Per the Second Amended and Restated Master Trust Indenture dated as of December 1, 2017, as supplemented and amended (the NMHC Master Indenture), the Obligated Group includes NMHC, NMH, Northwestern Lake Forest Hospital (NLFH), Central DuPage Hospital (CDH), CDH-Delnor Health System (Cadence), Delnor-Community Hospital (Delnor), Cadence Physician Group (CPG) d/b/a Northwestern Medicine Regional Medical Group (NMRMG), the Foundation, Northwestern Medical Faculty Foundation d/b/a Northwestern Medical Group (NMG), Lake Forest Health and Fitness Institute (HFI), KishHealth System (KishHealth), Kishwaukee Community Hospital, Valley West Community Hospital, Kishwaukee Physician Group, Inc. (KPG), Marianjoy Rehabilitation Hospital & Clinic, Inc., Rehabilitation Medicine Clinic, Inc, and Marianjoy Foundation, with Wells Fargo Bank, N.A., as master trustee.

On September 1, 2018, NMHC implemented a number of actions to streamline its organization structure; some of which impacted members of the Obligated Group. Cadence was merged into

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

NMHC; KPG was merged into CPG; and KishHealth Foundation was merged into the Foundation. None of these actions had a material impact on the Obligated Group or any impact on the accompanying consolidated financial statements.

Also effective September 1, 2018, Centegra, Northern Illinois Medical Center (as of August 31, 2018, d/b/a Centegra Hospital - McHenry, Centegra Hospital - Huntley and Centegra Hospital - Woodstock), Memorial Medical Center - Woodstock, NIMED Corp., and Centegra Hospital - Huntley Holdings joined the NMHC Obligated Group. The First Supplemental Master Trust Indenture was executed to issue obligations pursuant to the NMHC Master Trust Indenture in order to secure all debt that was previously secured by obligations issued pursuant to the Centegra Master Trust Indenture prior to the release of the Centegra Master Trust Indenture in accordance with its terms.

Northwestern Memorial has lines of credit with multiple banks. Northwestern Memorial has the option to borrow at various rates expressed as an adjustment to LIBOR, prime rate or other bank-offered rates. Additionally, Northwestern has restricted certain lines of credit to secure letters of credit. The amounts available, outstanding, and restricted to secure letters of credit as of November 30, 2018 are as follows:

<b>Available</b>	<b>Outstanding</b>	<b>Restricted</b>
\$ 65,000	\$ —	\$ 1,556
65,000	—	—
15,000	—	237
7,000	—	2,174

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 November 30, 2018, the banks provided liquidity support in the event of a failed remarketing as follows:

	<b>Par Value</b>	<b>Expiration date</b>
Subseries 2007A-2, 2007A-4	\$ 101,700	October 2019
Series 2008A	69,330	October 2020
Subseries 2007A-1, 2007A-3	101,700	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

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

condensed consolidated balance sheets.

The Series 2014B and 2014C Bonds are subject to put options, such that the bondholders have agreed to hold the 2014B and 2014C Bonds for initial private placement rate periods ending on July 1, 2024 and July 1, 2021, respectively, at which time the bonds are subject to redemption. The Obligated Group may provide written notice to the bondholder no sooner than 18 months and not later than four months prior to the end of the initial private placement rate period of its desire to request the bondholders extend the initial private placement rate period. The bondholders must provide notice of acceptance of the request within 60 days of such request. In the event the initial private placement rate period is not extended, Northwestern Memorial may be required to redeem the bonds unless the bonds can be remarketed prior to July 1, 2024 and July 1, 2021, respectively.

The Series 2011C Bonds are direct placement bonds held by a bank. The Series 2011C Bonds mature on November 1, 2038 but are subject to mandatory tender and purchase on October 3, 2019 and are recorded in Long-term debt subject to short term remarketing in the condensed consolidated balance sheet. Management believes the likelihood that the Series 2011C Bonds would be tendered by the private placement bank is remote.

In December 2017 and January 2018, the following transactions occurred related to Northwestern Memorial's long- and short-term debt:

Revenue Bonds, Series 2002A-Series 2002D (Delnor); Revenue Bonds, Series 2003A-Series 2003C (Delnor) and Revenue Bonds, Series 2009B (NMH) with principal outstanding of \$35,000, \$19,950 and \$37,700, respectively, were fully legally defeased.

A portion of the Revenue Bonds, Series 2009A (NMH) and Revenue Bonds, Series 2009B bonds (CDH) were legally defeased in the amount of \$53,000 and \$28,000, respectively.

The Illinois Finance Authority issued tax-exempt fixed rate bonds, Series 2017A, in the aggregate amount of \$544,520 on behalf of NMHC as the borrower with varying maturities through 2047. The proceeds of these bonds were used to establish an escrow to legally defease the Revenue Bonds, Series 2009 (CDH) of \$81,985 and the remaining principal of the Revenue Bonds, Series 2009A (NMH) and Revenue Bonds, Series 2009B (CDH) in the amount of \$238,760 and \$180,730, respectively. Additionally, \$59,833 outstanding under the NMHC Commercial Paper program was redeemed.

The Illinois Finance Authority issued tax-exempt bonds, Series 2017B, in the aggregate amount of \$162,380 with a nominal maturity of 2057 and an interest rate initially fixed through December 14, 2022. The proceeds of these bonds were used to reimburse NMHC for a portion of the cost of the replacement Northwestern Lake Forest Hospital in Lake Forest, IL.

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

**9. 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 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 \$1,483 and \$2,134 for non-performance risk at November 30, 2018 and August 31, 2018, 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:

<b>Notional Amount</b>		<b>Maturity Date</b>	<b>Rate Paid</b>	<b>Rate Received</b>
<b>November 30, 2018</b>	<b>August 31, 2018</b>			
\$ 101,700	\$ 101,700	August 2042	3.89%	63% of 1-Month LIBOR + 28 bps
101,700	101,700	August 2042	3.89	63% of 1-Month LIBOR + 28 bps
60,575	61,113	November 2038	3.82	67% of 3-Month LIBOR
60,575	61,113	November 2038	3.52	67% of 3-Month LIBOR
<u>\$ 324,550</u>	<u>\$ 325,626</u>			

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

The fair value of derivative instruments is as follows:

	<b>Derivatives Liabilities</b>		
	<b>Balance Sheet Location</b>	<b>November 30, 2018</b>	<b>August 31, 2018</b>
Derivatives not designated as hedging instruments:			
Interest rate contracts	Interest rate swap liabilities	\$ 68,543	\$ 73,350

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

	<b>Three Months Ended November 30,</b>	
	<b>2018</b>	<b>2017</b>
Derivatives not designated as hedging instruments:		
Operating expense - interest	\$ (1,097)	\$ (1,816)
Nonoperating - change in fair value of interest rate swaps	4,807	12,872

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 not posted collateral as of November 30, 2018 or August 31, 2018. If the credit-risk-related contingent features underlying the agreement were triggered to the fullest extent on November 30, 2018, Northwestern Memorial would be required to post \$70,026 of additional collateral to its counterparties.

In February 2018, Northwestern Memorial terminated two of its existing swaps with notional amounts of \$35,000 and \$19,950, which did not have a material impact on the condensed consolidated statements of operations and changes in net assets.

## **10. 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

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

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.

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 three months ended November 30, 2018 and 2017 are summarized below:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, August 31, 2017	\$ 58,822	\$ 175,080	\$ 233,902
Contributions	135	6,403	6,538
Change in value of trusts	—	525	525
Investment return	8,144	—	8,144
Appropriation for expenditure	(6,186)	—	(6,186)
Other	(5,112)	624	(4,488)
Endowment net assets, August 31, 2018	55,803	182,632	238,435
Contributions	948	4,949	5,897
Change in value of trusts	—	(628)	(628)
Investment return	2,216	—	2,216
Appropriation for expenditure	(1,877)	—	(1,877)
Other	(288)	950	662
Endowment net assets, November 30, 2018	<u>\$ 56,802</u>	<u>\$ 187,903</u>	<u>\$ 244,705</u>

**11. 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 November 30, 2018 and August 31, 2018. 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.

**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 Nonoperating gains (losses) Other in the accompanying condensed consolidated statements of operations and changes in net assets is comprised of the following:

	<b>Three Months Ended</b>	
	<b>November 30,</b>	
	<b>2018</b>	<b>2017</b>
Plan expenses	(331)	(386)
Interest cost on projected benefit obligation	(5,767)	(5,036)
Expected return on the Plans' assets	11,478	12,779
Amortization of net loss	(154)	(438)
	<b>\$ 5,226</b>	<b>\$ 6,919</b>

Northwestern Memorial made no contributions for the three month period ended November 30, 2018 and has no current plans to contribute to the Plans during the fiscal year ending August 31, 2019.

Northwestern Memorial uses the spot rate approach to measure the service and interest cost. 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.

**13. Commitments and Contingencies**

*Academic, Program 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 \$112,077 and \$110,886 at November 30, 2018 and August 31, 2018, 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 FSM. This continuing funding is based on the average net patient service revenue and operating results of Northwestern Memorial. The expense incurred of \$21,509 and \$20,105 for the three months ended November 30, 2018 and 2017, respectively, is recorded in Other expense in the accompanying condensed consolidated statements of operations and changes in net assets; and a related liability of \$22,627 and \$1,118 is reported in Accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheets as of November 30, 2018 and August 31, 2018, 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 \$1,196,000. As of November 30, 2018, project commitments totaled \$699,000, of which \$523,000 has been incurred.

*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 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

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

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.

**14. Affiliation Agreement with Centegra**

On September 1, 2018, Centegra Health System (Centegra) became a wholly owned subsidiary of NMHC pursuant to an affiliation agreement between NMHC and Centegra. This affiliation positions Northwestern Memorial, under the Northwestern Medicine brand, to expand its integrated academic health delivery system to McHenry 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 Topic (ASC) 958-805, *"Not-for-Profit Entities: Business Combinations"*, and a contribution was recorded for the estimated fair value of assets, net of liabilities of Centegra. No goodwill is expected to be recorded as a result of this transaction. The valuation of all assets and liabilities is pending. Because of the significance of the items that are pending, management is unable to disclose the fair value of identifiable net assets at this time. In valuing these assets and liabilities acquired, fair values will be based on, but not limited to, independent appraisals, discounted cash flows, replacement costs and actuarially determined values.

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

The acquisition-date estimated fair value of identifiable assets and liabilities of Centegra at September 1, 2018 consisted of the following:

Fair Value of identifiable net assets:	
Cash and cash equivalents	12,406
Other current assets	120,315
Property and equipment	385,860
Other long-term assets	155,312
Current liabilities	(143,115)
Long-term debt	(397,494)
Other long-term liabilities	(3,021)
Temporarily restricted net assets	(6,505)
Contribution of unrestricted net assets	<u>123,758</u>

The valuation of long-term debt has been completed. The valuation of all other assets and liabilities is in the process of being completed and is expected to be completed in fiscal 2019. In valuing these assets and liabilities acquired, fair values will be based on, but not limited to, independent appraisals, discounted cash flows, replacement costs and actuarially determined values.

Operating expenses for the three month period ended November 30, 2018, include costs related to the integration of Centegra 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 Centegra for the three month period ended November 30, 2018 included in the accompanying condensed consolidated statements of operations and changes in net assets:

	<b>Three Months Ended</b>
	<b>November 30, 2018</b>
	<hr/>
Total operating revenue	\$ 146,401
(Deficiency) of revenue over expenses	(4,518)
Change in unrestricted net assets	(5,279)
Change in temporarily restricted net assets	74

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

Following are the unaudited pro forma results as if the Centegra affiliation had occurred on September 1, 2017:

	<b>Three Months Ended November 30, 2017</b>
Total Operating Revenue	\$ 1,426,483
Operating income	101,755
Excess of revenue over expenses attributable to NMHC and subsidiaries	333,192

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 2017, and is not intended to project Northwestern Memorial's results of operations for any future period.

**15. Subsequent Events**

Northwestern Memorial evaluated events and transactions occurring subsequent to November 30, 2018 through January 14, 2019, the date of issuance of these condensed consolidated financial statements. There were no recognized subsequent events and no unrecognized subsequent events requiring disclosure.

## Supplementary Information

**Northwestern Memorial HealthCare and Subsidiaries**  
**Condensed Consolidating Balance Sheet**  
**November 30, 2018**  
*(Unaudited)*  
*(Dollars in thousands)*

	Obligated Group (Note 1)	Non-Obligated Group	Eliminations	Consolidated
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 304,439	\$ 88,745	\$ (64,683)	\$ 328,501
Short-term investments	153,809	73	—	153,882
Current portion of investments, including assets limited as to use	67,791	81,989	—	149,780
Patient accounts receivable, net of estimated uncollectible accounts	848,700	16,564	—	865,264
Current portion of pledges and grants receivable, net	23,198	73	—	23,271
Current portion of insurance recoverable	95,421	4,449	(80,037)	19,833
Inventories	86,224	45	—	86,269
Other current assets	104,254	95,268	(70,858)	128,664
Due from affiliates	310,884	126,166	(437,050)	—
<b>Total current assets</b>	<b>1,994,720</b>	<b>413,372</b>	<b>(652,628)</b>	<b>1,755,464</b>
Investments, including assets limited as to use, less current portion	5,857,581	79,701	(8,633)	5,928,649
Property and equipment, at cost:				
Land	363,004	36,400	—	399,404
Buildings	4,187,738	121,353	—	4,309,091
Equipment and furniture	1,369,335	60,639	—	1,429,974
Construction-in-progress	149,565	4,994	—	154,559
	<b>6,069,642</b>	<b>223,386</b>	<b>—</b>	<b>6,293,028</b>
Less accumulated depreciation	2,275,276	34,209	—	2,309,485
	<b>3,794,366</b>	<b>189,177</b>	<b>—</b>	<b>3,983,543</b>
Prepaid pension cost	185,444	—	—	185,444
Pledges and grants receivable, less current portion	59,392	3,360	(8,939)	53,813
Insurance recoverable, less current portion	349,500	90,776	(345,099)	95,177
Other assets, net	211,491	354,633	(392,214)	173,910
<b>Total assets</b>	<b>\$ 12,452,494</b>	<b>\$ 1,131,019</b>	<b>\$ (1,407,513)</b>	<b>\$ 12,176,000</b>

**Northwestern Memorial HealthCare and Subsidiaries**  
**Condensed Consolidating Balance Sheet (continued)**  
**November 30, 2018**  
**(Unaudited)**  
**(Dollars in thousands)**

	Obligated Group (Note 1)	Non-Obligated Group	Eliminations	Consolidated
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable	\$ 209,707	\$ (1,044)	\$ —	\$ 208,663
Accrued salaries and benefits	253,471	8,190	—	261,661
Grants and academic support payable, current portion	34,950	—	—	34,950
Accrued expenses and other current liabilities	159,327	72,347	(43,302)	188,372
Due to third-party payors	599,640	6,269	—	605,909
Current accrued liabilities under self-insurance programs	188,407	102,688	(156,661)	134,434
Due to cash pool	64,682	—	(64,682)	—
Current maturities of long-term debt	135,327	1,673	—	137,000
Long-term debt subject to short term remarketing agreements	155,725	—	—	155,725
Short-term debt	27,466	—	—	27,466
Due to affiliates	126,166	310,884	(437,050)	—
<b>Total current liabilities</b>	<b>1,954,868</b>	<b>501,007</b>	<b>(701,695)</b>	<b>1,754,180</b>
Long-term debt, less current maturities	1,474,447	43,200	—	1,517,647
Accrued liabilities under self-insurance programs, less current portion	784,935	406,129	(628,274)	562,790
Grants and academic support payable, less current portion	77,127	—	—	77,127
Interest rate swaps	68,543	—	—	68,543
Due to investment pool participants	8,633	—	(8,633)	—
Other liabilities	148,717	3,047	—	151,764
<b>Total liabilities</b>	<b>4,517,270</b>	<b>953,383</b>	<b>(1,338,602)</b>	<b>4,132,051</b>
Net assets:				
Unrestricted:				
Undesignated	7,241,024	170,319	(62,910)	7,348,433
Board-designated	244,918	3	—	244,921
Non-controlling interest in consolidated venture	—	432	46	478
<b>Total unrestricted</b>	<b>7,485,942</b>	<b>170,754</b>	<b>(62,864)</b>	<b>7,593,832</b>
Temporarily restricted	261,379	6,882	(6,047)	262,214
Permanently restricted	187,903	—	—	187,903
<b>Total net assets</b>	<b>7,935,224</b>	<b>177,636</b>	<b>(68,911)</b>	<b>8,043,949</b>
<b>Total liabilities and net assets</b>	<b>\$ 12,452,494</b>	<b>\$ 1,131,019</b>	<b>\$ (1,407,513)</b>	<b>\$ 12,176,000</b>

**Northwestern Memorial HealthCare and Subsidiaries**  
**Condensed Consolidating Statement of Revenue and Expenses**  
**Three Months Ended November 30, 2018**  
*(Unaudited)*  
*(Dollars in thousands)*

	Obligated Group (Note 1)	Non-Obligated Group	Eliminations	Consolidated
<b>Revenue</b>				
Net patient service revenue	\$ 1,396,278	\$ 33,337	\$ (8,737)	\$ 1,420,878
Rental and other revenue	72,674	42,106	(31,571)	83,209
Net assets released from donor restrictions and federal and state grants	7,191	353	—	7,544
Total revenue	1,476,143	75,796	(40,308)	1,511,631
<b>Expenses</b>				
Salaries	568,496	23,160	—	591,656
Employee benefits	85,165	5,071	(400)	89,836
Supplies	288,030	2,882	—	290,912
Purchased services	152,787	19,790	(16,597)	155,980
Depreciation and amortization	87,292	3,080	—	90,372
Insurance	33,285	21,282	(21,655)	32,912
Rent and utilities	26,209	3,016	(1,644)	27,581
Repairs and maintenance	24,630	2,025	—	26,655
Interest	14,998	4	—	15,002
Illinois Hospital Assessment	38,529	—	—	38,529
Other	38,452	1,715	(11)	40,156
Total expenses	1,357,873	82,025	(40,307)	1,399,591
<b>Operating income (loss)</b>	118,270	(6,229)	(1)	112,040
<b>Nonoperating (losses) gains</b>				
Investment return	(245,626)	(4,531)	(981)	(251,138)
Contribution of Centegra net assets	146,836	(20,065)	(3,013)	123,758
Change in fair value of interest rate swaps	4,807	—	—	4,807
Grants and academic support provided	(9,843)	(2)	—	(9,845)
Other	7,325	45	—	7,370
Total nonoperating (losses) gains, net	(96,501)	(24,553)	(3,994)	(125,048)
<b>Excess (deficit) of revenue over expenses</b>	21,769	(30,782)	(3,995)	(13,008)
Net gain attributable to non-controlling interest in subsidiaries	—	120	182	302
<b>Excess (deficit) of revenue over expenses attributable to NMHC and Subsidiaries</b>	\$ 21,769	\$ (30,902)	\$ (4,177)	\$ (13,310)

**Obligated Group  
Utilization Statistics  
(Unaudited)**

	<b>Obligated Group</b>	
	<b>Three Months Ended November 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Sources of Net Patient Service Revenue *</b>		
Medicare	25.8%	25.1%
Medicaid	5.0%	4.2%
Charge-based	5.4%	4.1%
Managed Care	63.8%	66.6%
Total	100.0%	100.0%
<b>Utilization of Services</b>		
Admissions (Acute)	27,892	22,523
Observation Cases	13,744	9,965
Equivalent Admissions	68,152	54,079
Average Length of Stay	4.7	4.9
Patient Days	131,379	109,703
Average Occupancy (staffed beds)	69.0%	68.6%
Average Occupancy Incl. Observations	78.4%	78.3%
Deliveries	5,206	4,647
Emergency Room Visits:		
Inpatient	13,889	10,444
Outpatient	76,216	61,231
Total	90,105	71,675
Registrations - Outpatient other than Emergency Room	724,185	593,095
Surgeries:		
Inpatient	6,632	5,622
Outpatient	14,520	12,333
Total	21,152	17,955
Beds, Licensed	2,127	1,809
Beds, Staffed	2,093	1,757
Total Observation Days	17,951	15,543
Medicare Case Mix Index	1.872	1.997
Overall Case Mix Index	1.610	1.695

\*Excluding revenue from Hospital Assessment Program.

**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 between NMHC, the other Members of the Obligated Group (as defined in the New Master Indenture) and Wells Fargo Bank, National Association, dated as of December 1, 2017, as amended and supplemented by the Second Supplemental Master Trust Indenture dated as of September 1, 2018.