



Quarterly Report

As of and for the Third Quarter Ended
May 31, 2016

Northwestern Memorial HealthCare
and Subsidiaries

**NORTHWESTERN MEMORIAL HEALTHCARE
OFFICER'S CERTIFICATE**


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 for the period ended May 31, 2016, subject to year-end adjustment in the final audited financial statements.

This 15th day of July, 2016.

Northwestern Memorial HealthCare

By:

/s/



John A. Orsini
Senior Vice President and CFO

**NORTHWESTERN MEMORIAL HEALTHCARE
AND SUBSIDIARIES**
Unaudited Condensed Consolidated Financial Statements
As of and for the Third Quarter Ended May 31, 2016

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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)

	<u>May 31, 2016</u>	<u>August 31, 2015</u>
	<u>(Unaudited)</u>	<u>Note A</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 245,426	\$ 258,313
Short-term investments	40,345	41,516
Current portion of investments, including assets limited as to use	277,264	117,970
Patient accounts receivable, net of estimated uncollectible accounts of \$177,666 at May 31, 2016 and \$142,385 at August 31, 2015	593,745	485,548
Current portion of pledges and grants receivable, net	23,613	18,043
Current portion of insurance recoverable	10,989	9,533
Inventories	58,544	48,217
Other current assets	123,757	129,352
Total current assets	<u>1,373,683</u>	<u>1,108,492</u>
Investments, including assets limited as to use, less current portion	4,718,019	4,605,578
Property and equipment, at cost:		
Land	344,174	325,369
Buildings	3,266,962	2,986,891
Equipment and furniture	997,258	930,058
Construction-in-progress	336,312	165,403
	<u>4,944,706</u>	<u>4,407,721</u>
Less accumulated depreciation	1,808,758	1,611,748
	<u>3,135,948</u>	<u>2,795,973</u>
Prepaid pension cost	108,504	94,392
Insurance recoverable, less current portion	63,575	64,986
Other assets, net	171,857	165,341
Total assets	<u>\$ 9,571,586</u>	<u>\$ 8,834,762</u>

Continued on next page.

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

	May 31, 2016	August 31, 2015
	(Unaudited)	Note A
Liabilities and net assets		
Current Liabilities		
Accounts payable	\$ 164,154	\$ 211,457
Accrued salaries and benefits	258,470	261,769
Grants and academic support payable, current portion	64,601	68,868
Accrued expenses and other current liabilities	203,804	112,462
Due to third-party payors	397,190	362,556
Current accrued liabilities under self-insurance programs	74,760	77,371
Current maturities of long-term debt	28,836	27,336
Long-term debt subject to short term remarketing agreements	219,300	116,045
Total current liabilities	1,411,115	1,237,864
Long-term debt, less current maturities	1,192,570	1,298,164
Accrued liabilities under self-insurance programs, less current portion	489,965	454,399
Grants and academic support payable, less current portion	136,658	131,575
Interest rate swaps	134,353	113,317
Other liabilities	119,004	114,393
Total liabilities	3,483,665	3,349,712
Net assets:		
Unrestricted:		
Undesignated	5,493,402	4,918,920
Board-designated	219,002	205,497
Noncontrolling interest in consolidated venture	(2,200)	(1,571)
Total unrestricted	5,710,204	5,122,846
Temporarily restricted	215,918	201,429
Permanently restricted	161,799	160,775
Total net assets	6,087,921	5,485,050
Total liabilities and net assets	\$ 9,571,586	\$ 8,834,762

Note A: The August 31, 2015 financial statement information was derived from and should be read in conjunction with the Northwestern Memorial HealthCare and Subsidiaries 2015 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 May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Revenue				
Net patient service revenue	\$ 1,058,356	\$ 952,820	\$ 3,135,665	\$ 2,867,523
Provision for uncollectible accounts	22,758	26,488	115,659	114,518
Net patient revenue after provision for uncollectible accounts	1,035,598	926,332	3,020,006	2,753,005
Rental and other revenue	107,543	38,834	199,647	112,653
Net assets released from donor restrictions and federal and state grants	6,327	7,017	15,341	27,307
Total revenue	1,149,468	972,183	3,234,994	2,892,965
Expenses				
Salaries	460,228	388,841	1,305,203	1,139,505
Employee benefits	77,344	65,280	215,781	202,697
Supplies	194,199	154,722	555,871	461,554
Purchased services	120,174	100,208	318,072	283,900
Depreciation and amortization	78,266	71,664	223,546	213,417
Insurance	27,400	27,121	77,464	64,363
Rent and utilities	20,424	18,411	59,238	54,452
Repairs and maintenance	17,402	17,229	48,414	48,971
Interest	12,965	15,225	40,565	45,204
Illinois Hospital Assessment	21,779	21,131	62,693	60,965
Other	34,052	31,909	98,823	95,535
Total expenses	1,064,233	911,741	3,005,670	2,670,563
Operating income	85,235	60,442	229,324	222,402
Nonoperating gains (losses)				
Investment return	243,672	79,295	(6,457)	146,518
Change in fair value of interest rate swaps	2,915	8,573	(21,036)	(23,016)
Contribution of KishHealth unrestricted net assets	30,132	—	353,199	—
Contribution of Marianjoy unrestricted net assets	45,111	—	45,111	—
Contribution of Cadence Health unrestricted net assets	—	—	—	1,781,068
Loss on extinguishment of long term debt	—	—	(4,030)	—
Grants and academic support provided	(3,860)	(3,212)	(12,648)	(9,514)
Other	384	2,234	(5,257)	4,391
Total nonoperating gain, net	318,354	86,890	348,882	1,899,447
Excess of revenue over expenses	403,589	147,332	578,206	2,121,849
Net gain (loss) attributable to non-controlling interest in subsidiaries	3	314	423	(819)
Excess of revenue over expenses attributable to NMHC and Subsidiaries	\$ 403,586	\$ 147,018	\$ 577,783	\$ 2,122,668

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 May 31,					
	2016			2015		
	Total	Controlling	Non-controlling	Total	Controlling	Non-controlling
Unrestricted net assets						
Excess of revenue over expenses	\$ 403,589	\$ 403,586	3	\$ 147,332	\$ 147,018	\$ 314
Net assets released from restrictions used for property and equipment additions	670	670	—	758	758	—
Postretirement-benefit-related changes other than net periodic pension cost	115	115	—	408	408	—
Initial value of noncontrolling interests in acquired companies	—	—	—	—	(241)	241
Distribution to non-controlling interest	(336)	34	(370)	—	—	—
Other	462	870	(408)	(213)	(213)	—
Increase (decrease) in unrestricted net assets	404,500	405,275	(775)	148,285	147,730	555
Temporarily restricted net assets						
Contributions	13,373	13,373	—	13,769	13,769	—
Investment return	3,494	3,494	—	3,121	3,121	—
Net assets released from restrictions used for:						
Operating expenses, charity care, and research and education	(6,685)	(6,685)	—	(8,933)	(8,933)	—
Property and equipment additions	(670)	(670)	—	(758)	(758)	—
Change in fair value of split-interest agreements	(822)	(822)	—	(150)	(150)	—
Contribution of Marianjoy restricted net assets	3,365	3,365	—	—	—	—
Other	335	335	—	—	—	—
Increase in temporarily restricted net assets	12,390	12,390	—	7,049	7,049	—
Permanently restricted net assets						
Contributions	102	102	—	1,117	1,117	—
Change in fair value of split-interest agreements	202	202	—	414	414	—
Increase in permanently restricted net assets	304	304	—	1,531	1,531	—
Change in net assets	417,194	417,969	(775)	156,865	156,310	555
Net assets, beginning of period	5,670,727	5,672,152	(1,425)	5,589,463	5,592,781	(3,318)
Net assets, end of period	<u>\$ 6,087,921</u>	<u>\$ 6,090,121</u>	<u>\$ (2,200)</u>	<u>\$ 5,746,328</u>	<u>\$ 5,749,091</u>	<u>\$ (2,763)</u>

Continued on next page.

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

	Nine Months Ended May 31,					
	2016			2015		
	Total	Controlling	Non-controlling	Total	Controlling	Non-controlling
Unrestricted net assets						
Excess of revenue over expenses	\$ 578,206	\$ 577,783	\$ 423	\$ 2,121,849	\$ 2,122,668	\$ (819)
Net assets released from restrictions used for property and equipment additions	9,335	9,335	—	4,515	4,515	—
Postretirement benefit-related changes other than net periodic pension cost	346	346	—	1,222	1,222	—
Initial value of noncontrolling interests in acquired companies	1,141	—	1,141	(2,185)	(241)	(1,944)
Distribution to non-controlling interest	(1,785)	—	(1,785)	—	—	—
Other	115	523	(408)	(101)	(101)	—
Increase (decrease) in unrestricted net assets	587,358	587,987	(629)	2,125,300	2,128,063	(2,763)
Temporarily restricted net assets						
Contributions	27,846	27,846	—	32,712	32,712	—
Investment return	9,317	9,317	—	7,202	7,202	—
Net assets released from restrictions used for:						
Operating expenses, charity care and research and education	(16,516)	(16,516)	—	(22,310)	(22,310)	—
Property and equipment additions	(9,335)	(9,335)	—	(4,515)	(4,515)	—
Change in fair value of split-interest agreements	(854)	(854)	—	(120)	(120)	—
Contribution of KishHealth restricted net assets	788	788	—	—	—	—
Contribution of Marianjoy restricted net assets	3,365	3,365	—	—	—	—
Contribution of Cadence Health restricted net assets	—	—	—	17,834	17,834	—
Other	(122)	(122)	—	(894)	(894)	—
Increase in temporarily restricted net assets	14,489	14,489	—	29,909	29,909	—
Permanently restricted net assets						
Contributions	1,285	1,285	—	2,512	2,512	—
Change in fair value of split-interest agreements	(862)	(862)	—	(68)	(68)	—
Contribution of KishHealth restricted net assets	601	601	—	—	—	—
Contribution of Cadence Health restricted net assets	—	—	—	5,655	5,655	—
Other	—	—	—	(1,100)	(1,100)	—
Increase in permanently restricted net assets	1,024	1,024	—	6,999	6,999	—
Change in net assets	602,871	603,500	(629)	2,162,208	2,164,971	(2,763)
Net assets, beginning of period	5,485,050	5,486,621	(1,571)	3,584,120	3,584,120	—
Net assets, end of period	\$ 6,087,921	\$ 6,090,121	\$ (2,200)	\$ 5,746,328	\$ 5,749,091	\$ (2,763)

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

	Nine Months Ended May 31,	
	2016	2015
Operating activities		
Change in net assets	\$ 602,871	\$ 2,162,208
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Postretirement related changes other than net periodic pension cost	(346)	(1,222)
Change in fair value of interest rate swaps	21,036	23,016
Loss on extinguishment of long-term debt	4,030	—
Net unrestricted realized investment return and net change in unrestricted and restricted unrealized investment gains/losses	5,806	(147,462)
Restricted contributions, change in fair value of split interest agreements, and realized investment return	(36,081)	(41,293)
Contribution of Cadence Health net assets less noncontrolling interest	—	(1,802,373)
Contribution of KishHealth net assets less noncontrolling interest	(355,729)	—
Contribution of Marianjoy net assets	(48,476)	
Depreciation and amortization	223,546	213,417
Provision for uncollectible accounts	115,659	115,378
Changes in operating assets and liabilities:		
Patient accounts receivable	(173,969)	(128,658)
Due to third-party payors	(1,028)	(29,535)
Grants and academic support payable	816	(5,088)
Other operating assets and liabilities	(29,252)	(89,892)
Net cash provided by operating activities	<u>328,883</u>	<u>268,496</u>
Investing activities		
Purchase of trading securities	(996,015)	(1,180,865)
Sale of trading securities	895,201	993,170
Cash received from contribution of Cadence Health	—	123,114
Cash received from contribution of KishHealth	40,535	—
Cash paid for Marianjoy	(35,412)	
Net unrestricted realized investment return	57,705	139,539
Capital expenditures, net	(325,325)	(248,404)
Net cash used in investing activities	<u>(363,311)</u>	<u>(173,446)</u>
Financing activities		
Payments of long-term debt	(74,370)	(113,460)
Proceeds from line of credit	59,750	—
Proceeds from issuance of long-term debt	80	105,000
Restricted contributions, change in fair value of split interest agreements, and realized investment return	36,081	41,293
Net cash provided by financing activities	<u>21,541</u>	<u>32,833</u>
Net (decrease) increase in cash and cash equivalents	(12,887)	127,883
Cash and cash equivalents, beginning of period	258,313	108,490
Cash and cash equivalents, end of the period	<u>\$ 245,426</u>	<u>\$ 236,373</u>

See accompanying notes to the interim condensed consolidated financial statements.

As of and for the Third Quarter Ended

May 31, 2016

1. Organization and Basis of Presentation

Northwestern Memorial HealthCare (NMHC) is an integrated not-for-profit health care organization, anchored by Northwestern Memorial Hospital (NMH) and Northwestern Medical Group (NMG), which 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 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 subsidiaries (collectively referred to herein as Northwestern Memorial).

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, 2015.

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, 2015, which are available on the Electronic Municipal Market Access ("EMMA") website of the Municipal Securities Rulemaking Board.

2. Reclassifications

Certain reclassifications have been made to the 2015 condensed consolidated financial statements to conform with classifications used in 2016. The reclassifications had no effect on the changes in net assets previously reported.

3. 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*. ASU 2014-09 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 and 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. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2016. 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. The ASU allows two alternative methods for application, either retrospectively to each reporting period presented or as cumulative effect at the date of initial application. Northwestern Memorial is evaluating the effect this guidance will have on its consolidated

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

financial statements.

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2015-05 provides explicit guidance on how to account for fees paid in cloud computing arrangements to remove the diversity in practice for accounting for these arrangements. Cloud computing arrangements include software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This new guidance is effective for Northwestern Memorial for fiscal years and interim periods within those fiscal years beginning after December 15, 2015 with early adoption permitted. 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 ASU will have on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *"Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments"* ("ASU 2015-16"). The standard requires that adjustments made to provisional amounts recognized in a business combination be recorded in the period such adjustments are determined, rather than retrospectively adjusting previously reported amounts. ASU 2015-16 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and early adoption is permitted. We early adopted ASU 2015-16 during our second quarter of fiscal year 2016 and there was no impact to the consolidated financial statements. We will apply the new guidance to future adjustments to provisional amounts.

4. Acquisitions

Affiliation Agreement 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.

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

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 Organizations: Mergers and Acquisitions (ASC 858-805)*, 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.

The preliminary 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	206,748
Property and equipment	166,548
Other long-term assets	87,114
Current liabilities	(65,689)
Long-term debt	(74,024)
Other long-term liabilities	(5,503)
Noncontrolling interested in unrestricted net assets	(1,141)
Temporarily restricted net assets	(788)
Permanently restricted net assets	(601)
Contribution of unrestricted net assets	<u>\$ 353,199</u>

During the quarter ended May 31, 2016, NMHC recorded a measurement-period adjustment related to the KishHealth acquisition. Based on valuation estimates utilizing the income, market and cost methods, fixed assets were written up \$30,962 to their estimated fair values and management is in the process of reviewing the valuation and listing to ensure the appropriateness of the estimate. Additionally fair value adjustments were made to current liabilities based on management's assessment that were not material to the financial statements.

The valuation of other current and long-term assets, including identifiable intangible assets, current and long-term liabilities and noncontrolling interest is in process and is expected to be completed in fiscal 2016. 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.

Affiliation Agreement 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.

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

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.

The preliminary 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	15,668
Property and equipment	68,835
Other long-term assets	3,920
Current liabilities	(4,535)
Temporarily restricted net assets	(3,365)
	<u>80,523</u>
Less: consideration	(35,412)
Contribution	<u>\$ 45,111</u>

The valuation of property and equipment, other current and long-term assets, including identifiable intangible assets, current and long-term liabilities and noncontrolling interest is in process and is expected to be completed in fiscal 2016. 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.

Following are the results for the acquisition of KishHealth and Marianjoy for both the three and nine month periods ended May 31, 2016 included in the accompanying condensed consolidated statements of operations and changes in net assets:

	<u>Three Months</u>	<u>Nine Months</u>
Total operating revenue	\$ 86,022	\$ 150,851
Excess of revenue over expenses	12,672	7,173
Change in unrestricted net assets	12,745	7,671
Change in temporarily restricted net assets	(415)	(359)

Following are the unaudited pro forma results of Northwestern Memorial as if the KishHealth and Marianjoy affiliation had occurred on September 1, 2014:

	<u>Three Months Ended</u> <u>May 31,</u>		<u>Nine Months Ended</u> <u>May 31,</u>	
	2016	2015	2016	2015
Total operating revenue	\$ 1,149,468	\$ 1,060,607	\$ 3,349,741	\$ 3,137,302
Operating income	85,235	63,304	236,342	236,656
Excess of revenue over expenses attributable to NMHC and subsidiaries	328,343	151,320	182,290	2,148,020

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, 2014, 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, cash and cash equivalents and short-term investments, is as follows:

	May 31, 2016	August 31, 2015
Measured at fair value:		
Cash and short-term investments	\$ 409,349	\$ 367,774
Mutual funds	783,130	902,419
Corporate bonds	130,588	119,511
U.S. government and agency issues	126,010	79,600
Equity securities	164,004	117,514
Other fixed income	2,797	542
	1,615,878	1,587,360
Measured at net asset value as practical expedient for fair value:		
Common collective trusts and commingled funds	587,136	552,979
Interest in 103-12 investment entities	195,657	191,617
	782,793	744,596
Accounted for under the equity method:		
Alternative investments	2,882,383	2,691,421
	\$ 5,281,054	\$ 5,023,377

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

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

	May 31, 2016	August 31, 2015
Assets limited as to use:		
Trustee-held funds	\$ 84,102	\$ 63,914
Self-insurance programs	595,586	573,804
Board-designated funds	181,569	160,015
Total assets limited as to use	<u>861,257</u>	<u>797,733</u>
Donor-restricted funds	321,766	300,555
Unrestricted, undesignated funds	3,812,260	3,625,260
Total investments, excluding short-term investments	<u>4,995,283</u>	<u>4,723,548</u>
Other financial instruments:		
Cash and cash equivalents and short-term investments	285,771	299,829
	<u>\$ 5,281,054</u>	<u>\$ 5,023,377</u>

The composition and presentation of investment returns are as follows:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Interest and dividend income	\$ 8,126	\$ 9,132	\$ 31,487	\$ 34,574
Investment expenses	(1,537)	(1,245)	(3,392)	(2,753)
Realized gains on alternative investments, net	(3,573)	29,850	27,616	57,758
Realized gains on other investments, net	3,340	8,261	8,137	54,018
Change in unrealized (losses)/gains on alternative investments	138,185	34,157	(70,236)	63,779
Change in unrealized (losses)/gains on other investments	102,697	1,860	8,196	(55,282)
Change in value of joint ventures	1,132	821	2,523	2,199
	<u>\$ 248,370</u>	<u>\$ 82,836</u>	<u>\$ 4,331</u>	<u>\$ 154,293</u>
Reported as:				
Rental and other revenue	\$ 1,204	\$ 420	\$ 1,471	\$ 573
Nonoperating investment return	243,672	79,295	(6,457)	146,518
Temporarily restricted - investment return	3,494	3,121	9,317	7,202
	<u>\$ 248,370</u>	<u>\$ 82,836</u>	<u>\$ 4,331</u>	<u>\$ 154,293</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.

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

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 equity 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 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.

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.

As of May 31, 2016, \$2,012,715 of alternative investments is subject to various redemption limits and lockup provisions, of which \$1,188,648 expires within one year and \$824,067 expires after one year from the balance sheet date.

At May 31, 2016, Northwestern Memorial had commitments to fund an additional \$806,474 to alternative investment entities, which is expected to occur over the next 12 years.

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements *(continued)*
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6. Fair Value Measurements

Northwestern Memorial follows the requirements of ASC 820 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 May 31, 2016:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 245,426	\$ —	\$ —	\$ 245,426
Investments:				
Short term investments:				
Currency	27	—	—	27
Fixed Income	40,318	—	—	40,318
Total short term investments	40,345	—	—	40,345
Mutual funds:				
Fixed income	387,591	—	—	387,591
International equities	127,594	—	—	127,594
Natural resources	6,920	—	—	6,920
U.S. equities	217,213	—	—	217,213
Blended equities	—	—	—	—
Marketable alternatives	43,812	—	—	43,812
Total mutual funds	783,130	—	—	783,130
Other fixed income	—	2,797	—	2,797
Bonds:				
Corporate bonds	—	130,588	—	130,588
U.S. government and agencies' issues	—	126,010	—	126,010
Total bonds	—	256,598	—	256,598
Equity securities	163,676	328	—	164,004
Cash equivalents in investment accounts	123,578	—	—	123,578
Total investments	1,110,729	259,723	—	1,370,452
Beneficial interest in trusts	—	13,089	—	13,089
Total assets	\$ 1,356,155	\$ 272,812	\$ —	\$ 1,628,967
Investments recorded at fair value based on NAV				782,793
Total assets measured at fair value				\$ 2,411,760
Liabilities:				
Interest rate swaps	\$ —	\$ 134,353	\$ —	\$ 134,353

Northwestern Memorial HealthCare
Notes to Interim Condensed Consolidated Financial Statements (continued)
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The following table presents the financial instruments measured at fair value on a recurring basis at August 31, 2015:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 258,313	\$ —	\$ —	\$ 258,313
Investments:				
Short term investments:				
Currency	27	—	—	27
Fixed Income	41,489	—	—	41,489
Total short term investments	41,516	—	—	41,516
Mutual funds:				
Fixed income	451,648	—	—	451,648
International equities	73,367	—	—	73,367
U.S. equities	219,404	—	—	219,404
Blended equities	158,000	—	—	158,000
Total mutual funds	902,419	—	—	902,419
Other fixed income	—	542	—	542
Bonds:				
Corporate bonds	—	119,511	—	119,511
U.S. government and agencies' issues	—	79,600	—	79,600
Total bonds	—	199,111	—	199,111
Equity securities	117,168	346	—	117,514
Cash equivalents in investment accounts	67,945	—	—	67,945
Total investments	1,129,048	199,999	—	1,329,047
Beneficial interest in trusts	—	14,073	—	14,073
Total assets	<u>\$ 1,387,361</u>	<u>\$ 214,072</u>	<u>\$ —</u>	<u>\$ 1,601,433</u>
Investments recorded at fair value based on NAV				744,596
Total assets measured at fair value				<u>\$ 2,346,029</u>
Liabilities:				
Interest rate swaps	\$ —	\$ 113,317	\$ —	\$ 113,317

There were no transfers into or out of Level 2 or Level 1 during the nine months ended May 31, 2016 or the year ended August 31, 2015.

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 May 31, 2016 and August 31, 2015 is as follows:

	May 31, 2016	August 31, 2015
Short-term investments measured at fair value	\$ 40,345	\$ 41,516
Investments, including assets limited as to use measured at fair value	2,112,900	2,032,127
Total investments at fair value	2,153,245	2,073,643
Alternative investments accounted for under equity method included in investments, including assets limited as to use	2,882,383	2,691,421
Total investments	\$ 5,035,628	\$ 4,765,064
Other long-term assets:		
Beneficial interests in trusts at fair value	\$ 13,089	\$ 14,073
Other long-term assets, net	158,768	151,268
Total other long-term assets	\$ 171,857	\$ 165,341

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 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 and fixed income instruments issued by municipalities and foreign government agencies. The fair value of the U.S. government 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. The fair values of commingled funds, common collective trusts, and 103-12 entities are based on either

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

the fair value of the underlying investments of the fund, as determined by the fund, or 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 estimated fair value of the long-term debt portfolio, including the current portion, was \$1,541,196 at May 31, 2016 and \$1,516,883 at August 31, 2015. 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 healthcare bonds. The effect of third-party credit valuation adjustments, if any, is immaterial.

The fair value of pledges receivable, a Level 2 asset, of \$43,069 and \$43,946 at May 31, 2016 and August 31, 2015, respectively, is based on discounted cash flow analysis and approximated the carrying value.

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:

	May 31, 2016	August 31, 2015
Revenue Bonds, Series 2015A and 2015B (KishHealth System), payable in monthly installments beginning March 1, 2020 through March 1, 2035 (fixed coupon rate of 2.8%)	\$ 11,760	\$ —
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 0.64% and 0.52% for the nine months ended May 31, 2016 and 2015, respectively)	117,950	119,650
Revenue Bonds, Series 2011C (Delnor), with interest at a variable rate payable in annual installments through November 1, 2038, (weighted-average interest rate of 1.13% and 0.63% for the nine months ended May 31, 2016 and 2015, respectively)	57,070	57,490
Revenue Bonds, Series 2009A (NMH), payable in annual installments through August 15, 2039 (fixed coupon rates range from 5.00% to 6.00%)	309,680	309,680
Revenue Bonds, Series 2009B (NMH), payable in annual installments through August 15, 2030 (fixed coupon rates range from 5.00% to 5.75%)	43,055	43,055
Revenue Bonds, Series 2009 (CDH) payable in annual installments through November 1, 2039 (fixed coupon rates range from 5.00% to 5.25%)	86,255	88,170
Revenue Bonds, Series 2009B (CDH) payable in annual installments through November 1, 2039 (fixed coupon rates range from 3.30% to 5.75%)	221,565	227,505
Variable Rate Demand Revenue Bonds, Series 2008A (NMH), payable in annual installments through August 15, 2038 (weighted-average interest rate of 0.08% and 0.06% for the nine months ended May 31, 2016 and 2015, respectively)	78,775	78,775
Variable Rate Demand Revenue Bonds, Series 2007A (NMH), payable in annual installments through August 15, 2042 (weighted-average interest rate of 0.11% and 0.07% for the nine months ended May 31, 2016 and 2015, respectively)	207,200	207,200

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

	May 31, 2016	August 31, 2015
Revenue Bonds, Series 2003A – Series 2003C (Delnor) payable in annual installments through November 1, 2033 (fixed coupon rates range from 5.00% - 5.25%)	22,350	24,675
Variable Rate Demand Revenue Bonds, Series 2002C (NMH), payable in annual installments beginning August 15, 2026 through August 15, 2031 (weighted-average interest rate of 0.08% and 0.06% for the nine months ended May 31, 2016 and 2015, respectively)	27,450	27,450
Revenue Bonds, Series 2002B – Series 2002D (Delnor) payable in annual installments beginning May 1, 2022 through May 1, 2032 (fixed coupon rate of 5.25%)	35,000	35,000
Delnor medical office building loan, interest fixed at 6.34%, matures September 1, 2017	13,612	13,799
CDH-Delnor Health System variable rate note dated November 25, 2014 to a bank, matures November 25, 2017 (weighted-average interest rate of 0.92% and 0.75% for the nine months ended May 31, 2016 and 2015, respectively)	105,000	105,000
The Midland Surgical Center, LLC equipment loan fixed rate loan, due July 10, 2015, payable in monthly installments of \$4 including interest at a rate of 4.00% and commercial promissory note, maturity date February 15, 2016, payable in monthly installments of \$108 including interest at a rate of 3.20%	458	—
NMHC line of credit (weighted-average interest rate of 1.07% for the nine months ended May 31, 2016)	59,750	—
	1,508,165	1,448,684
Less:		
Unamortized net discount, and debt issuance costs	7,709	7,139
Current maturities	28,836	27,336
Long-term debt subject to short-term remarketing agreements	219,300	116,045
Line of credit, included in Accrued expenses and other current liabilities	59,750	—
	\$ 1,192,570	\$ 1,298,164

Effective November 25, 2014, Central DuPage Hospital (CDH), Cadence, Delnor-Community Hospital (Delnor) and Cadence Physician Group (CPG) became members of the obligated group created under the Amended and Restated Master Trust Indenture dated as of May 1, 2004, as

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

supplemented and amended (the "NMHC Master Indenture"), among NMHC, NMH, Northwestern Lake Forest Hospital (NLFH), the Foundation, Northwestern Medical Faculty Foundation d/b/a Northwestern Medical Group (NMG), Northwestern Foundation for Research and Education d/b/a Northwestern Medical Group Management Services (NMGMS), Lake Forest Health and Fitness Institute (HFI), and 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 \$0 and \$4,030 for the three and nine months ended May 31, 2016, respectively.

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.

Northwestern Memorial has lines of credit of \$50,000 and \$80,000, which expire in May 2019 and September 2018, respectively. Northwestern Memorial has drawn \$59,750 on the \$80,000 line of credit as noted above and \$467 of the \$50,000 line is restricted to secure a letter of credit. The remaining amounts are available for operations. 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, 2015, 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. The banks provide liquidity support in the event of a failed remarketing as follows:

	<u>Par Value</u>	<u>Expiration date</u>
Series 2007A-1, 2007A-3	\$ 103,600	December 2016
Series 2008A	78,775	July 2017
Series 2002C	27,450	July 2017
Series 2007A-2, 2007A-4	103,600	December 2018

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

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

convert to a term loan at the earlier of the expiration date of the related SBPA or after 90 consecutive days of failed remarketing. 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, less any current portion, are classified as long-term debt in the accompanying condensed consolidated balance sheets.

CDH and Delnor Series 2011A, 2011B and 2011C Revenue Bonds, which are classified as long-term due to their long-term amortization periods, have one-year remarketing periods that occur at staggered dates throughout the year. The bondholders are required to hold the bonds for additional one year periods unless notice of their intent to put the bonds to the NMHC obligated group is given not less than 150 days prior to the end of the remarketing date. To the extent that bondholders may, under the terms of the debt, put their bonds within a maximum of 12 months after May 31, 2016, the principal amount of such bonds has been classified as a current obligation in the accompanying condensed consolidated balance sheets. Management believes the likelihood of a material amount of bonds being put to the NMHC obligated group is remote.

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 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 at May 31, 2016 and August 31, 2015, respectively, reflects a reduction of \$3,850 and \$1,602, respectively, for non-performance risk. 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 their swap positions in the context of their total blended cost of capital.

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

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

Notional Amount		Maturity Date	Rate Paid	Rate Received
May 31, 2016	August 31, 2015			
\$ 103,600	\$ 103,600	August 2042	3.889%	63% of 1-Month LIBOR + 28 bps
103,600	103,600	August 2042	3.889%	63% of 1-Month LIBOR + 28 bps
62,175	62,713	November 2038	3.518%	67% of 3-Month LIBOR
62,175	62,713	November 2038	3.518%	67% of 3-Month LIBOR
35,000	35,000	May 2032	4.183%	67% of 1-Month LIBOR
22,350	24,675	May 2033	2.892%	67% of 1-Month LIBOR
<u>\$ 388,900</u>	<u>\$ 392,301</u>			

The fair value of derivative instruments is as follows:

	Derivatives Liabilities		
	Balance Sheet Location	May 31, 2016	August 31, 2015
Derivatives not designated as hedging instruments:			
Interest rate contracts	Interest rate swap liabilities	\$ 134,353	\$ 113,317

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Derivatives not designated as hedging instruments:				
Operating expense - interest	\$ (2,260)	\$ (2,957)	\$ (6,714)	\$ (8,510)
Nonoperating - change in fair value of interest rate swaps	2,915	8,573	(21,036)	(23,016)

Northwestern Memorial's derivative instruments contain provisions that require Northwestern Memorial's debt to maintain an A- or better credit rating from Standard and Poor's and an A3 or better rating from 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

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

collateralization on derivative instruments in net liability positions. Northwestern Memorial posted collateral within Investments, less current portion, of \$13,058 and \$0 as of May 31, 2016 and August 31, 2015, respectively. If the credit-risk-related contingent features underlying these agreements had been triggered to the fullest extent on May 31, 2016, Northwestern Memorial would have been required to post \$125,145 of additional collateral to its counterparties.

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.

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 and appreciation
- 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

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

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.

The changes in endowment net assets for the nine months ended May 31, 2016 and 2015 are summarized below:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 1, 2014	\$ 48,584	\$ 154,048	\$ 202,632
Contribution of Cadence Health restricted net assets	—	5,655	5,655
Contributions	312	2,512	2,824
Change in value of trusts	(26)	(68)	(94)
Investment return	5,196	—	5,196
Appropriation for expenditure	(3,779)	—	(3,779)
Other	6,992	(1,100)	5,892
Endowment net assets, May 31, 2015	<u>\$ 57,279</u>	<u>\$ 161,047</u>	<u>\$ 218,326</u>
Endowment net assets, September 1, 2015	\$ 55,431	\$ 160,775	\$ 216,206
Contribution of KishHealth restricted net assets	—	601	601
Contributions	138	1,285	1,423
Change in value of trusts	(26)	(862)	(888)
Investment return	5,990	—	5,990
Appropriation for expenditure	(3,182)	—	(3,182)
Other	(147)	—	(147)
Endowment net assets, May 31, 2016	<u>\$ 58,204</u>	<u>\$ 161,799</u>	<u>\$ 220,003</u>

10. Self-Insurance Programs

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 May 31, 2016 and August 31, 2015. 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 insurance and claims 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)

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 increased by \$1,079 and \$12,313 in the three months ended May 31, 2016 and 2015, respectively, and increased by \$6,743 and \$19,210 in the nine months ended May 31, 2016 and 2015, respectively, as a result of changes in estimates due to prior fiscal years' cost report settlements 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 *Free and Discounted Care* 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. The Policy has not changed in fiscal year 2016 or 2015. 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 a provision for uncollectible accounts, and 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. 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.

Northwestern Memorial has determined, based on an assessment at the reporting-entity level, that net patient service revenue is primarily recorded prior to assessing the patient's ability to pay, and as such, the entire provision for uncollectible accounts related to net patient service revenue is recorded as a deduction from net patient service revenue in the accompanying condensed consolidated statements of operations and changes in net assets.

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

Net patient service revenue (including patient copays 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 May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Third-party payors	\$ 1,052,460	\$ 932,622	\$ 3,083,815	\$ 2,803,040
Self-pay	5,896	20,198	51,850	64,483
	\$ 1,058,356	\$ 952,820	\$ 3,135,665	\$ 2,867,523

Net patient service revenue from third-party payors includes Medicaid patient service revenue received through the Illinois Hospital Assessment Program (see Note 12). In June 2014, this program was extended to June 30, 2018 as part of the Omnibus Medicaid Bill Senate Bill 741. Additionally, this bill authorized a new supplemental program to cover new Medicaid beneficiaries under the Affordable Care Act, which was approved by Centers for Medicare and Medicaid Services (CMS) in January 2015. This new supplemental program provided additional net patient service revenue of \$4,671 and \$15,669 for the three months and nine months ended May 31, 2016, respectively, and \$5,252 and \$23,621 for the three and nine months ended May 31, 2015, respectively.

Northwestern Memorial grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. At May 31, 2016 and August 31, 2015, patient accounts receivable, including patient copays and deductibles by major primary payor source, before deducting estimated uncollectibles, were as follows:

	May 31, 2016	August 31, 2015
Medicare	15%	17%
Medicaid	8	9
Blue Cross	14	15
Other managed care	34	28
Other third-party payors	11	13
Patients	18	18
	100%	100%

The estimated uncollectible accounts was \$177,666 and \$142,385, or 23.0% and 22.7% of the related patient accounts receivable net of contractual allowances as of May 31, 2016 and August 31, 2015, respectively.

12. Illinois Hospital Assessment Program

The Illinois Hospital Assessment Program and the Enhanced Illinois Hospital Assessment Program (collectively referred to herein as HAP) have been approved by CMS through June 30, 2018. Under

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

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 both payments to and assessments against NMH, CDH, Delnor, NLFH, Kishwaukee Hospital, West Valley Hospital and Marianjoy from the State. HAP revenue is included in net patient service revenue, and HAP expense is included in Illinois Hospital Assessment in the accompanying condensed consolidated statements of operations and changes in net assets, as follows:

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Net patient service revenue	\$ 28,063	\$ 25,454	\$ 81,006	\$ 76,359
Illinois Hospital Assessment	21,779	21,131	62,693	60,965

13. 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, and no compensation earned or service performed by any Plan participant on or after January 1, 2013, will count for any purpose other than continued vesting under the Plans in benefits earned prior to 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 May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Plan expenses	\$ 421	\$ 375	1,263	1,125
Interest cost on projected benefit obligation	6,504	6,510	19,512	19,530
Expected return on the Plans' assets	(11,630)	(12,203)	(34,890)	(36,609)
Amortization of net loss	346	185	1,038	555
	<u>\$ (4,359)</u>	<u>\$ (5,133)</u>	<u>\$ (13,077)</u>	<u>\$ (15,399)</u>

Northwestern Memorial made no contributions for the three and nine month periods ended May 31, 2016 and has no current plans to contribute to the Plans during the fiscal year ending August 31, 2016.

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

14. 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 are \$201,259 and \$200,443 at May 31, 2016 and August 31, 2015, respectively, which are reported as grants and academic support payable in the accompanying condensed consolidated balance sheets.

Northwestern Memorial will provide continuing funding to Northwestern University in support of the research and education mission of the Feinberg School of Medicine. This continuing funding is based on the average net patient revenue and operating results of Northwestern Memorial, with the minimum annual amount of such funding being \$39,500, plus inflation based on the Consumer Price Index, for fiscal years 2014 through 2016 and no minimum thereafter. The expense incurred of \$15,193 and \$13,778 for the three months ended May 31, 2016 and 2015, respectively and \$45,650 and \$42,273 for the nine months ended May 31, 2016 and 2015, respectively is recorded in other expense in the accompanying condensed consolidated statements of operations and changes in net assets; and a related liability of \$15,752 and \$1,270 is reported in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheets as of May 31, 2016 and August 31, 2015, respectively.

Capital Projects

Various capital projects are currently being constructed that are expected to be placed in service over the next three years. The total estimated costs of these projects are approximately \$1,228,000. As of May 31, 2016, project commitments totaled \$1,019,000, of which \$763,712 has been incurred. These projected and related 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 are planned for the spring of 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.

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

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 healthcare organizations. The laws and regulations regarding these practices are also subject to interpretation and challenge. Areas which have come under examination have included pricing practices, billing and collection practices, charity care, community benefit, executive compensation, exemption of real property from taxation, and others. Northwestern Memorial expects that the level of review and audit to which it and other healthcare 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 disclosed to the United States Department of Health and Human Services Office for Civil Rights ("OCR") two privacy breaches and has received a request for information on another matter. OCR has completed its investigation of one of the two privacy breaches and has issued a letter to NMHC closing the investigation with no subsequent required action or penalty. With respect to the second breach and the request for information, management is unable to determine what, if any, fines may be imposed by OCR or other actions that might be taken as a result of these matters.

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 nine month periods ending May 31, 2016.

15. 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.

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

16. Subsequent Events

Northwestern Memorial evaluated events and transactions occurring subsequent to May 31, 2016 through July 15, 2016, the date of issuance of these financial statements. During this period, there were no subsequent events requiring recognition in the condensed consolidated financial statements or any unrecognized subsequent events requiring disclosure.

Supplementary Information

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidating Balance Sheet
May 31, 2016
(Unaudited)
(Dollars in thousands)

ASSETS	Northwestern Memorial Hospital and Subsidiaries	West Region (Note 1)	Northwestern Medical Group and Subsidiaries	Northwestern Lake Forest Hospital and Subsidiary	Northwestern Memorial HealthCare	Northwestern Memorial Foundation	Marianjoy	Eliminations	Consolidated
Current assets:									
Cash and cash equivalents	\$ 1,808	\$ 192,047	\$ 6	\$ 168	\$ 58,694	\$ 3,406	\$ —	\$ (10,703)	\$ 245,426
Share of cash pool	77,620	—	774	890	—	4,552	4,840	(88,676)	—
Short-term investments	—	—	—	27	40,318	—	—	—	40,345
Share in short-term investment pool	—	40,318	—	—	—	—	—	(40,318)	—
Current portion of investments, including assets limited as to use	60,114	7,032	14,308	—	195,810	—	—	—	277,264
Patient accounts receivable, net of estimated uncollectible accounts	234,545	200,245	113,571	28,357	5,449	—	11,578	—	593,745
Current portion of pledges and grants receivable, net	986	780	531	7,717	—	13,599	—	—	23,613
Current portion of insurance recoverable	7,140	7,021	17,994	1,633	—	—	—	(22,799)	10,989
Inventories	33,673	14,034	4,301	6,146	145	—	245	—	58,544
Other current assets	25,986	83,123	6,043	493	16,687	—	5,723	(14,298)	123,757
Due from affiliates	33,894	153,906	39,199	3,829	174,985	25	3,519	(409,357)	—
Total current assets	475,766	698,506	196,727	49,260	492,088	21,582	25,905	(586,151)	1,373,683
Investments, including assets limited as to use, less current portion	132,742	—	81,912	—	4,503,230	135	—	—	4,718,019
Share in investment pool	2,105,589	1,751,916	197,013	80,721	—	469,335	3,520	(4,608,094)	—
	2,238,331	1,751,916	278,925	80,721	4,503,230	469,470	3,520	(4,608,094)	4,718,019
Property and equipment, at cost:									
Land	208,945	74,005	—	54,224	—	—	7,000	—	344,174
Buildings	1,898,701	960,438	141,285	188,516	20,153	225	57,644	—	3,266,962
Equipment and furniture	334,442	242,301	21,846	47,938	346,854	541	3,336	—	997,258
Construction-in-progress	38,952	28,867	8,858	216,532	41,692	—	1,411	—	336,312
	2,481,040	1,305,611	171,989	507,210	408,699	766	69,391	—	4,944,706
Less accumulated depreciation	1,247,373	145,286	41,796	123,938	249,021	468	876	—	1,808,758
	1,233,667	1,160,325	130,193	383,272	159,678	298	68,515	—	3,135,948
Prepaid pension cost	104,399	—	—	4,105	—	—	—	—	108,504
Insurance recoverable, less current portion	62,673	41,036	79,940	10,856	—	—	—	(130,930)	63,575
Intercompany note receivable	56,749	—	—	—	116,256	—	—	(173,005)	—
Other assets, net	108,727	53,127	45,130	18,238	269,041	25,158	—	(347,564)	171,857
Total Assets	\$ 4,280,312	\$ 3,704,910	\$ 730,915	\$ 546,452	\$ 5,540,293	\$ 516,508	\$ 97,940	\$ (5,845,744)	\$ 9,571,586

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidating Balance Sheet (continued)
May 31, 2016
(Unaudited)
(Dollars in thousands)

LIABILITES AND NET ASSETS	Northwestern Memorial Hospital and Subsidiaries	West Region (Note 1)	Northwestern Medical Group and Subsidiaries	Northwestern Lake Forest Hospital and Subsidiary	Northwestern Memorial HealthCare	Northwestern Memorial Foundation	Marianjoy	Eliminations	Consolidated
Current liabilities:									
Accounts payable	\$ 52,521	\$ 51,404	\$ 12,169	31,362	\$ 14,952	\$ 289	\$ 1,457	\$ —	\$ 164,154
Accrued salaries and benefits	44,109	82,059	58,684	11,587	54,790	1,148	6,093	—	258,470
Grants and academic support payable, current portion	46,117	648	390	—	16,576	870	—	—	64,601
Accrued expenses and other current liabilities	39,530	51,489	27,042	3,437	82,035	2,504	5	(2,238)	203,804
Due to third-party payors	173,699	181,723	—	39,219	—	—	2,549	—	397,190
Current accrued liabilities under self-insurance programs	60,936	16,460	32,594	2,765	—	—	—	(37,995)	74,760
Due to cash pool	—	—	—	—	99,379	—	—	(99,379)	—
Due to short term investment pool	—	—	—	—	40,318	—	—	(40,318)	—
Current maturities of long-term debt	14,785	14,051	—	—	—	—	—	—	28,836
Short-term borrowings	—	—	—	—	—	—	—	—	—
Long-term debt subject to short term remarketing agreements	103,000	116,300	—	—	—	—	—	—	219,300
Due to affiliates	82,904	138,474	57,737	22,512	83,624	19,770	4,164	(409,185)	—
Total current liabilities	617,601	652,608	188,616	110,882	391,674	24,581	14,268	(589,115)	1,411,115
Long-term debt, less current maturities	655,457	537,113	—	—	—	—	—	—	1,192,570
Intercompany note payable	—	59,507	—	56,749	56,749	—	—	(173,005)	—
Accrued liabilities under self-insurance programs, less current portion	423,181	75,668	179,150	18,071	—	—	—	(206,105)	489,965
Grants and academic support payable, less current portion	91,983	3,486	—	—	40,965	224	—	—	136,658
Interest rate swaps	80,090	54,263	—	—	—	—	—	—	134,353
Due to investment pool participants	—	—	—	—	4,608,095	—	—	(4,608,095)	—
Other liabilities	14,847	21,204	64,656	693	31,646	—	—	(14,042)	119,004
Total liabilities	1,883,159	1,403,849	432,422	186,395	5,129,129	24,805	14,268	(5,590,362)	3,483,665
Net assets:									
Unrestricted:									
Undesignated	2,359,448	2,299,244	239,629	308,274	411,164	50,236	80,790	(255,383)	5,493,402
Board-Designated	—	—	46,272	—	—	172,729	—	1	219,002
Non-controlling interest in consolidated joint venture	—	(2,409)	209	—	—	—	—	—	(2,200)
Total unrestricted	2,359,448	2,296,835	286,110	308,274	411,164	222,965	80,790	(255,382)	5,710,204
Temporarily restricted	28,278	3,625	12,383	25,510	—	143,240	2,882	—	215,918
Permanently restricted	9,427	601	—	26,273	—	125,498	—	—	161,799
Total net assets	2,397,153	2,301,061	298,493	360,057	411,164	491,703	83,672	(255,382)	6,087,921
Total liabilities and net assets	\$ 4,280,312	\$ 3,704,910	\$ 730,915	\$ 546,452	\$ 5,540,293	\$ 516,508	\$ 97,940	\$ (5,845,744)	\$ 9,571,586

Northwestern Memorial HealthCare and Subsidiaries
Condensed Consolidating Statement of Revenue and Expenses
For the Three Months Ended May 31, 2016
(Unaudited)
(Dollars in thousands)

	Northwestern Memorial Hospital and Subsidiaries	West Region	Northwestern Medical Group and Subsidiaries	Northwestern Lake Forest Hospital and Subsidiary	Northwestern Memorial HealthCare	Northwestern Memorial Foundation	Marianjoy	Eliminations	Consolidated
Revenue									
Net patient service revenue	\$ 1,138,709	\$ 1,227,789	\$ 592,880	\$ 204,794	\$ —	\$ —	\$ 19,499	\$ (48,006)	\$ 3,135,665
Provision for uncollectible accounts	29,341	43,655	21,355	21,315	—	—	(7)	—	115,659
Net patient revenue after provision for uncollectible accounts	1,109,368	1,184,134	571,525	183,479	—	—	19,506	(48,006)	3,020,006
Rental and other revenue	186,456	39,529	88,595	16,198	285,619	—	2,329	(419,079)	199,647
Net assets released from donor restrictions and federal and state grants	8,833	4,081	1,843	1,074	142	—	49	(681)	15,341
Total revenue	1,304,657	1,227,744	661,963	200,751	285,761	—	21,884	(467,766)	3,234,994
Expenses									
Salaries	277,808	419,293	356,557	66,042	167,515	4,261	13,727	—	1,305,203
Employee benefits	54,233	96,160	57,158	13,192	39,890	852	3,044	(48,748)	215,781
Supplies	227,746	183,486	108,128	32,478	2,800	377	1,034	(178)	555,871
Purchased services	280,301	183,953	74,445	44,251	99,641	2,544	1,693	(368,756)	318,072
Depreciation	86,789	71,808	10,352	16,398	37,236	87	876	—	223,546
Insurance	64,793	17,642	18,190	1,960	177	39	127	(25,464)	77,464
Rent and utilities	21,619	20,185	28,015	3,889	7,751	623	534	(23,378)	59,238
Repairs and maintenance	23,978	13,625	2,593	4,965	3,903	14	212	(876)	48,414
Interest	25,271	20,739	(98)	(2,706)	1,504	—	—	(4,145)	40,565
Illinois Hospital Assessment	36,515	19,855	—	5,540	—	—	783	—	62,693
Other	14,019	15,008	6,553	2,846	59,555	937	240	(335)	98,823
Total expenses	1,113,072	1,061,754	661,893	188,855	419,972	9,734	22,270	(471,880)	3,005,670
Operating income (loss)	191,585	165,990	70	11,896	(134,211)	(9,734)	(386)	4,114	229,324
Nonoperating gains (losses)									
Investment return	17,853	7,400	37	—	(35,853)	8,123	54	(4,071)	(6,457)
Change in fair value of interest rate swaps	(13,388)	(7,648)	—	—	—	—	—	—	(21,036)
Contribution of KishHealth unrestricted net assets	—	353,199	—	—	—	—	—	—	353,199
Contribution of Marianjoy unrestricted net assets	—	—	—	—	—	—	45,111	—	45,111
Loss on extinguishment of long term debt	—	(4,030)	—	—	—	—	—	—	(4,030)
Grants and academic support provided	(5,988)	(5,425)	(184)	(9)	(537)	(505)	—	—	(12,648)
Other	4,068	(12,712)	289	1,172	(405)	2,331	—	—	(5,257)
Total nonoperating gains (losses), net	2,545	330,784	142	1,163	(36,795)	9,949	45,165	(4,071)	348,882
Excess (deficit) of revenue over expenses	194,130	496,774	212	13,059	(171,006)	215	44,779	43	578,206
Gain attributable to noncontrolling interest in subsidiary	—	70	353	—	—	—	—	—	423
Excess (deficit) of revenue over expenses attributable to NMHC and Subsidiaries	\$ 194,130	\$ 496,704	\$ (141)	\$ 13,059	\$ (171,006)	\$ 215	\$ 44,779	\$ 43	\$ 577,783

Obligated Group (Note 2)
Combined Balance Sheets
(unaudited)
(Dollars in thousands)

	May 31, 2016	August 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 202,075	\$ 228,541
Short-term investments	40,345	41,516
Current portion of investments, including assets limited as to use	220,227	58,868
Patient accounts receivable, net of estimated uncollectible accounts of \$168,225 at May 31, 2016 and \$142,385 at August 31, 2015	576,284	469,936
Current portion of pledges and grants receivable, net	23,242	18,811
Current portion of insurance recoverable	70,412	65,370
Inventories	58,451	48,136
Other current assets	117,607	120,848
Due from affiliates	54,618	41,750
Total current assets	1,363,261	1,093,776
Investments, including assets limited as to use, less current portion	4,567,569	4,435,154
Property and equipment, at cost:		
Land	340,002	323,599
Buildings	3,194,315	2,925,082
Equipment and furniture	945,616	874,655
Construction-in-progress	334,999	163,208
	4,814,932	4,286,544
Less accumulated depreciation	1,799,025	1,602,941
	3,015,907	2,683,603
Prepaid pension cost	108,504	94,392
Insurance recoverable, less current portion	324,030	312,310
Interest in restricted net assets of Foundation	—	11,818
Other assets, net	297,440	276,225
Total assets	\$ 9,676,711	\$ 8,907,278

Obligated Group (Note 2)
Combined Balance Sheets (continued)
(unaudited)
(Dollars in thousands)

	May 31, 2016	August 31, 2015
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 162,804	\$ 209,765
Accrued salaries and benefits	250,974	260,957
Grants and academic support payable, current portion	64,601	68,511
Accrued expenses and other current liabilities	196,617	91,838
Due to third-party payors	393,624	359,513
Current accrued liabilities under self-insurance programs	133,177	127,411
Current maturities of long-term debt	28,378	27,336
Long-term debt subject to short term remarketing agreements	219,300	116,045
Due to affiliates	3,744	2,105
Total current liabilities	1,453,219	1,263,481
Long-term debt, less current maturities	1,192,570	1,298,164
Accrued liabilities under self-insurance programs, less current portion	695,553	649,585
Grants and academic support payable, less current portion	136,658	133,630
Interest rate swaps	134,353	112,895
Other liabilities	113,243	110,250
Total liabilities	3,725,596	3,568,005
Net assets:		
Unrestricted:		
Undesignated	5,361,431	4,779,701
Board-designated	219,001	205,497
Noncontrolling interest in consolidated joint venture	(3,053)	(2,809)
Total unrestricted	5,577,379	4,982,389
Temporarily restricted	212,538	201,764
Permanently restricted	161,198	155,120
Total net assets	5,951,115	5,339,273
Total liabilities and net assets	\$ 9,676,711	\$ 8,907,278

Obligated Group (Note 2)
Combined Statements of Revenue and Expense
(Unaudited)
(Dollars in thousands)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Revenue				
Net patient service revenue	\$ 1,030,073	\$ 933,505	\$ 3,055,457	\$ 2,804,319
Provision for uncollectible accounts	20,869	29,526	111,955	112,487
Net patient service revenue after provision for uncollectible accounts	1,009,204	903,979	2,943,502	2,691,832
Rental and other revenue	106,482	37,516	196,843	111,791
Net assets released from donor restrictions and federal and state grants	5,589	6,841	13,733	26,951
Total revenue	1,121,275	948,336	3,154,078	2,830,574
Expenses				
Salaries	446,757	377,915	1,269,048	1,107,203
Employee benefits	75,465	64,007	209,186	197,267
Supplies	191,742	152,675	548,650	455,785
Purchased services	115,742	96,951	305,666	276,436
Depreciation	75,413	69,184	216,190	205,316
Insurance	21,368	27,701	71,398	67,017
Rent and utilities	19,655	14,973	57,193	52,894
Repairs and maintenance	15,647	15,962	43,239	44,646
Interest	12,971	14,773	40,582	43,459
Illinois Hospital Assessment	21,779	21,131	62,693	60,965
Other	32,539	30,548	96,682	92,818
Total expenses	1,029,078	885,820	2,920,527	2,603,806
Operating income	92,197	62,516	233,551	226,768
Nonoperating gains (losses)				
Investment return	237,053	41,920	(3,110)	93,013
Change in fair value of interest rate swaps	2,064	8,562	(22,658)	(24,147)
Contribution of KishHealth unrestricted net assets	28,477	—	344,136	—
Contribution of Marianjoy unrestricted net assets	45,111	—	45,111	—
Contribution of Cadence Health unrestricted net assets	—	—	—	1,781,068
Loss on extinguishment of long term debt	—	4,003	(4,030)	(7,215)
Grants and academic support provided	(3,769)	(7,215)	(12,564)	—
Other	419	1,659	(5,655)	3,123
Total nonoperating gains, net	309,355	48,929	341,230	1,845,842
Excess of revenue over expenses	\$ 401,552	\$ 111,445	\$ 574,781	\$ 2,072,610

**Obligated Group
Utilization Statistics
(Unaudited)**

	Obligated Group			
	Three Months Ended May 31,		Nine Months Ended May 31,	
	2016	2015	2016	2015
Sources of Net Patient Service Revenue *				
Medicare	23.4%	20.9%	23.0%	21.7%
Medicaid	4.9%	4.3%	4.4%	4.9%
Charge-based	3.3%	5.7%	4.4%	5.5%
Managed Care	68.4%	69.1%	68.2%	67.9%
Total	100.0%	100.0%	100.0%	100.0%
Utilization of Services				
Admissions (Acute)	21,168	20,013	61,429	60,163
Observation Cases	10,853	8,049	31,659	24,133
Equivalent Admissions	50,769	43,397	126,805	127,985
Average Length of Stay	4.5	4.5	4.5	4.4
Patient Days	94,703	90,701	276,856	267,532
Average Occupancy (staffed beds)	64.4%	68.1%	94.0%	67.6%
Average Occupancy Incl. Observations	74.9%	76.6%	109.1%	75.7%
Deliveries	4,638	4,514	13,445	13,231
Emergency Room Visits:				
Inpatient	10,123	10,380	29,253	30,763
Outpatient	62,562	52,953	177,229	154,435
Total	72,685	63,333	206,482	185,198
Registrations - Outpatient other than Emergency Room	580,655	446,021	1,609,229	1,286,616
Surgeries:				
Inpatient	5,652	5,424	16,987	16,760
Outpatient	11,558	10,771	34,068	31,948
Total	17,210	16,195	51,055	48,708
Beds, Licensed	1,685	1,517	1,685	1,517
Beds, Staffed	1,616	1,447	1,618	1,450
Total Observation Days	15,378	11,254	44,458	32,324
Medicare Case Mix Index	1.890	1.800	1.910	1.817
Overall Case Mix Index	1.605	1.540	1.612	1.544

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

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

1. Organization and Basis of Presentation

West region encompasses CDH-Delnor Health System and subsidiaries and KishHealth System and subsidiaries with eliminations between those entities.

2. 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.