



Consolidated Financial Report

Years Ended August 31, 2023 and 2022
With Reports of Independent Auditors

Northwestern Memorial HealthCare and Subsidiaries



**NORTHWESTERN MEMORIAL HEALTHCARE AND
SUBSIDIARIES**

**Consolidated Financial Statements
and Supplementary Information**

Years Ended August 31, 2023 and 2022

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Report of Independent Auditors

The Board of Directors
Northwestern Memorial HealthCare

Opinion

We have audited the consolidated financial statements of Northwestern Memorial HealthCare and Subsidiaries (the Company), which comprise the consolidated balance sheets as of August 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at August 31, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- ▶ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ▶ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst & Young LLP

December 6, 2023

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

	August 31	
	2023	2022
Assets		
Current Assets:		
Cash and cash equivalents	\$ 680,384	\$ 779,110
Short-term investments	611,529	439,797
Current portion of investments, including assets limited as to use	267,996	257,656
Patient accounts receivable	963,797	781,259
Current portion of pledges and grants receivable, net	45,457	37,578
Current portion of insurance recoverable	26,000	21,544
Inventories	149,703	141,841
Other current assets	246,660	209,825
Total current assets	2,991,526	2,668,610
Investments, including assets limited as to use, less current portion	9,350,882	8,501,721
Property and equipment, at cost:		
Land	449,144	424,202
Buildings	5,715,028	5,444,645
Equipment and furniture	2,128,191	1,931,463
Construction in progress	367,557	293,402
	8,659,920	8,093,712
Less accumulated depreciation and amortization	3,879,260	3,493,249
	4,780,660	4,600,463
Prepaid pension cost	238,915	209,315
Pledges and grants receivable, less current portion	87,939	101,296
Insurance recoverable, less current portion	157,569	161,038
Operating lease right-of-use assets	208,543	179,713
Other assets, net	327,431	289,082
Total assets	\$ 18,143,465	\$ 16,711,238

Continued on next page.

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

	August 31	
	2023	2022
Liabilities and net assets		
Current Liabilities		
Accounts payable	\$ 342,248	\$ 283,516
Accrued salaries and benefits	520,155	482,359
Grants and academic support payable, current portion	18,475	18,183
Accrued expenses and other current liabilities	242,454	200,600
Due to third-party payors	836,191	809,692
CMS Accelerated Payments	—	972
Current accrued liabilities under self-insurance programs	238,694	214,337
Current maturities of long-term debt	19,548	18,480
Long-term debt subject to short-term remarketing	126,200	288,580
Short-term debt	—	77,697
Total current liabilities	2,343,965	2,394,416
Long-term debt, less current maturities	1,759,468	1,622,503
Accrued liabilities under self-insurance programs, less current portion	955,286	897,091
Grants and academic support payable, less current portion	55,520	55,054
Interest rate swaps	30,405	50,637
Operating lease liabilities, less current portion	200,202	162,536
Other liabilities	357,399	324,764
Total liabilities	5,702,245	5,507,001
Net assets:		
Without donor restrictions:		
Controlling interest	11,684,786	10,500,867
Noncontrolling interest in subsidiaries	1,196	(159)
Total net assets without donor restrictions	11,685,982	10,500,708
With donor restrictions	755,238	703,529
Total net assets	12,441,220	11,204,237
Total liabilities and net assets	\$ 18,143,465	\$ 16,711,238

See accompanying notes to the interim consolidated financial statements.

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

	Year Ended August 31,	
	2023	2022
Revenue		
Patient service revenue	\$ 8,095,920	\$ 7,399,123
Rental and other revenue	573,436	471,632
Net assets released from donor restrictions and federal and state grants	52,581	114,701
Total revenue	8,721,937	7,985,456
Expenses		
Salaries	3,601,548	3,319,548
Employee benefits	528,173	476,180
Supplies	1,934,411	1,740,846
Purchased services	828,163	793,405
Depreciation and amortization	432,225	439,226
Insurance	264,422	200,718
Rent and utilities	100,998	101,923
Repairs and maintenance	197,128	162,704
Interest	50,722	44,284
Illinois Hospital Assessment	223,602	180,339
Other	208,261	190,522
Total expenses	8,369,653	7,649,695
Operating income	352,284	335,761
Nonoperating gains (losses)		
Investment return	827,939	(1,065,171)
Change in fair value of interest rate swaps	20,231	55,811
Grants and academic support provided	(94,420)	(69,290)
Other	29,277	54,235
Total nonoperating gains (losses), net	783,027	(1,024,415)
Excess (deficiency) of revenue over expenses	1,135,311	(688,654)
Net loss attributable to noncontrolling interest in subsidiaries	(775)	(86)
Excess (deficiency) of revenue over expenses attributable to NMHC and subsidiaries	\$ 1,136,086	\$ (688,568)

Continued on next page.

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

	Year Ended August 31,	
	2023	2022
Net assets without donor restrictions, controlling interest		
Excess (deficiency) of revenue over expenses	\$ 1,136,086	\$ (688,568)
Net assets released from restrictions used for property and equipment additions	25,123	23,846
Postretirement-benefit-related changes other than net periodic pension cost	21,865	(48,228)
Other	845	(873)
Increase (decrease) in net assets without donor restrictions, controlling interest	1,183,919	(713,823)
Net assets without donor restrictions, noncontrolling interest		
Deficiency of revenue over expenses	(775)	(86)
Distribution to noncontrolling interest	(206)	(453)
Other	2,336	367
Increase (decrease) in net assets without donor restrictions, noncontrolling interest	1,355	(172)
Net assets with donor restrictions		
Contributions	113,467	100,943
Investment return	31,513	30,763
Net assets released from restrictions used for:		
Operating expenses, charity care, and research and education	(67,875)	(50,142)
Property and equipment additions	(25,123)	(23,846)
Change in fair value of split-interest agreements	1,218	(3,768)
Other	(1,491)	(28)
Increase in net assets with donor restrictions	51,709	53,922
Change in net assets	1,236,983	(660,073)
Net assets, beginning of period	11,204,237	11,864,310
Net assets, end of period	\$ 12,441,220	\$ 11,204,237

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

	Year Ended August 31,	
	2023	2022
Operating activities		
Change in net assets	\$ 1,236,983	\$ (660,073)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Postretirement benefit-related changes other than net periodic pension cost	(21,865)	48,228
Change in fair value of interest rate swaps	(20,231)	(55,811)
Net unrestricted realized investment return and net change in unrestricted and restricted unrealized investment gains	(828,580)	1,058,524
Restricted contributions, change in fair value of split interest agreements and realized investment return	(145,516)	(127,624)
Depreciation and amortization	432,225	439,226
Changes in operating assets and liabilities:		
Patient accounts receivable	(182,538)	49,465
Due to third-party payors	29,969	48,604
Grants and academic support payable	758	(2,930)
CMS accelerated payments	(972)	(313,537)
Other operating assets and liabilities	165,303	(4,241)
Net cash provided by operating activities	665,536	479,831
Investing activities		
Purchase of investments	(4,798,309)	(3,527,786)
Sale of investments	4,395,930	2,643,791
Net unrestricted realized investment return	199,727	401,501
Capital expenditures, net	(611,199)	(556,042)
Net cash used in investing activities	(813,851)	(1,038,536)
Financing activities		
Payments of commercial paper	(77,697)	—
Payments of long-term debt	(18,230)	(18,875)
Restricted contributions, change in fair value of split interest agreements and realized investment return	145,516	127,624
Net cash provided by financing activities	49,589	108,749
Net decrease in cash and cash equivalents	(98,726)	(449,956)
Cash and cash equivalents, beginning of period	779,110	1,229,066
Cash and cash equivalents, end of the period	\$ 680,384	\$ 779,110

See accompanying notes to the consolidated financial statements.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements
(In thousands)

1. Organization and Summary of Significant Accounting Policies

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.

Basis of Presentation

The accompanying 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.

Charity Care and Community Benefit

Northwestern Memorial provides care to patients regardless of their ability to pay. Northwestern Memorial developed a Free and Discounted Care Program (the Program) for both the uninsured and the underinsured. Under the Program, patients are offered discounts of up to 100% of charges on a sliding scale, which is based on income as a percentage of the federal poverty level guidelines (up to 600%). The Program also contains provisions that are responsive to those patients subject to catastrophic health care expenses and uninsured patients not covered by the provisions above. Since Northwestern Memorial does not pursue collection of these amounts, they are not reported as Patient service revenue, and the cost of providing such care is recognized within operating expenses.

Northwestern Memorial estimates the direct and indirect costs of providing charity care by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients. The cost of providing charity care was \$67,354 and \$86,520 for the years ended August 31, 2023 and 2022, respectively. Northwestern Memorial also received certain funds of \$410 and \$598 for the years ended August 31, 2023 and 2022, respectively, to offset or subsidize charity care services provided. These funds are primarily received from investment return on free care endowment funds. In the Annual Non-Profit Hospital Community Benefits Plan Report filed with the Illinois Attorney General for the year ended August 31, 2022, Northwestern Memorial reported a total community benefit of \$1,253,304 (unaudited), including unreimbursed cost of charity care of \$90,752 (unaudited), which is calculated using a different methodology than that used for the consolidated financial statements. Management is currently collecting the information needed to file the 2023 report.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid short-term investments with maturities of 90 days or less from the date of purchase, other than those included in the investment portfolio.

Patient Accounts Receivable

Patient accounts receivable are based upon the estimated amounts expected to be paid from patients and third-party payors.

Assets Limited as to Use

Assets limited as to use consist primarily of investments designated for certain medical education and health care programs. The particular Northwestern Memorial corporation that controls these investments makes such designations and may, at its discretion, subsequently use them for other purposes. In addition, assets limited as to use include investments held by trustees under debt agreements and for self-insurance and collateral related to interest rate swaps.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based on quoted market prices. Unless in pension plan assets, alternative investments are reported using the equity method of accounting based on net asset value (NAV) provided by the respective fund managers. Alternative investments can include limited partnership interests in hedge funds, private equity, venture capital and real estate funds. Alternative investments in the pension plan are reported at fair value based on NAV per share or equivalent. Commingled investment funds, common collective trusts and 103-12 entities are valued at fair value using, as a practical expedient, the NAV as provided by the respective investment managers.

Derivative Instruments

Derivative instruments, specifically interest rate swaps, are recorded in the accompanying consolidated balance sheets at fair value. The change in the fair value of derivative instruments is recorded in Nonoperating gains (losses).

Inventories

Inventories, consisting primarily of pharmaceuticals and other medical supplies, are stated at the lower of cost on the first-in, first-out method or fair value.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Generally, buildings and building service equipment have a composite life of approximately 40 years, and equipment and furniture have useful lives of 3-20 years. Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Leases

Northwestern Memorial determines whether an arrangement is a lease at inception. Operating lease assets are included in Operating lease right-of-use assets-leases while obligations are included in Operating lease liabilities, less current portion; and Accrued expenses and other current liabilities in the accompanying consolidated balance sheets. Finance lease assets are included in Buildings and Equipment and Furniture while obligations are included in Other liabilities; and Accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Since most leases do not provide an implicit rate, Northwestern Memorial uses an incremental borrowing rate based at the commencement date in determining the present value of lease payments. The ROU asset also includes any lease payments made and excludes lease incentives. The lease term may include options to extend or terminate the lease when it is reasonably certain that Northwestern Memorial will exercise the option.

Northwestern Memorial defines a short-term lease as any lease arrangement with a lease term of twelve months or less that does not include an option to purchase the underlying asset. Short-term lease payments are recognized as expense on a straight-line basis over the lease term and variable lease payments in the period in which the obligation is incurred.

Northwestern Memorial has lease arrangements with lease and non-lease components, which are generally accounted for separately. However, Northwestern Memorial has elected the practical expedient to not separate non-lease components for real estate or equipment leases.

Goodwill and Other Intangible Assets

Goodwill has been recorded for the excess of purchase price over fair value of assets purchased in business acquisitions of several medical practices. Northwestern Memorial has goodwill of \$38,723, included in Other assets, net at August 31, 2023 and 2022, respectively. There were no impairments of goodwill in the years ended August 31, 2023 and 2022.

Intangible assets are stated at fair value at time of purchase and are amortized using the straight-line method over the estimated life based on terms of the underlying agreement giving rise to the intangible assets.

Asset Impairment

Northwestern Memorial considers whether indicators of impairment are present and performs the necessary tests to determine whether the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating income at the time the impairment is identified. There were no material impairments of long-lived assets for the years ended August 31, 2023 and 2022.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Deferred Charges

Deferred finance charges and bond discounts or premiums are amortized or accreted using the effective interest method or the bonds outstanding method, which approximates the effective interest method, over the life of the related debt and are netted within Long-term debt, less current maturities in the accompanying consolidated balance sheets.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions are net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions are net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition on long-lived assets are recognized as revenue when received. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

Any changes in donor restrictions that change the net asset category of previously recorded contributions are recorded as Other in the accompanying consolidated statements of operations and changes in net assets in the period communicated by the donor.

Patient Service Revenue

Northwestern Memorial has agreements with third-party payors that provide for payments to Northwestern Memorial at amounts different from its established rates. Payment arrangements include prospectively determined rates per admission or visit, reimbursed costs, discounted charges and per diem rates. Patient service revenue is reported at the estimated amount due from patients and third-party payors for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted, as needed, in future periods.

Rental and Other Revenue

Rental and other revenue is recognized at an amount that reflects the consideration Northwestern Memorial expects to be entitled to in exchange for providing goods and services. The amounts recognized reflect

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

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.

Contributions

Unrestricted gifts, other than long-lived assets, are included within Rental and other revenue in the accompanying consolidated statements of operations and changes in net assets. Unrestricted gifts of long-lived assets, such as land, buildings or equipment, are recorded at fair value as an increase in net assets without donor restrictions. Contributions are reported as assets with donor restrictions if they are received with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, assets with donor restrictions are reclassified as assets without donor restrictions and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions.

Unconditional promises to give cash or other assets are reported as pledges receivable and contributions within the appropriate net asset category. An allowance for uncollectible pledges receivable is estimated based on historical experience and other collection indicators. Pledges receivable with payment terms extending beyond one year are discounted using market rates of return reflecting the terms and credit of the pledges at the time a pledge is made.

Northwestern Memorial is a beneficiary of several split-interest agreements, primarily perpetual trusts held by others, and recognizes its interest in these perpetual trusts as net assets with donor restrictions based on its percentage of the fair value of the trusts' assets.

Nonoperating Gains (Losses)

Nonoperating gains (losses) consist primarily of investment returns (including realized and unrealized gains and losses; changes in Northwestern Memorial's equity interest in alternative investments, interest and dividend income); contributions of net assets without donor restrictions in excess of consideration paid (where applicable); grants and academic support provided to external organizations; net assets released from restrictions and used for grants and academic support; and changes in fair value of interest rate swaps.

Excess (Deficiency) of Revenue Over Expenses

The accompanying consolidated statements of operations and changes in net assets include the Excess (deficiency) of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from the excess (deficiency) of revenue over expenses, consist primarily of contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, are to be used for the purposes of acquiring such assets), transfers between net asset categories based on changes in donor restrictions and postretirement benefit-related changes other than net periodic pension cost.

New Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 236): Measurement of Credit Losses on Financial Instruments*. This ASU requires entities to report expected credit losses on financial instruments and other commitments to extend credit rather than the current incurred loss model. These expected credit losses for financial assets

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

held at the reporting date are to be based on historical experience, current conditions and reasonable and supportable forecasts. This ASU will require enhanced disclosures relating to significant estimates and judgments used in estimating credit losses, as well as the credit quality. This new guidance is effective for fiscal years beginning after December 15, 2022. Northwestern Memorial is currently evaluating the impact this guidance will have on its consolidated financial statements.

2. Patient Service Revenue

Northwestern Memorial recognizes Patient service revenue at the amount that reflects the consideration expected to be paid for providing patient care. Patient service revenue is recognized as performance obligations are satisfied based on the nature of the services provided by Northwestern Memorial. 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 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 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 care agreements. Reported costs and/or services provided under certain of the arrangements are subject to retroactive audit and adjustment. Patient service revenue

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

2. Patient Service Revenue (continued)

increased by \$38,827 and decreased by \$24,021 in 2023 and 2022, 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 judgments 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 values are reported net of price concessions. Northwestern Memorial uses presumptive eligibility screening procedures for free care and recognizes Patient service revenue on services provided to self-pay patients at a reduced transaction price 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 August 31, 2023 and 2022 were not material.

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 Patient service revenue by payor was as follows for the years ended August 31:

	2023	2022
Medicare	\$ 2,450,350	\$ 2,229,438
Medicaid	877,834	739,272
Blue Cross	3,095,443	2,823,434
Other managed care	1,438,996	1,335,762
Commercial and other	193,552	207,508
Self-pay	39,745	63,709
Total	<u>\$ 8,095,920</u>	<u>\$ 7,399,123</u>

The composition of the Patient service revenue by service line was as follows for the years ended August 31:

	2023	2022
Hospitals	\$ 6,216,872	\$ 5,677,183
Physician groups	1,818,246	1,658,039
Other	60,802	63,901
Total	<u>\$ 8,095,920</u>	<u>\$ 7,399,123</u>

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

2. Patient Service Revenue (continued)

Northwestern Memorial grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. At August 31, 2023 and 2022 patient accounts receivable, including patient co-pays and deductibles by major primary payor source, were as follows:

	2023	2022
Medicare	28%	31%
Medicaid	8	8
Blue Cross	28	22
Other managed care	22	23
Commercial and other	6	7
Self-pay	8	9
	100%	100%

3. Hospital Assessment Program

On April 9, 2022, the Illinois General Assembly unanimously approved HB 1950 which essentially extends the current Illinois Hospital Assessment Program (HAP) for the State of Illinois through 2026. On May 17, 2022, HB 1950 was signed into law by the Governor as Illinois Public Law 102-866. The legislation maintains the HAP's current tax structure. The HAP program provides for increased Illinois Medicaid and Illinois Medicaid Managed Care inpatient rates focusing on patient volumes as well as acuity.

A summary of the amounts recognized for the HAP program is as follows for the years ended August 31:

	2023	2022
Patient service revenue - HAP	\$ 330,998	\$ 279,599
Illinois Hospital Assessment	(223,602)	(180,339)
Net excess of HAP revenue over Illinois assessment	\$ 107,396	\$ 99,260

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

4. Investments and Other Financial Instruments

The composition of investments, including assets limited as to use, and cash and cash equivalents and short-term investments, at August 31 is as follows:

	<u>2023</u>	<u>2022</u>
Measured at fair value:		
Cash and cash equivalents and Short-term investments	\$ 1,491,568	\$ 1,429,987
Mutual funds	512,675	259,736
Corporate bonds	467,426	417,708
U.S. government and agency issues	539,433	516,435
Equity securities	150,196	132,446
Common collective trusts and commingled funds	1,743,524	1,539,297
Interest in 103-12 investment entities	323,392	261,326
	<u>5,228,214</u>	<u>4,556,935</u>
Accounted for under the equity method:		
Alternative investments	5,682,577	5,421,349
	<u>\$ 10,910,791</u>	<u>\$ 9,978,284</u>

Investments, including assets limited as to use, and cash and cash equivalents and short-term investments, consist of the following at August 31:

	<u>2023</u>	<u>2022</u>
Assets limited as to use:		
Trustee-held funds	\$ 442	\$ 212
Self-insurance programs	815,474	767,189
Board-designated funds	5,429	14,004
Total assets limited as to use	<u>821,345</u>	<u>781,405</u>
Donor-restricted funds	620,625	560,097
Unrestricted, undesignated funds	8,176,908	7,417,875
Total investments, excluding short-term investments	<u>9,618,878</u>	<u>8,759,377</u>
Other financial instruments:		
Cash and cash equivalents and short-term investments	1,291,913	1,218,907
	<u>\$ 10,910,791</u>	<u>\$ 9,978,284</u>

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

4. Investments and Other Financial Instruments (continued)

The composition and presentation of investment returns are as follows for the years ended August 31:

	2023	2022
Interest and dividend income	\$ 128,641	\$ 68,396
Investment expenses	(5,994)	(5,735)
Realized gains on alternative investments, net	157,681	322,510
Realized (losses) gains on other investments, net	(10,713)	45,670
Net change in unrealized gains (losses) on alternative investments	306,245	(673,243)
Net change in unrealized gains (losses) on other investments	322,608	(786,780)
Change in value of joint ventures	1,399	(1,565)
	\$ 899,867	\$ (1,030,747)
Reported as:		
Rental and other revenue	40,415	3,661
Nonoperating investment return	827,939	(1,065,171)
With donor restriction investment return	31,513	30,763
	\$ 899,867	\$ (1,030,747)

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, using NAV, 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.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

4. Investments and Other Financial Instruments (continued)

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 June 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 fourth quarter of fiscal 2023 or 2022 for the limited partnership investments.

As of August 31, 2023, \$3,912,949 of alternative investments is subject to various redemption limits and lockup provisions, of which \$3,311,479 expires within one year and \$601,470 expires after one year from the balance sheet date.

At August 31, 2023, Northwestern Memorial had commitments to fund approximately an additional \$856,000 to alternative investment entities. This funding is expected to occur over the next 12 years.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

5. Fair Value Measurements

Northwestern Memorial follows the requirements of ASC 820, *Fair Value Measurement*, in regard 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.

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

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

5. Fair Value Measurements (continued)

The following table presents the financial instruments measured at fair value on a recurring basis at August 31, 2023:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 680,384	\$ —	\$ —	\$ 680,384
Investments:				
Short-term investments:				
Cash equivalents in investment accounts	453	—	—	453
Mutual fund - fixed income	355,286	—	—	355,286
Fixed income	—	78,351	—	78,351
U.S. government and agency issues	—	177,439	—	177,439
Total short-term investments	355,739	255,790	—	611,529
Mutual funds:				
Fixed income	9,888	—	—	9,888
International equities	101,477	—	—	101,477
U.S. equities	401,310	—	—	401,310
Total mutual funds	512,675	—	—	512,675
Common collective trusts:				
International equities	360,499	—	—	360,499
U.S. equities	1,383,025	—	—	1,383,025
Total common collective trusts	1,743,524	—	—	1,743,524
103-12 entities:				
International equities	323,392	—	—	323,392
Bonds:				
Corporate bonds	—	467,426	—	467,426
U.S. government and agency issues	—	539,433	—	539,433
Total bonds	—	1,006,859	—	1,006,859
Equity securities	150,196	—	—	150,196
Cash equivalents in investment accounts	318,324	—	—	318,324
Due to broker	(118,669)	—	—	(118,669)
Total investments	3,285,181	1,262,649	—	4,547,830
Beneficial interest in trusts	—	18,518	—	18,518
Total assets measured at fair value	<u>\$ 3,965,565</u>	<u>\$ 1,281,167</u>	<u>\$ —</u>	<u>\$ 5,246,732</u>
Liabilities:				
Interest rate swaps	\$ —	\$ 30,405	\$ —	\$ 30,405

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

5. Fair Value Measurements (continued)

The following table presents the financial instruments measured at fair value on a recurring basis at August 31, 2022:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 779,110	\$ —	\$ —	\$ 779,110
Investments:				
Short-term investments:				
Cash equivalents in investment accounts	3,911	—	—	3,911
Mutual fund - fixed income	339,864	—	—	339,864
Fixed income	—	18,264	—	18,264
U.S. government and agency issues	—	77,758	—	77,758
Total short-term investments	343,775	96,022	—	439,797
Mutual funds:				
Fixed income	10,318	—	—	10,318
U.S. equities	249,418	—	—	249,418
Total mutual funds	259,736	—	—	259,736
Common collective trusts:				
International equities	325,908	—	—	325,908
U.S. equities	1,213,389	—	—	1,213,389
Total common collective trusts	1,539,297	—	—	1,539,297
103-12 entities:				
International equities	261,326	—	—	261,326
Bonds:				
Corporate bonds	—	417,708	—	417,708
U.S. government and agency issues	—	516,435	—	516,435
Total bonds	—	934,143	—	934,143
Equity securities	132,446	—	—	132,446
Cash equivalents in investment accounts	298,419	—	—	298,419
Due to broker	(87,339)	—	—	(87,339)
Total investments	2,747,660	1,030,165	—	3,777,825
Beneficial interest in trusts	—	17,301	—	17,301
Total assets measured at fair value	<u>\$ 3,526,770</u>	<u>\$ 1,047,466</u>	<u>\$ —</u>	<u>\$ 4,574,236</u>
Liabilities:				
Interest rate swaps	\$ —	\$ 50,637	\$ —	\$ 50,637

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

5. Fair Value Measurements (continued)

Reconciliation to the Consolidated Balance Sheets

A reconciliation of the fair value of financial assets to the consolidated balance sheets at August 31 is as follows:

	<u>2023</u>	<u>2022</u>
Short-term investments measured at fair value	\$ 611,529	\$ 439,797
Investments, including assets limited as to use measured at fair value	<u>3,936,301</u>	<u>3,338,028</u>
Total investments at fair value	4,547,830	3,777,825
Alternative investments accounted for under equity method included in investments, including assets limited as to use	<u>5,682,577</u>	<u>5,421,349</u>
Total investments	<u>\$ 10,230,407</u>	<u>\$ 9,199,174</u>
Pledges and grants receivable, less current portion:		
Beneficial interests in trusts at fair value	\$ 18,518	\$ 17,301
Pledges and grants receivable, less current portion, net	<u>69,421</u>	<u>83,995</u>
Total pledges and grants receivable, less current portion	<u>\$ 87,939</u>	<u>\$ 101,296</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 Secured Overnight Financing Rate (SOFR) plus a spread for certain interest rate swaps.

Investments - The fair value of Level 1 investments, which consist of equity securities, mutual funds, commingled funds, common collective trusts, and 103-12 entities is based on quoted market prices that are valued on a daily basis. Level 2 investments consist of government and agencies' issues and corporate bonds, and fixed income instruments issued by municipalities. 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.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

5. Fair Value Measurements (continued)

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 the 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, current portion of pledges and grants 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 \$1,643,277 and \$1,738,207 at August 31, 2023 and August 31, 2022, respectively. 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 \$113,000 and \$119,806 at August 31, 2023 and August 31, 2022, respectively.

6. Investment in Joint Ventures

Northwestern Memorial has joint venture and operating partnership investment interests, ranging from 25.5% to 50.0% in health-related businesses, as well as a 33.3% restricted interest in two non-health-related businesses that were donated to Northwestern Memorial. These investment interests are accounted for under the equity method of accounting, as Northwestern Memorial holds a 20% or more voting interest. The carrying value of the non-health-related investments of \$3,397 and \$2,576 at August 31, 2023 and 2022, respectively, is included in Investments, including assets limited to use, less current portion in the accompanying consolidated balance sheets.

The carrying value of the health-related investments of \$22,237 and \$23,980 at August 31, 2023 and 2022, respectively, is included in Other assets, net in the accompanying consolidated balance sheets. Net equity gains from the health-related investments totaled \$1,399 for the year ended August 31, 2023 and losses of \$1,632 for August 31, 2022, and are included in Investment return in the accompanying consolidated statements of operations and changes in net assets. The carrying value of these investments exceeds the underlying equity in net assets by \$8,993, reflecting the fair value change recorded at the time of acquisition of CDH-Delnor Health System, KishHealth System, and Centegra.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

6. Investment in Joint Ventures (continued)

The following is a summary of financial information as of and for the years ended August 31 relating to these investments, which includes the portion of the entities not owned by Northwestern Memorial:

	2023	2022
Current assets	\$ 41,402	\$ 45,424
Current liabilities	6,051	10,320
Net working capital	35,351	35,104
Property, plant and equipment	25,444	31,180
Other long-term assets	463	458
Long-term liabilities	26,981	27,369
Net assets	\$ 34,277	\$ 39,373
Revenue	\$ 38,595	\$ 36,915
Expenses	35,987	38,573
Excess (deficiency) of revenue over expenses	\$ 2,608	\$ (1,658)

Net equity earnings from the non-health-related investments totaled \$642 and \$314 for the years ended August 31, 2023 and 2022, respectively, and are included in Net assets with donor restrictions investment return in the accompanying consolidated statements of operations and changes in net assets.

Northwestern Memorial made no capital contributions to any joint ventures for the years ended August 31, 2023 and 2022. Northwestern Memorial received cash distributions from such joint ventures of \$4,405 and \$3,996 for the years ended August 31, 2023 and 2022, respectively.

7. Long-Term Debt

Long-term debt consists of the following at August 31:

	2023	2022
Taxable Revenue Bonds, Series 2021 (NMHC), payable in varying installments beginning July 2030 through July 2051 (fixed coupon rates range from 1.67% to 2.63%)	\$ 519,735	\$ 519,735
Revenue Bonds, Series 2021A (NMHC), payable in varying installments through July 2043 (fixed coupon rates range from 3.00% to 5.00%)	210,545	211,545
Revenue Bonds, Series 2017A (NMHC), payable in varying annual installments through July 2047 (fixed coupon rates range from 3.00% to 5.00%)	473,950	487,970
Revenue Bonds, Series 2017B (NMHC), payable in varying annual installments through July 2057 (fixed coupon rate of 3.54% through December 14, 2032)	162,380	162,380
Revenue Bonds, Series 2015E (NMHC), payable in varying annual installments through May 2037 (fixed coupon rate of 2.32%)	31,590	32,765

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

7. Long-Term Debt (continued)

	<u>2023</u>	<u>2022</u>
Variable Rate Demand Revenue Bonds, Series 2021B (NMHC), payable in annual installments through July 15, 2055 (weighted average interest rate of 2.59% and 0.34% for the twelve months ended August 31, 2023 and 2022, respectively)	\$ 73,000	\$ 73,000
Variable Rate Demand Revenue Bonds, Series 2021C (NMHC), payable in annual installments through July 15, 2055 (weighted average interest rate of 2.59% and 0.34% for the twelve months ended August 31, 2023 and 2022, respectively)	73,000	73,000
Variable Rate Demand Revenue Bonds, Series 2021D (NMHC), payable in annual installments through July 15, 2055 (weighted average interest rate of 2.85% and 0.44% for the twelve months ended August 31, 2023 and 2022, respectively)	63,100	63,100
Variable Rate Demand Revenue Bonds, Series 2021E (NMHC), payable in annual installments through July 15, 2055 (weighted average interest rate of 2.84% and 0.44% for the twelve months ended August 31, 2023 and 2022, respectively)	63,100	63,100
Revenue Bonds, Series 2014B (NMHC), with interest at a variable rate payable with varying installments through September 2044, (weighted average interest rate of 3.97% and 0.94% for the twelve months ended August 31, 2023 and 2022, respectively)	32,060	32,445
Revenue Bonds, Series 2011A and 2011B (NMHC), with interest at a variable rate payable with varying annual installments through November 2038, (weighted average interest rate of 3.94% and 0.87% for the twelve months ended August 31, 2023 and 2022, respectively)	106,300	107,950
NMHC fixed rate note dated August 29, 2019, matures September 1, 2024 (fixed rate of 1.98%)	55,000	55,000
NMHC commercial paper dated October 4, 2016 (weighted average interest rate of 3.91% and 0.67% for the twelve months ended August 31, 2023 and 2022, respectively)	—	77,697
Palos Health Surgery Center promissory note, fixed coupon rate of 5.00%, with maturity date of 2026	1,275	1,275
	1,865,035	1,960,962
Less:		
Unamortized premium and debt issuance costs	(40,181)	(46,298)
Long-term debt subject to short-term remarketing agreements	126,200	288,580
Current maturities	19,548	18,480
Commercial paper, included in Short-term debt	—	77,697
	\$ 1,759,468	\$ 1,622,503

Northwestern Memorial has lines of credit with multiple banks. Northwestern Memorial has the option to borrow at various rates expressed as an adjustment to SOFR, prime rate or other bank-offered rates. Additionally, Northwestern Memorial has restricted certain lines of credit to secure letters of credit.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

7. Long-Term Debt (continued)

The amounts available, outstanding and restricted to secure letters of credit as of August 31, 2023 are as follows:

Available	Outstanding	Restricted
\$ 100,000	\$ —	\$ 500
7,000	—	4,241

Northwestern Memorial has standby bond purchase agreements (SBPAs) with two banks that cover certain variable rate demand revenue bonds (VRDBs). The short-term credit rating for each series of VRDBs is based on the respective bank's short-term credit rating. The long-term credit rating for each series of VRDBs is based on Northwestern Memorial's long-term credit rating. Changes in credit ratings may impact the interest paid, on or remarketing of, the VRDBs. As of August 31, 2023, the banks provided liquidity support in the event of a failed remarketing as follows:

	Par Value	Expiration date
Subseries 2021B	73,000	August 2026
Subseries 2021C	73,000	August 2026

Northwestern Memorial provides self-liquidity on the Series 2021D and Series 2021E Bonds. These bonds are classified as Long-term debt subject to short-term remarketing in the accompanying consolidated balance sheets.

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 (i.e., failed remarketing) during the term of the SBPA, the related VRDBs are Purchased Bonds by the SBPA provider under the SBPA. Such Purchased Bonds are required to be redeemed by the Obligated Group over an amortization period pursuant to the SBPA. The earliest redemption associated with the Purchased Bonds is 367 days from the failed remarketing date or the expiration date of the SBPA. Therefore, the VRDBs that are supported by SBPAs are classified as long-term debt in the accompanying consolidated balance sheets.

The Series 2017B Bonds were subject to a Mandatory Tender on December 15, 2022 at which time the bonds were subject to redemption. On December 15, 2022, the Obligated Group converted these bonds to a fixed rate for 10 years. Therefore these bonds are included in Long-term debt, less current maturities in the accompanying consolidated balance sheet as of August 31, 2023. These bonds are included in Long-term debt subject to short-term remarketing in the accompanying consolidated balance sheet as of August 31, 2022.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

7. Long-Term Debt (continued)

Scheduled principal repayments for the next five years, assuming remarketing of variable rate debt, on long-term debt are as follows:

Year ending August 31:		
2024	\$	19,548
2025		79,803
2026		21,333
2027		22,045
2028		23,065

The provisions under the respective debt agreements require the Obligated Group to maintain reporting, financial and other covenants. At August 31, 2023, the Obligated Group was in compliance with these provisions.

Northwestern Memorial paid interest of \$62,746 and \$57,254 in 2023 and 2022, respectively (which includes \$2,029 and \$6,334 respectively, for net swap payments included in Interest expense in the accompanying consolidated statements of operations and changes in net assets). Northwestern Memorial capitalized interest of \$10,031 and \$6,181 in 2023 and 2022, respectively.

8. Derivatives

To manage fluctuations in cash flows resulting from interest rate risk, Northwestern Memorial entered into various interest rate swap agreements. 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 consolidated balance sheets reflect a reduction of \$1,670 and \$2,205 for nonperformance risk at August 31, 2023 and 2022, 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.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

8. Derivatives (continued)

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

<u>Notional Amount</u>		<u>Maturity Date</u>	<u>Rate Paid</u>	<u>Rate Received</u>
<u>2023</u>	<u>2022</u>			
\$ 98,000	\$ 98,800	August 2042	3.89 %	63% of 1-Month Fallback SOFR + 28 bps
98,000	98,800	August 2042	3.89	63% of 1-Month Fallback SOFR + 28 bps
58,725	59,150	November 2038	3.82	67% of 3-Month Fallback SOFR
58,725	59,150	November 2038	3.52	67% of 3-Month Fallback SOFR
<u>\$ 313,450</u>	<u>\$ 315,900</u>			

The fair value of derivative instruments at August 31 is as follows:

	<u>Derivative Liabilities</u>		
	<u>Balance Sheet Location</u>	<u>2023</u>	<u>2022</u>
Derivatives not designated as hedging instruments:			
Interest rate contracts	Interest rate swap liabilities	\$ 30,405	\$ 50,637

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

	<u>2023</u>	<u>2022</u>
Derivatives not designated as hedging instruments:		
Operating expense - interest	\$ —	\$ (3,555)
Nonoperating - investment return	(2,029)	(6,334)
Nonoperating - change in fair value of interest rate swaps	20,231	55,811

Northwestern Memorial's derivative instruments contain provisions that require its debt to remain above certain credit ratings from Standard & Poor's and Moody's. If Northwestern Memorial's debt were to fall below those levels, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. Northwestern Memorial has posted no collateral as of August 31, 2023 and August 31, 2022. If the credit-risk-related contingent features underlying the agreement were triggered to the fullest extent on August 31, 2023, Northwestern Memorial would be required to post \$32,075 of additional collateral to its counterparties.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

9. Leases

Northwestern Memorial has operating and finance leases for facilities and certain equipment and real estate with lease terms ranging from 1 to 100 years, with some options to extend up to five years or terminate within one year.

Total lease expense for the year ended August 31 consisted of the following:

	<u>2023</u>	<u>2022</u>
Operating lease expense:	\$ 43,478	\$ 38,437
Finance lease expense:		
Amortization of ROU assets	\$ 3,556	\$ 3,113
Interest on lease liabilities	1,693	985
Total finance lease expense	<u>\$ 5,249</u>	<u>\$ 4,098</u>
Short-term lease expense	\$ 5,448	\$ 7,871

Consolidated supplemental cash flow information related to leases as of August 31 consisted of the following:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 35,524	\$ 34,491
Operating cash flows for finance leases	97	51
Financing cash flows for finance leases	3,819	4,526
ROU assets obtained in exchange for lease obligations:		
Operating leases	\$ 66,658	\$ 20,277
Finance leases	5,362	88,242

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

9. Leases (continued)

Consolidated balance sheet information related to leases as of August 31 consisted of the following:

	<u>2023</u>	<u>2022</u>
Operating leases:		
ROU assets	\$ 208,543	\$ 179,713
Other current liabilities	\$ 34,689	\$ 34,764
Operating lease obligations, less current portion	<u>200,202</u>	<u>162,536</u>
Total operating lease liabilities	<u>\$ 234,891</u>	<u>\$ 197,300</u>

	<u>2023</u>	<u>2022</u>
Finance leases:		
Property and equipment	\$ 91,504	\$ 89,336
Other current liabilities	\$ 3,925	\$ 3,925
Other liabilities	<u>71,609</u>	<u>68,787</u>
Total finance lease liabilities	<u>\$ 75,534</u>	<u>\$ 72,712</u>

	<u>2023</u>	<u>2022</u>
Weighted average remaining lease years:		
Operating leases	11.2	10.7
Finance leases	68.6	72.7

Weighted average discount rate:		
Operating leases	2.07 %	1.34 %
Finance leases	2.32 %	2.28 %

Maturities of lease liabilities for the next five years and thereafter consist of the following:

	<u>Operating</u>	<u>Finance</u>
2024	\$ 34,689	\$ 3,925
2025	36,214	3,075
2026	31,611	3,050
2027	27,360	2,990
2028	22,020	2,825
Thereafter	<u>120,764</u>	<u>135,678</u>
Total minimum lease payments	272,658	151,543
Less amount representing interest	(37,767)	(76,009)
Present value of future minimum lease payments	<u>\$ 234,891</u>	<u>\$ 75,534</u>

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

10. Income Tax Status

ASC 740, Income Taxes, requires that realization of an uncertain income tax position is more likely than not (i.e. greater than 50% likelihood of receiving a benefit) before it is recognized in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. This interpretation also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. No amount was recorded for the years ended August 31, 2023 and 2022.

Each of the NMHC not-for-profit entities is qualified under the Internal Revenue Code (the Code) as a tax-exempt organization and is exempt from tax on income related to its tax-exempt purposes under Section 501(a) of the Code. Accordingly, no income taxes are provided for the majority of the income in the accompanying consolidated financial statements for these corporations. Certain corporations had unrelated business income (UBI) generated primarily from the sale of certain services that are not directly related to patient care and through limited partnerships within the investment portfolio. Certain corporations have unused net operating loss carryforwards available to offset the UBI tax. The net operating loss carryforwards expire through 2038 for losses incurred prior to the enactment of the Tax Cut and Jobs Act of 2017. Losses incurred in tax years after January 1, 2018 are subject to indefinite carryforward periods though loss application is limited to 80% of taxable income, with caveats due to pandemic response allowing for 100% application. The deferred tax assets associated with these net operating loss carryforwards of \$24,511 and \$27,860 at August 31, 2023 and 2022, respectively, are offset by valuation allowances on the accompanying consolidated balance sheets of \$23,289 and \$26,883, respectively. The total net operating loss carryforwards at August 31, 2023 and 2022 were \$82,658 and \$97,894, respectively.

NMHC calculates income taxes for its taxable subsidiaries. Taxable income differs from pretax book income principally due to certain income and deductions for tax purposes being recorded in the consolidated financial statements in different periods. Deferred income tax assets and liabilities are recorded for the tax effect of these differences using enacted tax rates for the years in which the differences are expected to reverse.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible.

Provisions for federal and state income taxes of \$860 and \$1,666 for the years ended August 31, 2023 and 2022, respectively, are included within Other nonoperating gains (losses) in the accompanying consolidated statements of operations and changes in net assets. Additional inclusion in Other nonoperating gains (losses) for the years ended August 31, 2023 and 2022 include \$2,014 and \$1,718 related to excess compensation excise tax as enacted by the Tax Cut and Jobs Act of 2017.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

11. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as at August 31:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Purchase of property and equipment	\$ 47,598	\$ 41,525
Operating expenses and charity care	276,631	257,207
Research, education and other	178,165	172,523
Total expenditure for specified purpose	<u>502,394</u>	<u>471,255</u>
Subject to passage of time:		
Pledges and trusts	3,525	2,848
Endowments:		
Perpetual in nature:		
Purchase of property and equipment	16,004	16,004
Operating expenses and charity care	119,293	98,432
Research, education and other	114,022	114,990
Total perpetual in nature	<u>249,319</u>	<u>229,426</u>
Total net assets with donor restrictions	<u>\$ 755,238</u>	<u>\$ 703,529</u>

Net assets were released from donor restrictions by incurring expenditures for the following purposes in the years ended August 31:

	<u>2023</u>	<u>2022</u>
Health care services:		
Purchase of property and equipment	\$ 25,123	\$ 23,846
Clinical expenses and charity care	38,007	21,209
Research, education and other	29,868	28,933
	<u>\$ 92,998</u>	<u>\$ 73,988</u>

Net assets released from donor restrictions reported in the consolidated statements of operations and changes in net assets were recorded as follows for the years ended August 31:

	<u>2023</u>	<u>2022</u>
Net assets released from donor restrictions and federal and state grants	\$ 45,107	\$ 30,433
Nonoperating other	22,768	19,709
	<u>\$ 67,875</u>	<u>\$ 50,142</u>

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 HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

11. Net Assets with Donor Restrictions (continued)

Northwestern Memorial has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), as adopted by the State of Illinois, as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Northwestern Memorial classifies as net assets with restrictions 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 direction of the applicable donor gift instrument at the time.

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 generally 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 and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

11. Net Assets with Donor Restrictions (continued)

The changes in endowment net assets for the years ended August 31, 2023 and 2022 are summarized below:

	Total
Endowment net assets, August 31, 2021	\$ 284,944
Contributions	18,091
Change in value of trusts	(2,229)
Investment return	16,662
Appropriation for expenditure	(9,569)
Other	1,676
Endowment net assets, August 31, 2022	309,575
Contributions	19,329
Change in value of trusts	167
Investment return	17,633
Appropriation for expenditure	(9,748)
Other	1,455
Endowment net assets, August 31, 2023	\$ 338,411

12. Pledges Receivable

As of August 31, 2023, donor-restricted pledges, which are included in Current portion of pledges and grants receivable, net and Pledges and grants receivable, less current portion, are expected to be realized as follows:

Less than one year	\$ 43,579
One to five years	64,304
Thereafter	22,981
Total pledges receivable	130,864
Less allowances	(1,476)
Less present value discount	(16,388)
Net pledges receivable	\$ 113,000

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

13. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date comprise the following at August 31:

	2023	2022
Cash and cash equivalents	\$ 680,384	\$ 779,110
Patient accounts receivable	963,797	781,259
Pledges receivable	43,579	35,811
Grants receivable	1,878	1,767
Other receivables	128,051	90,995
Investments	9,008,312	7,989,695
Total financial assets available within one year	<u>\$ 10,826,001</u>	<u>\$ 9,678,637</u>

14. Self-Insurance Programs and Related Insurance Recoverable

Northwestern Memorial retains certain levels of professional and general liability risks. Northwestern Memorial also retains certain levels of workers' compensation risks through State of Illinois sanctioned self-insurance arrangements and through commercial insurance programs subject to large deductibles. For those self-insured risks, Northwestern Memorial has established revocable trust funds and two captive insurance companies to pay claims and related costs. In addition, various insurance policies have been purchased to provide coverage in excess of self-insured limits.

Northwestern Memorial's self-insurance liability and related amounts recoverable from reinsurers are reported in the accompanying consolidated balance sheets at present value based on an annual discount rate of 2.5% as of August 31, 2023 and 2022, respectively. This discount rate is based on several factors, including rolling averages of risk-free rates based on estimated payment patterns of the underlying liability. The undiscounted gross liabilities for the self-insured programs were \$1,279,897 and \$1,187,886 at August 31, 2023 and 2022, respectively. The undiscounted amounts recoverable from reinsurers were \$196,223 and \$191,163 at August 31, 2023 and 2022, respectively. 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 on 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.

In the opinion of management, based in part on the advice of outside actuaries, adequate provision has been made at August 31, 2023 and 2022, for all claims incurred to date. Although there is considerable variability inherent in such estimates, management further believes that the ultimate disposition of these claims will not have a material adverse effect on the consolidated financial position of Northwestern Memorial.

15. Employee Benefit Obligations

There are two noncontributory defined benefit pension plans: Northwestern Memorial Hospital and Lake Forest Hospital (the Plans) maintained within Northwestern Memorial that cover specified employee groups. The sponsors for the Plans approved resolutions to amend the Plans effective at the end of the day on December 31, 2012. The amendments implemented a hard freeze such that no participant will earn any additional or new benefits under the Plans on or after January 1, 2013.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

15. Employee Benefit Obligations (continued)

The following table summarizes the change in the projected benefit obligation for the years ended August 31:

	<u>2023</u>	<u>2022</u>
Projected benefit obligation, beginning of year	\$ 564,090	\$ 713,945
Interest cost	24,571	14,111
Net actuarial gain	(23,056)	(131,778)
Benefits paid	(31,475)	(32,188)
Projected benefit obligation, end of year	<u>\$ 534,130</u>	<u>\$ 564,090</u>

The net actuarial gain in 2023 was caused primarily by the change in the discount rate used compared to prior years.

The following table summarizes the changes in the Plans' assets for the years ended August 31:

	<u>2023</u>	<u>2022</u>
Plan assets at fair value, beginning of year	\$ 773,405	\$ 934,203
Actual return on the Plans' assets, net of expenses	31,115	(128,610)
Benefits paid	(31,475)	(32,188)
	<u>\$ 773,045</u>	<u>\$ 773,405</u>

The following table sets forth the Plans' funded status, as well as recognized amounts in the accompanying consolidated balance sheets as of August 31:

	<u>2023</u>	<u>2022</u>
Plan assets at fair value	\$ 773,045	\$ 773,405
Projected benefit obligation	534,130	564,090
Net funded status	<u>\$ 238,915</u>	<u>\$ 209,315</u>

The funded status of the Northwestern Memorial Hospital plan was \$211,460 and \$189,699 for the years ended August 31, 2023 and 2022, respectively. The funded status for the Northwestern Lake Forest Hospital plan was \$27,455 and \$19,616 for the years ended August 31, 2023 and 2022, respectively.

Included in net assets without donor restrictions are the Plans' amounts that have not yet been recognized in net periodic pension cost at August 31, as follows:

	<u>2023</u>	<u>2022</u>
Unrecognized actuarial loss	\$ 147,267	\$ 169,138

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

15. Employee Benefit Obligations (continued)

Changes in the Plans' assets and benefit obligations recognized in net assets without donor restrictions for the years ended August 31 include the following:

	<u>2023</u>	<u>2022</u>
Current year actuarial gain (loss)	\$ 18,573	\$ (49,617)
Recognized actuarial loss	3,298	1,000
	<u>\$ 21,871</u>	<u>\$ (48,617)</u>

The Plans' net actuarial loss included in net assets without donor restrictions expected to be recognized in net periodic pension cost during the year ending August 31, 2024 is \$2,560.

Net periodic pension benefit included in nonoperating results for the years ended August 31 consists of the following:

	<u>2023</u>	<u>2022</u>
Plan expenses	\$ 1,904	\$ 1,945
Interest cost of projected benefit obligation	24,571	14,111
Expected return on the Plans' assets	(37,502)	(54,730)
Recognized actuarial loss	3,298	1,000
Net periodic pension benefit	<u>\$ (7,729)</u>	<u>\$ (37,674)</u>

The following table sets forth the discount rate assumptions used to determine the projected benefit obligation and benefit cost as of August 31:

	<u>2023</u>	<u>2022</u>
Used to determine projected benefit obligation		
Discount rate - Northwestern Memorial Hospital	5.55 %	4.89 %
Discount rate - Northwestern Lake Forest Hospital	5.57	4.92
Used to determine benefit cost		
Discount rate - Northwestern Memorial Hospital	4.65 %	2.05 %
Discount rate - Northwestern Lake Forest Hospital	4.73	2.18
Expected long-term rate of return on the Plans' assets	6.00	5.00

The expected long-term rate of return on assets is determined based on a capital market asset model, which assumes that future returns are based on long-term, historical performance as adjusted for contemporary dividend yields. The adjusted historical returns were weighted by the current long-term asset allocation targets and reduced by 100 basis points to produce a more normal risk premium. Northwestern Memorial's investment advisor assisted with the analysis.

The Plans' asset allocation and investment strategies are designed to earn returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors and manager style to minimize the risk of loss. Northwestern Memorial uses professional investment managers specializing in each asset category and, where appropriate, provides the investment managers with specific

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

15. Employee Benefit Obligations (continued)

guidelines that include allowable and/or prohibited investment types. Northwestern Memorial regularly monitors manager performance and compliance with investment guidelines.

The target allocation of the Plans' assets as of August 31 is as follows:

	2023	2022
Equity securities	20 %	40 %
Alternative investments	20	25
Fixed income	60	35
	100 %	100 %

The following table presents the Plans' financial instruments as of August 31, 2023, measured at fair value on a recurring basis by the valuation hierarchy described in Note 5:

	Level 1	Level 2	Level 3	Total
Common collective trusts and commingled funds:				
Fixed income	\$ 506,740	\$ —	\$ —	\$ 506,740
International equities	16,171	—	—	16,171
U.S. equities	9,995	—	—	9,995
Total common collective trusts and commingled funds	532,906	—	—	532,906
103-12 entities:				
Private investments	42	—	—	42
Total 103-12 entities	42	—	—	42
Corporate debt:				
Other	—	33,389	—	33,389
Equity securities:				
U.S. equities	18	—	—	18
U.S. government securities	—	17,752	—	17,752
Other	(12,500)	—	—	(12,500)
Total assets measured on a recurring basis at fair value	\$ 520,466	\$ 51,141	\$ —	571,607
Investments recorded at fair value based on NAV				201,438
Total assets measured at fair value				\$ 773,045

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

15. Employee Benefit Obligations (continued)

The following table presents the Plans' financial instruments as of August 31, 2022, measured at fair value on a recurring basis by the valuation hierarchy described in Note 5:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Fixed income	\$ 219,560	\$ —	\$ —	\$ 219,560
Common collective trusts and commingled funds:				
Fixed income	783	—	—	783
U.S. equities	76,851	—	—	76,851
Total common collective trusts and commingled funds	77,634	—	—	77,634
103-12 entities:				
International equities	29,044	—	—	29,044
Private investments	68	—	—	68
Total 103-12 entities	29,112	—	—	29,112
Corporate debt:				
Other	—	19	—	19
Equity securities:				
International equities	505	—	—	505
Other	(345)	—	—	(345)
Total assets measured on a recurring basis at fair value	<u>\$ 326,466</u>	<u>\$ 19</u>	<u>\$ —</u>	326,485
Investments recorded at fair value based on NAV				<u>446,920</u>
Total assets measured at fair value				<u>\$ 773,405</u>

The fair value of Level 1 investments, which consist of equity securities, mutual funds, and common collective trusts, 103-12 Entities and commingled funds, is based on quoted market prices that are valued on a daily basis. Level 2 investments consist of U.S. government securities and corporate bonds. 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.

Included in the other pension investments are alternative investments (principally limited partnership interests in hedge, private equity, real estate and natural resources funds) for which the fair values are based on NAV.

The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner taking into consideration, among other things, the financial

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

15. Employee Benefit Obligations (continued)

performance of underlying investments, recent sales prices of underlying investments and other pertinent information. In addition, actual market exchanges at period-end provide additional observable market inputs of the exit price. NAV is calculated by the investment's management monthly for all of the Master Trust's alternative investments, other than limited partnerships, whose NAV is calculated on a quarterly basis. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plans' valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Investments in LPs, which cannot be redeemed on request, totaled \$28,054 as of August 31, 2023. Certain marketable alternative investments are subject to various redemption restrictions. As of August 31, 2023, \$160,438 of alternative investments is subject to various redemption limits and lockup provisions, of which \$149,487 expires within one year and \$10,951 expires after one year from the balance sheet date.

The Plans' assets are managed solely in the interest of the Plans' participants and their beneficiaries. The assets are invested with the investment objective of funding the accumulated and projected retirement benefit obligations of the Plans consistent with the Plans' long-term rate-of-return assumption. A time horizon of greater than five years is assumed; therefore, interim volatility in returns is regarded with an appropriate perspective.

Northwestern Memorial has no current plans to contribute to the Plans during the year ending August 31, 2024.

Benefit payments are expected to be paid as follows:

Year ending August 31:	
2024	\$ 45,140
2025	45,338
2026	44,178
2027	42,908
2028	41,807
2029-2033	190,548

Northwestern Memorial also maintains defined contribution plans covering substantially all of its full-time and part-time employees. Participants can make voluntary tax-deferred contributions to the Plans, subject to certain IRS limitations. Northwestern Memorial contributes a specified percentage of eligible compensation to the Plans on behalf of each participant. Participants are always fully vested in their own tax-deferred contributions and related earnings and become fully vested in Northwestern Memorial contributions and related earnings upon completion of vesting service. Employer contributions related to these defined contribution plans, included in Employee benefits expense in the accompanying consolidated statements of operations and changes in net assets, totaled \$172,203 and \$158,098 in 2023 and 2022, respectively.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

16. Functional Expenses

Northwestern Memorial provides general health care services primarily to residents within its geographic location and supports research and education programs. Operating expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Expenses other than depreciation expense are directly allocated to functional departments at the time they are incurred. Depreciation expense is allocated on a pro rata basis. General, administrative and other expenses primarily include legal, finance, purchasing, human resources, information technology, management and governance.

Expenses related to providing these services were as follows for the years ended August 31:

	2023				
	Health Care Services	Research and Education	Fundraising	General, Administrative and Other	Total Expenses
Salaries	\$ 2,986,545	\$ 5,926	\$ 6,698	\$ 602,379	\$ 3,601,548
Employee benefits	421,956	1,395	972	103,850	528,173
Supplies	1,903,180	1,263	25	29,943	1,934,411
Purchased services	203,550	17,064	393	607,156	828,163
Depreciation and amortization	321,517	7,356	452	102,900	432,225
Insurance	203,784	—	—	60,638	264,422
Rent and utilities	44,182	9	213	56,594	100,998
Repairs and maintenance	109,350	185	144	87,449	197,128
Interest	229	—	—	50,493	50,722
Illinois Hospital Assessment	223,602	—	—	—	223,602
Other	37,406	116,436	201	54,218	208,261
	\$ 6,455,301	\$ 149,634	\$ 9,098	\$ 1,755,620	\$ 8,369,653

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

16. Functional Expenses (continued)

	2022				
	Health Care Services	Research and Education	Fundraising	General, Administrative and Other	Total Expenses
Salaries	\$ 2,753,918	\$ 5,172	\$ 7,049	\$ 553,409	\$ 3,319,548
Employee benefits	382,040	1,316	1,007	91,817	476,180
Supplies	1,713,028	1,013	350	26,455	1,740,846
Purchased services	199,018	16,233	431	577,723	793,405
Depreciation and amortization	348,586	6,068	461	84,111	439,226
Insurance	160,656	—	—	40,062	200,718
Rent and utilities	46,220	10	232	55,461	101,923
Repairs and maintenance	104,901	192	187	57,424	162,704
Interest	135	—	—	44,149	44,284
Illinois Hospital Assessment	180,339	—	—	—	180,339
Other	35,747	108,900	321	45,554	190,522
	\$ 5,924,588	\$ 138,904	\$ 10,038	\$ 1,576,165	\$ 7,649,695

The research and education costs include \$1,832 and \$1,836, of expenses supported by federal, state and corporate grants; and \$28,835 and \$27,001 of expenses supported by other donor-restricted funds in 2023 and 2022, respectively.

17. 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 \$73,995 and \$73,237 at August 31, 2023 and 2022, respectively, which is reported as Grants and academic support payable, current portion and Grants and academic support payable, less current portion in the accompanying consolidated balance sheets.

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 Patient service revenue and operating results of Northwestern Memorial. The expense incurred of \$113,607 and \$106,427 for the years ended August 31, 2023 and 2022, respectively, is recorded in Other expense in the accompanying consolidated statements of operations and changes in net assets; a related liability of \$698 is recorded in Accrued expenses and other current liabilities and a receivable of \$175, is recorded in Other current assets in the accompanying consolidated balance sheets as of August 31, 2023 and 2022, respectively.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

17. Commitments and Contingencies (continued)

Other

As of August 31, 2023, approximately 4% of Northwestern Memorial employees, on a full-time equivalent basis, were represented by a collective bargaining agreement. The collective bargaining agreement expires on January 28, 2026.

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 \$3,107,000. As of August 31, 2023, project commitments totaled \$1,649,000, of which \$1,195,000 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 health care 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 health care providers has been challenged or questioned to determine whether 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 and exemption of property from real property taxation. 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.

The United States Department of Health and Human Services Office of Civil Rights (OCR) is responsible for enforcing the Health Insurance Portability and Accountability Act (HIPAA) and the Privacy and Security Rules. OCR has initiated a compliance review of Northwestern Memorial of certain privacy breaches related to inappropriate access of patient information. Northwestern Memorial has complied with the OCR data requests. In addition, Northwestern Memorial is aware of, has investigated, and has made disclosure to OCR with respect to certain other privacy breaches and has responded to requests for information from the OCR. NMHC is unable to determine whether any corrective actions or fines might be imposed by OCR as a result of the compliance review or the disclosures provided to OCR.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In thousands)

17. Commitments and Contingencies (continued)

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 consolidated financial position or operations.

18. COVID-19

In March 2020, the World Health Organization (WHO) declared the global novel coronavirus disease 2019 (COVID-19) outbreak a pandemic. Northwestern Memorial has developed and implemented an emergency response to the situation. In May 2023, the WHO declared an end to the global Public Health emergency.

Northwestern Memorial has received support under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and American Rescue Plan Act (ARP). CARES Act support includes Provider Relief Funds (PRF). Northwestern Memorial accounted for the PRF payments and ARP payments as contributions that are recognized as revenue when any related conditions have been substantially met.

The PRF and ARP payments provide funding from the U.S. Department of Health and Human Services (HHS) to healthcare providers to support healthcare-related expenses or lost revenue attributable to COVID-19. Funds received from HHS represent payments to providers and do not need to be repaid as long as Northwestern Memorial complies with certain terms and conditions imposed by HHS, including reporting and compliance requirements. Northwestern Memorial recognized HHS stimulus payments of \$0 and \$51,000 during the year ended August 31, 2023, and 2022 respectively.

Management will continue to review any additional impact of the CARES Act.

19. Subsequent Events

Northwestern Memorial evaluated events and transactions occurring subsequent to August 31, 2023 through December 6, 2023, the date of issuance of these consolidated financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements and no unrecognized subsequent events requiring disclosure.