



Northwestern Memorial HealthCare and Subsidiaries

Quarterly Report

As of and for the Fourth Quarter
Ended August 31, 2025

**NORTHWESTERN MEMORIAL HEALTHCARE AND
SUBSIDIARIES**
Unaudited Condensed Consolidated Financial Statements
As of and for the Fourth Quarter Ended August 31, 2025

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

	August 31, 2025	August 31, 2024
	(Unaudited)	Note A
Assets		
Current Assets:		
Cash and cash equivalents	\$ 885,327	\$ 332,319
Short-term investments	376,726	647,510
Current portion of investments, including assets limited as to use	284,634	297,385
Patient accounts receivable	1,260,017	1,098,009
Current portion of pledges and grants receivable, net	38,186	36,507
Current portion of insurance recoverable	33,726	33,068
Inventories	183,420	155,359
Other current assets	374,269	301,678
Total current assets	3,436,305	2,901,835
Investments, including assets limited as to use, less current portion	11,636,563	10,735,303
Property and equipment, at cost:		
Land	451,504	450,023
Buildings	6,294,221	6,105,876
Equipment and furniture	2,457,278	2,310,174
Construction in progress	671,938	393,842
	9,874,941	9,259,915
Less accumulated depreciation and amortization	4,527,561	4,181,443
	5,347,380	5,078,472
Prepaid pension cost	229,416	226,264
Pledges and grants receivable, less current portion	82,831	100,334
Insurance recoverable, less current portion	129,553	167,271
Operating lease right-of-use assets	215,620	189,896
Other assets, net	631,064	406,552
Total assets	\$ 21,708,732	\$ 19,805,927

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

	August 31, 2025	August 31, 2024
	(Unaudited)	Note A
Liabilities and net assets		
Current Liabilities		
Accounts payable	\$ 431,146	\$ 367,593
Accrued salaries and benefits	695,749	626,770
Grants and academic support payable, current portion	18,556	36,828
Accrued expenses and other current liabilities	235,238	200,143
Due to third-party payors	784,422	671,668
Current accrued liabilities under self-insurance programs	240,559	249,186
Current maturities of long-term debt	22,095	80,555
Long-term debt subject to short-term remarketing	299,565	126,200
Short-term debt	55,000	—
Total current liabilities	2,782,330	2,358,943
Long-term debt, less current maturities	1,476,242	1,674,994
Accrued liabilities under self-insurance programs, less current portion	1,088,244	1,007,139
Grants and academic support payable, less current portion	74,848	58,431
Interest rate swaps	28,391	35,933
Operating lease liabilities, less current portion	208,875	176,819
Other liabilities	490,765	450,447
Total liabilities	6,149,695	5,762,706
Net assets:		
Without donor restrictions:		
Controlling interest	14,704,530	13,255,770
Noncontrolling interest in subsidiaries	1,018	714
Total net assets without donor restrictions	14,705,548	13,256,484
With donor restrictions	853,489	786,737
Total net assets	15,559,037	14,043,221
Total liabilities and net assets	\$ 21,708,732	\$ 19,805,927

Note A: The August 31, 2024 financial statement information was derived from and should be read in conjunction with the Northwestern Memorial HealthCare and Subsidiaries 2024 audited consolidated financial statements.

See accompanying notes to the interim condensed consolidated financial statements.

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

	Three Months Ended		Twelve Months Ended	
	August 31,		August 31,	
	2025	2024	2025	2024
Revenue				
Patient service revenue	\$ 2,504,419	\$ 2,265,337	\$ 9,802,217	\$ 8,883,682
Rental and other revenue	204,819	161,993	735,871	612,010
Net assets released from donor restrictions and federal and state grants	50,318	19,592	100,982	63,893
Total revenue	2,759,556	2,446,922	10,639,070	9,559,585
Expenses				
Salaries	1,159,026	1,055,570	4,422,692	4,039,164
Employee benefits	143,092	155,062	664,279	600,946
Supplies	680,876	597,647	2,580,368	2,232,752
Purchased services	274,198	254,070	981,651	887,990
Depreciation and amortization	112,806	112,479	427,539	405,070
Insurance	87,229	60,319	325,249	250,412
Rent and utilities	29,721	26,494	107,550	100,260
Repairs and maintenance	90,607	76,998	234,021	207,549
Interest	10,217	13,155	44,993	52,920
Illinois Hospital Assessment	59,219	58,501	236,730	234,515
Other	59,612	48,378	234,462	208,281
Total expenses	2,706,603	2,458,673	10,259,534	9,219,859
Operating income (loss)	52,953	(11,751)	379,536	339,726
Nonoperating gains (losses)				
Investment return	630,911	371,849	1,194,176	1,369,477
Change in fair value of interest rate swaps	(2,068)	(11,973)	7,542	(5,528)
Grants and academic support provided	(76,972)	(67,903)	(139,425)	(130,091)
Other, net	7,173	8,277	(11,126)	8,383
Total nonoperating gains, net	559,044	300,250	1,051,167	1,242,241
Excess of revenue over expenses	611,997	288,499	1,430,703	1,581,967
Net gain (loss) attributable to noncontrolling interest in subsidiaries	40	243	916	(148)
Excess of revenue over expenses attributable to NMHC and subsidiaries	\$ 611,957	\$ 288,256	\$ 1,429,787	\$ 1,582,115

Continued on next page.

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

(Dollars in thousands)

	Three Months Ended		Twelve Months Ended	
	August 31,		August 31,	
	2025	2024	2025	2024
Net assets without donor restrictions, controlling interest				
Excess of revenue over expenses	\$ 611,957	\$ 288,256	\$ 1,429,787	\$ 1,582,115
Net assets released from restrictions used for property and equipment additions	5,417	2,694	21,911	14,704
Postretirement-benefit-related changes other than net periodic pension cost	(5,567)	(28,014)	(2,923)	(25,745)
Other	1	(5)	(15)	(90)
Increase in net assets without donor restrictions, controlling interest	611,808	262,931	1,448,760	1,570,984
Net assets without donor restrictions, noncontrolling interest				
Excess (deficiency) of revenue over expenses	40	243	916	(148)
Distribution to noncontrolling interest	(127)	(177)	(611)	(329)
Other	(1)	(5)	(1)	(5)
(Decrease) increase in net assets without donor restrictions, noncontrolling interest	(88)	61	304	(482)
Net assets with donor restrictions				
Contributions	9,596	15,266	132,407	88,066
Investment return	12,001	10,679	44,426	35,247
Net assets released from restrictions used for:				
Operating expenses, charity care, and research and education	(38,542)	(29,509)	(90,549)	(77,967)
Property and equipment additions	(5,417)	(2,694)	(21,911)	(14,704)
Change in fair value of split-interest agreements	1,279	729	2,404	1,841
Other	(50)	(1,065)	(25)	(984)
(Decrease) increase in net assets with donor restrictions	(21,133)	(6,594)	66,752	31,499
Change in net assets	590,587	256,398	1,515,816	1,602,001
Net assets, beginning of period	14,968,450	13,786,823	14,043,221	12,441,220
Net assets, end of period	\$ 15,559,037	\$ 14,043,221	\$ 15,559,037	\$ 14,043,221

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

	Twelve Months Ended	
	August 31,	August 31,
	2025	2024
Operating activities		
Change in net assets	\$ 1,515,816	\$ 1,602,001
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Postretirement benefit-related changes other than net periodic pension cost	2,923	25,745
Change in fair value of interest rate swaps	(7,542)	5,528
Net unrestricted realized investment return and net change in unrestricted and restricted unrealized investment gains	(1,186,978)	(1,368,177)
Restricted contributions, change in fair value of split interest agreements and realized investment return	(179,237)	(126,465)
Depreciation and amortization	427,539	405,070
Changes in operating assets and liabilities:		
Patient accounts receivable	(162,008)	(134,212)
Due to third-party payors	115,755	(156,630)
Grants and academic support payable	(1,855)	21,264
Other operating assets and liabilities	177,609	36,668
Net cash provided by operating activities	702,022	310,792
Investing activities		
Purchase of investments	(6,308,227)	(8,088,733)
Sale of investments	6,065,304	7,585,694
Other investing activities	(148,322)	—
Net unrestricted realized investment return	812,176	421,425
Capital expenditures, net	(724,647)	(684,653)
Net cash used in investing activities	(303,716)	(766,267)
Financing activities		
Proceeds from commercial paper	55,000	—
Payments of long-term debt	(79,535)	(19,055)
Restricted contributions, change in fair value of split interest agreements and realized investment return	179,237	126,465
Net cash provided by financing activities	154,702	107,410
Net increase (decrease) in cash and cash equivalents	553,008	(348,065)
Cash and cash equivalents, beginning of period	332,319	680,384
Cash and cash equivalents, end of the period	<u>\$ 885,327</u>	<u>\$ 332,319</u>

See accompanying notes to the interim condensed consolidated financial statements.

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

1. Organization and Basis of Presentation

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

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

These interim financial statements have not been audited; however, in the opinion of management, they include all adjustments necessary for their fair presentation in conformity with U.S. generally accepted accounting principles (U.S. GAAP). These interim statements have been prepared on a basis that is substantially consistent with the accounting principles applied in the audited consolidated financial statements of Northwestern Memorial for the year ended August 31, 2024.

Interim results are not necessarily indicative of results for a full year or any future periods. The information included in these interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2024, which are available on the Electronic Municipal Market Access ("EMMA") website of the Municipal Securities Rulemaking Board.

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

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 increased by \$15,533 and \$18,236 for the three months ended August 31, 2025 and 2024, respectively, and increased by \$39,242 and \$33,823 for the twelve months ended August 31, 2025 and 2024, 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, 2025 and August 31, 2024 were not material.

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

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:

	Three Months Ended		Twelve Months Ended	
	August 31,		August 31,	
	2025	2024	2025	2024
Medicare	\$ 801,168	\$ 708,100	\$ 3,018,549	\$ 2,711,507
Medicaid	216,364	226,759	884,334	904,403
Blue Cross	972,552	864,514	3,820,420	3,431,522
Other managed care	441,628	383,093	1,718,901	1,547,669
Commercial and other	48,553	63,025	268,193	213,670
Self-pay	24,154	19,846	91,820	74,911
Total	<u>\$ 2,504,419</u>	<u>\$ 2,265,337</u>	<u>\$ 9,802,217</u>	<u>\$ 8,883,682</u>

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

	Three Months Ended		Twelve Months Ended	
	August 31,		August 31,	
	2025	2024	2025	2024
Hospitals	\$ 1,873,332	\$ 1,693,474	\$ 7,323,649	\$ 6,701,649
Physician groups	605,470	554,967	2,394,678	2,116,755
Other	25,617	16,896	83,890	65,278
Total	<u>\$ 2,504,419</u>	<u>\$ 2,265,337</u>	<u>\$ 9,802,217</u>	<u>\$ 8,883,682</u>

Northwestern Memorial grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. At August 31, 2025 and August 31, 2024, respectively, patient accounts receivable, including patient co-pays and deductibles by major primary payor source, were as follows:

	August 31,	August 31,
	2025	2024
Medicare	25%	24%
Medicaid	7%	8%
Blue Cross	33%	33%
Other managed care	20%	20%
Commercial and other	6%	7%
Self-pay	9%	8%
	<u>100%</u>	<u>100%</u>

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

3. Hospital Assessment Program

On April 9, 2022, the Illinois General Assembly unanimously approved HB 1950 which essentially extends the existing 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.

On September 23, 2025, the Illinois Department of Healthcare and Family Services notified Illinois Hospital Providers that the federal Centers for Medicare and Medicaid Services (CMS) approved the State's plan (Illinois Public Act 104-0007) to increase the HAP's Managed Care Access Payments (MCAPs) made to hospitals through the Illinois Managed Care Organizations. As a result, there is an update to the HAP's MCAPs retroactive to January 1, 2025. This plan also increases the monthly assessments paid by the hospitals. No amounts were recorded as of August 31, 2025 as a result of this change.

A summary of the amounts recognized for the HAP program is as follows:

	Three Months Ended		Twelve Months Ended	
	August 31,		August 31,	
	2025	2024	2025	2024
Patient service revenue - HAP	\$ 75,631	\$ 81,455	\$ 306,514	\$ 312,547
Illinois Hospital Assessment	(59,219)	(58,501)	(236,730)	(234,515)
Net excess of HAP revenue over Illinois assessment	\$ 16,412	\$ 22,954	\$ 69,784	\$ 78,032

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, is as follows:

	August 31, 2025	August 31, 2024
Measured at fair value:		
Cash and cash equivalents and Short-term investments	\$ 1,597,148	\$ 1,240,192
Mutual funds	661,779	634,654
Corporate bonds	604,240	613,766
U.S. government and agency issues	689,628	593,261
Equity securities	329,175	368,864
Common collective trusts and commingled investments	1,764,077	1,830,469
Interest in 103-12 investment entities	415,255	370,467
	<u>6,061,302</u>	<u>5,651,673</u>
Accounted for under the equity method:		
Alternative investments	7,121,948	6,360,844
	<u>\$ 13,183,250</u>	<u>\$ 12,012,517</u>

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

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

	August 31, 2025	August 31, 2024
Assets limited as to use:		
Trustee-held funds	\$ 821	\$ 841
Self-insurance programs	1,345,271	927,909
Board-designated funds	3,710	3,421
Total assets limited as to use	1,349,802	932,171
Donor-restricted funds	731,226	648,499
Unrestricted, undesignated funds	9,840,169	9,452,018
Total investments, excluding short-term investments	11,921,197	11,032,688
Other financial instruments:		
Cash and cash equivalents and short-term investments	1,262,053	979,829
	<u>\$ 13,183,250</u>	<u>\$ 12,012,517</u>

The composition and presentation of investment returns are as follows:

	Three Months Ended		Twelve Months Ended	
	August 31,		August 31,	
	2025	2024	2025	2024
Interest and dividend income	\$ 39,809	\$ 47,471	\$ 153,421	\$ 167,627
Investment expenses	(1,439)	(1,506)	(5,508)	(6,173)
Realized gains on alternative investments, net	125,032	41,221	340,384	148,279
Realized gains on other investments, net	61,211	200,682	410,121	203,086
Net change in unrealized gains on alternative investments	170,624	92,587	421,938	526,456
Net change in unrealized (losses) gains on other investments	259,293	16,189	(39,938)	420,295
Change in value of joint ventures	555	520	1,763	1,616
	<u>\$ 655,085</u>	<u>\$ 397,164</u>	<u>\$ 1,282,181</u>	<u>\$ 1,461,186</u>
Reported as:				
Rental and other revenue	\$ 12,173	\$ 14,636	\$ 43,579	\$ 56,462
Nonoperating investment return	630,911	371,849	1,194,176	1,369,477
With donor restriction investment return	12,001	10,679	44,426	35,247
	<u>\$ 655,085</u>	<u>\$ 397,164</u>	<u>\$ 1,282,181</u>	<u>\$ 1,461,186</u>

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

Commingled investments, common collective trusts and 103-12 investment 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 investments, common collective trusts and 103-12 investment 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 net asset value, include absolute return hedge funds, equity long/short hedge funds, real estate, natural resources and LPs, collectively referred to as alternative investments. Alternative investments in the pension plan assets are measured at fair value.

Absolute return hedge funds include funds with the ability to opportunistically allocate capital among several strategies. Generally, these funds diversify across strategies in an effort to deliver consistently positive returns regardless of the movement within global markets, exhibit relatively low volatility and are redeemable quarterly with a 60-day notice period. Equity long/short hedge funds include hedge funds that invest both long and short in U.S. and international equities. These funds typically focus on diversifying or hedging across particular sectors, regions or market capitalizations and are generally redeemable quarterly with a 60-day notice period.

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

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 condensed consolidated statements of operations and changes in net assets due to results recorded based on June 30 investment statements. Due to this delay, these condensed consolidated financial statements do not yet reflect the market conditions experienced in the last two months of the fourth quarter of fiscal 2025 or fiscal 2024 for the limited partnership investments.

As of August 31, 2025, \$5,162,505 of alternative investments is subject to various redemption limits and lockup provisions, of which \$4,578,186 expires within one year and \$584,319 expires after one year from the balance sheet date.

At August 31, 2025, Northwestern Memorial had commitments to fund approximately an additional \$1,180,000 to alternative investment entities. This funding is expected to occur over the next 12 years.

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

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

The following table presents the financial instruments measured at fair value on a recurring basis at August 31, 2025:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 885,327	\$ —	\$ —	\$ 885,327
Investments:				
Short-term investments:				
Cash equivalents in investment accounts	2,197	—	—	2,197
Mutual fund - fixed income	84,109	—	—	84,109
U.S. government and agency issues	—	290,420	—	290,420
Total short-term investments	86,306	290,420	—	376,726
Mutual funds:				
Fixed income	48	—	—	48
International equities	253,178	—	—	253,178
U.S. equities	408,553	—	—	408,553
Total mutual funds	661,779	—	—	661,779
Common collective trusts and commingled investments:				
International equities	374,466	—	—	374,466
U.S. equities	1,389,611	—	—	1,389,611
Total common collective trusts and commingled investments	1,764,077	—	—	1,764,077
103-12 entities:				
International equities	415,255	—	—	415,255
Bonds:				
Corporate bonds	—	604,240	—	604,240
U.S. government and agency issues	—	689,628	—	689,628
Total bonds	—	1,293,868	—	1,293,868
Equity securities	329,175	—	—	329,175
Cash equivalents in investment accounts	523,358	—	—	523,358
Due to broker	(188,263)	—	—	(188,263)
Total investments	3,591,687	1,584,288	—	5,175,975
Beneficial interest in trusts	—	22,762	—	22,762
Total assets measured at fair value	\$ 4,477,014	\$ 1,607,050	\$ —	\$ 6,084,064
Liabilities:				
Interest rate swaps	\$ —	\$ 28,391	\$ —	\$ 28,391

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

The following table presents the financial instruments measured at fair value on a recurring basis at August 31, 2024:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 332,319	\$ —	\$ —	\$ 332,319
Investments:				
Short-term investments:				
Cash equivalents in investment accounts	1,093	—	—	1,093
Mutual fund - fixed income	375,347	—	—	375,347
U.S. government and agency issues	—	271,070	—	271,070
Total short-term investments	376,440	271,070	—	647,510
Mutual funds:				
Fixed income	10,043	—	—	10,043
International equities	119,504	—	—	119,504
U.S. equities	505,107	—	—	505,107
Total mutual funds	634,654	—	—	634,654
Common collective trusts and commingled investments:				
International equities	417,421	—	—	417,421
U.S. equities	1,413,048	—	—	1,413,048
Total common collective trusts and commingled investments	1,830,469	—	—	1,830,469
103-12 entities:				
International equities	370,467	—	—	370,467
Bonds:				
Corporate bonds	—	613,766	—	613,766
U.S. government and agency issues	—	593,261	—	593,261
Total bonds	—	1,207,027	—	1,207,027
Equity securities	368,864	—	—	368,864
Cash equivalents in investment accounts	395,467	—	—	395,467
Due to broker	(135,104)	—	—	(135,104)
Total investments	3,841,257	1,478,097	—	5,319,354
Beneficial interest in trusts	—	20,358	—	20,358
Total assets measured at fair value	\$ 4,173,576	\$ 1,498,455	\$ —	\$ 5,672,031
Liabilities:				
Interest rate swaps	\$ —	\$ 35,933	\$ —	\$ 35,933

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

Reconciliation to the Condensed Consolidated Balance Sheets

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

	August 31, 2025	August 31, 2024
Short-term investments measured at fair value	\$ 376,726	\$ 647,510
Investments, including assets limited as to use measured at fair value	4,799,249	4,671,844
Total investments at fair value	5,175,975	5,319,354
Alternative investments accounted for under equity method included in investments, including assets limited as to use	7,121,948	6,360,844
Total investments	<u>\$ 12,297,923</u>	<u>\$ 11,680,198</u>
Pledges and grants receivable, less current portion:		
Beneficial interests in trusts at fair value	\$ 22,762	\$ 20,358
Pledges and grants receivable, less current portion, net	60,069	79,976
Total pledges and grants receivable, less current portion	<u>\$ 82,831</u>	<u>\$ 100,334</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 investments, common collective trusts, and 103-12 investment entities is based on quoted market prices that are valued on a daily basis. Level 2 investments consist of U.S. government and agencies' issues and corporate bonds. 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'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

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

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.

6. Long-Term Debt

Long-term debt consists of the following:

	August 31, 2025	August 31, 2024
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 2.25% to 5.00%)	209,350	209,350
Revenue Bonds, Series 2017A (NMHC), payable in varying annual installments through July 2047 (fixed coupon rates range from 3.00% to 5.00%)	437,680	459,330
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% through September 30, 2025)	29,045	30,355
Variable Rate Demand Revenue Bonds, Series 2021B (NMHC), payable in annual installments through July 15, 2055 (weighted average interest rate of 2.66% and 3.24% for the twelve months ended August 31, 2025 and 2024, 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 2.65% and 3.24% for the twelve months ended August 31, 2025 and 2024, 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 2.78% and 3.47% for the twelve months ended August 31, 2025 and 2024, respectively)	63,100	63,100

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

	August 31, 2025	August 31, 2024
Variable Rate Demand Revenue Bonds, Series 2021E (NMHC), payable in annual installments through July 15, 2055 (weighted average interest rate of 2.74% and 3.47% for the twelve months ended August 31, 2025 and 2024, 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 4.05% and 4.74% for the twelve months ended August 31, 2025 and 2024, respectively)	31,655	31,655
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 4.05% and 4.77% for the twelve months ended August 31, 2025 and 2024, respectively)	103,125	104,700
NMHC fixed rate note dated August 29, 2019, matured September 1, 2024 (fixed rate of 1.98%)	—	55,000
Palos Health Surgery Center promissory note, matures July 1, 2026 (fixed coupon rate of 5.00%)	1,275	1,275
NMHC commercial paper dated September 3, 2024 (weighted average interest rate of 4.57% for the twelve months ended August 31, 2025)	55,000	—
	<u>1,821,445</u>	<u>1,845,980</u>
Less:		
Unamortized premium and debt issuance costs	(31,457)	(35,769)
Long-term debt subject to short-term remarketing agreements	299,565	126,200
Current maturities	22,095	80,555
Commercial paper, included in Short-term debt	55,000	—
	<u>\$ 1,476,242</u>	<u>\$ 1,674,994</u>

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.

The amounts available, outstanding and restricted to secure letters of credit as of August 31, 2025 are as follows:

Available	Outstanding	Restricted
\$ 100,000	\$ —	\$ —
7,000	—	2,763

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

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, 2025, the banks provided liquidity support in the event of a failed remarketing as follows:

	<u>Par Value</u>	<u>Expiration date</u>
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 condensed 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 condensed consolidated balance sheets.

The Series 2015E Bonds were subject to a put option during the initial private placement rate period ending on September 30, 2025, at which time the bonds were purchased from the bondholder and redeemed in full.

7. 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 condensed consolidated balance sheets reflect a reduction of \$401 and \$654 for nonperformance risk at August 31, 2025 and August 31, 2024, 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
Notes to Interim Condensed Consolidated Financial Statements (continued)
(Unaudited and in thousands)

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

Notional Amount		Maturity Date	Rate Paid	Rate Received
August 31, 2025	August 31, 2024			
\$ 96,350	\$ 97,200	August 2042	3.89 %	63% of 1-Month Fallback SOFR + 28 bps
96,350	97,200	August 2042	3.89	63% of 1-Month Fallback SOFR + 28 bps
57,925	58,300	November 2038	3.82	67% of 3-Month Fallback SOFR
57,925	58,300	November 2038	3.52	67% of 3-Month Fallback SOFR
<u>\$ 308,550</u>	<u>\$ 311,000</u>			

The fair value of derivative instruments is as follows:

	Derivative Liabilities		
	Balance Sheet Location	August 31, 2025	August 31, 2024
Derivatives not designated as hedging instruments:			
Interest rate contracts	Interest rate swap liabilities	\$ 28,391	\$ 35,933

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

	Three Months Ended		Twelve Months Ended	
	August 31,		August 31,	
	2025	2024	2025	2024
Derivatives not designated as hedging instruments:				
Nonoperating - investment return	\$ (545)	\$ (38)	\$ (1,833)	\$ (243)
Nonoperating - change in fair value of interest rate swaps	(2,068)	(11,973)	7,542	(5,528)

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, 2025 and August 31, 2024. If the credit-risk-related contingent features underlying the agreement were triggered to the fullest extent on August 31, 2025, Northwestern Memorial would be required to post \$28,792 of additional collateral to its counterparties.

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

8. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as follows:

	August 31, 2025	August 31, 2024
Subject to expenditure for specified purpose:		
Purchase of property and equipment	\$ 64,394	\$ 42,133
Operating expenses and charity care	297,895	275,858
Research, education and other	220,777	211,669
Total expenditure for specified purpose	583,066	529,660
Subject to passage of time:		
Pledges and trusts	1,888	2,310
Endowments:		
Perpetual in nature:		
Purchase of property and equipment	16,004	16,004
Operating expenses and charity care	117,791	115,111
Research, education and other	134,740	123,652
Total perpetual in nature	268,535	254,767
Total net assets with donor restrictions	<u>\$ 853,489</u>	<u>\$ 786,737</u>

Net assets were released from donor restrictions by incurring expenditures for the following purposes as follows:

	Three Months Ended August 31,		Twelve Months Ended August 31,	
	2025	2024	2025	2024
Health care services:				
Purchase of property and equipment	\$ 5,417	\$ 2,694	\$ 21,911	\$ 14,704
Clinical expenses and charity care	16,306	11,697	49,874	37,443
Research, education and other	22,236	17,812	40,675	40,524
	<u>\$ 43,959</u>	<u>\$ 32,203</u>	<u>\$ 112,460</u>	<u>\$ 92,671</u>

Net assets released from donor restrictions reported in the condensed consolidated statements of operations and changes in net assets were recorded as follows:

	Three Months Ended August 31,		Twelve Months Ended August 31,	
	2025	2024	2025	2024
Net assets released from donor restrictions and federal and state grants	\$ 22,379	\$ 17,415	\$ 70,665	\$ 56,999
Nonoperating other	16,163	12,094	19,884	20,968
	<u>\$ 38,542</u>	<u>\$ 29,509</u>	<u>\$ 90,549</u>	<u>\$ 77,967</u>

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

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

Northwestern Memorial has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), as adopted by the State of Illinois, 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 7%.

Northwestern Memorial has a policy that generally limits annual spending from endowment funds to 5% of the endowment fund balance at the midpoint of the preceding fiscal year. In establishing this policy, Northwestern Memorial considered the long-term expected return on its endowment. Accordingly, over the long term, Northwestern Memorial expects the spending policy to allow its endowment to grow at an average annual rate of 2%. This is consistent with its objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term, as well as to provide additional real growth through new gifts and investment return.

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

The changes in endowment net assets for the twelve months ended August 31, 2024 and twelve months ended August 31, 2025 are summarized below:

	Total
Endowment net assets, August 31, 2023	\$ 338,411
Contributions	6,051
Change in value of trusts	597
Investment return	20,107
Appropriation for expenditure	(11,637)
Other	(2,003)
Endowment net assets, August 31, 2024	\$ 351,526
Contributions	11,459
Change in value of trusts	1,967
Investment return	24,167
Appropriation for expenditure	(11,635)
Other	1,072
Endowment net assets, August 31, 2025	\$ 378,556

9. Pledges Receivable

As of August 31, 2025. 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:

	August 31, 2025
Less than one year	\$ 35,964
One to five years	65,239
Thereafter	10,636
Total pledges receivable	111,839
Less allowances	(1,464)
Less present value discount	(14,342)
Net pledges receivable	\$ 96,033

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

10. Liquidity and Availability

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

	August 31, 2025	August 31, 2024
Cash and cash equivalents	\$ 885,327	\$ 332,319
Patient accounts receivable	1,260,017	1,098,009
Grants receivable	2,222	1,765
Other receivables	199,885	144,094
Investments	10,982,378	10,345,177
Total financial assets available within one year	<u>\$ 13,329,829</u>	<u>\$ 11,921,364</u>

11. Self-Insurance Programs and Related Insurance Recoverable

Northwestern Memorial's self-insurance liabilities and the related amount recoverable from reinsurers are reported in the accompanying condensed consolidated balance sheets at present value based on a discount rate of 3.0% and 2.5% as of August 31, 2025 and August 31, 2024, 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. Provisions for the professional and general liability risks are based on an actuarial estimate of losses using actual loss data adjusted for industry trends and current conditions and an evaluation of claims by Northwestern Memorial's legal counsel. The provision for estimated self-insured claims includes estimates of ultimate costs for both reported claims and claims incurred but not reported.

12. Employee Benefit Obligations

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

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

Net periodic pension benefit included in Nonoperating gains (losses) Other in the accompanying condensed consolidated statements of operations and changes in net assets is comprised of the following:

	Three Months Ended		Twelve Months Ended	
	August 31,		August 31,	
	2025	2024	2025	2024
Plan expenses	\$ (868)	\$ (498)	\$ (3,484)	\$ (1,995)
Interest cost on projected benefit obligation	(6,464)	(6,769)	(25,853)	(27,088)
Expected return on Plan's assets	9,721	11,229	38,890	44,928
Amortization of net loss	(877)	(639)	(3,508)	(2,559)
	<u>\$ 1,512</u>	<u>\$ 3,323</u>	<u>\$ 6,045</u>	<u>\$ 13,286</u>

Northwestern Memorial made no contributions for the twelve months ended August 31, 2025 and 2024, and has no current plans to contribute to the Plans during the fiscal year ending August 31, 2026.

Northwestern Memorial uses the spot rate approach to measure the service and interest cost. This method does not apply to the service cost as both plans have been frozen, but results in different discount rates utilized for purposes of measuring the interest cost of the two plans.

In February 2024, the Board of Directors of Northwestern Memorial approved the termination of the Plans. Northwestern Memorial will purchase annuities on behalf of the plan participants to the extent participants elect not to receive a distribution prior to the liquidation of the plan.

13. 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.

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

Expenses related to providing these services were as follows for the twelve months ended:

	August 31, 2025			
	Health Care Services	Research and Education	General, Administrative and Other	Total Expenses
Salaries	\$ 3,737,214	\$ 8,936	\$ 676,542	\$ 4,422,692
Employee benefits	536,371	1,867	126,041	664,279
Supplies	2,552,179	869	27,320	2,580,368
Purchased services	327,780	21,728	632,143	981,651
Depreciation and amortization	332,520	6,508	88,511	427,539
Insurance	270,368	—	54,881	325,249
Rent and utilities	54,761	9	52,780	107,550
Repairs and maintenance	158,011	57	75,953	234,021
Interest	375	—	44,618	44,993
Illinois Hospital Assessment	236,730	—	—	236,730
Other	50,199	122,702	61,561	234,462
	<u>\$ 8,256,508</u>	<u>\$ 162,676</u>	<u>\$ 1,840,350</u>	<u>\$ 10,259,534</u>

	August 31, 2024			
	Health Care Services	Research and Education	General, Administrative and Other	Total Expenses
Salaries	\$ 3,366,272	\$ 8,022	\$ 664,870	\$ 4,039,164
Employee benefits	478,305	1,790	120,851	600,946
Supplies	2,207,431	788	24,533	2,232,752
Purchased services	280,916	20,388	586,686	887,990
Depreciation and amortization	310,575	6,509	87,986	405,070
Insurance	190,689	—	59,723	250,412
Rent and utilities	49,186	9	51,065	100,260
Repairs and maintenance	136,153	82	71,314	207,549
Interest	261	—	52,659	52,920
Illinois Hospital Assessment	234,515	—	—	234,515
Other	41,824	117,064	49,393	208,281
	<u>\$ 7,296,127</u>	<u>\$ 154,652</u>	<u>\$ 1,769,080</u>	<u>\$ 9,219,859</u>

Northwestern Memorial had fundraising expenses of \$18,403 and \$12,419 for the twelve months ended August 31, 2025 and 2024, respectively, and are included in Nonoperating gains (losses) Other in the accompanying condensed consolidated statements of operations and changes in net assets.

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

14. 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 \$93,404 and \$95,259 at August 31, 2025 and August 31, 2024, respectively, which is reported as Grants and academic support payable, current portion and Grants and academic support payable, less current portion in the accompanying condensed consolidated balance sheets.

Northwestern Memorial 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 \$23,979 and \$20,564 for the three months ended August 31, 2025 and 2024, respectively, and \$118,265 and \$113,943 for the twelve months ended August 31, 2025 and 2024, respectively, is recorded in Other expense in the accompanying condensed consolidated statements of operations and changes in net assets; a related liability of \$1,026 and \$271 is recorded in Accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheets as of August 31, 2025 and August 31, 2024, respectively.

Capital Projects

Various capital projects are currently being constructed and are expected to be placed in service over the next three years. The total estimated cost of these projects is approximately \$2,327,000. As of August 31, 2025, project commitments totaled \$1,889,000, of which \$1,486,000 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.

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

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. 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 disclosures or responses provided to OCR.

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.

15. Subsequent Events

Northwestern Memorial evaluated events and transactions occurring subsequent to August 31, 2025 through November 11, 2025, the date of issuance of these condensed consolidated financial statements. During this period, there were no subsequent events requiring recognition in the condensed consolidated financial statements and no unrecognized subsequent events requiring disclosure other than that disclosed in Note 3 and Note 6.