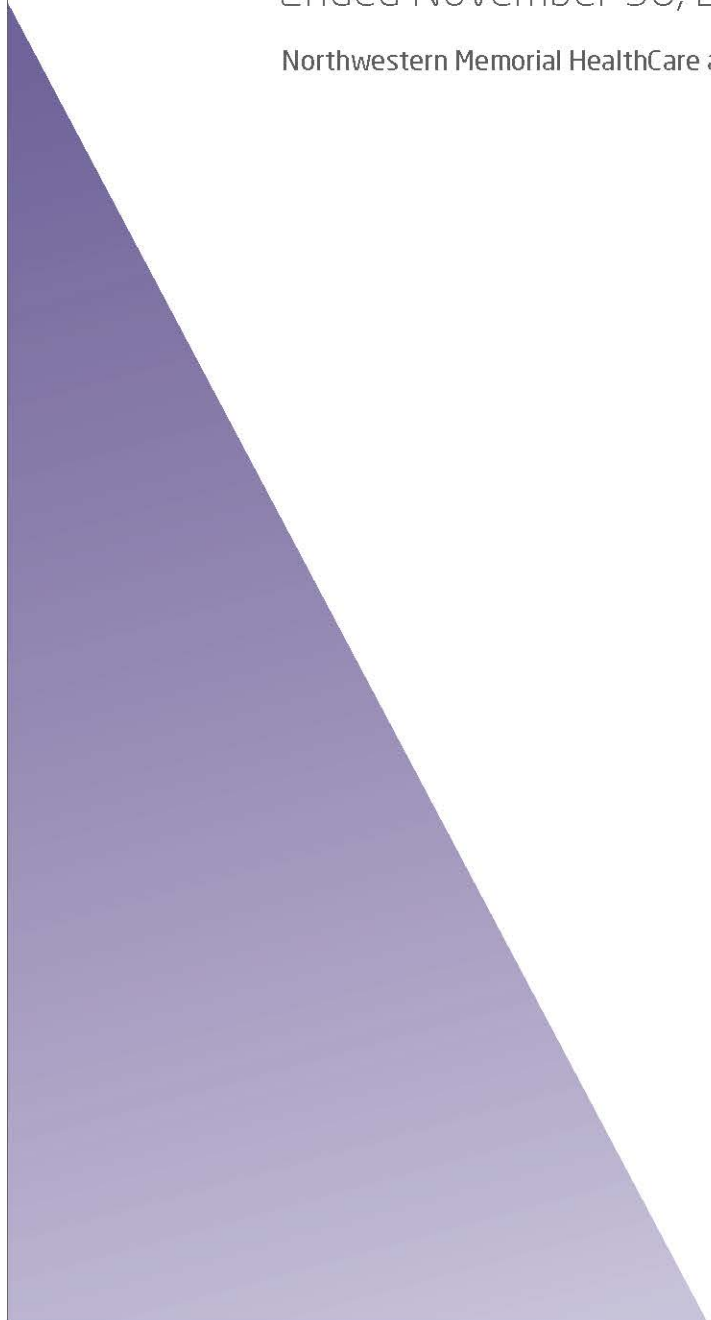




Quarterly Report

As of and for the First Quarter
Ended November 30, 2023

Northwestern Memorial HealthCare and Subsidiaries



**NORTHWESTERN MEMORIAL HEALTHCARE AND
SUBSIDIARIES**
Unaudited Condensed Consolidated Financial Statements
As of and for the First Quarter Ended November 30, 2023

CONTENTS

Condensed Consolidated Financial Statements:

Condensed Consolidated Balance Sheets	1
Condensed Consolidated Statements of Operations and Changes in Net Assets	3
Condensed Consolidated Statements of Cash Flows	5
Notes to the Condensed Consolidated Financial Statements	6

Forward-Looking Information:

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

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

	November 30, 2023	August 31, 2023
	(Unaudited)	Note A
Assets		
Current Assets:		
Cash and cash equivalents	\$ 492,441	\$ 680,384
Short-term investments	620,415	611,529
Current portion of investments, including assets limited as to use	275,768	267,996
Patient accounts receivable	1,059,079	963,797
Current portion of pledges and grants receivable, net	36,100	45,457
Current portion of insurance recoverable	30,766	26,000
Inventories	153,387	149,703
Other current assets	263,883	246,660
Total current assets	2,931,839	2,991,526
Investments, including assets limited as to use, less current portion	9,445,858	9,350,882
Property and equipment, at cost:		
Land	449,192	449,144
Buildings	5,863,983	5,715,028
Equipment and furniture	2,183,146	2,128,191
Construction in progress	306,368	367,557
	8,802,689	8,659,920
Less accumulated depreciation and amortization	3,970,298	3,879,260
	4,832,391	4,780,660
Prepaid pension cost	242,877	238,915
Pledges and grants receivable, less current portion	86,380	87,939
Insurance recoverable, less current portion	164,165	157,569
Operating lease right-of-use assets	202,903	208,543
Other assets, net	334,263	327,431
Total assets	\$ 18,240,676	\$ 18,143,465

Continued on next page.

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

	November 30, 2023	August 31, 2023
	(Unaudited)	Note A
Liabilities and net assets		
Current Liabilities		
Accounts payable	\$ 290,562	\$ 342,248
Accrued salaries and benefits	451,107	520,155
Grants and academic support payable, current portion	17,325	18,475
Accrued expenses and other current liabilities	246,829	242,454
Due to third-party payors	831,569	836,191
Current accrued liabilities under self-insurance programs	259,782	238,694
Current maturities of long-term debt	74,181	19,548
Long-term debt subject to short-term remarketing	126,200	126,200
Total current liabilities	2,297,555	2,343,965
Long-term debt, less current maturities	1,701,729	1,759,468
Accrued liabilities under self-insurance programs, less current portion	960,198	955,286
Grants and academic support payable, less current portion	56,307	55,520
Interest rate swaps	27,187	30,405
Operating lease liabilities, less current portion	194,577	200,202
Other liabilities	367,433	357,399
Total liabilities	5,604,986	5,702,245
Net assets:		
Without donor restrictions:		
Controlling interest	11,877,780	11,684,786
Noncontrolling interest in subsidiaries	953	1,196
Total net assets without donor restrictions	11,878,733	11,685,982
With donor restrictions	756,957	755,238
Total net assets	12,635,690	12,441,220
Total liabilities and net assets	\$ 18,240,676	\$ 18,143,465

Note A: The August 31, 2023 financial statement information was derived from and should be read in conjunction with the Northwestern Memorial HealthCare and Subsidiaries 2023 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	
	November 30,	
	2023	2022
Revenue		
Patient service revenue	\$ 2,136,274	\$ 1,952,050
Rental and other revenue	165,658	132,593
Net assets released from donor restrictions and federal and state grants	12,769	10,324
Total revenue	2,314,701	2,094,967
Expenses		
Salaries	979,380	905,581
Employee benefits	131,328	119,652
Supplies	528,569	466,904
Purchased services	208,464	193,872
Depreciation and amortization	100,147	109,362
Insurance	58,660	46,812
Rent and utilities	28,039	24,614
Repairs and maintenance	41,753	37,471
Interest	13,162	11,734
Illinois Hospital Assessment	59,865	53,084
Other	55,214	51,195
Total expenses	2,204,581	2,020,281
Operating income	110,120	74,686
Nonoperating gains (losses)		
Investment return	89,467	123,911
Change in fair value of interest rate swaps	3,219	8,516
Grants and academic support provided	(19,098)	(13,404)
Other	4,981	1,988
Total nonoperating gains, net	78,569	121,011
Excess of revenue over expenses	188,689	195,697
Net loss attributable to noncontrolling interest in subsidiaries	(243)	(200)
Excess of revenue over expenses attributable to NMHC and subsidiaries	\$ 188,932	\$ 195,897

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	
	November 30,	
	2023	2022
Net assets without donor restrictions, controlling interest		
Excess of revenue over expenses	\$ 188,932	\$ 195,897
Net assets released from restrictions used for property and equipment additions	3,157	9,180
Postretirement-benefit-related changes other than net periodic pension cost	907	923
Other	(2)	586
Increase in net assets without donor restrictions, controlling interest	192,994	206,586
Net assets without donor restrictions, noncontrolling interest		
Deficiency of revenue over expenses	(243)	(200)
Distribution to noncontrolling interest	—	(74)
Other	—	(686)
Decrease in net assets without donor restrictions, noncontrolling interest	(243)	(960)
Net assets with donor restrictions		
Contributions	11,241	12,574
Investment return	8,640	7,731
Net assets released from restrictions used for:		
Operating expenses, charity care, and research and education	(14,274)	(9,517)
Property and equipment additions	(3,157)	(9,180)
Change in fair value of split-interest agreements	(731)	(604)
Increase in net assets with donor restrictions	1,719	1,004
Change in net assets	194,470	206,630
Net assets, beginning of period	12,441,220	11,204,237
Net assets, end of period	<u>\$ 12,635,690</u>	<u>\$ 11,410,867</u>

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

	Three Months Ended	
	November 30,	
	2023	2022
Operating activities		
Change in net assets	\$ 194,470	\$ 206,630
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Postretirement benefit-related changes other than net periodic pension cost	(907)	(923)
Change in fair value of interest rate swaps	(3,219)	(8,516)
Net unrestricted realized investment return and net change in unrestricted and restricted unrealized investment gains	(89,627)	(124,072)
Restricted contributions, change in fair value of split interest agreements and realized investment return	(18,990)	(19,540)
Depreciation and amortization	100,147	109,362
Changes in operating assets and liabilities:		
Patient accounts receivable	(95,282)	(115,585)
Due to third-party payors	(2,580)	8,884
Grants and academic support payable	(363)	(1,369)
CMS accelerated payments	—	(972)
Other operating assets and liabilities	(117,685)	21,989
Net cash (used in) provided by operating activities	(34,036)	75,888
Investing activities		
Purchase of investments	(993,674)	(953,234)
Sale of investments	936,234	914,976
Net unrestricted realized investment return	35,432	21,525
Capital expenditures, net	(148,884)	(135,737)
Net cash used in investing activities	(170,892)	(152,470)
Financing activities		
Payments of long-term debt	(2,005)	(2,035)
Restricted contributions, change in fair value of split interest agreements and realized investment return	18,990	19,540
Net cash provided by financing activities	16,985	17,505
Net decrease in cash and cash equivalents	(187,943)	(59,077)
Cash and cash equivalents, beginning of period	680,384	779,110
Cash and cash equivalents, end of the period	\$ 492,441	\$ 720,033

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, 2023.

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, 2023, which are available on the Electronic Municipal Market Access ("EMMA") website of the Municipal Securities Rulemaking Board.

2. Adoption of Accounting Standards

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 held at the reporting date are to be based on historical experience, current conditions and reasonable and supportable forecasts. This ASU requires enhanced disclosures relating to significant estimates and judgments used in estimating credit losses, as well as the credit quality. On September 1, 2023, this standard was adopted by Northwestern Memorial using the modified retrospective approach. The adoption of the ASU did not materially impact the condensed consolidated financial statements or the accompanying disclosures.

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

3. 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 increased by \$2,907 and decreased by \$374 for the three months ended November 30, 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

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

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 November 30, 2023 and August 31, 2023 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:

	Three Months Ended	
	November 30,	
	2023	2022
Medicare	\$ 650,399	\$ 600,335
Medicaid	212,807	189,899
Blue Cross	836,768	736,258
Other managed care	369,481	355,422
Commercial and other	52,893	57,818
Self-pay	13,926	12,318
Total	<u>\$ 2,136,274</u>	<u>\$ 1,952,050</u>

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

	Three Months Ended	
	November 30,	
	2023	2022
Hospitals	\$ 1,620,965	\$ 1,500,763
Physician groups	499,701	435,724
Other	15,608	15,563
Total	<u>\$ 2,136,274</u>	<u>\$ 1,952,050</u>

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

Northwestern Memorial grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. At November 30, 2023 and August 31, 2023, respectively, patient accounts receivable, including patient co-pays and deductibles by major primary payor source, were as follows:

	November 30, 2023	August 31, 2023
Medicare	31%	28%
Medicaid	10	8
Blue Cross	24	28
Other managed care	21	22
Commercial and other	5	6
Self-pay	9	8
	<u>100%</u>	<u>100%</u>

4. 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:

	Three Months Ended November 30,	
	2023	2022
Patient service revenue - HAP	\$ 74,831	\$ 69,853
Illinois Hospital Assessment	(59,865)	(53,084)
Net excess of HAP revenue over Illinois assessment	<u>\$ 14,966</u>	<u>\$ 16,769</u>

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

5. Investments and Other Financial Instruments

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

	November 30, 2023	August 31, 2023
Measured at fair value:		
Cash and cash equivalents and Short-term investments	\$ 1,329,446	\$ 1,491,568
Mutual funds	510,751	512,675
Corporate bonds	475,889	467,426
U.S. government and agency issues	546,020	539,433
Equity securities	149,698	150,196
Common collective trusts and commingled investments	1,752,015	1,743,524
Interest in 103-12 investment entities	322,936	323,392
	<u>5,086,755</u>	<u>5,228,214</u>
Accounted for under the equity method:		
Alternative investments	5,747,727	5,682,577
	<u>\$ 10,834,482</u>	<u>\$ 10,910,791</u>

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

	November 30, 2023	August 31, 2023
Assets limited as to use:		
Trustee-held funds	\$ 788	\$ 442
Self-insurance programs	823,366	815,474
Board-designated funds	5,372	5,429
Total assets limited as to use	<u>829,526</u>	<u>821,345</u>
Donor-restricted funds	633,807	620,625
Unrestricted, undesignated funds	8,258,293	8,176,908
Total investments, excluding short-term investments	<u>9,721,626</u>	<u>9,618,878</u>
Other financial instruments:		
Cash and cash equivalents and short-term investments	1,112,856	1,291,913
	<u>\$ 10,834,482</u>	<u>\$ 10,910,791</u>

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

The composition and presentation of investment returns are as follows:

	Three Months Ended	
	November 30,	
	2023	2022
Interest and dividend income	\$ 42,658	\$ 25,562
Investment expenses	(1,608)	(1,459)
Realized gains on alternative investments, net	19,106	31,762
Realized losses on other investments, net	(1,067)	(21,393)
Net change in unrealized gains on alternative investments	43,946	15,646
Net change in unrealized gains on other investments	10,249	86,900
Change in value of joint ventures	282	(46)
	<u>\$ 113,566</u>	<u>\$ 136,972</u>
Reported as:		
Rental and other revenue	\$ 15,459	\$ 5,330
Nonoperating investment return	89,467	123,911
With donor restriction investment return	8,640	7,731
	<u>\$ 113,566</u>	<u>\$ 136,972</u>

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.

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

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 September 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 first quarter of fiscal 2024 or fiscal 2023 for the limited partnership investments.

As of November 30, 2023, \$3,983,335 of alternative investments is subject to various redemption limits and lockup provisions, of which \$3,330,536 expires within one year and \$652,799 expires after one year from the balance sheet date.

At November 30, 2023, Northwestern Memorial had commitments to fund approximately an additional \$811,000 to alternative investment entities. This funding is expected to occur over the next 12 years.

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

6. Fair Value Measurements

Northwestern Memorial follows the requirements of ASC 820, *Fair Value Measurement*, in 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 November 30, 2023:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 492,441	\$ —	\$ —	\$ 492,441
Investments:				
Short-term investments:				
Cash equivalents in investment accounts	532	—	—	532
Mutual fund - fixed income	360,624	—	—	360,624
U.S. government and agency issues	—	259,259	—	259,259
Total short-term investments	361,156	259,259	—	620,415
Mutual funds:				
Fixed income	122	—	—	122
International equities	102,675	—	—	102,675
U.S. equities	407,954	—	—	407,954
Total mutual funds	510,751	—	—	510,751
Common collective trusts and commingled investments:				
International equities	362,453	—	—	362,453
U.S. equities	1,389,562	—	—	1,389,562
Total common collective trusts and commingled investments	1,752,015	—	—	1,752,015
103-12 entities:				
International equities	322,936	—	—	322,936
Bonds:				
Corporate bonds	—	475,889	—	475,889
U.S. government and agency issues	—	546,020	—	546,020
Total bonds	—	1,021,909	—	1,021,909
Equity securities	149,698	—	—	149,698
Cash equivalents in investment accounts	339,508	—	—	339,508
Due to broker	(122,918)	—	—	(122,918)
Total investments	3,313,146	1,281,168	—	4,594,314
Beneficial interest in trusts	—	17,786	—	17,786
Total assets measured at fair value	\$ 3,805,587	\$ 1,298,954	\$ —	\$ 5,104,541
Liabilities:				
Interest rate swaps	\$ —	\$ 27,187	\$ —	\$ 27,187

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, 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
U.S. government and agency issues	—	255,790	—	255,790
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 and commingled investments:				
International equities	360,499	—	—	360,499
U.S. equities	1,383,025	—	—	1,383,025
Total common collective trusts and commingled investments	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	\$ 3,965,565	\$ 1,281,167	\$ —	\$ 5,246,732
Liabilities:				
Interest rate swaps	\$ —	\$ 30,405	\$ —	\$ 30,405

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:

	November 30, 2023	August 31, 2023
Short-term investments measured at fair value	\$ 620,415	\$ 611,529
Investments, including assets limited as to use measured at fair value	3,973,899	3,936,301
Total investments at fair value	4,594,314	4,547,830
Alternative investments accounted for under equity method included in investments, including assets limited as to use	5,747,727	5,682,577
Total investments	<u>\$ 10,342,041</u>	<u>\$ 10,230,407</u>
Pledges and grants receivable, less current portion:		
Beneficial interests in trusts at fair value	\$ 17,786	\$ 18,518
Pledges and grants receivable, less current portion, net	68,594	69,421
Total pledges and grants receivable, less current portion	<u>\$ 86,380</u>	<u>\$ 87,939</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 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'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.

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

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 \$1,646,339 and \$1,643,277 at November 30, 2023 and August 31, 2023, 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 \$102,142 and \$113,000 at November 30, 2023 and August 31, 2023, respectively.

7. Long-Term Debt

Long-term debt consists of the following:

	November 30, 2023	August 31, 2023
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	210,545
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	473,950
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	31,590

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

	November 30, 2023	August 31, 2023
Variable Rate Demand Revenue Bonds, Series 2021B (NMHC), payable in annual installments through July 15, 2055 (weighted average interest rate of 3.40% and 1.50% for the three months ended November 30, 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 3.41% and 1.49% for the three months ended November 30, 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 3.64% and 2.04% for the three months ended November 30, 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 3.66% and 2.04% for the three months ended November 30, 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 4.73% and 2.98% for the three months ended November 30, 2023 and 2022, respectively)	31,655	32,060
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 4.78% and 2.94% for the three months ended November 30, 2023 and 2022, respectively)	104,700	106,300
NMHC fixed rate note dated August 29, 2019, matures September 1, 2024 (fixed rate of 1.98%)	55,000	55,000
Palos Health Surgery Center promissory note, fixed coupon rate of 5.00%, with maturity date of 2026	1,275	1,275
	<u>1,863,030</u>	<u>1,865,035</u>
Less:		
Unamortized premium and debt issuance costs	(39,080)	(40,181)
Long-term debt subject to short-term remarketing agreements	126,200	126,200
Current maturities	74,181	19,548
	<u>\$ 1,701,729</u>	<u>\$ 1,759,468</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.

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

The amounts available, outstanding and restricted to secure letters of credit as of November 30, 2023 are as follows:

Available	Outstanding	Restricted
\$ 100,000	\$ —	\$ 250
7,000	—	2,876

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 November 30, 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 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.

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 condensed consolidated balance sheets reflect a reduction of \$1,250 and \$1,670 for nonperformance risk at November 30, 2023 and August 31, 2023, 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

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

undertaken. Management also mitigates risk through periodic reviews of its swap positions in the context of their total blended cost of capital.

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

Notional Amount		Maturity Date	Rate Paid	Rate Received
November 30, 2023	August 31, 2023			
\$ 98,000	\$ 98,000	August 2042	3.89 %	63% of 1-Month Fallback SOFR + 28 bps
98,000	98,000	August 2042	3.89	63% of 1-Month Fallback SOFR + 28 bps
58,400	58,725	November 2038	3.82	67% of 3-Month Fallback SOFR
58,400	58,725	November 2038	3.52	67% of 3-Month Fallback SOFR
<u>\$ 312,800</u>	<u>\$ 313,450</u>			

The fair value of derivative instruments is as follows:

		Derivative Liabilities	
		Balance Sheet Location	November 30, 2023
			August 31, 2023
Derivatives not designated as hedging instruments:			
Interest rate contracts		Interest rate swap liabilities	\$ 27,187 \$ 30,405

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

		Three Months Ended	
		November 30,	
		2023	2022
Derivatives not designated as hedging instruments:			
Nonoperating - investment return		(40)	(1,018)
Nonoperating - change in fair value of interest rate swaps		3,219	8,516

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 November 30, 2023 and August 31, 2023. If the credit-risk-related contingent features underlying the agreement were triggered to the fullest extent on November 30, 2023, Northwestern Memorial would be required to post \$28,437 of additional collateral to its counterparties.

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

9. Net Assets with Donor Restrictions

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

	November 30, 2023	August 31, 2023
Subject to expenditure for specified purpose:		
Purchase of property and equipment	\$ 47,432	\$ 47,598
Operating expenses and charity care	272,176	276,631
Research, education and other	184,598	178,165
Total expenditure for specified purpose	504,206	502,394
Subject to passage of time:		
Pledges and trusts	3,553	3,525
Endowments:		
Perpetual in nature:		
Purchase of property and equipment	16,004	16,004
Operating expenses and charity care	113,159	119,293
Research, education and other	120,035	114,022
Total perpetual in nature	249,198	249,319
Total net assets with donor restrictions	<u>\$ 756,957</u>	<u>\$ 755,238</u>

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

	Three Months Ended November 30, 2023	2022
Health care services:		
Purchase of property and equipment	\$ 3,157	\$ 9,180
Clinical expenses and charity care	7,216	5,914
Research, education and other	7,058	3,603
	<u>\$ 17,431</u>	<u>\$ 18,697</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 November 30, 2023	2022
Net assets released from donor restrictions and federal and state grants	\$ 11,711	\$ 8,678
Nonoperating other	2,563	839
	<u>\$ 14,274</u>	<u>\$ 9,517</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 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
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, 2023 and three months ended November 30, 2023 are summarized below:

	Total
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
Contributions	273
Change in value of trusts	(353)
Investment return	4,645
Appropriation for expenditure	(1,630)
Endowment net assets, November 30, 2023	\$ 341,346

10. Liquidity and Availability

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

	November 30, 2023	August 31, 2023
Cash and cash equivalents	\$ 492,441	\$ 680,384
Patient accounts receivable	1,059,079	963,797
Pledges receivable	33,547	43,579
Grants receivable	2,553	1,878
Other receivables	126,106	128,051
Investments	9,055,435	9,008,312
Total financial assets available within one year	\$ 10,769,161	\$ 10,826,001

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 2.5% as of November 30, 2023 and August 31, 2023. 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.

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

12. Employee Benefit Obligations

Northwestern Memorial's non-contributory, defined-benefit pension plans (Plans) cover certain Northwestern Memorial employees employed prior to January 1, 2013 in NMHC, NMH and 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.

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	
	November 30,	
	2023	2022
Plan expenses	\$ (499)	\$ (477)
Interest cost on projected benefit obligation	(6,773)	(6,143)
Expected return on Plan's assets	11,233	9,375
Amortization of net loss	(640)	(824)
	<u>\$ 3,321</u>	<u>\$ 1,931</u>

Northwestern Memorial made no contributions for the three months ended November 30, 2023 and 2022, and has no current plans to contribute to the Plans during the fiscal year ending August 31, 2024.

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

13. 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 three months ended:

November 30, 2023					
	Health Care Services	Research and Education	Fundraising	General, Administrative and Other	Total Expenses
Salaries	\$ 810,214	\$ 1,745	\$ 1,737	\$ 165,684	\$ 979,380
Employee benefits	111,429	386	254	19,259	131,328
Supplies	520,182	287	11	8,089	528,569
Purchased services	57,339	4,520	124	146,481	208,464
Depreciation and amortization	75,421	1,746	104	22,876	100,147
Insurance	27,883	—	—	30,777	58,660
Rent and utilities	12,353	2	57	15,627	28,039
Repairs and maintenance	28,343	47	27	13,336	41,753
Interest	58	—	—	13,104	13,162
Illinois Hospital Assessment	59,865	—	—	—	59,865
Other	10,245	31,440	50	13,479	55,214
	<u>\$ 1,713,332</u>	<u>\$ 40,173</u>	<u>\$ 2,364</u>	<u>\$ 448,712</u>	<u>\$ 2,204,581</u>

November 30, 2022					
	Health Care Services	Research and Education	Fundraising	General, Administrative and Other	Total Expenses
Salaries	\$ 736,763	\$ 1,197	\$ 1,693	\$ 165,928	\$ 905,581
Employee benefits	99,827	363	256	19,206	119,652
Supplies	458,897	243	8	7,756	466,904
Purchased services	45,643	3,860	52	144,317	193,872
Depreciation and amortization	86,634	1,520	135	21,073	109,362
Insurance	36,369	—	—	10,443	46,812
Rent and utilities	10,896	—	54	13,664	24,614
Repairs and maintenance	23,806	3	92	13,570	37,471
Interest	44	—	—	11,690	11,734
Illinois Hospital Assessment	53,084	—	—	—	53,084
Other	8,171	29,878	28	13,118	51,195
	<u>\$ 1,560,134</u>	<u>\$ 37,064</u>	<u>\$ 2,318</u>	<u>\$ 420,765</u>	<u>\$ 2,020,281</u>

The research and education costs include \$555 and \$506 for the three months ended November 30, 2023 and 2022, respectively, of expenses supported by federal, state and corporate grants; and include \$6,495 and \$3,072 for the three months ended November 30, 2023 and 2022, respectively, of expenses supported by other donor-restricted funds.

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 \$73,632 and \$73,995 at November 30, 2023 and August 31, 2023, 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 \$30,910 and \$29,455 for the three months ended November 30, 2023 and 2022, respectively, is recorded in Other expense in the accompanying condensed consolidated statements of operations and changes in net assets; a related liability of \$1,068 and \$698 is recorded in Accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheets as of November 30, 2023 and August 31, 2023, 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 \$3,029,000. As of November 30, 2023, project commitments totaled \$1,870,000, of which \$1,274,000 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. 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.

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 November 30, 2023 through January 17, 2024, 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.