



Quarterly Report

As of and for the First Quarter Ended
November 30, 2014

Northwestern Memorial HealthCare
and Subsidiaries



**NORTHWESTERN MEMORIAL HEALTHCARE
OFFICER'S CERTIFICATE**

Pursuant to Section 411(A) of the Amended and Restated Master Trust Indenture dated as of May 1, 2004, as amended and supplemented, between Northwestern Memorial HealthCare ("NMHC") and Wells Fargo Bank, National Association (as successor to J.P. Morgan Trust Company, National Association), as master trustee, the undersigned does hereby certify that attached hereto is a true and correct copy of the balance sheet and statement of operations for NMHC for the period ended November 30, 2014, subject to year-end adjustment in the final audited financial statements.

This 14th day of January, 2015.

Northwestern Memorial HealthCare

By:

/s/

John A. Orsini

Senior Vice President and CFO

**NORTHWESTERN MEMORIAL HEALTHCARE
AND SUBSIDIARIES
Unaudited Consolidated Financial Statements
As of and for the First Quarter Ended November 30, 2014**

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Forward-Looking Information:

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

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

	November 30, 2014 (Unaudited)	August 31, 2014 Note A
Assets		
Current assets:		
Cash and cash equivalents	\$ 167,133	\$ 108,490
Short-term investments	42,502	59,280
Current portion of investments, including assets limited as to use	95,013	99,518
Patient accounts receivable, less allowances for uncollectible accounts of \$134,211 at November 30, 2014 and \$70,977 at August 31, 2014	496,258	344,850
Current portion of pledges and grants receivable, net	46,827	41,299
Current portion of insurance recoverable	7,915	7,624
Inventories	43,062	36,075
Other current assets	114,050	36,026
Total current assets	<u>1,012,760</u>	<u>733,162</u>
Investments, including assets limited as to use, less current portion	4,638,443	3,148,448
Property and equipment, at cost:		
Land	305,172	264,324
Buildings	2,879,591	1,884,384
Equipment and furniture	809,744	558,349
Construction-in-progress	121,000	295,612
	<u>4,115,507</u>	<u>3,002,669</u>
Less accumulated depreciation	<u>1,439,710</u>	<u>1,378,205</u>
	2,675,797	1,624,464
Prepaid pension cost	98,380	93,063
Insurance recoverable, less current portion	60,978	58,927
Other assets, net	181,793	129,908
Total assets	<u><u>\$ 8,668,151</u></u>	<u><u>\$ 5,787,972</u></u>

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

	November 30, 2014 (Unaudited)	August 31, 2014 Note A
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 120,188	\$ 135,434
Accrued salaries and benefits	176,815	145,281
Grants and academic support payable, current portion	125,219	126,213
Accrued expenses and other current liabilities	114,981	50,546
Due to third-party payors	362,621	230,996
Current accrued liabilities under self-insurance programs	67,497	59,437
Current maturities of long-term debt	26,635	14,095
Long-term debt subject to short term remarketing agreements	118,800	–
Total current liabilities	1,112,756	762,002
Long-term debt, less current maturities	1,322,759	779,337
Accrued liabilities under self-insurance programs, less current portion	473,962	409,247
Grants and academic support payable, less current portion	106,670	106,333
Interest rate swaps	105,126	52,872
Other liabilities	109,455	94,061
Total liabilities	3,230,728	2,203,852
Net assets:		
Unrestricted:		
Undesignated	4,885,296	3,055,576
Board-designated	200,221	198,506
Noncontrolling interest in consolidated venture	(5,076)	–
Total unrestricted	5,080,441	3,254,082
Temporarily restricted	197,453	175,990
Permanently restricted	159,529	154,048
Total net assets	5,437,423	3,584,120
Total liabilities and net assets	<u>\$ 8,668,151</u>	<u>\$ 5,787,972</u>

Note A: The August 31, 2014 financial statement information was derived from and should be read in conjunction with the Northwestern Memorial HealthCare and Subsidiaries 2014 audited consolidated financial statements.

See accompanying notes to the interim consolidated financial statements.

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

	Three Months Ended November 30,	
	2014	2013
Revenue		
Net patient service revenue	\$ 938,315	\$ 603,645
Provision for uncollectible accounts	46,679	18,665
Net patient service revenue after provision for uncollectible accounts	891,636	584,980
Rental and other revenue	37,448	26,113
Net assets released from donor restrictions and federal and state grants	8,673	4,938
Total revenue	937,757	616,031
Expenses		
Salaries and professional fees	364,884	235,037
Employee benefits	96,780	57,837
Supplies	149,578	92,466
Purchased services	67,667	45,949
Depreciation and amortization	70,192	38,752
Insurance	27,326	22,011
Rent and utilities	17,502	13,149
Repairs and maintenance	14,334	10,960
Interest	15,054	7,736
Illinois Hospital Assessment	19,917	31,989
Other	28,225	18,825
Total expenses	871,459	574,711
Operating income	66,298	41,320
Nonoperating gains (losses)		
Investment return	(7,885)	194,584
Change in fair value of interest rate swaps	(12,224)	(141)
Contribution of Cadence Health unrestricted net assets	1,783,851	-
Contribution of Northwestern Medical Faculty Foundation unrestricted net assets in excess of consideration	-	28,730
Grants and academic support provided	(4,374)	(3,106)
Other	2,740	6,772
Total nonoperating gains, net	1,762,108	226,839
Consolidated excess of revenue over expenses	1,828,406	268,159
Less amounts attributable to noncontrolling interest in subsidiary	(382)	-
Excess of revenue over expenses attributable to NMHC and Subsidiaries	\$ 1,828,788	\$ 268,159

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

	Three Months Ended November 30, 2014			Three Months Ended November 30, 2013		
	Total	Controlling	Noncontrolling	Total	Controlling	Noncontrolling
Unrestricted net assets						
Excess (deficiency) of revenue over expenses	\$ 1,828,406	\$ 1,828,788	\$ (382)	\$ 268,159	\$ 268,159	\$ -
Net assets released from restrictions used for property and equipment additions	2,175	2,175	-	36	36	-
Postretirement-benefit-related changes other than net periodic pension cost	407	407	-	6	6	-
Reclassifications	-	-	-	42	42	-
Initial value of noncontrolling interests in acquired companies	(4,694)	-	(4,694)	-	-	-
Other	65	65	-	162	162	-
Increase (decrease) in unrestricted net assets	1,826,359	1,831,435	(5,076)	268,405	268,405	-
Temporarily restricted net assets						
Contributions	10,779	10,779	-	5,289	5,289	-
Investment return	2,150	2,150	-	2,411	2,411	-
Net assets released from restrictions used for:						
Operating expenses, charity care, and research and education	(7,120)	(7,120)	-	(4,019)	(4,019)	-
Property and equipment additions	(2,175)	(2,175)	-	(36)	(36)	-
Change in fair value of split-interest agreements and other	(105)	(105)	-	281	281	-
Contribution of Northwestern Medical Faculty Foundation restricted net assets	-	-	-	10,374	10,374	-
Contribution of Cadence Health restricted net assets	17,834	17,834	-	-	-	-
Reclassifications	100	100	-	58	58	-
Increase in temporarily restricted net assets	21,463	21,463	-	14,358	14,358	-
Permanently restricted net assets						
Contributions	52	52	-	62	62	-
Change in fair value of split-interest agreements and other	(126)	(126)	-	319	319	-
Contribution of Cadence Health restricted net assets	5,655	5,655	-	-	-	-
Reclassifications	(100)	(100)	-	(100)	(100)	-
Increase in permanently restricted net assets	5,481	5,481	-	281	281	-
Change in net assets	1,853,303	1,858,379	(5,076)	283,044	283,044	-
Net assets, beginning of period	3,584,120	3,584,120	-	3,007,493	3,007,493	-
Net assets, end of period	<u>\$ 5,437,423</u>	<u>\$ 5,442,499</u>	<u>\$ (5,076)</u>	<u>\$ 3,290,537</u>	<u>\$ 3,290,537</u>	<u>\$ -</u>

See accompanying notes to the interim consolidated financial statements.

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

	Three Months Ended November 30,	
	2014	2013
Operating activities		
Change in net assets	\$ 1,853,303	\$ 283,044
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Postretirement-benefit-related changes other than net periodic pension cost	(407)	(6)
Change in fair value of interest rate swaps	12,224	141
Net unrestricted realized investment return and net change in unrealized investment gains/losses	7,759	(194,584)
Restricted contributions, change in fair value of split interest agreements, and realized investment return	(12,624)	(8,362)
Contribution of Cadence Health net assets less noncontrolling interest	(1,802,646)	—
Contribution of Northwestern Medical Faculty Foundation net assets	—	(39,104)
Depreciation and amortization	70,192	38,757
Provision for uncollectible accounts	46,697	18,665
Changes in operating assets and liabilities:		
Patient accounts receivable	(46,575)	(61,948)
Due to third-party payors	(5,463)	(14,269)
Grants and academic support payable	(657)	(70,909)
Other operating assets and liabilities	(104,395)	(99,505)
Net cash provided by (used in) operating activities	17,408	(148,080)
Investing activities		
Purchase of trading securities	(450,303)	(240,463)
Sale of trading securities	383,873	384,610
Cash received from contribution of Cadence Health	123,160	—
Investment in Northwestern Medical Faculty Foundation, net of cash acquired	—	(163,695)
Net unrestricted realized investment return	39,401	78,797
Capital expenditures, net	(61,407)	(48,138)
Net cash provided by investing activities	34,724	11,111
Financing activities		
Payments of long-term debt	(111,113)	(3,320)
Proceeds from issuance of long-term debt	105,000	—
Restricted contributions, change in fair value of split interest agreements, and realized investment return	12,624	8,362
Net cash provided by financing activities	6,511	5,042
Net increase (decrease) in cash and cash equivalents	58,643	(131,927)
Cash and cash equivalents, beginning of the period	108,490	230,326
Cash and cash equivalents, end of the period	<u>\$ 167,133</u>	<u>\$ 98,399</u>

See accompanying notes to the interim consolidated financial statements.

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

As of and for the First Quarter Ended

November 30, 2014

1. Organization and Basis of Presentation

Northwestern Memorial HealthCare (NMHC) is the sole corporate member of Northwestern Memorial Hospital (NMH), CDH-Delnor Health System d/b/a Cadence Health (Cadence) (see Note 3), Northwestern Medical Faculty Foundation d/b/a Northwestern Medical Group (NMG), Northwestern Lake Forest Hospital (NLFH) and Northwestern Memorial Foundation (Foundation). NMH's subsidiaries are Northwestern HealthCare Corporation (NHC) and Northwestern Memorial Insurance Company (NMIC). Cadence's subsidiaries are Central DuPage Hospital Association (CDH), Delnor-Community Hospital d/b/a Delnor Hospital (Delnor), Central DuPage Physician Group d/b/a Cadence Physicians Group (CPG), Community Nursing Service of DuPage County, Inc. d/b/a CNS Home Health & Hospice (CNS), DuPage Health Services, Inc. (DHSII), PAHCS II d/b/a Cadence Occupational Health, Central DuPage Special Health Association d/b/a CNS Home Infusion & Pharmacy (Special Health), Central DuPage, Cadence Health Foundation (Cadence Foundation), DelCom Corporation (DelCom), Delnor-Community Residential Living, Inc. d/b/a Delnor Glen (Residential Living), Living Well Cancer Resource Center (Living Well), Unified Professionals Insurance Company, Ltd. (UPIC), Cadence Ambulatory Surgery Center, LLC (CASC), Cadence Medical Partners, LLC (CMP), Cadence Health ACO, LLC, and the Illinois Proton Center Holdings, LLC (CDH Proton Center). NMG's subsidiaries are Northwestern Foundation for Research and Education d/b/a Northwestern Medical Group Management Services (NMGMS), Northwestern/Rosin Eyecare LLC (Rosin Eyecare) and Northwestern Dialysis Center, LLC (Dialysis Center). NLFH's subsidiary is Lake Forest Health and Fitness Institute (HFI). On May 1, 2014, Northwestern Memorial Physicians Group (NMPG) was merged into NMG.

The accompanying consolidated financial statements include the accounts of NMHC and subsidiaries (collectively referred to herein as Northwestern Memorial).

These interim financial statements have not been audited; however, in the opinion of management, they include all adjustments necessary for their fair presentation in conformity with U.S. generally accepted accounting principles (U.S. GAAP). These interim statements have been prepared on a basis that is substantially consistent with the accounting principles applied in the audited consolidated financial statements of Northwestern Memorial for the year ended August 31, 2014.

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, 2014. These statements are available on the Electronic Municipal Market Access ("EMMA") system of the Municipal Securities Rulemaking Board.

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

2. Adoption of Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. An entity should disclose sufficient information to enable the financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2016. Northwestern Memorial is evaluating the effect this guidance will have on its consolidated financial statements.

3. Acquisitions

Affiliation Agreement with Cadence Health

On September 1, 2014, Cadence became a wholly owned subsidiary of NMHC pursuant to a clinical affiliation agreement between NMHC and Cadence. This affiliation positions Northwestern Memorial, under the Northwestern Medicine brand, to create an integrated academic health delivery system that serves a broad community, offering patients access to leading-edge care closer to where they live and work.

The affiliation was effected through a membership substitution with no consideration paid. For accounting purposes, this transaction is considered an acquisition under ASC 958-805, and a contribution was recorded for the fair value of assets net of liabilities of Cadence. No goodwill will be recorded as a result of this transaction.

The preliminary acquisition-date fair value of identifiable assets and liabilities of Cadence at September 1, 2014 consist of the following:

Fair value of identifiable net assets:	
Cash and cash equivalents	\$ 123,160
Other current assets	247,187
Property and equipment	1,057,610
Other long-term assets	1,494,603
Current liabilities	(405,224)
Long-term debt	(609,131)
Other long-term liabilities	(105,559)
Noncontrolling interest in unrestricted net assets	4,694
Temporarily restricted net assets	(17,834)
Permanently restricted net assets	(5,655)
Contribution of unrestricted net assets	<u>\$ 1,783,851</u>

The valuation of property and equipment, other current and long-term assets, including identifiable intangible assets, long-term debt, current and long-term liabilities and

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

noncontrolling interest is in the process of being completed and is expected to be completed in fiscal 2015. In valuing these assets and liabilities, fair values will be based on, but not limited to independent appraisals, discounted cash flows, replacement costs, and actuarially determined values.

541 N. Fairbanks Acquisition

On March 31, 2014, NMH acquired the office building, in-place leases and certain equipment located at 541 North Fairbanks Court in Chicago, IL (541 N. Fairbanks). NMH leased approximately 40% of this building prior to the acquisition. The acquisition allows for continued growth of NMHC by providing space for the support staff of NMHC at a lower cost than continued leasing in the neighborhood around NMHC's corporate offices.

Consideration of \$71,019 consisted of a cash payment of \$79,902 less the impact of the elimination of preexisting payables and receivables between the parties of \$8,883. For accounting purposes, this transaction is considered an acquisition under ASC 958-805.

The acquisition-date fair value of identifiable assets and liabilities of 541 N. Fairbanks at March 31, 2014 and consideration therefor, consists of the following:

Fair value of identifiable net assets:	
Cash	\$ 229
Current assets	64
Property and equipment	60,739
Other long-term assets	457
Intangible assets	17,723
Current liabilities	(3,357)
Other long-term liabilities	(4,836)
	<u>71,019</u>
Consideration	<u>71,019</u>
	<u>\$ -</u>

The valuation of property and equipment, other current and long-term assets, identifiable intangible assets, and current liabilities have been completed. In valuing these assets and liabilities, fair values were based on, but not limited to independent appraisals, discounted cash flows and replacement costs.

Following are the unaudited pro forma results for the three months ended November 30, 2013, as if the Cadence affiliation and the 541 N. Fairbanks acquisition had occurred on September 1, 2013:

Total operating revenue	\$ 925,509
Operating income	72,058
Excess of revenue over expenses	337,092

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

Following are the unaudited results for the acquired entities for the three months ended November 30, 2014:

Total operating revenue	\$ 340,328
Excess revenue over expenses	16,755
Change in unrestricted net assets	17,220
Change in temporarily restricted net assets	(1,266)

Certain values in the prior period financial statements have been restated to conform with the purchase accounting of NMG finalized as of August 31, 2014.

4. Investments and Other Financial Instruments

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

	November 30, 2014	August 31, 2014
Measured at fair value:		
Cash and short-term investments	\$ 333,798	\$ 210,732
Mutual funds	1,384,065	695,055
Common collective trusts	107,662	115,312
Commingled funds	68,021	66,946
Corporate bonds	165,893	60,784
U.S. government and agency issues	126,704	38,528
Equity securities	147,400	104,766
103-12 entities	193,557	201,969
	<u>2,527,100</u>	<u>1,494,092</u>
Accounted for under the equity method:		
Alternative investments	2,415,991	1,921,644
	<u><u>\$ 4,943,091</u></u>	<u><u>\$ 3,415,736</u></u>

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

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

	November 30, 2014	August 31, 2014
Assets limited as to use:		
Trustee-held funds	\$ 62,112	\$ 3
Self-insurance programs	557,887	498,939
Board-designated funds	154,740	153,024
Total assets limited as to use	774,739	651,966
Donor-restricted funds	287,950	267,848
Unrestricted, undesignated funds	3,670,767	2,328,152
Total investments, excluding short-term investments	4,733,456	3,247,966
Other financial instruments:		
Cash and cash equivalents and short-term investments	209,635	167,770
	<u>\$ 4,943,091</u>	<u>\$ 3,415,736</u>

The composition and presentation of investment returns are as follows:

	Three Months Ended	
	November 30,	
	2014	2013
Interest and dividend income	\$ 6,987	\$ 6,647
Investment expenses	(978)	(2,807)
Realized gains on alternative investments, net	19,878	10,375
Realized gains on other investments, net	14,742	66,994
Change in unrealized gains on alternative investments	(8,536)	75,921
Change in unrealized gains/(losses) on other investments	(38,451)	39,865
Change in joint venture returns	623	-
	<u>\$ (5,735)</u>	<u>\$ 196,995</u>
Reported as:		
Nonoperating investment return	\$ (7,885)	\$ 194,584
Temporarily restricted - investment return	2,150	2,411
	<u>\$ (5,735)</u>	<u>\$ 196,995</u>

Northwestern Memorial's investments measured at fair value include mutual funds; common equities; corporate and US government debt issues; state, municipal and foreign gov-

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

ernment debt issues; commingled funds; common collective trusts; and 103-12 entities.

Commingled investments, common collective trusts, and 103-12 entities are commingled investment funds formed from the pooling of investments under common management. Unlike a mutual fund, these investments are not registered investment companies and, therefore, are exempt from registering with the Securities and Exchange Commission.

The investment strategy for the mutual funds, commingled funds, common collective trusts and 103-12 entities involves maximizing the overall long-term return by investing in a wide variety of assets, including domestic large cap equities, domestic small cap equities, international developed equities, natural resources and private equity limited partnerships (LPs).

Northwestern Memorial's non-pension plan investments measured under the equity method of accounting include absolute return hedge funds, equity long/short hedge funds, real estate, natural resources and LPs, collectively referred to as alternative investments. Alternative investments in the pension plan assets are measured at fair value.

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

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

As of November 30, 2014, \$1,677,579 of alternative investments is subject to various redemption limits and lockup provisions, of which \$1,294,415 expires within one year and \$383,164 expires after one year from the balance sheet date.

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

At November 30, 2014, Northwestern Memorial had commitments to fund an additional \$574,869 to alternative investment entities, which is expected to occur over the next 12 years.

5. Fair Value Measurements

Northwestern Memorial follows the requirements of Accounting Standards Codification Topic (ASC) 820 in regards to measuring the fair value of certain assets and liabilities as well as disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received for an asset or paid for a transfer of a liability in an orderly transaction on the measurement date.

The methodologies used to determine the fair value of assets and liabilities reflect market participant objectives and are based on the application of a three-level valuation hierarchy that prioritizes observable market inputs over unobservable inputs. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Examples of level 2 inputs are quoted prices for similar assets or liabilities in inactive markets or pricing models with inputs that are observable for substantially the full term of the asset or liability.
- Level 3 – inputs to the valuation methodology are significant to the fair value of the asset or the liability and less observable. These inputs reflect the assumptions market participants would use in the estimation of the fair value of the asset or liability.

Fair Values

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

Northwestern Memorial HealthCare
Notes to Interim 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, 2014:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 167,133	\$ -	\$ -	\$ 167,133
Investments:				
Short term investments:				
Currency	27	-	-	27
Fixed income	-	42,475	-	42,475
Total short term investments	27	42,475	-	42,502
Mutual funds:				
Fixed income	366,109	208,585	-	574,694
International equities	305,698	-	-	305,698
Natural resources	57,440	-	-	57,440
Marketable alternatives	59,059	-	-	59,059
U.S. equities	387,174	-	-	387,174
Total mutual funds	1,175,480	208,585	-	1,384,065
Common collective trusts:				
International equities	-	55,573	-	55,573
U.S. equities	-	52,089	-	52,089
Total common collective trusts	-	107,662	-	107,662
Commingled funds:				
Global equities	-	4,664	-	4,664
Fixed Income	-	63,357	-	63,357
Total commingled funds	-	68,021	-	68,021
Bonds:				
Corporate bonds	-	165,893	-	165,893
U.S. government and agencies issues	-	126,704	-	126,704
Total bonds funds	-	292,597	-	292,597
Equity securities	145,685	1,715	-	147,400
103-12 entities - international equities	-	193,557	-	193,557
Cash equivalents in investment accounts	124,163	-	-	124,163
Total investments	1,445,355	914,612	-	2,359,967
	-			
Beneficial interests in trusts	-	14,480	-	14,480
Total assets	\$ 1,612,488	\$ 929,092	\$ -	\$ 2,541,580
Liabilities:				
Interest rate swaps	\$ -	\$ 105,126	\$ -	\$ 105,126

Northwestern Memorial HealthCare
Notes to Interim 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, 2014:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 108,490	\$ -	\$ -	\$ 108,490
Investments:				
Short term investments:				
Currency	27	-	-	27
Fixed income	-	59,253	-	59,253
Total short term investments	27	59,253	-	59,280
Mutual funds:				
Fixed income	240,790	-	-	240,790
International equities	78,774	-	-	78,774
U.S. equities	375,491	-	-	375,491
Total mutual funds	695,055	-	-	695,055
Common collective trusts:				
International equities	-	61,432	-	61,432
U.S. equities	-	53,880	-	53,880
Total common collective trusts	-	115,312	-	115,312
Commingled funds:				
Global equities	-	59,951	-	59,951
Fixed income	-	1,831	-	1,831
Natural resources	-	5,164	-	5,164
Total commingled funds	-	66,946	-	66,946
Bonds:				
Corporate bonds	-	60,784	-	60,784
U.S. government and agencies issues	-	38,528	-	38,528
Total bonds	-	99,312	-	99,312
Equity securities	104,437	329	-	104,766
103-12 entities - international equities	-	201,969	-	201,969
Cash equivalents in investment accounts	42,962	-	-	42,962
Total investments	842,481	543,121	-	1,385,602
Beneficial interests in trusts	-	14,924	-	14,924
Total assets	\$ 950,971	\$ 558,045	\$ -	\$ 1,509,016
Liabilities:				
Interest rate swaps	\$ -	\$ 52,872	\$ -	\$ 52,872

There were no transfers into or out of Level 2 or Level 1 during the three months ended November 30, 2014 or the year ended August 31, 2014.

Northwestern Memorial HealthCare
Notes to Interim Consolidated Financial Statements *(continued)*
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Reconciliation to the Consolidated Balance Sheets

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

	November 30, 2014	August 31, 2014
Short-term investments measured at fair value	\$ 42,502	\$ 59,280
Investments, including assets limited as to use measured at fair value	2,317,465	1,326,322
Total investments at fair value	2,359,967	1,385,602
Alternative investments accounted for under equity method included in investments, including assets limited as to use	2,415,991	1,921,644
Total investments	<u>\$ 4,775,958</u>	<u>\$ 3,307,246</u>
Other long-term assets:		
Beneficial interests in trusts at fair value	\$ 14,480	\$ 14,924
Other long-term assets, net	167,313	114,984
Total other long-term assets	<u>\$ 181,793</u>	<u>\$ 129,908</u>

Valuation Techniques and Inputs

Beneficial Interests in Trusts – The fair value of beneficial interests in trusts is based on the Foundation’s percentage of the fair value of the trusts’ assets adjusted for any outstanding liabilities (discounted using a rate per IRS regulations), based on each trust arrangement.

Interest Rate Swaps – The fair value of interest rate swaps is based on generally accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative and quoted prices from dealer counterparties and other independent market sources. The valuation incorporates observable interest rates and yield curves for the full term of the swaps. The valuation is also adjusted to incorporate nonperformance risk for NMHC or the respective counterparty. The adjustment is based on the credit spread for entities with similar credit characteristics as NMHC or market-related data for the respective counterparty. Northwestern Memorial pays various fixed rates and receives cash flows based on rates equal to a percentage of the London Interbank Offered Rate (LIBOR) plus a spread for certain interest rate swaps.

Investments – The fair value of Level 1 investments, which consist of equity securities and mutual funds, is based on quoted market prices that are valued on a daily basis. Level 2 investments consist of U.S. government securities, corporate bonds, commingled funds, common collective trusts, interest in 103-12 entities, and fixed income instruments issued by municipalities and foreign government agencies. The fair value of the U.S. government securities and corporate bonds is established based on values obtained from nationally recog-

Northwestern Memorial HealthCare
Notes to Interim Consolidated Financial Statements *(continued)*
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nized pricing services that value the investments based on similar securities and matrix pricing of similar quality and maturity securities. The fair values of commingled funds, common collective trusts, and 103-12 entities are based on either the fair value of the underlying investments of the fund, as determined by the fund, or based on the ownership interest in the net asset value (NAV) per share or its equivalent, of the respective fund.

Northwestern Memorial's investments are exposed to various kinds and levels of risk. Equity securities and equity mutual funds expose Northwestern Memorial to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets. Performance risk is that risk associated with a company's operating performance. Fixed income securities and fixed income mutual funds expose Northwestern Memorial to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities. Liquidity risk tends to be higher for equities related to small capitalization companies and certain alternative investments. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value, resulting in additional gains and losses in the near term.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities, and short-term borrowings are reasonable estimates of their fair values due to their short-term nature.

The estimated fair value of the long-term debt portfolio, including the current portion, was \$1,528,665 at November 30, 2014 and \$807,131 at August 31, 2014. The fair value of this Level 2 liability is based on quoted market prices for the same or similar issues and the relationship of those bond yields with various market indices. The market data used to determine yield and calculate fair value represents Aa/AA-rated tax-exempt municipal healthcare bonds. The effect of third-party credit valuation adjustments, if any, is immaterial.

The fair value of pledges receivable, a Level 2 asset, is based on discounted cash flow analysis and approximated the carrying value at November 30, 2014 and August 31, 2014.

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

6. Long-Term Debt

Long-term debt consists of the following:

	November 30,	August 31,
	2014	2014
Revenue Bonds, Series 2013 (NMHC), payable in annual installments beginning August 15, 2031 through August 15, 2043 (fixed coupon rates from 4.00% to 5.00%)	\$ 111,235	\$ 111,235
Revenue Bonds, Series 2011A (CDH), with interest at a variable rate payable in annual installments through November 1, 2038, (weighted-average interest rate of 0.51% for the three months ended November 30, 2014)	59,825	-
Revenue Bonds, Series 2011B (CDH), with interest at a variable rate payable in annual installments through November 1, 2038, (weighted-average interest rate of 0.51% for the three months ended November 30, 2014)	59,825	-
Revenue Bonds, Series 2011C (Delnor), with interest at a variable rate payable in annual installments through November 1, 2038, (weighted-average interest rate of 0.62% for the three months ended November 30, 2014)	57,490	-
Revenue Bonds, Series 2009A (NMH), payable in annual installments through August 15, 2039 (fixed coupon rates range from 5.00% to 6.00%)	319,610	319,610
Revenue Bonds, Series 2009B (NMH), payable in annual installments through August 15, 2030 (fixed coupon rates range from 5.00% to 6.00%)	46,020	46,020
Revenue Bonds, Series 2009 (CDH) payable in annual installments through November 1, 2039 (fixed coupon rates range from 5.00% to 5.50%)	88,170	-
Revenue Bonds, Series 2009B (CDH) payable in annual installments through November 1, 2039 (fixed coupon rates range from 3.30% to 5.50%)	227,505	-
Variable Rate Demand Revenue Bonds, Series 2008A (NMH), payable in annual installments through August 15, 2038 (weighted-average interest rate was 0.04% and 0.06% for the three months ended November 30, 2014 and 2013, respectively)	78,775	78,775
Variable Rate Demand Revenue Bonds, Series 2007A (NMH), payable in annual installments through August 15, 2042 (weighted-average interest rate was 0.05% and 0.08% for the three months ended November 30, 2014 and 2013, respectively)	208,400	208,400

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

	November 30, 2014	August 31, 2014
Revenue Bonds, Series 2003A – Series 2003C (Delnor) payable in annual installments through November 1, 2033 (fixed coupon rates range from 5.00% - 5.25%)	26,925	-
Variable Rate Demand Revenue Bonds, Series 2002C (NMH), payable in annual installments beginning August 15, 2026 through August 15, 2031 (weighted-average interest rate was 0.04% and 0.06% for the three months ended November 30, 2014 and 2013, respectively)	27,450	27,450
Revenue Bonds, Series 2002B – Series 2002D (Delnor) payable in annual installments beginning May 1 2022 through May 1, 2032 (fixed coupon rate of 5.25%)	35,000	-
Delnor medical office building loan, interest fixed at 6.34%, matures September 1, 2017	13,958	-
CDH variable rate note dated November 25, 2014 to a bank, matures November 25, 2017	105,000	-
	1,465,188	791,490
Less:		
Unamortized premium, net	(3,006)	(1,942)
Current maturities	26,635	14,095
Long term debt subject to short term remarketing agreements	118,800	-
	<u>\$ 1,322,759</u>	<u>\$ 779,337</u>

Effective November 25, 2014, Cadence, CDH, Delnor and CPG became members of the obligated group created under the Amended and Restated Master Trust Indenture dated as of May 1, 2004, as supplemented and amended (the "NMHC Master Indenture"), among NMHC, NMH, NLFH, the Foundation, NMG, NMGMS, HFI, and Wells Fargo Bank, N.A., as master trustee. Supplemental Master Trust Indentures were issued so that all the debt as of November 30, 2014 is either secured, or guaranteed by, the NMHC obligated group.

Effective September 13, 2013, NMG and NMGMS became members of the obligated group created under the NMHC Master Indenture, among NMHC, NMH, NLFH, the Foundation, HFI, and Wells Fargo Bank, N.A., as master trustee. The bond trustee for the \$62,095 in aggregate principal amount of tax-exempt bonds issued for the benefit of NMG (the "NMG Bonds") accepted a promissory note issued by NMHC under the NMHC Master Indenture as security for the NMG Bonds in substitution for the note previously securing the NMG Bonds. The bondholder accepted a promissory note issued by NMHC under the NMHC Master Indenture related to the purchase by the bondholder of the NMG Bonds in substitution for the note previously issued under the NMG Master Indenture. The bondholder and other lenders also ac-

Northwestern Memorial HealthCare
Notes to Interim Consolidated Financial Statements *(continued)*
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cepted promissory notes issued by NMHC under the NMHC Master Indenture related to an \$80,000 currently undrawn revolving line of credit now available to NMHC in substitution for the notes previously securing the line of credit. As a result of these transactions, NMG and NMGMS are both members of the obligated group created under the NMHC Master Indenture and have joint and several liability for all of the outstanding debt secured thereunder. The NMG master trust indenture and the master notes issued thereunder have been terminated. In January 2014, NMG redeemed all the outstanding Series 2012 Bonds (\$58,775). The Northwestern Memorial HealthCare and Subsidiaries 2014 audited consolidated statements of operations and changes in net assets include a \$2,867 loss on extinguishment of long-term debt as a result of the above-mentioned transaction.

Northwestern Memorial has lines of credit available for operations in the amount of \$50,000 and \$80,000, which expire in July 2015 and September 2015, respectively. Northwestern Memorial has the option to borrow at various rates expressed as an adjustment to Libor, Prime Rate or other bank-offered rates. At November 30, 2014 and August 31, 2014, no amounts were borrowed under the lines of credit.

NMH has standby bond purchase agreements (SBPAs) with multiple banks that cover all of its variable rate demand revenue bonds (VRDBs). The short-term credit rating for each series of VRDBs is based on the respective bank's short-term credit rating. The long-term credit rating for each series of VRDBs is based on NMH's long-term credit rating. Changes in credit ratings may impact the interest paid on or remarketing of the VRDBs. The banks provide liquidity support in the event of a failed remarketing as follows:

	<u>Par Value</u>	<u>Expiration date</u>
Series 2007A-1, 2007A-3	\$ 104,200	December 2016
Series 2008A	78,775	July 2017
Series 2002C	27,450	July 2017
Series 2007A-2, 2007A-4	104,200	December 2018

The SBPAs require NMHC to maintain reporting, financial and other covenants. If an SBPA is not renewed or replaced prior to its expiration, or if some portion, or all, of the related VRDBs are not successfully remarketed ("failed remarketing") during the term of the SBPAs, the related VRDBs convert to a term loan at the earlier of the expiration date of the related SBPA or after 90 consecutive days of failed remarketing. Principal payment on the term loan would then be payable over a three-year term. The earliest principal payment on any term loan associated with the bonds is 367 days from the initial failed remarketing date. Therefore the VRDBs, less any current portion, are classified as long-term debt in the accompanying consolidated balance sheets.

The CDH and Delnor Series 2011A, 2011B and 2011C Revenue Bonds, while subject to long-term amortization periods, may be put to the NMHC obligated group at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders

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

may, under the terms of the debt, put their bonds within a maximum of 12 months after November 30, 2014, the principal amount of such bonds has been classified as a current obligation in the accompanying consolidated balance sheets. Management believes the likelihood of a material amount of bonds being put to the NMHC obligated group is remote. However, to address this possibility, management has taken steps to provide various sources of liquidity, including assessing alternate sources of financing, including lines of credit and/or unrestricted cash and investments as a source of self liquidity.

7. Derivatives

Northwestern Memorial's only derivative financial instruments are interest rate swaps approximately equal to its Series 2007A and Series 2011A-C variable rate bonds for the sole purpose of risk management. These bonds expose Northwestern Memorial to variability in interest payments due to changes in interest rates. To manage fluctuations in cash flows resulting from interest rate risk, Northwestern Memorial entered into various interest rate swap agreements. These swaps limit the variable-rate cash flow exposure on the variable rate bonds to synthetically fixed cash flows. By using interest rate swaps to manage the risk of changes in interest rates, Northwestern Memorial exposes itself to credit risk and market risk. Credit risk is the risk that a counterparty will fail to perform under the terms of a derivative contract. When the fair value of a swap is positive, the counterparty owes Northwestern Memorial, which creates credit risk for Northwestern Memorial. When the fair value of a swap is zero or negative, the counterparty does not owe Northwestern Memorial. Northwestern Memorial minimizes the credit risk in its swap contracts by entering into transactions that either require the counterparty to post collateral for the benefit of Northwestern Memorial based on the credit rating of the counterparty and the fair value of the swap contract or whose cash flows are insured by a third party. The aggregate fair value liability of the swaps on the consolidated balance sheets at November 30, 2014 and August 31, 2014, respectively, reflects a reduction of \$7,263 and \$7,442, respectively, for non-performance risk. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their swap positions in the context of their total blended cost of capital.

Northwestern Memorial HealthCare
Notes to Interim Consolidated Financial Statements *(continued)*
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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, 2014	August 31, 2014			
\$ 104,200	\$ 104,750	August 2042	3.889%	63% of 1-Month LIBOR + 28 bps
104,200	104,750	August 2042	3.889%	63% of 1-Month LIBOR + 28 bps
62,713	-	November 2038	3.518%	67% of 3-Month LIBOR
62,713	-	November 2038	3.518%	67% of 3-Month LIBOR
35,000	-	May 2032	4.183%	67% of 1-Month LIBOR
26,925	-	May 2033	2.892%	67% of 1-Month LIBOR
<u>\$ 395,751</u>	<u>\$ 209,500</u>			

The fair value of derivative instruments is as follows:

	Derivatives Liabilities		
	Balance Sheet Location	November 30, 2014	August 31, 2014
Derivatives not designated as hedging instruments:			
Interest rate contracts	Interest rate swaps liabilities	\$ 105,126	\$ 52,872

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

	Three Months Ended	
	November 30, 2014	November 30, 2013
Derivatives not designated as hedging instruments:		
Operating expense - interest	\$ (2,653)	\$ (1,810)
Nonoperating - change in fair value of interest rate swaps	(12,224)	(141)

Northwestern Memorial's derivative instruments contain provisions that require Northwestern Memorial's debt to maintain an A- credit rating from Standard and Poors and an A3 rating from Moody's. If Northwestern Memorial's debt were to fall below those levels, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. Northwestern Memorial posted collateral of \$0 as of November 30, 2014 and August 31, 2014. If the credit-risk-related contingent features underlying these agreements had been triggered to the fullest extent on

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

November 30, 2014, Northwestern Memorial would have been required to post \$112,389 of collateral to its counterparties.

8. Endowments

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

Northwestern Memorial has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), as adopted by the State of Illinois (State), as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulation to the contrary. As a result of this interpretation, Northwestern Memorial classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure consistent with donor intent or, where silent, the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, Northwestern Memorial considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of Northwestern Memorial and the endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from investment income and appreciation
- Other resources of Northwestern Memorial
- The investment policies of Northwestern Memorial.

Northwestern Memorial has adopted investment and spending policies for endowment assets designed to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that must be held in perpetuity or for a donor-specified period. Under this policy, endowment assets are allocated a fixed annual return, which is currently set at 6%.

Northwestern Memorial has a policy that limits annual spending from endowment funds to 4% of the endowment fund balance at the midpoint of the preceding fiscal year. In establishing this policy, Northwestern Memorial considered the long-term expected return on its endowment. Accordingly, over the long term, Northwestern Memorial expects the spending

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

policy to allow its endowment to grow at an average annual rate of 2%. This is consistent with its objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return.

The changes in endowment net assets for the three months ended November 30, 2014 and 2013 are summarized below:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 1, 2013	\$ 48,928	\$ 150,742	\$ 199,670
Contributions	120	61	181
Change in value of trusts	27	319	346
Investment return	1,514	-	1,514
Appropriation for expenditure	(748)	-	(748)
Other	(16)	(100)	(116)
Endowment net assets, November 30, 2013	<u>\$ 49,825</u>	<u>\$ 151,023</u>	<u>\$ 200,848</u>
Endowment net assets, September 1, 2014	\$ 48,584	\$ 154,048	\$ 202,632
Contribution of Cadence Health restricted net assets	-	5,655	5,655
Contributions	53	52	105
Change in value of trusts	(23)	(126)	(149)
Investment return	1,578	-	1,578
Appropriation for expenditure	(1,202)	-	(1,202)
Other	6,997	(100)	(6,897)
Endowment net assets, November 30, 2014	<u>\$ 55,987</u>	<u>\$ 159,529</u>	<u>\$ 215,516</u>

9. Self-Insurance Programs

Self-insurance liabilities and the related amount recoverable from reinsurers are reported in the consolidated balance sheets at present value based on an annual discount rate of 1.5% as of November 30, 2014 and August 31, 2014. Provisions for the professional and general liability risks are based on an actuarial estimate of losses using actual loss data adjusted for industry trends and current conditions and an evaluation of claims by Northwestern Memorial's insurance and claims legal counsel. The provision for estimated self-insured claims includes estimates of ultimate costs for both reported claims and claims incurred but not reported.

10. Net Patient Revenue

Northwestern Memorial recognizes net patient service revenue 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 on the basis of the contractual rates for the services rendered at the time services are provided. Payment arrange-

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

ments with those payors include prospectively determined rates per admission or visit, reimbursed costs, discounted charges, and per diem rates. Reported costs and/or services provided under certain of the arrangements are subject to retroactive audit and adjustment. Patient service revenue increased by \$0 in the three months ended November 30, 2014 and 2013, respectively, as a result of changes in estimates due to settlements of costs reports and the disposition of other payor audits and settlements related to prior years. Changes in Medicare and Medicaid programs and reductions in funding levels could have an adverse effect on Northwestern Memorial.

Northwestern Memorial also provides care to self-pay patients. Under its Free and Discounted Care Policy (the Policy), Northwestern Memorial provides medically necessary care to patients in its community with inadequate financial resources at discounts of up to 100% of charges using a sliding scale that is based on patient household income as a percentage (up to 600%) of the Federal Poverty Level Guidelines. The Policy also contains a catastrophic financial assistance provision that limits a patient's total financial responsibility to Northwestern Memorial. Since Northwestern Memorial does not pursue collection of these amounts, they are not reported as net patient service revenue. The Policy has not changed in fiscal year 2014 or 2013. Northwestern Memorial implemented presumptive eligibility screening procedures for free care in fiscal year 2014. Northwestern Memorial recognizes net patient service revenue on services provided to these patients at the discounted rate at the time services are rendered.

Patient service revenue, net of contractual allowances and discounts, is reduced by the provision for uncollectible accounts, and patient accounts receivable are reduced by an allowance for uncollectible accounts. These amounts are based primarily on management's assessment of historical and expected write-offs and net collections along with the aging status for each major payor source. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. Based on historical experience, a portion of Northwestern Memorial's self-pay patients who do not qualify for charity care will be unable or unwilling to pay for the services provided. Thus, a provision is recorded for uncollectible accounts in the period services are provided related to these patients. After all reasonable collection efforts have been exhausted in accordance with Northwestern Memorial's policies, accounts receivable are written off and charged against the allowance for uncollectible accounts.

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

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

Net patient service revenue (including patient copays and deductibles), net of contractual allowances and discounts (but before the provision for uncollectible accounts) by primary payor source was as follows:

	Three Months Ended	
	November 30,	November 30,
	2014	2013
Third-party payors	\$ 916,365	\$ 588,392
Self-pay	21,950	15,253
	<u>\$ 938,315</u>	<u>\$ 603,645</u>

Third-party payors include Medicaid net patient service revenue received through the Illinois Hospital Assessment Program (see Note 11).

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

	November 30,	August 31,
	2014	2014
Medicare	17%	15%
Medicaid	11	7
Blue Cross	18	23
Other managed care	31	30
Other third-party payors	13	14
Patients	10	11
	<u>100%</u>	<u>100%</u>

Patient accounts receivable net of contractual adjustments were \$630,469 and \$415,827 as of November 30, 2014 and August 31, 2014, or 17.2% (pro-forma) and 17.5% of patient revenue for the twelve month periods then ended, respectively. The related allowance for uncollectible accounts was \$134,211 and \$70,977, or 21.3% and 17.1% of the related patient accounts receivable net of contractual allowances as of November 30, 2014 and August 31, 2014, respectively. The allowance for uncollectible accounts as a percent of patient accounts receivable, net of contractual allowances, has increased mainly due to the affiliation with Cadence (see Note 3) and its differing mix of payors and aging in its accounts receivables.

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

11. Illinois Hospital Assessment Program

In December 2008, the Illinois Hospital Assessment Program was approved by the Federal Centers for Medicare and Medicaid Services (CMS) for the period July 1, 2008 through June 30, 2013. In July 2012, this program was extended to December 31, 2014 as part of the Save Medicaid Access and Resources Together (SMART) Act. In June 2014, this program was extended to June 30, 2018 as part of the Omnibus Medicaid Bill Senate Bill 741. Additionally, this bill authorizes a new supplemental program to cover new Medicaid beneficiaries under the Affordable Care Act. This new program was approved by CMS in January 2015.

In October 2013, the Enhanced Illinois Hospital Assessment Program as authorized under Illinois Public Act 97-688 was approved by CMS retroactive to June 10, 2012. As such an additional 17 months and 21 days of program revenue and expenses are included in operating results for the period ended November 30, 2013. Together these two programs are referred to herein as HAP.

Under HAP, the State receives additional Federal Medicaid funds for the State's healthcare system, administered by the Illinois Department of Healthcare and Family Services. HAP includes both payments to NMH, CDH, Delnor and NLFH from the State and assessments against NMH, CDH, Delnor and NLFH, which are paid to the State in the same year. HAP revenue is included in patient service revenue, and HAP expense is included in Illinois Hospital Assessment in the accompanying consolidated statements of operations and changes in net assets, as follows:

	Three Months Ended	
	November 30,	
	2014	2013
Patient service revenue	\$ 25,454	\$ 45,334
Illinois Hospital Assessment	19,917	31,989

12. Employee Benefit Obligations

Northwestern Memorial's non-contributory, defined-benefit pension plans (Plans) cover substantially all of Northwestern Memorial's employees. 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 and after January 1, 2013, and no compensation earned or service performed by any Plan participant on and after January 1, 2013 will count for any purpose other than continued vesting under the Plans in benefits earned prior to 2013.

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

Net periodic pension benefit included in operating results is comprised of the following:

	Three Months Ended	
	November 30,	
	2014	2013
Service cost of benefits earned during the period	\$ 375	\$ 313
Interest cost of projected benefit obligation	6,510	6,641
Expected return on the Plans' assets	(12,203)	(11,636)
Amortization of net loss	185	115
	<u>\$ (5,133)</u>	<u>\$ (4,567)</u>

Northwestern Memorial made no contributions for the three months ended November 30, 2014 and has no current plans to contribute to the Plans during the fiscal year ending August 31, 2015.

13. Commitments and Contingencies

Academic, Programs and Other Support

Consistent with its mission, Northwestern Memorial provides academic, program and other support to other not-for-profit entities. The present value of the total remaining commitments related to this support are \$231,889 and \$232,546 at November 30, 2014 and August 31, 2014, respectively, which are reported as grants and academic support payable in the accompanying consolidated balance sheets.

Northwestern Memorial will provide continuing funding to Northwestern University in support of the research and education mission of the Feinberg School of Medicine. This continuing funding is based on the average net patient revenue and operating results of Northwestern Memorial, with the minimum annual amount of such funding being \$39,500, plus CPI, for fiscal years 2014 through 2016 and no minimum thereafter. The expense incurred of \$13,757 and \$10,771 for the three months ended November 30, 2014 and 2013, respectively is recorded in other expense in the accompanying consolidated statements of operations and changes in net assets; and a related liability of \$1,295 and \$713 is reported in accrued expenses and other current liabilities in the accompanying consolidated balances sheets as of November 30, 2014 and August 31, 2014.

Capital Projects

Various capital projects are currently being constructed that are expected to open over the next three years. The total estimated costs of these projects is approximately \$1,070,000. As of November 30, 2014, project commitments totaled \$466,252, of which \$366,790 has been incurred.

As part of the affiliation agreement with Lake Forest Hospital in 2010, Northwestern Memorial committed to a plan to refurbish or replace existing inpatient and outpatient facilities on the Lake Forest Campus within ten years of the affiliation date ("Replacement Project"). In June 2014, the Replacement Project received regulatory approval from the Illinois Health

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

Facilities and Services Review Board. The planning and design process is completed including selection of the construction contractor. The Replacement Project continues to progress on schedule, with site excavation scheduled to begin in February, 2015.

Regulatory

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded amounts will change by a material amount in the near term. During the last few years, as a result of nationwide investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the Medicare and Medicaid programs.

In addition, an increasing number of the operations or practices of not-for-profit healthcare providers has been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges are broader than concerns about compliance with federal and state statutes and regulations of core business practices of the healthcare organizations. The laws and regulations regarding these practices are also subject to interpretation and challenge. Areas which have come under examination have included pricing practices, billing and collection practices, charity care, community benefit, executive compensation, exemption of property from real property taxation, and others. Northwestern Memorial expects that the level of review and audit to which it and other healthcare providers are subject will increase. There can be no assurance that regulatory authorities will not challenge Northwestern Memorial's compliance with these laws and regulations or that the laws and regulations themselves will not be subject to challenge, and it is not possible to determine the impact, if any, such claims, penalties or challenges would have on Northwestern Memorial.

Northwestern Memorial is aware of, has investigated, and made disclosure to the United States Department of Justice Office of Civil Rights ("OCR") of two privacy breaches. Management is unable to determine what, if any, fines might be imposed by OCR or other actions that might be taken as a result of these privacy breaches.

Northwestern Memorial is a defendant in other various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on Northwestern Memorial's financial condition or operations.

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

14. Subsequent Events

Northwestern Memorial evaluated events and transactions occurring subsequent to November 30, 2014 through January 14, 2015, the date of issuance of these financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements. There were no other unrecognized subsequent events requiring disclosure except as noted in Note 11.

Northwestern Memorial HealthCare and Subsidiaries
Consolidating Balance Sheet
November 30, 2014
(Unaudited)
(Dollars in thousands)

ASSETS	Northwestern Memorial Hospital and Subsidiaries	Cadence Health and Subsidiaries	Northwestern Medical Group and Subsidiaries	Lake Forest Hospital and Subsidiary	Northwestern Memorial HealthCare	Northwestern Memorial Foundation	Eliminations	Consolidated
Current assets:								
Cash and cash equivalents	\$ 1,280	\$ 63,630	\$ 351	\$ -	\$ 121,076	\$ -	\$ (19,204)	\$ 167,133
Share of cash pool	46,017	-	10,211	31,239	-	12,226	(99,693)	-
Short-term investments	-	1,209	-	27	41,266	-	-	42,502
Share in short-term investment pool	2,258	-	3,001	-	-	-	(5,259)	-
Current portion of investments, including assets limited as to use	79,303	1,126	12,493	2,091	-	-	-	95,013
Patient accounts receivable, less allowances for uncollectible accounts	212,207	162,217	93,569	28,265	-	-	-	496,258
Current portion of pledges and grants receivable, net	581	3,203	27,396	4,804	-	10,843	-	46,827
Current portion of insurance recoverable	7,161	273	14,231	1,526	-	-	(15,276)	7,915
Inventories	26,520	8,142	3,475	4,925	-	-	-	43,062
Other current assets	28,765	77,858	6,661	1,337	14,543	-	(15,114)	114,050
Due from affiliates	19,265	(1)	2,743	68	93,495	45	(115,615)	-
Total current assets	423,357	317,657	174,131	74,282	270,380	23,114	(270,161)	1,012,760
Investments, including assets limited as to use, less current portion	69,232	1,491,302	10,211	-	3,110,936	386,601	(429,839)	4,638,443
Share in investment pool	1,910,153	-	183,055	158,125	-	136	(2,251,469)	-
	1,979,385	1,491,302	193,266	158,125	3,110,936	386,737	(2,681,308)	4,638,443
Property and equipment, at cost:								
Land	208,625	41,948	-	54,599	-	-	-	305,172
Buildings	1,821,899	746,719	130,120	180,628	-	225	-	2,879,591
Equipment and furniture	314,671	239,816	16,193	37,462	201,388	214	-	809,744
Construction-in-progress	36,842	59,262	1,465	23,332	99	-	-	121,000
	2,382,037	1,087,745	147,778	296,021	201,487	439	-	4,115,507
Less accumulated depreciation	1,123,325	29,184	21,937	90,931	174,017	316	-	1,439,710
	1,258,712	1,058,561	125,841	205,090	27,470	123	-	2,675,797
Prepaid pension cost	93,613	-	-	4,767	-	-	-	98,380
Insurance recoverable, less current portion	59,640	-	77,088	8,829	-	-	(84,579)	60,978
Intercompany note receivable	58,639	-	-	-	58,639	-	(117,278)	-
Other assets, net	118,320	46,999	30,120	22,166	231,503	41,937	(309,252)	181,793
Interest in unrestricted net assets of Foundation	193,416	-	-	-	-	-	(193,416)	-
Interest in restricted net assets of Foundation	238,293	-	-	-	-	-	(238,293)	-
Total assets	\$ 4,423,375	\$ 2,914,519	\$ 600,446	\$ 473,259	\$ 3,698,928	\$ 451,911	\$ (3,894,287)	\$ 8,668,151

Northwestern Memorial HealthCare and Subsidiaries
Consolidating Balance Sheet (continued)
November 30, 2014
(Unaudited)
(Dollars in thousands)

LIABILITIES AND NET ASSETS	Northwestern Memorial Hospital and Subsidiaries	Cadence Health and Subsidiaries	Northwestern Medical Group and Subsidiaries	Northwestern Lake Forest Hospital and Subsidiary	Northwestern Memorial HealthCare	Northwestern Memorial Foundation	Eliminations	Consolidated
Current liabilities:								
Accounts payable	\$ 58,723	\$ 42,801	\$ 5,830	\$ 8,941	\$ 3,831	\$ 62	\$ -	\$ 120,188
Accrued salaries and benefits	30,930	73,651	33,749	8,706	29,101	678	-	176,815
Grants and academic support payable, current portion	99,139	-	343	-	24,897	840	-	125,219
Accrued expenses and other current liabilities	52,785	47,057	19,709	3,934	2,854	2,674	(14,032)	114,981
Due to third-party payors	191,461	136,159	-	35,001	-	-	-	362,621
Current accrued liabilities under self-insurance programs	56,662	7,985	26,827	3,546	-	-	(27,523)	67,497
Due to cash pool	-	-	-	-	118,897	-	(118,897)	-
Due to short term investment pool	-	-	-	-	5,258	-	(5,258)	-
Current maturities of long-term debt	14,095	12,540	-	-	-	-	-	26,635
Long-term debt subject to short term remarketing agreements	-	118,800	-	-	-	-	-	118,800
Due to affiliates	68,836	4,634	18,271	8,191	-	15,682	(115,614)	-
Total current liabilities	572,631	443,627	104,729	68,319	184,838	19,936	(281,324)	1,112,756
Long-term debt, less current maturities	779,278	543,481	-	-	-	-	-	1,322,759
Intercompany note payable	-	-	-	58,639	58,639	-	(117,278)	-
Accrued liabilities under self-insurance programs, less current portion	385,870	48,810	167,052	20,028	-	-	(147,798)	473,962
Grants and academic support payable, less current portion	106,404	-	-	-	-	266	-	106,670
Interest rate swaps	60,799	44,327	-	-	-	-	-	105,126
Due to investment pool participants	-	-	-	-	2,681,308	-	(2,681,308)	-
Other liabilities	22,356	14,070	51,570	621	35,623	-	(14,785)	109,455
Total liabilities	1,927,338	1,094,315	323,351	147,607	2,960,408	20,202	(3,242,493)	3,230,728
Net assets:								
Unrestricted:								
Undesignated	2,064,711	1,803,057	219,561	279,531	738,520	39,466	(259,550)	4,885,296
Board-designated	153,950	-	46,272	-	-	153,950	(153,951)	200,221
Noncontrolling interest in consolidated joint venture	-	(5,076)	-	-	-	-	-	(5,076)
Total unrestricted	2,218,661	1,797,981	265,833	279,531	738,520	193,416	(413,501)	5,080,441
Temporarily restricted	148,753	16,568	11,262	20,870	-	117,031	(117,031)	197,453
Permanently restricted	128,623	5,655	-	25,251	-	121,262	(121,262)	159,529
Total net assets	2,496,037	1,820,204	277,095	325,652	738,520	431,709	(651,794)	5,437,423
Total liabilities and net assets	\$ 4,423,375	\$ 2,914,519	\$ 600,446	\$ 473,259	\$ 3,698,928	\$ 451,911	\$ (3,894,287)	\$ 8,668,151

Northwestern Memorial HealthCare and Subsidiaries
Consolidating Statement of Revenue and Expenses
For the Three Months Ended November 30, 2014
(Unaudited)
(Dollars in thousands)

	Northwestern Memorial Hospital and Subsidiaries	Cadence Health and Subsidiaries	Northwestern Medical Group and Subsidiaries	Northwestern Lake Forest Hospital and Subsidiary	Northwestern Memorial HealthCare	Northwestern Memorial Foundation	Eliminations	Consolidated
Revenue								
Net patient service revenue	\$ 356,653	338,525	\$ 184,357	\$ 59,566	-	-	\$ (786)	\$ 938,315
Provision for uncollectible accounts	16,085	15,401	11,818	3,375	-	-	-	46,679
Net patient service revenue after provision for uncollectible accounts	340,568	323,124	172,539	56,191	-	-	(786)	891,636
Rental and other revenue	29,027	12,812	26,613	5,695	60,457	1,860	(99,016)	37,448
Net assets released from donor restrictions and federal and state grants	3,556	2,731	1,615	1,138	19	-	(386)	8,673
Total revenue	373,151	338,667	200,767	63,024	60,476	1,860	(100,188)	937,757
Expenses								
Salaries and professional fees	93,684	128,709	102,393	19,617	31,770	483	(11,772)	364,884
Employee benefits	24,049	34,987	23,045	5,400	9,659	209	(569)	96,780
Supplies	62,040	49,117	29,865	8,903	(360)	76	(63)	149,578
Purchased services	69,301	26,295	17,008	11,855	15,594	687	(73,073)	67,667
Depreciation and amortization	28,050	30,533	3,588	4,677	3,338	6	-	70,192
Insurance	20,880	4,335	6,723	1,412	27	6	(6,057)	27,326
Rent and utilities	6,004	7,211	8,272	1,280	820	122	(6,207)	17,502
Repairs and maintenance	7,020	4,446	982	1,655	541	7	(317)	14,334
Interest	7,142	8,142	14	440	654	-	(1,338)	15,054
Illinois Hospital Assessment	12,172	5,898	-	1,847	-	-	-	19,917
Other	3,886	6,790	2,266	940	14,378	123	(158)	28,225
Total expenses	334,228	306,463	194,156	58,026	76,421	1,719	(99,554)	871,459
Operating income (loss)	38,923	32,204	6,611	4,998	(15,945)	141	(634)	66,298
Nonoperating gains (losses)								
Investment return	4,992	(5,507)	13	-	(8,735)	2,661	(1,309)	(7,885)
Change in fair value of interest rate swaps	(7,927)	(4,297)	-	-	-	-	-	(12,224)
Contribution of Cadence Health unrestricted net assets	-	1,783,851	-	-	-	-	-	1,783,851
Grants and academic support provided	(2,589)	(1,754)	-	(19)	-	(95)	83	(4,374)
Change in interest in net assets of Foundation	5,033	-	-	-	-	-	(5,033)	-
Other	756	(2,287)	(112)	201	(2)	2,324	1,860	2,740
Total nonoperating gains (losses), net	265	1,770,006	(99)	182	(8,737)	4,890	(4,400)	1,762,108
Consolidated excess (deficiency) of revenue over expenses	39,188	1,802,210	6,512	5,180	(24,682)	5,031	(5,034)	1,828,406
Less amounts attributable to noncontrolling interest in subsidiary	-	(382)	-	-	-	-	-	(382)
Excess (deficiency) of revenue over expenses attributable to NMHC and Subsidiaries	\$ 39,188	\$ 1,802,592	\$ 6,512	\$ 5,180	\$ (24,682)	\$ 5,031	\$ (5,034)	\$ 1,828,788

Obligated Group (Note B)
Combined Balance Sheet
(unaudited)
(Dollars in thousands)

	November 30, 2014	August 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 144,871	\$ 106,496
Short-term investments	42,502	59,280
Current portion of investments, including assets limited as to use	43,238	47,743
Patient accounts receivable, less allowance for uncollectible accounts of \$126,858 at November 30, 2014 and \$70,977 at August 31, 2014	483,343	344,215
Current portion of pledges and grants receivable, net	43,506	41,299
Current portion of insurance recoverable	53,266	52,975
Inventories	42,947	36,041
Other current assets	104,386	30,427
Due from affiliates	36,880	176
Total current assets	994,939	718,652
Investments, including assets limited as to use, less current portion	4,458,624	3,080,937
Property and equipment, at cost:		
Land	302,010	264,324
Buildings	2,821,271	1,884,097
Equipment and furniture	760,017	558,222
Construction-in-progress	120,597	295,612
	4,003,895	3,002,255
Less accumulated depreciation	1,437,125	1,378,140
	2,566,770	1,624,115
Prepaid pension cost	98,380	93,063
Insurance recoverable, less current portion	284,268	284,268
Interest in restricted net assets of Foundation	18,961	—
Other assets, net	280,354	142,262
Total assets	<u>\$ 8,702,296</u>	<u>\$ 5,943,297</u>

Note B: The supplementary financial information for the Obligated Group is in accordance with the Amended and Restated Master Trust Indenture between NMHC, as the Obligated Group Agent, and Wells Fargo Bank, N.A., as successor Master Trustee to J.P. Morgan Trust Company, National Association, dated as of May 1, 2004 as amended and supplemented by each Supplemental Master Trust Indenture thereto through and including the Twenty-Fourth Supplemental Master Trust Indenture dated as of November 25, 2014.

Obligated Group (Note B)
Combined Balance Sheet (continued)
(unaudited)
(Dollars in thousands)

	November 30, 2014	August 31, 2014
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 119,651	\$ 135,434
Accrued salaries and benefits	176,365	145,170
Grants and academic support payable, current portion	125,219	126,213
Accrued expenses and other current liabilities	95,013	50,241
Due to third-party payors	359,572	230,996
Current accrued liabilities under self-insurance programs	111,126	103,065
Current maturities of long-term debt	26,635	14,095
Long-term debt subject to short term remarketing agreements	118,800	–
Due to affiliates	27	1
Total current liabilities	<u>1,132,408</u>	<u>805,215</u>
Long-term debt, less current maturities	1,322,759	779,337
Accrued liabilities under self-insurance programs, less current portion	638,871	610,902
Grants and academic support payable, less current portion	106,670	106,333
Interest rate swaps	105,126	52,872
Other liabilities	103,536	93,375
Total liabilities	<u>3,409,370</u>	<u>2,448,034</u>
Net assets:		
Unrestricted:		
Undesignated	4,743,844	2,966,681
Board-designated	200,221	198,506
Noncontrolling interest in consolidated venture	(5,076)	–
Total unrestricted	<u>4,938,989</u>	<u>3,165,187</u>
Temporarily restricted	200,063	176,028
Permanently restricted	153,874	154,048
Total net assets	<u>5,292,926</u>	<u>3,495,263</u>
Total liabilities and net assets	<u><u>\$ 8,702,296</u></u>	<u><u>\$ 5,943,297</u></u>

Obligated Group (Note B)
Combined Statements of Revenue and Expenses
(Unaudited)
(Dollars in thousands)

	Three Months Ended November 30,	
	2014	2013
Revenue		
Net patient service revenue	\$ 917,387	\$ 603,470
Provision for uncollectible accounts	45,532	18,659
Net patient service revenue after provision for uncollectible accounts	871,855	584,811
Rental and other revenue	88,724	25,965
Net assets released from donor restrictions and federal and state grants	8,367	4,938
Total revenue	968,946	615,714
Expenses		
Salaries and professional fees	352,872	234,846
Employee benefits	93,818	57,788
Supplies	147,692	92,459
Purchased services	116,785	45,883
Depreciation and amortization	67,118	38,746
Insurance	23,644	20,975
Rent and utilities	20,293	13,140
Repairs and maintenance	12,878	10,960
Interest	13,472	7,736
Illinois Hospital Assessment	19,917	31,989
Other	27,557	18,868
Total expenses	896,046	573,390
Operating income	72,900	42,324
Nonoperating (losses) gains		
Investment return	(15,878)	188,045
Change in fair value of interest rate swaps	(12,662)	(141)
Contribution of Cadence Health unrestricted net assets	1,783,851	-
Contribution of Northwestern Medical Faculty Foundation unrestricted net assets in excess of consideration	-	28,730
Grants and academic support provided	(2,574)	(3,106)
Other	2,487	6,772
Total nonoperating (losses) gains, net	1,755,224	220,300
Excess of revenue over expenses	<u>\$ 1,828,124</u>	<u>\$ 262,624</u>

**Obligated Group
Utilization Statistics
Unaudited**

	Obligated Group	
	Three Months Ended	
	November 30,	
	2014	2013
Sources of Net Patient Service Revenue **		
Medicare	17.7%	21.4%
Medicaid	8.7%	4.9%
Charge-based	5.4%	6.0%
Managed care	68.2%	67.7%
Total	100.0%	100.0%
Utilization of Services		
Admissions (Acute)	20,428	13,097
Observation Cases	9,481	4,575
Equivalent Admissions ***	43,050	25,244
Average Length of Stay	4.4	4.6
Patient Days	88,873	59,686
Average Occupancy (staffed beds)	67.3%	69.3%
Average Occupancy Incl. Observations	74.7%	74.4%
Deliveries	4,528	3,435
Emergency Room Visits:		
Inpatient	11,134	5,424
Outpatient	50,242	26,701
Total	61,376	32,125
Registrations - Outpatient other than Emergency Room	417,927	194,728
Surgeries:		
Inpatient	5,739	3,634
Outpatient	10,482	6,909
Total	16,221	10,543
Beds, Licensed	1,517	1,011
Beds, Staffed	1,452	946
Total Observation Days	9,882	4,403
Medicare Case Mix Index	1.7888	1.8795
Overall Case Mix Index	1.5173	1.5235

** Excluding revenue from Hospital Assessment Program and provision for bad debts.

*** Price adjusted for Northwestern Memorial Hospital and Northwestern Lake Forest Hospital