

QUARTERLY REPORT

**For the First Quarter
And Three Months Ended
November 30, 2011**

**NORTHWESTERN MEMORIAL HEALTHCARE
AND SUBSIDIARIES**

**NORTHWESTERN MEMORIAL HEALTHCARE
AND SUBSIDIARIES**
Unaudited Consolidated Financial Statements
For the First Quarter and Three Months Ended November 30, 2011

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Forward-Looking Information:

This disclosure report may contain disclosures which contain "forward-looking statements." Forward-looking statements include all statements that do not relate solely to historical or current facts, and can be identified by the use of words like "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan," or "continue." These forward-looking statements are based on the current plans and expectations of Northwestern Memorial HealthCare and Subsidiaries (NM) and are subject to a number of known and unknown uncertainties and risks, many of which are beyond NM's control, that could significantly affect current plans and expectations and NM's future financial position and results of operations. These factors include, but are not limited to, (i) the highly competitive nature of the health care business, (ii) the efforts of insurers, health care providers and others to contain health care costs, (iii) possible changes in the Medicare and Medicaid programs that may impact reimbursements to health care providers and insurers, (iv) changes in federal, state or local regulations affecting the health care industry, (v) the possible enactment of federal or state health care reform, (vi) the ability to attract and retain qualified management and other personnel, including affiliated physicians, nurses and medical support personnel, (vii) liabilities and other claims asserted against NM, (viii) changes in accounting standards and practices, (ix) changes in general economic conditions, (x) future divestitures or acquisition which may result in additional charges, (xi) changes in revenue mix and the ability to enter into and renew managed care provider arrangements on acceptable terms, (xii) the availability and terms of capital to fund future expansion plans of NM and to provide for ongoing capital expenditure needs, (xiii) changes in business strategy or development plans, (xiv) delays in receiving payments, (xv) the ability to control administrative, supply and infrastructure costs, (xvi) the outcome of pending and any future litigation, (xvii) NM's continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures relating to NM's status as a tax-exempt organization, as well as its ability to comply with the requirement of Medicare and Medicaid programs, (xviii) the ability to achieve expected levels of patient volumes and control the costs of providing services, (xix) results of reviews of NM's cost reports, and (xx) NM's ability to comply with legislation and/or regulations. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of NM. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report.

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

	November 30, 2011 <u>(Unaudited)</u>	August 31, 2011 <u>Note A</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 167,615	\$ 131,311
Short-term investments	85,202	85,188
Current portion of investments, including assets limited as to use	89,247	91,138
Current portion of pledges and grants receivable, net	21,195	16,250
Patient accounts receivable, net of estimated uncollectibles of \$39,454 at November 30, 2011 and \$32,338 at August 31, 2011	237,418	232,460
Current portion of insurance recoverable	14,807	14,433
Inventories	30,929	31,715
Other current assets	32,316	28,239
Total current assets	<u>678,729</u>	<u>630,734</u>
Investments, including assets limited as to use, less current portion	2,232,167	2,247,163
Property and equipment, at cost:		
Land	227,820	227,820
Buildings	1,572,943	1,613,399
Equipment and furniture	511,439	509,021
Construction-in-progress	49,804	90,101
	<u>2,362,006</u>	<u>2,440,341</u>
Less accumulated depreciation	1,036,973	1,100,060
	<u>1,325,033</u>	<u>1,340,281</u>
Prepaid pension cost	51,644	53,216
Insurance recoverable, less current portion	75,207	71,249
Other assets, net	99,323	98,495
Total assets	<u>\$ 4,462,103</u>	<u>\$ 4,441,138</u>

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

	November 30, 2011	August 31, 2011
	(Unaudited)	Note A
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 61,915	\$ 87,535
Accrued salaries and benefits	95,225	85,044
Grants and academic support payable, current portion	35,309	28,250
Accrued expenses and other current liabilities	67,039	42,575
Due to third-party payors	168,513	177,399
Current accrued liabilities under self-insurance programs	71,747	72,462
Current maturities of long-term debt	13,710	13,710
Total current liabilities	<u>513,458</u>	<u>506,975</u>
Long-term debt, less current maturities	821,178	821,354
Accrued liabilities under self-insurance programs, less current portion	432,079	414,173
Grants and academic support payable, less current portion	52,379	36,068
Due to insureds	49,057	45,303
Interest rate swaps	91,007	73,845
Other liabilities	71,787	70,372
Total liabilities	<u>2,030,945</u>	<u>1,968,090</u>
Net assets:		
Unrestricted:		
General	2,036,849	2,075,713
Board-designated	127,855	130,618
Total unrestricted	<u>2,164,704</u>	<u>2,206,331</u>
Temporarily restricted	139,534	140,388
Permanently restricted	126,920	126,329
Total net assets	<u>2,431,158</u>	<u>2,473,048</u>
Total liabilities and net assets	<u>\$ 4,462,103</u>	<u>\$ 4,441,138</u>

Note A: The August 31, 2011 financial statement information was derived from and should be read in conjunction with the Northwestern Memorial HealthCare and Subsidiaries 2011 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,	
	2011	2010
		As Adjusted
		Note 4
Revenue		
Net patient service revenue	\$ 408,039	\$ 402,266
Rental and other revenue	25,028	25,433
Net assets released from donor restrictions and federal and state grants	5,295	4,777
Total revenue	<u>438,362</u>	<u>432,476</u>
Expenses		
Salaries and professional fees	143,385	140,386
Employee benefits	47,193	48,076
Supplies	66,350	66,070
Purchased services	33,725	32,096
Depreciation	35,859	33,847
Insurance	23,974	26,570
Provision for uncollectible accounts	13,938	6,667
Rent and utilities	10,350	10,437
Repairs and maintenance	8,270	7,567
Interest	7,518	7,318
Illinois Hospital Assessment	10,349	10,349
Other	6,852	7,768
Total expenses	<u>407,763</u>	<u>397,151</u>
Operating income	30,599	35,325
Nonoperating (losses) gains		
Investment return	(35,472)	147,396
Change in fair value of interest rate swaps	(17,132)	21,809
Grants and academic support	(24,912)	(15,274)
Other	2,701	2,754
Total nonoperating (losses) gains, net	<u>(74,815)</u>	<u>156,685</u>
(Deficiency) excess of revenue over expenses	\$ (44,216)	\$ 192,010

Continued on next page.

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

	Three Months Ended	
	November 30,	
	2011	2010
		As Adjusted
		Note 4
Unrestricted net assets		
(Deficiency) excess of revenue over expenses	\$ (44,216)	\$ 192,010
Net assets released from restrictions used for property and equipment additions	48	-
Postretirement-benefit-related changes other than net periodic pension cost	2,572	3,286
Other	(31)	(31)
	<u>(41,627)</u>	<u>195,265</u>
(Decrease) increase in unrestricted net assets		
Temporarily restricted net assets		
Contributions	6,690	3,222
Investment return	(2,944)	10,799
Net assets released from restrictions used for:		
Operating expenses, charity care, and research and education	(4,656)	(5,338)
Property and equipment additions	(48)	-
Change in fair value of split-interest agreements	105	47
Other	(1)	(1)
	<u>(854)</u>	<u>8,729</u>
Increase in temporarily restricted net assets		
Permanently restricted net assets		
Contributions	955	48
Change in fair value of split-interest agreements	(364)	528
	<u>591</u>	<u>576</u>
Increase in permanently restricted net assets		
Change in net assets	(41,890)	204,570
Net assets, beginning of year, as originally reported		1,948,558
Change in accounting for alternative investments		159,882
	<u>2,473,048</u>	<u>2,108,440</u>
Net assets, beginning of year, as adjusted		
Net assets, end of period	<u>\$ 2,431,158</u>	<u>\$ 2,313,010</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,	
	2011	2010
		As Adjusted
		Note 4
Operating activities		
Change in net assets	\$ (41,890)	\$ 204,570
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Postretirement-benefit-related changes other than net periodic pension cost	(2,572)	(3,286)
Change in fair value of interest rate swaps	17,163	(21,778)
Unrestricted realized investment return and net change in unrealized investment gains/losses and impairments	40,195	(157,479)
Restricted contributions and realized investment return	(9,165)	(4,559)
Depreciation and amortization	35,775	33,684
Provision for uncollectible accounts	13,938	6,667
Changes in operating assets and liabilities:		
Patient accounts receivable	(18,896)	(14,421)
Due to third-party payors	(8,813)	7,667
Grants and academic support payable	23,370	424
Other operating assets and liabilities	21,967	41,733
Net cash provided by operating activities	71,072	93,222
Investing activities		
Purchase of trading securities	(176,432)	(63,145)
Sale of trading securities	128,790	61,055
Unrestricted realized investment return	24,320	5,427
Capital expenditures, net	(20,611)	(49,922)
Net cash used in investing activities	(43,933)	(46,585)
Financing activities		
Restricted contributions and realized investment return	9,165	4,559
Net cash provided by financing activities	9,165	4,559
Net increase in cash and cash equivalents	36,304	51,196
Cash and cash equivalents, beginning of the period	131,311	72,345
Cash and cash equivalents, end of the period	\$ 167,615	\$ 123,541

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, 2011

1. Organization and Basis of Presentation

Northwestern Memorial HealthCare (NMHC) serves as the sole corporate member of Northwestern Memorial Hospital (NMH), Northwestern Lake Forest Hospital (NLFH), and Northwestern Memorial Foundation (Foundation). NMH's subsidiary corporations are Northwestern HealthCare Corporation (NHC), Northwestern Memorial Physicians Group (NMPG) and Northwestern Memorial Insurance Company (NMIC). NLFH's subsidiary corporation is Lake Forest Health and Fitness Institute (HFI). NMH and NLFH are the members of the obligated group for all of the outstanding bonds of NMH and NLFH.

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 NMHC for the year ended August 31, 2011.

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, 2011. These statements are available on the Electronic Municipal Market Access ("EMMA") system of the Municipal Securities Rulemaking Board.

2. Recent Accounting Pronouncements

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosure* (ASU 2010-23). The provisions of ASU 2010-23 are intended to reduce the diversity in how charity care is calculated and disclosed across health care entities that provide it. Charity care is required to be measured at cost, defined as the direct and indirect costs of providing the charity care. Funds received to offset or subsidize the cost of charity care provided, for example from gifts or grants restricted for charity care, should be separately disclosed. As a health care entity does not recognize revenue when charity care is provided, this update will only require enhanced disclosures and will have no effect on the consolidated statement of operations and changes in net assets. This new guidance is effective for fiscal years beginning after December 15, 2010, with retrospective application required and with early application permitted. Northwestern Memorial will adopt this guidance for the fiscal year ending August 31, 2012.

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

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. This update was issued to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 includes amendments that clarify the FASB's intent about the application of existing measurement and disclosure and changes certain principles and requirements for measuring fair value and for disclosing information about fair value measurements. This new guidance is effective for interim and annual periods beginning after December 15, 2011. Early application is not permitted. This guidance will be effective for Northwestern Memorial in the third quarter of fiscal year 2012. Northwestern Memorial is evaluating the effect this guidance will have on its consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). ASU 2011-07 requires health care entities that recognize significant amounts of patient service revenue at the time of service even though they do not assess the patient's ability to pay to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue on the statement of operations. In addition, enhanced disclosure about the entity's policies for recognizing revenue and assessing bad debts, including disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts, is required. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. This guidance will be effective for Northwestern Memorial in fiscal year 2013. Northwestern Memorial is evaluating the effect this guidance will have on its consolidated financial statements.

3. Adoption of Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued ASU Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amends Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, to require a number of additional disclosures regarding fair value measurements. These disclosures include the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers; the reasons for any transfer in or out of Level 3; and information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis as well as clarification on previous reporting requirements. This new guidance is effective for the first reporting period, including interim periods, beginning after December 15, 2009 for all disclosures except the requirement to separately disclose purchases, sales, issuances and settlements of recurring Level 3 measurements, which will be effective for Northwestern Memori-

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

al in fiscal year 2012. Northwestern Memorial adopted this guidance in fiscal year 2010, with the exception of the additional Level 3 disclosures, which were adopted in fiscal year 2012. As Northwestern Memorial has no level 3 fair value measurements, there were no additional disclosures required with this adoption.

In August 2010, the FASB issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). ASU 2010-24 prohibits the netting of insurance recoveries against a related claim liability and requires the claim liability to be reported without consideration of insurance recoveries unless a right of setoff exists. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010, with early application permitted. Northwestern Memorial has adopted this guidance in fiscal year 2012. The effect of the adoption of ASU 2010-24 resulted in an increase in current portion of insurance recoverable of \$836 and an increase in insurance recoverable, less current portion of \$1,686 with offsetting increases in current accrued liabilities under self-insurance programs of \$836 and in accrued liabilities under self-insurance programs, less current portion of \$1,686 as of September 1, 2011. There was no effect on the consolidated statement of operations and changes in net assets.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations* (ASU 2010-29). ASU 2010-29 clarifies the disclosure requirement for pro forma revenue and earnings for comparative current and prior reporting periods. Pro forma information should be disclosed as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior fiscal year only. ASU 2010-29 also expands the disclosures to include a description of the nature and amount of material, non-recurring pro forma adjustments directly attributable to the business combination(s). This guidance is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. This guidance is effective and has been adopted by Northwestern Memorial in fiscal year 2012. This adoption had no effect on the consolidated financial statements.

4. Change in Accounting Principle

Northwestern Memorial previously recorded alternative investments for its non-pension plan assets at cost, less other than temporary impairments. In 2011, Northwestern Memorial elected to change its method of recording these alternative investments to the equity method of accounting. The equity method was adopted as it is a preferred method of accounting for alternative investments. Comparative financial statements of prior periods have been adjusted to apply the equity method retrospectively.

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

The following financial statement line items for the three months ended November 30, 2010 were affected by the change in accounting principle:

	Three Months Ended		
	November 30, 2010		
	Adjusted	Originally Reported	Effect of Change
Statement of Operations and Changes in Net Assets			
Nonoperating:			
Investment return	\$ 147,396	\$ 103,659	\$ 43,737
Investment loss - impairments	-	(1,562)	1,562
Total nonoperating (losses) gains, net	156,685	111,386	45,299
(Deficiency) excess of revenue over expenses	192,010	146,711	45,299
(Decrease) Increase in unrestricted net assets	195,265	149,966	45,299
Temporarily restricted net assets:			
Investment return	10,799	7,123	3,676
Investment loss - impairments	-	(136)	136
Increase in temporarily restricted net assets	8,729	4,917	3,812
Change in net assets	204,570	155,459	49,111
Statement of Cash Flows			
Unrestricted realized investment return and net change in unrealized gains/losses and impairments	(157,479)	(107,633)	(49,846)
Restricted contributions and realized investment return	(4,559)	(5,296)	737
Net cash provided by operating activities	93,222	127,989	(34,767)
Purchases of alternative investments	-	(58,233)	58,233
Sales of alternative investments	-	26,066	(26,066)
Purchase of trading securities	(63,145)	-	(63,145)
Sale of trading securities	61,055	-	61,055
Unrestricted realized investment return	5,427	-	5,427
Net cash used in investing activities	(46,585)	(82,089)	35,504
Restricted contributions and realized investment return	4,559	5,296	(737)
Net cash provided by financing activities	4,559	5,296	(737)

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

5. Investments and Other Financial Instruments

The composition of investments and cash and cash equivalents is as follows:

	November 30, 2011	August 31, 2011
Measured at fair value:		
Cash and short-term investments	\$ 292,996	\$ 235,892
Equity securities	44,534	43,510
Mutual funds	656,346	608,099
Common collective trusts	113,939	192,900
Commingled funds	202,349	212,726
103-12 entities	116,211	131,546
Corporate bonds	36,168	37,403
Foreign government issues	625	573
	<u>1,463,168</u>	<u>1,462,649</u>
Accounted for under the equity method:		
Alternative investments	1,111,063	1,092,151
	<u>\$ 2,574,231</u>	<u>\$ 2,554,800</u>

Investments and other financial instruments consist of the following:

	November 30, 2011	August 31, 2011
Assets limited as to use:		
Trustee-held funds	\$ 22,328	\$ 7,247
Self-insurance programs	493,929	498,099
Board-designated funds	127,855	130,617
Total assets limited as to use	<u>644,112</u>	<u>635,963</u>
Donor-restricted funds	215,715	215,594
Unrestricted, undesignated funds	1,461,587	1,486,744
Total investments	<u>2,321,414</u>	<u>2,338,301</u>
Other financial instruments:		
Cash and cash equivalents and short-term investments	252,817	216,499
	<u>\$ 2,574,231</u>	<u>\$ 2,554,800</u>

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

The composition and presentation of investment returns are as follows:

	Three Months Ended	
	November 30,	
	2011	2010
	As Adjusted	
	Note 4	
Interest and dividend income	\$ 3,688	\$ 4,855
Investment expenses	(780)	(719)
Realized gains on investments, net	19,062	2,024
Net change in unrealized investment gains/losses	(60,385)	152,035
	\$ (38,415)	\$ 158,195
Reported as:		
Nonoperating investment return	\$ (35,471)	\$ 147,396
Temporarily restricted:		
Investment return	(2,944)	10,799
	\$ (38,415)	\$ 158,195

Northwestern Memorial's alternative investments include absolute return hedge funds, equity long/short hedge funds, real estate, natural resources and private equity limited partnerships (LPs).

Absolute return hedge funds include funds with the ability to opportunistically allocate capital among several strategies. The funds typically diversify across strategies in an effort to deliver consistently positive returns regardless of the movement within global markets. These funds generally exhibit relatively low volatility and are generally 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 attract higher quality tenants. 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 can never be redeemed with the funds. Distributions from each fund will be received as the underlying assets of the

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

fund are expected to be liquidated periodically over the lives of the LPs, which generally run 10 to 12 years.

Of the total amount of reported alternative investments at November 30, 2011, \$650,162 cannot be redeemed for at least one year from the balance sheet date. In addition, \$460,901 is subject to lockup provisions that expire within one year of the balance sheet date.

At November 30, 2011, Northwestern Memorial had commitments to fund an additional \$232,581 to alternative investment entities, which is expected to occur over the next 12 years.

6. Fair Value Measurements

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 the short-term nature of these financial instruments. The fair value of pledges receivable is based on discounted cash flow analysis and approximated the carrying value at November 30, 2011 and August 31, 2011. The estimated fair value of the long-term debt portfolio, including the current portion, approximated \$875,029 and \$874,400 at November 30, 2011 and August 31, 2011, respectively. The fair value is based on quoted market prices for the same or similar issues. The effect of third party credit valuation adjustments, if any, is immaterial.

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.
- Level 3 – inputs to the valuation methodology are unobservable, but reflect the assumptions market participants would use in pricing the asset or liability.

There were no significant transfers into or out of Level 2 or Level 1 that took place in the three months ended November 30, 2011.

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, 2011:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 167,615	\$ -	\$ -	\$ 167,615
Investments:				
Short term investments:				
Currency	7,581	-	-	7,581
Fixed income	-	77,621	-	77,621
Total short term investments	7,581	77,621	-	85,202
Mutual funds:				
Fixed income	373,767	-	-	373,767
International equities	65,670	-	-	65,670
U.S. equities	216,909	-	-	216,909
Total mutual funds	656,346	-	-	656,346
Common collective trusts:				
International equities	-	36,587	-	36,587
U.S. equities	-	77,352	-	77,352
Total common collective trusts	-	113,939	-	113,939
Commingled funds:				
International equities	-	69,376	-	69,376
Natural resources	-	27,426	-	27,426
U.S. equities	-	105,547	-	105,547
Total commingled funds	-	202,349	-	202,349
Bonds:				
Corporate bonds	-	36,168	-	36,168
Foreign government issues	-	625	-	625
Total bonds	-	36,793	-	36,793
Equity securities	44,486	48	-	44,534
103-12 entities - international equities	-	116,211	-	116,211
Cash equivalents in investment accounts	40,179	-	-	40,179
Total investments	748,592	546,961	-	1,295,553
Beneficial interests in trusts	-	12,313	-	12,313
Total assets	\$ 916,207	\$ 559,274	\$ -	\$ 1,475,481
Liabilities:				
Interest rate swaps	\$ -	\$ 91,007	\$ -	\$ 91,007

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, 2011:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 131,311	\$ -	\$ -	\$ 131,311
Investments:				
Short term investments:				
Currency	12,174	-	-	12,174
Fixed income	-	73,014	-	73,014
Total short term investments	12,174	73,014	-	85,188
Mutual funds:				
Fixed income	376,590	-	-	376,590
International equities	68,748	-	-	68,748
U.S. equities	162,761	-	-	162,761
Total mutual funds	608,099	-	-	608,099
Common collective trusts:				
International equities	-	40,065	-	40,065
U.S. equities	-	152,835	-	152,835
Total common collective trusts	-	192,900	-	192,900
Commingled funds:				
International equities	-	74,106	-	74,106
Natural resources	-	22,439	-	22,439
U.S. equities	-	116,181	-	116,181
Total commingled funds	-	212,726	-	212,726
Bonds:				
Corporate bonds	-	37,403	-	37,403
Foreign government issues	-	573	-	573
Total bonds	-	37,976	-	37,976
Equity securities	43,461	49	-	43,510
103-12 entities - international equities	-	131,546	-	131,546
Cash equivalents in investment accounts	19,393	-	-	19,393
Total investments	683,127	648,211	-	1,331,338
Beneficial interests in trusts	-	12,010	-	12,010
Total assets	\$ 814,438	\$ 660,221	\$ -	\$ 1,474,659
Liabilities:				
Interest rate swaps	\$ -	\$ 73,845	\$ -	\$ 73,845

The fair value of beneficial interests in trusts is based on the present value of expected future cash flows to be received from the trusts (discounted using the risk-free rate of return) or the percentage of the fair value of the trusts' assets, as appropriate, based on each trust arrangement.

The fair value of Level 1 investments is based on quoted market prices and is valued on a daily basis. The fair value of Level 2 investments is based on a combination of quoted market prices of similar securities and matrix pricing provided by third-party pricing services of similar quality and maturity securities. The fair value of interest rate swaps is based on generally accepted valuation techniques, including discounted cash flow analysis on the expected cash

Northwestern Memorial HealthCare
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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 non-performance risk for NMH or the respective counterparty. The adjustment is based on the credit spread for entities with similar credit characteristics as NMH or market-related data for the respective counterparty. Northwestern Memorial pays fixed rates ranging from 3.3% to 3.9% and receives cash flows based on rates equal to 63% of LIBOR plus 28 basis points.

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

	November 30, 2011	August 31, 2011
Short-term investments measured at fair value	\$ 85,202	\$ 85,188
Investments, including assets limited as to use measured at fair value	1,210,351	1,246,150
Total investments at fair value	1,295,553	1,331,338
Alternative investments accounted for under equity method in investments, including assets limited as to use	1,111,063	1,092,151
Total investments	<u>\$ 2,406,616</u>	<u>\$ 2,423,489</u>
Other long-term assets:		
Beneficial interests in trusts at fair value	\$ 13,989	\$ 12,010
Other long-term assets, net	87,010	86,485
Total other long-term assets	<u>\$ 100,999</u>	<u>\$ 98,495</u>

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

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7. Long-Term Debt

Long-term debt consists of the following:

	November 30, 2011	August 31, 2011
Revenue Bonds, Series 2009A (NMH), payable in annual installments through August 15, 2039 (fixed coupon rates range from 5.00% to 6.00%)	\$ 353,470	\$ 353,470
Revenue Bonds, Series 2009B (NMH), payable in annual installments through August 15, 2039 (fixed coupon rates range from 5.00% to 6.00%)	96,100	96,100
Variable Rate Demand Revenue Bonds, Series 2008A (NMH), payable in annual installments through August 15, 2038 (weighted-average interest rate was 0.10% and 0.25% for the three months ended November 30, 2011 and 2010, 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 0.12% and 0.25% for the three months ended November 30, 2011 and 2010, respectively)	211,600	211,600
Revenue Bonds, Series 2003 (Lake Forest Hospital), payable in annual installments through July 1, 2033 (fixed coupon rates range from 4.50% to 6.00%)	26,250	26,250
Variable Rate Demand Revenue Bonds, Series 2002C (NMH), payable in annual installments beginning August 15, 2026 through August 15, 2032 (weighted-average interest rate was 0.10% and 0.25% for the three months ended November 30, 2011 and 2010, respectively)	33,000	33,000
Revenue Bonds, Series 2002A (Lake Forest Hospital), payable in annual installments through July 1, 2029 (fixed coupon rates range from 5.75% to 6.25%)	42,050	42,050
	841,245	841,245
Less:		
Unamortized discount, net	6,357	6,181
Current maturities	13,710	13,710
	\$ 821,178	\$ 821,354

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NMH has standby bond purchase agreements (SBPAs) with multiple banks for all of its variable rate demand revenue bonds (VRDBs) to provide liquidity support in the event of a failed remarketing as follows:

	<u>Par Value</u>	<u>Expiration date</u>
Series 2008A	\$ 78,775	July 2014
Series 2002C	33,000	July 2014
Series 2007A	211,600	December 2014

The SBPAs require NMH 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 converts 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 first principal payment on any term loan associated with the Series 2002C or Series 2008A Bonds would be due a year and a day from the next fiscal quarter end. The first principal payment on any term loan associated with the Series 2007A Bonds would be due a year and a day from the most recent fiscal year-end. Because NMH could use its line of credit for any payments that would become due within one year from the current balance sheet date, the VRDBs are classified as long-term in the accompanying consolidated balance sheets.

NMH has a line of credit available for operations in the amount of \$120,000, which expires in May 2013. Under this line of credit, NMH has the option to borrow at various rates expressed as an adjustment to the London Interbank Offered Rate (LIBOR), Prime Rate or other bank-offered rates. At August 31, 2011 and 2010, no amount was borrowed under the available line of credit.

8. Derivatives

Northwestern Memorial’s only derivative financial instruments are interest rate swaps, which NMH maintains on its variable rate demand revenue bonds for the sole purpose of risk management. These bonds expose NMH to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, NMH entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps limit the variable-rate cash flow exposure on the variable rate demand revenue bonds to synthetically fixed cash flows. By using interest rate swaps to manage the risk of changes in interest rates, NMH 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 NMH, which creates credit risk for NMH. When the fair value of a swap is zero or negative, the counterparty does not owe NMH. NMH minimizes the credit risk in its swap contracts by entering into transactions that require the counterparty to post collateral for the benefit of

Northwestern Memorial HealthCare
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NMH based on the credit rating of the counterparty and the fair value of the swap contract. The aggregate fair value of the swaps on the consolidated balance sheets as of November 30, 2011 and August 31, 2011, respectively, reflects a reduction of \$8,661 and \$6,858, 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.

The following is a summary of the outstanding positions under existing interest rate swap agreements at November 30, 2011 and August 31, 2011:

<u>Notional Amount</u>	<u>Maturity Date</u>	<u>Rate paid</u>	<u>Rate received</u>
\$ 35,250	May 2035	3.310%	63% of LIBOR + 28 bps
35,250	May 2035	3.310	63% of LIBOR + 28 bps
43,200	May 2035	3.313	63% of LIBOR + 28 bps
105,800	August 2042	3.889	63% of LIBOR + 28 bps
105,800	August 2042	3.889	63% of LIBOR + 28 bps

The fair value of derivative instruments is as follows:

	<u>Derivatives Liabilities</u>		
	<u>Balance Sheet Location</u>	<u>November 30, 2011</u>	<u>August 31, 2011</u>
Derivatives not designated as hedging instruments:			
Interest rate contracts	Interest rate swaps	\$ 91,007	\$ 73,845

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

	Amount of Gain (Loss) Recognized in (Deficiency)	
	Excess of Revenue over Expenses on Derivatives	
	For the Three Months Ended November 30,	
	2011	2010
Derivatives not designated as hedging instruments:		
Operating expense - other	\$ (2,616)	\$ (2,676)
Nonoperating - change in fair value of interest rate swaps	(17,132)	21,809

NMH's derivative instruments contain provisions that require NMH's debt to maintain an investment grade credit rating from certain major credit rating agencies. If NMH's debt were to fall below investment grade, 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. NMH posted collateral of \$16,293 and \$1,172 as of November 30, 2011 and August 31, 2011, respectively, and is recorded in investment, including assets limited as to use, less current portion in the accompanying consolidated balance sheets. If the credit-risk-related contingent features underlying these agreements had been triggered to the fullest extent on November 30, 2011, NMH would have been required to post \$99,668 of collateral to its counterparties.

9. Endowments

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

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

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Notes to Interim Consolidated Financial Statements *(continued)*
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- 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 invested in a manner intended to produce a real return, net of inflation and investment management costs, of at least 6% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, Northwestern Memorial follows a total return strategy whereby investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Northwestern Memorial targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints. 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 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.

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The changes in endowment net assets for the three months ended November 30, 2011 and 2010 are summarized below:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 1, 2010	\$ 43,406	\$ 105,903	\$ 149,309
Contributions	80	48	128
Change in value of trusts	40	528	568
Investment return	8,463	-	8,463
Appropriation for expenditure	(1,102)	-	(1,102)
Other	(7)	-	(7)
Endowment net assets, November 30, 2010 (as adjusted – Note 4)	<u>\$ 50,880</u>	<u>\$ 106,479</u>	<u>\$ 157,359</u>
Endowment net assets, September 1, 2011	\$ 52,749	\$ 126,329	\$ 179,078
Contributions	27	955	982
Change in value of trusts	(33)	(364)	(397)
Investment return	(2,227)	-	(2,227)
Appropriation for expenditure	(939)	-	(939)
Other	(606)	-	(606)
Endowment net assets, November 30, 2011	<u>\$ 48,971</u>	<u>\$ 126,920</u>	<u>\$ 175,891</u>

10. 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 a discount rate of 3.0% as of November 30, 2011 and August 31, 2011. 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.

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11. Illinois Hospital Assessment Program

In December 2008, the Illinois Hospital Assessment Program (HAP) was approved by the Federal Centers for Medicare and Medicaid Services (CMS) for the period July 1, 2008 through June 30, 2013. 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 a payment to NMH and NLFH from the State and an assessment (the "provider tax") against NMH and NLFH, which is paid to the State in the same year. HAP revenue and expense are included in net patient service revenue and Illinois Hospital Assessment, respectively, in the accompanying consolidated statements of operations and changes in net assets, as follows:

	For the Three Months Ended November 30,	
	2011	2010
Net patient service revenue	\$ 14,564	\$ 14,564
Illinois Hospital Assessment	10,349	10,349

12. Employee Benefit Obligations

Northwestern Memorial's noncontributory, defined-benefit pension plans (Plans) cover substantially all of Northwestern Memorial's employees.

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

	Three Months Ended November 30,	
	2011	2010
Service cost of benefits earned during the period	\$ 5,391	\$ 5,655
Interest cost of projected benefit obligation	6,647	6,348
Expected return on the Plans' assets	(10,466)	(9,566)
Amortization of net loss	1,829	2,875
Amortization of prior service costs	31	31
	\$ 3,432	\$ 5,343

Northwestern Memorial made no contributions for the three months ended November 30, 2011. Northwestern Memorial has no current plans to contribute to the Plans during the fiscal year ending August 31, 2012.

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13. Commitments and Contingencies

Consistent with its mission, Northwestern Memorial from time to time 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 \$87,688 and \$64,318 at November 30, 2011 and August 31, 2011, respectively, which are reported as grants and academic support payable in the accompanying consolidated balance sheet.

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. Areas which have come under examination have included pricing practices, billing and collection practices, charitable 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, and it is not possible to determine the impact, if any, such claims or penalties would have on Northwestern Memorial.

In August 2011, the Illinois Department of Revenue (the Department) denied property tax exemption applications submitted by NMH and two other unaffiliated hospitals. The NMH denial related to its application for an exemption for the Prentice Women's Hospital pavilion (Prentice pavilion) for the 2007 tax year. The Prentice pavilion is located on property that was previously the site of NMH's Wesley pavilion and that has been exempt from tax for decades.

Although the Department did not explain its reasoning, NMH believes the denials were based on the Department's interpretation of the plurality opinion in the March 2010 Illinois Supreme Court decision affirming the denial of a property tax exemption for Provena Covenant Medical Center (Provena), a 199-bed community hospital located in central Illinois. The Provena case did not establish a formula to determine the charitable use of real property. Annually, Northwestern Memorial provides free and discounted care to the uninsured and the underinsured, unreimbursed care under government-sponsored indigent healthcare programs, clinical services, financial support and certain intellectual property to federally

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qualified health centers, community hospitals and other community based health organizations, as well as financial support for education and clinical research, all as reported to the Illinois Attorney General in Northwestern Memorial's Annual Non Profit Hospital Community Benefits Plan Report (Report). In its Report for the year ended August 31, 2010, Northwestern Memorial reported total community benefits of \$276,681, including charity care of \$38,200 from NMH.

In October 2011, NMH filed with the Department a Protest and Application for Hearing with respect to the denial of its 2007 application. NMH requested that the Department vacate the denial as moot on the ground, among others, that any attempt to impose tax on the Prentice pavilion for 2007 is precluded by the listing of that property as exempt in the "warrant" book containing official assessment records. NMH has also requested a hearing with the Department concerning its entitlement to an exemption if the Department declines to vacate and dismiss on mootness grounds. NMH has not received any proposed assessments or tax bill for the Prentice pavilion for 2007.

NMH has also filed property tax exemption applications for the Prentice pavilion for the 2009 and 2010 tax years which remain pending in the Department. Nevertheless, in October 2011, NMH received from the Cook County Assessor's Office (the Assessor) notices of intent to list omitted assessments for the Prentice pavilion for 2008, 2009 and 2010, and the Assessor has issued proposed assessments for the Prentice pavilion for 2011. NMH has not received any tax bills for the Prentice pavilion for 2008 through 2011.

NMH will vigorously contest both the denial of its exemption application and the assessments for the Prentice pavilion.

To that end, NMH filed an omitted assessment complaint with the Assessor challenging the putative assessments for 2008 through 2010 on the ground, among others, that any effort to impose tax on the property is precluded by it being listed as exempt in the warrant book containing official assessment records. NMH also filed an assessment complaint with the Assessor challenging the proposed assessment for 2011 on the ground, among others, that the property is exempt from taxation. The Assessor denied NMH's complaints on December 30, 2011.

Additional legal proceedings challenging the proposed assessments may result in the voiding of the assessments for 2008 through 2011. Voiding of the assessments would mean that no tax was owed. If the assessments are not voided and tax bills are issued for 2008, 2009, 2010, and 2011 that are predicated on the full amount of the assessor's current assessments, the property tax could be as much as approximately \$22,000, \$14,000, \$15,000, and \$15,000, respectively.

In October 2011, Illinois Governor Pat Quinn announced a hold on additional hospital property tax exemption rulings by the Department. The Governor has asked his staff and the director of the Department to work together with the Illinois Hospital Association, legislators,

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and the Illinois Attorney General's Office to develop recommendations for legislation addressing the hospital property tax exemption issue by March 2012.

At this time, management is unable to determine what effects, if any, the Provena decision and its interpretation by the Department and assessment officials, the denial of property tax exemption for the Prentice pavilion for the 2007 tax year, the purported assessments for the Prentice pavilion for 2008 through 2011, or the legislative initiative will have on Northwestern Memorial's consolidated financial statements.

On December 3, 2008, NMHC and Northwestern University received a letter from Senator Charles Grassley. The letter requested responses to certain questions and the production of information relating to allegations received regarding the implantation of a certain medical device used in patients at NMH. Northwestern Memorial has cooperated with the inquiry. At this time, management is unable to determine what effects, if any, this request and the investigation of the matters addressed therein may have on the consolidated financial statements.

On February 8, 2010, NMH and NMHC were served as defendants with a lawsuit filed by a former NMH clinical coordinator alleging that employees were not compensated for all time worked. The former employee sought to represent a class of all NMH hourly employees in over 20 different job classifications. In August 2011, NMHC was dismissed from the case, and the court conditionally certified a narrower-than-petitioned-for collective action consisting of NMH non-union, direct patient care employees. The opt-in period has closed, with approximately 132 of 4,360 (approximately 3%) eligible current and former employees opting in as plaintiffs. Northwestern Memorial denies any liability with respect to these claims and is vigorously defending itself in this case. The case is currently pending in the U.S. District Court for the Northern District of Illinois. At this time, management is unable to determine what effects, if any, this matter may have on the consolidated financial statements.

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.

14. Non-disclosure Agreement with Elmhurst Memorial Healthcare

NMHC and Elmhurst Memorial Healthcare, the corporate parent of Elmhurst Memorial Hospital, have executed a non-disclosure agreement that provides for a period of exclusive discussions regarding a potential affiliation. Northwestern Memorial cannot predict whether these discussions will result in an agreement between the two organizations. Any definitive agreement would be subject to both parties' governing bodies and applicable regulatory approvals.

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15. Subsequent Events

Northwestern Memorial evaluated events and transactions occurring subsequent to November 30, 2011 through January 13, 2012, the date of issuance of these financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements that have not been recorded. Additionally, there were no unrecognized subsequent events requiring disclosure.