

ORIGINAL

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

RECEIVED

FEB 01 2013

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

HEALTH FACILITIES &
SERVICES REVIEW BOARD

Facility/Project Identification

Facility Name:	Glenview Imaging Center		
Street Address:	2701 N. Patriot Boulevard		
City and Zip Code:	Glenview 60026		
County:	Cook	Health Service Area	7 Health Planning Area: A-08

Applicant /Co-Applicant Identification

[Provide for each co-applicant [refer to Part 1130.220].

Exact Legal Name:	Northwestern Medical Faculty Foundation (NMFF)
Address:	680 N. Lake Shore Drive Suite 1118, Chicago, IL 60611
Name of Registered Agent:	Danae Prousis
Name of Chief Executive Officer:	Eric Neilson, MD
CEO Address:	680 N. Lake Shore Drive Suite 1118, Chicago, IL 60611
Telephone Number:	312-695-8391

Type of Ownership of Applicant/Co-Applicant

☒ Non-profit Corporation	☐ Partnership	
☐ For-profit Corporation	☐ Governmental	
☐ Limited Liability Company	☐ Sole Proprietorship	☐ Other

- Corporations and limited liability companies must provide an **Illinois certificate of good standing**.
- Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.

APPEND DOCUMENTATION AS ATTACHMENT-1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Primary Contact

[Person to receive all correspondence or inquiries during the review period]

Name:	Lynn Murphy
Title:	Director, Facilities Services
Company Name:	Northwestern Medical Faculty Foundation
Address:	680 N. Lake Shore Drive Suite 1118, Chicago, IL 60611
Telephone Number:	312-695-6501
E-mail Address:	lmurphy2@nmff.org
Fax Number:	312-695-0834

Additional Contact

[Person who is also authorized to discuss the application for permit]

Name:	Ralph Weber
Title:	consultant
Company Name:	Weber Alliance
Address:	c/o Danae Prousis 680 N. Lake Shore Drive Suite 1118, Chicago, IL 60611
Telephone Number:	847-791-0830
E-mail Address:	rmweber90@gmail.com
Fax Number:	

Post Permit Contact

[Person to receive all correspondence subsequent to permit issuance-THIS PERSON MUST BE EMPLOYED BY THE LICENSED HEALTH CARE FACILITY AS DEFINED AT 20 ILCS 3960]

Name:	Lynn Murphy
Title:	Director, Facilities Services
Company Name:	Northwestern Medical Faculty Foundation
Address:	680 N. Lake Shore Drive Suite 1118, Chicago, IL 60611
Telephone Number:	312-695-6501
E-mail Address:	lmurphy2@nmff.org
Fax Number:	312-695-0834

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:	Northwestern Memorial Hospital
Address of Site Owner:	251 E. Huron Street, Chicago, IL 60611
Street Address or Legal Description of Site:	
Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statement, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease or a lease.	
APPEND DOCUMENTATION AS ATTACHMENT-2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

Operating Identity/Licensee

[Provide this information for each applicable facility, and insert after this page.]

Exact Legal Name: Northwestern Medical Faculty Foundation	
Address: 680 N. Lake Shore Drive Suite 1118, Chicago, IL 60611	
☒ Non-profit Corporation	☐ Partnership
☐ For-profit Corporation	☐ Governmental
☐ Limited Liability Company	☐ Sole Proprietorship ☐ Other
- o Corporations and limited liability companies must provide an Illinois Certificate of Good Standing. - o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner. - o Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.	
APPEND DOCUMENTATION AS ATTACHMENT-3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

Organizational Relationships

Provide (for each co-applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.

APPEND DOCUMENTATION AS ATTACHMENT-4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.
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Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2005-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at www.FEMA.gov or www.illinoisfloodmaps.org. This map must be in a readable format. In addition please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2005-5 (<http://www.hfsrb.illinois.gov>).

APPEND DOCUMENTATION AS ATTACHMENT-5, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.

APPEND DOCUMENTATION AS ATTACHMENT-6, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

DESCRIPTION OF PROJECT**1. Project Classification**

[Check those applicable - refer to Part 1110.40 and Part 1120.20(b)]

Part 1110 Classification:

- ☐ Substantive
☒ Non-substantive

Part 1120 Applicability or Classification:
[Check one only.]

- ☐ Part 1120 Not Applicable
☐ Category A Project
☒ Category B Project
☐ DHS or DVA Project

2. Narrative Description

Provide in the space below, a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms**, **NOT WHY** it is being done. If the project site does NOT have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

Northwestern Medical Faculty Foundation (NMFF) proposes to establish an outpatient imaging center in an existing building at 2701 N. Patriot Boulevard, the northeast corner of Willow Road and Patriot Boulevard, in suburban Glenview.

The outpatient imaging center will include the following equipment modalities: MRI, CT, ultrasound, mammography, general radiography/x-ray, bone densitometry, and C-Arm. One unit of each modality is planned. The MRI, ultrasound unit, mammography unit and the C-Arm are currently in use in a nearby facility at 2501 Compass Road, now operated by Northwestern Lake Forest Hospital. The equipment now at 2501 Compass Road will be purchased by NMFF for use at its outpatient imaging center at 2701 N. Patriot Boulevard.

NMFF will own and operate the imaging equipment. NMFF is a multi-specialty physician group practice. Its 800 physician members are all members of the faculty of the Northwestern University Feinberg School of Medicine. NMFF is organized and operated independently from Northwestern University and Northwestern Memorial Hospital. NMFF physician offices are also located in the building.

The project cost is \$6,349,057. This amount includes the cost of equipment, build-out of space, A/E and other consultant costs, and installation. The space (7,152 dgsf) is leased by NMFF. Accordingly, the project cost also includes the fair market value of the constructed pre build-out space.

The anticipated completion date of construction, installation and first patient use is August, 2013. Close-out of the project for Certificate of Need is anticipated in March, 2014.

Rationale as to the Project Classification: The project is classified as non-substantive, pursuant to Section 1110.40(b). The project is considered an outpatient service area, one of the categories enumerated in the list of non-substantive projects.

Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts			
Modernization Contracts	\$ 1,977,082		\$ 1,977,082
Contingencies	\$ 118,625		\$ 118,625
Architectural/Engineering Fees	\$ 122,728		\$ 122,728
Consulting and Other Fees	\$ 129,597		\$ 129,597
Movable or Other Equipment (not in construction contracts)	\$ 2,550,625		\$ 2,550,625
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment	\$ 1,430,400		\$ 1,430,400
Other Costs To Be Capitalized	\$ 20,000		\$ 20,000
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	\$ 6,349,057		\$ 6,349,057
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	\$ 6,349,057		\$ 6,349,057
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	\$ 6,349,057		\$ 6,349,057

NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Related Project Costs

Provide the following information, as applicable, with respect to any land related to the project that will be or has been acquired during the last two calendar years:

Land acquisition is related to project ☐ Yes ☒ No
Purchase Price: \$ _____
Fair Market Value: \$ _____

The project involves the establishment of a new facility or a new category of service
☐ Yes ☒ No

If yes, provide the dollar amount of all **non-capitalized** operating start-up costs (including operating deficits) through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100.

Estimated start-up costs and operating deficit cost is \$ _____.

Project Status and Completion Schedules

Indicate the stage of the project's architectural drawings:

☐ None or not applicable ☐ Preliminary
☐ Schematics ☒ Final Working

Anticipated project completion date (refer to Part 1130.140): March, 2014

Indicate the following with respect to project expenditures or to obligation (refer to Part 1130.140):

- ☐ Purchase orders, leases or contracts pertaining to the project have been executed.
☐ Project obligation is contingent upon permit issuance. Provide a copy of the contingent "certification of obligation" document, highlighting any language related to CON Contingencies
☒ Project obligation will occur after permit issuance.

APPEND DOCUMENTATION AS ATTACHMENT-8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

State Agency Submittals

Are the following submittals up to date as applicable:

- ☐ Cancer Registry
☐ APORS
☐ All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted
☐ All reports regarding outstanding permits

Not Applicable

Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.

Cost Space Requirements

Provide in the following format, the department/area **DGSF** or the building/area **BGSF** and cost. The type of gross square footage, either **DGSF** or **BGSF**, must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

Dept. / Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
REVIEWABLE							
Medical Surgical							
Intensive Care							
Diagnostic Radiology							
MRI							
Total Clinical							
NON REVIEWABLE							
Administrative							
Parking							
Gift Shop							
Total Non-clinical							
TOTAL							

APPEND DOCUMENTATION AS ATTACHMENT-9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Facility Bed Capacity and Utilization Not Applicable

Complete the following chart, as applicable. Complete a separate chart for each facility that is a part of the project and insert following this page. Provide the existing bed capacity and utilization data for the latest **Calendar Year for which the data are available**. Include **observation days in the patient day totals for each bed service**. Any bed capacity discrepancy from the Inventory will result in the application being deemed **incomplete**.

FACILITY NAME:		CITY:			
REPORTING PERIOD DATES:					
		From:	to:		
Category of Service	Authorized Beds	Admissions	Patient Days	Bed Changes	Proposed Beds
Medical/Surgical					
Obstetrics					
Pediatrics					
Intensive Care					
Comprehensive Physical Rehabilitation					
Acute/Chronic Mental Illness					
Neonatal Intensive Care					
General Long Term Care					
Specialized Long Term Care					
Long Term Acute Care					
Other ((identify))					
TOTALS:					

CERTIFICATION

The application must be signed by the authorized representative(s) of the applicant entity. The authorized representative(s) are:

- in the case of a corporation, any two of its officers or members of its Board of Directors;
- in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist);
- in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

This Application for Permit is filed on the behalf of Northwestern Medical Faculty Foundation * in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this application for permit on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the permit application fee required for this application is sent herewith or will be paid upon request.

Norman Botsford
SIGNATURE

Norman Botsford
PRINTED NAME

EVP & Chief Operating Officer
PRINTED TITLE

Brian Walsh
SIGNATURE

Brian Walsh
PRINTED NAME

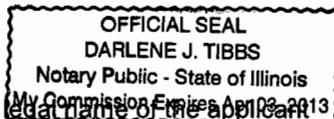
VP & Chief Financial Officer
PRINTED TITLE

Notarization:

Subscribed and sworn to before me
this 29th day of January 2013

Darlene J. Tibbs
Signature of Notary

Seal



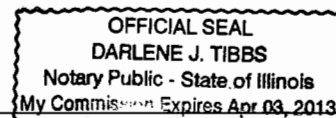
*Insert EXACT legal name of the applicant

Notarization:

Subscribed and sworn to before me
this 29th day of January 2013

Darlene J. Tibbs
Signature of Notary

Seal



*Insert EXACT legal name of the applicant

SECTION III – BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES - INFORMATION REQUIREMENTS

This Section is applicable to all projects except those that are solely for discontinuation with no project costs.

Criterion 1110.230 – Background, Purpose of the Project, and Alternatives

READ THE REVIEW CRITERION and provide the following required information:

BACKGROUND OF APPLICANT

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.
2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**
4. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest the information has been previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

APPEND DOCUMENTATION AS ATTACHMENT-11, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-4) MUST BE IDENTIFIED IN ATTACHMENT 11.

PURPOSE OF PROJECT

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project. [See 1110.230(b) for examples of documentation.]
4. Cite the sources of the information provided as documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals **as appropriate**.

For projects involving modernization, describe the conditions being upgraded if any. For facility projects, include statements of age and condition and regulatory citations if any. For equipment being replaced, include repair and maintenance records.

NOTE: Information regarding the "Purpose of the Project" will be included in the State Agency Report.

APPEND DOCUMENTATION AS ATTACHMENT-12, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-6) MUST BE IDENTIFIED IN ATTACHMENT 12.

ALTERNATIVES

- 1) Identify **ALL** of the alternatives to the proposed project:

Alternative options **must** include:

- A) Proposing a project of greater or lesser scope and cost;
 - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;
 - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and
 - D) Provide the reasons why the chosen alternative was selected.
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**
- 3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

APPEND DOCUMENTATION AS ATTACHMENT-13, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION IV - PROJECT SCOPE, UTILIZATION, AND UNFINISHED/SHELL SPACE**Criterion 1110.234 - Project Scope, Utilization, and Unfinished/Shell Space**

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative.**
2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following:
 - a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;
 - b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;
 - c. The project involves the conversion of existing space that results in excess square footage.

Provide a narrative for any discrepancies from the State Standard. A table must be provided in the following format with Attachment 14.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED BGSF/DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?

APPEND DOCUMENTATION AS ATTACHMENT-14, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

PROJECT SERVICES UTILIZATION:

This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which HFSRB has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100.

Document that in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in 1110.Appendix B. **A narrative of the rationale that supports the projections must be provided.**

A table must be provided in the following format with Attachment 15.

UTILIZATION					
	DEPT./ SERVICE	HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 1					
YEAR 2					

APPEND DOCUMENTATION AS ATTACHMENT-15, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

R. Criterion 1110.3030 - Clinical Service Areas Other than Categories of Service

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than Categories of Service must submit the following information:
2. Indicate changes by Service: Indicate # of key room changes by action(s):

Service	# Existing Key Rooms	# Proposed Key Rooms
☐ SEE ATTACHMENT-37		
☐		
☐		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

PROJECT TYPE	REQUIRED REVIEW CRITERIA	
New Services or Facility or Equipment	(b) -	Need Determination - Establishment
Service Modernization	(c)(1) -	Deteriorated Facilities
		and/or
	(c)(2) -	Necessary Expansion
		PLUS
	(c)(3)(A) -	Utilization - Major Medical Equipment
		Or
	(c)(3)(B) -	Utilization - Service or Facility
APPEND DOCUMENTATION AS ATTACHMENT-37, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.		

The following Sections **DO NOT** need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18 month period prior to the submittal of the application):

- Section 1120.120 Availability of Funds – Review Criteria
- Section 1120.130 Financial Viability – Review Criteria
- Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)

VIII. - 1120.120 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable: **Indicate the dollar amount to be provided from the following sources:**

	a)	Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
	1)	the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
	2)	interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
	b)	Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
	c)	Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
	d)	Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:
	1)	For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
	2)	For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;
	3)	For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;
	4)	For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;
	5)	For any option to lease, a copy of the option, including all terms and conditions.
	e)	Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
	f)	Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
	g)	All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
		TOTAL FUNDS AVAILABLE

APPEND DOCUMENTATION AS ATTACHMENT 39, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM

IX. 1120.130 - Financial Viability

All the applicants and co-applicants shall be identified, specifying their roles in the project funding or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.

Financial Viability Waiver

The applicant is not required to submit financial viability ratios if:

1. All of the projects capital expenditures are completely funded through internal sources
2. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent
3. The applicant provides a third party surety bond or performance bond letter of credit from an A rated guarantor.

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS ATTACHMENT-40, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion.** When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

Provide Data for Projects Classified as:	Category A or Category B (last three years)			Category B (Projected)
Enter Historical and/or Projected Years:				
Current Ratio				
Net Margin Percentage				
Percent Debt to Total Capitalization				
Projected Debt Service Coverage				
Days Cash on Hand				
Cushion Ratio				

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

2. Variance

Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

APPEND DOCUMENTATION AS ATTACHMENT 41, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

X. 1120.140 - Economic Feasibility

This section is applicable to all projects subject to Part 1120.

A. Reasonableness of Financing Arrangements

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
 - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
 - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

B. Conditions of Debt Financing

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

1. Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Mod.	Gross Sq. Ft. New	Circ.*	Gross Sq. Ft. Mod.	Circ.*	Const. \$ (A x C)	Mod. \$ (B x E)	
Contingency									
TOTALS									
* Include the percentage (%) of space for circulation									

D. Projected Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

E. Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

APPEND DOCUMENTATION AS ATTACHMENT 42 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

XI. Safety Net Impact Statement

SAFETY NET IMPACT STATEMENT that describes all of the following must be submitted for ALL SUBSTANTIVE AND DISCONTINUATION PROJECTS:

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.
2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.
3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

Safety Net Impact Statements shall also include all of the following:

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.
2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.
3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 43.

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	Year	Year	Year
Inpatient			
Outpatient			
Total			
Charity (cost in dollars)			
Inpatient			
Outpatient			
Total			
MEDICAID			
Medicaid (# of patients)	Year	Year	Year
Inpatient			
Outpatient			
Total			

Medicaid (revenue)			
Inpatient			
Outpatient			
Total			

APPEND DOCUMENTATION AS ATTACHMENT-43 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

XII. Charity Care Information

Charity Care information **MUST** be furnished for **ALL** projects.

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer. (20 ILCS 3960/3) Charity Care **must** be provided at cost.

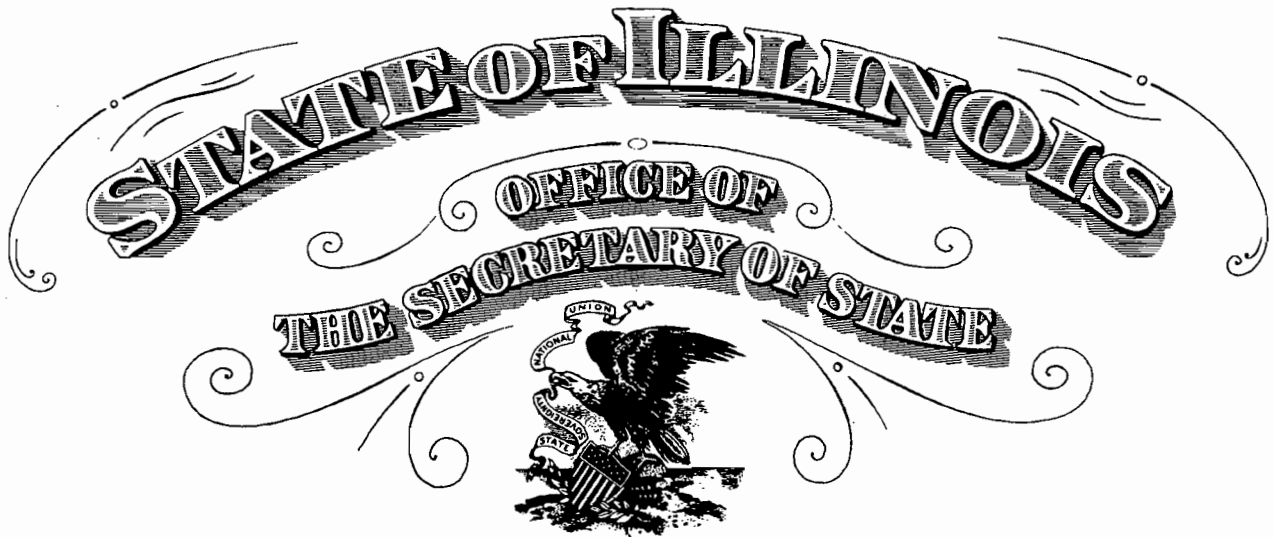
A table in the following format must be provided for all facilities as part of Attachment 44.

CHARITY CARE			
	Year	Year	Year
Net Patient Revenue			
Amount of Charity Care (charges)			
Cost of Charity Care			

APPEND DOCUMENTATION AS ATTACHMENT-44 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

After paginating the entire, completed application, indicate in the chart below, the page numbers for the attachments included as part of the project's application for permit:

INDEX OF ATTACHMENTS		
ATTACHMENT NO.		PAGES
1	Applicant/Coapplicant Identification including Certificate of Good Standing	20
2	Site Ownership	21-33
3	Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.	
4	Organizational Relationships (Organizational Chart) Certificate of Good Standing Etc.	
5	Flood Plain Requirements	34-35
6	Historic Preservation Act Requirements	36-37
7	Project and Sources of Funds Itemization	38-39
8	Obligation Document if required	
9	Cost Space Requirements	40
10	Discontinuation	
11	Background of the Applicant	41-42
12	Purpose of the Project	43
13	Alternatives to the Project	44-46
14	Size of the Project	47-48
15	Project Service Utilization	49-51
16	Unfinished or Shell Space	
17	Assurances for Unfinished/Shell Space	
18	Master Design Project	
19	Mergers, Consolidations and Acquisitions	
	Service Specific:	
20	Medical Surgical Pediatrics, Obstetrics, ICU	
21	Comprehensive Physical Rehabilitation	
22	Acute Mental Illness	
23	Neonatal Intensive Care	
24	Open Heart Surgery	
25	Cardiac Catheterization	
26	In-Center Hemodialysis	
27	Non-Hospital Based Ambulatory Surgery	
28	General Long Term Care	
29	Specialized Long Term Care	
30	Selected Organ Transplantation	
31	Kidney Transplantation	
32	Subacute Care Hospital Model	
33	Post Surgical Recovery Care Center	
34	Children's Community-Based Health Care Center	
35	Community-Based Residential Rehabilitation Center	
36	Long Term Acute Care Hospital	
37	Clinical Service Areas Other than Categories of Service	52-61
38	Freestanding Emergency Center Medical Services	
	Financial and Economic Feasibility:	
39	Availability of Funds	62-70
40	Financial Waiver	62-70
41	Financial Viability	62-70
42	Economic Feasibility	71
43	Safety Net Impact Statement	72
44	Charity Care Information	73-74



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

NORTHWESTERN MEDICAL FACULTY FOUNDATION, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON OCTOBER 03, 1980, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1301501040

Authenticate at: <http://www.cyberdriveillinois.com>

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 15TH day of JANUARY A.D. 2013 .

Jesse White

SECRETARY OF STATE

Site Ownership

The proposed building at 2701 N. Patriot Boulevard is owned by Northwestern Memorial Hospital. NMFF will be leasing space for both the proposed imaging center and physicians' offices.

This attachment includes:

1. Warranty Deed – ownership of 2701 N. Patriot Boulevard, Glenview by Northwestern Memorial Hospital
2. Lease Agreement between Northwestern Memorial Hospital and NMFF



Doc#: 1201104072 Fee: \$46.00
Eugene "Gene" Moore RHSP Fee: \$10.00
Cook County Recorder of Deeds
Date: 01/11/2012 09:30 AM Pg: 1 of 6

-----Reserved for Recording Data-----

This instrument was prepared by
and after recording return to:

James H. Marshall
Daspin & Aument, LLP
227 West Monroe, Suite 3500
Chicago, Illinois 60606

SPECIAL WARRANTY DEED

THIS INDENTURE, made as of December 21, 2011 (the "Effective Date"), by Opus Real Estate IL VII Prairie Glen, L.L.C., a Delaware limited liability company ("Grantor"), in favor of Northwestern Memorial Hospital, an Illinois not-for-profit corporation, having an address of c/o Northwestern Memorial HealthCare Corporation, 211 East Ontario Street, Suite 1800, Chicago, Illinois 60611-3223, Attention: Office of General Counsel/Sheila Fahey ("Grantee"), WITNESSETH, that Grantor, for and in consideration of the sum of Ten and 00/100 Dollars (\$10.00) and other good and valuable consideration in hand paid by Grantee, the receipt whereof is hereby acknowledged, by these presents does GRANT, BARGAIN AND SELL unto Grantee, and to its successors and assigns, FOREVER, all the following described Real Estate (the "Premises") situated in the County of Cook, the State of Illinois, known and described as follows, to wit:

Legal Description attached hereto as Exhibit A and made a part hereof,

together with all and singular the hereditaments and appurtenances thereunto belonging, or in anywise appertaining, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, and all the estate, right, title, interest, claim or demand whatsoever, of Grantor, either in law or equity, of, in and to the Premises, with the hereditaments and appurtenances: TO HAVE AND TO HOLD the Premises, with the appurtenances, unto Grantee, its successors and assigns forever.

And Grantor, for itself and its successors, does covenant, promise and agree to and with Grantee, its successors and assigns that it has not done or suffered to be done anything whereby the Premises hereby granted are, or may be, in any manner encumbered or charged, except as herein recited; and that it WILL WARRANT AND DEFEND the Premises against all persons lawfully claiming, or to claim the same, by, through or under it, subject to those matters set forth in Exhibit B attached hereto and made a part hereof.

[Signature page follows.]

Box 400-CTCC

In witness whereof, Grantor has caused its name to be signed to these presents as of the Effective Date.

GRANTOR:

Opus Real Estate II, VII Prairie Glen, L.L.C.,
a Delaware limited liability company

By: [Signature]

Its: Wade C. Lau
Vice President

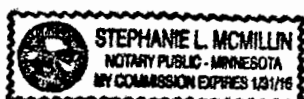
STATE OF Minnesota }
COUNTY OF Hennepin } ss.

I, the undersigned, a Notary Public, in and for the County and State aforesaid, DO HEREBY CERTIFY, that Wade C. Lau, personally known to me to be the Vice President of Opus Real Estate II, VII Prairie Glen, L.L.C., a Delaware limited liability company, and personally known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that as such Vice President, he signed and delivered the said instrument, as his free and voluntary act, and as the free and voluntary act and deed of said limited liability company, for the uses and purposes therein set forth.

Given under my hand and official seal, this 20th day of December, 2011.

[Signature]
Notary Public

[NOTARIAL SEAL]



My Commission Expires: 12/31/16

Tax statements should be sent to:

Northwestern Memorial HealthCare
Attn: Office of General Counsel
211 E. Ontario - Suite 1800
Chicago, Illinois 60611

Exempt under provisions of Paragraph B,
Section 4, Real Estate Transfer Tax Act.

12/21/11
Date [Signature] or Representative

Exhibit A

Legal Description

LOT 1 IN PRAIRIE GLEN CORPORATE CAMPUS UNIT 3, BEING A RESUBDIVISION OF LOT 5 IN GLENVIEW NAVAL AIR STATES SUBDIVISION NO. 2, IN SECTION 22, TOWNSHIP 42 NORTH, RANGE 12, EAST OF THE THIRD PRINCIPAL MERIDIAN, ACCORDING TO THE PLAT THEREOF RECORDED DECEMBER 11, 2001 AS DOCUMENT 0011171792, IN COOK COUNTY, ILLINOIS.

PIN: 04-22-102-003-0000

*2701 Striot Blvd
Glenview, IL*

Exhibit B

Permitted Encumbrances

1. TAXES FOR THE YEAR 2011. 2011 TAXES ARE NOT YET DUE OR PAYABLE.
 2. A NON-EXCLUSIVE AND PERPETUAL UTILITY EASEMENT RESERVED AND GRANTED TO THE VILLAGE OF GLENVIEW AND PUBLIC UTILITY AND CABLE COMPANIES, IN, UPON, ALONG AND UNDER THOSE PARTS OF THE LOTS THEREIN SHOWN ON THE PLAT OF GLENVIEW NAVAL AIR STATION SUBDIVISION NO. 2, RECORDED MARCH 31, 1999 AS DOCUMENT 99313067 AS TO ACCESS, CONSTRUCT, INSTALL, LAY, MAINTAIN, OPERATE, RELOCATE, RENEW AND/OR REMOVE EQUIPMENT AND APPURTENANCES NECESSARY FOR OPERATION OF GAS, ELECTRIC, TELEPHONE, CABLE, WATER, SANITARY SEWER, OR STORM WATER DRAINAGE FACILITIES WITHIN THE PUBLIC UTILITY EASEMENT AREA, TOGETHER WITH THE RIGHT OF INGRESS AND EGRESS TO ENTER UPON OR OVER THE PUBLIC UTILITY EASEMENT AREA WITHOUT THE CONSENT OF THE OWNER OF THE PROPERTY, SUBJECT TO SAID EASEMENT, AND ALSO TO CUT, TRIM OR REMOVE, TREES, BUSHES, ROOTS, SAPLINGS, AND OTHER LANDSCAPING AS MAY BE REASONABLY REQUIRED INCIDENT TO THE RIGHTS THEREIN GRANTED. NO BUILDINGS OR STRUCTURES SHALL BE PLACED WITHIN THE PUBLIC UTILITY EASEMENT. NOTWITHSTANDING ANY PROVISIONS CONTAINED THEREIN TO THE CONTRARY, NO AERIAL WIRES SHALL BE SUSPENDED, ERECTED OR PLACED ABOVE THE GROUND WITHIN THE NORTH 30 FEET AND THE WESTERLY AND THE SOUTHERLY 15 FEET, AS SHOWN ON THE PLAT.
 3. COVENANTS CONTAINED IN QUIT CLAIM DEEDS RECORDED SEPTEMBER 17, 1997 AND NOVEMBER 13, 2001 AS DOCUMENT NUMBERS 97686368 AND 0011062549, RESPECTIVELY, GIVING A RIGHT OF ACCESS TO THE GRANTOR, THE U.S. OF A., ITS OFFICERS, AGENTS, EMPLOYEES, CONTRACTORS AND SUBCONTRACTORS, FOR REMEDIAL ACTION OR CORRECTIVE ACTION IN ACCORD WITH SECTION 120(H) OF THE COMPREHENSIVE ENVIRONMENTAL RESPONSE, COMPENSATION AND LIABILITY ACT; PROVIDING THAT GRANTEE, ITS SUCCESSORS AND ASSIGNS, SHALL NOT DISCRIMINATE ON THE BASIS OF RACE, COLOR, RELIGION, DISABILITY OR NATIONAL ORIGIN IN THE USE, OCCUPANCY, SALE OR LEASE OF THE LAND, OR IN EMPLOYMENT PRACTICES. THE U.S. OF A. HAS THE SOLE RIGHT TO ENFORCE SAID COVENANT; AND PROVIDING THAT GRANTEE VILLAGE OF GLENVIEW WILL RETAIN ALL RIGHT, TITLE AND INTEREST TO CERTAIN PORTIONS OF THE REAL ESTATE ON EXHIBIT "B" TO SAID DOCUMENT AS PUBLIC USE CAMPUS AREA 12, OPEN SPACE AREA 20, AND LAKE AREA 20A, UNTIL SEPTEMBER 1, 2022.
- NOTE: NO PART OF THE REAL PROPERTY FALLS WITHIN THE BOUNDARIES OF PUBLIC USE CAMPUS AREA 12, OPEN SPACE AREA 20 AND LAKE AREA 20A.
4. GENERAL BLANKET EASEMENT PROVISIONS CONTAINED IN PLAT OF PRAIRIE GLEN CORPORATE CAMPUS UNIT 3, RECORDED DECEMBER 11, 2001 AS DOCUMENT 0011171792, TO THE VILLAGE OF GLENVIEW TO ACCESS, INSTALL, MAINTAIN, OPERATE AND REMOVE FACILITIES USED FOR BUT NOT LIMITED TO VILLAGE LIGHTING, WATER SUPPLY AND DISTRIBUTION, SANITARY AND STORM WATER COLLECTION AND DISCHARGE SHOWN ON THE PLAT EXCEPTING

THEREFROM THE BUILDABLE AREAS AND AREAS UNDER BUILDINGS AND STRUCTURES; ALSO THE RIGHT TO CUT, TRIM, OR REMOVE TREES, BUSHES, AND ROOTS AND THE RIGHT TO ENTER; ALSO THE GRADE OF THE SUBDIVIDED PROPERTY SHALL NOT BE ALTERED SO AS TO INTERFERE WITH THE RIGHTS OF THE VILLAGE; ALSO THE RIGHT OF INGRESS AND EGRESS OVER AND ALONG ALL STREETS AND CUL-DE-SACS; ALSO EMERGENCY ACCESS FOR THE PURPOSE OF PROVIDING POLICE AND FIRE PROTECTION. SAID PROVISION SUPERSEDES ALL UNDERLYING BLANKET EASEMENTS HERETOFORE GRANTED.

5. COVENANTS, EASEMENTS AND RESTRICTIONS (BUT OMITTING ANY SUCH COVENANT OR RESTRICTION BASED ON RACE, COLOR, RELIGION, SEX, HANDICAP, FAMILIAL STATUS OR NATIONAL ORIGIN UNLESS AND ONLY TO THE EXTENT THAT SAID COVENANT (A) IS EXEMPT UNDER CHAPTER 42, SECTION 3607 OF THE UNITED STATES CODE OR (B) RELATES TO HANDICAP BUT DOES NOT DISCRIMINATE AGAINST HANDICAPPED PERSONS), RELATING TO: USE OF THE PROPERTY, APPROVAL REQUIRED FOR CONSTRUCTION OF IMPROVEMENTS, MAINTENANCE OF COMMON AREAS, SETBACKS AND LANDSCAPING, ASSESSMENTS AND THE LIEN THEREFOR, EASEMENTS FOR MAINTENANCE AND FOR UTILITIES, ALL CONTAINED IN THE DOCUMENT RECORDED MARCH 1, 2001 AS DOCUMENT NO. 0010166109 WHICH DOES NOT CONTAIN A REVERSIONARY OR FORFEITURE CLAUSE.

6. TEN-FOOT PUBLIC UTILITIES AND DRAINAGE EASEMENT TO INSTALL, OPERATE AND MAINTAIN ALL EQUIPMENT NECESSARY FOR THE PURPOSE OF SERVING THE LAND AND OTHER PROPERTY, TOGETHER WITH THE RIGHT OF ACCESS TO SAID EQUIPMENT, AND THE PROVISIONS RELATING THERETO, AS SHOWN ON THE PLAT AND SET FORTH IN THE CERTIFICATE ON THE PLAT OF PRAIRIE GLEN CORPORATE CAMPUS UNIT 3 RECORDED DECEMBER 11, 2001 AS DOCUMENT NO. 0011171792. (AFFECTS THE EAST 10 FEET OF LOT 1)

7. CONDITIONS AND COVENANTS CONTAINED IN THOSE DEEDS FROM THE VILLAGE OF GLENVIEW, AN ILLINOIS HOME-RULE MUNICIPAL CORPORATION, TO CATELLUS PRAIRIE GLEN, INC., A DELAWARE CORPORATION DATED OCTOBER 15, 2004 AND RECORDED OCTOBER 21, 2004 AS DOCUMENT NUMBER 0429533190, AND DATED APRIL 23, 2007 AND RECORDED ON APRIL 26, 2007 AS DOCUMENT NUMBER 0711644081, WHICH ARE AS FOLLOWS:

FIRST: THE GRANTEE AGREES FOR ITSELF AND ANY SUCCESSOR IN INTEREST NOT TO DISCRIMINATE UPON THE BASIS OF RACE, RELIGION, COLOR, SEX, OR NATIONAL ORIGIN IN THE SALE, LEASE OR RENTAL OR IN THE USE OR OCCUPANCY OF THE PROPERTY HEREBY CONVEYED OR ANY PART THEREON, OR OF ANY IMPROVEMENTS ERECTED OR TO BE ERECTED THEREON ANY PART THEREOF.

SECOND: ACCESS RESERVED TO GRANTEE, ITS SUCCESSORS AND ASSIGNS FOR ACCESS IN CASE REMEDIAL ACTION OR CORRECTIVE ACTION IS NECESSARY AFTER THE DATE OF CONVEYANCE.

THIRD: GRANTOR RESERVES THE RIGHT TO CREATE IRREVOCABLE, PERPETUAL, PUBLIC UTILITY EASEMENTS AND EASEMENTS FOR TEMPORARY ACCESS ROADS FOR CONSTRUCTION.

FOR PARTICULARS SEE INSTRUMENT

RELEASE AND TERMINATION OF REPURCHASE RIGHTS RECORDED NOVEMBER 26, 2008 AS DOCUMENT NUMBER 0833131014.

8. WATERMAIN EASEMENT AGREEMENT MADE BY AND BETWEEN OPUS REAL ESTATE IL VII PRAIRIE GLEN, L.L.C., A DELAWARE LIMITED LIABILITY COMPANY AND THE VILLAGE OF GLENVIEW RECORDED APRIL 30, 2009 AS DOCUMENT NUMBER 0912031062.

9. EXISTING UNRECORDED LEASES IN FAVOR OF NAVMAN WIRELESS HOLDINGS L.P., A DELAWARE LIMITED PARTNERSHIP, AND MEAD JOHNSON NUTRITION COMPANY, A DELAWARE CORPORATION, AS DISCLOSED BY ALTA STATEMENT DATED DECEMBER __, 2011, WITH NO OPTIONS TO PURCHASE OR RIGHTS OF FIRST REFUSAL, AND ALL RIGHTS THEREUNDER OF THE LESSEES AND OF ANY PERSON OR PARTY CLAIMING BY, THROUGH OR UNDER THE LESSEES.

**LEASE
OFFICE BUILDING**

**2701 Patriot Boulevard
Glenview, Illinois**

Between

**NORTHWESTERN MEDICAL FACULTY FOUNDATION
(LESSEE)**

and

**NORTHWESTERN MEMORIAL HOSPITAL,
an Illinois not-for-profit corporation
(LESSOR)**

SECTION 1	DEFINITION AND TERMS.....	1
SECTION 2	TERM	3
SECTION 3	DELIVERY OF POSSESSION.....	3
SECTION 4	RENT	3
SECTION 5	[INTENTIONALLY OMITTED].....	4
SECTION 6	RESTRICTIONS ON USE.....	4
SECTION 7	ABANDONING PREMISES OR PERSONAL PROPERTY.....	6
SECTION 8	ADDITIONAL RENT.....	6
SECTION 9	UTILITIES, SERVICES AND ELEVATOR.....	10
SECTION 10	ALTERATIONS/MODIFICATIONS/REPAIRS.....	12
SECTION 11	LIABILITY OF LESSOR.....	13
SECTION 12	RIGHTS RESERVED BY LESSOR.....	14
SECTION 13	DESTRUCTION OF PREMISES.....	15
SECTION 14	CONDEMNATION.....	16
SECTION 15	ASSIGNMENT AND SUBLEASE.....	17
SECTION 16	BREACH OR DEFAULT.....	18
SECTION 17	LESSOR'S REMEDIES.....	19
SECTION 18	UNLAWFUL DETAINER AND ATTORNEY FEES.....	20
SECTION 19	HOLDING OVER.....	20
SECTION 20	REMEDIES OF LESSOR CUMULATIVE.....	21
SECTION 21	LESSEE'S INSURANCE.....	21
SECTION 22	WAIVER OF SUBROGATION.....	22
SECTION 23	SUBORDINATION.....	22
SECTION 24	GOVERNING LAW.....	23
SECTION 25	WAIVERS	23
SECTION 26	EARLY TERMINATION OF LEASE.....	23
SECTION 27	QUIET ENJOYMENT.....	24
SECTION 28	ENTIRE AGREEMENT.....	24
SECTION 29	MODIFICATION OF AGREEMENT.....	24
SECTION 30	GENERAL PROVISIONS.....	24
SECTION 31	NOTICES.....	26

SECTION 32	TIME OF THE ESSENCE.....	27
SECTION 33	[INTENTIONALLY OMITTED].....	27
SECTION 34	HAZARDOUS MATERIALS.....	27

EXHIBITS

EXHIBIT A	DEMISED PREMISES
EXHIBIT B	RULES AND REGULATIONS
EXHIBIT C	WORK LETTER
EXHIBIT D	ACCEPTANCE OF OCCUPANCY
EXHIBIT E	INTENTIONALLY OMITTED
EXHIBIT F	CLEANING SPECIFICATIONS

LEASE

SECTION 1

DEFINITION AND TERMS

As used in this Lease the following terms shall have the following meanings:

- A. **Lessor:** Northwestern Memorial Hospital, an Illinois not-for profit corporation
- B. **Lessee:** Northwestern Medical Faculty Foundation
- C. **Address:** 2701 Patriot Boulevard, Glenview, Illinois 60025
- D. **Date of this Lease:** August 31, 2012
- E. **Commencement Date:** The later of (i) March 1, 2013, or (ii) the date that the Work (as defined in Exhibit C) has been substantially completed.
- F. **Expiration Date:** The last day of Lease Year 15.
- G. **Term:** 15 Lease Years (as hereinafter defined)
- H. **Building:** The office building together with the land and appurtenances thereto known as 2701 Patriot Boulevard, Glenview, Illinois 60025.
- I. **Suite Number:** 150/250 **Floor Number:** 1 & 2
- J. **Permitted Use:** Practice of medicine normally conducted in a medical office setting and all related administrative and office functions to support such practice, subject to the terms and conditions of this Lease, including, without limitation, the restrictions set forth in Section 6 of this Lease, and for no other purpose.
- K. **Base Rent:**

<u>Lease Year</u>	<u>RSF</u>	<u>Approximate Rate/RSF</u>	<u>Monthly Base Rent</u>
--------------------------	-------------------	------------------------------------	---------------------------------

REDACTED

REDACTED

"Lease Year" shall mean (i) with respect to the first Lease Year, the period commencing on the Commencement Date and ending on the last day of the twelfth (12th) full calendar month thereafter (i.e., by way of example only, if the Commencement Date is March 15, 2013, the first Lease Year shall commence on such date and end on March 31, 2014, being the last day of the 12th full calendar month thereafter) and (ii) with respect to each Lease Year thereafter during the remainder of the Term, each succeeding twelve (12) month period thereafter.

- L. **Security Deposit:** N/A
- M. **Premises:** 58,817 rentable square feet (which is subject to re-measurement after substantial completion) in the Building as described in **Exhibit A** attached to this Lease.
- N. **Lessee's Share:** 45.22% (which is the rentable square feet of the Premises divided by the rentable square feet of the Building). The rentable square feet of the Building is 130,070 square feet. Notwithstanding the foregoing, if any portion of the Building is exempt from Taxes, then for purposes of determining the portion of Rent Adjustment for Taxes only, Lessee's Share shall be the percentage determined by dividing the rentable square footage of the Premises by the rentable square footage of the portion of the Building which is not exempt from Taxes.
- O. **Base Year:** 2013
- P. **Liability Insurance Limits:** As set forth in Section 21 below
- Q. **Lessee's Tax ID Number:** _____
- R. **Guarantors:** None

LESSEE:

**NORTHWESTERN MEDICAL
FACULTY FOUNDATION**

By: EGN
Name: ERIC G. NEILSON, MD
Its: Chairman of the Board and CEO

LESSOR:

**NORTHWESTERN MEMORIAL
HOSPITAL, an Illinois not-for-profit
corporation**

By: [Signature]
Name: _____
Its: _____

Flood Plain Requirements

The location for the proposed imaging center is 2701 North Patriot Boulevard, Glenview. As shown on the map on the following page, the project will not be located in a special flood hazard area and therefore complies with the requirements of Illinois Executive Order #2005-5.



Site Map

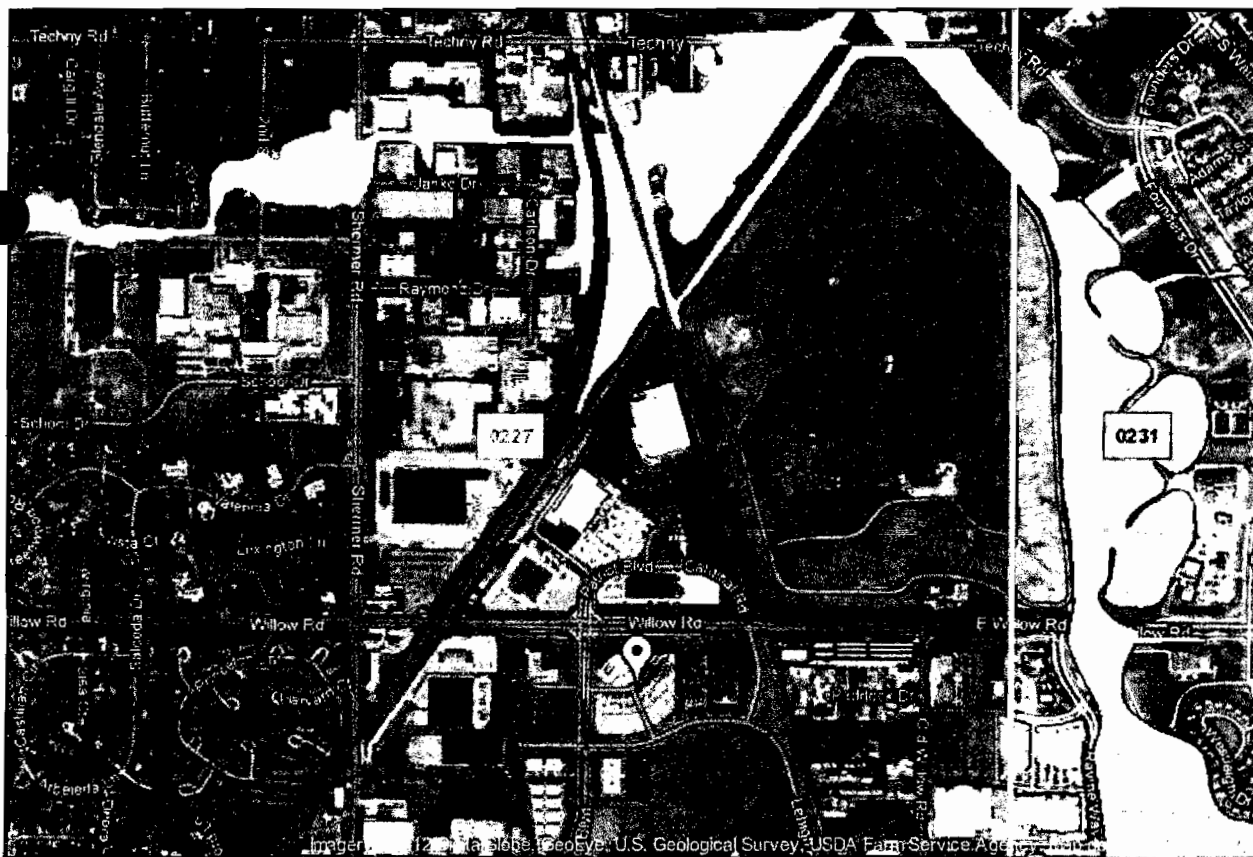
Cook County Effective DFIRM Finder

Instructions: The DFIRM Finder will help you find the DFIRM for your home or business. To get started, follow the instructions below. Users should download and view the official DFIRM for a more accurate representation of flood risk. **Note:** If the google map application below is not displayed, make sure to enable Javascript on your internet browser.

1. Enter your address in the box below and click "Search Address."
2. Click on the DFIRM panel (outlined in red) for the location you are interested.
3. After the panel is selected, click again for available options, including viewing the official DFIRM.

Please note that this DFIRM Finder is intended to be used as a guide only. Be sure to view the official DFIRM Panel available through the options (step 3 above), or in the [list at the bottom of the page](#).

Users should check the FEMA Map Service Center for Letters of Map Change (LOMC) that revise this effective Flood Insurance Rate Map (<http://msc.fema.gov>)



Legend: DFIRM panel numbers are shown in red. Special Flood Hazard Areas are shown as light blue. DFIRM Panels with salmon or blue dashed hatching have Multiple Panel Revisions available to review. DFIRM Panels with black cross-hatching are not printed and have no DFIRM available for download.

Downloadable DFIRM Panels

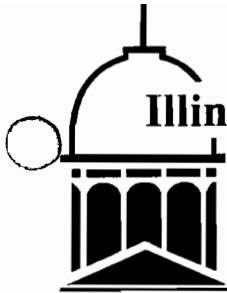
Panels are only created when special flood hazard areas exist within the boundaries of the panel.

To view a DFIRM Panel, click the link below (links to external FEMA Map Service Center site).

- [Panel #0015](#)
- [Panel #0020](#)
- [Panel #0038](#)
- [Panel #0039](#)

Historic Resources Preservation Act Requirements

The location for the proposed imaging center is 2701 North Patriot Boulevard, Glenview. It will be within a commercial office building, constructed in 2009. The attached letter from the Illinois Historic Preservation Agency indicates that the project area is not considered a historic, architectural or archaeological site.



Illinois Historic Preservation Agency

FAX (217) 782-8161

1 Old State Capitol Plaza • Springfield, Illinois 62701-1512 • www.illinois-history.gov

Cook County
Glenview

CON - Establish an Outpatient Medical Center, Northwestern Medical Faculty
Foundation
2701 Patriot Blvd.
IHPA Log #013122012

January 3, 2013

Ralph Weber
920 Hoffman Lane
Riverwoods, IL 60015

Dear Mr. Weber:

This letter is to inform you that we have reviewed the information provided concerning the referenced project.

Our review of the records indicates that no historic, architectural or archaeological sites exist within the project area.

Please retain this letter in your files as evidence of compliance with Section 4 of the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420/1 et. seq.). This clearance remains in effect for two years from date of issuance. It does not pertain to any discovery during construction, nor is it a clearance for purposes of the Illinois Human Skeletal Remains Protection Act (20 ILCS 3440).

If you have any further questions, please contact me at 217/785-5027.

Sincerely,

Anne E. Haaker
Deputy State Historic
Preservation Officer

Project Costs and Sources of Funds

Itemization of each line item:

Line 6 – Modernization Contracts – (\$1,977,082) – this includes:

- All construction contracts/costs to complete the project. Includes contractor's overhead and profit.

Line 7 – Contingencies - (\$118,625) – this includes:

- Allowance for unforeseen modernization costs

The Contingency cost is 6% of the construction cost.

There will be 7,152 DGSF in the proposed project, resulting in a cost/sf of \$293.02.

Line 8 – Architectural / Engineering Fees – (\$122,728) – this includes:

- Schematic Design:
 - Develop diagrammatic plans and documentation to describe the size and character of the space in a way that meets all programmatic and functional objectives, as well as accounting for all existing structure, shafts, elevators and stairs, communications and electrical closets, and all other pre-existing design constraints.
 - Evaluate the capacity of all building systems (such as electrical, mechanical, plumbing, fire protection).
- Design Development
 - Develop detailed drawings and documentation to describe the size and character of the space. Includes room layouts, structural, mechanical, electrical, and plumbing.
 - The equipment and furniture consultants will prepare room-by-room FF&E requirements lists. The requirements lists identify room name, item description, product specification, and total quantity required. The product specifications include installation requirements that will be provided to the architect/engineer to ensure that spaces and building systems are planned to appropriately accommodate the equipment.
- Construction Documents:
 - Provide drawings and specifications
 - Assist the Owner in filing Construction Documents for approval by City and State agencies
- Construction Administration
 - Monitor progress
- Bidding and Negotiation Phase Services:
 - Revise Construction Documents as necessary in accordance with Reconciled Statement of Probable Construction Cost

The Architectural / Engineering Fee which is 5.9% of the construction and contingencies cost.

Line 9 – Consulting and Other Fees – (\$129,597) – this includes:

- Charges for the services of various types of consulting and professional experts including:
 - Equipment planning
 - Low voltage/Security
 - Signage
 - Certificate of Need

Line 10 – Movable Capital Equipment – (\$2,550,625) – this includes:

- New Imaging Equipment including:
 - CT Scanner – Siemens Medical Systems Somatom Definition AS
 - Bone Densitometer – Hologic, Discovery A
 - X-Ray machine – Carestream Evolution DRX
- Imaging Equipment being purchased and relocated from NLFH's imaging center at 2501 Compass Road including:
 - C-Arm – GE Healthcare, OEC 9800
 - Mammography – Hologic, Selenia
 - MRI – Toshiba Vantage Titan 1.5T
 - Ultrasound – Philips Medical Systems, IU22
- Additional equipment including:
 - Computers and monitors
 - PACs machines
 - Instrument tables
 - Supply carts
 - Linen hampers
 - Waste receptacles
 - Monitors
 - Stretchers
 - Wheelchairs
 - Aspirator
 - Defibrillators
 - Waiting room chairs, tables, etc.

Line 13 – Fair Market Value of Leased Space – (\$1,430,400) – this includes:

- As stated in the Narrative Description and in Attachment-2, NMFF is leasing space in an existing building for the proposed project. The building was purchased by Northwestern Memorial Hospital in 2011. Based on the purchase price and total building square footage, the FMV of the space is \$200/sf.

Line 14 – Other Costs To Be Capitalized – (\$20,000) – this includes:

- Permits and Fees
- Printing Costs

Cost Space Requirements

Department	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		Existing DGSF	Proposed DGSF	New Const.	Modern-ized	As Is	Vacated Space
CLINICAL Construction							
Diagnostic Radiology	\$ 1,977,082	0	7,152		7,152		
OTHER							
Contingencies	\$ 118,625						
A/E Fees	\$ 122,728						
Consulting & Other Fees	\$ 129,597						
Movable or other Equipment	\$ 2,550,625						
Other Costs to Be Capitalized	\$ 20,000						
TOTAL	\$ 4,918,657						

Note: Not included in the above table is the estimated Fair Market Value of the space that will be leased which is \$1,430,400. Including this amount results in a total project cost of \$6,349,057, as reported on the Project Costs and Sources of Funds table.

BACKGROUND OF APPLICANT

Northwestern Medical Faculty Foundation does not currently own or operate any health care facilities (as defined by 20 ILCS 3960).

NMFF has recently formed a partnership with Ambulatory Services of America, Inc. to form a new limited liability company called Northwestern Medical Faculty Foundation Dialysis Center, LLC. NMFF will have an ownership interest. An application for this dialysis center has been filed with the HFSRB and is awaiting review.

NMFF's Medicare Group # is 522620. Each NMFF physician has their own Medicaid provider number.

NMFF is a not -for-profit organization. NMFF is not organizationally part of Northwestern University or Northwestern Memorial Hospital.



Northwestern Medical Faculty Foundation

Executive Administration
680 N. Lake Shore Drive
Suite 1118
Chicago, IL 60611

January 25, 2013

Dale Galassie
Chairman
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, Second Floor
Springfield, IL 62751

Dear Mr. Galassie:

As Chief Operating Officer of Northwestern Medical Faculty Foundation (NMFF), I hereby certify that no adverse action has been taken against NMFF, directly or indirectly, within three years prior to the filing of this application. For the purpose of this letter, "adverse action" has the meaning given to it in the Illinois Administrative Code, Title 77, Section 1130.

I hereby authorize HFSRB and IDPH to access any documentation which it finds necessary to verify any information submitted, including but not limited to: official records of IDPH and other State agencies and the records of nationally recognized accreditation organizations.

If you have questions or need additional information, please call Lynn Murphy, Director, Facilities Services Department, Northwestern Medical Faculty Foundation, at 312-695-6501.

Sincerely,

Norman Botsford
Executive Vice President
Chief Operating Officer

Cc: Lynn Murphy, NMFF

PURPOSE OF PROJECT

1. The installation of diagnostic imaging equipment at NMFF's outpatient center at 2701 N. Patriot Boulevard, Glenview, will enhance patient care, providing patients needing diagnostic exams with the opportunity to receive those tests at the time of their physician office visits. According to NMFF records, approximately 15% of NMFF visits to medical offices result in a diagnostic imaging test. By enabling test results to be available at the time of the physician visit or as an immediate follow up to the visit, many patients will not need to schedule follow-up testing in downtown Chicago or elsewhere. The location of the outpatient imaging center will also enhance the efficiency of physicians practicing in the medical offices at this site.
2. There is an existing imaging center, located less than one mile away from the proposed project at 2501 Compass Road, that is currently operated by Northwestern Lake Forest Hospital. NLFH plans to close the center and sell some of the equipment to NMFF. The planning area for this project is an adaptation of a seven mile radius centered at 2701 N. Patriot Boulevard. The review of patient origin information at the existing imaging center operated by NLFH reveals that 51% of patients at Compass Road come from a 20 zip code service area in northern Cook and southern Lake Counties. Because of the proximity of 2701 N. Patriot Boulevard to NLFH's center at 2501 N. Compass Road, the assumption can be made that the same zip codes will generate 51% of patient volume at 2701 N. Patriot Boulevard. The Planning Area map and supporting calculations are presented in the Need Determination section of this permit application.
3. Two issues that are addressed by the project are as follows: a) patients of NMFF and Northwestern Memorial Physicians Group (NMPG) physicians residing in the 20 zip code planning area and beyond will have the option of coming to the center at 2701 N. Patriot Boulevard for imaging tests, instead of traveling to downtown Chicago for tests. This will save time and costs for patients; b) Utilization of imaging equipment at NLFH's site at Compass Road has been low; by relocating some of this equipment to the Patriot Boulevard site, in the same building with physician office practices, the equipment will be more appropriately utilized.
4. Sources of information used in this analysis are: NLFH patient origin information for the Compass Road site, comprehensive patient origin information for all NMFF and NMPG patients, NMFF records percentages of patient visits generating diagnostic imaging tests by modality, and utilization information on imaging equipment at the Compass Road center.
5. Locating the imaging center in Glenview gives a significant volume of NMFF and NMPG patients an option to receive imaging services closer home. This improves health status by making specialty care more convenient and efficient for patients. The potential exists for more timely care and less need for hospitalization. Further, the location of imaging equipment in space adjacent to physician offices will improve the utilization of the imaging equipment that will be purchased from the NLFH center at Compass Road, which will close.
6. Goals for the project include: facilitating imaging tests for potentially over 124,000 current NMFF and NMPG patient visits by residents of the 20 zip code planning area or beyond; to increase by 100% by year 2015 the diagnostic equipment volumes on equipment relocated from 2501 Compass Road; and to reduce traffic to the downtown campus, which has become congested due to programmatic growth over the past decade.

ALTERNATIVES

The Northwestern Medicine Imaging Center – Glenview at 2701 N. Patriot Boulevard will provide diagnostic imaging to patients of Northwestern Medical Faculty Foundation (NMFF) and Northwestern Memorial Physicians Group (NMPG) who reside in northern Cook County and southern Lake County. The addition of medical imaging equipment will also enhance the ability of physician specialists to diagnose and treat conditions and deliver efficient care in an outpatient setting.

The project proposes to capitalize on the nearby location of an outpatient imaging center operated by Northwestern Lake Forest Hospital at 2501 Compass Road. Lake Forest Hospital acquired this facility in 2008. The facility at Compass Road does not have an affiliation with medical offices; accordingly use of its imaging facilities has been limited. NLFH plans to close the facility this year. Some of the newer imaging equipment at the center operating at 2501 Compass Road will be purchased by NMFF for use at the proposed imaging center at 2701 N. Patriot Boulevard.

The existence of the nearby outpatient center at Compass Road generates a number of alternatives for NMFF's Patriot Boulevard site.

Preferred Alternative – the Proposed Project

The proposed project will result in a 7,152 square foot imaging center at 2710 N. Patriot Boulevard. The imaging center will offer the following modalities: MRI, CT, ultrasound, mammography, general radiography/x-ray, bone densitometry, and C-Arm. Having these imaging services at Patriot Boulevard will facilitate local testing near home for current patients of NMFF and NMPG physicians living in northern Cook County and beyond, instead of traveling to downtown Chicago or other locations. The ability to order and quickly receive test results on patients seen at the center will also improve the efficiency of physician practices.

The MRI, ultrasound unit, mammography unit and C-Arm are currently in operation at Compass Road, and will be acquired by NMFF for use at the Patriot Boulevard site. The acquisition of used equipment by NMFF offers cost savings when compared to the purchase of all new equipment.

This section presents the following alternatives considered:

1. Purchase all new imaging equipment for the imaging center at 2701 N. Patriot Boulevard;
2. Do nothing;
3. Include an ASTC in addition to the Imaging Center;
4. Alternative locations to 2701 N. Patriot Boulevard

Alternative 1: Purchase all new imaging equipment for the imaging center at 2701 N. Patriot Boulevard

The plan to purchase existing MRI, ultrasound, mammography, and C-Arm units from NLFH's outpatient imaging center at 2501 N. Compass Road will save approximately \$1,297,000. The following table compares NMFF's cost for acquiring the existing equipment to what new equipment would cost:

Modality	Purchase Price of Used Equipment	Cost of New Equipment	Savings
MRI	\$ 500,000	\$ 1,376,000	(\$ 876,000)
Ultrasound	\$ 145,000	\$ 225,000	(\$ 80,000)
Mammography	\$ 190,000	\$ 292,000	(\$ 102,000)
C-Arm	\$ 127,000	\$ 170,000	(\$ 43,000)
TOTAL	\$ 962,000	\$ 2,063,000	(\$ 1,101,000)

Spending \$962,000 on the used equipment instead of \$2,063,000 on new saves \$1,101,000 for these four modalities. The other equipment in the proposed project (CT scanner, bone densitometer and x-ray machine) will be new and are not included in the above comparison table. Each piece of used equipment to be purchased is less than 4 years old. As a result, relocating and using this equipment is appropriate.

The alternative of purchasing all new equipment was rejected in order to achieve cost savings of \$1,101,000. There is no difference in project schedule between this alternative and the preferred project.

Alternative 2: Do not install medical imaging equipment at 2701 N. Patriot Boulevard (Do Nothing)

If there is no equipment in the building at 2701 N. Patriot Boulevard, NMFF and NMPG patients needing diagnostic testing would need to travel to downtown Chicago, Northwestern Lake Forest Hospital, or other imaging facilities in the area. Providing imaging in space adjacent to the medical offices facilitates immediate testing during the patient visit where necessary. Results are quickly known and applied in the care plan, avoiding the need to wait for results to be sent from another center including the center at 2501 Compass Road. This saves patients the need to schedule an imaging test at a different location/date and for some, returning for a follow-up physician office visit. The alternative of not having imaging at the medical office building foregoes these advantages.

This alternative avoids capital costs associated with equipment acquisition and construction. However, costs are still incurred for tests, which would occur at other locations.

This alternative was rejected because the introduction of imaging equipment at the site enhances care efficiency for patients and providers. Furthermore, it generates a more productive use of the equipment to be relocated from NLFH's Compass Road facility.

Alternative 3: In addition to the imaging center, establish an Ambulatory Surgery Treatment Center at 2701 N. Patriot Boulevard

Consideration was given during the planning stage to having an outpatient surgery center at the site.

A surgery suite with 4 ORs, central sterile processing and recovery would add 16,400 DGSF to the project. The building is coded for offices; to meet surgery requirements would require an investment of approximately \$800,000 in HVAC, electrical, fireproofing and structural upgrades. Construction of the OR space is estimated at \$5.5 million, with an additional \$5 million in equipment for the ORs, PACU/Recovery and sterile processing.

This alternative was rejected because of the additional associated costs in excess of \$11 million. Also, the addition of a surgery program would have added over 12 months to the project schedule.

Alternative 4: Select a different location for the imaging center

2701 N. Patriot Boulevard provides access to diagnostic care for a potentially significant volume of NMFF and NMPG patients who prefer a location closer to their homes than having to travel to the downtown, Lake Forest, or Grayslake campuses. There are a variety of existing buildings in the northern Cook County area which could offer the same access. This building was selected because it contains medical offices for NMFF and NMPG physicians and because of its visible and convenient location off of Willow Road, supported by ample existing parking.

Because of its proximity to the existing Northwestern Lake Forest facility at Compass Road, 2701 N. Patriot Boulevard provides the opportunity for increased use of that equipment once purchased and relocated.

NMFF rejected other alternative locations because this site met its requirements and offered appropriate space.

Summary

The following table provides a summary cost benefit analysis of the preferred project and the alternatives:

Location/Alternative	Meets functional program?	Total Cost	Availability
NMFF Imaging Center – 2701 N. Patriot Blvd. (preferred option)	Yes	\$6.35 million	August, 2013
Purchase all new imaging equipment	Yes	\$7.45 million	August, 2013
Do Nothing	No	\$0	N/A
Include ASTC	Yes	\$17+ million	August, 2014
Alternative location	Unknown	Unknown	Unknown

Construction of an imaging center at 2701 N. Patriot Boulevard is the preferred option. The building can accommodate the proposed program and offers co-location with physicians' offices. There is also adequate parking, access, and support services.

SIZE OF PROJECT

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive.

The size of the project is driven by the amount of space needed to house diagnostic radiology equipment to accommodate patients of NMFF and NMPG physicians.

The size of the proposed project is below the State's Guidelines for square footage.

Components of the Project

The proposed imaging center includes: 1 MRI, 1 CT, 1 X-Ray machine, 1 Ultrasound machine, 1 Mammography machine, 1 bone densitometry machine and 1 C-arm.

It also includes reading rooms, consult rooms, gowned waiting areas, IV prep rooms, bathrooms, administrative rooms (scheduling, manager, etc.), tech work spaces, storage rooms, etc.

The imaging center project totals 7,152 DGSF. (See below for the comparison to State Standards).

2. Comparison of clinical components to GSF standards in Section 1110. Appendix B.

The proposed square footage for the imaging center is 7,152 DGSF.

Components and Space Standards used are as follows:

NMFF Imaging Center, as designed	7,152 DGSF
1 MRI room	
1 CT room	
1 Mammography	
1 General X-ray room	
1 Ultrasound room	
1 Bone Densitometer	
1 C-Arm	
State Standards for Diagnostic Radiology	8,500 DGSF
MRI: 1,800 dgsf/unit x 1 MRI = 1,800	
CT Scan: 1,800 dgsf/unit x 1 CT = 1,800	
Mammography: 900 dgsf/unit x 1 Mammography = 900	
General Radiography: 1,300 dgsf/unit x 1 General X-ray = 1,300	
Ultrasound: 900 dgsf/unit x 1 Ultrasound = 900	
Bone Densitometer: 900 dgsf/unit* x 1 Ultrasound = 900	
C-Arm: 900 dgsf/unit* x 1 Ultrasound = 900	
Amount of difference	(1,348)

*There are no HFSRB size guidelines for Bone Densitometry or C-Arm. To be conservative, the guideline for Ultrasound, which is the smallest diagnostic radiology guideline, was used to calculate the total allowable space.

The proposed NMFF Imaging Center is within the State Guidelines for Square Footage.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?
NMFF Imaging Center	7,152	8,500	(1,348)	Yes

PROJECT SERVICES UTILIZATION

Document that in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in 1110.Appendix B.

The Glenview Imaging Center will serve patients of Northwestern Medical Faculty Foundation and Northwestern Memorial Physician Group (NMPG), residing in northern Cook County and Lake County. NMPG is a not-for-profit group of primary care physicians, separate from NMFF, which will also have offices in the 2701 N. Patriot Boulevard building. The following table presents the forecasted visits for imaging tests for Year 2015.

EQUIPMENT	YEAR 2015 PROJECTED VISITS	STATE STANDARD VISITS/YEAR
X-Ray	4,178	8,000
CT	2,529	7,000
MRI	2,698	2,500
Ultrasound	2,726	3,100
Mammography	1,297	5,000
Bone Densitometry	300	N/A
C-Arm	875	N/A

The rationale and calculations used in the forecasts are presented in detail in Attachment-37 which addresses Criterion 1110.3030 – Clinical Service Areas Other than Categories of Service. The steps in the methodology are summarized as follows:

1. Define Market Area. Patient Origin data from an existing outpatient imaging center within one mile of the proposed project were used to define the primary service area. This area includes 20 zip codes, and is the source of 51.2% of the existing imaging center's patient visits. (The existing imaging center is operated by Northwestern Lake Forest Hospital, and will close after the opening of the NMFF's proposed imaging center.)
2. Document current actual number of visits to NMFF and NMPG physicians by patients residing in this 20 zip code market area. The number of Year 2012 visits is 63,661.
3. Calculate total Year 2012 visits from the 20 zip code area and beyond. This step recognizes that if 51.2% of visits come from the 20 zip codes, there is an additional 48.8% visits from other zip codes. 48.8% equates to 60,676 visits. Therefore, total visits to NMFF and NMPG physicians from the primary service area and beyond is 63,661 + 60,676, or 124,337 total visits.
4. Project total potential imaging visits for Year 2015, the second year of operation of the proposed imaging center. This step requires analysis of historical utilization from the 20 zip codes, for Year 2009, 2010, 2011, and 2012. Visits to NMFF and NMPG physicians by residents of the 20 zip codes grew from 37,400 in Year 2009 to 63,661 in Year 2012, an increase of 70.1%. That is an average annual increase of 23.4%. For purposes of projecting Year 2015 visits, the following conservative assumptions were made: a) visits by residents of the 20 zip code area will increase annually by an average of 11.7% (half of the actual average annual 23.4% increase for the past three years) and b) visits by

residents of the zip codes beyond will be held constant, at Year 2012 levels, even though they are expected to increase as well. The associated calculations result in a Year 2015 forecast of 146,681 potential patient visits, up from 124,387 in Year 2012.

5. Discount patients of NMPG and NMFF who will prefer to continue to go to downtown Chicago or other NMFF and NMPG offices. The assumption is made that half of the potential Year 2015 patient visits (associated with patients in northern Cook County and Lake County) will be seen at 2701 N. Patriot Boulevard; the remainder will go to downtown or other offices. For Year 2015, half of 146,681 is 73,340 visits.
6. Convert total patient visits to visits for diagnostic imaging tests. This involves using actual rates of patient office visits that generate imaging tests. Based on NMFF and NMPG records, 5.1% of patient office visits generate an x-ray exam, 3.3% generate a CT scan, 3.0% generate an MRI, 3.2% generate an ultrasound test, and 1.2% generate a mammogram. Applying these rates to the 73,340 Year 2015 projected visits to NMFF and NMPG physicians results in 3,740 X-Rays, 2,420 CT scans, 2,200 MRI tests, 2,347 ultrasounds and 880 mammograms.
7. Add actual volumes from the NLFH imaging center at nearby 2501 Compass Road, which will close after the opening of the proposed center. No NMFF or NMPG patients are included in the patients served at the current NLFH site, so there is no double counting. The NLFH center volumes for Year 2012 were: 438 X-Rays, 109 CT scans, 498 MRI tests, 379 ultrasounds, and 417 mammograms.

The resulting imaging projections are: 4,178 X-Rays, 2,529 CT scans, 2,698 MRI tests, 2,726 ultrasounds, and 1,297 mammograms.

8. Bone densitometry projections are estimated to be one procedure per day, or approximately 300 annually.
9. C-Arm projections are projected to be 15-18 per week, or approximately 875 annually.

Except for MRI, the volume projections are lower than State standards. Much of this variance is explained by the difference in use between inpatient and outpatient imaging equipment. Equipment in hospitals is most usually in daily operation for two or even three shifts, with reduced hours on weekends. Higher volumes are more easily achieved in a hospital setting, due to the frequency of testing on inpatients to diagnose and monitor conditions. Outpatient imaging centers, such as the proposed center at 2701 N. Patriot Boulevard, are open 5-6 days a week, and are closed at night.

For example, it is unlikely that a CT scanner in this type of outpatient setting can meet the State standard of 7,000 procedures per year. An efficient outpatient CT operation would accommodate up to 16 patients on a typical week day, and up to 6 patients on a Saturday. This volume is associated with a frequency of one patient each 30-45 minutes. At this rate, a high volume CT scanner would accommodate a maximum of approximately 4,500 annual tests. While this is below the State standard, it is an efficient operating level for a freestanding outpatient setting.

Utilization Tables**MRI**

UTILIZATION					
	SERVICE	HISTORICAL UTILIZATION	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 2015	MRI	None	2,698	2,500	Yes

CT

UTILIZATION					
	SERVICE	HISTORICAL UTILIZATION	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 2015	CT	None	2,529	7,000	No

GENERAL RADIOGRAPHY

UTILIZATION					
	SERVICE	HISTORICAL UTILIZATION	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 2015	X-Ray	None	4,178	8,000	No

ULTRASOUND

UTILIZATION					
	SERVICE	HISTORICAL UTILIZATION	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 2015	Ultrasound	None	2,726	3,100	No

MAMMOGRAPHY

UTILIZATION					
	SERVICE	HISTORICAL UTILIZATION	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 2015	Mammography	None	1,297	5,000	No

BONE DENSITOMETRY

UTILIZATION					
	SERVICE	HISTORICAL UTILIZATION	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 2015	Bone Densitometry	None	300	None	N/A

C-ARM

UTILIZATION					
	SERVICE	HISTORICAL UTILIZATION	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 2015	C-Arm	None	875	None	N/A

R. Criterion 1110.3030 – Clinical Service Areas Other than Categories of Service

Indicate changes by Service:

Service	# of Existing Key Rooms	# of Proposed Key rooms
MRI	0	1
CT	0	1
Mammography	0	1
General Radiography	0	1
Ultrasound	0	1
Bone Densitometry	0	1
C-Arm	0	1

b) Need Determination – Establishment

1) Service to Planning Area Residents

2) Service Demand

The primary purpose of the project is to enhance outpatient diagnostic imaging services for patients of the Northwestern Medical Faculty Foundation (NMFF) and the Northwestern Memorial Physicians Group (NMPG) who live in northern Cook County and in Lake County. Through this project, imaging tests generated by over 78,000 NMFF and 45,500 NMPG patient encounters may be available at the location at 2701 N. Patriot Boulevard in Glenview, which is more convenient to home for these patients than traveling to downtown Chicago or to Lake Forest.

This section presents the rationale and supporting calculations for the equipment volume forecasts associated with these patient encounters. The first equipment use at the center will be in August, 2013. The forecast year is 2015, two years after project completion.

EQUIPMENT	YEAR 2015 VISIT VOLUME
X-Ray	4,178
CT	2,529
MRI	2,698
Ultrasound	2,726
Mammography	1,297
Bone Densitometry	300
C-Arm	875

Methodology: Service Area Definition and Patient Origin Analysis

The rationale and calculations utilize three sets of patient origin data: 1) existing NLFH imaging center at 2501 Compass Road, 2) all NMFF patient encounters, and 3) all NMPG patient encounters. NLFH patient origin data define a primary service area for the NLFH center now in operation. This area will be the same service area for the future imaging center at nearby 2701 N. Patriot Boulevard. The methodology then applies NMFF and NMPG patient origin data to

forecast patient visits that could be served at the imaging center at 2701 N. Patriot Boulevard. This volume of patient visits is then converted to a demand for imaging tests, by applying actual experienced rates of imaging tests, by type of imaging equipment, to NMFF and NMPG patients residing in the primary service area (source of 51.2% of patient visits) and beyond (source of 48.8% of patient visits).

A. Determination of Market Area

A 20 zip code area was identified, as the source of 51.2% of patient visits for tests. This area reflects the real experience at the existing outpatient diagnostic imaging center operated by Northwestern Lake Forest Hospital (NLFH) at 2501 Compass Road in Glenview, less than one mile from the project site at 2701 N. Patriot Boulevard. Because NLFH has a collaborative relationship with NMFF, information on NLFH's imaging center was shared and used in planning the project. The patient origin patterns associated with the site at 2501 Compass Road provide an experience-based template for projecting patient travel patterns and defining the service area for the imaging center proposed nearby at 2701 N. Patriot Boulevard.

NLFH's imaging center at 2501 Compass Road accommodated 1,862 patient visits in 2012. 953 of these visits were from patients residing in the 20 zip code area shown on the following page. These 953 patient visits constitute 51.2% of the total visits. As the source of more than 50% of the patient visits for testing at 2501 Compass Road, these zip codes define a primary service area. The zip codes and their associated patient visits are as follows:

ZIP CODE	PATIENT VISITS 2501 COMPASS ROAD
60015	46
60016	13
60022	57
60025	145
60026	65
60029	5
60035	37
60043	11
60053	14
60062	235
60068	18
60070	14
60076	12
60077	14
60082	0
60089	38
60093	27
60091	96
60093	88
60714	18
TOTAL	953
	51.2% OF 1,862 VISITS

The remaining 909 patient visits (48.8%) come from outside the 20 zip code area.

54

B. Current NMFF and NMPG Patient Volumes from the Primary Service Area

Because of the proximity of 2701 N. Patriot Boulevard to the existing facility at 2501 Compass Road, it can be concluded that the same 20 zip codes can be considered as the primary service area for the imaging center at 2701 N. Patriot Boulevard.

The methodology displays the counts of NMFF and NMPG patient encounters by residents of these 20 zip codes in Year 2012. Year 2012 patient origin data for NMFF and NMPG show that the 20 zip codes were the source of 40,346 NMFF patient visits and 23,315 NMPG visits, or a total of 63,661 visits.

ZIP CODE	PATIENT VISITS NMFF	PATIENT VISITS NMPG
60015	2,845	3,041
60016	1,950	400
60022	1,776	1,597
60025	2,861	1,784
60026	1,069	756
60029	46	33
60035	4,092	4,141
60043	408	248
60053	1,242	358
60062	3,983	3,254
60068	3,476	993
60070	409	104
60076	2,143	637
60077	1,679	525
60082	1	6
60089	2,617	920
60090	809	241
60091	4,200	2,299
60093	3,487	1,690
60714	1,253	288
TOTAL	40,346	23,315

C. Forecast of Future Year Patient Volumes

Using the patient origin patterns of the existing outpatient center at 2501 Compass Road, one mile from the proposed site, the following statements can be made:

For NMFF, the 40,346 visits in Year 2012 from the 20 zip codes constitute 51.2% of total potential patient visits. An additional 48.8% of patient visits that may come to the center at 2701 N. Patriot Boulevard are from outside these 20 zip codes (38,454 patient visits). Therefore, total potential NMFF patient visits equals **78,800**.

For NMPG, the 23,315 visits in Year 2012 from the 20 zip codes constitute 51.2% of total potential patient visits. An additional 48.8% of patient visits that may come to the center at 2701 N. Patriot Boulevard are from outside these 20 zip codes (22,222 patient visits). Therefore, total potential NMPG patient visits equals **45,537**.

Combining 78,800 NMFF and 45,537 NMPG patient visits gives a total of **124,337** potential patient visits. According to the patient origin data above, 63,661 of these patient visits are from the 20 zip code primary area and 60,676 are from other zip codes.

These visits are based on Year 2012 data. The outpatient diagnostic center will open in August, 2013. Two years after project completion is 2015. The next steps forecast future patient visits for Years 2013, 2014, and 2015.

The following table lists actual patient visits by residents of the 20 zip codes to NMFF and NMPG physicians for the past four years:

PATIENT VISITS (20 ZIP CODES)	YEAR 2009	YEAR 2010	YEAR 2011	YEAR 2012
	37,400	40,323	55,384	63,661

Source: NMFF and NMPG patient origin reports

The three year increase for patients residing in the 20 zip codes is 70.2%, or an average annual increase of 23.4%. These significant volumes and percentage increases demonstrate the opportunity to provide imaging services needed to support these patient visits at a location closer to their homes.

The following conservative assumptions are made in projecting future patient visits:

1. An average annual increase of 11.7%, which is half the previous 3 year average annual percentage increase.
2. This percentage increase is applied only to the residents of the 20 zip code primary service area.
3. No increase is included for the 48.8% of patient visits from beyond the 20 zip codes (60,676 annual patient visits). The calculated 60,676 patients for Year 2012 is held constant for years 2013 to 2015.

The following table applies these assumptions to forecast annual patient visits to NMFF and NMPG physicians:

	ACTUAL	PROJECTIONS	
PATIENT VISITS	YEAR 2012	YEAR 2014	YEAR 2015
20 Zip Codes	63,661	78,575	86,005
All Other Zip Codes	60,676	60,676	60,676
TOTAL	124,337	139,251	146,681

Not all potential patients of NMFF and NMPG physicians will prefer to use the site at 2701 N. Patriot Boulevard. Some may choose to continue to come to downtown Chicago, Lake Forest or other locations for their tests. For purpose of analysis, it is assumed that ½ will choose the convenience of the site at 2701 N. Patriot Boulevard.

Using Year 2012 patient origin data, for example, if the outpatient center had been in operation in Year 2012, an expected patient volume at the center would have been ½ x 124,337, or 62,168 patient visits.

Therefore, the anticipated patient volume for Year 2015 is ½ x 146,681, or 73,340 patient visits.

D. Calculation of Annual Imaging Volume generated at 2701 N. Patriot Boulevard by the Projected 73,340 Patient Visits.

Based on NMFF and NMPG records, imaging tests per patient encounter occur with the following frequencies:

EQUIPMENT	% OF PATIENT OFFICE VISITS THAT GENERATE AN IMAGING VISIT
X-Ray	5.1%
CT	3.3%
MRI	3.0%
Ultrasound	3.2%
Mammography	1.2%

Applying these test frequencies to the expected patient base at 2701 N. Patriot Boulevard gives the following results:

	% OF IMAGING VISITS	TOTAL PROJECTED VISITS		PROJECTED IMAGING VISITS	
EQUIPMENT		2014	2015	2014	2015
X-Ray	5.1%	69,626	73,340	3,551	3,740
CT	3.3%	69,626	73,340	2,298	2,420
MRI	3.0%	69,626	73,340	2,089	2,200
Ultrasound	3.2%	69,626	73,340	2,228	2,347
Mammography	1.2%	69,626	73,340	835	880

E. Calculation of Annual Imaging Volume at 2701 N Patriot Boulevard, Following the Closure of the Current Imaging Center at 2501 Compass Road.

The NLFH facility at Compass Road will be closed after the opening of the imaging center at 2701 N. Patriot Boulevard. The existing test volumes at Compass Road can be added to the volumes at the NMFF facility since the equipment at 2501 Compass Road has served no NMFF or NMPG patients. There is no double counting.

The Year 2012 visit volumes at 2501 Compass Road are:

X-Ray	438
CT	109
MRI	498
Ultrasound	379
Mammography	417

Adding these volumes to the results in "D" above gives the following projected imaging volumes for Year 2014, the first full year of operation at 2701 N. Patriot Boulevard.

EQUIPMENT	PROJECTED IMAGING VISITS BASED ON NMFF/NMPG VOLUME		IMAGING VISITS FROM 2501 COMPASS ROAD	TOTAL PROJECTED IMAGING VISITS	
	2014	2015		2014	2015
X-Ray	3,551	3,740	438	3,989	4,178
CT	2,298	2,420	109	2,407	2,529
MRI	2,089	2,200	498	2,587	2,698
Ultrasound	2,228	2,347	379	2,607	2,726
Mammography	835	880	417	1,251	1,297

The volume at the Compass Road site is counted in supplementing the volumes generated by physician office visits at 2701 N. Patriot Boulevard, since there are no NMFF or NMPG patients at Compass Road.

The rationale for Bone Densitometry and C-Arm volumes projections are as follows:

Bone Densitometry procedures are estimated to average 5-6 per week, or 300 procedures per year.

C-Arm is equipment that is used for image-guided injections, such as for wrist and hand treatment. It also is used in assessing fracture positions after reducing, splinting or casting. Volumes for C-Arm were developed under the advice of physicians in specialties anticipated to practice at the proposed site. These physicians provided annual C-Arm utilization estimates for well-established, full-time practitioners in their respective specialties. These utilization estimates were then adjusted to account for anticipated staffing levels and productivity assumptions. The C-Arm is expected to be used for 15-18 procedures per week, or 875 annually.

F. Physician Referrals

Attached are letters from Dr. Philip Roemer, Chief Medical Officer of NMFF, and Dr. Daniel Derman, President of NMPG, indicating the commitment of the two physician groups to have their practice offices inform patients of the imaging center at the Glen, and encourage patients to use the proposed imaging center.

3) Impact of the Proposed Project on Other Area Providers

The imaging center at 2701 N. Patriot Boulevard has been designed to serve patients who are affiliated with physicians at Northwestern Medical Faculty Foundation and Northwestern Memorial Physicians Group. It is not anticipated that the center will draw patients from other physician practices in north suburban Cook County and Lake County.

c)(3)(A) Utilization – Major Medical Equipment

The following table compares the projected utilization of the proposed imaging center to State standards. The equipment is expected to be operational by Fall, 2013. The second year of operation is Year 2015.

EQUIPMENT	YEAR 2015 PROJECTED VISITS	STATE STANDARD VISITS/YEAR
X-Ray	4,178	8,000
CT	2,529	7,000
MRI	2,698	2,500
Ultrasound	2,726	3,100
Mammography	1,297	5,000
Bone Densitometry	300	N/A
C-Arm	875	N/A

Except for MRI, the volume projections are lower than State standards. Much of this variance is explained by the difference in use between inpatient and outpatient imaging equipment. Equipment in hospitals is most usually in daily operation for two or even three shifts, with reduced hours on weekends. Higher volumes are more easily achieved in a hospital setting, due to the frequency of testing on inpatients to diagnose and monitor conditions. Outpatient imaging centers, such as the proposed one at 2701 N. Patriot Boulevard, are open 5-6 days a week, and are closed at night.

For example, it is unlikely that a CT scanner in this type of outpatient setting can meet the State standard of 7,000 procedures per year. An efficient outpatient CT operation would accommodate up to 16 patients on a typical week day, and up to 6 patients on a Saturday. This volume is associated with a frequency of one patient each 30-45 minutes. At this rate, a high volume CT scanner would accommodate a maximum of approximately 4,500 annual tests. While this is below the State standard, it is an efficient operating level for a freestanding outpatient setting.



Northwestern Medical Faculty Foundation

Executive Administration
680 N. Lake Shore Drive
Suite 1118
Chicago, IL 60611

January 24, 2013

Dale Galassie
Chairman
Illinois Health Facilities and Services Review Board
525 N. Jefferson Street, 2nd floor
Springfield, IL 62751

Dear Mr. Galassie:

The Northwestern Medical Faculty Foundation has tens of thousands of patients who reside in the north suburbs in Cook and Lake Counties. We appreciate their loyalty over the years in traveling to downtown Chicago to their physician appointments and diagnostic tests. The project at 2701 N. Patriot Boulevard in Glenview offers these patients the option of receiving their diagnostic imaging test much closer to home, adjacent to offices staffed by NMFF physicians.

Many of these patients will make appointments with NMFF physicians at the Glenview offices, while many will continue to see their traditional specialists downtown. However, when it comes to diagnostic testing, it is likely that the majority, when given the choice, will prefer the convenience of going to a diagnostic center near their home. Convenient accessible care is the expectation of patients, and an important commitment by the Northwestern Medical Faculty Foundation.

With the hoped-for State approval of this imaging project, NMFF physician offices will announce the availability of this center and encourage patients residing in the north suburbs to have their tests done at this site. I will encourage specialists at NMFF to refer their patients for testing in Glenview.

Please contact me at 312-695-3767 if you would like further information about this project.

Sincerely,

Phillip Roemer, MD
Chief Medical Officer

201 E. Huron

12th Floor, Suite 105

Chicago, IL 60611

312.926.DOCS (3627)

312.926.3858 fax

January 25, 2013

Mr. Dale Galassie
Chairman
Illinois Health Facilities and Services Review Board
525 West Jefferson Street 2nd floor
Springfield, IL 62751

Dear Mr. Galassie:

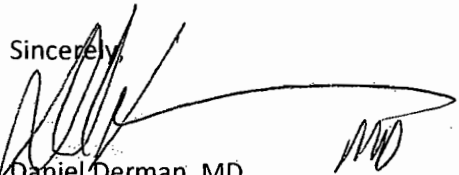
I support the Certificate of Need permit application made by the Northwestern Medical Faculty Foundation to construct an outpatient imaging center at 2701 N. Patriot Boulevard.

I am writing in my capacity as President of the Northwestern Memorial Physicians Group, a group practice with 150 physicians. NMPG will have a presence at 2701 N. Patriot Boulevard, and a large patient base in northern Cook County and Lake County. Having diagnostic equipment available at this location will make it convenient for numerous patients who will prefer to have their tests completed in Glenview, rather than having to come to the downtown Northwestern campus in Chicago or to other centers.

I will advise all NMPG physician offices to post information on the availability of the center, and to encourage their patients to take advantage of this facility by scheduling their appointments for testing at this center. Over the years, many patients have suggested to me that having diagnostic services closer to their homes would significantly improve the delivery of health care.

If you have any questions, please contact me at 312-926-3107.

Sincerely,


Daniel Derman, MD

President

Northwestern Memorial Physicians Group

VIII. 1120.120 – Availability of Funds

IX. 1120.130 – Financial Viability

VIII. 1120.120 – Viability Ratios

Attached are copies of NMFF's most recent bond ratings. August, 2011, Moody's Investors Service upgraded NMFF's bond rating to A1 from A2; in December, 2011, Fitch affirmed NMFF's bond rating at A+.

On April 23, 2012, NMFF's debt was converted from public placement to private placement with a commercial bank. As a result, NMFF's former bond ratings were no longer relevant; NMFF bonds are no longer available for purchase on the open market.

NMFF remains a tax-exempt organization.

FitchRatings

FITCH AFFIRMS NORTHWESTERN MEDICAL FACULTY FOUNDATION (ILLINOIS) REVS AT 'A+'; OUTLOOK STABLE

Fitch Ratings-Chicago-20 December 2011: Fitch Ratings has affirmed the 'A+' rating on approximately \$72 million of series 1998 revenue bonds issued by the Illinois Health Facilities Authority on behalf of Northwestern Medical Faculty Foundation (NMFF).

The Rating Outlook remains Stable.

SECURITY

Bond payments are secured by a pledge of the unrestricted receivables of the obligated group. Additionally, bond payments are secured by a security interest in certain real property and improvements and a debt service reserve fund.

KEY RATING DRIVERS

Strong Affiliations: NMFF's highly regarded physicians and its close affiliation with Northwestern Memorial Hospital (NMH) and Northwestern University's Feinberg School of Medicine (FSM) are considerable credit strengths as these three entities are interdependent.

Solid Financial Profile: Strong operating profitability and the resulting cash flow have produced strong debt service coverage, which is also aided by its low debt burden.

Modest Capital Needs: Future capital needs are modest with no additional debt issuances expected.

WHAT COULD TRIGGER A RATING ACTION

Looming Medicare Cuts for Physicians: Medicare reimbursement to physicians may be cut by 27.4% in January 2012 unless Congress eliminates or decreases the scheduled cuts. This could have a dramatic impact on NMFF's profitability although it is expected that the reimbursement reduction would be offset by cost reduction initiatives.

CREDIT PROFILE

The affirmation of the 'A+' rating is supported by NMFF's interdependent relationship with NMH and FSM, strong operating profitability and low debt burden. Fitch's primary credit concern relates to its narrow business scope with looming Medicare reimbursement cuts to physician payments that need to be addressed by the federal government.

NMFF's primary credit strength is its strong clinical reputation and close affiliation with NMH and FSM. The three entities have a high degree of interdependence. NMFF physicians are full-time faculty members at FSM, and the physicians are responsible for the majority of NMH's admissions. NMFF, NMH and FSM typically jointly support practice development and recruitment.

Although the three entities have always been interdependent, a new level of collaboration between the organizations is beginning due to a change in leadership. A new Dean of FSM started in September 2011. It is expected that closer integration between FSM and NMFF will occur since the Dean is also serving as both the Chairman and CEO of NMFF. The COO position at NMFF is vacant, and a national search is underway.

Operating profitability improved dramatically in the fiscal years ending 2010 and 2011. Operating margin increased from an average of 6.3% in fiscal years 2008 and 2009 to 10.9% and 10.3% in fiscal 2010 and 2011, respectively. The strong profitability is due to NMFF's continued focus on

cost reduction and an increasing incentive component of physician compensation. Additionally, NMFF recognized a decrease in professional liability expense in fiscal years 2010 and 2011 due to positive claims experience and received policyholder dividends of \$4.6 million and \$18.6 million, respectively, reflecting the positive claims experience. The dividends were passed along to FSM as mission support contributions on the income statement. These policyholder dividends are unlikely to reoccur, however, Fitch expects NMFF to benefit from the positive claims experience going forward.

The strong operations and positive investment returns improved unrestricted liquidity and decreased leverage. Debt to capitalization decreased to 27.2% in fiscal 2011 from 33% in fiscal 2009, while days cash on hand increased 55.4% to 136.4 days from 87.8 days. The strengthened balance sheet provides additional operating flexibility.

NMFF has a low debt burden and its debt and investment portfolios are conservative. Total outstanding debt was \$72 million and is 100% fixed rate. Total unrestricted liquidity was \$172 million as of Aug. 31, 2011 of which approximately 70% is composed of cash equivalents and fixed income securities. The strong cash flow, robust liquidity and low debt burden combine to create strong maximum annual debt service (MADS) coverage of 7.8 times (x) EBITDA and a cushion ratio of 27.1x.

NMFF's capital needs are modest and total approximately \$10 million a year for routine capital. Additionally, NMFF budgeted \$12 million over a two year period for IT-related and disaster recovery expenditures. This compared to its average EBITDA of \$40 million over the last three years.

Fitch's primary credit concern is the pending cut to physician reimbursement, which is slated for 27.4% effective Jan. 1, 2012. These cuts have historically been pushed off by Congress and have now amounted to a sizeable number, which will need to be addressed. Medicare represented 14.4% of NMFF's net revenues in fiscal 2011.

Fitch expects that the revenue reductions would most likely be offset by cost reduction initiatives. In addition, NMFF makes discretionary transfers to FSM that could be scaled back. Transfers to FSM averaged \$27 million over the past three years. The strength of NMFF's balance sheet provides adequate cushion in the short term.

The Stable Outlook is based upon Fitch's expectation that NMFF will maintain strong financial performance with the potential for further improvement due to increased collaboration with NMH and FSM. Fitch expects NMFF will be able to mitigate any potential physician payment reductions. Downward pressure on the rating would occur if financial performance significantly deteriorates.

NMFF is a multi-specialty physician group located in Chicago, IL with over 700 physicians. Total operating revenue in fiscal 2011 (draft audit) equaled \$561 million. NMFF covenants to disclose annual and quarterly financial statements to its bond trustee and any requesting bondholders. Annual financial statements are posted on the Municipal Securities Rulemaking Board's EMMA website.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', dated June 20, 2011;

--'Nonprofit Hospitals and Health Systems Rating Criteria', dated Aug. 12, 2011.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130

Nonprofit Hospitals and Health Systems Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648836

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MOODY'S

INVESTORS SERVICE

Rating Update: MOODY'S UPGRADES BOND RATING FOR NORTHWESTERN MEDICAL FACULTY FOUNDATION TO A1 FROM A2; OUTLOOK REVISED TO STABLE FROM POSITIVE

Global Credit Research - 11 Aug 2011

RATING ACTION AFFECTS TOTAL OF \$75 MILLION RATED DEBT OUTSTANDING

Illinois Health Facilities Authority
Health Care-Hospital

Opinion

NEW YORK, Aug 11, 2011 – Moody's Investors Service has upgraded the bond rating for Northwestern Medical Faculty Foundation (NMFF) to A1 from A2, affecting \$75 million of debt outstanding as listed at the end of this report. At this time, we are revising the rating outlook to stable from positive.

RATINGS RATIONALE:

The A1 rating is based on NMFF's status as a large, well-established clinical practice located in an attractive area of Chicago, close affiliation with the Northwestern Feinberg School of Medicine (SOM) (part of Aaa-rated Northwestern University) and Aa2-rated Northwestern Memorial Hospital (NMH), and relatively low leverage position driving strong debt measures. NMFF's challenges include flat Medicare rates and annual threats of Medicare cuts, modest operating margins as a result of a model that transfers funds to support the school of medicine, and moderate (albeit growing) cash position.

The rating upgrade is based on an increasingly close affiliation with the SOM and NMH, including joint strategic planning and budgeting, growth in NMFF's unrestricted cash position and improvement in NMFF's core operations prior to transfers to the SOM.

STRENGTHS

*Large, well established clinical practice with wide breadth of high caliber tertiary and quaternary specialists and location in an attractive service area; the practice has grown to over 700 physicians, generating over \$550 million in annual revenue

*Though remaining legally separate entities, NMFF's affiliation with the Feinberg School of Medicine (SOM), part of Aaa-rated Northwestern University (University), and Aa2-rated Northwestern Memorial Hospital (NMH) strengthens NMFF's credit profile as evidenced by a series of grant and professional services support agreements as well as closer coordination of various strategic initiatives

*Strong patient revenue growth of 6-9% each of the past three years (prior to fiscal year 2011) and positive volume trends

*Relatively low debt position, driving strong debt measures including 214% cash-to-debt, a low 1.9 times debt to cashflow and 6.6 times peak debt service coverage based on annualized nine-month performance for fiscal year 2011; debt structure has minimal risk with all fixed rate debt

*Manageable capital plans with no immediate debt plans

CHALLENGES

*Relatively flat or minimal increases in rates from Medicare, which accounts for 30% of gross revenue, as well as annual threats of cuts in physician Medicare reimbursement; additionally, future Medicare rates for physicians are uncertain given discussions of healthcare reform and Medicare funding

*History of moderate margins, even with recent improvement on core operations, which are heavily impacted by transfers to and from the SOM and NMH

*Although the absolute unrestricted investment position has increased by a substantial 42% since fiscal yearend 2009 (81 days of cash on hand), cash on hand remains moderate at 108 days as of May 31, 2011 and NMFF has approximately 60% exposure to equities

*Lease obligations are fairly high relative to direct debt, somewhat moderating debt measures

DETAILED CREDIT DISCUSSION

LEGAL SECURITY: NMFF is the sole member of the Obligated Group.

INTEREST RATE DERIVATIVES: None

RECENT DEVELOPMENTS/RESULTS

This multi-specialty group practice plan continues to maintain a solid market presence as the full time medical faculty of the SOM of Northwestern University (University, rated Aaa) and lead admitting physicians of Northwestern Memorial Hospital (NMH, rated Aa2). NMFF's long-standing affiliations with both have evolved in recent years to a more highly aligned model and we believe further strategic developments suggest even closer operating, strategic and management collaboration in the future.

NMFF is a separate 501c3 corporation from the University and NMH, although there is representation from each entity on NMFF's board. NMFF's board includes the Dean of the SOM, the Chief Executive Officer of NMH and the department Chairs, who serve as Chairs of their respective Departments at the School of Medicine and NMH. NMFF, NMH and the University completed a new joint strategy that coordinates

efforts and funding of the strategy across the three organizations to reach a common goal of elevating the Northwestern "brand" name. From an operating perspective, there are joint activities including physician recruitment, purchase of malpractice insurance, and facility/space planning. In the future, as the strategy is further defined the organizations will consider coordination of other support functions, such as supplies purchasing. The three organizations will be moving to one budget platform to enable the implementation of strategies around gaining synergies. NMFF provides annual financial support to the SOM through a Dean's tax as well as discretionary funding. Additionally, in late 2009 the Northwestern Medicine Catalyst Fund was started to support recruiting, research and clinical initiatives; all three entities contribute to the fund and then annual distributions are made depending on strategic priorities.

NMFF is a large and prominent group within the Chicagoland region, with membership growing to more than 700 physicians (approximately 30 new physicians annually) and generating over \$550 million in annual revenue. Revenue growth has been driven by physician recruitment, strong demand for services and consistent growth in patient visits. NMFF is able to compete well for new physicians based on its attractive location and facilities, mix of specialists, and focus on both academic and clinical initiatives.

Operating margins are modest as is typical of physician groups and indicative of the operating model which includes providing financial support for the SOM. Moody's includes annual discretionary funding to the SOM as an expense, although some of these transfers are discretionary and dependent on the underlying operating performance of NMFF. On this adjusted basis, operating income was \$14 million (2.6%) in fiscal year 2010, compared with \$24 million (4.6%) in fiscal year 2009. Likewise, operating cashflow was \$27 million (4.9%) in fiscal year 2010, compared with \$39 million (3.7%) in 2009. On this basis, the decline in performance is entirely due to a higher level of transfers to the SOM; discretionary support increased to \$41 million in fiscal year 2010 from \$13 million in 2009. Before transfers operating performance improved due to a healthy 6% increase in revenue from physician recruitment, an increase in visits and rate increases. Additionally, insurance expense declined from better claims management and the release of reserves.

Through nine months of fiscal year 2011, with discretionary transfers reclassified to expenses, operating income was \$15 million, on par with the prior year period. Before transfers, operating income was down in part due to slower revenue growth.

NMFF enjoys a relatively diverse payor mix with 59% of gross charges from managed care payers, 30% Medicare, and 7% Medicaid. Medicare rates remain a challenge as previous rate increases for physicians have been flat or have increased modestly. The current Medicare formula for physician reimbursement has resulted in annual threats of large cuts in Medicare, which have not been passed. Future Medicare rates will depend on whether a permanent fix can be made to the physician formula and the implications of healthcare reform on Medicare reimbursement.

NMFF's balance sheet provides a good cushion for debt. Total unrestricted investments as of May 31, 2010 grew to \$154 million (108 days cash on hand), compared with \$108 million at fiscal yearend 2009, providing a strong 214% coverage of debt. NMFF has a defined contribution plan and so does not have pension funding needs. Capital spending for the next several years is expected to be manageable at approximately \$10 million annually. Debt is low with 13% debt-to-revenue, favorably low 1.9 times debt-to-cashflow and strong 6.6 times peak debt service coverage. No additional debt is planned in the near term.

Outlook

The stable outlook is based on expectations of further integration with the SOM and NMH, maintenance of a strong balance sheet including no new debt, and an ability to manage transfers to the SOM relative to operating performance of NMFF.

WHAT COULD CAUSE THE RATING TO GO UP

Further development of integration strategies with NMH and the SOM that would benefit NMFF; improvement in operating margins; some resolution or better guidance regarding future Medicare rates for physicians

WHAT COULD CAUSE THE RATING TO GO DOWN

Sizeable unexpected additional borrowing; a downgrade in the University's or NMH's debt ratings; material decline in support from NMH; multiple years of operating losses when including supplemental funding from NMH

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for Northwestern Medical Faculty Foundation & Subsidiary

-First number reflects audit year ended August 31, 2010

-Second number reflects unaudited results for nine months ended May 31, 2011, annualized

-Operating expenses adjusted to include \$40.9 million and \$5.5 million in FY2010 and nine months FY2011, respectively, of Mission support contributions - medical education and Mission support contributions - research, academic and other

-Investment returns smoothed at 6% unless otherwise noted

*Total operating revenues: \$552.7 million; \$549.7 million

*Moody's-adjusted net revenue available for debt service: \$39.0 million; \$42.3 million

*Total debt outstanding: \$76.2 million; \$72.3 million

*Maximum annual debt service (MADS): \$6.4 million; \$6.4 million

*MADS Coverage with reported investment income: 5.5 times; 9.3 times

*Moody's-adjusted MADS Coverage with normalized investment income: 6.1 times; 6.4 times

*Debt-to-cash flow: 2.2 times; 1.9 times

*Days cash on hand: 96 days; 108 days

*Cash-to-debt: 182%; 214%

*Operating margin: 2.6%; 3.6%

*Operating cash flow margin: 4.9%; 6.0%

RATED DEBT

-Series 1998 fixed rate bonds (\$75 million): A1; MBIA insured

CONTACTS

Issuer: Brian Walsh, Vice President, Financial Services & CFO, (312) 695-0141

PRINCIPAL METHODOLOGY USED

Northwestern Medical Faculty Foundation's ratings were assigned by evaluating factors believed to be relevant to the credit profile of the issuer such as (i) the business risk and competitive position of the issuer versus others within its industry, (ii) the capital structure and financial risk of the issuer, (iii) the projected performance of the issuer over the near to intermediate term, (iv) the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals, (v) the nature of the dedicated revenue stream pledged to the bonds, (vi) the debt service coverage provided by such revenue stream, (vii) the legal structure that documents the revenue stream and the source of payment and, (viii) the issuer's management and governance structure related to payment.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

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Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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X. 1120.140 – Economic Feasibility**A. Reasonableness of Financing Arrangements**

Not Applicable – see attached proof of bond rating.

B. Conditions of Debt Financing

Not Applicable – there will be no debt financing for the project.

C. Reasonableness of Project and Related Costs

COST AND GROSS SQUARE FEET BY DEPARTMENT									
Department	A	B	C	D	E	F	G	H	
	Cost/SF New	Mod.	DGSF New	Circ.	DGSF Mod.	Circ.	Const. \$ (A x C)	Mod. \$ (B x E)	Total Cost (G + H)
Diagnostic Radiology		\$276.43			7,152	18.5%		\$1,977,082	\$1,977,082
Contingency		\$16.59						\$118,625	\$118,625
TOTALS		\$293.02						\$2,095,707	\$2,095,707

D. Projected Operating Costs**Project Direct Operating Expenses – FY15**

	Imaging Center Project
Total Direct Operating Costs	\$ 354,900
Visits	14,553
Direct Cost per Visit	\$ 24.39

E. Total Effect of the Project on Capital Costs**Projected Capital Costs – FY15**

	Imaging Center Project FY15
Visits	14,553
Total Project Cost	\$ 6,349,057
Useful Life	10
Total Annual Depreciation	\$ 634,906
Depreciation Cost per Visit	\$ 43.63

XI. Safety Net Impact Statement

Not Applicable – the proposed project is NON-SUBSTANTIVE and does not involve discontinuation.

XII. Charity Care Information

Charity Care

NMFF CHARITY CARE			
	FY10	FY11	FY12
Net Patient Revenue	\$ 480,568,000	\$ 487,494,000	\$ 507,001,000
Amount of Charity Care (charges)	\$ 14,196,000	\$ 22,587,000	\$ 39,464,000
Cost of Charity Care	\$ 3,997,000	\$ 6,488,000	\$ 11,773,000
% Charity Care (charges) of NPR	3.0%	4.6%	7.8%
% Charity Care (cost) of NPR	0.8%	1.3%	2.3%

The Northwestern Medical Faculty Foundation provides an extensive amount of community service. It is committed to being a leading provider of clinical care to all of its communities and neighborhoods, regardless of a patient's ability to pay. NMFF provides medically necessary care to indigent and economically disadvantaged persons free of charge or at discounted rates. Additionally, NMFF provides medical care to persons covered by government programs which provide reimbursement at rates that are less than the related costs, and to patients who are otherwise unable to pay for medical services.

Financial assistance

NMFF provides financial assistance to those patients who face challenges regarding their ability to pay for medically necessary services. NMFF offers charity care options to its patients who are Illinois residents (with some exceptions for non-residents) and who meet the guidelines set forth by its charity care policy and who apply for financial assistance. The current guidelines offer a 100% discount to patients with income up to 250% of the federal poverty level and a 75% discount to patients with income 251 – 600% of the federal poverty level. Even if a patient is not eligible for a discount due to income level, charges are capped to not exceed specified percentages of a patient's annual income.

NMFF also strives to provide a full continuum of clinical care to the community that meets the varying healthcare needs of its residents. In order to provide comprehensive care, NMFF offers services that are often critical to a patient's health, but where reimbursement does not cover the costs of providing services.

Community Outreach

NMFF engages in a number of community outreach activities, many of which provide access to high quality care to community residents who may not otherwise receive adequate treatment:

- NMFF physicians from numerous practice areas provide free medical care at community clinics serving the indigent and underserved populations.
- NMFF physicians provide care at the Jesse Brown Veterans Administration Medical Center and at the John Stroger Hospital of Cook County.
- Various clinical departments participate in free disease screening activities. For example, NMFF's Department of Surgery continues to partner with the Illinois Department of Public Health to provide colonoscopy screenings for the uninsured.
- NMFF physicians supervise medical students who operate a free screening and treatment clinic in Chicago's Chinatown.
- NMFF offers free translation services to all patients.
- NMFF sponsors a transplant program dedicated to Spanish speaking patients in order to more effectively educate and treat the Spanish segment of the community.
- A charitable team of employee volunteers from a cross section of departments identifies opportunities designed to support community needs. During FY11, these activities have

included clothing, food, school supply, and toy drives; a fundraising event for the Alzheimer's Association; and participation in the Chicago Care-A-Thon.

Training

NMFF provides extensive health care student training, clinical observation opportunities and in-service or other training programs for non-Northwestern students, visiting scholars and clinicians, and health care professionals.

Community Support

Clinical practice areas and administrative departments within NMFF also participate in a number of activities which benefit local, national and international communities. These include:

- Providing support programs for patients, families/caregivers and the public: NMFF's monthly Cancer Connections meeting provides patients, caregivers and family members, and the public an opportunity to learn about local support groups, educational programs, wellness activities and community resources to assist patients in their cancer journey. NMFF physicians also collaborate with Prentice Women's Hospital to provide perinatal loss support groups for patients and the public.
- Providing health information to the community: physicians from almost every clinical area at NMFF are frequent speakers at community education events, as well as contributors to structured educational programs. The Internet has also provided a forum for NMFF physicians to communicate health information to the public.
- Participating in or sponsoring fund raising events to benefit disease research or education: several departments participate in association-sponsored fundraising events (eg: "Chicago Go Red for Women") or directly sponsor various fund-raising events (eg: Robert H. Lurie Cancer Center Survivors Walk).
- Participating in health fairs and disease-specific awareness programs.
- Supporting volunteer activities of NMFF employees through paid-time off; for example, the Department of Anesthesiology allows employees to participate in volunteer activities without using vacation time. As a result, NMFF employees have participated in medical missions throughout the world and volunteered as hotline consultants.
- Supporting in-kind contribution to organizations that benefit the community: NMFF encourages its employees to be actively involved in professional activities, and many of the professional organizations in which employees are involved seek to improve public health (eg: NMFF physicians have served as President of the Chicago Board of Health, and numerous public health task forces).

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Northwestern Medical Faculty Foundation and Subsidiaries
Years Ended August 31, 2011 and 2010
With Reports of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Northwestern Medical Faculty Foundation and Subsidiaries

Consolidated Financial Statements
and Other Financial Information

Years Ended August 31, 2011 and 2010

Contents

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	8
Other Financial Information	
Report of Independent Auditors on Other Financial Information	38
Consolidating Balance Sheets.....	39
Consolidating Statements of Operations.....	41

Report of Independent Auditors

The Board of Directors
Northwestern Medical Faculty Foundation

We have audited the accompanying consolidated balance sheets of Northwestern Medical Faculty Foundation and Subsidiaries (the Foundation) as of August 31, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northwestern Medical Faculty Foundation and Subsidiaries as of August 31, 2011 and 2010, and the consolidated results of their operations, changes in net assets, and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

January 6, 2012

Northwestern Medical Faculty Foundation and Subsidiaries

Consolidated Balance Sheets

(In Thousands)

	August 31	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 56,404	\$ 39,493
Current portion of assets limited as to use:		
Internally designated assets	7,170	4,995
Held-by-trustee assets	2,839	2,788
Accounts receivable, net of allowance for doubtful accounts of \$14,099 in 2011 and \$15,180 in 2010	57,633	57,330
Current portion of insurance program deposits and collateral	4,317	4,522
Pledges receivable	7,366	5,763
Other receivables, prepaid expenses, and current assets	18,211	15,775
Total current assets	153,940	130,666
Investments	81,623	71,613
Assets limited as to use:		
Internally designated assets	45,058	33,411
Held-by-trustee assets	6,233	6,233
Property, equipment, and improvements, net	71,521	72,550
Insurance program deposits and collateral	74,389	55,288
Deferred bond issuance costs, net	1,188	1,259
Pledges receivable	12,625	5,197
Other noncurrent assets	3,795	3,112
	<u>\$ 450,372</u>	<u>\$ 379,329</u>

	August 31	
	2011	2010
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 18,915	\$ 15,635
Accrued salaries, wages, benefits, and taxes	40,528	36,642
Amounts payable to Feinberg School of Medicine and Research and Education Fund	24,650	20,453
Current portion of insurance program liabilities	4,317	4,522
Current maturities of long-term debt and capital leases	2,838	2,901
Total current liabilities	91,248	80,153
Long-term debt and capital leases, less current maturities	69,374	72,117
Other liabilities:		
Insurance program liabilities	58,391	44,865
Deferred compensation	7,254	6,284
Other	7,527	7,433
Total other liabilities	73,172	58,582
Total liabilities	233,794	210,852
Net assets:		
Unrestricted	185,493	146,634
Temporarily restricted	31,085	21,843
Total net assets	216,578	168,477
	<u>\$ 450,372</u>	<u>\$ 379,329</u>

See accompanying notes.

Northwestern Medical Faculty Foundation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended August 31	
	2011	2010
Change in unrestricted net assets		
Revenues:		
Patient service revenue	\$ 487,494	\$ 480,568
Net assets released from restrictions	14,040	13,449
Other revenue	59,327	58,684
Total revenues	560,861	552,701
Expenses:		
Physician salaries, wages, benefits, and taxes	210,591	200,432
Nonphysician salaries, wages, benefits, and taxes	111,471	108,118
Provision for bad debts	33,030	36,659
Purchased medical and professional services	26,029	26,434
Medical supplies and devices	65,895	58,576
Administrative and general	14,196	12,647
Rent and other occupancy costs	15,570	14,580
Professional liability insurance	(248)	7,535
Provision for Research and Education Fund	20,043	19,779
Depreciation and amortization	9,940	8,852
Interest expense	3,894	3,814
Total expenses	510,411	497,426
Operating income before earnings on insurance program deposits and collateral	50,450	55,275
Earnings on insurance program deposits and collateral	7,346	5,238
Operating income	57,796	60,513
Nonoperating (expenses) income:		
Investment income	7,085	2,747
Net assets released from restrictions	240	9,846
Mission support contributions – medical education	(531)	(1,234)
Mission support contributions – research, academic, and other	(25,731)	(39,637)
Total nonoperating expenses	(18,937)	(28,278)
Excess of revenues over expenses	38,859	32,235

Northwestern Medical Faculty Foundation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)
(In Thousands)

	Year Ended August 31	
	2011	2010
Change in unrestricted net assets		
Excess of revenues over expenses	\$ 38,859	\$ 32,235
Increase in unrestricted net assets	38,859	32,235
Change in temporarily restricted net assets		
Net assets released from restrictions	(14,280)	(23,295)
Restricted contributions	23,522	14,018
Decrease in temporarily restricted net assets	9,242	(9,277)
Change in net assets	48,101	22,958
Net assets – beginning of year	168,477	145,519
Net assets – end of year	<u>\$ 216,578</u>	<u>\$ 168,477</u>

See accompanying notes.

Northwestern Medical Faculty Foundation and Subsidiaries

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended August 31	
	2011	2010
Operating activities		
Change in net assets	\$ 48,101	\$ 22,958
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Earnings on retained-risk insurance programs	(7,346)	(5,238)
Equity (gains) losses on alternative investments	(1,062)	680
Net increase in trading securities	(11,113)	(2,971)
Depreciation and amortization	9,940	8,852
Amortization of original issue discount and deferred financing costs	164	164
Forgiveness of physician and employee loans	807	1,046
Provision for bad debts	33,030	36,659
Restricted contributions	(23,522)	(14,018)
Changes in operating assets and liabilities:		
Accounts receivable	(33,333)	(38,928)
Other receivables, prepaid expenses, and current assets	(2,436)	(5,521)
Accounts payable and accrued expenses, including accrued salaries, wages, benefits, and taxes	5,858	(3,316)
Amounts payable to Feinberg School of Medicine and Research and Education Fund	4,197	5,192
Insurance program liabilities	13,321	(11,799)
Other assets and liabilities	1,144	1,034
Net cash provided by (used in) operating activities	37,750	(5,206)
Investing activities		
Purchases of property, equipment, and improvements	(7,602)	(7,541)
Capital contributions to alternative investment funds	(10,030)	(11,025)
Distributions from alternative investment funds	11,265	10,629
(Increase) decrease in insurance program deposits and collateral	(11,550)	17,383
Increase in assets limited as to use, net	(12,941)	(15,467)
Net cash used in investing activities	(30,858)	(6,021)

Northwestern Medical Faculty Foundation and Subsidiaries

Consolidated Statements of Cash Flows (continued) (In Thousands)

	Year Ended August 31	
	2011	2010
Financing activities		
Repayment of long-term debt	\$ (2,435)	\$ (2,325)
Payments on capital leases	(463)	(467)
Proceeds from restricted contributions	14,235	12,928
Issuance of loans to physicians and employees	(1,753)	(602)
Repayment of loans by physicians and employees	435	288
Net cash provided by financing activities	<u>10,019</u>	<u>9,822</u>
Increase (decrease) in cash and cash equivalents	16,911	(1,405)
Cash and cash equivalents:		
Beginning of year	39,493	40,898
End of year	<u>\$ 56,404</u>	<u>\$ 39,493</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 3,930</u>	<u>\$ 4,022</u>
Noncash additions to property, equipment, and improvements	<u>\$ 1,309</u>	<u>\$ 4,927</u>

See accompanying notes.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (In Thousands)

August 31, 2011

1. Description of Organization

Northwestern Medical Faculty Foundation and Subsidiaries (the Foundation), an Illinois not-for-profit, tax-exempt corporation located in Chicago, Illinois, is an academic faculty practice plan with approximately 720 physicians and 1,350 additional health professionals and other staff. The Foundation's mission is to promote optimal health for patients and the broader community by preventing and curing disease, providing high-quality medical care, and supporting critical inquiry and continuous learning. The Foundation's physicians embody the traditional tripartite commitments of academic medicine – clinical care, research, and education – and work in a wide array of medical and surgical specialties and subspecialties. The Foundation's physicians serve as full-time faculty at Northwestern University (NU) Feinberg School of Medicine (FSM) and as members of the medical staff of Northwestern Memorial Hospital (NMH).

The Foundation's revenue is derived primarily from reimbursement for clinical services provided by Foundation physicians at the Foundation's ambulatory care locations, at NMH, and at other sites in the metropolitan Chicago area. The Foundation also derives revenue from fees earned from nonclinical services performed by its physicians and other health professionals, including medical administration, medical education, and other services.

The consolidated financial statements include the accounts of Northwestern Foundation for Research and Education (NFRE), an Illinois not-for-profit, tax-exempt corporation created to foster and promote the educational, charitable, research, scientific, and other activities of the Foundation and FSM. The Foundation is the sole corporate member of NFRE. Contributions and grants from NFRE are awarded to qualifying entities at the discretion of an oversight committee. The consolidated financial statements also include the accounts of Northwestern/Rosin Eyecare LLC (Rosin Eyecare), an Illinois limited liability company established to provide optical and optometric services. The Foundation is the majority owner of Rosin Eyecare. The assets, liabilities, and net assets of NFRE and Rosin are not material. All significant intercompany transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States (generally accepted accounting principles).

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and on deposit as well as certain investments with purchased maturities of 90 days or less. The Foundation invests excess working capital in money market mutual funds. These funds focus on preservation of capital and generally hold highly liquid government, bank, and commercial obligations.

Inventories

Pharmaceutical inventories are stated at the lower of cost or fair value using the average cost method.

Investments

Investments in commingled funds, structured as domestic and foreign limited liability companies, are measured at fair value based upon determined and published net asset values that are the basis for current transactions. The Foundation considers its commingled fund holdings to be trading securities, as the Foundation has granted discretionary authority to buy and sell underlying assets to various investment managers.

Investments in alternative investment funds, structured as limited partnerships, limited liability companies, and investor companies, are accounted for on the equity basis, based on valuation information provided by the fund managers. In cases where management believes the quarterly valuation information provided by fund managers does not reflect current market conditions, a valuation reserve is estimated and recorded.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Investment income (including interest and dividends, realized gains and losses, equity earnings on alternative investment funds, and changes in unrealized gains and losses on trading securities) is included in the excess of revenues over expenses and reported as nonoperating gains (losses).

Assets Limited as to Use

Assets limited as to use include internally designated assets and held-by-trustee assets. Internally designated assets comprise amounts set aside to fund various commitments and strategic objectives. The Foundation retains control over the related assets and may, at its discretion, subsequently redirect these amounts to other purposes. Held-by-trustee assets represent amounts maintained by a trustee under terms of the Foundation's borrowing agreements (see Note 6). Internally designated assets and held-by-trustee assets are classified in the consolidated balance sheets as current assets to the extent they are expected to be applied to discharge current obligations.

As described in Note 4, internally designated assets are held in money market funds, commingled funds, mutual funds, and guaranteed interest annuity contracts. Such commingled funds and mutual funds are measured at fair value and are considered trading securities, as discretionary authority to buy and sell underlying assets has been granted to investment managers and program participants, respectively. Guaranteed interest annuity contracts are measured at contract value, which approximates fair value. Held-by-trustee assets are held in money market funds.

Property, Equipment, and Improvements

Property, equipment, and improvements are recorded at cost or fair value, if donated. Costs relating to computer software developed or obtained for internal use (including external direct costs of materials and services, payroll costs for employees directly associated with software development projects, and interest costs incurred during the development period) are capitalized and included in property, equipment, and improvements.

Depreciation on property and equipment is provided over the estimated useful lives of the related assets and is computed using the straight-line method. Leasehold improvements and assets under capital leases are amortized over the shorter of the lease term or the estimated useful lives of the assets using the straight-line method, with the associated charge included in depreciation expense.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

The Foundation estimates the useful lives of property, equipment, and improvements as follows:

Type of Asset	Useful Life
Building	35 years
Building improvements	18 years
Furniture and fixtures	10 years
Medical equipment	8 years
Computers, computer equipment, and internal-use software projects	3 to 8 years

Long-Lived Assets

The Foundation periodically assesses whether circumstances have occurred that would indicate the remaining estimated useful lives of long-lived assets may warrant revision or that the remaining balance of such assets may not be recoverable. In cases of possible impairment, the Foundation uses an estimate of the undiscounted cash flows over the remaining life of the asset in measuring whether the carrying value of the asset is recoverable. No impairment adjustments were recorded in fiscal years 2011 or 2010.

Pledges and Contributions

Unconditional promises to give cash and other assets are reported as pledges receivable at fair value at the date the promise is received. An allowance for uncollectible pledges receivable is estimated based on historical experience and other indicators. Pledges receivable with payment terms extending beyond one year are discounted using a risk-free rate of return. Pledges and other contributions are reported as temporarily restricted if received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, either because a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Insurance Program Deposits

Insurance contracts that do not transfer insurance risk are accounted for using the deposit method.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Deferred Financing Costs and Amortization of Bond Discount

Long-term debt issuance costs are deferred and amortized over the term of the debt, along with the related original issue discount, using the straight-line method, which approximates the effective interest method.

Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered. Under terms of government programs and agreements with other third-party payors, the Foundation receives payments at amounts different from established rates. Payment arrangements primarily include predetermined fee schedules and discounts from charges. The consolidated financial statements reflect provisions for contractual adjustments and other discounts and allowances, representing the difference between charges for services rendered and expected reimbursement.

Laws and regulations governing Medicare, Medicaid, and other third-party payor reimbursement programs are 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.

In 2011 and 2010, charges associated with the Medicare program, the Medicaid program, and commercial and managed care payors accounted for 31% and 30%, 7% and 7%, and 58% and 59%, respectively, of the Foundation's gross patient charges.

Charity Care

The Foundation is committed to providing high-quality clinical care to its patients. Consistent with this commitment and as part of its charitable mission, the Foundation seeks to assist patients who confront challenges in paying for medically necessary services. The Foundation offers services to qualifying patients at a discount or free of charge, under terms of its established charity care policy through a sliding scale option and a catastrophic option. Under the sliding scale option, the policy provides a discount of 100% of billed charges to patients with income up to 250% of the federal poverty level, a discount of 65% to patients with income between 251% and 400% of the federal poverty level, and a discount of 35% to patients with income between 401% and 600% of the federal poverty level. Under the catastrophic option, the policy limits

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

patient bills to 21% of household income for patients with annual income of 600% or less of the federal poverty level and 35% of household income for patients with annual income in excess of 600% of the federal poverty level. Household income is based on adjusted gross income as reflected on the patient's most recent tax return and other relevant factors. If the patient qualifies under both the sliding scale and catastrophic options, the Foundation applies the option most beneficial to the patient.

As amounts determined to qualify as charity care are not pursued for collection, they are not reported as net patient service revenue. For the years ended August 31, 2011 and 2010, charges forgone for charity care services, adjusted for changes in prior year estimates, totaled \$22,587 and \$18,488, respectively.

In addition to providing discounted and free care, the Foundation also incurs losses related to unreimbursed costs of providing services to Medicaid and Medicare patients. The Foundation also provides a continuum of clinical care to meet the varying healthcare needs of the patients and communities it serves. For example, the Foundation expends resources to support programs in areas such as psychiatry, geriatrics, internal medicine, primary care, and obstetrics and gynecology, which seek to provide care to economically disadvantaged and other vulnerable patient populations.

Other Revenue

Other revenue primarily comprises fixed and variable amounts received or accrued for physician clinical and administrative services, provided at NMH and other healthcare organizations in the Chicago area. Other revenue is recognized when realized or realizable and earned.

Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets that are excluded from the excess of revenues over expenses include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets, and other items that are required by generally accepted accounting principles to be reported separately (such as extraordinary items and the cumulative effect of certain accounting changes).

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Nonoperating Income (Expenses)

Nonoperating income primarily consists of investment income (loss) on long-term investments. Nonoperating expenses primarily represent expenses relating to discretionary mission support contributions paid or accrued to FSM and others (see Note 3). In cases where such discretionary contributions are supported by the release of restricted net assets, related amounts also are reported in nonoperating income.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximated their financial statement carrying amounts as of August 31, 2011 and 2010, due to their short-term maturity. The fair value of pledges receivable is estimated using discounted cash flow analysis and approximated the carrying amount at August 31, 2011 and 2010. The fair value of long-term debt is estimated based on quoted market prices for the same or similar issues and is disclosed in Note 6.

Income Taxes

The Foundation and NFRE are not-for-profit corporations and have been recognized by the Internal Revenue Service (IRS) as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code (IRC), with related income considered tax-exempt under IRC Section 509(a).

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance requiring various additional disclosures about fair value measurements. Certain of the new disclosures became effective for the Foundation in fiscal years 2010 and 2011, and are provided in Note 12.

In August 2010, the FASB issued guidance requiring healthcare entities to disclose charity care services at cost using a costing system or reasonable estimation technique. Additionally, in September 2010, the FASB issued guidance requiring healthcare entities to present insurance recoveries separate from related claims liabilities and to measure claims liabilities without consideration of such recoveries. These standards will become effective for the Foundation in fiscal year 2012.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

In July 2011, the FASB issued guidance requiring healthcare entities to report the provision for bad debts as a deduction from patient service revenue rather than record the related amount as an operating expense. Additionally, these standards require healthcare entities to provide enhanced disclosures about their policies for recognizing revenue and assessing bad debts. The new guidance also requires healthcare entities to provide information about patient service revenue by major payor source as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This standard will become effective for the Foundation in fiscal year 2013.

Management is evaluating the impact of adopting these new pronouncements on the Foundation's consolidated financial statements.

Reclassifications

Certain reclassifications have been made to amounts in the fiscal year 2010 consolidated financial statements in order to conform to the fiscal year 2011 consolidated financial statement presentations. Such reclassifications had no effect on cash and cash equivalents, net assets, operating income, or excess of revenues over expenses as previously reported.

3. Affiliated Entities and Related-Party Transactions

The Foundation is related to NMH and FSM through common missions and purposes and other contractual arrangements, as described below. Other transactions and agreements between the Foundation and NMH and FSM are described in Notes 5, 7, 10, 11, and 14.

Transactions With Northwestern Memorial Healthcare and Subsidiaries

Northwestern Memorial Healthcare (NMHC), the parent corporation of NMH, has pledged to provide funding to the Foundation under terms of various grant agreements. Such amounts are designated for the support of clinical program development and other strategic objectives, including initiatives to promote medical education and research, quality and patient safety, access, and community service. During fiscal years 2011 and 2010, the Foundation recognized new grant commitments from NMHC totaling \$15,330 and \$6,194, respectively, reported as restricted contributions.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

3. Affiliated Entities and Related-Party Transactions (continued)

Payments received on new and previously extended commitments from NMHC totaled \$8,734 and \$10,923 in fiscal years 2011 and 2010, respectively. At August 31, 2011 and 2010, pledges receivable from NMHC totaled \$11,483 (reported \$4,313 as current assets and \$7,170 as noncurrent assets) and \$5,142 (reported as \$3,842 as current assets and \$1,300 as noncurrent assets), respectively.

The Foundation provides medical administration and other professional services to NMH under terms of various agreements. The Foundation recorded revenue relating to such services and support of \$41,602 and \$43,285 in fiscal years 2011 and 2010, respectively, included in other revenue.

At August 31, 2011 and 2010, amounts due from NMH for medical administration and other professional services totaled \$9,155 and \$6,969, respectively, included in other receivables, prepaid expenses, and current assets.

NMH provides laboratory and various other professional services to the Foundation. The Foundation recorded expenses for such services of \$6,826 and \$6,839 in fiscal years 2011 and 2010, respectively, included in purchased medical and professional services. Additionally, the Foundation leases certain clinical and administrative space from NMH. Rent expense relating to such space totaled \$4,543 and \$4,700 in fiscal years 2011 and 2010, respectively, included in rent and other occupancy costs. At August 31, 2011 and 2010, amounts due to NMH for laboratory and other professional services and space rental totaled \$2,950 and \$2,198, respectively.

Transactions With Northwestern University

The Foundation's bylaws require the organization to contribute 5% of certain clinical care receipts to the Research and Education Fund of the Office of the Dean of FSM. These funds are intended to develop improved patient care facilities and services and to develop and sustain medical education programs, basic and applied biomedical research facilities and programs, and research and education support services, at the sole discretion of the Dean of FSM. The Foundation recorded a provision for the Research and Education Fund of \$20,043 and \$19,779 in fiscal years 2011 and 2010, respectively. Amounts unpaid and outstanding at August 31, 2011 and 2010, totaled \$5,083 and \$5,213, respectively, included in amounts payable to the FSM Research and Education Fund.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

3. Affiliated Entities and Related-Party Transactions (continued)

FSM provides certain patient consultation and other professional services to the Foundation. The Foundation recorded expenses for such services of \$5,334 and \$7,040 in fiscal years 2011 and 2010, respectively, included in purchased medical and professional services. Additionally, the Foundation leases certain administrative space from NU. Rent expense relating to such space totaled \$1,819 and \$1,898 in fiscal years 2011 and 2010, respectively, included in rent and other occupancy costs. In certain instances, the Foundation provides department administration and other management services to FSM. The Foundation does not receive compensation from FSM for such activities. At August 31, 2011 and 2010, amounts due to NU for patient consultation and other professional services and space rental totaled \$2,022 and \$3,495, respectively.

In August 2010, NU, FSM, NMH, and the Foundation entered into the Feinberg School of Medicine Fiscal Year 2010 Financial Remediation Plan and Northwestern Medicine Budget Management and Review Agreement (Remediation Agreement), in order to provide non-recurring, near-term financial support to FSM. The Remediation Agreement also set forth certain mutual commitments relating to inter-entity budget and financial management.

Under terms of the Remediation Agreement, NU and NMH each contributed support of \$10,000 to FSM, and the Foundation provided funding of \$25,000. The funding provided by the Foundation comprised \$4,994 in amounts owed to FSM in the ordinary course for physician and nonphysician personnel services and space rental (reflected in purchased services and occupancy) and \$20,006 in other departmental and enterprise contributions (reported in mission support contributions – research, academic, and other). Reimbursements and contributions totaling \$20,207 were paid to FSM on August 31, 2010. The residual \$4,793 pledged to FSM was included in amounts payable to Feinberg School of Medicine at August 31, 2010, with a corresponding amount reported as internally designated assets, current portion. Such residual amounts were remitted to FSM on October 31, 2010, consistent with provisions of the Remediation Agreement.

In connection with the Remediation Agreement, NU released to the Foundation \$10,000 in excess Rubicon insurance deposits (see Note 10). These funds were disbursed to the Foundation on August 31, 2010, and the transfer was accounted for as a reduction in insurance program deposits.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

3. Affiliated Entities and Related-Party Transactions (continued)

Other Discretionary Mission Support Contributions

In addition to the contributions to the FSM Research and Education Fund, the Foundation makes discretionary contributions to FSM and to McGaw Medical Center (McGaw), a consortium of Chicago-area hospitals and NU organized to provide clinical and research residency and fellowship programs. These discretionary contributions are intended to support the academic and research endeavors of these organizations. The nature and amount of such contributions are dependent on the Foundation's financial performance, the priorities and decisions of its clinical department leaders, and other factors.

During fiscal years 2011 and 2010, the Foundation contributed \$531 and \$1,234, respectively, to McGaw to support the medical education of residents and fellows, reported as mission support contributions – medical education. At August 31, 2011 and 2010, related amounts payable were not significant.

In fiscal years 2011 and 2010, the Foundation accrued additional discretionary contributions to support research, academic, and other mission-based programs and initiatives at FSM totaling \$25,731 and \$15,931, respectively, reported as mission support contributions – research, academic, and other. At August 31, 2011 and 2010, discretionary mission support contributions payable to FSM totaled \$19,567 and \$10,615, respectively, included in amounts payable to FSM and Research and Education Fund.

Transactions With Northwestern Medicine Catalyst Fund

Effective December 31, 2009, NMHC, NU, and the Foundation entered into a collaboration agreement (Collaboration Agreement) for the Northwestern Medicine Catalyst Fund (NMCAT Fund). Under terms of the Collaboration Agreement, the parties are permitted, but not obligated, to make contributions to the NMCAT Fund. Contributions to the NMCAT Fund support grants to qualifying recipients for the purpose of furthering the goals of the Northwestern Academic Medical Center. The assets of the NMCAT Fund are held by NU. Grant determinations are made by representatives of NMHC, FSM, and NMFF. During fiscal year 2010, the Foundation made a contribution to the NMCAT Fund of \$3,700, included in mission support contributions – research, academic, and other. The Foundation did not make or accrue any contributions to the NMCAT Fund during fiscal year 2011.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

3. Affiliated Entities and Related-Party Transactions (continued)

During fiscal years 2011 and 2010, the Foundation received grant commitments from the NMCAT Fund of \$7,672 and \$6,740, respectively, recorded as restricted contributions. Such amounts are designated for the support of clinical program development and other strategic objectives, including faculty recruitment and retention. Payments received on new and previously extended commitments from the NMCAT Fund totaled \$4,982 and \$922 in fiscal years 2011 and 2010, respectively. At August 31, 2011 and 2010, pledges receivable from the NMCAT Fund totaled \$8,508 and \$5,818, reported \$3,053 and \$1,921 as current assets and \$5,455 and \$3,897 as noncurrent assets, respectively.

Other Related-Party Transactions

The Foundation extends loans to select physicians and employees, primarily in connection with recruitment and retention activities. Under terms of certain of the related promissory notes, principal and interest may be forgiven, pending continued employment and other conditions. At August 31, 2011 and 2010, physician and employee loans receivable totaled \$3,141 and \$2,630, respectively, included in other noncurrent assets.

4. Investments and Assets Limited as to Use

At August 31, 2011 and 2010, investments and assets limited as to use included the following:

	2011	2010
Investments	\$ 81,623	\$ 71,613
Assets limited as to use:		
Internally designated assets:		
For Feinberg School of Medicine	6,883	4,793
For donor restrictions	11,094	10,883
For clinical mission accounts	16,632	13,776
For other strategic initiatives	10,593	2,859
For deferred compensation programs	7,026	6,095
	52,228	38,406
Held-by-trustee assets	9,072	9,021
Total investments and assets limited as to use	\$ 142,923	\$ 119,040

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

4. Investments and Assets Limited as to Use (continued)

The composition of investments and assets limited as to use is as follows at August 31, 2011 and 2010:

	2011	2010
Cash and money market funds	\$ 55,754	\$ 38,677
Commingled funds:		
Domestic equities	17,426	22,204
International equities	6,825	8,927
Fixed income	22,987	25,036
Mutual funds:		
Domestic equities	3,708	3,077
International equities	738	574
Fixed income	563	745
Common trust funds:		
Commodities	5,241	—
Natural resources	1,179	—
Emerging markets	8,804	—
Guaranteed interest annuity contracts	1,767	1,699
Alternative investments	17,931	18,101
Total investments and assets limited as to use	<u>\$ 142,923</u>	<u>\$ 119,040</u>

Investments in alternative investment funds, including hedge, natural resource, real estate, distressed debt, and venture capital and private equity funds, are accounted for on the equity method. Alternative investment funds are valued on the basis of quoted market prices of the underlying holdings, when available. When not available, alternative investment funds are valued on the basis of information provided by the fund managers. Investors in the alternative investment funds are subject to liquidity restrictions, including lock-up periods and advance notification of redemptions.

The financial statements of the Foundation's alternative investment funds are audited on an annual basis. The Foundation's risk relating to such interests is limited to its carrying value and future capital commitments. The Foundation monitors the methodologies and assumptions used in valuing and reporting alternative investment funds. At August 31, 2011, the Foundation is committed to contribute additional capital totaling approximately \$3,200 to limited partnership investment entities, under terms of the underlying partnership agreements.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

4. Investments and Assets Limited as to Use (continued)

The Foundation pools unrestricted investments and certain internally designated assets for investment purposes. Investment income relating to such investments and internally designated assets comprised the following for the years ended August 31:

	2011	2010
Investment income (loss) – reported as nonoperating gains (losses):		
Interest and dividend income	\$ 1,495	\$ 1,283
Realized gains (losses), net	2,323	(4)
Change in unrealized gains on trading securities	2,291	2,258
Equity earnings (losses) on alternative investment funds	1,062	(680)
Other	(86)	(110)
	<u>\$ 7,085</u>	<u>\$ 2,747</u>

At August 31, 2011, equity earnings on alternative investment funds includes a provision for losses of \$840.

Investment income relating to assets limited as to use, reported in interest income and earnings on certain assets limited as to use, was not significant for the years ended August 31, 2011 and 2010.

5. Property, Equipment, and Improvements

Property, equipment, and improvements are stated at cost less accumulated depreciation and consist of the following at August 31:

	2011	2010
Air rights	\$ 1,315	\$ 1,315
Ambulatory Care Center space and related improvements	76,685	76,596
Furniture, fixtures, and equipment	48,504	46,062
Other leasehold improvements	17,146	17,085
Capitalized internal-use software	7,208	6,385
Construction-in-process	5,762	265
	<u>156,620</u>	<u>147,708</u>
Less accumulated depreciation and amortization	(85,099)	(75,158)
Property, equipment, and improvements, net	<u>\$ 71,521</u>	<u>\$ 72,550</u>

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

5. Property, Equipment, and Improvements (continued)

In 1994, the Foundation and NMH entered into a Building Agreement (the Building Agreement), under which NMH sold to the Foundation certain air rights and the core and shell of seven floors within NMH's Ambulatory Care Center (ACC), along with certain interests in common elements of the ACC. The Foundation built out the acquired space and transferred many of its clinical practices and diagnostic services to the ACC.

Concurrent with the execution of the building agreement, the parties also entered into an Easement and Operating Agreement (the Operating Agreement). The Operating Agreement requires NMH to provide (or arrange for) building and maintenance services in the Foundation's ACC space. The Operating Agreement also specifies a proportionate cost-sharing arrangement between NMH and the Foundation relating to common costs and expenditures.

The Operating Agreement also places certain conditions and limitations on the sale or transfer of the parties' interests in the ACC. Under terms of the Operating Agreement, each party is permitted to transfer its interest to an affiliated entity, but neither party is permitted to unilaterally transfer its interest to a third party. In the event either party wishes to sell its interest to a third party, the other party retains a right of first purchase refusal. Furthermore, if NMH elects to sell its interest to a third party, the Foundation has the right to require NMH to sell the Foundation's interest to such third party for a pro rata portion of the purchase price.

As discussed in Note 6, the Foundation has granted a mortgage and security interest in the ACC space and related improvements to the Series 1998 bond trustee. Consistent with requirements of the Operating Agreement, the mortgage requires the trustee to provide NMH with 30 days' notice prior to commencing any foreclosure or similar action with regard to the mortgaged property. NMH has the right, within 60 days of such notice, to acquire the trustee's interest in the mortgaged property upon payment to the trustee of all amounts due and owing that are secured by the mortgaged property.

For the years ended August 31, 2011 and 2010, the Foundation recorded expenses relating to services provided by NMH under terms of the Operating Agreement totaling \$3,119 and \$3,187, respectively, included in rent and other occupancy costs.

In April 2010, the Foundation entered into lease agreements for certain telecommunications equipment. The arrangements are accounted for as capital leases with the related assets included in furniture, fixtures, and equipment. At August 31, 2011 and 2010, assets under capital leases totaled \$1,970 and \$1,970, respectively, and associated accumulated depreciation totaled \$707 and \$289, respectively.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

5. Property, Equipment, and Improvements (continued)

At August 31, 2011 and 2010, capitalized internal use software costs primarily relate to new or enhanced information systems to support the Foundation's revenue cycle, human resources and payroll, accounting, and decision support business processes. Amortization of capitalized internal use software costs, included in depreciation expense, totaled \$1,350 and \$465 in fiscal years 2011 and 2010, respectively.

Construction-in-process represents costs incurred in connection with initiatives to expand and refurbish the Foundation's clinical and administrative spaces. Certain of these projects are being conducted under terms of fixed price construction contracts. Outstanding commitments relating to such contracts totaled \$2,611 at August 31, 2011.

Capitalized interest was not significant during fiscal years 2011 and 2010.

6. Long-Term Debt

Long-term debt comprised the following at August 31:

	2011	2010
Revenue Refunding Bonds, Series 1998, serial bonds with interest at 5.0%, per annum, due in varying installments through 2013	\$ 8,065	\$ 10,500
Revenue Refunding Bonds, Series 1998, term bonds with interest at 5.0%, per annum, due in 2018	16,365	16,365
Revenue Refunding Bonds, Series 1998, term bonds with interest at 5.125%, per annum, due in 2028	47,815	47,815
Capital lease obligations	1,040	1,503
Less:		
Current maturities	(2,838)	(2,901)
Unamortized discount	(1,073)	(1,165)
Total long-term debt	<u>\$ 69,374</u>	<u>\$ 72,117</u>
Estimated fair value	<u>\$ 71,390</u>	<u>\$ 75,000</u>

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

6. Long-Term Debt (continued)

The Series 1998 bonds were issued by the Illinois Health Facilities Authority for the benefit of the Foundation under terms of bond and trust indentures, which established the Foundation as the initial sole member of an Obligated Group. The bonds are secured by a bond insurance policy, a security interest in certain unrestricted receivables, and a mortgage and security interest in certain real property and improvements. The bonds also are secured by a debt service reserve fund.

Beginning in 2014, the Series 1998 term bonds are subject to mandatory redemption, in varying installments and without premium, under the bond sinking fund provisions of the bond indenture. Additionally, all Series 1998 bonds maturing on or after November 15, 2009, are subject to optional redemption with premiums, beginning May 15, 2008. The Series 1998 borrowing agreements also provide for extraordinary optional redemption in the event of damage or destruction of certain property and facilities.

Under the trust indenture, the Foundation, as sole member of the Obligated Group, covenants to maintain certain debt service and liquidity ratios and to provide certain other financial information. Terms of the trust indenture also place limitations on the incurrence of additional indebtedness and on the sale, lease, or other disposition of the Foundation's assets (including, in certain instances, restrictions on discretionary mission support transfers to FSM) and require various other nonfinancial covenants. The Foundation was in compliance with such covenants and requirements as of August 31, 2011 and 2010.

Principal payments on long-term debt are as follows for the indicated fiscal years:

	Capital Leases	Other Long- Term Debt	Total
2012	\$ 278	\$ 2,560	\$ 2,838
2013	261	2,685	2,946
2014	269	2,820	3,089
2015	232	2,960	3,192
2016	—	3,110	3,110
Thereafter	—	58,110	58,110

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

6. Long-Term Debt (continued)

The Foundation has entered into a 364-day revolving line of credit agreement with a bank. The arrangement permits the Foundation to borrow, repay, and reborrow up to \$30,000 until the scheduled maturity date. Borrowings under the agreement bear interest at a rate based on prime rate or a rate based on the London Interbank Offering Rate (LIBOR), as elected by the Foundation. The agreement requires the Foundation to pay to the bank a commitment fee of 0.10% per annum on the average daily unused balance amount on the line of credit. The commitment fee is payable on a quarterly basis. The agreement places certain restrictions on transfers of assets to consolidated subsidiaries. There were no borrowings on the line of credit at August 31, 2011 or 2010. The Foundation intends to apply for renewal of the line of credit agreement prior to the expiration date of March 30, 2012.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets, which primarily relate to amounts received from or pledged by NMH and the NMCAT Fund under terms of various grant agreements (see Note 3), are available for the following purposes at August 31:

	2011	2010
Faculty recruitment and program development	\$ 28,994	\$ 19,593
Designated chair grants	1,720	1,879
Clinical program development	371	371
	<u>\$ 31,085</u>	<u>\$ 21,843</u>

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

	2011	2010
Faculty recruitment and program development	\$ 13,881	\$ 13,070
Designated chair grants	159	176
Clinical program development	—	203
Research and education – nonoperating	240	9,846
	<u>\$ 14,280</u>	<u>\$ 23,295</u>

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

7. Temporarily Restricted Net Assets (continued)

As of August 31, 2011, pledges receivable are expected to be realized as follows:

Within one year	\$ 7,366
One to five years	12,625
Total pledges	<u>\$ 19,991</u>

No allowance for uncollectible pledges receivable has been provided at August 31, 2011, due to the credit-worthiness of the grantors. Additionally, no discount on pledges receivable has been recorded due to the short-term maturity and low prevailing interest rates.

As the result of a legal settlement, the Foundation has been named as the beneficiary of an interest in the estate of a former patient. The estate includes certain closely held businesses, real property, cash and investments, and certain other contingent assets. As of August 31, 2011 and 2010, the Foundation has not recognized a beneficial interest in the estate assets in excess of distributions received because sufficient information to value such interest is not available.

As distributions from the estate are received, related amounts are recognized as operating revenue to the extent of related legal costs incurred. Distributions in excess of legal costs, along with the Foundation's residual beneficial interest in the estate, when determined and measurable, will be recorded as restricted contributions, consistent with stipulations included in the estate plan.

In September 2011, shares of the commercial venture owned by the estate were distributed to the Foundation and other beneficiaries. Valuation information relating to such shares is not presently available. Accordingly, the impact of the distribution on the Foundation's assets and net assets cannot yet be estimated.

8. Retirement Benefit Plan and Deferred Compensation Programs

The Foundation maintains a 403(b) retirement savings plan covering substantially all physicians and employees. Participants can enter into salary reduction agreements to make voluntary tax-deferred contributions to the 403(b) plan, subject to certain IRS limitations. Additionally, the Foundation contributes a specified percentage of eligible compensation to the plan on behalf of each participant. Participants are always fully vested in their own tax-deferred contributions and

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

8. Retirement Benefit Plan and Deferred Compensation Programs (continued)

related earnings and become fully vested in Foundation contributions and related earnings upon completion of three years of vesting service. Contributions to the 403(b) plan by the Foundation totaled \$20,426 and \$20,891 in fiscal years 2011 and 2010, respectively.

The Foundation also sponsors a noncontributory Section 457(b) defined-contribution plan covering select employees. Under the 457(b) plan, participants may contribute a percentage of qualifying compensation, subject to certain IRS limits. The assets of the 457(b) plan are subject to the claims of the Foundation's general creditors. Accordingly, the 457(b) plan assets, and a related obligation to participants, totaling \$4,926 and \$3,557 at August 31, 2011 and 2010, respectively, are included in assets limited as to use and deferred compensation liabilities, respectively, in the consolidated balance sheets.

In prior years, the Foundation sponsored a nonqualified, discretionary deferred compensation plan for certain employees. This plan provided for participants to forgo certain compensation amounts in favor of a ten-year deferred compensation option. The option provides the participant with a payment at the end of the option period, as defined, of an amount equal to the deferred compensation, a matching amount provided by the Foundation equal to 33% of the deferred compensation, and earnings (including losses) realized through the investment of these amounts during the option period in specified investments. At the end of the option period, the participant is required to pay an exercise price (equal to the matching amount contributed by the Foundation) to receive the proceeds.

The Foundation has recorded a deferred compensation liability, net of the exercise price receivable, of \$274 and \$652 as of August 31, 2011 and 2010, respectively. Related deferred compensation program assets totaled \$332 and \$839 at August 31, 2011 and 2010, respectively. The plan has been frozen to new participants and new contributions.

Previously, the Foundation contributed amounts to a deferred compensation program it maintained for certain physicians, resulting in the deferral of a portion of their salaries until termination, retirement, death, or disability. Compensation deferred under this program totaled \$1,767 and \$1,699 as of August 31, 2011 and 2010, respectively, invested in guaranteed interest annuity contracts held by an insurance company. These contracts, together with the related accumulated interest earnings, are reflected in the consolidated balance sheets as assets limited as to use, with a corresponding amount included in deferred compensation liabilities.

Income and expenses relating to deferred compensation programs were not significant in fiscal years 2011 and 2010.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

9. Concentrations of Credit Risk

In the normal course of business, the Foundation grants credit without collateral to its patients, most of whom are insured under government programs and third-party payor agreements. The mix of net patient accounts receivable from patients and third-party payors at August 31 was as follows:

	2011	2010
Managed care organizations	43%	41%
Medicare	8	8
Commercial insurance products	5	5
Medicaid	4	3
Patients	40	43
Total	100%	100%

10. Professional Liability Coverage

The Foundation has professional liability coverage through Northwestern Memorial Insurance Company (NMIC), a captive insurance company wholly owned by NMH, under terms of an Insurance Program Participation Agreement. Under the NMIC program, the Foundation and NMH are charged an actuarially determined premium for claims-made coverage. Policies written by NMIC include a retained primary layer (the Tier I) and a reinsured excess layer (the Tier II). Because the NMIC contracts result in the transfer of both timing and underwriting risk, the Foundation accounts for the NMIC claims-made coverage as insurance.

Effective June 1, 2010, NMIC adopted a paid loss retrospective premium funding model for the claims-made program. Under this approach, insurance premiums become due and owing to NMIC at the time a qualifying claim is presented for payment. In order to secure its obligation to reimburse NMIC for such future amounts, the Foundation is required to maintain collateral deposits with NMIC sufficient to fund the expected outstanding premiums. Such collateral deposits are payable to NMIC on an installment basis over the annual claims-made period. In certain cases, the Foundation may elect to withdraw excess collateral deposits. Additionally, under the new funding model, the Foundation is required to prepay its allocated share of certain NMIC operating and other costs.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

10. Professional Liability Coverage (continued)

Under terms of a Mutual Funding Agreement with NMH, the Foundation has elected to deposit its actuarially estimated tail coverage premium (Tail Coverage Funding Obligation) with NMIC and executed an extended reporting period endorsement. Provisions of the Mutual Funding Agreement require the Foundation to deposit with NMIC monthly amounts sufficient to support the actuarially projected NMIC Funding Obligation as of the end of the then-current extended reporting period endorsement. Because the Mutual Funding Agreement does not result in the transfer of both timing and underwriting risk, the Foundation accounts for the tail coverage payments made to NMIC under terms of this arrangement as insurance program deposits.

The Foundation accrues the estimated ultimate costs of claims and incidents not reported to NMIC during the claims-made coverage period and reports the related amount as an insurance program liability. The Foundation also records a provision for unallocated loss adjustment expense related to the NMIC program.

The NMIC claims-made collateral and tail coverage deposits are held in various mutual funds investing in domestic and international equities and fixed income securities. Investment earnings (losses) on such collateral and deposits are credited (debited) to the Foundation's account on a periodic basis and are reported as earnings (losses) on insurance program deposits and collateral.

The Foundation previously obtained professional liability coverage through Rubicon Insurance Company (Rubicon), a captive insurance company wholly owned by NU. The Rubicon program provided occurrence-basis coverage at varying per occurrence and annual aggregate amounts. Under the Rubicon program, claims-made excess liability insurance was purchased from various insurance carriers. Additionally, the Rubicon program included a retrospective feature, under which the Foundation can be required to make additional payments to or entitled to receive reimbursement from Rubicon based on claims experience. Because the retrospective feature does not result in the transfer of significant underwriting risk, the Foundation applies the deposit method to account for the Rubicon program.

The Foundation's share of the Rubicon program assets (i.e., cumulative amounts paid and related investment earnings, net of claims and other expense payments) are recorded as insurance program deposits. The Rubicon program assets are pooled with other NU assets for investment purposes and are held in domestic and international equities, fixed income securities, and alternative investments. Investment earnings (losses) on such deposits are credited (debited) to the Foundation's account on a periodic basis and are reported as earnings (losses) on insurance program deposits and collateral.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

10. Professional Liability Coverage (continued)

In certain prior insurance years, the Foundation is exposed to various retained-risks in connection with the Rubicon program, due to such factors as the erosion or exhaustion of primary and (or) excess insurance limits, the emergence of gaps between primary and excess insurance layers, and the commutation of certain excess insurance policies.

The following table summarizes insurance program deposits and collateral at August 31:

	2011	2010
Insurance program collateral – NMIC claims-made program:		
Current	\$ 1,541	\$ –
Noncurrent	18,190	2,391
Insurance program deposits – NMIC tail coverage funding obligation:		
Noncurrent	25,572	27,306
Insurance program deposits – Rubicon program:		
Current	2,776	4,522
Noncurrent	30,627	25,591
Total insurance program deposits and collateral	<u>\$ 78,706</u>	<u>\$ 59,810</u>

Insurance program liabilities were as follows at August 31:

	2011	2010
Liabilities relating to NMIC claims-made program	\$ 21,975	\$ 4,711
Liabilities relating to NMIC tail coverage program	28,662	27,474
Liabilities relating to Rubicon program	8,987	13,237
Liabilities relating to insurance gaps under the Rubicon program	3,084	3,965
Total insurance program liabilities	<u>\$ 62,708</u>	<u>\$ 49,387</u>

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

10. Professional Liability Coverage (continued)

The liabilities relating to the NMIC tail coverage and Rubicon programs have been estimated and recorded on the basis of independent actuarial determinations that incorporate data on the Foundation's payout patterns and various other assumptions. Certain of such liabilities are recorded at the estimated present value. At August 31, 2011 and 2010, the NMIC liabilities were recorded at a 3% per annum discount rate, and the Rubicon liabilities were recorded on an undiscounted basis. Selected discount rates reflect the expected average duration of the associated liabilities. If the present value method had not been used, the Foundation's aggregate liabilities relating to the NMIC tail coverage and Rubicon programs would have been approximately \$46,483 and \$52,454 at August 31, 2011 and 2010, respectively.

As more fully described in Note 3, NU released to the Foundation \$10,000 in excess Rubicon insurance deposits on August 31, 2010, in connection with the FSM Remediation Agreement. The recovery of these funds was accounted for as a reduction in insurance program deposits.

Consistent with alternatives available under the Mutual Funding Agreement, the Foundation elected to withdraw excess tail coverage deposits relating to the 2010 and 2011 coverage periods, and funds totaling \$4,667 were remitted to the Foundation during fiscal year 2011. The related receipts were accounted for as reduction in insurance program deposits. Additionally, during fiscal years 2011 and 2010, the Foundation received policyholder dividends of \$18,869 and \$4,649, recorded as a reduction in professional liability insurance expense.

During fiscal years 2011 and 2010, the Foundation recognized reductions in professional liability insurance expense due to favorable claims experience and development.

11. Operating Leases

The Foundation has various operating lease agreements for the rental of space and equipment with both third parties and related parties (see Note 3). Rent expense under these leases totaled \$11,071 in 2011 and \$9,790 in 2010. Certain of such arrangements contain renewal options, fixed rent escalation clauses, tenant allowances, rent abatements, termination penalties, and noncancelable terms.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

11. Operating Leases (continued)

At August 31, 2011, future minimum rental commitments for all noncancelable operating leases with original terms of more than one year are as follows:

2012	\$	5,351
2013		5,348
2014		5,212
2015		5,088
2016		4,989
Thereafter		33,215

At August 31, 2011 and 2010, the Foundation has recorded deferred rent and lease incentive obligations of \$7,144 and \$7,373, respectively, included in other liabilities.

12. Fair Value Measurements

Under guidance issued by the FASB, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, determined on the basis of market-based assumptions. Additionally, the FASB guidance defines a three-level hierarchy for classifying the inputs used in determining fair value, as follows:

- Level 1 – Fair value measurements determined on the basis of quoted prices for an identical asset or liability in an active market to which the reporting entity has access at the measurement date are considered Level 1 measurements.
- Level 2 – Fair value measurements determined on the basis of directly or indirectly observable inputs for the asset or liability (such as quoted prices for similar instruments and other market or market-corroborated data) are considered Level 2 measurements.
- Level 3 – Fair value measurements determined on the basis of unobservable inputs intended to reflect the assumptions market participants would use in pricing the asset or liability are considered Level 3 measurements.

Fair value measurements are classified within the hierarchy according to the classification of the lowest level input that is significant in determining the related fair value measurement.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

12. Fair Value Measurements (continued)

The following tables categorize those assets and liabilities recognized at fair value in the Foundation's consolidated balance sheets at August 31, 2011 and 2010, according to the fair value hierarchy defined under generally accepted accounting principles:

Fair Value Measurements as of August 31, 2011				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets:				
Cash and cash equivalents:				
Cash and cash equivalents	\$ 51,762	\$ —	\$ —	\$ 51,762
Money market funds	4,642	—	—	4,642
Current portion of internally designated assets – money market funds	7,170	—	—	7,170
Current portion of held-by-trustee assets – money market funds	2,839	—	—	2,839
Investments – commingled funds:				
Money market funds	1,230	—	—	1,230
Commingled funds – domestic equities	17,426	—	—	17,426
Commingled funds – international equities	6,825	—	—	6,825
Commingled funds – fixed income securities	—	22,987	—	22,987
Investments – common trust funds:				
Common trust funds – commodities	—	5,241	—	5,241
Common trust funds – natural resources	—	1,179	—	1,179
Common trust funds – emerging markets	—	8,804	—	8,804
Internally designated assets:				
Cash and cash equivalents	27,726	—	—	27,726
Money market funds	10,556	—	—	10,556
Mutual funds – domestic equities	3,708	—	—	3,708
Mutual funds – international equities	738	—	—	738
Mutual funds – fixed income securities	563	—	—	563
Guaranteed interest annuity contracts	—	1,767	—	1,767
Held-by-trustee assets – money market funds	6,233	—	—	6,233
Total assets at fair value	\$ 141,418	\$ 39,978	\$ —	\$ 181,396

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

12. Fair Value Measurements (continued)

Fair Value Measurements as of August 31, 2010				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Assets:				
Cash and cash equivalents:				
Cash and cash equivalents	\$ 34,016	\$ —	\$ —	\$ 34,016
Money market funds	5,477	—	—	5,477
Current portion of internally designated assets – money market funds	4,995	—	—	4,995
Current portion of held-by-trustee assets – money market funds	2,788	—	—	2,788
Investments – commingled funds:				
Money market funds	270	—	—	270
Commingled funds – domestic equities	21,048	—	—	21,048
Commingled funds – international equities	8,462	—	—	8,462
Commingled funds – fixed income securities	—	23,732	—	23,732
Internally designated assets:				
Cash and cash equivalents	7,958	—	—	7,958
Money market funds	16,434	—	—	16,434
Commingled funds – domestic equities	1,155	—	—	1,155
Commingled funds – international equities	465	—	—	465
Commingled funds – fixed income	1,304	—	—	1,304
Mutual funds – domestic equities	3,077	—	—	3,077
Mutual funds – international equities	574	—	—	574
Mutual funds – fixed income securities	745	—	—	745
Guaranteed interest annuity contracts	—	1,699	—	1,699
Held-by-trustee assets – money market funds	6,233	—	—	6,233
Total assets at fair value	\$ 115,001	\$ 25,431	\$ —	\$ 140,432

As described in Note 4, alternative investment funds are accounted for using the equity method of accounting.

Cash and cash equivalents – The Foundation's cash and cash equivalents are comprised of cash on deposit and cash held in overnight sweep accounts for which the fair value is equal to the account balance. Cash and cash equivalents are classified as Level 1.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued) (In Thousands)

12. Fair Value Measurements (continued)

Money market funds – Money market funds are common investment trusts for which the fair value is equal to the account balance. Money market funds are classified as Level 1.

Commingled funds – Commingled funds invest in domestic and international equities and fixed income securities and are valued daily on the basis of the net asset value of the underlying holdings. Commingled funds are classified as Level 1.

Common trust funds – Common trust funds invest in domestic and international equities and collective investment funds and are valued daily on the basis of quoted market prices, when available, or estimated fair value as determined by the trustee using a market approach, when not available. Common trust funds are classified as Level 2.

Mutual funds – Mutual funds invest in domestic and international equities, fixed income securities and are valued daily on the basis of the net asset value of the underlying holdings. Mutual funds are classified as Level 1.

Guaranteed interest annuity contracts – Guaranteed interest annuity contracts are valued at the present value of estimated future cash flows based on provisions included in the underlying arrangements. Guaranteed interest annuity contracts are classified as Level 2.

13. Functional Expenses

Consistent with its mission, the Foundation provides healthcare services to patients and support for the research and educational initiatives of FSM. Expenses related to providing these services were as follows:

	2011	2010
Healthcare services	\$ 444,695	\$ 435,944
General and administrative	45,673	41,703
Provision for Research and Education Fund	20,043	19,779
Total operating expenses	510,411	497,426
Contributions to support research and educational initiatives of Feinberg School of Medicine	26,262	40,871
Total	\$ 536,673	\$ 538,297

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Commitments and Contingencies

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity continues with respect to investigations and allegations concerning possible violations of regulations by healthcare providers and could result in the imposition of significant fines and penalties, as well as the repayment of previously billed and collected revenues from patient services. Management believes that the Foundation is in substantial compliance with current laws and regulations.

Legal Matters

The Foundation is involved in professional liability and other litigation arising in the normal course of business. In the opinion of management, the ultimate disposition of claims incurred to date will not have a material adverse effect on the financial position or operations of the Foundation.

Sales Tax Exemption

In August 2011, the Illinois Department of Revenue (Department) informed the Foundation that its application for renewal of its sales tax exemption had been deferred. In the notification letter, the Department advised that it was developing a strategy to handle pending property tax exemption applications and sales tax exemption requests and renewals, in light of the Illinois Supreme Court's March 2010 decision in the *Provena Covenant Medical Center v. Department of Revenue*. In the Provena matter, the Illinois Supreme Court denied the property tax appeal filed by Provena Covenant Medical Center (PCMC), holding that PCMC was not entitled to a property tax exemption because it failed to satisfy the statutory requirement that it was an institution of public charity. A plurality of the members of the court participating in the decision further ruled that PCMC failed to demonstrate that PCMC satisfied the constitutional and statutory requirement that the property was actually and exclusively used for charitable or beneficial purposes.

Northwestern Medical Faculty Foundation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(In Thousands)

14. Commitments and Contingencies (continued)

For entities such as the Foundation, with pending applications for sales and use tax exemptions, the Department indicates that it is reasonable to expect that each application will be reviewed individually on a case-by-case basis on its own merits. The communication further states that a precise time frame for determination has not yet been established. While the final determination is still pending, the Department has advised that the Foundation's existing exemption status will be preserved and that the Foundation is authorized to continue to use its existing sales and use tax exemption.

At this time, management is unable to determine the effect of the Department's deferral of its application for renewal of the sales and use tax exemption on the Foundation's consolidated financial statements.

15. Subsequent Events

The Foundation has evaluated transactions and events occurring subsequent to August 31, 2011, through January 6, 2012, the date of issuance of the consolidated financial statements. During this period, no subsequent events occurred that required recognition or disclosure in the consolidated financial statements, except for the distribution of shares in a commercial venture discussed at Note 7.

Other Financial Information

Report of Independent Auditors on Other Financial Information

The Board of Directors
Northwestern Medical Faculty Foundation

Our audit was conducted for the purpose of forming an opinion on the August 31, 2011, basic consolidated financial statements taken as a whole. The accompanying financial information is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Ernst & Young LLP

January 6, 2012

Consolidating Balance Sheets

August 31, 2011 and 2010
(In Thousands)

2011					2010		
Northwestern Medical Faculty Foundation, Inc. (Obligated Group)	Northwestern Foundation for Research and Education	Northwestern/ Rosin Eyecare LLC	Eliminating Entries	Consolidated	Northwestern Medical Faculty Foundation, Inc. (Obligated Group)	Northwestern Foundation for Research and Education	Northwestern/ Rosin Eyecare LLC
\$	56,098	\$	—	\$	306	\$	56,404
	7,169		1	—			7,170
	2,839		—	—			2,839
	57,633		—	—			57,633
	4,317		—	—			4,317
	7,366		—	—			7,366
	18,172		—	39			18,211
	153,594		1	345			153,940
	81,623		—	—			81,623
	45,058		—	—			45,058
	6,233		—	—			6,233
	71,520		—	1			71,521
	74,389		—	—			74,389
	1,188		—	—			1,188
	12,625		—	—			12,625
	3,916		—	(121)			3,795
\$	450,146	\$	1	\$	346	\$	450,372

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Consolidating Balance Sheets (continued)

August 31, 2011 and 2010
(In Thousands)

	2011				2010		
	Northwestern Medical Faculty Foundation, Inc. (Obligated Group)	Northwestern Foundation for Research and Education	Northwestern/ Rosin Eyecare LLC	Eliminating Entries	Consolidated	Northwestern Medical Faculty Foundation, Inc. (Obligated Group)	Northwestern Foundation for Research and Education Eyecare LLC
\$	18,758	\$	-	\$	18,915	\$	15,494
	40,528		-	-	40,528		36,642
	24,650		-	-	24,650		20,453
	4,317		-	-	4,317		4,522
	2,838		-	-	2,838		2,901
	91,091		157	-	91,248		80,012
	69,374		-	-	69,374		72,117
	58,391		-	-	58,391		44,865
	7,254		-	-	7,254		6,284
	7,465		-	62	7,527		7,373
	73,110		-	62	73,172		58,522
	233,575		157	62	233,794		210,651
	185,486	1	189	(183)	185,493		146,634
	31,085	-	-	-	31,085		21,843
	216,571	1	189	(183)	216,578		168,477
\$	450,146	\$	1	\$	(121)	\$	379,128
							\$

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Consolidating Statements of Operations

Years Ended August 31, 2011 and 2010
(In Thousands)

2011					2010		
Northwestern Medical Faculty Foundation, Inc. (Obligated Group)	Northwestern Foundation for Research and Education	Northwestern/ Rosin Eyecare LLC	Eliminating Entries	Consolidated	Northwestern Medical Faculty Foundation, Inc. (Obligated Group)	Northwestern Foundation for Research and Education	Northwestern/ Rosin Eyecare LLC
\$	487,494	\$	-	\$	480,568	\$	-
	14,040	-	-	14,040	13,449	-	-
	58,947	-	(10)	59,327	58,251	1	433
	560,481	-	(10)	560,861	552,268	1	433
	210,591	-	-	210,591	200,432	-	-
	111,354	-	-	111,471	107,974	-	144
	33,030	-	-	33,030	36,659	-	-
	25,862	167	-	26,029	26,274	-	160
	65,895	-	-	65,895	58,576	-	-
	14,180	14	2	14,196	12,598	-	23
	15,496	74	-	15,570	14,507	-	73
	(248)	-	-	(248)	7,535	-	-
	20,043	-	-	20,043	19,779	-	-
	9,940	-	-	9,940	8,847	-	5
	3,894	-	-	3,894	3,814	-	-
	510,037	372	2	510,411	496,995	-	405

Insurance	50,444	-	18	(12)	50,450	55,273	1	28
	7,346	-	-	-	7,346	5,238	-	-
	57,790	-	18	(12)	57,796	60,511	1	28
	7,085	-	-	-	7,085	2,747	-	-
	240	-	-	-	240	9,846	-	-
	(531)	-	-	-	(531)	(1,234)	-	-
	(25,731)	-	-	-	(25,731)	(35,957)	(3,680)	-

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