

ORIGINAL

E-008-14

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR EXEMPTION FOR THE
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY

RECEIVED

MAY 20 2014

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name CDH-Delnor Health System d/b/a Cadence Health HEALTH FACILITIES &
Address 25 North Winfield Road SERVICES REVIEW BOARD
City Winfield Zip Code 60190 County DuPage
Name of current licensed entity for the facility CDH-Delnor Health System d/b/a Cadence Health
Does the current licensee: own this facility _____ OR lease this facility _____ (if leased, check if sublease ☐)
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
☒ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____
Illinois State Senator for the district where the facility is located: Sen. Michael Connelly
State Senate District Number 21 Mailing address of the State Senator _____
1725 South Naperville Road, Suite 200, Wheaton, IL 60189
Illinois State Representative for the district where the facility is located: Rep. Jeanne M. Ives
State Representative District Number 42 Mailing address of the State Representative _____
1725 South Naperville Road, Suite 200, Wheaton, IL 60189

2. **OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes ☒ No ☐. If yes, refer to Section 1130.520(f), and indicate the projects by Project # See Attachment Response 2

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant See Attachment Response 3

Address _____

City, State & Zip Code _____

Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
_____ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

4. **NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.**

Exact Legal Name of Entity to be Licensed See Attachment Response 4

Address _____

City, State & Zip Code _____

Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
_____ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

5. **BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY**

Exact Legal Name of Entity That Will Own the Site See Attachment Response 5

Address _____

City, State & Zip Code _____

Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
_____ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
_____ Limited Liability Company _____ Other, specify _____

- 6. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**
- Purchase resulting in the issuance of a license to an entity different from current licensee;
 - Lease resulting in the issuance of a license to an entity different from current licensee;
 - Stock transfer resulting in the issuance of a license to a different entity from current licensee;
 - Stock transfer resulting in no change from current licensee;
 - Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
 - Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
 - Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
 - ✓ Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
 - Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
 - Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
 - Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"
- 7. APPLICATION FEE.** Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1**.
- 8. FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2**.
- 9. ANTICIPATED ACQUISITION PRICE:** \$ See Attachment Response 9
- 10. FAIR MARKET VALUE OF THE FACILITY:** \$ See Attachment Response 10
(to determine fair market value, refer to 77 IAC 1130.140)
- 11. DATE OF PROPOSED TRANSACTION:** September 1, 2014
- 12. NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3**.
- 13. BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Limited Liability Companies and Partnerships must provide the name and address of each partner/ member and specify the percentage of ownership of each. Append this information to the application as **ATTACHMENT #4**.
- 14. TRANSACTION DOCUMENTS.** Provide a copy of the complete transaction document(s) including schedules and exhibits which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities and Services Review Board. Append this document(s) to the application as **ATTACHMENT #5**.
- 15. FINANCIAL STATEMENTS.** (Co-applicants must also provide this information) Provide a copy of the applicants latest audited financial statements, and append it to this application as **ATTACHMENT #6**. If the applicant is a newly formed entity and financial statements are not available, please indicate by checking YES , and indicate the date the entity was formed

- 16. PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: Bridget Orth
Address: 211 East Ontario Street, Suite 1750
City, State & Zip Code: Chicago, IL 60611
Telephone () Ext. 312-926-8650

- 17. ADDITIONAL CONTACT PERSON.** Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: Danae Prousis
Address: 680 North Lake Shore Drive, Suite 1118
City, State & Zip Code: Chicago, IL 60611
Telephone () Ext. 312-695-6609

18. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer See Attachment Reponse 18

Typed or Printed Name of Authorized Officer _____

Title of Authorized Officer: _____

Address: _____

City, State & Zip Code: _____

Telephone () _____ Date: _____

NOTE: complete a separate signature page for each co-applicant and insert following this page.

2. **OUTSTANDING PERMITS.** Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes ☒ No ☐. If yes, refer to Section 1130.520(f), and indicate the projects by Project # 12-038 and 13-071

Central DuPage Hospital (CDH) currently has two outstanding permits from the HFSRB:

1. CON #12-038: CDH received approval on July 23, 2012. The project is for the addition of 14 ICU beds and the development of an 8,600 square foot conference center. The cost of the project is \$9,635,375.

The project was obligated on January 14, 2013. The project is on schedule and the final cost report will be submitted by July 30, 2014.

This project will be completed prior to the closing of the proposed transaction.

2. CON #13-071: CDH received approval on March 11, 2014. The project is for the addition of 33 AMI beds and renovation of physician office space. The cost of the project is \$20,418,351.

The project will be obligated by September 11, 2015. The project's anticipated completion date is June 30, 2016.

The project does not involve the establishment or discontinuation of a facility or category of service nor is it a substantial change in scope as defined in 77 Ill. Adm. Code 1130.140 and therefore meets the conditions in 77 Ill. Adm. Code 1130.520(f) to not be considered transferred.

3a. NAME OF APPLICANT

Exact Legal Name of Applicant Northwestern Memorial HealthCare (NMHC)

Address 251 East Huron Street

City, State & Zip Code Chicago, IL 60611

Type of ownership of the current licensed entity (check one of the following:) ☐ Sole Proprietorship

☒ Not-for-Profit Corporation ☐ For Profit Corporation ☐ Partnership ☐

Governmental ☐ Limited Liability Company ☐ Other, specify

3b. NAME OF APPLICANT

Exact Legal Name of Applicant CDH-Delnor Health System d/b/a Cadence Health (Cadence)

Address 25 North Winfield Road

City, State & Zip Code Winfield, IL 60190

Type of ownership of the current licensed entity (check one of the following:) ☐ Sole Proprietorship

☒ Not-for-Profit Corporation ☐ For Profit Corporation ☐ Partnership ☐

Governmental ☐ Limited Liability Company ☐ Other, specify

4. NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.

The proposed transaction will not affect any of the licensees' status as the licensee/operating entity of the following CDH-Delnor Health System d/b/a Cadence Health existing health care facilities (as defined in 77 IAC §1130.140):

CENTRAL DUPAGE HOSPITAL

Exact Legal Name of Entity to be Licensed Central DuPage Hospital Association

Address 25 North Winfield Road

City, State & Zip Code Winfield, IL 60190

Type of ownership of the current licensed entity: Not-for-Profit Corporation

DELNOR-COMMUNITY HOSPITAL

Exact Legal Name of Entity to be Licensed Delnor-Community Hospital

Address 300 Randall Road

City, State & Zip Code Geneva, IL 60134

Type of ownership of the current licensed entity: Not-for-Profit Corporation

CADENCE SURGERY CENTER

Exact Legal Name of Entity to be Licensed Cadence Ambulatory Surgery Center, LLC d/b/a Cadence Surgery Center

Address 27650 Ferry Road

City, State & Zip Code Warrenville, IL 60555

Type of ownership of the current licensed entity: Limited Liability Company

CDH PROTON CENTER

Exact Legal Name of Entity to be Licensed Illinois Proton Center, LLC d/b/a CDH Proton Center

Address 4455 Weaver Parkway

City, State & Zip Code Warrenville, IL 60555

Type of ownership of the current licensed entity: Limited Liability Company

TRI-CITIES SURGERY CENTER

Exact Legal Name of Entity to be Licensed Tri-Cities Surgery Center, LLC

Address 345 Delnor Drive

City, State & Zip Code Geneva, IL 60134

Type of ownership of the current licensed entity: Limited Liability Company

TRI-CITIES DIALYSIS

Exact Legal Name of Entity to be Licensed Tri-Cities Dialysis, LLC

Address 306 Randall Road

City, State & Zip Code Geneva, IL 60134

Type of ownership of the current licensed entity: Limited Liability Company

CENTER FOR SURGERY

Exact Legal Name of Entity to be Licensed Northern Illinois Surgery Center, LP d/b/a The Center for Surgery

Address 475 East Diehl Road

City, State & Zip Code Naperville, IL 60563

Type of ownership of the current licensed entity: Other – Limited Partnership

5. BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE “BRICKS AND MORTAR” (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION.

The proposed transaction will not affect any of the building ownership of the following CDH-Delnor Health System d/b/a Cadence Health existing health care facilities (as defined in 77 IAC §1130.140):

CENTRAL DUPAGE HOSPITAL

Exact Legal Name of Entity to be Licensed CDH-Delnor Health System d/b/a Cadence Health

Address 25 North Winfield Road

City, State & Zip Code Winfield, IL 60190

Type of ownership of the current licensed entity: Not-for-Profit Corporation

DELNOR-COMMUNITY HOSPITAL

Exact Legal Name of Entity to be Licensed CDH-Delnor Health System d/b/a Cadence Health

Address 25 North Winfield Road

City, State & Zip Code Winfield, IL 60190

Type of ownership of the current licensed entity: Not-for-Profit Corporation

CADENCE SURGERY CENTER

Exact Legal Name of Entity to be Licensed CDH-Delnor Health System d/b/a Cadence Health

Address 25 North Winfield Road

City, State & Zip Code Winfield, IL 60190

Type of ownership of the current licensed entity: Not-for-Profit Corporation

CDH PROTON CENTER

Land

Exact Legal Name of Entity to be Licensed CDH-Delnor Health System d/b/a Cadence Health

Address 25 North Winfield Road

City, State & Zip Code Winfield, IL 60190

Type of ownership of the current licensed entity: Not-for-Profit Corporation

Building

Exact Legal Name of Entity to be Licensed Illinois Proton Center, LLC d/b/a/ CDH Proton Center

Address 4455 Weaver Parkway

City, State & Zip Code Warrenville, IL 60555

Type of ownership of the current licensed entity: Limited Liability Company

TRI-CITIES SURGERY CENTER

Exact Legal Name of Entity to be Licensed Delnor-Community Hospital

Address 300 Randall Road

City, State & Zip Code Geneva, IL 60134

Type of ownership of the current licensed entity: Not-for-Profit Corporation

TRI-CITIES DIALYSIS

Exact Legal Name of Entity to be Licensed Delnor Community Health Care Foundation

Address 300 Randall Road

City, State & Zip Code Geneva, IL 60134

Type of ownership of the current licensed entity: Not-for-Profit Corporation

CENTER FOR SURGERY

Exact Legal Name of Entity to be Licensed Northern Illinois Surgery Center, LP d/b/a The Center for Surgery

Address 475 East Diehl Road

City, State & Zip Code Naperville, IL 60563

Type of ownership of the current licensed entity: Other – Limited Partnership

6. TRANSACTION TYPE.

In the proposed transaction, Northwestern Memorial HealthCare (NMHC) will become the sole corporate member of CDH-Delnor Health System d/b/a Cadence Health (Cadence). As such, NMHC will have the power to direct the management and policies of all Cadence entities. The transaction will constitute an indirect change of control of Cadence's existing health care facilities, and therefore a change of ownership of the licensees (as defined in 77 IAC §1130.140). Cadence Health and NMHC also anticipate that 50% or more of the Boards of Directors of Cadence Health, CDH, and Delnor will change as a result of the proposed transaction.

8. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Heath Facilities Authority; cash gift from parent company, etc.).

NOT APPLICABLE

There is no acquisition price for this transaction (see Attachment Response 9).

9. ANTICIPATED ACQUISITION PRICE.

There is no anticipated acquisition price for this transaction; however, as stated in the Agreement, as of the closing, there will be a fund created with the unrestricted net cash position of the Cadence System at closing. This fund can be used for the capital needs of the Cadence Health entities.

11. DATE OF PROPOSED TRANSACTION.

The date of the proposed transaction finalization is September 1, 2014, contingent upon receipt of all necessary regulatory approvals.

12. NARRATIVE DESCRIPTION. Provide a narrative description explaining the transaction.

Northwestern Memorial HealthCare (NMHC) and CDH-Delnor Health System d/b/a Cadence Health (Cadence) seek approval of this Certificate of Exemption (COE) to allow for an affiliation which will result in a single integrated health system operating under the name "Northwestern Medicine" (NM System) that supports NMHC and Cadence's common and unifying non-profit health care mission to improve the quality and expand the scope and accessibility of affordable health care and health care-related services for the residents of Cook County, Lake County, DuPage County, Kane County, and surrounding regions in a culture of compassion, respect, integrity, and excellence.

It is NMHC and Cadence's vision to create a combined health system that would support significant improvements in health care delivery and outcomes and would preserve their investments in their communities. The proposed affiliation would create a strong and effective long-term relationship between the NMHC System and the Cadence System ensuring that they continue to achieve their charitable missions.

Currently, Cadence is the ultimate corporate parent of the following legal entities holding licenses as existing health care facilities (as defined in 77 IAC §1130.140): Central DuPage Hospital Association (CDH) (wholly owned by Cadence), Delnor-Community Hospital (Delnor) (wholly owned by Cadence), Cadence Ambulatory Surgery Center, LLC d/b/a Cadence Surgery Center (wholly owned by Cadence), Illinois Proton Center, LLC d/b/a CDH Proton Center (partially owned by Illinois Proton Center Holdings, LLC, which is wholly owned by Cadence), Tri-Cities Surgery Center, LLC (partially owned by DelCom Corporation, Cadence's wholly-owned subsidiary), Tri-Cities Dialysis, LLC (partially owned by DelCom Corporation, Cadence's wholly-owned subsidiary), and Northern Illinois Surgery Center Limited Partnership d/b/a The Center for Surgery (wholly owned by Northern Illinois S.C., Inc., which is partially owned by DuPage Health Services, Inc., Cadence's wholly owned subsidiary).

Cadence has entered into an Affiliation Agreement dated May 15, 2014 with NMHC pursuant to which NMHC will become the sole corporate member of Cadence effective on or around September 1, 2014 and subject to the satisfaction of various closing conditions, including approval of this application by the Illinois Health Facilities and Services Review Board. After the closing of the transaction, NMHC will have the power to direct the management and policies of the licensees named above or their direct parent corporations. The transaction will constitute an indirect change of control of the licensees named above, and therefore a change of ownership (as defined in 77 IAC §1130.140). Cadence and NMHC also anticipate that fifty percent or more of the Boards of Directors of Cadence, CDH, and Delnor will change as a result of the Transaction.

The proposed transaction, in and of itself: (a) will not affect any of the licensees' status as the licensee/operating entity of the existing health care facilities named above; and (b) will not change the legal entity that owns the "bricks and mortar" (buildings) of the existing health care facilities named above. In addition, the transaction will not, in and of itself, effect a transfer, conveyance or change in the ownership of any Cadence joint venture or NMHC joint venture to any other person (See attached letters from Cadence joint venture partners acknowledging the proposed affiliation between Cadence and NMHC).

Affiliation Goals and Objectives

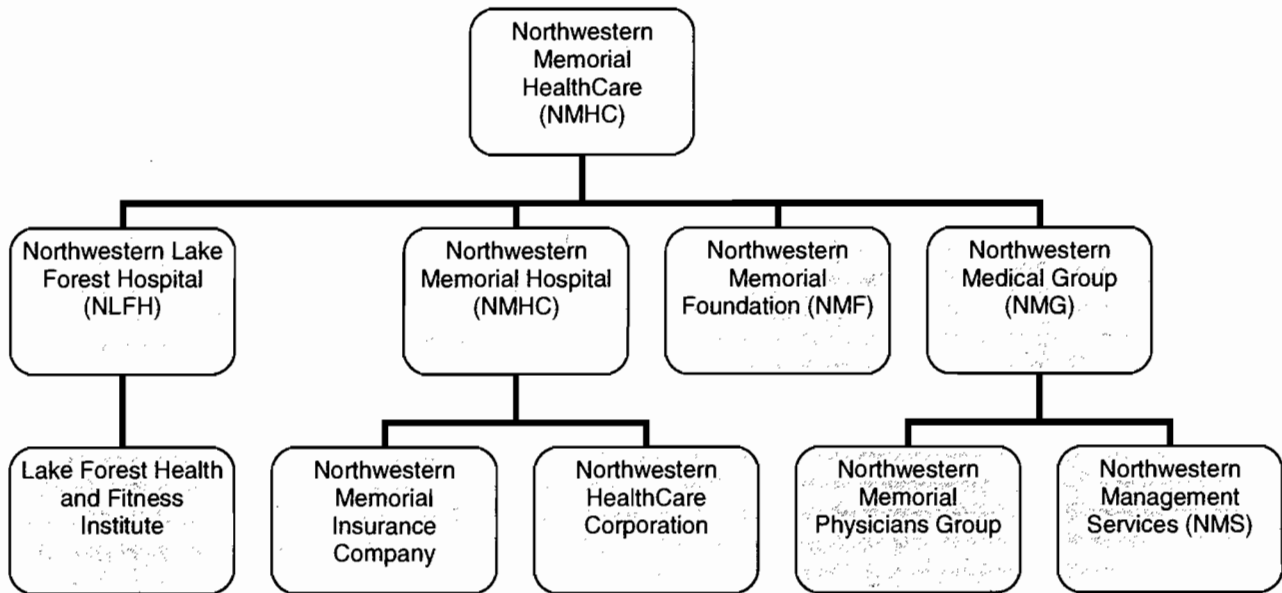
The proposed affiliation intends to create an integrated network comprised of nationally leading premier academic health enterprise and an exceptionally successful, community-based health system that incorporates and builds upon the best elements of NMHC and Cadence's current health systems. Central to the vision of the NM System is the concept of "innovation", which includes:

- Innovation in developing, aligning, sharing, supporting, and adopting the use of best clinical and operational practices across the NM System;
- Innovation in provider relationships, whether through the integration of additional providers into the NM System, or novel relationships intended to support defined mutual interests;
- Innovation in the patient and family experience, so that exceptional care is rendered in an exceptional environment supported by exceptional staff and physicians;
- Innovation in advancing the boundaries of medical science, medical education, and clinical practice through the discovery, translation into clinical care, and dissemination of knowledge.

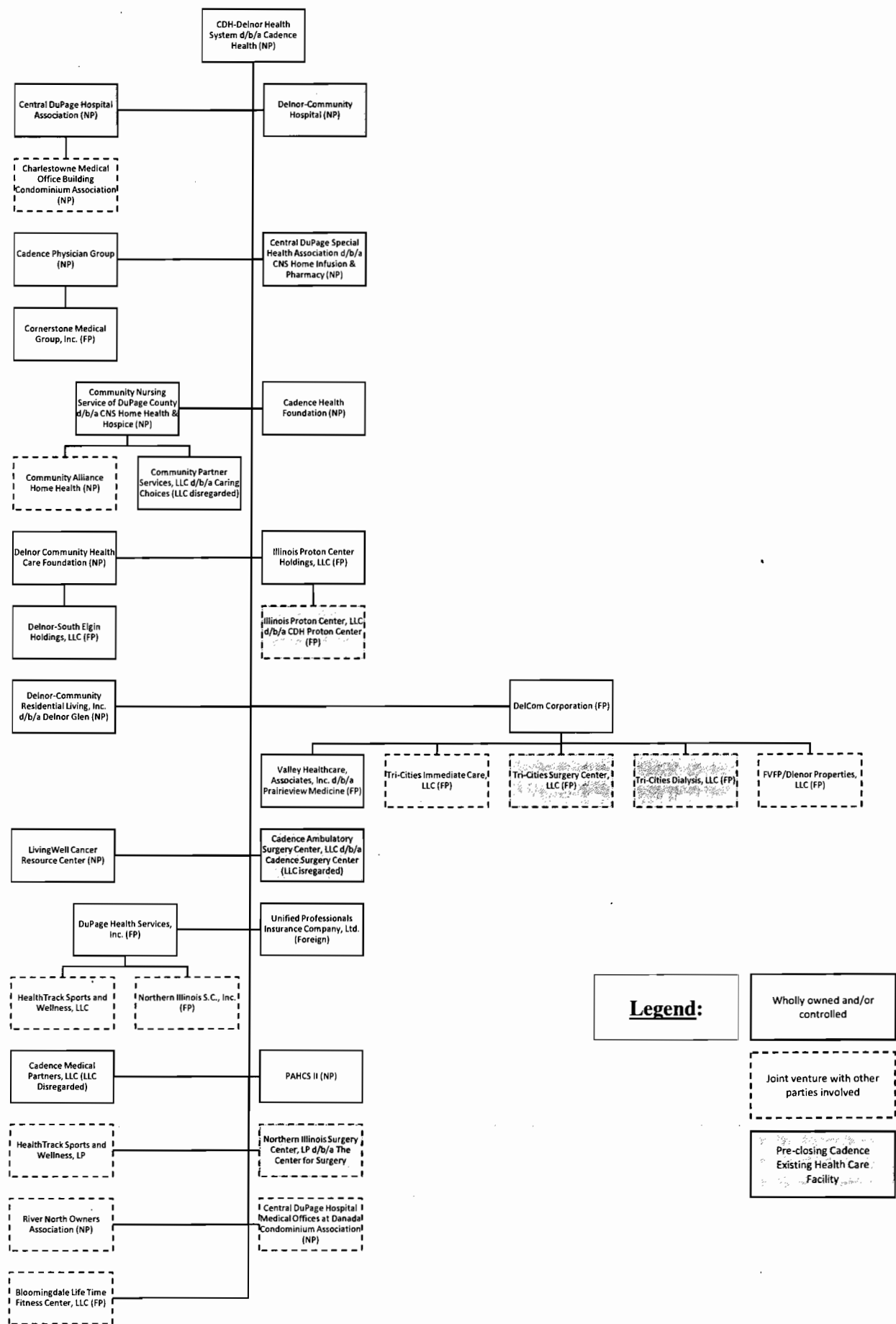
NMHC and Cadence will work to define and implement the affiliation in a manner that:

- furthers the charitable missions of NMHC and Cadence
- continues to improve access to comprehensive, convenient, high quality, lower cost inpatient and outpatient healthcare throughout the communities served by the NM System
- continues to improve the health status of the population of the communities served by the NM System
- promotes community health and well being through patient care, wellness, research and educational efforts
- builds the medical community through developing strongly aligned relationships with primary care, core specialist, subspecialist, and group practice physicians
- enhances sound stewardship through the efficient delivery of all services, resulting in favorable financial performance for the NM System entities
- develops a comprehensive delivery system, emphasizing the efficacy of care, resulting in improved outcomes and quality of life for patients, recognition for quality and service excellence, and growth initiatives and service expansion opportunities for the NM System entities
- enhances physician, payor and patient preference
- enhances community benefit and public policy advocacy
- maintains all appropriate accreditation and all relevant and necessary federal, state and local licenses and permits

NMHC Pre-Transaction Organization Chart



Cadence Health Pre-Transaction Organizational Chart



Cadence Health's Existing Health Care Facilities

HEALTH CARE FACILITY	DIRECT CORPORATE OWNERSHIP	LICENSEE	PROPERTY OWNER
Central DuPage Hospital	• CDH-Delnor Health System d/b/a Cadence Health, 100%	Central DuPage Hospital Association	CDH-Delnor Health System d/b/a Cadence Health
Delnor-Community Hospital	• CDH-Delnor Health System d/b/a Cadence Health, 100%	Delnor-Community Hospital	CDH-Delnor Health System d/b/a Cadence Health
Cadence Ambulatory Surgery Center, LLC d/b/a Cadence Surgery Center	• CDH-Delnor Health System d/b/a Cadence Health, 100%	Cadence Ambulatory Surgery Center, LLC	CDH-Delnor Health System d/b/a Cadence Health
Illinois Proton Center, LLC d/b/a CDH Proton Center	• Illinois Proton Center Holdings, LLC, 81.25% (sole owner of which is CDH-Delnor Health System d/b/a Cadence Health) • Chicago Proton Treatment Investment, LLC, 18.75%	Illinois Proton Center, LLC d/b/a CDH Proton Center	Land - owned by CDH-Delnor Health System d/b/a Cadence Health Ground Lease from Cadence Health to Proton Center Building - Illinois Proton Center, LLC d/b/a CDH Proton Center
Tri-Cities Surgery Center, LLC	• DelCom Corporation, 50% • Tri-Cities Physician Group, LLC, 50%	Tri-Cities Surgery Center, LLC	Delnor Community Hospital
Tri-Cities Dialysis, LLC	• DelCom Corporation, 49% • F.V.D. II, LLC, 51%	Tri-Cities Dialysis, LLC	Leases space in building owned by by Delnor-Community Health Care Foundation
Northern Illinois Surgery Center LP d/b/a The Center for Surgery	• CDH-Delnor Health System d/b/a Cadence Health, 33% LP interest • Edward Health Ventures, 33% LP interest • DuPage Doctors Limited Partnership, 33% LP interest • Northern Illinois Surgery Center, Inc., 1% GP interest	Northern Illinois Surgery Center LP d/b/a The Center for Surgery	Northern Illinois Surgery Center, LP d/b/a The Center for Surgery

Bold: Cadence entity

Chicago Proton Treatment Investment, LLC.
300 S. Northwest Hwy, Suite 207
Park Ridge, IL. 60068

May 14, 2014

Kathryn Olson
Chair
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, IL 62761

RE: Cadence Health – Northwestern Memorial HealthCare Affiliation

Dear Ms. Olson:

Chicago Proton Treatment Investment, LLC is aware of the proposed affiliation between Northwestern Memorial HealthCare and Cadence Health. We do not anticipate this affiliation negatively affecting our joint venture relationship.

Sincerely,

A handwritten signature in black ink, appearing to read "William F. Hartsell", written in a cursive style.

William F. Hartsell, M.D.
Managing Member

C

Tri-Cities Physician Group, LLC

345 Delnor Drive
Geneva, IL 60134
630-262-8100 x225

May 19, 2014

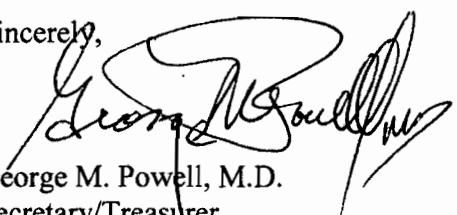
Kathryn Olson
Chair
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, IL 62761

RE: Cadence Health – Northwestern Memorial HealthCare Affiliation

Dear Ms. Olson:

Tri-Cities Physicians Group, LLC is aware of the proposed affiliation between Northwestern Memorial HealthCare and Cadence Health. We do not anticipate this affiliation negatively affecting our joint venture relationship.

Sincerely,



George M. Powell, M.D.
Secretary/Treasurer

May 14, 2014

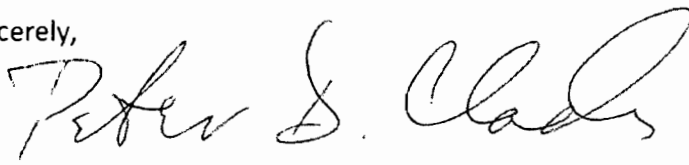
Kathryn Olson
Chair
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, IL 62761

RE: Cadence Health – Northwestern Memorial HealthCare Affiliation

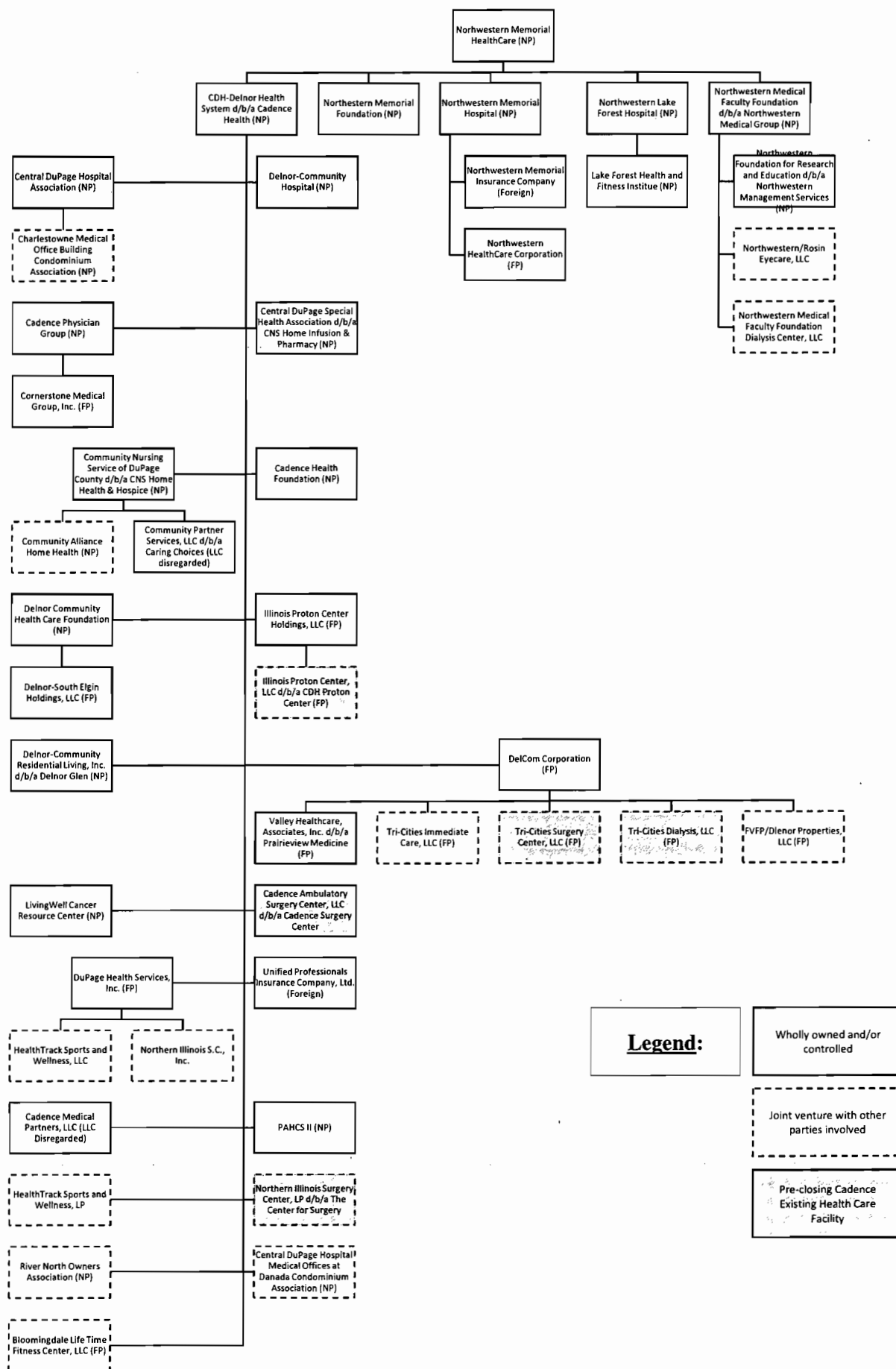
Dear Ms. Olson:

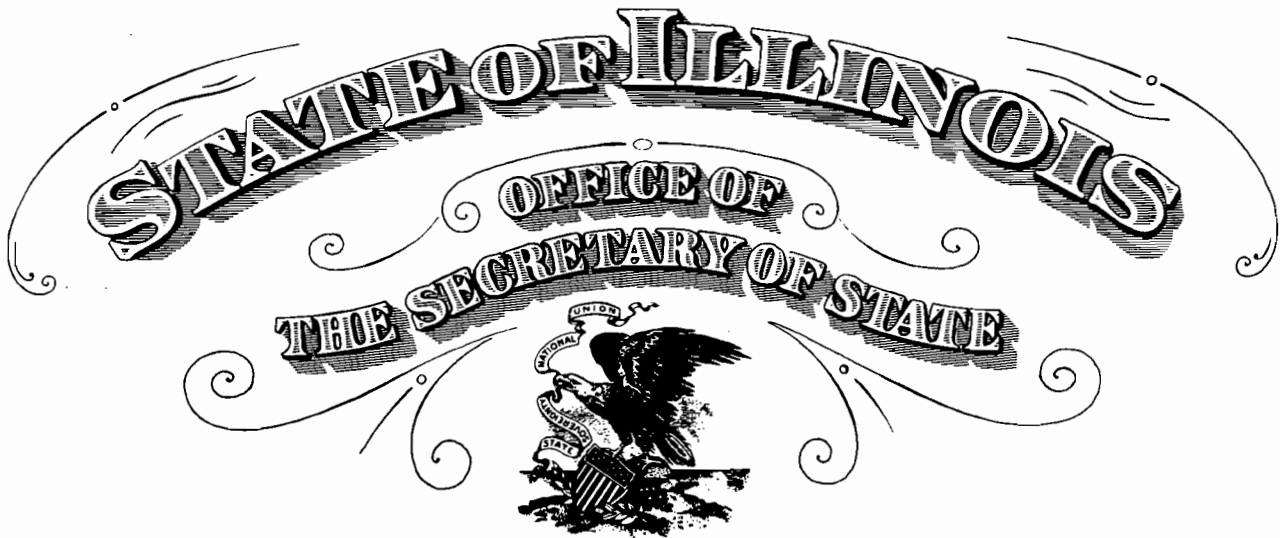
F.V.D. II, LLC is aware of the proposed affiliation between Northwestern Memorial HealthCare and Cadence Health. We do not anticipate this affiliation negatively affecting our joint venture relationship.

Sincerely,




NMHC – Cadence Health Affiliation Post-Transaction Organization Chart





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 MEMORIAL HEALTHCARE, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON NOVEMBER 30, 1981, 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 #: 1335102330

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 17TH day of DECEMBER A.D. 2013 .*

Jesse White

SECRETARY OF STATE

File Number 5217-963-7



To all to whom these Presents Shall Come, Greeting:

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

CDH-DELNOR HEALTH SYSTEM, 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 #: 1328701046

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 14TH
day of OCTOBER A.D. 2013*

Jesse White

SECRETARY OF STATE

CONFIDENTIAL

**AFFILIATION AGREEMENT
BY AND BETWEEN
CDH-DELNOR HEALTH SYSTEM D/B/A CADENCE HEALTH
AND
NORTHWESTERN MEMORIAL HEALTHCARE**

May 15, 2014

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vacancy and, if it approves of a candidate, shall recommend such candidate to the Executive Committee of the NMHC Board. The Executive Committee shall review such candidate and, if it approves of such candidate, shall nominate such candidate to the full NMHC Board for its review and approval. If the NMHC Board approves of such candidate's nomination, then the NMHC Board shall elect such candidate to the NMHC Board. If the candidate is not approved by the Nominating and Corporate Governance Committee or Executive Committee, or is not elected by the NMHC Board, then the foregoing process will be repeated until a candidate recommended by the Nominating and Corporate Governance Committee and nominated by the Executive Committee is elected to the NMHC Board.

3.5 **Removal of Directors.** As of the Closing, the NMHC Board, by an act of a majority of directors then in office, and acting in the best interests of NMHC as determined by the NMHC Board in its sole discretion, may remove a director on the NMHC Board at any time, with or without cause.

3.6 **Resignation of Directors.**

3.6.1 As of the Closing, a director on the NMHC Board may resign at any time by giving his or her written resignation to the NMHC Board, the Chair of the NMHC Board, the NM System CEO, or the Secretary of NMHC. Such written resignation is effective when delivered unless the resignation specifies a future date.

3.6.2 A material change in a director's principal leadership position in his or her business or civic organization during his or her term as director on the NMHC Board shall constitute an automatic resignation from the NMHC Board. An event or circumstance constituting a material change in a director's principal leadership position in his or her business or civic organization shall be determined in the sole discretion of the NMHC Board and shall include, without limitation, termination, demotion, or resignation from such principal leadership position. The NMHC Board, in its sole discretion, may refuse to accept such automatic resignation of a director from the NMHC Board.

3.7 **Quorum.** As of the Closing, one-third of directors then serving on the NMHC Board shall constitute a quorum for the transaction of business at any meeting of the NMHC Board, unless a larger number is required by Applicable Law.

3.8 **Voting.**

3.8.1 Subject to Sections 3.8.2–3.8.5, as of the Closing, the act of a majority of directors present at a meeting of the NMHC Board at which a quorum exists shall be the act of the NMHC Board.

3.8.2 During the Initial Term, election of directors of the NMHC Board, including filling vacancies, shall require the affirmative vote of two-thirds (2/3) of directors present at a meeting of the NMHC Board at which a quorum exists (and may not be undertaken by the Executive Committee of the NMHC Board).

3.8.3 The following actions shall require the affirmative vote of eighty percent (80%) of directors present at a meeting of the NMHC Board at which a quorum exists (and may not be undertaken by the Executive Committee of the NMHC Board):

- (a) amendment of the bylaws of NMHC;
- (b) amendment of the articles of incorporation or bylaws of NMG;
- (c) establishment of a successor or parent corporation of NMHC;
- (d) amendment or termination of: (i) that certain Affiliation Agreement between NU and NMH dated June 25, 1973, as amended; or (ii) that certain Master Agreement between NU and NMG dated May 17, 1982, as amended;
- (e) change to the academic support contributions or formulas set forth on Exhibit 2.3.1 of that certain Clinical Affiliation Agreement between NMHC and NMG dated August 19, 2013;
- (f) change in policy with respect to employment by the NMHC Entities of physicians who are on the faculty of FSM and non-faculty physicians;
- (g) merger or consolidation of NMG with another corporation;
- (h) disposal of all or substantially all of the property and assets of NMG; and
- (i) dissolution of NMG.

3.8.4 Amendment of the articles of incorporation of NMHC shall require the affirmative vote of eighty percent (80%) of directors present at a meeting of the NMHC Board at which a quorum exists and a majority of directors of the NMHC Board then in office (and may not be undertaken by the Executive Committee of the NMHC Board).

3.8.5 The following actions shall require the affirmative vote of a majority of directors of the NMHC Board then in office at a meeting of the NMHC Board at which a quorum exists:

- (a) removal of directors of the NMHC Board;
- (b) adoption of a plan of merger or consolidation of NMHC with another corporation;
- (c) sale, lease, exchange, or other disposition of all, or substantially all, of the property and assets of NMHC;
- (d) authorization of the voluntary dissolution of NMHC; and
- (e) adoption of a plan providing for the distribution of assets of NMHC when NMHC is in the process of dissolving.

AFFILIATION AGREEMENT

This **AFFILIATION AGREEMENT** (the “**Agreement**”) is made and entered into as of May 15, 2014 (the “**Execution Date**”) by and between **CDH-DELNOR HEALTH SYSTEM D/B/A CADENCE HEALTH**, an Illinois not-for-profit corporation (“**Cadence**”), and **NORTHWESTERN MEMORIAL HEALTHCARE**, an Illinois not-for-profit corporation (“**NMHC**”). Cadence and NMHC each are referred to individually herein as a “**Party**” and, collectively, as the “**Parties**” to this Agreement. Article 15 contains a glossary of all capitalized defined terms used in this Agreement.

RECITALS

WHEREAS, Cadence is the parent company of a premier not-for-profit health system primarily serving DuPage and Kane Counties, Illinois and surrounding areas, which includes Central DuPage Hospital Association (“**CDH**”), Delnor-Community Hospital (“**Delnor**”), Cadence Physician Group (a comprehensive multi-specialty physician group) (“**CPG**”), Cadence Medical Partners (an organized managed care contracting network of both integrated and independent providers affiliated with CDH and Delnor) (“**CMP**”), and other entities (collectively, the “**Cadence Affiliates**,” all of which are listed on Exhibit A, and with Cadence, the “**Cadence System**” or the “**Cadence Entities**”);

WHEREAS, NMHC is the parent company of a premier not-for-profit health system primarily serving Cook and Lake Counties, Illinois and surrounding areas, which includes Northwestern Memorial Hospital (“**NMH**”), Northwestern Lake Forest Hospital (“**NLFH**”), Northwestern Medical Faculty Foundation d/b/a Northwestern Medical Group (the faculty practice plan for the faculty of Northwestern University’s (“**NU**”) Feinberg School of Medicine (“**FSM**”)) (“**NMG**”), and Northwestern Healthcare Corporation (a clinically integrated physician organization that coordinates managed care contracting for members of the medical staff of NMHC hospitals) (“**NHC**”) (collectively, the “**NMHC Affiliates**,” all of which are listed on Exhibit B, and with NMHC, the “**NMHC System**” or the “**NMHC Entities**”);

WHEREAS, the Parties and their respective Affiliates share a common and unifying non-profit health care mission to improve the quality and expand the scope and accessibility of affordable health care and health care-related services for the residents of the areas which they serve in a culture of compassion, respect, integrity and excellence;

WHEREAS, the Parties have been engaged in discussions to explore the possibility of entering into a transaction whereby the Cadence System will combine with the NMHC System (the “**Affiliation**”), which will result in a single integrated health system operating under the name “Northwestern Medicine” (the “**NM System**”) that supports their common and unifying vision for value and quality in health care;

WHEREAS, as a result of their discussions, the Parties entered into a Letter of Intent dated March 13, 2014 (“**Letter of Intent**”), pursuant to which they set forth their preliminary understandings and agreements regarding the nature and terms of the Affiliation; and

WHEREAS, as contemplated by the Letter of Intent, the Parties now desire to set forth the full and complete terms of their agreement with respect to the Affiliation.

NOW, THEREFORE, for and in consideration of the premises, and the agreements, covenants, representations and warranties hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which forever are acknowledged and confessed, the Parties agree as follows:

ARTICLE 1

COMBINATION GOALS AND OBJECTIVES

1.1 **Deliberative Process.** The Cadence Board and NMHC Board, in keeping with their fiduciary duties to oversee their respective system's charitable assets, have engaged in a deliberative process to explore ways to more seamlessly, efficiently and effectively serve their constituencies and provide world-class health care services. It is each respective Board's vision to create a combined health system that would support significant improvements in health care delivery and outcomes and would preserve their investments in their communities. As a result, the Parties hereby desire to implement the Contemplated Transactions, creating a strong and effective long-term relationship between the Cadence System and the NMHC System and ensuring that they continue to achieve their charitable missions.

1.2 **Rationale and Vision.** The Parties intend to create an integrated network comprised of a nationally leading premier academic health enterprise and an exceptionally successful, community-based health system that incorporates and builds upon the best elements of each of the Parties' current health systems. Central to the Parties' vision of the NM System is the concept of "innovation," which includes:

1.2.1 Innovation in developing, aligning, sharing, supporting and adopting the use of best clinical and operational practices across the NM System;

1.2.2 Innovation in provider relationships, whether through the integration of additional providers into the NM System, or novel relationships intended to support defined mutual interests;

1.2.3 Innovation in the patient and family experience, so that exceptional care is rendered in an exceptional environment supported by exceptional staff and physicians; and

1.2.4 Innovation in advancing the boundaries of medical science, medical education, and clinical practice through the discovery, translation into clinical care, and dissemination of knowledge.

1.3 **Implementation.** The Parties will work to define and implement the Contemplated Transactions in a manner that: (a) furthers the charitable missions of the Parties; (b) continues to improve access to comprehensive, convenient, high quality, lower cost inpatient and outpatient healthcare throughout the communities served by the NM System; (c) continues to improve the health status of the population of the communities served by the NM System; (d) promotes community health and well being through patient care, wellness, research and educational efforts; (e) builds the medical community through developing strongly aligned relationships with primary care, core specialist, subspecialist, and group practice physicians; (f) enhances sound stewardship through the efficient delivery of all services, resulting in favorable

financial performance for the NM System Entities; (g) develops a comprehensive delivery system, emphasizing the efficacy of care, resulting in improved outcomes and quality of life for patients, recognition for quality and service excellence, and growth initiatives and service expansion opportunities for the NM System Entities; (h) enhances physician, payor and patient preference; (i) enhances community benefit and public policy advocacy; and (j) maintains all appropriate accreditation and all relevant and necessary federal, state and local licenses and permits. Furthermore, the Parties expect that the Contemplated Transactions will present significant opportunities to improve health care delivery and access to services provided locally in the NM System's service area and to do so in an efficient manner that results in cost savings and other efficiencies for the NM System in furtherance of the Parties' respective charitable missions and purposes. Such opportunities will likely include initiatives for consolidation of system-wide support functions, with the goal of enhancing operational uniformity, efficiency and performance while reducing costs.

ARTICLE 2

OVERVIEW OF CONTEMPLATED TRANSACTIONS

In order to consummate the Contemplated Transactions and to achieve the charitable objectives set forth in Article 1, the Parties agree that, on the Closing Date, subject to the terms and conditions set forth in this Agreement, the Parties shall take the following actions: (a) NMHC shall become the sole corporate member of Cadence, and Cadence shall amend its Governing Documents to reflect such membership; and (b) the relevant Cadence Affiliates and NMHC Entities shall amend their Governing Documents to effect the changes described in Article 3 and Article 4.

ARTICLE 3

GOVERNANCE OF NMHC

3.1 **Sole Member.** As of the Closing, NMHC shall be the sole corporate member of Cadence and ultimate corporate parent of the NM System.

3.2 **NMHC Board.** As of the Closing, the business and affairs of NMHC shall be managed by a Board of Directors consisting of 24 directors.

3.3 **Composition of NMHC Board.**

3.3.1 As of the Closing, the NMHC Board shall be comprised of the individuals set forth on Exhibit C delivered by the Parties at Closing (the "**NM System Governance Roster**"), who shall be approved by the NMHC Board before the Closing, elected as of the Closing, and selected as follows: twelve individuals shall be selected by Cadence before the Closing and twelve individuals shall be selected by NMHC before the Closing (the "**Initial Directors**"). Each of the Initial Directors elected to the NMHC Board shall have the appropriate background and experience to effectively oversee the NM System operations and strategic direction.

3.3.2 In selecting its Initial Directors before the Closing, each of the Parties will select four Initial Directors who will have initial terms of one year, four Initial Directors who will have initial terms of two years and four Initial Directors who will have initial terms of three years. Following each such initial term of the Initial Directors, members of the NMHC Board will be elected for terms of three years each.

3.3.3 During the five-year period beginning on the Closing Date (the “Initial Term”): (a) one-half of the NMHC Board shall be comprised of the Initial Directors selected by Cadence (or their successors as elected as set forth herein); and (b) one-half of the NMHC Board shall be comprised of the Initial Directors selected by NMHC (or their successors as elected as set forth herein).

3.4 Nomination and Election of Directors.

3.4.1 Nomination and Election of Cadence Directors During the Initial Term. If, during the Initial Term, the seat of an Initial Director selected by Cadence (or such director’s successor) becomes vacant for any reason, the Initial Directors selected by Cadence (or such directors’ successors), the Chair of the Cadence Board, and the Regional President shall be consulted in identifying candidates to fill such vacancy. The Nominating and Corporate Governance Committee of the NMHC Board shall review candidates to fill such vacancy and, if it approves of a candidate, shall recommend such candidate to the Executive Committee of the NMHC Board. The Executive Committee shall review such candidate and, if it approves of such candidate, shall nominate such candidate to the full NMHC Board for its review and approval. If the NMHC Board approves of such candidate’s nomination, then the NMHC Board shall elect such candidate to the NMHC Board. If the candidate is not approved by the Nominating and Corporate Governance Committee or Executive Committee, or is not elected by the NMHC Board, then the foregoing process will be repeated until a candidate recommended by the Nominating and Corporate Governance Committee and nominated by the Executive Committee is elected to the NMHC Board.

3.4.2 Nomination and Election of NMHC Directors During the Initial Term. If, during the Initial Term, the seat of an Initial Director selected by NMHC (or such director’s successor) becomes vacant for any reason, the Nominating and Corporate Governance Committee of the NMHC Board shall review candidates to fill such vacancy and, if it approves of a candidate, shall recommend such candidate to the Executive Committee of the NMHC Board. The Executive Committee shall review such candidate and, if it approves of such candidate, shall nominate such candidate to the full NMHC Board for its review and approval. If the NMHC Board approves of such candidate’s nomination, then the NMHC Board shall elect such candidate to the NMHC Board. If the candidate is not approved by the Nominating and Corporate Governance Committee or Executive Committee, or is not elected by the NMHC Board, then the foregoing process will be repeated until a candidate recommended by the Nominating and Corporate Governance Committee and nominated by the Executive Committee is elected to the NMHC Board.

3.4.3 Nomination and Election of Directors After the Initial Term. Following the Initial Term, if a seat on the NMHC Board becomes vacant for any reason, the Nominating and Corporate Governance Committee of the NMHC Board shall review candidates to fill such

3.9 **Notice of Meeting Implicating Supermajority Vote.** Written notice of all meetings of the NMHC Board at which the NMHC Board proposes to take any action subject to the supermajority voting requirements set forth in Section 3.8.3 and Section 3.8.4 shall be delivered to each director at least thirty (30) days before the date of the meeting. During the Initial Term, written notice of all meetings of the NMHC Board at which the NMHC Board proposes to take any action subject to the supermajority voting requirements set forth in Section 3.8.2 shall be delivered to each director at least thirty (30) days before the date of the meeting. In each case, such notice shall state the specific action(s) subject to the supermajority voting requirements set forth in Section 3.8.2–3.8.4, as applicable, that the NMHC Board proposes to take.

3.10 **Board Officers.**

3.10.1 **Initial Board Officers.**

(a) **Board Chairperson.** The initial chairperson of the NMHC Board as of the Closing shall be the individual set forth on Exhibit C (the “**Initial NMHC Board Chairperson**”), will be selected by NMHC and approved by the NMHC Board before the Closing, and will be elected by the NMHC Board as of the Closing. The Initial NMHC Board Chairperson shall serve for an initial term of two years (or until his or her sooner death, resignation, or removal as Initial NMHC Board Chairperson or as a director on the NMHC Board), and his or her successors shall be nominated and elected in accordance with Section 3.10.6, provided, however, that, during the three-year period beginning on the Closing Date, the Initial NMHC Board Chairperson (or his or her successor) shall be one of the Initial Directors selected by NMHC.

(b) **Board Vice-Chairperson.** An initial vice-chairperson of the NMHC Board as of the Closing shall be the individual set forth on Exhibit C (the “**Initial NMHC Board Vice-Chairperson**”), will be selected by NMHC and approved by the NMHC Board before the Closing, and will be elected by the NMHC Board as of the Closing. The Initial NMHC Board Vice-Chairperson shall serve for an initial term of one year (or until his or her sooner death, resignation, or removal as Initial NMHC Board Vice-Chairperson or as a director on the NMHC Board), and his or her successors shall be nominated and elected in accordance with Section 3.10.6, provided, however, that, during the three-year period beginning on the Closing Date, the Initial NMHC Board Vice-Chairperson (or his or her successor) shall be one of the Initial Directors selected by Cadence.

(c) **Executive Committee Chairperson.** During the three-year period beginning on the Closing Date, the chairperson of the Executive Committee of the NMHC Board shall be the same individual who serves as the Initial NMHC Board Chairperson (or his or her successor).

(d) **Executive Committee Vice-Chairperson.** During the three-year period beginning on the Closing Date, the vice-chairperson of the Executive Committee of the NMHC Board shall be the same individual who serves as the Initial NMHC Board Vice-Chairperson (or his or her successor).

3.10.2 Role of Board Chairperson. As of the Closing, the duties of the chairperson of the NMHC Board will include chairing all meetings of the NMHC Board and such other duties as may be assigned to him or her by the NMHC Board from time to time. The chairperson of the NMHC Board will be: (a) an *ex officio*, voting member of the Executive Committee of the NMHC Board and the Executive Compensation Subcommittee of the Executive Committee; and (b) an *ex officio*, non-voting member of all other committees of the NMHC Board, unless otherwise specified in the NMHC bylaws in effect from time to time.

3.10.3 Role of Initial NMHC Board Vice-Chairperson. During the three-year period beginning on the Closing Date, the Initial NMHC Board Vice-Chairperson (or his or her successor) will be: (a) the vice-chairperson of the NMHC Board to act in the event of the absence of the Initial NMHC Board Chairperson, or in the event of his or her inability or refusal to act; (b) an *ex officio*, voting member of the Executive Committee of the NMHC Board; and (c) consistent with Section 3.10.1(d), the vice-chairperson of the Executive Committee of the NMHC Board.

3.10.4 Role of Executive Committee Chairperson. As of the Closing, the duties of the chairperson of the Executive Committee of the NMHC Board will include chairing all meetings of the Executive Committee and such other duties as may be assigned to him or her by the NMHC Board from time to time.

3.10.5 Role of Executive Committee Vice-Chairperson. As of the Closing, the duties of the vice-chairperson of the Executive Committee of the NMHC Board will include the duty to act in the event of the absence of the chairperson of the Executive Committee, or in the event of his or her inability or refusal to act.

3.10.6 Election. As of the Closing, officers of the NMHC Board will be nominated by the Executive Committee of the NMHC Board to the full NMHC Board and elected by the NMHC Board at its annual meeting.

3.10.7 Removal. As of the Closing, the NMHC Board may remove any officer of the NMHC Board at any time, with or without cause, subject to the contract rights, if any, of the officer being removed.

3.11 Committees.

3.11.1 Executive Committee and Nominating and Corporate Governance Committee.

(a) **Size.**

(i) As of the Closing, the Executive Committee of the NMHC Board shall consist of 16 individuals.

(ii) As of the Closing, the Nominating and Corporate Governance Committee of the NMHC Board shall consist of 10 individuals.

(b) **Composition.**

(i) As of the Closing, the Executive Committee and Nominating and Corporate Governance Committee of the NMHC Board shall be comprised of the individuals specified on Exhibit C, who shall be approved by the NMHC Board before the Closing, elected as of the Closing, and selected as follows: one-half shall be selected by Cadence before the Closing and one-half shall be selected by NMHC before the Closing.

(ii) During the Initial Term: (a) one-half of each of the Executive Committee and the Nominating and Corporate Governance Committee of the NMHC Board shall be comprised of the committee members initially selected by Cadence (or their successors as elected in accordance hereof); and (b) one-half of each of the Executive Committee and the Nominating and Corporate Governance Committee of the NMHC Board shall be comprised of the committee members initially selected by NMHC (or their successors as elected as set forth herein).

(c) **Terms.** As of the Closing, members of the Executive Committee and Nominating and Corporate Governance Committee of the NMHC Board shall serve for terms of one year; provided, however, that during the Initial Term: (a) one-half of each of the Executive Committee and the Nominating and Corporate Governance Committee shall be comprised of the committee members initially selected by Cadence (or their successors as elected in accordance hereof); and (b) one-half of each of the Executive Committee and the Nominating and Corporate Governance Committee of the NMHC Board shall be comprised of the committee members initially selected by NMHC (or their successors as elected as set forth herein).

(d) **Nomination and Election.**

(i) If, during the Initial Term, the seat of a member of the Executive Committee or Nominating and Corporate Governance Committee of the NMHC Board initially selected by Cadence (or such member's successor) becomes vacant for any reason, the Initial Directors selected by Cadence (or such directors' successors), the Chair of the Cadence Board, and the Regional President shall be consulted in identifying candidates to fill such vacancy. The Nominating and Corporate Governance Committee of the NMHC Board shall review candidates to fill such vacancy and, if it approves of a candidate, shall recommend such candidate to the Executive Committee of the NMHC Board. The Executive Committee shall review such candidate and, if it approves of such candidate, shall nominate such candidate to the full NMHC Board for its review and approval. If the NMHC Board approves of such candidate's nomination, then the NMHC Board shall elect such candidate to the Executive Committee or Nominating and Corporate Governance Committee, as applicable. If the candidate is not approved by the Nominating and Corporate Governance Committee or Executive Committee, or is not elected by the NMHC Board, then the foregoing process will be repeated until a candidate recommended by the Nominating and Corporate Governance Committee and nominated by the Executive Committee is elected to the Executive Committee or Nominating and Corporate Governance Committee, as applicable.

(ii) If, during the Initial Term, the seat of a member of the Executive Committee or Nominating and Corporate Governance Committee of the NMHC Board initially selected by NMHC (or such member's successor) becomes vacant for any reason, the Nominating and Corporate Governance Committee of the NMHC Board shall review candidates to fill such vacancy and, if it approves of a candidate, shall recommend such candidate to the Executive Committee of the NMHC Board. The Executive Committee shall review such candidate and, if it approves of such candidate, shall nominate such candidate to the full NMHC Board for its review and approval. If the NMHC Board approves of such candidate's nomination, then the NMHC Board shall elect such candidate to the Executive Committee or Nominating and Corporate Governance Committee, as applicable. If the candidate is not approved by the Nominating and Corporate Governance Committee or Executive Committee, or is not elected by the NMHC Board, then the foregoing process will be repeated until a candidate recommended by the Nominating and Corporate Governance Committee and nominated by the Executive Committee is elected to the Executive Committee or Nominating and Corporate Governance Committee, as applicable.

(iii) Following the Initial Term, if a seat on the Executive Committee or Nominating and Corporate Governance Committee of the NMHC Board becomes vacant for any reason, the Nominating and Corporate Governance Committee of the NMHC Board shall review candidates to fill such vacancy and, if it approves of a candidate, shall recommend such candidate to the Executive Committee of the NMHC Board. The Executive Committee shall review such candidate and, if it approves of such candidate, shall nominate such candidate to the full NMHC Board for its review and approval. If the NMHC Board approves of such candidate's nomination, then the NMHC Board shall elect such candidate to the Executive Committee or Nominating and Corporate Governance Committee, as applicable. If the candidate is not approved by the Nominating and Corporate Governance Committee or Executive Committee, or is not elected by the NMHC Board, then the foregoing process will be repeated until a candidate recommended by the Nominating and Corporate Governance Committee and nominated by the Executive Committee is elected to the Executive Committee or Nominating and Corporate Governance Committee, as applicable.

3.11.2 Other Standing Committees. As of the Closing, the NMHC Board shall have the following additional standing committees and subcommittees comprised of the individuals, including leadership designations, if applicable, set forth on Exhibit C:

- (a) Executive Compensation Subcommittee of Executive Committee;
- (b) Physician Compensation Subcommittee of Executive Committee;
- (c) Quality Committee;
- (d) Finance Committee;
- (e) Investment Subcommittee of Finance Committee; and
- (f) Audit Committee.

ARTICLE 4

GOVERNANCE OF NM SYSTEM

4.1 **Generally.** The Parties acknowledge and agree that harmonizing and streamlining governance of the NM System Entities is essential to the efficient governance of NMHC. As such, the Parties agree that, within a reasonable period of time following the Closing, NMHC management shall: (a) conduct a review of the Governing Documents of CDH, Delnor, NLFH, NMH, and other NM System Entities; and (b) to the extent necessary, recommend to the Nominating and Corporate Governance Committee amendments to the Governing Documents of CDH, Delnor, NLFH, NMH, and other NM System Entities.

4.2 **Powers of NMHC With Respect to Cadence Entities.**

4.2.1 NMHC shall have the exclusive power and authority to govern, direct, and oversee the property, funds, business, and affairs of Cadence, except for those powers that are specifically delegated to the Cadence Board pursuant to Section 4.4.

4.2.2 NMHC, in its capacity as sole corporate member of Cadence, may act on Cadence's behalf in exercising Cadence's powers with respect to the organizations of which Cadence is a corporate member or shareholder, and in each such case, in the following manner:

(a) the NMHC Board may act on NMHC's behalf in exercising such powers; and

(b) the NMHC Board may by resolution appoint any two officers of NMHC to act on NMHC's behalf in exercising such powers, and such authorization may be general or limited to specific instances; provided, however, that in the absence of such resolution, the president and chief executive officer and the treasurer and chief financial officer of NMHC may act together on behalf of NMHC without action by the NMHC Board.

4.3 **Size and Composition of Cadence Board, CDH Board, and Delnor Board.** As of the Closing, the Cadence Board, CDH Board, and Delnor Board shall be identical, shall be comprised of between 12 and 17 individuals, and shall consist initially of those individuals set forth on Exhibit C.

4.4 **Powers of Cadence Board.**

4.4.1 As of the Closing, NMHC shall delegate to the Cadence Board the following powers:

(a) the power to provide Advice and Input with respect to the NMHC Board's approval of: (i) operating budgets, including routine and strategic capital expenditures, for assets and operations located in the Western Region and Southern Region; (ii) strategic plans and other key initiatives in the Western Region and Southern Region; and (iii) the healthcare needs of the populations served in the Western Region and Southern Region, including areas of deficiency, oversupply, and/or expected future need; and

(b) the same powers that Cadence delegates to the CDH Board and Delnor Board pursuant to Section 4.5.

4.4.2 Subject to Section 4.2.2, as of the Closing, Cadence shall have the exclusive power and authority to govern, direct, and oversee the property, funds, business, and affairs of CDH and Delnor, except for those powers that are specifically delegated to the CDH Board and Delnor Board pursuant to Section 4.5.

4.5 Powers of CDH Board and Delnor Board.

4.5.1 Required Powers. As of the Closing, the CDH Board and Delnor Board shall have the authority to exercise all powers, duties and authorities required by Applicable Law and/or the standards of the Accreditations, including, without limitation, the power to take the following actions:

(a) grant and revoke professional staff privileges at the hospital(s) and other healthcare provider facilities operated by the corporation, and to take any professional disciplinary actions in connection therewith;

(b) approve medical staff bylaws and other medical staff rules and regulations;

(c) approve the appointment of the president of the corporation proposed by NMHC;

(d) adopt a resolution setting forth a proposed amendment to the articles of incorporation of the corporation and directing that such proposed amendment be submitted to a vote of the sole member of the corporation;

(e) adopt a resolution approving a plan of merger or consolidation of the corporation with another corporation and directing that such plan be submitted to a vote of the sole member of the corporation;

(f) adopt a resolution recommending the sale, lease, exchange, or other disposition of all, or substantially all, of the property and assets of the corporation, and directing that such recommendation be submitted to a vote of the sole member of the corporation;

(g) adopt a resolution proposing the voluntary dissolution of the corporation and directing that such proposal be submitted to a vote of the sole member of the corporation;

(h) adopt a resolution recommending a plan providing for the distribution of assets of the corporation when the corporation is in the process of dissolving and directing that such recommendation be submitted to a vote of the sole member of the corporation;

(i) the power to take the following actions with respect to its Illinois not-for-profit corporation subsidiaries (each a “**Subsidiary Not-For-Profit Corporation**”), which power shall be exercised by NMHC in its capacity as sole corporate member of Cadence:

(i) remove directors of the Subsidiary Not-For-Profit Corporation;

(ii) adopt an amendment to the articles of incorporation of the Subsidiary Not-For-Profit Corporation as proposed by the board of directors of the Subsidiary Not-For-Profit Corporation;

(iii) amend the bylaws of the Subsidiary Not-For-Profit Corporation;

(iv) adopt a plan of merger or consolidation of the Subsidiary Not-For-Profit Corporation with another corporation as proposed by the board of directors of the Subsidiary Not-For-Profit Corporation;

(v) authorize the sale, lease, exchange, or other disposition of all, or substantially all, of the property and assets of the Subsidiary Not-For-Profit Corporation as recommended by the board of directors of the Subsidiary Not-For-Profit Corporation;

(vi) authorize the voluntary dissolution of the Subsidiary Not-For-Profit Corporation as proposed by the board of directors of the Subsidiary Not-For-Profit Corporation;

(vii) adopt a plan providing for the distribution of assets of the Subsidiary Not-For-Profit Corporation as recommended by the board of directors of the Subsidiary Not-For-Profit Corporation;

(j) the power to take the following actions with respect to its Illinois business corporation subsidiaries (each a “**Subsidiary Business Corporation**”), which power shall be exercised by NMHC in its capacity as sole corporate member of Cadence:

(i) remove directors of the Subsidiary Business Corporation;

(ii) adopt an amendment to the articles of incorporation of the Subsidiary Business Corporation as proposed by the board of directors of the Subsidiary Business Corporation;

(iii) amend the bylaws of the Subsidiary Business Corporation;

(iv) authorize a “business combination” as such term is defined in 805 ILL. COMP. STAT. 5 / 7.85(D)(10);

(v) adopt a plan of merger, consolidation, or share exchange of the Subsidiary Business Corporation with another corporation as proposed by the board of directors of the Subsidiary Business Corporation;

(vi) authorize the sale, lease, exchange, or other disposition of all, or substantially all, of the property and assets of the Subsidiary Business Corporation as recommended by the board of directors of the Subsidiary Business Corporation; and

(vii) authorize the voluntary dissolution of the Subsidiary Business Corporation as proposed by the board of directors of the Subsidiary Business Corporation.

4.5.2 Quality Powers. As of the Closing, the CDH Board and Delnor Board will maintain professional standards and provide oversight for all Joint Commission and quality of care and service results for its hospitals and other healthcare provider facilities.

4.6 Powers of NLFH Board and NMH Board. As of the Closing, the NLFH Board and NMH Board shall have all powers that such corporations had immediately prior to Closing, including, without limitation, the power to provide Advice and Input with respect to the NMHC Board's approval of: (a) operating budgets, including routine and strategic capital expenditures, for assets and operations located in the Central Region and Northern Region; (b) strategic plans and other key initiatives in the Central Region and Northern Region; and (c) the healthcare needs of the populations served in the Central Region and Northern Region, including areas of deficiency, oversupply, and/or expected future need.

4.7 Nomination and Election of Directors on the Cadence Board, CDH Board, Delnor Board, NLFH Board, and NMH Board. As of the Closing, candidates for election to the Cadence Board, CDH Board, Delnor Board, NLFH Board, and NMH Board shall first be nominated by the Nominating and Corporate Governance Committee of the NMHC Board to the Executive Committee of the NMHC Board. The Executive Committee shall review such candidate and, if it approves of such candidate, shall nominate such candidate to the full NMHC Board for its review and approval. If the NMHC Board approves of such candidate's nomination, then the NMHC Board shall elect such candidate to the Cadence Board, CDH Board, Delnor Board, NLFH Board, or NMH Board, as applicable. If the candidate is not approved by the Executive Committee or elected by the NMHC Board, then the foregoing process will be repeated until a candidate nominated by the Nominating and Corporate Governance Committee and Executive Committee is elected by the NMHC Board to the Cadence Board, CDH Board, Delnor Board, NLFH Board, or NMH Board, as applicable.

4.8 Removal of Directors on the Cadence Board, CDH Board, Delnor Board, NLFH Board, and NMH Board. As of the Closing, the NMHC Board may remove a director on the Cadence Board, CDH Board, Delnor Board, NLFH Board, or NMH Board at any time, with or without cause.

ARTICLE 5

NM SYSTEM MANAGEMENT

5.1 President and Chief Executive Officer. As of the Closing, the president and chief executive officer of NMHC (the "NM System CEO") will continue to be Dean Harrison.

5.2 **Regional President.** As of the Closing, Michael Vivoda will be Regional President for the Western Region and Southern Region of the NM System (the “**Regional President**”) and a Senior Vice President of the NM System, will report directly to the NM System CEO, and will have the following initial responsibilities:

5.2.1 Manage the Western Region and Southern Region, including maintaining accountability for CDH, Delnor, CPG, and CMP; and

5.2.2 Lead physician alignment activities in the Western Region and Southern Region and, together with other NM System senior executives, lead other NM System-wide clinical integration activities, provider recruitment and staffing initiatives, and strategic physician and ambulatory site deployment.

5.3 **Senior Vice President of Strategy.** As of the Closing, Elizabeth Rosenberg will be the Senior Vice President of Strategy of the NM System, will report directly to the NM System CEO, and will have the following initial responsibilities:

5.3.1 Develop NM System strategy, including long-range strategic plans and, together with other NM System senior executives, establish the annual goals and objectives for the NM System;

5.3.2 Develop and implement patient experience initiatives to achieve top decile patient satisfaction; and

5.3.3 Develop and implement key strategic service lines across the NM System.

5.4 **Chief Financial Officer.** As of the Closing, John Orsini will be the Senior Vice President and Chief Financial Officer of the NM System, will report directly to the NM System CEO, and will have accountabilities incumbent to such position.

5.5 **Other NM System Management.** As of the Closing, the initial senior management of the NM System shall include, in addition to the individuals identified in this Article 5 above, the individuals set forth on Exhibit D delivered by the Parties at Closing (the “**NM System Senior Management Roster**”).

ARTICLE 6

FINANCIAL COMMITMENTS

6.1 **Ownership of Assets.** The Contemplated Transactions shall not, in and of themselves, effect any transfer, conveyance or change in the ownership of the assets of the Cadence Entities or the NMHC Entities at the Closing.

6.2 **Retention of Liabilities.** The Contemplated Transactions shall not, in and of themselves, effect any assignment or assumption of any liabilities, indebtedness, commitments or other financial or operational obligations of the Cadence Entities or the NMHC Entities to or by any other Person, whether such liabilities, indebtedness, commitments or obligations are known or unknown, fixed or contingent, recorded or unrecorded, currently existing as of the Closing

Date or thereafter arising (collectively, the “**Existing Liabilities**”), all of which shall remain the liabilities and obligations exclusively of the Person that was liable or obligated for such Existing Liabilities immediately before the Closing Date.

6.3 **Cash Reserve Fund.**

6.3.1 As of the Closing, a board-designated fund (the “**Fund**”) shall be funded with the Unrestricted Net Cash Position of the Cadence System at Closing.

6.3.2 At the end of each fiscal year, the Fund shall be credited with interest earnings of 6% of the average balance of the Fund, with such average balance defined as being the Fund balance at the beginning of the then-current fiscal year plus the Fund balance at the end of the then-current fiscal year, divided by two.

6.3.3 Actual capital expenditures made in or for the direct, measureable, and incremental benefit of the Southern Region and Western Region shall reduce the Fund at the end of each fiscal year, applied immediately before the interest credit calculation in Section 6.3.2.

6.3.4 The separate existence of the Fund will continue after the Closing until: (a) its balance becomes less than Two Million Five Hundred Thousand Dollars (\$2,500,000); or (b) the NMHC Board votes to terminate its existence by majority vote.

6.3.5 Nothing in this Section 6.3 shall be construed to suggest that such assets are restricted in any manner as it relates to GAAP or for purposes of reporting unrestricted cash metrics to rating agencies, financial institutions, or investors.

6.4 **Capital Planning.** Following the Closing, NMHC management will develop a capital budgeting and evaluation process consistent with principles for deployment of assets across the NM System to ensure exceptional patient care at all NM System locations that is convenient to patients and otherwise meets the need of the community, with a goal of enhancing and not diminishing the capabilities currently existing in the regions. The budgeting and evaluation process will be reflected in the allocations contained in the annual budget approved by the NMHC Board. Following the Closing, any capital plans developed by Cadence and NMHC before the Closing will remain in place unless modified within the capital and operating budgets and strategic plan for NM System assets and operations, approved by the NMHC Board.

6.5 **Capital Allocation.**

6.5.1 The Parties shall evaluate methods to optimize the cost of capital of the NM System, which may include: (a) a consolidation or elimination of one or more of the NM System’s obligated groups; and (b) the centralization of debt administration.

6.5.2 The Parties shall evaluate methods to optimize management of NM System cash and investments to maximize organizational return and investment efficiencies.

Notwithstanding Sections 6.5.1 and 6.5.2, each Party will, and will cause the NM System to, act in compliance with the terms of all outstanding Cadence and NMHC financing commitments and all existing Cadence and NMHC investment commitments until otherwise defeased or the

agreements or instruments memorializing such commitments are amended such that the relevant action complies therewith.

6.6 **Restricted Gifts.**

6.6.1 Following the Closing Date, bequests, gifts and endowments of a Cadence Entity that are restricted as to use or manner of investment shall continue to be so restricted, shall continue to be owned by the Cadence Entity to which they were donated, and NMHC shall honor donative intent with respect thereto.

6.6.2 Following the Closing Date, bequests, gifts and endowments of a NMHC Entity that are restricted as to use or manner of investment shall continue to be so restricted, shall continue to be owned by the NMHC Entity to which they were donated, and NMHC shall honor donative intent with respect thereto.

6.6.3 Notwithstanding the foregoing, at least 30 days before the Closing Date, Cadence and NMHC shall review all restricted funds held by the Cadence Entities and the NMHC Entities, respectively, and shall provide to the other a list of any temporary or permanent restricted funds for which it believes the applicable restrictions are or may be inconsistent with the Contemplated Transactions (each an “**Impacted Funds List**”). Each Party shall use commercially reasonable efforts to amend the restrictions on the funds described in the Impacted Funds List as necessary to make them consistent with the Contemplated Transactions before the Closing Date.

6.7 **Support of Research and Education.** Following the Closing, NMHC will honor its obligations to NU under that certain Clinical Affiliation Agreement between NMHC and NMG dated August 19, 2013, including its obligations related to academic funds flow. The Parties acknowledge that ongoing investments in research and education are essential to support and enhance patient care and improve the health of the communities served by the Parties. In addition, the Parties acknowledge and support the expansion of clinical research and graduate medical education (the “**Academic Activities**”) in communities where such Academic Activities would advance community benefit. Following the Closing, NMHC will carefully consider the expansion of Academic Activities to the Cadence System service areas. Proposals to expand Academic Activities shall be included in the long-range financial and strategic plans of NMHC as approved by the NMHC Board.

6.8 **Charity Care.** Following the Closing, the NM System shall endeavor to make charity care available to all the communities that it serves consistent with each Party’s charitable mission and in accordance with Applicable Law.

ARTICLE 7

OPERATING COMMITMENTS

7.1 **Exceptional Services.** The NM System will ensure patients receive exceptional care. As such, it is the stated intent of the NM System that each of its operating regions will continue to be distinguished in its ability to deliver comprehensive medical services, including maintaining and enhancing high-end, differentiated (in their respective markets), resource and

talent intensive, clinical service line capabilities. Wherever possible, the NM System shall disseminate new learning and quality improvements related to the delivery of both routine and complex treatments, procedures, and services across the NM System. The NM System will work to ensure the expansion and ongoing provision of state-of-the-art health care services throughout all regions served by the NM System. This will be accomplished through:

7.1.1 Expanding to the appropriate region, where desired, NMHC programs such as the Lurie Cancer Center, Bluhm Cardiovascular Institute, Northwestern Brain Tumor Institute, and Prentice Women's Hospital initiatives;

7.1.2 In coordination with the McGaw Medical Center of Northwestern University, evaluating the establishment of new physician training programs, including a family practice residency training program;

7.1.3 Developing additional ambulatory locations to provide care closer to where patients live and work;

7.1.4 Collaborating with the Ann & Robert H. Lurie Children's Hospital and the Rehabilitation Institute of Chicago to expand access to primary and subspecialty pediatric services, as well as inpatient and ambulatory rehabilitation services;

7.1.5 Preparing for, planning and executing a rapid deployment of clinical or administrative expertise to address any service disruption that may result from changes to affiliations with third parties maintained by either Party prior to Closing;

7.1.6 Permitting and promoting the appropriate clinical and research use of the CDH Proton Center by all interested and qualified NM System physicians; and

7.1.7 In coordination with the FSM Center for Clinical Research, providing all appropriate sites of the NM System with the opportunity to participate in clinical trials.

7.2 **Separate Employers.** Each of the Cadence Entities and the NMHC Entities are separate and distinct employers, and nothing in this Agreement shall alter or affect their status as separate and distinct employers, nor shall it alter or affect relationships with bargaining units within their operations and labor relations within their organizations. The NMHC Board will maintain the qualified status of any benefit plans adopted by the Parties before Closing. Nothing herein is intended to or shall be interpreted to change the representation rights of any labor organization representing employees of such bargaining unit (or any collective bargaining agreement covering such bargaining unit).

7.3 **NM System Employee Benefits.**

7.3.1 If NMHC's Benefit Plans and Cadence's Benefit Plans are consolidated or modified before or after Closing, then, to the extent applicable to such consolidation or modification, all employees' years of service with respect to employment by Cadence Entities or NMHC Entities prior to Closing will be recognized.

7.3.2 Unless otherwise determined by the NMHC Board, NMHC shall maintain the incentive plan available to employees of the Cadence Entities in effect immediately prior to the Closing through June 30, 2015.

7.3.3 Unless otherwise determined by the NMHC Board, NMHC shall maintain the incentive plan available to employees of the NMHC Entities in effect immediately prior to the Closing through August 31, 2015.

7.4 **Joint Ventures.** The Contemplated Transactions shall not, in and of themselves, effect a transfer, conveyance or change in the ownership of any Cadence Joint Venture or NMHC Joint Venture to any other Person. Before the Closing Date, Cadence and NMHC shall review the Governing Documents of the Cadence Joint Ventures and the NMHC Joint Ventures, respectively, and shall provide to the other a list of any third party consents, notices or waivers necessary to consummate the Contemplated Transaction (the “**Joint Venture Consents**”). Each Party shall use commercially reasonable efforts to obtain the Joint Venture Consents before the Closing Date.

7.5 **Place of Practice and Employer of Choice.** The NM System will operate hospitals and ambulatory sites that help physicians care for their patients in a high-quality and cost-effective manner, and remain an employer of choice for nurses and employees through continued focus on putting the patient first, Magnet certification activities for nurses, use of evidence-based quality protocols and disciplined financial planning.

7.6 **Branding the NM System.** After the Closing Date, the NM System generally will be identified and branded as “Northwestern Medicine.” The NM System branding plan adopted on or after the Closing shall respect history and traditions of the Parties and their Affiliates and the current names of CDH, Delnor, NLFH and NMH.

ARTICLE 8

MEDICAL STAFF COMMITMENTS

8.1 **Physician Integration.** The Parties will develop and agree upon a joint course of action for how employed and independent physicians on the medical staffs of each of the Parties' hospitals may be able to take advantage of and benefit from the existing and any new jointly planned and implemented physician opportunities. The NM System's platform recognizes that medical staff members may choose from among a broad continuum of NM System alignment options, ranging from private practice to employment by a NM System entity, and also including intermediate alignment options, such as participation in clinically integrated provider networks sponsored by the NM System. Following the Closing, the medical leaders for programs or operational areas in the Western Region will report to the relevant NM System accountable executive of the Western Region. Integration of program growth goals, standardization of care plans/pathways/protocols, and physician recruitment for the NM System will be coordinated with physician and administrative leaders from Cadence and NMHC.

8.2 **Separate Independent Medical Staffs.** As of the Closing Date, the medical staff of CDH (the “**CDH Medical Staff**”), the medical staff of Delnor (the “**Delnor Medical Staff**”),

the medical staff of NLFH (the “**NLFH Medical Staff**”) and the medical staff of NMH (the “**NMH Medical Staff**”) shall remain independent from each other. The Contemplated Transactions shall not, in and of themselves, affect or change: (a) the medical staff privileges held by members of the CDH Medical Staff, the Delnor Medical Staff, the NLFH Medical Staff or the NMH Medical Staff on the Closing Date; (b) the medical staff bylaws, rules and regulations, or credentialing procedures of the CDH Medical Staff, the Delnor Medical Staff, the NLFH Medical Staff or the NMH Medical Staff in effect on the Closing Date; or (c) any agreements with physician members of the CDH Medical Staff, the Delnor Medical Staff, the NLFH Medical Staff or the NMH Medical Staff, whether as employees or independent contractors. The consummation of the Contemplated Transactions, in and of themselves (consistent with Applicable Law), shall not result in a need for any reapplications for credentials or privileges by current members of the any of the CDH Medical Staff, the Delnor Medical Staff, the NLFH Medical Staff or the NMH Medical Staff (recognizing that CDH’s, Delnor’s, NLFH’s or NMH’s current medical staff bylaws may require reapplications upon expiration of medical staff appointments or credentials). Notwithstanding the foregoing, the Parties acknowledge and agree that the NM System will permit all physicians who meet appropriate criteria necessary to obtain medical staff privileges at all NM System facilities.

8.3 **Opportunities for Physician Leadership.** The Parties intend that physicians in leadership positions across the existing Parties’ organizations will continue to provide a substantial voice in the formation of the NM System, and will be integrally involved in the operation of the NM System after Closing. The Parties will ensure that the leaders of key service lines (e.g., orthopaedics, neurosciences, cardiovascular, and cancer) will participate in the successful integration of the Cadence System and NMHC System.

8.4 **Faculty Appointments.** The Parties acknowledge the mutual respect that each of its non-academic and academic physicians have for the other. The members of the CDH Medical Staff and Delnor Medical Staff will not be required to obtain faculty appointments at FSM. After the Closing, however, NMHC will work with FSM to establish an appropriate faculty appointment process for members of the CDH Medical Staff and Delnor Medical Staff who are interested in obtaining such appointments.

ARTICLE 9

REPRESENTATIONS AND WARRANTIES OF EACH PARTY

As of the Execution Date and as of the Closing Date, each Party hereby represents and warrants, on its behalf and on behalf of such Party’s other System Entities (it being understood that no Party is making any representations or warranties with respect to the other Party or the other Party’s System Entities or Joint Ventures), except as disclosed in the schedules attached as **Exhibit E** (the “**Disclosure Schedule**”) (all such exceptions noted in the Disclosure Schedule being numbered to correspond to the applicable section of this **Article 9** and identifying the Party to which it applies):

9.1 **Due Organization; Good Standing; Power.**

9.1.1 With respect to Cadence, each of the Cadence Affiliates and Cadence Joint Ventures designated as tax exempt on Exhibits A and F is a Illinois not-for-profit corporation, exempt from federal income taxation under § 501(a) of the Code, as an organization described in § 501(c)(3) of the Code and is not a “private foundation” within the meaning of § 509(a) of the Code. With respect to Cadence, each of the other Cadence Affiliates and Cadence Joint Ventures is organized and has the tax status set forth on Exhibits A and F.

9.1.2 With respect to NMHC, each of the NMHC Affiliates and NMHC Joint Ventures designated as tax exempt on Exhibits B and G is an Illinois not-for-profit corporation, exempt from federal income taxation under § 501(a) of the Code, as an organization described in § 501(c)(3) of the Code and is not a “private foundation” within the meaning of § 509(a) of the Code. With respect to NMHC, each of the other NMHC Affiliates and NMHC Joint Ventures is organized and has the tax status set forth on Exhibits B and G.

9.1.3 Each of such Party’s System Entities, and to the Knowledge of such Party, each of such Party’s System Joint Ventures, is duly formed, validly existing and in good standing under the laws of the respective state or country of formation, and has the corporate power and authority to own, operate or hold under lease its properties and assets and to carry on its business and operations as presently conducted. Each of such Party’s System Entities, and to the Knowledge of such Party, each of such Party’s System Joint Ventures, has registered with the proper governmental authorities all assumed names under which it operates its business(es) and continuously maintained all such filings in good standing.

9.2 **Corporate Authority.**

9.2.1 Such Party has the full corporate power and authority to enter into and to perform its obligations under the Transaction Documents to which it is a party or to be delivered by it. Such Party’s System Entities, and to the Knowledge of such Party, such Party’s System Joint Ventures, have full corporate power and authority to enter into and to perform their respective obligations under any Transaction Documents to which they are parties.

9.2.2 The execution, delivery and performance of the Transaction Documents by such Party and such Party’s System Entities have been duly and properly authorized by all necessary corporate action in accordance with their respective Governing Documents.

9.2.3 Assuming the valid authorization, execution and delivery of the same by the parties to the Transaction Documents other than such Party’s System Entities and such Party’s System Joint Ventures, the Transaction Documents constitute the valid and legally binding obligation of such Party’s System Entities, and to the Knowledge of such Party, such Party’s System Joint Ventures, enforceable against them in accordance with their terms, except as enforceability may be limited by: (a) general principles of equity, regardless of whether enforcement is sought in a proceeding in equity or at law; and (b) bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application now or hereafter in effect relating to or affecting the enforcement of creditors’ rights generally.

9.3 No Violation; Approvals.

9.3.1 The execution, delivery and performance of the Transaction Documents by such Party's System Entities, and to the Knowledge of such Party, such Party's System Joint Ventures, shall not result in the creation of any lien, charge, or encumbrance of any kind or the termination or acceleration of any indebtedness or other obligation of any of such Party's System Entities (and to the Knowledge of such Party, any of such Party's System Joint Ventures), and is not prohibited by, does not violate or conflict with any provision of, and does not constitute a default under or breach of any Material Contract, indenture, mortgage, material permit or license, approval or other commitment to which any of such Party's System Entities (and to the Knowledge of such Party, any of such Party's System Joint Venture) is a party or is subject or by which any such Person is bound, or any Applicable Law, except to the extent any of the foregoing is not likely to result in a Material Adverse Event.

9.3.2 Except for filings required pursuant to the Hart-Scott-Rodino Antitrust Improvements Act ("**HSR Act**") and with the Illinois Health Facilities and Services Review Board ("**IHF SRB**") and Illinois Secretary of State, no approval, authorization, registration, consent, order, filing, exemption, notice, or other action that has not occurred or been obtained with or from any Person, including any court, administrative agency or other governmental authority, is required for the execution and delivery by such Party's System Entities, or to the Knowledge of such Party, any of such Party's System Joint Ventures, of the Transaction Documents or the consummation of the Contemplated Transactions.

9.4 Financial Statements.

9.4.1 NMHC has delivered to Cadence copies of its audited consolidated financial statements for the years ended August 31, 2012 and 2013, and Cadence has delivered to NMHC copies of its audited consolidated financial statements for the years ended June 30, 2012 and 2013 (collectively, the "**Audited Financial Statements**"). NMHC has delivered to Cadence copies of its unaudited financial statements for the interim period from September 1, 2013 through the most recent month end date for which financial statements were available before the Execution Date, and Cadence has delivered to NMHC copies of its unaudited financial statements for the interim period from July 1, 2013 through the most recent month end date for which financial statements were available before the Execution Date (collectively, the "**Unaudited Financial Statements**"). The monthly unaudited financial statements of such Party's System Entities shall be referred to herein as the "**Interim Financial Statements**," and together with such Party's Audited Financial Statements and Unaudited Financial Statements, the "**Financial Statements**."

9.4.2 Such Party's Financial Statements are: (a) true and correct in all material respects and present fairly the financial position of such Party and its Hospitals (and, to the extent consolidated, present fairly the financial position of the other System Entities of such Party) and the results of their respective operations at the dates and for the periods indicated; and (b) are in conformity with GAAP, applied consistently for the periods specified, including the consistent use of assumptions, practices, procedures and terminology, except that such Party's Unaudited Financial Statements and Interim Financial Statements need not contain any of the footnotes or other year-end adjustments required to comply with GAAP.

9.4.3 From and after the most recent month-end date of such Party's Unaudited Financial Statements, such Party has not made any material changes to its accounting methods or practices, including methods or practices used to:

- (a) Establish reserves on any patient and notes and accounts receivable;
- (b) Establish estimates of any third party settlements;
- (c) Determine the value of any other accounts that require subjective determinations; and
- (d) Establish malpractice, general liability or other self-insurance reserves, including claims incurred but not reported.

9.4.4 Such Party's System Entities have no material liabilities or obligations of any kind, whether contingent or absolute, direct or indirect, or matured or unmatured, that are not shown or provided for in such Party's Financial Statements, other than: (a) claims covered by insurance that, in the aggregate, do not exceed Ten Million Dollars (\$10,000,000); or (b) liabilities arising in the ordinary course of business that are reflected on such Party's Interim Financial Statements or in approved budgets and disclosed to the other Party.

9.4.5 Such Party's Financial Statements accurately reflect in all material respects donor-restricted funds or assets of such Party's System Entities.

9.5 **Interim Changes.** Since the most recent month-end date of such Party's Unaudited Financial Statements, such Party's System Entities have conducted their businesses in the ordinary course and consistent with past practices. Except for matters expressly permitted or authorized by this Agreement, there has not been, after the date of the most recent Audited Financial Statements of such Party:

9.5.1 Any Material Adverse Event with respect to such Party's System Entities;

9.5.2 Any material disposition by such Party's System Entities of any property, rights or other assets owned by or employed in the operation of such Party's System Entities, except for dispositions in the usual and ordinary course of the business;

9.5.3 Any amendment of the Governing Documents of such Party's System Entities;

9.5.4 Any new Material Contract or any termination, extension or material amendment of any Material Contract that has had or could reasonably be expected to result in a Material Adverse Event to such Party's System Entities;

9.5.5 Any material damage, destruction or other casualty loss affecting the tangible assets of such Party's System Entities that has had or could reasonably be expected to result in a Material Adverse Event to such Party's System Entities; or

9.5.6 Any adoption or material amendment of any bonus, profit sharing, incentive, retention or severance agreement or arrangement, or any Benefit Plan, involving any officer, director or employee of such Party's System Entities other than amendments required by Applicable Law.

9.6 **Material Contracts.**

9.6.1 None of such Party's System Entities is in breach or default under any term or provision of any Material Contract to which it is a party or by which it is bound that has had or could reasonably be expected to result in a Material Adverse Event to such Party's System Entities, nor, to such Party's Knowledge, is any other party thereto in breach or default thereunder.

9.6.2 All Material Contracts to which any of such Party's System Entities is a party or by which it is bound are in full force and effect and are valid and enforceable obligations of such Party's System Entities that are parties thereto.

9.6.3 No contract to which any of such Party's System Entities is a party or by which it is bound requires the consent of, or notice to, a third party in order for such Party's System Entities to enter into or to consummate the Contemplated Transactions or in order to avoid a Material Adverse Event.

9.7 **Legal Proceedings.** None of such Party's System Entities is a defendant in, or, to the Knowledge of such Party, has been threatened with any action, suit, proceeding, complaint, charge, hearing or arbitration that could reasonably be expected to, if resolved adversely to such Person, result in a Material Adverse Event to such Party's System Entities or adversely affect the ability of such Party's System Entities to perform their respective obligations under the Transaction Documents. None of such Party's System Entities has received notice of any investigation or threatened investigation by any Federal, state or local governmental or regulatory agency, including those involving its business practices and policies, that could result in a Material Adverse Event to such Party's System Entities.

9.8 **Licenses and Permits.**

9.8.1 Each of such Party's System Entities (and to the Knowledge of such Party, each of such Party's System Joint Ventures) holds and is in compliance with all governmental licenses, permits, certificates, consents and approvals, the noncompliance with which would constitute a Material Adverse Event (the "**Licenses and Permits**"). The Licenses and Permits held by such Party's System Entities are current, unrestricted and valid, and to such Party's Knowledge, the Licenses and Permits held by such Party's System Joint Ventures are current, unrestricted and valid.

9.8.2 No application for any Certificate of Need, Certificate of Exemption (each as defined below) or declaratory ruling (an "**Application**") has been made by any of such Party's System Entities, and to the Knowledge of such Party, by any of such Party's System Joint Ventures, with the IHFSRB that is currently pending or open. Neither any of such Party's System Entities nor, to the Knowledge of such Party, any of such Party's System Joint Ventures, has any approved Applications that relate to projects not yet completed. Such Party's System

Entities and, to the Knowledge of such Party, such Party's System Joint Ventures have properly filed all required Applications (all of which are complete and correct in all material respects) with respect to any and all material improvements, projects, changes in services, zoning requirements, construction and equipment purchases, and other changes for which approval is required under Applicable Law. As used herein, "**Certificate of Need**" means a written statement issued by the IHFSRB evidencing community need for a new, converted, expanded or otherwise significantly modified health care facility, health service or capital expenditure, and a "**Certificate of Exemption**" means a written statement from the IHFSRB stating that a health care project is not subject to the Certificate of Need requirements under Applicable Law.

9.9 Compliance with Law.

9.9.1 Each of such Party's System Entities is in compliance with and, to the Knowledge of such Party, each of such Party's System Joint Ventures is in compliance with, all Applicable Law, including, without limitation, all Health Care Laws, the noncompliance with which would constitute a Material Adverse Event.

9.9.2 To the extent the following actions or omissions would constitute a Material Adverse Event, none of such Party's System Entities has, and to the Knowledge of such Party, none of such Party's System Joint Ventures has:

(a) knowingly or willfully offered, paid, solicited or received any remuneration (including any kickback, bribe or rebate, but excluding any legally permissible copayment or other payment), directly or indirectly, overtly or covertly, in cash or in kind: (i) in return for referring an individual to a Person for the furnishing, or arranging for the furnishing, of any item or service for which payment may be made in whole or in part by Medicare, Medicaid, or a state healthcare program; or (ii) in return for purchasing, leasing, ordering or arranging for or recommending purchasing, leasing or ordering any good, facility, service or item for which payment may be made in whole or in part by Medicare, Medicaid or a state healthcare program;

(b) knowingly or willfully made a payment, directly or indirectly, to a physician as an inducement to reduce or limit necessary services to individuals who are under the direct care of the physician and who are entitled to benefits under Medicare, Medicaid or a state healthcare program, in a manner that would violate Applicable Law;

(c) knowingly or willfully made or caused to be made or induced or sought to induce the making of any false statement or representation (or omitted to state a material fact) required to be stated therein (or necessary to make the statement contained therein not misleading) of a material fact with respect to: (i) the conditions or operations of any of such Party's System Entities or System Joint Ventures in order that such Person would qualify for Medicare, Medicaid, or a state healthcare program certification; or (ii) information required to be provided under § 1124A of the Social Security Act (42 U.S.C. § 1320a-3a); or

(d) knowingly or willfully: (i) charged for any Medicaid service money or other consideration at a rate in excess of the rates established by Applicable Law; or (ii) charged, solicited, accepted or received, in addition to amounts paid by Medicaid, any gift money, donation or other consideration (other than a charitable, religious, or other philanthropic

contribution from an organization or from a Person unrelated to the patient) (A) as a precondition of admitting the patient; or (B) as a requirement for the patient's continued stay in a facility operated by such Party's System Entities or System Joint Ventures in a manner that violates Applicable Law.

9.10 **Owned Real Property.**

9.10.1 One or more of such Party's System Entities is the sole and exclusive owner of all right, title and interest in and has good and marketable fee simple title to the real property owned by such Party's System Entity (collectively, the "**Owned Real Property**"), free and clear of all liens, mortgages, security interests, options, pledges, charges, covenants, conditions, restrictions and other encumbrances and claims of any kind or character whatsoever, other than Permitted Encumbrances. There are no outstanding options, rights of first refusal or rights of first offer to purchase any of such Party's Owned Real Property or any portion thereof or interest therein. With respect to such Party's Owned Real Property:

(a) None of such Party's System Entities has received during the past three years notice of a violation of any Applicable Law with respect to such Party's Owned Real Property, and none of such Party's System Entities has received notice of condemnation, lien, assessment or the like relating to any part of such Party's Owned Real Property or the operation thereof (except for notices relating to Permitted Encumbrances);

(b) Except for such Party's System Entities, there are no tenants or other Persons or entities occupying any space in such Party's Owned Real Property, or claiming any possession, adverse or not, to any portion of such Party's Owned Real Property, other than pursuant to tenant leases that: (i) are in writing and are fully executed by the parties thereto; (ii) are upon terms that are commercially reasonable and fair from a financial perspective; (iii) are consistent with Applicable Law; (iv) are not in default; (v) have not expired; and (vi) have been entered into by any of such Party's System Entities (or in the case of a sublease, a tenant of any of such Party's System Entities, pursuant to a sublease approved by any of such Party's System Entities);

(c) Each parcel of such Party's Owned Real Property is either: (i) exempt from real property or ad valorem taxation pursuant to § 15-65 of the Property Tax Code (35 ILCS 200/15-65); or (ii) separately assessed for real estate tax purposes and is not combined with any land or real estate that is not a part of such Party's Owned Real Property for real estate tax assessment purposes;

(d) None of such Party's System Entities have received notice that the status of any of such Party's Owned Real Property will change from exempt to taxable;

(e) All permanent certificates of occupancy and all other licenses, permits, authorizations, consents, certificates and approvals required by all governmental authorities having jurisdiction and the requisite certificates of the local board of fire underwriters (or other body exercising similar functions), which, if not obtained, would result in a Material Adverse Event to any of such Party's System Entities, have been issued for such Party's Owned Real Property, have been paid for, are in full force and effect, and, to the Knowledge of such

Party, will not be invalidated, violated or otherwise adversely affected by the Contemplated Transactions;

(f) None of such Party's System Entities has received any notice of any existing, proposed or contemplated plans to modify or realign any street or highway or any existing, proposed or contemplated eminent domain proceeding that would result in the taking of all or any part of such Party's Owned Real Property or that would materially and adversely affect the current use of any part of such Party's Owned Real Property;

(g) Upon consummation of the Contemplated Transactions, the current owners of such Party's Owned Real Property will be entitled to continue to use any of such Party's Owned Real Property that is currently employed by such Party's System Entities in the conduct of their operations as currently conducted; and

(h) Such Party's Owned Real Property is subject to no easements, conditions, restrictions, ordinances, or other limitations that would make such property unusable for its current use or the title to such property unmarketable or materially restrict or impair the current use or operation of the business in a manner consistent with the current use, or that would require the removal of any improvements, except for Permitted Encumbrances.

9.10.2 (a) Such Party's Owned Real Property is not in material violation of any Environmental Laws; (b) such Party's System Entities have not received any notice within the past three years alleging or asserting either a material violation of any Environmental Law or a legal obligation to investigate, assess, remove, or remediate any part or all of such Party's Owned Real Property under or pursuant to any Environmental Law; (c) such Party's System Entities have not possessed, managed, processed, released, handled or disposed of or discharged Hazardous Substances at, on or from such Party's Owned Real Property (including groundwater), except in material compliance with applicable Environmental Law; (d) such Party has no Knowledge that any prior owners, operators or occupants of such Party's Owned Real Property have caused or allowed any Hazardous Substances to be discharged, possessed, managed, processed, released, or otherwise handled on such Party's Owned Real Property in violation of any Environmental Law; (e) such Party's System Entities are, and for the past three years have been, in material compliance with all applicable Environmental Law; (f) to the Knowledge of such Party, such Party's Owned Real Property does not contain asbestos containing material in such form or condition for which abatement, repair or removal is required by applicable Environmental Law; and (g) there are no, nor to the Knowledge of such Party have there ever been any, dumps, pits, or surface impoundments located on such Party's Owned Real Property for the disposal or containment of Hazardous Substances. Such Party promptly shall notify the other Party if it obtains Knowledge, before the Closing Date, of any lien, written notice, litigation, or threat of litigation relating to any alleged or actual unauthorized release of any Hazardous Substance with respect to any part of such Party's Owned Real Property. To the Knowledge of such Party, none of such Party's System Entities has sent, arranged for disposal or treatment, arranged with a transporter for transport for disposal or treatment, transported, or accepted for transport any Hazardous Substances, to a facility, site or location, that, pursuant to CERCLA or any similar state or local law: (i) has been placed or has been publicly proposed by authorities having jurisdiction to be placed, on the National Priorities List or its state equivalent; or (ii) is subject to a claim, administrative order or other demand to take removal or remedial

action by any Person having jurisdiction and authority in the matter. None of such Party's System Entities has received any written requests for information, potentially responsible party letters or general or special notices alleging that any of such Party's System Entities is or may be liable under CERCLA. Without in any way limiting the generality of the foregoing, all existing underground storage tanks used by such Party's System Entities to store Hazardous Substances are in compliance in all material respects with applicable Environmental Law.

9.11 **Leased Real Property.** With respect to leases of real property as to which any of such Party's System Entities is the tenant (each a "Lease" and collectively, the "Leases"):

9.11.1 Each of such Party's System Entities has valid and enforceable leasehold interests to the leasehold estate in the leased real property, subject to applicable bankruptcy, insolvency, moratorium or other similar laws relating to creditors' rights and general principles of equity;

9.11.2 Each of such Party's Leases has been duly authorized and executed by such Party's System Entity, and to the Knowledge of such Party, the other parties thereto;

9.11.3 To the Knowledge of such Party, all rents and other amounts payable by such Party's System Entity pursuant to such Party's Leases are based upon the fair rental value of the leased premises;

9.11.4 No party is in default under any of such Party's Leases, nor, to such Party's Knowledge, has any event occurred which, with notice or the passage of time, or both, would give rise to such a default by any party;

9.11.5 There are no pending renegotiations, or outstanding rights to negotiate any amount to be paid or payable to the landlord under any of such Party's Leases that have resulted or that could reasonably be expected to result in a Material Adverse Event, and, to the Knowledge of such Party, no landlord intends to not renew any of such Party's Leases on substantially similar terms, to the extent such failure to renew is reasonably likely to result in a Material Adverse Event;

9.11.6 Such Party's System Entities have not assigned, transferred, conveyed, mortgaged, deeded in trust, or encumbered any interest in any leasehold or subleasehold under any of such Party's Leases; and

9.11.7 Such Party's System Entities have used and operated the properties under such Party's Leases in compliance with all Environmental Laws.

9.12 **Title to Assets.** Apart from such Party's Owned Real Property, each of such Party's System Entities has good and defensible title to all of its assets of every kind, character and description, whether personal, tangible or intangible, used in connection with the operation of the businesses of the respective System Entities, free and clear of all liens, mortgages, security interests, options, pledges, charges, covenants, conditions, restrictions and other encumbrances and claims of any kind or character whatsoever, other than Permitted Encumbrances.

9.13 **System Affiliates and System Joint Ventures.**

9.13.1 With respect to Cadence, Exhibit A sets forth an accurate and complete list of all Cadence Entities (except for the Cadence Joint Ventures).

9.13.2 With respect to NMHC, Exhibit B sets forth an accurate and complete list of all NMHC Entities (except for the NMHC Joint Ventures).

9.13.3 With respect to Cadence, Exhibit F sets forth an accurate and complete list of all joint ventures in which a Cadence Entity holds less than all of the outstanding membership or equity interests (each a “**Cadence Joint Venture**,” and collectively, the “**Cadence Joint Ventures**”), together with the name of the Cadence Joint Venture, the business or operations conducted by the Cadence Joint Venture, the tax status of the Cadence Joint Venture, the percentage membership or relative number of equity interest held by the Cadence Entity in each Cadence Joint Venture, the names of the other members or equity holders in each Cadence Joint Venture, the percentage or relative number of membership or equity interest held by the other members or equity holders in each Cadence Joint Venture, and if there is more than one class of membership or equity interests of the Cadence Joint Venture, a description of each class and the relative rights and obligations associated therewith.

9.13.4 With respect to NMHC, Exhibit G sets forth an accurate and complete list of all joint ventures in which a NMHC Entity holds less than all of the outstanding membership or equity interests (each a “**NMHC Joint Venture**,” and collectively, the “**NMHC Joint Ventures**”), together with the name of the NMHC Joint Venture, the business or operations conducted by the NMHC Joint Venture, the tax status of the Cadence Joint Venture, the percentage membership or relative number of equity interest held by the NMHC Entity in each NMHC Joint Venture, the names of the other members or equity holders in each NMHC Joint Venture, the percentage or relative number of membership or equity interest held by the other members or equity holders in each NMHC Joint Venture, and if there is more than one class of membership or equity interests of the NMHC Joint Venture, a description of each class and the relative rights and obligations associated therewith.

9.14 **Tax-Exempt Status.** Within the last three years, the IRS has not taken, or, to the Knowledge of such Party, proposed to take, any action to revoke the tax-exemption of any of such Party’s the tax-exempt System Entities, has not notified any of such Party’s tax-exempt System Entities of any inquiry concerning such Person’s tax-exempt status, and has not determined in writing or, to the Knowledge of such Party, proposed to announce, that any of such Party’s System Entities is a “private foundation” within the meaning of § 509(a) of the Code. Such Party has no Knowledge of any change in the organization or operation of any of such Party’s tax-exempt System Entities that would result in a loss of any of such Party’s System Entities’ status as an organization described in § 501(c)(3) of the Code or that could cause any of such Party’s System Entities to be treated as a “private foundation” within the meaning of § 509(a) of the Code.

9.15 **Insurance.** Such Party’s System Entities maintain insurance policies and programs sufficient to insure them against risks, losses and liabilities that similarly-situated health care companies within the health care industry customarily insure against (the

“Coverage”). Such Party’s Coverage is in full force and effect and shall remain in full force and effect through the Closing Date. Such Party’s System Entities have not received notice that any of such Party’s Coverage will be cancelled or not renewed.

9.16 **Taxes.** Such Party’s System Entities timely have filed, or timely shall file with the appropriate taxing authority, all returns, declarations, and reports and all information returns and statements required to be filed or sent with respect to all taxes for all periods preceding the Closing Date (collectively, the **“Returns”**). As of the time of filing, such Party’s Returns correctly reflected, and such Party’s Returns prepared or being prepared but not yet filed as of the Execution Date, shall correctly reflect, the income, business, assets, operations, activities and status of such Party’s System Entities and any other information required to be shown therein. Each of such Party’s System Entities has timely paid all taxes due and payable and has made provision for timely payment of all taxes that shall be shown as due and payable on such Party’s Returns and are required to be filed or sent by it after the Execution Date and relating to any period before the Closing Date.

9.17 **Labor and Employment Matters.**

9.17.1 Such Party’s System Entities, and to the Knowledge of such Party, such Party’s System Joint Ventures, are in compliance in all material respects with all Applicable Law respecting employment and employment practices, terms and conditions of employment, nondiscrimination, equal opportunity, immigration, benefits, payment of employment, social security and similar taxes, occupational safety and health, plant closings, wages and hours.

9.17.2 There has not been within the last three years, and there is not presently pending or, to the Knowledge of such Party, threatened, any strike, slowdown, picketing, work stoppage, or employee grievance process, or any proceeding against or affecting such Party’s System Entities or such Party’s System Joint Ventures relating to an alleged violation of any Applicable Law pertaining to labor relations, including any charge, complaint or unfair labor practices claim filed by an employee, union, or other Person with the National Labor Relations Board or any governmental authority, organizational activity, or other labor dispute against or affecting such Party’s System Entities, such Party’s System Joint Ventures or their operations or assets. With respect to the employees of such Party’s System Entities and, to the Knowledge of such Party, with respect to the employees of such Party’s System Joint Ventures, no collective bargaining agreement exists or is currently being negotiated; no application for certification of a collective bargaining agent is pending; no demand has been made for recognition by a labor organization; and, to the Knowledge of such Party, no union representation question exists, no union organizing activities are taking place, and none of the employees of such Party’s System Entities or such Party’s System Joint Ventures are represented by any labor union or organization.

9.17.3 There has been no “mass layoff” or “plant closing” within the meaning of the Worker Adjustment and Retraining Notification Act of 1988, as amended (**“WARN Act”**), and any similar state or local “mass layoff” or “plant closing” law with respect to such Party’s System Entities within the six (6) months before Closing and there are no employees who had an “employment loss,” as such term is defined in the WARN Act or any similar state or local legal requirements within the 90 days preceding the Closing Date.

9.18 **Employee Benefits.** With respect to all "employee welfare benefit plans" (as defined in § 3(1) of ERISA), "employee pension benefit plans" (as defined in § 3(2) of ERISA), and all other employee benefit plan agreements and arrangements and employee benefit policies, whether funded or unfunded, qualified or nonqualified, subject to ERISA or not, maintained or contributed to (or required to be contributed to) by any of such Party's System Entities for the benefit of any of its officers, employees or other Persons (all the foregoing being herein referred to as "**Benefit Plans**"):

9.18.1 All contributions to, and payments from, such Party's Benefit Plans required to be made in accordance with the terms of such Party's Benefit Plans and Applicable Law have been timely made. None of such Party's Benefit Plans is subject to the funding rules of § 302 of ERISA or § 412 of the Code.

9.18.2 All of such Party's Benefit Plans (and all related trust agreements or annuity contracts or any funding instruments) have been administered in accordance with their terms and comply currently, both as to form and operation, with the provisions of applicable tax laws, the Code and Applicable Law in all material respects. To the extent that any of such Party's Benefit Plans is a tax qualified retirement plan, it has been maintained and administered in material compliance with its terms and the provisions of applicable tax laws and the Code, where required for such Party's Benefit Plan to be tax qualified under §§ 401(a) and 501(a) of the Code, and all other Applicable Law. Such Party's Benefit Plans that are pension benefit plans have received determination letters or private letter rulings from the IRS to the effect that such Benefit Plans are qualified and exempt from Federal income taxes under §§ 401(a) and 501(a), respectively, of the Code, and no such determination letter or private letter ruling has been revoked nor, to the Knowledge of such Party, has revocation been threatened, nor has any such Benefit Plan been amended or experienced any change in facts or circumstances since the date of its most recent determination letter or private letter ruling or application therefor in any respect that would adversely affect its qualification or materially increase its cost.

9.18.3 All reports, returns and similar documents with respect to such Party's Benefit Plans required to be filed with any government agency or distributed to any of such Party's Benefit Plan participants have been duly and timely filed or distributed. To the Knowledge of such Party, there are no threatened or pending investigations by any governmental agency, termination proceedings or other claims (except claims for benefits payable in the normal operation of such Party's Benefit Plans), suits or proceedings against or involving any of such Party's Benefit Plans or asserting any rights or claims to benefits under any of such Party's Benefit Plans that could reasonably be expected to give rise to any material liability, nor are there any facts that could reasonably be expected to give rise to any material liability in the event of any such investigation, claim, suit or proceeding.

9.18.4 No "prohibited transaction" (as defined in § 4975 of the Code or § 406 of ERISA) has occurred that involves the assets of any of such Party's Benefit Plans and that could reasonably be expected to subject any of such Party's System Entities, or any of their respective employees, or a director, administrator or other fiduciary of any trust created under any of such Party's Benefit Plans, to the tax or penalty on prohibited transactions imposed by § 4975 of the Code or the sanctions imposed under Title I of ERISA. None of such Party's Benefit Plans that

has been terminated has or, to the Knowledge of such Party, may cause liability to any of such Party's System Entities.

9.19 **Payment Programs.** With respect to all of the private, commercial and governmental payment and procurement programs with which such Party's System Entities are participating providers (including, without limitation, Medicare and Medicaid) (the "**Payment Programs**"):

9.19.1 None of such Party's System Entities is engaged in termination proceedings as to its respective participation in any of such Party's Payment Programs, nor has any of such Party's System Entities received notice that its current participation in any of such Party's Payment Programs is subject to any contest, termination or suspension as a result of alleged violations or any noncompliance with participation requirements;

9.19.2 None of such Party's System Entities has taken or committed to any action, entered into any agreement, contract or undertaking, or taken or omitted to take any other action of any nature whatsoever that was or is in violation of any applicable Payment Program condition of participation, contract, standard, policy, rule, regulation, procedure or other requirement, that individually or in the aggregate would result in a Material Adverse Event with respect to such Party's System Entities;

9.19.3 All billing and collection practices of each of such Party's System Entities and, to the Knowledge of such Party, of any billing and/or collection agent acting on behalf of any of such Party's System Entities, for the last three years, have been in compliance with all Health Care Laws and the conditions for participation, contracts, standards, policies, rules, regulations, manuals, procedures and requirements of all of such Party's Payment Programs, except for noncompliance that would not result in a Material Adverse Event;

9.19.4 All cost reports and cost statements submitted by such Party's System Entities to any of such Party's Payment Programs are true, accurate and complete in all material respects and have been prepared and submitted in accordance with cost and accounting principles consistently applied that comply with all applicable Payment Program conditions for participation, contracts, standards, policies, rules, regulations, manuals, procedures and requirements (collectively, "**Payment Program Regulations**"), including, without limitation, Payment Program interpretations and guidance, except to the extent that such non-compliance with such Payment Program Regulations is not likely to result in a Material Adverse Event;

9.19.5 None of such Party's System Entities has taken any of the following actions, if any such action would result in a Material Adverse Event: submitted to any of such Party's Payment Programs any false, fraudulent, abusive or improper claim for payment, billed any of such Party's Payment Programs for any service not rendered or not rendered as claimed, or received and retained any payment or reimbursement from any of such Party's Payment Programs in excess of the proper amount allowed by Applicable Law and applicable contracts or agreements with such Party's Payment Programs;

9.19.6 There is no audit, investigation, adverse action, or civil, administrative, or criminal proceeding pending or, to the Knowledge of such Party, threatened relating to

participation in any of such Party's Payment Programs by any of such Party's System Entities; and, to the Knowledge of such Party, there is no basis for any such adverse action by such Party's Payment Program against any of such Party's System Entities;

9.19.7 None of such Party's Payment Programs has requested nor, to the Knowledge of such Party, has threatened any recoupment, refund, or set off from any of such Party's System Entities, or imposed any fine, penalty or other sanction on any of such Party's System Entities, which, in any such case, is likely to result in a Material Adverse Event to such Party's System Entities; and

9.19.8 Such Party's System Entities have complied, or will comply, in a timely manner with any notice, approval, application, submission, filing or other requirements of such Party's Payment Programs with respect to the Contemplated Transactions, including, without limitation, any change of control requirements.

9.20 **Accreditation.** With respect to such Party's System Entities' current accreditations by various accreditation organizations, including, without limitation, The Joint Commission (collectively, the "**Accreditations**"): (a) all of such Party's Accreditations have been duly obtained, are held by the respective System Entities, are current and valid, and are in full force and effect; (b) to the Knowledge of such Party, no event has occurred or other fact exists with respect to such Party's Accreditations that allows, or after notice or lapse of time or both would allow, revocation, suspension, restriction, limitation or termination of any of such Party's Accreditations or would result in any other impairment of the rights of the holder of any of such Party's Accreditations that individually or in the aggregate is likely to result in a Material Adverse Event; and (c) no notice or threatened notice from any accreditation organization with respect to the revocation, suspension, restriction, limitation or termination of any of such Party's Accreditations has been issued, received or, to the Knowledge of such Party, proposed or threatened.

9.21 **Compliance Program.** Within the past three years, none of such Party's System Entities: (a) is or was a party to a Corporate Integrity Agreement with the Office of Inspector General of the United States Department of Health and Human Services; (b) has any reporting obligations pursuant to any settlement agreement entered into with any federal, state or local government entity; (c) has been the subject of any government payer program investigation conducted by any federal or state enforcement agency; (d) has been a defendant in any unsealed qui tam/False Claims Act litigation; (e) has been served with or received, or been subject to, any search warrant, subpoena, civil investigative demand, contact letter, or, to such Party's Knowledge, telephone or personal contact by or from any federal or state enforcement agency (except in connection with medical services provided to third parties who may be defendants or the subject of investigation into conduct unrelated to the operation of the health care businesses conducted by such Party's System Entities); and (f) has received any complaints from employees, independent contractors, vendors, physicians, or any other Person that resulted in a claim being filed with a federal, state or local government entity alleging that any of such Party's System Entities has violated any law or regulation.

9.22 **Exclusion from Health Care Programs.** Each of such Party's System Entities has a program in place to determine whether any of its employees, agents or independent

contractors has been: (a) excluded from participating in any Federal Health Care Program (as defined in 42 U.S.C. § 1320a 7b(f)); (b) subject to sanction or been indicted or convicted of a crime, or pled nolo contendere or to sufficient facts, in connection with any allegation of violation of any Federal Health Care Program requirement or Health Care Law; (c) debarred or suspended from any federal or state procurement or nonprocurement program by any government agency; or (d) designated a Specially Designated National or Blocked Person by the Office of Foreign Asset Control of the U.S. Department of Treasury.

9.23 **Medical Staff Matters.** Such Party has provided to the other Party true, correct, and complete copies of the bylaws and rules and regulations of such Party's Hospitals' medical staffs. With respect thereto: (a) there are no pending adverse actions with respect to any medical staff members of such Party's Hospitals or any applicant thereto for which a medical staff member or applicant has requested an appellate review under such Party's Hospitals' medical staff bylaws that has not been scheduled or has been scheduled but has not been completed; (b) there are no pending or, to the Knowledge of such Party, threatened disputes with applicants, staff members, or health professional affiliates; and such Party knows of no basis therefor; and (c) all appeal periods in respect of any medical staff member or applicant against whom an adverse action has been taken have expired. Notwithstanding the foregoing provisions of this Section 9.23, such Party shall not be required to disclose any information pursuant to this Section 9.23 where such disclosure is prohibited by state law or where such disclosure would, in such Party's reasonable discretion, potentially jeopardize any applicable privilege that would protect the disclosure of such information to third parties.

9.24 **Experimental Procedures.** Such Party's System Entities have not performed or permitted the performance of any experimental or research procedures or studies involving their patients not authorized and conducted in accordance with the procedures of the applicable Institutional Review Board.

9.25 **Intellectual Property; Computer Software.** Such Party's System Entities' use and ownership (or possession of licenses or other rights to the use) of all Intellectual Property and all computer software programs and similar systems used in the conduct of their businesses does not infringe any right of any other Person in such a manner that has had or could reasonably be expected to result in a Material Adverse Event to such Party's System Entities, and to the Knowledge of such Party, no other Person is infringing any such rights of any of such Party's System Entities that has had or could reasonably be expected to result in a Material Adverse Event to such Party's System Entities.

9.26 **Disclosure; No Material Omissions.**

9.26.1 The representations and warranties of such Party contained in this Agreement (including each exhibit, schedule, certificate or other written statement delivered pursuant to this Agreement) or made in connection with the Contemplated Transactions are accurate, correct and complete and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements and information contained therein not misleading.

9.26.2 Such Party's System Entities have responded (or are continuing to respond as of the date hereof) in all material respects to the other Party's requests for information and documentation as part of the other Party's due diligence review of the business, operations, assets and liabilities of such Party's System Entities. Such Party has not knowingly omitted any material information relating to the businesses, operations, assets, or liabilities of such Party's System Entities in its responses to the other Party's requests.

ARTICLE 10

PRE-CLOSING COVENANTS

Each Party hereby agrees to, and to cause its System Entities to, keep, perform and fully discharge, or to cause to be kept, performed and fully discharged, as applicable, the following covenants and agreements, as applicable:

10.1 **Interim Conduct of Business.** From the Execution Date to the Closing Date, by the fifteenth business day of the following month, each Party shall provide the other Party with such Party's Interim Financial Statements for the immediately preceding month. No Party shall, without providing to the other Party prior written notification: (a) make any changes, or permit any changes to be made, in the governing documents of any of its System Entities, except for changes expressly authorized by this Agreement; (b) enter into any transaction that could reasonably be expected to result in a Material Adverse Event with respect to any of its System Entities; or (c) cease to operate such Party or its System Entities as going concerns generally consistent with prior practices in the ordinary course of business.

10.2 **Preserve Accuracy of Representations and Warranties.** From the Execution Date to the Closing Date:

10.2.1 Each Party will not, and will cause its System Entities to not, take any action that would render any representation or warranty contained in Article 9 with respect to such Party or its System Entities or System Joint Ventures inaccurate or untrue as of the Closing Date.

10.2.2 Each Party promptly will notify the other Party of any lawsuits, claims, administrative actions or other proceedings credibly asserted or actually commenced against any of its System Entities, or any of their respective officers, directors or members that could reasonably be expected to result in a Material Adverse Event with respect to any of its System Entities.

10.2.3 Each Party promptly will notify the other Party in writing of any facts or circumstances that come to its attention and cause, or through the passage of time may cause, any of the representations and warranties made by such Party and contained in Article 9 to be untrue or misleading at any time from the Execution Date to the Closing Date.

10.3 **Access to Information.**

10.3.1 From the Execution Date to the Closing Date, each Party shall, and shall cause each of its System Entities to, give to the other Party and to its representatives full and free

access, during normal business hours, to all properties, books, records and contracts and other materials pertaining to the businesses, properties and assets of such Party's System Entities, as may be reasonably requested by the other Party (and in accordance with guidelines approved by the Parties' antitrust counsel), subject to reasonable advance notice and provided that the other Party shall not exercise such rights of access in such manner as would unduly interfere with the operations of such Party's System Entities or the work of such Party's System Entities' personnel or the activities of such Party's System Entities' patients or guests.

10.3.2 Each Party shall cooperate in keeping the other Party fully informed and shall promptly notify the other Party of any Material Adverse Event in the normal course of business or prospects of any of its System Entities.

10.4 **Maintain Books and Accounting Practices.** From the Execution Date to the Closing Date, each Party shall maintain the books of account of its System Entities in the usual, regular and ordinary manner in accordance with GAAP consistently applied and on a basis consistent with prior years, including, without limitation, the consistent use of assumptions, practices, procedures and terminology, and except as otherwise required by GAAP, such Party shall not make or cause to be made any material changes in the accounting methods or practices of its System Entities.

10.5 **Compliance with Laws.** From the Execution Date to the Closing Date, each Party will, and will cause each of its System Entities to:

10.5.1 Comply in all material respects with all Applicable Law affecting the System Entities; and

10.5.2 Keep, hold, and maintain all certificates, Certificates of Need, Certificates of Exemption, Accreditations, licenses and other permits necessary for the conduct and operation of the System Entities.

10.6 **Third Party Authorizations.** Each Party shall use, and shall cause each of its System Entities to use, commercially reasonable efforts and cooperate fully with the other Party to obtain all consents, approvals, exemptions and authorizations of third parties, whether governmental or private, make all filings, and give all notices that may be necessary or desirable on the part of each such Party's System Entities to effect the Contemplated Transactions, including, without limitation, those consents, approvals, exemptions, and authorizations disclosed on the Disclosure Schedules corresponding to Sections 9.3.2 and 9.6.3 hereof.

10.7 **Confidentiality.** Each Party shall, and shall cause its System Entities (each a "Receiving Party") and their respective agents, servants, employees and all other Persons who will be allowed access to the Confidential Information of the other Party and its System Entities (the "Representatives") to hold in confidence all Confidential Information of the other Party and its System Entities (each a "Disclosing Party"), and shall not divulge to third parties or use in a manner detrimental to the Disclosing Parties such Confidential Information. For purposes of this Agreement, "Confidential Information" means all tangible and intangible information related in any way to the Contemplated Transactions (including but not limited to the existence of the Contemplated Transactions and this Agreement, the terms or potential terms thereof, and the

documents and instruments related thereto) and any System Entity's business and operations, now or hereafter furnished or made available by a System Entity in connection the evaluation of the Contemplated Transactions, including but not limited to analyses, business or strategic plans, compilations, draft agreements, financial statements, proposals, studies, patient revenue, gross charges, payor mix, market data, employment or compensation models or other information relating to the business of a System Entity. Confidential Information shall not include information that is generally available to the public before its disclosure to a Receiving Party, was available to a Receiving Party on a non-confidential basis before the disclosure, or was lawfully obtained from a third party who was not under an obligation to maintain the confidentiality of such information. Each Party shall, and shall cause its other System Entities and Representatives to: (a) keep, strictly confidential the Disclosing Party's Confidential Information; (b) use the Disclosing Party's Confidential Information solely in connection with the Transaction and for no other purpose; and (c) reveal the Disclosing Party's Confidential Information only to those of its Representatives who need to know the Disclosing Party's Confidential Information for the purposes set forth above, have been informed of the confidential nature of the Disclosing Party's Confidential Information, and have agreed to maintain the confidentiality of the Disclosing Party's Confidential Information. If a Receiving Party or one of its Representatives is requested or required (by oral questions, written interrogatories, requests for information or documents, subpoena, civil investigatory demands or similar process) to disclose any of the Disclosing Party's Confidential Information, such Receiving Party shall provide the Disclosing Party with prompt notice of such request or requirement so that the Disclosing Party may seek an appropriate protective order. Further, if in the absence of a protective order, a Receiving Party or one of its Representatives is nonetheless, in the opinion of its counsel, compelled to disclose any of the Disclosing Party's Confidential Information to any tribunal or agency, or else stand liable for contempt or suffer other censure or penalty, the Receiving Party or its Representative may disclose the minimum amount of the Disclosing Party's Confidential Information that is necessary to prevent it from being held liable for contempt of court or similar censure or penalty. In such event, the Receiving Parties and their Representatives shall have no liability hereunder for the disclosure of such Disclosing Party's Confidential Information unless such disclosure was caused by or resulted from a previous disclosure by it or by its Representatives in breach of this Agreement. Each Receiving Party shall return or destroy all documents, notes, memoranda, other materials containing the Disclosing Party's Confidential Information and all copies to the Disclosing Party upon termination of the Agreement.

10.8 Performance of Undertakings.

10.8.1 Each Party shall perform, and shall cause its System Entities to perform, faithfully at all times any and all covenants, undertakings, stipulations, and provisions applicable to such System Entities contained in the Transaction Documents.

10.8.2 No Party shall take any other action inconsistent with its obligations hereunder or that could hinder or delay the consummation of the Contemplated Transactions.

10.9 **Amended Governing Documents.** Before the Closing Date, to be effective as of the Closing Date, each Party will amend and restate, and shall cause its relevant System Affiliates to amend and restate, the relevant Governing Documents of the System Entities as

necessary to effect the changes set forth in Article 3 and Article 4, and such other changes mutually agreed upon by the Parties. On or before the Closing Date, to be effective as of the Closing Date, each Party will file, and will cause its relevant System Affiliates to file, with the Illinois Secretary of State's Office the relevant Amended Governing Documents required to be filed with the Illinois Secretary of State's Office.

ARTICLE 11

CONDITIONS PRECEDENT TO OBLIGATIONS OF PARTIES

The obligations of each Party to consummate the Contemplated Transactions are, at the option of such Party, subject to the satisfaction, on or before the Closing Date, of the following conditions:

11.1 **Consents and Approvals.** All of the following consents, authorizations, orders, approvals, filings, registrations and notices shall have been made or obtained, as applicable, on or before the Closing Date (and each such consent, authorization, order, approval, filing, registration and notice is in full force and effect as of the Closing Date):

11.1.1 **Hart-Scott-Rodino.** The Parties shall have submitted their respective filings under HSR Act, and all required waiting periods under the HSR Act shall have expired.

11.1.2 **Health Planning.** The Parties shall have obtained a certificate of exemption or certificate of need, as applicable, from the IHFSRB to consummate the Contemplated Transactions.

11.1.3 **Third-Party Notices and Consents.** Each of the other consents approvals, authorizations, filings, and notices disclosed on the Disclosure Schedules corresponding to Sections 9.3.2 and 9.6.3 hereof have been obtained or sent, as applicable, by the applicable Party.

11.2 **Performance of Covenants.** Each of the other Party's System Entities shall have performed in all material respects all of the obligations and materially complied with each of the covenants, agreements and conditions required to be performed or complied with on or before the Closing Date.

11.3 **Accuracy of the Other Party's Representations and Warranties.** The representations and warranties of the other Party contained in Article 9 shall be true and accurate in all material respects as if made on and as of the Closing Date.

11.4 **Completion of Due Diligence.** Such Party has completed its due diligence investigation of the other Party's System Entities and their business, operations, assets, liabilities, financial condition and prospects, the results of which are satisfactory to such Party in its sole discretion.

11.5 **No Pending Action.** No action or proceeding before any court or governmental body shall be pending or threatened wherein an unfavorable judgment, decree, or order would prevent the carrying out of this Agreement or any of the Contemplated Transactions, declare unlawful the Contemplated Transactions or cause such transactions to be rescinded.

11.6 **No Bankruptcy.** None of the other Party's System Entities shall: (a) be in receivership or dissolution; (b) have made any assignment for the benefit of creditors; (c) have admitted in writing its inability to pay its debts as they mature; (d) have been adjudicated bankrupt; or (e) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization or an arrangement with creditors under the federal bankruptcy law or any other similar law or statute of the United States or any state, nor shall any such petition have been filed against any of the other Party's System Entities.

11.7 **No Material Adverse Event.** Between the Execution Date and the Closing Date, there shall have been no Material Adverse Event with respect to the other Party's System Entities.

11.8 **Approval by System Entity Boards.** The Parties will have agreed on, and the Boards of such Party's relevant System Entities will have approved of: (a) all terms of the amended and restated Governing Documents of: (i) NMHC; (ii) Cadence; and (iii) other System Entities the Governing Documents for which require amendments to effect the changes set forth in Article 3 and Article 4, all of which will be effective as of the Closing Date (the "**Amended Governing Documents**"); (b) the NM System Governance Roster, which shall be effective as of the Closing Date; and (c) the NM System Senior Management Roster, which shall be effective as of the Closing Date.

11.9 **Delivery of Closing Documents by the Other Party.** With respect to Cadence, the NMHC Entities shall have delivered, on or before the Closing Date, the NMHC Closing Documents. With respect to NMHC, the Cadence Entities shall have delivered, on or before the Closing Date, the Cadence Closing Documents.

ARTICLE 12

CLOSING

12.1 **Closing Date; Closing.** Subject to the satisfaction or waiver by the appropriate Party of all the conditions precedent to Closing specified herein, the consummation of the Contemplated Transactions (the "**Closing**") shall take place at the offices of McDermott Will & Emery LLP, 227 West Monroe Street, Chicago, Illinois, or such other place agreed upon by the Parties, on (a) September 1, 2014 following receipt of all regulatory approvals and satisfaction or waiver of all conditions precedent to Closing set forth herein or (b) such other date agreed upon by the Parties following the receipt of all regulatory approvals and satisfaction or waiver of all conditions precedent to Closing set forth herein (the "**Closing Date**"). The Closing shall be effective as of 12:01 a.m., Central Daylight Time on the Closing Date.

12.2 **Closing Document Deliveries.**

12.2.1 **Cadence Closing Documents.** At the Closing, Cadence shall deliver the following documents to NMHC (the "**Cadence Closing Documents**");

(a) Copies of the Amended Governing Documents of the Cadence Entities, approved by the applicable Cadence Entity Board and executed, as applicable;

(b) The NM System Governance Roster;

(c) The NM System Senior Management Roster;

(d) A certificate of the President and Chief Executive Officer of Cadence, dated as of the Closing Date, certifying as to the continued accuracy and completeness of representations and warranties of Cadence, and the performance of the covenants and conditions precedent, set forth in this Agreement;

(e) A certificate of the Secretary of Cadence, dated as of the Closing Date, certifying as true and correct as of the date of this Agreement and as of the Closing Date: (i) the incumbency of the officers of Cadence who have executed Cadence Closing Documents; (ii) the due adoption and continued effectiveness of attached resolutions of the Cadence Board approving the actions and transactions required or contemplated by this Agreement, including the Amended Governing Documents of the Cadence Entities; and (iii) in its capacity as member or shareholder of the Cadence Entities, the due adoption and continued effectiveness of attached resolutions approving the Amended Governing Documents of the Cadence Entities for the Cadence Entities and any transactions contemplated hereunder that are required for the Cadence Entities, pursuant to each such entity's Governing Documents in effect as of the Execution Date, to be approved by Cadence if required by a Cadence Entity's Governing Documents;

(f) Copies of all consents approvals, authorizations, filings and notices required to be obtained or sent by Cadence pursuant to Section 11.1;

(g) Evidence of amendment of that certain Cadence Health System Annual Executive Incentive Plan (Amended and Restated Effective July 1, 2013) (the "**Cadence EIP**") to remove the provision of full vesting acceleration to Participants upon a Change in Control (as such terms are defined in the Cadence EIP); and

(h) Such other instruments and documents as may be reasonably necessary to carry out the Contemplated Transactions and to comply with the terms hereof.

12.2.2 NMHC Closing Documents. At the Closing, NMHC shall deliver the following documents to Cadence (the "**NMHC Closing Documents**");

(a) Copies of the Amended Governing Documents of the NMHC Entities, approved by the applicable NMHC Entity Board and executed, as applicable;

(b) The NM System Governance Roster;

(c) The NM System Senior Management Roster;

(d) A certificate of the President and Chief Executive Officer of NMHC, dated as of the Closing Date, certifying as to the continued accuracy and completeness of representations and warranties of NMHC and the performance of the covenants and conditions precedent, set forth in this Agreement;

(e) A certificate of the Secretary of NMHC, dated as of the Closing Date, certifying as true and correct as of the date of this Agreement and as of the Closing Date: (i) the incumbency of the officers of NMHC who have executed NMHC Closing Documents; (ii) the due adoption and continued effectiveness of attached resolutions of the NMHC Board approving the actions and transactions required or contemplated by this Agreement, including the Amended Governing Documents of the NMHC Entities; and (iii) in its capacity as member or shareholder of the NMHC Entities, the due adoption and continued effectiveness of attached resolutions approving the Amended Governing Documents of the NMHC Entities for the NMHC Entities and any transactions contemplated hereunder that are required for the NMHC Entities, pursuant to each such entity's Governing Documents in effect as of the Execution Date, to be approved by NMHC if required by a NMHC Entity's Governing Documents;

(f) Copies of all consents approvals, authorizations, filings and notices required to be obtained or sent by NMHC pursuant to Section 11.1; and

(g) Such other instruments and documents as may be reasonably necessary to carry out the Contemplated Transactions and to comply with the terms hereof.

ARTICLE 13

TERMINATION

13.1 **Termination Before Closing.** Notwithstanding anything herein to the contrary, this Agreement and the Contemplated Transactions may be terminated at any time before Closing under any one of the following circumstances:

13.1.1 **Mutual Consent.** By mutual written consent of the Parties, acting through their respective boards of directors;

13.1.2 **Legal Proceedings.** By either Party, if at the time of Closing a bona fide action or proceeding shall be pending against any Party wherein an unfavorable judgment, decree, or order would prevent or make unlawful the carrying out of the Contemplated Transactions;

13.1.3 **Conditions Precedent to Closing.** By either Party if the conditions of this Agreement to be satisfied or performed by the other Party at or before Closing become incapable of satisfaction or performance other than as a result of a breach of this Agreement by the terminating Party;

13.1.4 **Material Adverse Event.** By either Party if at any time before the Closing, there has been a Material Adverse Event with respect to the other Party or its Affiliates and such Material Adverse Event is not or cannot be remedied to the reasonable satisfaction of the terminating Party before the Closing Deadline;

13.1.5 **Breach.** By either Party if at any time before the Closing, there has been a material breach by the other Party of any representation, warranty, covenant or agreement contained in this Agreement that cannot be or is not cured by the breaching Party within 30 calendar days of receipt of notice thereof; or

13.1.6 Closing Deadline. By either Party if the Closing has not occurred (other than through the failure of the other Party to comply with its obligations under this Agreement) before or on December 31, 2014 (the "**Closing Deadline**").

13.2 **Effect of Termination**.

13.2.1 Except as set forth in Section 13.2.2, a termination of this Agreement by a Party pursuant to Section 13.1 shall:

- (a) Terminate all further obligations of the Parties hereunder; and
- (b) Be the sole and exclusive remedy for breach of any representation, warranty or covenant made by another Party under this Agreement before Closing.

13.2.2 Notwithstanding Section 13.2.1:

(a) A termination of this Agreement pursuant to Section 13.1 shall not be the exclusive remedy to redress a breach or threatened breach of Section 10.3, Section 10.6, Section 10.8.2 or Section 14.1.1 that occurred before termination and was not cured pursuant to Section 13.1.5. All remedies available at law or in equity to redress such a breach (including those described in Section 14.3) shall survive the termination of this Agreement.

(b) A termination of this Agreement pursuant to Section 13.1 shall not be the exclusive remedy to redress a breach or threatened breach of Section 10.7 or Section 14.1.2 that occurs before or following termination that is not cured pursuant to Section 13.1.5. The rights and obligations of the Parties pursuant to Section 10.7 shall survive termination, as will all remedies available at law or in equity to redress a breach thereof (including those described in Section 14.3).

(c) Nothing herein shall be deemed to prejudice or limit a Party's right to obtain equitable relief as described in Section 14.3 to redress a breach or threatened breach of any covenant in this Agreement before termination pursuant to Section 13.1.

ARTICLE 14

GENERAL PROVISIONS

14.1 **Exclusive Dealings**. From and after the Execution Date of this Agreement until the earlier to occur of the Closing or the termination of this Agreement pursuant to Article 13:

14.1.1 Cadence will not, without the prior consent of NMHC, explore, meet, discuss, negotiate, directly or indirectly, or enter into an agreement with any third party for the purpose of discussing, organizing, formulating, designing, developing, investing in or implementing an arrangement that could lead to a change in control, sale of equity, lease of assets, sale of assets, joint operating agreement/joint operating company, merger, consolidation, liquidation, academic affiliation or any other business that is outside the ordinary course of business involving any Cadence Entity. Cadence shall promptly notify NMHC by telephone and thereafter confirm in writing, if any such discussions or negotiations are sought to be initiated

with any Cadence Entity or any such proposal or possible proposal is received directly or indirectly by any Cadence Entity. In the event a Cadence Entity or any of its representatives receives an unsolicited offer relating to a type of transaction described above, Cadence shall promptly inform the Person making such unsolicited offer of the existence of the restrictions of this Section 14.1, but not the other contents of this Agreement, and Cadence shall reject such offer.

14.1.2 NMHC will not, without the prior consent of Cadence, explore, meet, discuss, negotiate, directly or indirectly, or enter into an agreement with any third party for the purpose of discussing, organizing, formulating, designing, developing, investing in or implementing an arrangement that could lead to a change in control, sale of equity, lease of assets, sale of assets, joint operating agreement/joint operating company, merger, consolidation, liquidation, academic affiliation or any other business relationship that is outside the ordinary course of business involving any NMHC Entity. NMHC shall promptly notify Cadence by telephone and thereafter confirm in writing, if any such discussions or negotiations are sought to be initiated with any NMHC Entity or any such proposal or possible proposal is received directly or indirectly by any NMHC Entity. In the event a NMHC Entity or any of its representatives receives an unsolicited offer relating to a type of transaction described above, NMHC shall promptly inform the Person making such unsolicited offer of the existence of the restrictions of this Section 14.1, but not the other contents of this Agreement, and NMHC shall reject such offer.

14.1.3 The Parties acknowledge that a breach or threatened breach of this Section 14.1 by a Party would cause the non-breaching Party to suffer immediate and irreparable harm that could not be fully remedied with the payment of monetary damages. As such, in addition to any other remedies available, a non-breaching Party shall be entitled to specific performance, preliminary and permanent injunctive relief, and other available equitable remedies to restrain a breach or threatened breach of this Section 14.1 by another Party, either pending or following a trial on the merits, and without the need to post bond or other security.

14.2 **Modification of Schedules.** During the period from the Execution Date to the date that is 15 business days before the Closing Date, the NMHC Entities, on the one hand, and the Cadence Entities, on the other hand (each an “**Amending Party**”), may qualify any of its representations and warranties herein pursuant to a new Schedule or amend any one or more of the Schedules they delivered at the Execution Date by delivering one or more amended Schedules (each, an “**Amended Schedule**”) to the other (a “**Deciding Party**”). Upon receipt of an Amended Schedule, the Deciding Party shall have five business days either to approve information contained in such schedule or to notify the Amending Party that it disapproves of information in such schedule (a “**Disapproved Item**”). If such Disapproved Item is curable, the Amending Party shall have the right, but not the obligation, within five business days following its receipt of notice of a Disapproved Item, to elect to cure such Disapproved Item by the delivery of an appropriate notice to the Deciding Party. The Amending Party’s notice shall set forth its proposed manner of cure of the Disapproved Item and the anticipated period of time necessary to complete the cure, which must be before the Closing Deadline. The Deciding Party shall have five business days after receipt of the Amending Party’s notice of cure to approve or disapprove such cure. If the Deciding Party fails to disapprove the Amending Party’s cure notice within this five-day period, the Deciding Party shall be deemed to have approved the manner of

cure specified in the cure notice. Upon approval of a cure notice, the Amending Party shall use reasonable commercial efforts to effectuate the cure specified in the cure notice. If the Amending Party completes the agreed upon cure by the agreed-upon deadline, the Disapproved Item shall not be placed on the Amending Party's Schedules, and the Deciding Party shall have no right to terminate this Agreement as a result of the Disapproved Item. If the Amending Party refuses to cure the Disapproved Item, the Parties are unable to agree upon an appropriate cure, or if the agreed-upon cure has not been completed within the agreed time frame, the Deciding Party may: (a) elect to close over the Disapproved Items; or (b) may elect to immediately terminate this Agreement by providing notice to the Amending Party. If the Deciding Party elects to close over the Disapproved Item, the Disapproved Items shall be deemed a modification to the Schedule or Amended Schedule delivered by the Amending Party before the Closing Date.

14.3 **Equitable Relief.** The Parties acknowledge that a breach or threatened breach of this Agreement by a Party would cause the non-breaching Parties to suffer immediate and irreparable harm that could not be fully remedied with the payment of monetary damages. As such, in addition to any other remedies available, a non-breaching Party shall be entitled to specific performance, preliminary and permanent injunctive relief, and other available equitable remedies to restrain a breach or threatened breach of this Agreement by another Party, either pending or following a trial on the merits, and without the need to post bond or other security.

14.4 **Survival.**

14.4.1 Article 1, Article 2, Article 3, Article 4, Article 5, Article 6, Article 7, Article 8, Section 12.1, Article 14 and Article 15 shall survive the Closing and consummation of the Contemplated Transactions, but all other provisions hereof shall be extinguished upon the Closing and consummation of the Contemplated Transactions and shall not survive such Closing and consummation. Without limiting the generality of the foregoing, the representations and warranties of the Parties set forth in Article 9 shall be extinguished upon the Closing and consummation of the Contemplated Transactions and shall not survive such Closing and consummation.

14.4.2 Section 10.7, Section 13.2, Article 14 and Article 15 shall survive the termination of this Agreement before Closing. All other representations, warranties, and covenants shall be extinguished upon termination of this Agreement and shall not survive such termination.

14.5 **Performance of Undertakings.** Subject to fulfillment of the conditions precedent set forth in Article 11 with respect to the relevant Party, the Parties agree that the standard that shall apply to the Parties' performance of all covenants and undertakings contained in this Agreement and in any and every document executed and delivered hereunder is a commercially reasonable standard.

14.6 **Consummation of Transactions.** Subject to fulfillment of the conditions precedent set forth in Article 11 with respect to the relevant Party, the Parties shall take, or cause their Affiliates to take, no other action which is inconsistent with its obligations hereunder or which could materially delay the consummation of the Contemplated Transactions.

14.7 **Notices.** All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given or made as follows: (a) if sent by registered or certified mail in the United States return receipt requested, upon receipt; (b) if sent designated for overnight delivery by nationally recognized overnight air courier (such as Federal Express, UPS or DHL), one business day after mailing; (c) if sent by facsimile transmission before 5:00 p.m. (sender's time) and receipt is confirmed through a delivery report; (d) if sent by facsimile transmission after 5:00 p.m. (sender's time) and receipt is confirmed through a delivery report, on the following business day; and (e) if otherwise actually personally delivered, when delivered, provided that such notices, requests, demands and other communications are delivered to the addresses set forth below, or to such other address as any Party shall provide by like notice to the other Party:

Cadence: Michael Vivoda
President and Chief Executive Officer
Cadence Health
25 North Winfield Road
Winfield, IL 60190
Fax: 630.933.2729

With a simultaneous copy to: Michael Holzhuter
Vice President and General Counsel
Cadence Health
25 North Winfield Road
Winfield, IL 60190
Fax: 630.933.2729

and

McDermott Will & Emery LLP
227 West Monroe
Chicago, IL 60606
Attn: Bernadette M. Broccolo, John M. Callahan
and Christopher M. Jedrey
Fax: 312.276.4954

NMHC: Dean Harrison
President and Chief Executive Officer
Northwestern Memorial HealthCare
251 East Huron Street
Chicago, IL 60611
Fax: 312.926.2411

With a simultaneous copy to:

Danae Prousis
Vice President and Deputy General Counsel
Northwestern Memorial HealthCare
680 N. Lake Shore Drive, Suite 1118
Chicago, IL 60611
Fax: 312.695.9505

and

McDermott Will & Emery LLP
227 West Monroe
Chicago, IL 60606
Attn: Bernadette M. Broccolo, John M. Callahan
and Christopher M. Jedrey
Fax: 312.276.4954

14.8 **Costs of Transaction.** Except as otherwise provided in this Section, whether or not the Contemplated Transactions shall be consummated, the Parties agree as follows: (a) Cadence shall pay the fees, expenses, and disbursements of the Cadence Entities and their agents, representatives, accountants, and legal counsel incurred in connection with the subject matter hereof and any amendments hereto; and (b) NMHC shall pay the fees, expenses, and disbursements of the NMHC Entities and their agents, representatives, accountants, and legal counsel incurred in connection with the subject matter hereof and any amendments hereto. Notwithstanding anything to the contrary herein, Cadence and NMHC equally will share the fees and expenses of all outside legal counsel and advisors jointly retained by the Parties incurred in connection with the subject matter hereof.

14.9 **Entire Agreement; Amendment.** This Agreement, including all Schedules and Exhibits required hereunder, supersede all previous agreements, including the Letter of Intent, oral or written, and constitute the entire agreement among the Parties respecting the subject matter of this Agreement, and no Party shall be entitled to benefits other than those specified herein. Each Exhibit and Schedule referenced in this Agreement shall be considered a part hereof as if set forth herein in full. As among the Parties, oral statements or prior written materials that are not specifically incorporated herein shall not be of any force and effect. The Parties specifically acknowledge that in entering into and executing this Agreement, the Parties rely solely upon the representations and agreements contained in this Agreement and no others. This Agreement may be amended or modified only by an agreement in writing signed by both Parties.

14.10 **Non-Assignment.** This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, assigns and legal representatives, but no Party may assign its rights in this Agreement or delegate its duties under this Agreement to a third party by any means without first obtaining the prior written consent of the other Party.

14.11 **No Third Party Beneficiaries.** This Agreement shall not confer any rights or remedies upon any Person or other third party other than the Parties, their Affiliates, and the Parties' respective successors and permitted assigns.

14.12 **Additional Assurances.** The provisions of this Agreement shall be self-operative and shall not require further agreement by the Parties except as may be herein specifically provided to the contrary; provided, however, at the request of a Party, the other Party or Parties shall execute such additional instruments and use its commercially reasonable efforts to take such additional actions as the requesting Party may deem necessary to effectuate this Agreement.

14.13 **Severability.** In the event any provision of this Agreement is held to be invalid, illegal or unenforceable, in whole or in part, for any reason and in any respect, such invalidity, illegality, or unenforceability shall in no event affect, prejudice or disturb the validity of any remaining provision of this Agreement, which shall be and remain in full force and effect, and binding and enforceable in accordance with its terms.

14.14 **Applicable Law.** This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Illinois; provided, however, that the conflicts of law principles of the State of Illinois shall not apply to the extent they would operate to apply the laws of another state. The Parties hereby consent to the jurisdiction of Illinois courts over all matters relating to this Agreement.

14.15 **Headings; Cross-References.** Headings of Articles and Sections in this Agreement and the table of contents hereof are solely for convenience or reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof. Unless indicated otherwise, references in this Agreement to Articles, Sections, Schedules and Exhibits are to articles, sections, schedules and exhibits of this Agreement.

14.16 **Construction.** This Agreement and all documents or instruments delivered pursuant hereto shall be construed without regard to the identity of the Person who drafted the various provisions of the same. Each and every provision of this Agreement and such other documents and instruments shall be construed as though the Parties participated equally in the drafting of the same. Consequently, the Parties acknowledge and agree that any rule of construction that a document is to be construed against the drafting Party shall not be applicable to this Agreement.

14.17 **Interpretation.** When a reference is made in this Agreement to Sections, subsections or exhibits, such reference shall be to a Section, subsection, or exhibit to this Agreement unless otherwise indicated. The words "include," "includes" and "including," when used herein, shall be deemed in each case to be followed by the words "without limitation." The word "herein" and similar references mean, except where a specific Section or Article reference is expressly indicated, the entire Agreement rather than any specific Section or Article. Except as otherwise specifically provided herein, the word "material," when used in reference to any Party's representations, warranties, covenants or agreements, shall mean material in relation to such Party. The table of contents and the headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any document or item will be deemed "delivered", "provided" or "made available" by a Party within the meaning of this Agreement if such document or item is: (a) included in the electronic data room; (b) actually delivered or provided to a Party or any of such Party's representatives; or (c) made available upon request, including at such Party's or any of its Affiliates' offices.

14.18 **Waiver of Terms.** The failure of any Party to insist, in any one or more instances, on performance of any of the terms, covenants and conditions of this Agreement shall not be construed as a waiver or relinquishment of any rights granted hereunder or thereunder or of the future performance of any such term, covenant or condition, but the obligations of the Parties with respect thereto shall continue in full force and effect. A waiver by one Party of the performance of any covenant, condition, representation or warranty of the other Party shall not invalidate this Agreement, nor shall such waiver be construed as a waiver of any other covenant, condition, representation or warranty. A waiver by any Party of the time for performing any act shall not constitute a waiver of the time for performing any other act or the time for performing an identical act required to be performed at a later time.

14.19 **Counterparts; Signatures.** The Parties agree that this Agreement may be executed in multiple originals, each of which shall be considered an original for all purposes and, collectively, shall be considered to constitute this Agreement. The Parties further agree that signatures transmitted by facsimile or in Portable Document Format (pdf) may be considered an original for all purposes, including, without limitation, the execution of this Agreement and enforcement of this Agreement.

14.20 **Time is of the Essence.** Time is hereby expressly made of the essence with respect to each and every term and provision of this Agreement and any other agreements determined by the Parties to be necessary or appropriate to be entered into in connection with the Contemplated Transactions.

14.21 **Access to Records and Information.** If and to the extent applicable to this Agreement and to any agreement contemplated hereunder or entered into pursuant hereto between or among the Parties, the Parties agree to comply with the requirements of Public Law 96-499, Section 952 (Section 1861(v)(1)(I) of the Social Security Act) and regulations promulgated thereunder.

14.22 **Waiver of Trial by Jury.** EACH PARTY HEREBY WAIVES ITS RIGHT TO A JURY TRIAL IN CONNECTION WITH ANY SUIT, ACTION OR PROCEEDING IN CONNECTION WITH ANY MATTER RELATING TO THIS AGREEMENT.

14.23 **Publicity.** The Parties agree to cooperate in preparing and releasing joint announcements concerning this Agreement and its execution to all appropriate communities, groups and ratings agencies. In addition, the Parties agree to coordinate the timing and messaging of communications concerning this Agreement to their respective employee and medical staff communities and leadership.

ARTICLE 15

GLOSSARY

For convenience, set forth below is a glossary of defined terms used in this Agreement:

15.1 “**Academic Activities**” shall have the meaning set forth in Section 6.7.

15.2 “**Accreditations**” shall have the meaning set forth in Section 9.20.

15.3 **"Advice and Input"** means a consultation process whereby, before a final action (but not necessarily before consideration, discussion or preliminary action) being taken on a matter, the Cadence Board, NLFH Board, or NMH Board, as applicable, will: (a) provide the NMHC Board or the Executive Committee of the NMHC Board with a summary of the proposed action and supporting information (which may be provided in writing or through an in-person, oral presentation); and (b) be afforded an opportunity to provide comments.

15.4 **"Affiliate"** means, with respect to a particular Person: (a) any Person which is under the Control of, or which is under common Control with, the subject Person; and (b) any trust for the primary benefit of such Person or any of the foregoing.

15.5 **"Affiliation"** shall have the meaning set forth in the Recitals.

15.6 **"Agreement"** means this Affiliation Agreement among the Parties.

15.7 **"Amended Governing Documents"** shall have the meaning set forth in Section 11.8.

15.8 **"Amended Schedule"** shall have the meaning set forth in Section 14.2.

15.9 **"Amending Party"** shall have the meaning set forth in Section 14.2.

15.10 **"Applicable Law"** shall mean all applicable federal, state and local laws, statutes, ordinances, rules, regulations, codes and any judgment, decree, order, writ or injunction of any court or regulatory authority.

15.11 **"Application"** shall have the meaning set forth in Section 9.8.2.

15.12 **"Audited Financial Statements"** shall have the meaning set forth in Section 9.4.1.

15.13 **"Benefit Plans"** shall have the meaning set forth in Section 9.18.

15.14 **"Board"** shall mean the board of directors of a corporation or equivalent governing body of a non-corporate entity.

15.15 **"Cadence"** shall have the meaning set forth in the introductory paragraph to this Agreement.

15.16 **"Cadence Affiliates"** shall have the meaning set forth in the Recitals.

15.17 **"Cadence Board"** means the Board of Directors of Cadence before the Closing.

15.18 **"Cadence CEO"** means the President and Chief Executive Officer of Cadence.

15.19 **"Cadence Closing Documents"** shall have the meaning set forth in Section 12.2.1.

15.20 **"Cadence EIP"** shall have the meanings set forth in Section 12.2.1(g).

- 15.21 “**Cadence Entities**” shall have the meanings set forth in the Recitals.
- 15.22 “**Cadence Joint Ventures**” shall have the meaning set forth in Section 9.13.3.
- 15.23 “**Cadence System**” shall have the meaning set forth in the Recitals.
- 15.24 “**CDH**” shall have the meaning set forth in the Recitals.
- 15.25 “**CDH Medical Staff**” shall have the meaning set forth in Section 8.2.
- 15.26 “**Central Region**” means the City of Chicago, Illinois.
- 15.27 “**CMP**” shall have the meaning set forth in the Recitals.
- 15.28 “**CPG**” shall have the meaning set forth in the Recitals.
- 15.29 “**CERCLA**” shall have the meaning set forth in Section 15.47.
- 15.30 “**Certificate of Exemption**” shall have the meaning set forth in Section 9.8.2.
- 15.31 “**Certificate of Need**” shall have the meaning set forth in Section 9.8.2.

15.32 “**Change of Control**” means if at any time: (a) the entity merges into or consolidates with any other entity; (b) the entity’s corporate documents are amended to grant a party other than the current directors or members of the entity the right to designate, elect or remove a majority of the entity’s voting directors; or (c) all, or substantially all, of the assets of the entity are sold, leased, exchanged or other transferred (in one transaction or in a series of related transactions), other than to an entity (or entities) of which the entity or directors, officers, or employees of the entity own immediately before such transaction over 50% of the outstanding voting securities.

- 15.33 “**Closing**” shall have the meaning set forth in Section 12.1.
- 15.34 “**Closing Date**” shall have the meaning set forth in Section 12.1.
- 15.35 “**Closing Deadline**” shall have the meaning set forth in Section 13.1.6.

15.36 “**Code**” means the Internal Revenue Code of 1986, 26 U.S.C. § 1, *et seq.*, as amended.

- 15.37 “**Confidential Information**” shall have the meaning set forth in Section 10.7.

15.38 “**Contemplated Transactions**” means the Affiliation and the other transactions contemplated by this Agreement and the other Transaction Documents.

15.39 “**Control**” means possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity whether through ownership of voting securities, by contract or otherwise.

15.40 “**Coverage**” shall have the meaning set forth in Section 9.15.

15.41 “**Deciding Party**” shall have the meaning set forth in Section 14.2.

15.42 “**Delnor**” shall have the meaning set forth in the Recitals.

15.43 “**Delnor Medical Staff**” shall have the meaning set forth in Section 8.2.

15.44 “**Disapproved Item**” shall have the meaning set forth in Section 14.2.

15.45 “**Disclosing Party**” shall have the meaning set forth in Section 10.7.

15.46 “**Disclosure Schedule**” shall have the meanings set forth in the introductory paragraph of Article 9.

15.47 “**Environmental Law**” shall mean federal, state or local statutes and ordinances, and all rules and regulations promulgated thereunder, common law, orders, consent decrees, permits, licenses, and binding judicial and administrative interpretations thereof, pertaining or relating to: (a) natural resources and the environment, (b) public and worker health and safety; and (c) the identification, reporting, generation, manufacture, processing, distribution, use, treatment, storage, disposal, emission, discharge, release, transport or other handling of any Hazardous Substances, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, as amended (“**CERCLA**”), and the Resource Conservation and Recovery Act, as amended (“**RCRA**”).

15.48 “**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended.

15.49 “**Execution Date**” shall have the meaning set forth in the introductory paragraph to this Agreement.

15.50 “**Existing Liabilities**” shall have the meaning set forth in Section 6.2.

15.51 “**Financial Statements**” shall have the meaning set forth in Section 9.4.1.

15.52 “**FSM**” shall have the meaning set forth in the Recitals.

15.53 “**Fund**” shall have the meaning set forth in Section 6.3.1.

15.54 “**GAAP**” shall mean Generally Accepted Accounting Principles.

15.55 “**Governing Documents**” shall mean the articles of incorporation, certificate of incorporation, bylaws, committee charters, partnership agreement, operating agreement or other documents by and through which a business organization is formed and governed.

15.56 “**Hazardous Substances**” shall mean petroleum or petroleum products, polychlorinated biphenyls, asbestos containing materials, lead based paint, radioactive materials, toxic mold or fungus of any kind or species, Medical Wastes, and any substances, materials,

chemicals, pollutants, constituents, wastes or noxious substances regulated by any Environmental Law.

15.57 **“Health Care Laws”** shall mean all federal, state and local laws, statutes, rules, regulations, ordinances and codes applicable to health care providers and facilities; federal and state health care program conditions of participation, standards, policies, rules, procedures and other requirements; and accreditation standards of any applicable accrediting organization. Health Care Laws include, without limitation, the following laws: the federal (Title XIX of the Social Security Act) and state Medicaid programs and their implementing regulations, the Medicare Program (Title XVIII of the Social Security Act) and its implementing regulations, the federal False Claims Act (31 U.S.C. §§ 3729 *et seq.*), the Federal Health Care Program Anti Kickback Statute (42 U.S.C. § 1320a 7b(b)), the Federal Physician Self Referral Law (42 U.S.C. § 1395nn), the Federal Administrative False Claims Law (42 U.S.C. § 1320a 7b(a)), the Health Insurance Portability and Accountability Act of 1996 (**“HIPAA”**) and the HIPAA Privacy Rule, the HIPAA Security Rule and the HIPAA Standards for Transactions and Code Sets (42 U.S.C. § 1320d 1329d 8; 45 C.F.R. Parts 160 and 164), the federal Confidentiality of Alcohol and Drug Abuse Patient Records Act (42 U.S.C. § 290ee 3), the Rehabilitation Act, the Americans with Disabilities Act, the Occupational Safety and Health Administration statutes and regulations for blood borne pathogens and workplace risks, and any state and local laws that address the same or similar subject matter. Health Care Laws also include federal, state and local laws applicable to health care providers and facilities, including, without limitation, laws related to: federal and state health care program billing, cost reporting, revenue reporting, payment and reimbursement; federal and state health care program fraud, abuse, theft or embezzlement; procurement of health care services, human and social services, and other health related services; employee background checks and credentialing of employees; credentialing and licensure of facilities or providers of such services; zoning, maintenance, safety and operations of group homes, residential facilities and day programs, and other building health and safety codes and ordinances; certificate of need laws; state law restrictions on the corporate practice of medicine (or the corporate practice of any other health related profession); eligibility for federal and state health care program contracting, including any requirements limiting contracting to nonprofit or tax exempt entities; patient information and medical record confidentiality, including psychotherapy and mental health records; splitting of health care fees; patient brokering, patient solicitation, patient capping, and/or payment of inducements to recommend or refer, or to arrange for the recommendation or referral of, patients to health care providers or facilities; standards of care, quality assurance, risk management, utilization review, peer review, and/or mandated reporting of incidents, occurrences, diseases and events; advertising or marketing of health care services; and the enforceability of restrictive covenants on health care providers.

15.58 **“Hospitals”** means, with respect to Cadence, CDH and Delnor and, with respect to NMHC, NLFH and NMH.

15.59 **“HSR Act”** shall have the meaning set forth in Section 9.3.2.

15.60 **“IHFSRB”** shall have the meaning set forth in Section 9.3.2.

15.61 **“Impacted Funds List”** shall have the meaning set forth in Section 6.6.3.

15.62 “**Initial NMHC Board Chairperson**” shall have the meaning set forth in Section 3.10.1(a).

15.63 “**Initial Directors**” shall have the meaning set forth in Section 3.3.1.

15.64 “**Initial Term**” shall have the meaning set forth in Section 3.3.3.

15.65 “**Initial NMHC Board Vice-Chairperson**” shall have the meaning set forth in Section 3.10.1(b).

15.66 “**Intellectual Property**” shall have the meaning set forth in Section 4.28.

15.67 “**Interim Financial Statements**” shall have the meaning set forth in Section 9.4.1.

15.68 “**IRS**” means the Internal Revenue Service.

15.69 “**Joint Venture Consents**” shall have the meaning set forth in Section 7.4.

15.70 “**Knowledge**”, “**known**”, “**knowingly**”, “**to the knowledge**” or any variant thereof shall, when qualifying any representation, warranty or other statement in this Agreement, mean and refer to:

(a) with respect to the Cadence Entities: (i) all matters with respect to which the Cadence Entities or the Cadence Board has received written notice; or (ii) the actual knowledge of the President and Chief Executive Officer of Cadence, the Chief Financial Officer of Cadence, the Vice President and General Counsel of Cadence, the Executive Vice President of Strategy and Administration of Cadence, and the Executive Vice President of Human Resources of Cadence; and

(b) with respect to the NMHC Entities: (i) all matters with respect to which the NMHC Entities or the NMHC Board has received written notice; or (ii) the actual knowledge of the President and Chief Executive Officer of NMHC, the Executive Vice President and Chief Operating Officer of NMHC, the Chief Financial Officer of NMHC, the Vice President and Deputy General Counsel of NMHC, the Senior Vice President of Administration of NMHC, and the Senior Vice President of Human Resources of NMHC.

15.71 “**Lease**” shall have the meaning set forth in Section 9.11.

15.72 “**Letter of Intent**” shall have the meaning set forth in the Recitals.

15.73 “**Licenses and Permits**” shall have the meaning set forth in Section 9.8.1.

15.74 “**Material Adverse Event**” means, with respect to Party or its Affiliates, any event that: (a) is, or is reasonably expected to be, materially adverse to the business, assets, financial condition, results of operations, or prospects of that Party, or that Party’s Affiliates, taken as a whole; (b) has, or could reasonably be expected to have, a material adverse effect on the Party’s ability to consummate the Contemplated Transactions or to perform its obligations

under this Agreement; (c) results in, or could reasonably be expected to result in, loss of licensure, accreditation, permits or approvals which are necessary to operate consistent with historic practices; (d) results in, or could reasonably be expected to result in, actual or threatened exclusion from a federal or state health care program; (e) results in, or could reasonably be expected to result in, loss of tax exemption; or (f) results in, or could reasonably be expected to result in, employee or medical staff attrition at levels materially higher than historic levels, other than as a direct consequence of the execution of this Agreement or the announcement of the Contemplated Transactions; provided, however, that none of the following is a Material Adverse Event: (i) any change in law or accounting standards or interpretations thereof (other than those which would have a material adverse effect on the Party's ability to consummate the Contemplated Transactions or to perform its obligations under this Agreement); (ii) any change in the U.S. economy or impacting the U.S. health care industry generally that does not disproportionately impact the Party or that Party's System; (iii) earthquakes; (iv) acts of war, sabotage or terrorism that do not disproportionately impact a Party or that Party's System; or (v) any action taken by a Party to intentionally cause the other to suffer any of the events described in subsections (a)–(f) above (which, for the sake of clarity, shall not include any actions contemplated or permitted under this Agreement).

15.75 “**Material Contracts**” shall mean the following: all contracts, leases (capital and operating), and other agreements entered into by or on behalf of any one or more of the Cadence Entities or the NMHC Entities, as applicable, that are in effect and involve a material aspect of the operations of such Person, as applicable:

(a) all debt, bond, credit, mortgage, pledge, or other lien or encumbrance agreements and all documents evidencing negative pledges or other covenant or transfer restrictions on the assets of any Cadence Entity or any NMHC Entity, as applicable;

(b) all joint venture agreements or shareholder agreements to which any Cadence Entity or NMHC Entity is a party;

(c) all agreements with physicians or any source of patient referrals, including allied health professionals or other professional personnel, corporations or partnerships comprised of or owned by them or the relatives of any of them, including, without limitation, all employment agreements, contracts to provide administrative or professional services, recruitment, retention, relocation or income guarantee agreements, loans and guarantees, and acquisitions of private professional practices or their assets;

(d) all agreements for employment, indemnity, retention, severance, change-in-control and employee lease with, and agreements regarding loans or advances to officers, directors, members, shareholders, employees or advisory board members;

(e) all Payment Program contracts;

(f) all insurance policies, trust agreements and other related agreements, including, without limitation, stop-loss and self-insurance arrangements;

(g) corporate integrity agreements to which a Cadence Entity or a NMHC Entity is a party;

(h) agreements which contain executory non-competition covenants binding upon or running in favor of, a Cadence Entity or a NMHC Entity;

(i) agreements or commitments affecting ownership of, title to, or any interest in real property; and

(j) any other agreement that (i) involves an obligation in excess (or expected to be in excess) of Ten Million Dollars (\$10,000,000) in any one year; (ii) involves an obligation in excess of Twenty-Five Million Dollars (\$25,000,000) over the remaining term of the agreement; or (iii) the cancellation or termination of which would be reasonably likely to result in a Material Adverse Event.

15.76 **“Medical Waste”** means: (a) pathological waste; (b) blood; (c) wastes from surgery or autopsy; (d) dialysis waste, including contaminated disposable equipment and supplies; (e) cultures and stocks of infectious agents and associated biological agents; (f) contaminated animals; (g) isolation wastes; (h) contaminated equipment; (i) laboratory waste; and (j) various other biological waste and discarded materials contaminated with or exposed to blood, excretion, or secretions from human beings or animals. “Medical Waste” also includes any substance, pollutant, material, or contaminant listed or regulated under the MWTa.

15.77 **“Medical Waste Laws”** means the following, including regulations promulgated and orders issued thereunder: the MWTa; the U.S. Public Vessel Medical Waste Anti-Dumping Act of 1988, 33 U.S.C. §§ 2501 *et seq.*; the Marine Protection, Research, and Sanctuaries Act of 1972, 33 U.S.C. §§ 1401 *et seq.*; the United States Department of Health and Human Services, National Institute for Occupational Safety and Health Infectious Waste Disposal Guidelines, Publication No. 88-119 *et seq.* and any other federal, state, regional, county, municipal, or other local laws, regulations, and ordinances insofar as they regulate Medical Waste, or impose requirements relating to Medical Waste.

15.78 **“MWTa”** means the Medical Waste Tracking Act of 1988, 42 U.S.C. §§ 6992, *et seq.*

15.79 **“NHC”** shall have the meaning set forth in the Recitals.

15.80 **“NLFH”** shall have the meaning set forth in the Recitals.

15.81 **“NLFH Medical Staff”** shall have the meaning set forth in Section 8.2.

15.82 **“NM System”** shall have the meaning set forth in the Recitals.

15.83 **“NM System CEO”** shall have the meaning set forth in Section 5.1.

15.84 **“NM System Entities”** means the direct and indirect subsidiaries of NMHC after the Closing.

15.85 **“NM System Governance Roster”** means Exhibit C.

15.86 **“NM System Senior Management Roster”** means Exhibit D.

15.87 “**NMH**” shall have the meaning set forth in the Recitals.

15.88 “**NMH Medical Staff**” shall have the meaning set forth in Section 8.2.

15.89 “**NMHC**” shall have the meaning set forth in the introductory paragraph to this Agreement.

15.90 “**NMHC Affiliates**” shall have the meanings set forth in the Recitals.

15.91 “**NMHC Board**” means the Board of Directors of NMHC before the Closing.

15.92 “**NMHC Closing Documents**” shall have the meaning set forth in Section 12.2.2.

15.93 “**NMHC Entities**” shall have the meanings set forth in the Recitals.

15.94 “**NMHC Joint Ventures**” shall have the meaning set forth in Section 9.13.4.

15.95 “**NMHC System**” shall have the meaning set forth in the Recitals.

15.96 “**NMG**” shall have the meaning set forth in the Recitals.

15.97 “**Northern Region**” means north of the City of Chicago, Illinois.

15.98 “**NU**” shall have the meaning set forth in the Recitals.

15.99 “**Owned Real Property**” shall have the meaning set forth in Section 9.10.1.

15.100 “**Party**” and “**Parties**” shall have the meanings set forth in the introductory paragraph of this Agreement.

15.101 “**Payment Program Regulations**” shall have the meaning set forth in Section 9.19.4.

15.102 “**Payment Programs**” shall have the meaning set forth in Section 9.19.

15.103 “**Permitted Encumbrances**” means, with respect to a Party or its Affiliates: (a) encumbrances for Taxes not yet due and payable or being diligently contested in good faith and for which appropriate reserves have been established in accordance with GAAP (provided that Permitted Encumbrances shall not apply to omitted or reassessed Taxes imposed due to incorrect, false or misleading real estate tax exemption applications or annual exemption certifications filed pursuant to 35 ILCS 200/15-10); (b) liens for inchoate mechanics’ and materialmen’s liens for construction in progress and workmen’s, repairmen’s, warehousemen’s and carriers’ liens arising in the ordinary course of business; (c) easements, restrictive covenants, rights of way and other similar restrictions of record that do not impair in any material respect the value of the assets or the continued conduct of the business of such Party or its Affiliates or its continued use of its assets in the manner currently used; (d) zoning, building and other similar restrictions that do not impair in any material respect the value the asset or the continued conduct of the business of such Party or its Affiliates or its continued use of its assets in the manner currently used; (e) encumbrances, encroachments and other imperfections of title, licenses or

encumbrances, if any, of record that do not impair in any material respect the value of the asset or the continued conduct of the business of such Party or its Affiliates or its continued use of its assets in the manner currently used; (f) encumbrances arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business; (g) in the case of property leased by either Party or its Affiliates from a third party, all matters, whether or not of record, affecting the title of the lessor (and any underlying lessor) of the leased property that do not impair in any material respect the value of its assets or the continued conduct of the business of such Party or its Affiliates or its continued use of its assets in the manner currently used; (h) in the case of property leased to a third party by either Party or its Affiliates, valid leasehold interests with respect to such property held by such third parties; (i) encumbrances arising under master trust indentures applicable to either Party or its Affiliates; and (j) liens associated with bond debt held by either Party or its Affiliates.

15.104 **"Person"** means any natural individual, corporation, partnership, limited liability company, joint venture, association, bank, trust company, trust or other entity, whether or not legal entities, or any governmental entity, agency or political subdivision.

15.105 **"RCRA"** shall have the meaning set forth in Section 15.47.

15.106 **"Receiving Party"** shall have the meaning set forth in Section 10.7.

15.107 **"Regional President"** shall have the meaning set forth in Section 5.2.

15.108 **"Representatives"** shall have the meaning set forth in Section 10.7.

15.109 **"Returns"** shall have the meaning set forth in Section 9.16.

15.110 **"Southern Region"** means south of the City of Chicago, Illinois.

15.111 **"Subsidiary Business Corporation"** shall have the meaning set forth in Section 4.5.1(j).

15.112 **"Subsidiary Not-For-Profit Corporation"** shall have the meaning set forth in Section 4.5.1(i).

15.113 **"System Affiliates"** means, with respect to Cadence, the Cadence Affiliates and, with respect to NMHC, the NMHC Affiliates.

15.114 **"System Entities"** means, with respect to Cadence, the Cadence Entities and, with respect to NMHC, the NMHC Entities.

15.115 **"System Joint Ventures"** means, with respect to Cadence, the Cadence Joint Ventures and, with respect to NMHC, the NMHC Joint Ventures.

15.116 **"Taxes"** means all federal, state, county, local, and other taxes of every kind.

15.117 **"Transaction Documents"** means this Agreement and the other agreements, instruments and documents delivered by the Parties at the Closing hereunder.

15.118 **“Unrestricted Cash and Investments”** means the sum of cash and cash equivalents and investments less: (1) all assets held by a trustee(s) for self-insurance program(s); (2) any unfunded liabilities for professional/general liability and workers’ compensation self-insurance program(s); (3) all assets held by trustees under the terms of bond indentures; (4) all donor-restricted investments; (5) all retirement plan assets; (6) any unfunded retirement liabilities; and (7) any other assets externally limited or restricted as to use; and specifically includes assets set aside by a board of directors for investment purposes and future capital improvements, over which such board of directors retains control and may at its discretion subsequently use for any other purpose. For the avoidance of doubt, any such amounts identified in (1), (3), (4), (5) and (7) above that are not included in cash and cash equivalents and investments shall not be subtracted from such for purposes of this calculation so as to avoid understating Cadence’s unrestricted net cash position.

15.119 **“Unrestricted Net Cash Position”** means the excess of Unrestricted Cash and Investments over total long-term debt, including current installments and long-term debt subject to short-term remarketing agreements.

15.120 **“Unaudited Financial Statements”** shall have the meaning set forth in Section 9.4.1.

15.121 **“WARN Act”** shall have the meaning set forth in Section 9.17.3.

15.122 **“Western Region”** means west of the City of Chicago, Illinois.

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EXHIBIT A**CADENCE ENTITIES**

Legal Name	Primary Assumed Name	Type of Entity	Tax Status	Members / Equity Owners
CDH-Delnor Health System	Cadence Health	Illinois Not-for-Profit Corporation	Tax-Exempt	None
Central DuPage Hospital Association	N/A	Illinois Not-for-Profit Corporation	Tax-Exempt	CDH-Delnor Health System, 100%
Delnor-Community Hospital	N/A	Illinois Not-for-Profit Corporation	Tax-Exempt	CDH-Delnor Health System, 100%
Cadence Ambulatory Surgery Center, LLC	Cadence Surgery Center	Illinois Limited Liability Company	Disregarded	CDH-Delnor Health System, 100%
Cadence Health Foundation	N/A	Illinois Not-for-Profit Corporation	Tax-Exempt	CDH-Delnor Health System, 100%
Cadence Medical Partners, LLC	N/A	Illinois Limited Liability Company	Disregarded	CDH-Delnor Health System, 100%
Central DuPage Physician Group	Cadence Physician Group	Illinois Not-for-Profit Corporation	Tax-Exempt	CDH-Delnor Health System, 100%
Cornerstone Medical Group, Inc.	N/A	Illinois Business Corporation	Taxable	Central DuPage Physician Group, 100%
Central DuPage Special Health Association	CNS Home Infusion & Pharmacy	Illinois Not-for-Profit Corporation	Tax-Exempt	CDH-Delnor Health System, 100%
Community Nursing Service of DuPage County	CNS Home Health & Hospice	Illinois Not-for-Profit Corporation	Tax-Exempt	CDH-Delnor Health System, 100%
Community Partner Services, LLC	Caring Choices	Illinois Limited Liability Company	Disregarded	Community Nursing Service of DuPage County, 100%
DelCom Corporation	N/A	Illinois Business Corporation	Taxable	CDH-Delnor Health System, 100%
Valley Healthcare Associates, Inc.	Prairieview Medicine	Illinois Business Corporation	Taxable	DelCom Corporation, 100%
Delnor-Community Health Care Foundation	N/A	Illinois Not-for-Profit Corporation	Tax-Exempt	CDH-Delnor Health System, 100%
Delnor South Elgin Holdings, LLC	N/A	Illinois-Limited Liability Company	Taxable	Delnor-Community Health Care Foundation, 100%
Delnor-Community Residential Living, Inc.	Delnor Glen	Illinois Not-for-Profit Corporation	Tax-Exempt	CDH-Delnor Health System, 100%
DuPage Health Services, Inc.	CDH-Delnor Retail Health	Delaware Business Corporation	Taxable	CDH-Delnor Health System, 100%
Illinois Proton Center Holdings, LLC	N/A	Delaware Limited Liability Company	Taxable	CDH-Delnor Health System, 100%
Living Well Cancer Resource Center	N/A	Illinois Not-for-Profit Corporation	Tax-Exempt	CDH-Delnor Health System, 100%

EXHIBIT A

Legal Name	Primary Assumed Name	Type of Entity	Tax Status	Members / Equity Owners
PAHCS II	Cadence Occupational Health	Illinois Not-for-Profit Corporation	Tax-Exempt	CDH-Delnor Health System, 100%
United Professionals Insurance Company, Ltd.	N/A	Cayman Islands Exempted Limited Duration Company	Taxable	CDH-Delnor Health System, 100%

EXHIBIT B**NMHC ENTITIES**

Legal Name	Primary Assumed Name	Type of Entity	Tax Status	Members / Equity Owners
Northwestern Memorial HealthCare	N/A	Illinois Not-for-Profit Corporation	Tax-Exempt	None
Northwestern Memorial Hospital	N/A	Illinois Not-for-Profit Corporation	Tax-Exempt	Northwestern Memorial HealthCare, 100%
Northwestern HealthCare Corporation	N/A	Illinois Business Corporation	Taxable	Northwestern Memorial Hospital, 100%
Northwestern Memorial Insurance Company	N/A	Cayman Islands Exempted Limited Duration Company	Taxable	Northwestern Memorial Hospital, 100%
Northwestern Lake Forest Hospital	N/A	Illinois Not-for-Profit Corporation	Tax-Exempt	Northwestern Memorial HealthCare, 100%
Lake Forest Health and Fitness Institute	Lake Forest Health & Fitness Center	Illinois Not-for-Profit Corporation	Tax-Exempt	Northwestern Lake Forest Hospital, 100%
Northwestern Medical Faculty Foundation	Northwestern Medical Group	Illinois Not-for-Profit Corporation	Tax-Exempt	Northwestern Memorial HealthCare, 100%
Northwestern Foundation for Research and Education	Northwestern Management Services	Illinois Not-for-Profit Corporation	Tax-Exempt	Northwestern Medical Faculty Foundation, 100%
Northwestern Memorial Foundation	N/A	Illinois Not-for-Profit Corporation	Tax-Exempt	Northwestern Memorial HealthCare, 100%

EXHIBIT F**CADENCE JOINT VENTURES**

Legal Name	Primary Assumed Name	Type of Entity	Tax Status	Members / Equity Owners	Business of the Joint Venture
Bloomington Life Time Fitness, LLC	N/A	Illinois Limited Liability Company	Taxable	• CDH-Delnor Health System, 33.33% • Life Time Fitness, Inc., a Minnesota Business Corporation, 33.33% • Bloomington Sports Center Land Company, an Illinois Business Corporation, 33.33%	Own and operate a fitness club
Central Dupage Hospital Medical Offices at Danada Condominium Association	N/A	Illinois Not-for-Profit Corporation	Taxable	• CDH-Delnor Health System, 75.34% • Various Unit Owners, 24.66%	Own and operate medical office buildings
Illinois Proton Center, LLC	CDH Proton Center	Delaware Limited Liability Company	Taxable	• Illinois Proton Center Holdings, LLC, 81.25% • Chicago Proton Treatment Investment, LLC, an Illinois Limited Liability Company, 18.75%	Provide radiation oncology services
River North Owners Association	N/A	Illinois Not-for-Profit Corporation	Taxable	• CDH-Delnor Health System, 69.3% • Various Unit Owners, 30.7%	Own and maintain common elements for commercial office and strip shopping buildings
Charlestowne Medical Office Building Condominium Association	N/A	Illinois Not-for-Profit Corporation	Taxable	• Central DuPage Hospital Association, 92.35% • Various Unit Owners, 7.65%	Own and operate medical office buildings
FVFP/Delnor Properties, LLC	N/A	Illinois Limited Liability Company	Taxable	• DelCom Corporation, 49% • FVFP Properties, LLC, an Illinois Limited Liability Company, 51%	Own and operate medical office buildings

EXHIBIT F

Legal Name	Primary Assumed Name	Type of Entity	Tax Status	Members / Equity Owners	Business of the Joint Venture
Tri-Cities Dialysis, LLC	N/A	Illinois Limited Liability Company	Taxable	• DelCom Corporation, 49% • F.V.D. II, LLC, an Illinois Limited Liability Company, 51%	Provide kidney dialysis services on Delnor campus
Tri-Cities Immediate Care, LLC	Delnor Express Care	Illinois Limited Liability Company	Taxable	• DelCom Corporation, 50% • Valley Express Care, an Illinois Limited Liability Company, 50%	Provide urgent care services
Tri-Cities Surgery Center, LLC	N/A	Illinois Limited Liability Company	Taxable	• DelCom Corporation, 50% • Tri-Cities Physician Group, LLC, an Illinois Limited Liability Company, 50%	Provide ambulatory surgery services on Delnor campus
HealthTrack Sports and Wellness, LLC	N/A	Illinois Limited Liability Company	Taxable	• DuPage Health Services, Inc., 50% • Wheaton-Oaks Sports Center, Inc., an Illinois Business Corporation, 50%	Acts as general partner to HealthTrack Sports and Wellness, LP
HealthTrack Sports and Wellness, LP	N/A	Illinois Limited Partnership	Taxable	• Healthtrack Sports and Wellness, LLC, 1% GP interest • CDH-Delnor Health System, 49.5% LP interest • Wheaton-Oaks Sports Center, Inc., an Illinois Business Corporation, 49.5% LP interest	Own and operate a fitness club

EXHIBIT F

Legal Name	Primary Assumed Name	Type of Entity	Tax Status	Members / Equity Owners	Business of the Joint Venture
Northern Illinois S.C., Inc.	N/A	Illinois Business Corporation	Taxable	• DuPage Health Services, Inc., 33.33% • DuPage Doctors, LP, an Illinois Limited Partnership, 33.33% • Edward Health Ventures, an Illinois Not-for-Profit Corporation, 33.33%	Acts as general partner to Northern Illinois Surgery Center, LP
Northern Illinois Surgery Center, LP	The Center for Surgery	Illinois Limited Partnership	Taxable	• Northern Illinois Surgery Center, Inc., 1% GP interest • CDH-Delnor Health System, 33% LP interest • DuPage Doctors, LP, an Illinois Limited Partnership, 33% LP interest • Edward Health Ventures, an Illinois Not-for-Profit Corporation, 33% LP interest	Provide ambulatory surgery services
Community Alliance Home Health	N/A	Illinois Not-for-Profit Corporation	Tax-Exempt	• Community Nursing Service of DuPage County, 50% • Access Home Health Care Services, Inc., an Illinois Business Corporation, 50%	Provide home health services

EXHIBIT G

NMHC JOINT VENTURES

Legal Name	Primary Assumed Name	Type of Entity	Tax Status	Members / Equity Owners	Business of the Joint Venture
Northwestern Faculty Foundation Dialysis Center, LLC	N/A	Illinois Limited Liability Company	Taxable	• Northwestern Medical Faculty Foundation, 80% • U.S. Renal Care, Inc., a Delaware Business Corporation, 20%	Provide in-center and home dialysis services
Northwestern/Rosin Eyecare, LLC	N/A	Illinois Limited Liability Company	Taxable	• Northwestern Medical Faculty Foundation, 70% • Rosin Optical Co., Inc., 30%	Operate an optical shop in connection with the ophthalmology practice at NMFF

IN WITNESS WHEREOF, the Parties, acting through their duly authorized representatives, have executed this Affiliation Agreement as of the Execution Date.

**CDH-DELNOR HEALTH SYSTEM D/B/A
CADENCE HEALTH**

By: 
Michael V. Vivoda
President and Chief Executive Officer

**NORTHWESTERN MEMORIAL
HEALTHCARE**

By: 
Dean M. Harrison
President and Chief Executive Officer

[Signature Page to Affiliation Agreement]

15. FINANCIAL STATEMENTS. (Co-applicants must also provide this information). Provide a copy of the applicants latest audited financial statements, and append it to this application.

NMHC has an Aa2 bond rating from Moody's Investors Service and an AA+ from Standard & Poor's Ratings Services. Attached are copies of NMHC's applicable bond ratings and the most recent audited financial statements.

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aa2 rating to Northwestern Memorial HealthCare's, IL Series 2013 bonds and affirms existing Aa2 and Aa2/VMIG 1 ratings; Outlook is stable

Global Credit Research - 29 Jan 2013

Rating actions affect approximately \$827 million of debt

ILLINOIS FINANCE AUTHORITY
Hospitals & Health Service Providers
IL

Moody's Rating

ISSUE	RATING
Revenue Bonds, Series 2013	Aa2
Sale Amount	\$119,720,000
Expected Sale Date	02/11/13
Rating Description	Revenue: Other

Moody's Outlook STA

Opinion

NEW YORK, January 29, 2013 --Moody's Investors Service has assigned an Aa2 rating to Northwestern Memorial HealthCare's Series 2013 fixed rate bonds. The rating outlook is stable. At this time, we are affirming the Aa2 and Aa2/VMIG 1 ratings on the outstanding bonds, affecting approximately \$827 million in rated debt as listed at the conclusion of this report.

SUMMARY RATING RATIONALE:

The Aa2 long-term rating is based on Northwestern's prominent market position in the greater Chicagoland area, excellent investment position providing good coverage of debt, strong operating margins, and manageable debt structure risks. The Aa2 rating also incorporates challenges related to a somewhat high leverage position, increasing competition in a recently consolidating market, comparatively moderate liquidity with a relatively high allocation to alternative investments, and increasing capital spending over the next several years. Additionally, greater integration with the Feinberg School of Medicine and Northwestern Medical Faculty Foundation will result in a sizable grant over the next five years, although a new Alignment Agreement provides better clarity and stability around future ongoing support, which should be manageable relative to Northwestern's margins.

STRENGTHS

*Prominent market position with attractive facilities (average age of plant is very low at 7.7 years) in favorable locations in the greater Chicago area; prior to fiscal year 2012, volume growth was strong

*Excellent and growing investment position of over \$2 billion (528 days of cash on hand) as of November 30, 2012, providing a very good 250% coverage of debt

*Strong operating cash flow margin averaging 15% over the last five years, including large transfers for academic support in the last two years and despite slower revenue growth

*Relationships with strong affiliates including Northwestern University, the Feinberg School of Medicine and Northwestern Medical Faculty Foundation

*Good payer mix with below average Medicare and Medicaid, limiting exposure to Medicaid funding delays and cuts

*Manageable debt structure risks with over 600% total cash-to-demand debt and 346% monthly cash-to-demand debt

*Very little indirect debt with a fully funded pension plan and moderate operating lease obligations

*Strong management team with very disciplined and detailed approach to evaluating strategic alternatives and capital commitments, ability to adapt to slower revenue growth with effective expense management strategies, and stated intent to fund capital and debt service with cash flow and cash while reducing debt level

CHALLENGES

*Although improving, system is leveraged relative to its size based on fiscal year 2012 with a high 49% debt-to-revenue; other debt measures are good with a favorably low 2.3 times debt-to-cash flow and a strong 7.1 times peak debt service coverage, highlighting the need to operate at strong margins to support the debt load

*Moderating same-facility revenue growth in fiscal years 2011 and 2012, as well as in the first quarter of fiscal year 2013, primarily as a result of slower inpatient volume growth

*An increasingly competitive market with several large academic medical centers in the market, competitors expanding facilities, an acceleration of mergers in the market and increasing competition for physicians

*High asset allocation of over 40% to alternative investments, resulting in a moderate 51% of unrestricted investments which can be liquidated on a monthly basis, indicating comparatively less liquidity than other health systems in the Aa rating category; mitigating factors to this risk are the system's large investment portfolio and manageable liquidity needs related to pension and swap collateral

*Significant increase in capital spending expected over the next several years related to a large ambulatory center on the main campus and a replacement hospital for Northwestern Lake Forest Hospital

*Closer strategic integration with the school of medicine and faculty practice plan, which we view positive strategically, has resulted in increased transfers from NMHC to the school and faculty to support programmatic initiatives; the new Affiliation Agreement provides more definition around future levels of support

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: Proceeds will be used to refund a portion of the Series 2009B bonds, reimburse for prior capital expenditures and provide funds for projects, and pay costs of issuance. The financing will not result in any incremental debt for NMHC. NMHC is considering using their own funds to redeem or defease all or a portion of the Series 2002A, Series 2003 and Series 2002C bonds.

LEGAL SECURITY: The bonds are an unsecured general obligation of the Obligated Group. In December 2012, the Obligated Group was expanded to include Northwestern Memorial HealthCare (parent), Northwestern Memorial Foundation, Northwestern Memorial Physicians Group, and Lake Forest Health and Fitness Institute, joining Northwestern Memorial Hospital and Northwestern Lake Forest Hospital as original members of the Obligated Group. The change in the Obligated Group does not affect our analysis since our approach has been based on the entirety of NMHC, although the addition of the Foundation (which holds significant assets) enhances the legal security of bondholders. The indentures do not provide limitations on additional indebtedness.

INTEREST RATE DERIVATIVES: NMHC has entered into a number of interest rate swaps with three counterparties related to all of its outstanding variable rate debt with a total notional amount of \$324 million. All of the swaps convert variable rate bonds to synthetic fixed rate bonds. NMHC has a \$35 million threshold at the current rating category for posting collateral to each swap counterparty. NMHC has had moderate levels of collateral to post over time; as of November 30, 2012, \$23 million in collateral was posted.

MARKET/COMPETITIVE POSITION: GOOD MARKET POSITION IN COMPETITIVE MARKET

Since our last report dated June 2012, several issues have been resolved favorably or further clarification has been provided, reducing uncertainty or risk. Northwestern was part of a property tax exemption challenge last year which could have resulted in a large retroactive payment and a new ongoing tax; since then, the state has defined requirements for property tax exemptions, which Northwestern expects to meet. NMHC and Elmhurst Memorial Healthcare (Baa2, negative outlook) terminated discussions of an affiliation, removing uncertainty regarding the potential credit impact on NMHC. Finally, NMHC finalized a new Alignment Agreement with the school of medicine

and faculty practice plan.

NMHC continues to further integrate and coordinate strategies with Northwestern University's Feinberg School of Medicine (NU) and Northwestern Medical Faculty Foundation (NMFF) through a joint planning process and governance oversight structure that coordinates activities for the school, the faculty practice plan and hospitals. In September 2012 NMHC finalized a new Alignment Agreement with NMFF and NU that specifies the priorities and funding for joint initiatives. Under this agreement, NMHC will provide \$167 million in a one-time grant over five years as its contribution toward a new research facility at NU, furthering a major research expansion agenda by NU. The agreement also defines a formula (based on NMHC revenue and income) for annual support NMHC will provide for joint initiatives, including clinical expansion at NMFF. The annual ongoing support, which will be included in operating expenses, is expected to be approximately \$17 million. While the one-time grant and ongoing support are significant, we believe on balance the completion of this agreement is positive. NMHC's strong investment position and cash flow allow the system to absorb this level of support and the agreement provides a more predictable and stable indication of future support. In the past several years, NMHC provided large grants to the school and NMFF that were more unpredictable and not tied to a formula (Moody's restated NMHC's operating margins to include a portion of this support as noted below). Strategically, we believe closer integration is positive in advancing the strong brand of Northwestern and building on clinical capabilities.

While Chicago remains a competitive healthcare market and a number of other large academic medical centers have been expanding, Northwestern continues to have good patient demand in its prime location in an attractive and growing area of Chicago. Northwestern benefits from a favorable payer mix with comparatively moderate Medicare and Medicaid. Additionally, the system's facilities are attractive and relatively new (average age of plant is very low at 7.7 years) as a result of major investment in facilities over many years. With strategies to expand capacity over the last several years, volume growth was very strong through fiscal year 2011. Consistent with regional trends, inpatient volume growth has slowed recently. Admissions declined 4.6% in fiscal year 2012; including observation cases, inpatient volume was flat. In the first quarter of fiscal year 2013, admissions were down 2.6% but total inpatient volume was up 5.3% including observation cases. Outpatient volume growth continues to be strong and the system's strategies are focused on increasing access in the suburbs with more ambulatory sites and building ambulatory capacity on the main campus. The system is building a \$325 million outpatient care pavilion, which is expected to open in the fall of 2014 and will provide space for physicians and ambulatory services.

While Chicagoland had remained relatively fragmented, in recent years the pace of acquisitions and mergers has accelerated. More recently, a number of suburban hospitals have aligned with larger systems or with each other, further consolidating the market. Additionally, there has been increasing physician alignment and acquisition activity. We expect the pace of consolidation will likely continue.

OPERATING PERFORMANCE: STRONG OPERATING MARGINS MAINTAINED, DESPITE SLOWER REVENUE GROWTH

Despite slower revenue growth, the system's operating margins have remained very strong, reflecting good management of costs. The system exceeded its fiscal year 2012 budget. Operating income in fiscal year 2012 was \$58 million (3.4%), compared with \$62 million (3.6%) in fiscal year 2011; for both years, Moody's reclassified about \$30 million in academic grants that represented ongoing support at that time from non-operating to operating expenses. On the same basis, operating cash flow was consistent between the two years with \$243 million (14.3%) in fiscal year 2012, compared with \$240 million (14.0%) in fiscal year 2011.

A strong performance in fiscal year 2012 was achieved despite low revenue growth. On a same-facility basis, revenue grew 1% in each of fiscal years 2012 and 2011. Expenses were relatively flat in 2012 as a result of a number of initiatives including benefit redesign, workforce management, renegotiated supplies contracts, a reduction in insurance expense, and consolidation of certain support services.

Through the first quarter of fiscal year 2013, operating performance is above the prior year with exceptional operating and operating cash flow margins of 10% and 21%, respectively. Same-facility revenue growth continues to be modest at 2% driven by lower admissions. The system continues to closely manage operating expenses and has a long-term target to reduce cost per case by 25% between 2011 and 2017. The full year 2013 budget indicates improvement over 2012 (based on Moody's adjusted income for 2012). With Medicare and Medicaid rates expected to be relatively flat, the system will continue to focus on strategies to grow revenue and manage costs.

BALANCE SHEET PROFILE: EXCELLENT INVESTMENT POSITION PROVIDES SUPPORT FOR HIGHER-

THAN-AVERAGE DEBT LOAD

The system significantly improved an already strong investment position to \$2 billion as of November 30, 2012, compared with \$1.8 billion as of fiscal yearend 2011. Days cash on hand is very strong at 528 days. Growth in investments is due to operations, investment returns and moderate capital spending. Capital spending is expected to increase with the construction of the outpatient pavilion discussed above. Additionally, Northwestern committed to a plan to refurbish or replace facilities at Northwestern Lake Forest Hospital, which could cost \$350 million, although a final design has not been chosen and the timing of the project has not been determined. Capital projects and the academic grant will be funded with cash flow and cash. Depending on the timing of the grant and Lake Forest project payments, the system's investment balance could decline, although strong cash flow is expected to support most of these needs.

NMH's investment practices are more aggressive than most hospitals, with a relatively high equity exposure of 74% (including over 40% alternative investments) based on Moody's liquidity analysis as of fiscal yearend 2012. As a result, only 51% of total unrestricted investments can be liquidated on a monthly basis, which is low compared with other Aa-rated healthcare systems. Northwestern does have some restricted investments that could be liquidated if needed. There are several mitigating factors to this liquidity risk including the large size and good diversity of the total portfolio, manageable swap collateral postings, strong operations, fully funded pension plan and manageable debt structure. Close to 40% of Northwestern's debt is variable rate supported by bank standby bond purchase agreements; monthly liquidity still provides a strong 346% coverage of this debt.

OUTLOOK

The stable outlook is based on our belief that NMHC will continue to report strong operating cash flow to support a higher-than-average debt load and at least maintain its market

position; no new debt is anticipated at this time.

WHAT COULD MAKE THE RATING GO UP

Notable and sustained improvement in operating margins and leverage measures, along with reduction in relative debt levels

WHAT COULD MAKE THE RATING GO DOWN

Multiple-year trend of declines in operations or cash, significant increase in debt without commensurate increase in cash flow

KEY INDICATORS:

Assumptions & Adjustments:

- Based on financial statements for Northwestern Memorial HealthCare and Subsidiaries
- First number reflects audit year ended August 31, 2011
- Second number reflects audit year ended August 31, 2012
- Bad debt reflected as an expense for 2011 and as a contra revenue for 2012
- Adjustments: \$30 million and \$31 million of Grants and academic support (representing transfers to the school of medicine and faculty) reallocated to Total expenses from Nonoperating gains/(losses)
- Investment returns normalized at 6% unless otherwise noted
- Comprehensive debt includes direct debt, operating leases, and pension obligation, if applicable
- Monthly liquidity to demand debt ratio is not included if demand debt is de minimis
- *Inpatient admissions: 58,418; 55,743
- *Observation stays: 13,004; 15,480
- *Medicare % of gross revenues: 32%; 35% (Medicare managed care included)

- *Medicaid % of gross revenues: 10%; 11% (Medicaid managed care included)
- *Total operating revenues (\$): \$1.7 billion; \$1.7 billion
- *Revenue growth rate (%) (3 yr CAGR): 11.8%; 7.9%
- *Operating margin (%): 3.6%; 3.4%
- *Operating cash flow margin (%): 14.0%; 14.3%
- *Debt to cash flow (x): 2.5 times; 2.3 times
- *Days cash on hand: 442 days; 447 days
- *Maximum annual debt service (MADS): \$55 million; \$55 million
- *MADS coverage with reported investment income (x): 5.9 times; 6.6 times
- *Moody's-adjusted MADS Coverage with normalized investment income (x): 6.9 times; 7.1 times
- *Direct debt (\$): \$841 million; \$828 million
- *Cash to direct debt (%): 218%; 237%
- *Comprehensive debt: \$903 million; \$887 million
- *Cash to comprehensive debt (%): 203%; 221%

RATED DEBT

- Series 2002C variable rate bonds (\$33 million outstanding), rated Aa2/VMIG1, supported by a standby bond purchase agreement with Northern Trust expiring July, 2014 (\$5.55 million is anticipated to be repaid from NMHC funds)
- Series 2007A-1, A-3 variable rate bonds (\$105 million), rated Aa2/VMIG1, supported by a standby bond purchase agreement with JPMorgan Chase Bank expiring December, 2014
- Series 2007A-2, A-4 variable rate bonds (\$105 million), rated Aa2/VMIG1, supported by a standby bond purchase agreement with JPMorgan expiring December, 2014
- Series 2008A-1, A-2 variable rate bonds (\$79 million), rated Aa2/VMIG1, supported by a standby bond purchase agreement with Northern Trust expiring July, 2014
- Series 2009 fixed rate bonds (\$450 million), rated Aa2
- Series 2002A fixed rate bonds (\$41 million) and Series 2003 fixed rate bonds (\$26 million) issued by Lake Forest Hospital and part of Northwestern obligated group, rated Aa2 (anticipated to be refunded/defeased from NMHC funds)

CONTACTS

Obligor: Peter McCanna, Executive Vice President, Administration and Chief Financial Officer, 312-926-2101

Underwriter: Timothy Wons, Executive Director, J.P. Morgan Securities LLC, 312-385-8455

Financial advisor: Therese Wareham, Managing Director and Chief Executive Officer, Kaufman, Hall & Associates, Inc., 847-441-8780.

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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Analysts

Lisa Martin
Lead Analyst
Public Finance Group
Moody's Investors Service

Carrie Sheffield
Backup Analyst
Public Finance Group
Moody's Investors Service

Lisa Goldstein
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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INVESTORS SERVICE

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Illinois Finance Authority Northwestern Memorial HealthCare; Hospital

Primary Credit Analyst:

Brian T Williamson, Chicago (1) 312-233-7009; brian.williamson@standardandpoors.com

Secondary Contact:

J. Kevin K Holloran, Dallas (1) 214-871-1412; kevin.holloran@standardandpoors.com

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Related Criteria And Research

Illinois Finance Authority

Northwestern Memorial HealthCare; Hospital

Credit Profile

Illinois Fin Auth, Illinois

Northwestern Mem HlthCare, Illinois

Series 2009 A&B. 2013

Long Term Rating

AA+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' long-term rating to the Illinois Finance Authority's series 2013 bonds issued on behalf of Northwestern Memorial HealthCare (NMHC). At the same time, we affirmed our 'AA+' long-term rating on the authority's series 2009A and 2009B bonds, our 'AA+/A-1+' dual rating on the authority's series 2002C, 2007A-2, 2007A-4, 2008A-1, and 2008A-2 bonds, and our 'AA+/A-1' dual rating on the authority's series 2007A-1 and 2007A-3 bonds. These bonds were issued on behalf of Northwestern Memorial Hospital (NMH). The outlook is stable.

The ratings reflect our view of NMHC's strong operations for fiscal 2013 and the first half of fiscal 2014. Despite softer utilization and the acquisition of the Northwestern Medical Faculty Foundation (NMFF), NMHC has been able to outpace its budget for fiscal 2014. Management has continued to implement its plan to maintain financial flexibility so that NMHC is able to acquire organizations such as NMFF and the recently announced plans to affiliate with Cadence Health. Although it is too early to assess the impact that an affiliation with Cadence Health will have on NMHC, our early view of this affiliation is credit neutral for both entities. Once more information is provided on a definitive agreement, if one occurs, we will further assess the impact of the affiliation. NMHC's management team also maintains its solid balance sheet even amid continued investments in capital, and this helps NMHC remain a relevant provider in the very competitive Chicago market. Finally, we view the close affiliations of the recently relocated Ann & Robert H. Lurie Children's Hospital and the Rehabilitation Institute of Chicago as strengths in this medical corridor of Chicago.

The 'AA+' rating further reflect our view of NMHC's:

- Strong liquidity, with approximately 450 days' cash on hand as of Feb. 28, 2014 and an average of 515 days' cash on hand during the past three fiscal years.
- Good maximum annual debt service (MADS) coverage of 12.8x because of the solid operations noted above and solid investment income for the first six months of fiscal 2014;
- Outstanding governance and management, including the numerous benefits realized through affiliations with all Northwestern University-related entities, including the Feinberg School of Medicine; and
- Stable business position as the market share leader.

Partly offsetting the above strengths, in our view, are NMHC's:

- Softening of inpatient admissions;

- Capital plans that include a redevelopment of the NLFH campus and a new outpatient care pavilion medical office building near the NMH campus; and
- Increasingly competitive service area, with provider consolidation continuing in the greater Chicago market.

The 'AA+' rating is based on our view of NMHC's group credit profile and the credit group's "core" status. Accordingly, we rate the bonds at the same level as the group credit profile. The analysis and financial figures in this report pertain to the activities of NMHC, the sole corporate member of NMH, NLFH, NMFF (doing business as Northwestern Medical Group, or NMG), and Northwestern Memorial Foundation (NMF). The revenue bonds are an unsecured general obligation (GO) of the NMHC obligated group, which consists of NMHC, NMH, NLFH, NLFH's not-for-profit subsidiary NMF, NMG, and NMG's not-for-profit subsidiary.

Outlook

The stable outlook reflects our opinion that the system will continue to post strong operations as NMHC's leadership implements its strategies to maintain the expense base, address volume challenges, and expand the system through affiliations. Also, as NMHC spends capital to help sustain the system, we anticipate that the balance sheet will not suffer.

NMHC has defined a level of operations that it will need to achieve to meet its future needs. However, if operations begin to trend negative for a sustained period, coupled with continued declining utilization and capital spending that would negatively affect the balance sheet, we could lower the rating or revise the outlook to negative. Finally, because of market consolidation, a dilutive acquisition or loss of leading market position by NMHC could also affect the rating.

We do not anticipate raising the rating in the outlook period.

Enterprise Profile

NMHC is the corporate parent of NMH, NLFH, NMG, and NMF. NMH has a total of 894 licensed beds (812 staffed) in the Feinberg/Galter Pavilion and Prentice Women's Hospital. It is the primary teaching hospital for Northwestern University's Feinberg School of Medicine. NLFH is a 201-bed community hospital with more than 700 physicians who are board-certified in 68 medical specialties and who are located in offices throughout Lake County. Northwestern Memorial Physicians Group was a primary care medical group practice with 145 physicians that merged into NMG on May 1, 2014. NMHC also includes Northwestern Memorial Insurance Co.

Northwestern University (AAA) is a separate corporation and is not obligated to repay debt service associated with the bonds. However, in our opinion, the university's Feinberg School of Medicine is integrally linked with NMHC through a shared strategic plan.

Utilization

NMHC's inpatient volume continued to decline in the first six months of fiscal 2014 by 2.7%, and admissions totaled 26,047. The decline in admissions is consistent with the area and what we have generally seen throughout the country. Management is keenly aware of the decline and continues to look at numerous strategies to help maintain or improve

admissions and other utilization statistics. However, management also reports that growth in the future will be oriented toward outpatient utilization as a result of health care reform. NMHC's primary service area market share (a seven-county area that covers NHM and NLFH) has shown growth. The market share is 5.8%, up from 5.6% at the end of fiscal 2012.

NMH's market share may seem modest, but admissions and related market share among other hospitals in the service area are stagnant. This, coupled with health care reform, continues to lead to consolidations, with health systems and hospitals aligning to strengthen their competitive position. In greater Chicagoland, no single hospital or health system has a dominant market position.

Table 1

Northwestern Memorial HealthCare and Subsidiaries Utilization				
	--Fiscal year as of Feb. 28--	--Fiscal year ended Aug. 31--		
	2014	2013	2012	2011
Inpatient admissions	26,777	53,986	55,743	58,418
Equivalent inpatient admissions	49,713	103,740	104,287	106,019
Patient days	119,052	242,857	252,165	256,325
Observation days	8,753	17,867	15,480	13,004
Emergency room visits	62,917	133,492	135,665	136,604
Inpatient surgeries	7,356	13,920	14,951	15,642
Outpatient surgeries	13,782	27,482	25,570	24,873
Births	6,696	13,958	14,035	13,897
Medicare case mix index	1.8891	1.7775	1.7267	1.6737

Management

NMHC continues to have a strong leadership team. The team has continued to produce strong operations and balance sheet measures while investing in its facilities and affiliating with NMFF. The management team continues to seek possible affiliation partners in the greater Chicago area and is reviewing an affiliation with Cadence Health. NMHC and Cadence signed a letter of intent to begin talks about a possible affiliation. If the affiliation moves forward, management anticipates that it will close in the third or fourth quarter of calendar 2014. It has been announced that the current CEO of NMHC would lead the organization and that Cadence's CEO would become a regional president for NMHC. Finally, if the affiliation is consummated NMHC will overhaul its current long-range plan, which we will then review.

Although it reviews partners, the management team continues to invest in physicians and physician office space outside of downtown Chicago to expand NMHC's access to new and existing patients. This is one of the main strategies to help maintain the system's growth. Finally, NMHC's leadership is forging stronger relationships with the university and the university's medical faculty through the affiliation with NMG. The strategy is for NMHC and the medical school to become a top 10 academic medical center and a top 10 medical school. To accomplish this goal, the aforementioned entities will begin working more closely with NMHC.

Financial Profile

Operations

In accordance with our report "New Bad Debt Accounting Rules Will Alter Some U.S. Not-for-Profit Health Care Ratios But Won't Affect Ratings," published Jan. 19, 2012 on RatingsDirect, we recorded NMHC's 2013 audit, including the adoption of Financial Accounting Standards Board Accounting Standards Update No. 2011-07 in 2012 but not in prior periods. The new accounting treatment means that NMHC's fiscal 2013 and subsequent financial statistics are directly comparable neither with the results for 2011 and prior years, nor with the 2011 median ratios. For an explanation of how the change in accounting for bad debt affects each financial measure, including the direction and size of the change, please see the above report.

NMHC's financial performance remained strong in the first six months of fiscal 2014. NMHC generated an operating margin of 7.9% compared with 8.9% in fiscal 2013. NMHC was able to continue to post the strong operations even after accounting for the acquisition of NMFF, including the amount that NMHC will pay to Northwestern University per the terms of its affiliation agreement, which was executed on Sept. 1, 2013. The affiliation agreement calls for NMHC to maintain the level of support that NMFF historically provided the university with a Consumer Price Index escalator. NMHC estimated the support at no less than \$40 million annually. Also, NMHC has been able to benefit from the attention that management had placed on watching the expense base as NMHC faced the declining utilization. This focus helped NMHC reduce its expense base by 2.1% in fiscal 2013. Although the overall expense base for NMHC was up approximately 44% in the first six months of fiscal 2014, the rise resulted from the additional expense of NMFF. The affiliation of NMFF also drove the revenue up, by 42%.

Management reports that NMHC will continue to see the challenge of inpatient volumes coupled with health care reform. With this in mind, management maintains that its long-term goal is to break even on Medicare patients while continuing to produce operating margins of at least 4.5% to 5.0% to meet NMHC's future needs, which include capital expenditures and the tightening of the relationship with the university and others.

With the strong operations and investment income, NMHC continues to post strong MADS coverage. For the first half of fiscal 2014, NMHC posted MADS coverage of 12.8x (10.8x when including operating leases).

Balance sheet

As of Feb. 28, 2014, NMHC's leverage remained in line with that of other 'AA+' rated facilities at 20.3%. For the same date, cash to long-term debt improved to a solid 321%, while cash to contingent liabilities was greater than 800%. Unrestricted reserves remain solid at 450 days. The decline in cash on hand during fiscal 2014 results from the affiliation with NMFF and its expense base after a \$170 million cash payment.

When NMHC acquired NLFH, it agreed to refurbish the existing facility or build a replacement hospital for the current campus. NMHC has not finalized its plans but is considering a new replacement hospital. We note that NMHC has until 2020 to complete a refurbishment of the existing facility or replacement hospital. Also, NMHC is building an approximately \$330 million outpatient care pavilion (OCP) directly across from its main campus. The new OCP will have 25 stories and will help to alleviate the need to build another, more costly patient tower. As of March 31, 2014, NMHC has spent \$176 million on the new OCP and plans to open it in late calendar 2014. NMHC is keenly aware of

and plans to maintain its balance sheet strength, adjusting its capital schedule toward that end.

Short-term bank-supported ratings

The 'A-1+' short-term component of the rating on the series 2002C, 2008A1, and 2008A2 bonds reflects the likelihood of payment of tenders as well as a liquidity facility: a standby bond purchase agreement (SBPA) provided by Northern Trust Co. (AA-/A-1+). The SBPA provides for a maximum of 35 days' interest at the 12% maximum rate. We will withdraw our short-term rating on the expiration date unless the SBPA is extended pursuant to its terms or an alternative SBPA is delivered.

The 'A-1' short-term component of the rating on the authority's variable-rate demand revenue bonds (VRDBs) subseries 2007A-2 and 2007A-4, issued for NMH, is based on liquidity facilities provided by Wells Fargo Bank N.A. (AA-/A-1+).

The 'A-1' short-term component of the rating on the authority's VRDBs subseries 2007A-1 and 2007A-3, issued for NMH, is based on liquidity facilities provided by JPMorgan Chase Bank N.A. (A+/A-1).

Bondholders may tender their bonds during the daily and weekly modes upon delivering appropriate notice. The bonds are further subject to mandatory tender upon conversion to another interest rate mode and one business day before expiration, substitution, or termination. The bonds may be called because of optional redemptions and are subject to mandatory sinking fund payments.

Swap profile

NMHC is a party to two floating- to fixed-rate swaps with a notional amount of \$209.5 million as of Feb. 28, 2014. One floating- to fixed-rate swap, with a notional amount of \$104.75 million, is with UBS AG (A+/A-1/Negative) as the counterparty. The other has a notional amount of \$104.75 million and is with JPMorgan Chase Bank as the counterparty. The total net variable-rate debt exposure is 13%.

Table 2

Northwestern Memorial HealthCare and Subsidiaries Financial Summary

	--Six-month interim ended Feb. 28--	--Fiscal year ended Aug. 31--		--Medians--	
	2014*	2013*	2012*	2011	'AA' rated stand-alone hospitals 2012
Financial performance					
Net patient revenue (\$000s)	1,137,507	1,592,321	1,582,051	1,593,596	998,771
Total operating revenue (\$000s)	1,207,389	1,709,666	1,701,540	1,716,854	MNR
Total operating expenses (\$000s)	1,111,884	1,578,319	1,613,232	1,624,451	MNR
Operating income (\$000s)	95,505	131,347	88,308	92,403	MNR
Operating margin (%)	7.91	7.68	5.19	5.38	5.20
Net non-operating income (\$000s)	143,994	188,900	150,905	110,730	MNR

Table 2

Northwestern Memorial HealthCare and Subsidiaries Financial Summary (cont.)					
Excess income (\$000s)	239,499	320,247	239,213	203,133	MNR
Excess margin (%)	17.72	16.87	12.91	11.11	6.90
Operating EBIDA margin (%)	15.70	18.27	15.50	15.11	12.50
EBIDA margin (%)	24.68	26.40	22.38	20.26	14.70
Net available for debt service (\$000s)	333,617	501,277	414,600	370,206	178,150
Maximum annual debt service (MADS; \$000s)	52,031	52,031	52,031	52,031	MNR
MADS coverage (x)	12.82	9.63	7.97	7.12	5.80
Operating-lease-adjusted coverage (x)	10.76	7.99	6.79	6.13	4.30
Liquidity and financial flexibility					
Unrestricted cash and investments (\$000s)	2,546,873	2,388,407	1,959,276	1,833,860	1,120,520
Unrestricted days' cash on hand	449.9	608.5	487.3	450.4	386.9
Unrestricted cash/total long-term debt (%)	320.9	300.9	243	223.3	245.2
Average age of plant (years)	8.4	8.5	7.7	8.0	9.0
Capital expenditures/Depreciation and amortization (%)	125.2	120.4	112.2	129.4	141
Debt and liabilities					
Total long-term debt (\$000s)	793,626	793,819	806,155	821,354	MNR
Long-term debt/capitalization (%)	20.3	22.7	25.8	27.1	24.3
Contingent liabilities (\$000s)	315,725	315,725	322,375	323,375	MNR
Contingent liabilities/total long-term debt (%)	39.8	39.8	40.0	39.4	MNR
Debt burden (%)	1.92	2.74	2.80	2.84	2.40
Defined benefit plan funded status (%)	N.A.	120.11	104.79	110.31	67.50

*FASB 2011-07 adopted related to the treatment of bad debt. Standard & Poor's recorded bad debt expense as if FASB 2011-07 were adopted related to the treatment of bad debt beginning in fiscal 2012. MNR--Median not reported. N.A.--Not available.

Related Criteria And Research

Related Criteria

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- General Criteria: Group Rating Methodology, Nov. 19, 2013

- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- Glossary: Not-For-Profit Health Care Ratios, Oct. 26, 2011
- The Outlook For U.S. Not-For-Profit Health Care Providers Is Negative From Increasing Pressures, Dec. 10, 2013
- U.S. Not-For-Profit Health Care Stand-Alone Ratios: Operating Pressures Led To Mixed Results In 2012, Aug. 8, 2013
- Health Care Providers And Insurers Pursue Value Initiatives Despite Reform Uncertainties, May 9, 2013
- U.S. Not-For-Profit Health Care Providers Hone Their Strategies To Manage Transition Risk, May 16, 2012

Ratings Detail (As Of May 6, 2014)

Illinois Fin Auth, Illinois

Northwestern Mem HlthCare, Illinois

Illinois Finance Authority (Northwestern Memorial Hospital) hosp VRDO ser 2007A-1

<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
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Illinois Finance Authority (Northwestern Memorial Hospital) hosp VRDO ser 2007A-2

<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
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Illinois Finance Authority (Northwestern Memorial Hospital) hosp VRDO ser 2007A-3

<i>Long Term Rating</i>	AA+/A-1/Stable	Affirmed
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Illinois Finance Authority (Northwestern Memorial Hospital) hosp VRDO ser 2007A-4

<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
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Series 2002C

<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
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Series 2008A-1 & A-2

<i>Long Term Rating</i>	AA+/A-1+/Stable	Affirmed
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CONSOLIDATED FINANCIAL STATEMENTS

Northwestern Memorial HealthCare and Subsidiaries
Years Ended August 31, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP



Northwestern Memorial HealthCare and Subsidiaries

Consolidated Financial Statements

Years Ended August 31, 2013 and 2012

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Report of Independent Auditors

The Board of Directors
Northwestern Memorial HealthCare

We have audited the accompanying consolidated balance sheets of Northwestern Memorial HealthCare (an Illinois not-for-profit corporation) and Subsidiaries (Northwestern Memorial) as of August 31, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northwestern Memorial HealthCare and Subsidiaries at August 31, 2013 and 2012, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

November 21, 2013

Northwestern Memorial HealthCare and Subsidiaries

Consolidated Balance Sheets (In Thousands)

	August 31	
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 230,326	\$ 139,343
Short-term investments	195,195	112,925
Current portion of investments, including assets limited as to use	77,320	89,247
Patient accounts receivable, net of estimated uncollectibles of \$41,721 and \$39,036 in 2013 and 2012, respectively	245,663	279,775
Current portion of pledges and grants receivable, net	11,844	9,257
Current portion of insurance recoverable	10,412	13,060
Inventories	33,873	31,528
Other current assets	45,161	33,138
Total current assets	849,794	708,273
Investments, including assets limited as to use, less current portion	2,676,116	2,430,351
Property and equipment, at cost:		
Land	237,953	237,953
Buildings	1,701,356	1,668,000
Equipment and furniture	535,490	522,343
Construction in progress	152,770	46,573
	2,627,569	2,474,869
Less accumulated depreciation	1,239,777	1,116,818
	1,387,792	1,358,051
Prepaid pension cost	105,962	30,814
Insurance recoverable, less current portion	69,233	74,444
Other assets, net	150,998	99,751
Total assets	\$ 5,239,895	\$ 4,701,684

	August 31	
	2013	2012
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 111,294	\$ 81,070
Accrued salaries and benefits	88,769	94,948
Grants and academic support payable, current portion	70,381	37,588
Accrued expenses and other current liabilities	54,472	34,871
Due to third-party payors	229,052	207,440
Current accrued liabilities under self-insurance programs	60,025	65,633
Current maturities of long-term debt	13,435	14,500
Total current liabilities	627,428	536,050
Long-term debt, net, less current maturities	793,819	806,155
Accrued liabilities under self-insurance programs, less current portion	409,126	420,941
Grants and academic support payable, less current portion	191,635	97,254
Due to insureds	116,291	62,415
Interest rate swaps	43,916	104,503
Pension liability	—	3,863
Other liabilities	50,187	51,929
Total liabilities	2,232,402	2,083,110
Net assets:		
Unrestricted:		
Undesignated	2,553,524	2,182,940
Board-designated	145,545	138,600
Total unrestricted	2,699,069	2,321,540
Temporarily restricted	157,682	155,263
Permanently restricted	150,742	141,771
Total net assets	3,007,493	2,618,574
Total liabilities and net assets	\$ 5,239,895	\$ 4,701,684

See accompanying notes to consolidated financial statements.

Northwestern Memorial HealthCare and Subsidiaries

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

	Year Ended August 31	
	2013	2012
Revenue		
Patient service revenue	\$ 1,622,973	\$ 1,614,123
Provision for uncollectible accounts	30,652	32,072
Net patient revenue	1,592,321	1,582,051
Rental and other revenue	98,583	100,996
Net assets released from donor restrictions and federal and state grants	18,762	18,493
Total revenue	1,709,666	1,701,540
Expenses		
Salaries and professional fees	578,924	587,971
Employee benefits	156,971	186,633
Supplies	267,505	268,197
Purchased services	174,449	173,545
Depreciation	145,643	145,686
Insurance	40,500	59,711
Rent and utilities	39,431	41,486
Repairs and maintenance	46,686	45,581
Interest	35,387	40,271
Illinois Hospital Assessment	41,395	41,395
Other	51,428	22,756
Total expenses	1,578,319	1,613,232
Operating income	131,347	88,308
Nonoperating gains (losses)		
Investment return	301,730	150,762
Change in fair value of interest rate swaps	40,585	(30,533)
Loss on extinguishment of long-term debt	(6,381)	-
Grants and academic support provided	(188,858)	(106,708)
Other	31,053	19,970
Total nonoperating gains, net	178,129	33,491
Excess of revenue over expenses	309,476	121,799

Northwestern Memorial HealthCare and Subsidiaries

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

(In Thousands)

	Year Ended August 31	
	2013	2012
Unrestricted net assets		
Excess of revenue over expenses	\$ 309,476	\$ 121,799
Net assets released from restrictions used for property and equipment additions	1,248	1,579
Postretirement benefit-related changes other than net periodic pension cost	69,340	(8,044)
Other	(2,535)	(125)
Increase in unrestricted net assets	377,529	115,209
Temporarily restricted net assets		
Contributions	31,254	34,021
Investment return	7,380	9,715
Net assets released from restrictions used for:		
Operating expenses, charity care, and research and education	(30,074)	(27,232)
Property and equipment additions	(1,248)	(1,579)
Change in fair value of split-interest agreements	660	81
Other	(5,553)	(131)
Increase in temporarily restricted net assets	2,419	14,875
Permanently restricted net assets		
Contributions	2,364	16,347
Change in fair value of split-interest agreements	1,057	(1,025)
Other	5,550	120
Increase in permanently restricted net assets	8,971	15,442
Change in total net assets	388,919	145,526
Net assets, beginning of year	2,618,574	2,473,048
Net assets, end of year	<u>\$ 3,007,493</u>	<u>\$ 2,618,574</u>

See accompanying notes to consolidated financial statements.

Northwestern Memorial HealthCare and Subsidiaries

Consolidated Statements of Cash Flows (In Thousands)

	Year Ended August 31	
	2013	2012
Operating activities		
Change in total net assets	\$ 388,919	\$ 145,526
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Postretirement benefit-related changes other than net periodic pension cost	(69,340)	8,044
Change in fair value of interest rate swaps	(38,056)	30,658
Loss on extinguishment of long-term debt	6,381	—
Net investment return and net change in unrealized investment gains/losses	(301,730)	(153,602)
Restricted contributions, change in fair value of split interest agreements, and realized investment return	(42,715)	(56,299)
Depreciation and amortization	145,580	145,356
Provision for uncollectible accounts	30,720	32,164
Change in operating assets and liabilities:		
Patient accounts receivable	3,392	(79,479)
Due to third-party payors	19,158	29,790
Grants and academic support payable	127,174	70,524
Other operating assets and liabilities	(10,213)	11,649
Net cash provided by operating activities	259,270	184,331
Investing activities		
Purchases of trading securities	(771,618)	(589,584)
Sales of trading securities	606,773	410,091
Unrestricted realized investment return	150,467	124,061
Capital expenditures, net	(175,384)	(163,456)
Net cash used in investing activities	(189,762)	(218,888)
Financing activities		
Payments of long-term debt	(139,162)	(13,710)
Payments of bond issue costs	(1,667)	—
Proceeds from issuance of long-term debt	119,589	—
Restricted contributions and realized investment return	42,715	56,299
Net cash provided by financing activities	21,475	42,589
Net increase in cash and cash equivalents	90,983	8,032
Cash and cash equivalents, beginning of year	139,343	131,311
Cash and cash equivalents, end of year	\$ 230,326	\$ 139,343

See accompanying notes to consolidated financial statements.

Northwestern Memorial HealthCare and Subsidiaries

Notes to Consolidated Financial Statements (In Thousands)

Years Ended August 31, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies

Northwestern Memorial HealthCare (NMHC) serves as the sole corporate member of Northwestern Memorial Hospital (NMH), Northwestern Lake Forest Hospital (NLFH), and Northwestern Memorial Foundation (the Foundation). NMH's subsidiaries are Northwestern HealthCare Corporation (NHC), Northwestern Memorial Physicians Group (NMPG) and Northwestern Memorial Insurance Company (NMIC). NLFH's subsidiary is Lake Forest Health and Fitness Institute (HFI). As of December 20, 2012, all entities are members of the obligated group for all of the outstanding bonds, except NHC and NMIC.

NMH is a major academic medical center located in the Streeterville neighborhood of Chicago, providing a complete range of adult inpatient and outpatient services, primarily to residents of Chicago and surrounding areas, in an educational and research environment. It is licensed for 894 beds. NMH, whose origins date back to 1849, is the primary teaching hospital for Northwestern University's Feinberg School of Medicine (FSM).

NLFH is a community hospital located in Lake Forest, Illinois, providing a complete range of adult inpatient and outpatient services, as well as skilled nursing care, primarily to residents of Lake Forest and the surrounding area. It is licensed for 117 acute care beds, 40 skilled nursing care beds, and 44 long-term care beds.

The Foundation carries out fund-raising and other related development activities to promote and support the tax-exempt interests and purposes of NMH and NLFH.

Basis of Presentation

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

Charity Care and Community Benefit

Northwestern Memorial provides care to patients regardless of their ability to pay. Northwestern Memorial developed a Free and Discounted Care Policy (the Policy) for both the uninsured and the underinsured. Under the Policy, patients are offered discounts of up to 100% of charges on a

Northwestern Memorial HealthCare and Subsidiaries

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

1. Organization and Summary of Significant Accounting Policies (continued)

sliding scale, which is based on income as a percentage of the Federal Poverty Level guidelines (up to 600%). The Policy also contains provisions that are responsive to those patients subject to catastrophic health care expenses and uninsured patients not covered by the provisions above. Since Northwestern Memorial does not pursue collection of these amounts, they are not reported as net patient revenue, and the cost of providing such care is recognized within operating expenses.

Northwestern Memorial estimates the direct and indirect costs of providing charity care by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients. Northwestern Memorial also receives certain funds to offset or subsidize charity care services provided. These funds are primarily received from investment return on free care endowment funds. The cost of providing charity care was \$61,243 and \$57,738 for the years ended August 31, 2013 and 2012, respectively. In addition, funds received to offset or subsidize charity care were \$468 and \$491 for the years ended August 31, 2013 and 2012, respectively. In filing the Annual Non Profit Hospital Community Benefits Plan Report to the Illinois Attorney General for the year ended August 31, 2012, Northwestern Memorial reported total community benefit of \$315,074 (unaudited), including unreimbursed cost of charity care of \$58,668 (unaudited), which is calculated using a different methodology than that used for the consolidated financial statements. Management is currently collecting the information needed to file the 2013 report.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid short-term investments with maturities of 90 days or less from the date of purchase.

Northwestern Memorial HealthCare and Subsidiaries

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

1. Organization and Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable

Patient accounts receivable are stated at net realizable value. Northwestern Memorial maintains allowances for uncollectible accounts and for estimated losses resulting from a payor's inability to make payments on accounts. Northwestern Memorial estimates the allowance for uncollectible accounts based on management's assessment of historical and expected net collections, considering historical and current business and economic conditions, trends in health care coverage, and other collection indicators. Accounts receivable are charged to the allowance for uncollectible accounts when they are deemed uncollectible.

Assets Limited as to Use

Assets limited as to use consist primarily of investments designated by the appropriate board of directors (the Board) for certain medical education and health care programs. The appropriate Board retains control of these investments and may, at its discretion, subsequently use them for other purposes. In addition, assets limited as to use include investments held by trustees under debt agreements and for self-insurance and collateral related to interest rate swaps.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based on quoted market prices. Unless in pension plan assets, alternative investments are reported using the equity method. Alternative investments include common collective trusts, commingled funds, 103-12 entities, and other limited partnership interests in hedge funds, private equity, venture capital, and real estate funds. Alternative investments in the pension plan are reported at fair value based on net asset value (NAV) per share or equivalent.

Derivative Instruments

Derivative instruments, specifically interest rate swaps, are recorded on the consolidated balance sheets at fair value. The change in the fair value of derivative instruments is recorded in nonoperating gains (losses).

Northwestern Memorial HealthCare and Subsidiaries

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

1. Organization and Summary of Significant Accounting Policies (continued)

Inventories

Inventories, consisting primarily of pharmaceuticals and other medical supplies, are stated at the lower of cost on the first-in, first-out method or fair value.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Typical useful lives are 5 to 40 years for buildings and building service equipment and 3 to 20 years for equipment and furniture. Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Asset Impairment

Northwestern Memorial considers whether indicators of impairment are present and performs the necessary tests to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating income at the time the impairment is identified. The impairment of long-lived assets was \$2,603 and \$0 for the years ended August 31, 2013 and 2012, respectively.

Deferred Charges

Deferred finance charges and bond discounts or premium are amortized or accreted using the effective interest method or the bonds outstanding method, which approximates the effective interest method, over the life of the related debt.

Net Assets

Resources are classified for reporting purposes into four net asset categories as general unrestricted, board-designated unrestricted, temporarily restricted, and permanently restricted, according to the absence or existence of board designations or donor-imposed restrictions. Board-designated net assets are unrestricted net assets that have been set aside by the Board for specific purposes. Temporarily restricted net assets are those assets, including contributions and accumulated investment returns, whose use has been limited by donors for a specific purpose or time period. Permanently restricted net assets are those for which donors require the principal of the gifts to be maintained in perpetuity to provide a permanent source of income.

Northwestern Memorial HealthCare and Subsidiaries

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

1. Organization and Summary of Significant Accounting Policies (continued)

Any changes in donor restrictions that change the net asset category of previously recorded contributions are recorded as other in the accompanying consolidated statements of operations and changes in net assets in the period communicated by the donor.

Net Patient Revenue

Northwestern Memorial has agreements with third-party payors that provide for payments to Northwestern Memorial at amounts different from its established rates. Payment arrangements include prospectively determined rates per admission or visit, reimbursed costs, discounted charges, and per diem rates. Net patient revenue is reported at the estimated net amount due from patients and third-party payors for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted, as needed, in future periods.

EHR Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health records (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid payments are available to providers that adopt, implement, or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

Northwestern Memorial recognizes HITECH incentive payments as revenue under the grant accounting model when it is reasonably assured that the meaningful use objectives have been achieved. Northwestern Memorial recognized incentive payments totaling \$3,937 and \$5,422 for the years ended August 31, 2013 and 2012, respectively, as net assets released from donor restrictions and federal and state grants in the accompanying consolidated statements of operations and changes in net assets. Northwestern Memorial's compliance with the meaningful use criteria is subject to audit by the federal government.

Northwestern Memorial HealthCare and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Contributions

Unrestricted gifts, other than long-lived assets, are recorded as a component of other nonoperating gains in the accompanying consolidated statements of operations and changes in net assets. Unrestricted gifts of long-lived assets, such as land, buildings, or equipment, are recorded at fair value as an increase in unrestricted net assets. Contributions are reported as either temporarily or permanently restricted net assets if they are received with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions.

Unconditional promises to give cash or other assets are reported as pledges receivable and contributions within the appropriate net asset category. An allowance for uncollectible pledges receivable is estimated based on historical experience and other collection indicators. Pledges receivable with payment terms extending beyond one year are discounted using market rates of return reflecting the terms and credit of the pledges at the time a pledge is made.

Northwestern Memorial is a beneficiary of several split-interest agreements, primarily perpetual trusts held by others. The Foundation recognizes its interest in these perpetual trusts as temporarily or permanently restricted net assets based on the Foundation's percentage of the fair value of the trusts' assets.

Nonoperating Gains (Losses)

Nonoperating gains (losses) consist primarily of investment returns (including realized gains and losses; net change in unrealized investment gains and losses; changes in Northwestern Memorial's proportionate share of its equity interest in alternative investments, interest, and dividends), unrestricted contributions received, grants and academic support provided to external organizations, net assets released from restriction and used for grants and academic support, changes in fair value of interest rate swaps and loss on extinguishment of debt.

Northwestern Memorial HealthCare and Subsidiaries

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

1. Organization and Summary of Significant Accounting Policies (continued)

Excess of Revenue Over Expenses

The accompanying consolidated statements of operations and changes in net assets include the excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from the excess of revenue over expenses, consist primarily of contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, are to be used for the purposes of acquiring such assets), transfers between net asset categories based on changes in donor restrictions, and postretirement benefit-related changes other than net periodic pension cost.

Reclassifications

Certain reclassifications have been made to the 2012 consolidated financial statements to conform with classifications used in 2013. The reclassifications had no effect on the changes in net assets previously reported.

New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-11, *Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 enhances disclosures about financial and derivative instruments that are either offset on the statement of financial position or subject to an enforceable master netting agreement or similar agreement, irrespective of whether they are offset on the statement of financial position. In January 2013, the FASB issued ASU 2013-01, *Clarifying the Scope of Disclosure about Offsetting Assets and Liabilities*. ASU 2013-01 clarifies that ASU 2011-11 applies only to derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions. This new guidance is effective for fiscal years and interim periods within those years beginning on or after January 1, 2013. This guidance will be effective for Northwestern Memorial in fiscal year 2014. At this time, Northwestern Memorial has no transactions that would qualify for the new disclosure requirements; hence, this guidance will have no effect on its consolidated financial statement disclosures.

Northwestern Memorial HealthCare and Subsidiaries

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

1. Organization and Summary of Significant Accounting Policies (continued)

In October 2012, the FASB issued ASU 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. ASU 2012-05 requires not-for-profit entities (NFPs) to classify cash receipts from the sale of donated financial assets consistent with cash donations if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. These cash receipts would be classified as inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case they would be classified as cash flows from financing activities. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning on or after June 15, 2013. This guidance will be effective for Northwestern Memorial in fiscal year 2014. Northwestern Memorial is evaluating the effect this guidance will have on its consolidated financial statements.

Northwestern Memorial HealthCare and Subsidiaries

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

2. Investments and Other Financial Instruments

The composition of investments and cash and cash equivalents at August 31 is as follows:

	2013	2012
Measured at fair value:		
Cash and short-term investments	\$ 435,329	\$ 304,586
Mutual funds	685,570	736,486
Common collective trusts	96,205	72,893
Commingled funds	112,859	199,661
Corporate bonds	49,555	60,861
U.S. government and agency issues	16,804	818
Foreign government issues	—	1,388
Equity securities	91,675	50,496
103-12 entities	171,741	123,182
	<u>1,659,738</u>	<u>1,550,371</u>
Accounted for under the equity method:		
Alternative investments	1,519,219	1,221,495
	<u>\$ 3,178,957</u>	<u>\$ 2,771,866</u>

Investments and other financial instruments consist of the following:

	2013	2012
Assets limited as to use:		
Trustee-held funds	\$ 26	\$ 26,296
Self-insurance programs	538,349	540,796
Board-designated funds	145,545	138,600
Total assets limited as to use	<u>683,920</u>	<u>705,692</u>
Donor-restricted funds	252,175	245,498
Unrestricted, undesignated funds	1,817,341	1,568,408
Total investments, excluding short-term investments	<u>2,753,436</u>	<u>2,519,598</u>
Other financial instruments:		
Cash and cash equivalents and short-term investments	425,521	252,268
	<u>\$ 3,178,957</u>	<u>\$ 2,771,866</u>

Northwestern Memorial HealthCare and Subsidiaries

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

2. Investments and Other Financial Instruments (continued)

The composition and presentation of investment returns are as follows for the years ended August 31:

	2013	2012
Interest and dividend income	\$ 28,280	\$ 14,935
Investment expenses	(3,109)	(4,547)
Realized gains on alternative investments, net	45,129	34,925
Realized gains on other investments, net	87,547	85,622
Net increase in unrealized gains on alternative investments	116,066	30,680
Net increase (decrease) in unrealized gains on other investments	35,197	(1,138)
	<u>\$ 309,110</u>	<u>\$ 160,477</u>
Reported as:		
Nonoperating investment return	\$ 301,730	\$ 150,762
Temporarily restricted – investment return	7,380	9,715
	<u>\$ 309,110</u>	<u>\$ 160,477</u>

Northwestern Memorial's investments measured at fair value include mutual funds; common equities; corporate and U.S. government debt issues; state, municipal, and foreign government debt issues; commingled funds; common collective trusts; and 103-12 entities.

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

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

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

Northwestern Memorial HealthCare and Subsidiaries

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

2. Investments and Other Financial Instruments (continued)

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

Real estate includes LPs that invest in land and buildings and seek to improve property-level operations by increasing lease rates, recapitalizing properties, rehabilitating aging/distressed properties, and repositioning properties to attract higher-quality tenants. Real estate LPs typically use moderate leverage. Natural resources include a diverse set of LPs that invest in oil and natural gas-related companies, commodity-oriented companies, and timberland. Private equity includes LPs formed to make equity and debt investments in operating companies that are not publicly traded. These LPs typically seek to influence decision-making within the operating companies. Investment strategies in this category may include venture capital, buyouts, and distressed debt. These three categories of investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying assets of the fund are expected to be liquidated periodically over the lives of the LPs, which generally run 10 to 12 years.

As of August 31, 2013, \$914,029 of alternative investments are subject to various redemption limits and lockup provisions, of which \$717,501 expires within one year and \$196,528 expires after one year from the balance sheet date.

At August 31, 2013, Northwestern Memorial had commitments to fund an additional \$265,809 to alternative investment entities, which is expected to occur over the next 12 years.

3. Fair Value Measurements

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

Northwestern Memorial HealthCare and Subsidiaries

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

3. Fair Value Measurements (continued)

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

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

Fair Values

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

Northwestern Memorial HealthCare and Subsidiaries

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

3. Fair Value Measurements (continued)

The following table presents the financial instruments measured at fair value on a recurring basis as of August 31, 2013:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 230,326	\$ —	\$ —	\$ 230,326
Investments:				
Short-term investments:				
Currency	7,607	—	—	7,607
Fixed income	—	187,588	—	187,588
Total short-term investments	7,607	187,588	—	195,195
Mutual funds:				
Fixed income	280,632	—	—	280,632
International equities	64,208	—	—	64,208
U.S. equities	340,730	—	—	340,730
Total mutual funds	685,570	—	—	685,570
Common collective trusts:				
International equities	—	51,085	—	51,085
U.S. equities	—	45,120	—	45,120
Total common collective trusts	—	96,205	—	96,205
Commingled funds:				
International equities	—	3,576	—	3,576
Natural resources	—	1,648	—	1,648
Global equities	—	107,635	—	107,635
Total commingled funds	—	112,859	—	112,859
Bonds:				
Corporate bonds	—	49,555	—	49,555
U.S. government and agencies' issues	—	16,804	—	16,804
Total bonds	—	66,359	—	66,359
Equity securities	91,387	288	—	91,675
103-12 entities – international equities	—	171,741	—	171,741
Cash equivalents in investment accounts	9,808	—	—	9,808
Total investments	794,372	635,040	—	1,429,412
Beneficial interests in trusts	—	13,282	—	13,282
Total assets	\$ 1,024,698	\$ 648,322	\$ —	\$ 1,673,020
Liabilities				
Interest rate swaps	\$ —	\$ 43,916	\$ —	\$ 43,916

Northwestern Memorial HealthCare and Subsidiaries

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

3. Fair Value Measurements (continued)

The following table presents the financial instruments measured at fair value on a recurring basis as of August 31, 2012:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 139,343	\$ —	\$ —	\$ 139,343
Investments:				
Short-term investments:				
Currency	7,592	—	—	7,592
Fixed income	—	105,333	—	105,333
Total short-term investments	7,592	105,333	—	112,925
Mutual funds:				
Fixed income	346,876	—	—	346,876
International equities	84,175	—	—	84,175
U.S. equities	305,435	—	—	305,435
Total mutual funds	736,486	—	—	736,486
Common collective trusts:				
International equities	—	39,892	—	39,892
U.S. equities	—	33,001	—	33,001
Total common collective trusts	—	72,893	—	72,893
Commingled funds:				
International equities	—	21,321	—	21,321
Natural resources	—	26,495	—	26,495
Global equities	—	151,845	—	151,845
Total commingled funds	—	199,661	—	199,661
Bonds:				
Corporate bonds	—	60,861	—	60,861
U.S. government and agencies' issues	—	818	—	818
Foreign government issues	—	1,388	—	1,388
Total bonds	—	63,067	—	63,067
Equity securities	50,443	53	—	50,496
103-12 entities – international equities	—	123,182	—	123,182
Cash equivalents in investment accounts	52,318	—	—	52,318
Total investments	846,839	564,189	—	1,411,028
Beneficial interests in trusts	—	11,594	—	11,594
Total assets	\$ 986,182	\$ 575,783	\$ —	\$ 1,561,965
Liabilities				
Interest rate swaps	\$ —	\$ 104,503	\$ —	\$ 104,503

Northwestern Memorial HealthCare and Subsidiaries

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

3. Fair Value Measurements (continued)

There were no transfers into or out of Level 2 or Level 1 during the year ended August 31, 2013.

Reconciliation to the Consolidated Balance Sheets

A reconciliation of the fair value of assets to the consolidated balance sheets at August 31, 2013 and 2012, is as follows:

	2013	2012
Short-term investments measured at fair value	\$ 195,195	\$ 112,925
Investments, including assets limited as to use measured at fair value	<u>1,234,217</u>	<u>1,298,103</u>
Total investments at fair value	1,429,412	1,411,028
Alternative investments accounted for under equity method included in investments, including assets limited as to use	<u>1,519,219</u>	<u>1,221,495</u>
Total investments	<u>\$ 2,948,631</u>	<u>\$ 2,632,523</u>
Other long-term assets:		
Beneficial interests in trusts at fair value	\$ 13,282	\$ 11,594
Other long-term assets, net	<u>137,716</u>	<u>88,157</u>
Total other long-term assets	<u>\$ 150,998</u>	<u>\$ 99,751</u>

Valuation Techniques and Inputs

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

Northwestern Memorial HealthCare and Subsidiaries

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

3. Fair Value Measurements (continued)

Interest Rate Swaps – The fair value of interest rate swaps is based on generally accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative and quoted prices from dealer counterparties and other independent market sources. The valuation incorporates observable interest rates and yield curves for the full term of the swaps. The valuation is also adjusted to incorporate non-performance risk for NMH or the respective counterparty. The adjustment is based on the credit spread for entities with similar credit characteristics as NMH or market-related data for the respective counterparty. Northwestern Memorial pays fixed rates of 3.889% and receives cash flows based on rates equal to 63% of the London Interbank Offered Rate (LIBOR) plus 28 basis points.

Investments – The fair value of Level 1 investments, which consist of equity securities and certain mutual funds, is based on quoted market prices that are valued on a daily basis. Level 2 investments consist of U.S. government securities, corporate bonds, commingled funds, common collective trusts, interest in 103-12 entities, and fixed income instruments issued by municipalities and foreign government agencies. The fair value of the U.S. government and agency securities and corporate bonds is established based on values obtained from nationally recognized pricing services that value the investments based on similar securities and matrix pricing of similar quality and maturity securities. The fair values of commingled funds, common collective trusts, and 103-12 entities are based on either the fair value of the underlying investments of the fund, as determined by the fund, or on the ownership interest in the NAV per share or its equivalent, of the respective fund.

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

Northwestern Memorial HealthCare and Subsidiaries

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

3. Fair Value Measurements (continued)

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

The estimated fair value of the long-term debt portfolio, including the current portion, was \$812,408 and \$871,382 at August 31, 2013 and 2012, respectively. The fair value of this Level 2 liability is based on quoted market prices for the same or similar issues and the relationship of those bond yields with various market indices. The market data used to determine yield and calculate fair value represents Aa/AA-rated tax-exempt municipal health care bonds. The effect of third-party credit valuation adjustments, if any, is immaterial.

The fair value of pledges receivable, a Level 2 asset, is based on discounted cash flow analysis and approximates the carrying value at August 31, 2013 and 2012.

4. Self-Insurance Liabilities and Related Insurance Recoverables

NMH retains certain levels of professional and general liability risks covering itself and NMPPG. NMH also retains certain levels of workers' compensation risks. For those risks, NMH has established trust funds to pay claims and related costs.

NMIC provides coverage, on a claims-made basis, in excess of the amounts retained by NMH for professional and general liability claims occurring and reported between October 1, 2002 and November 1, 2004. NMIC is fully reinsured for these risks.

Effective November 1, 2004, NMIC provides, on a claims-made basis, professional and general liability coverage to NMH and professional liability coverage to Northwestern Medical Faculty Foundation (NMFF) under a joint indemnification program. NMFF is an unconsolidated, not-for-profit, multi-specialty group practice, which serves as the clinical faculty practice plan arm of FSM and is one of the faculty components of the academic medical center. NMIC also provides excess general liability coverage to otherwise commercially insured NMHC subsidiaries. NMIC receives funding from the covered entities for the risk it covers under its indemnity policies. Under the terms of a mutual funding agreement, NMH is required to maintain cash and investments, and NMFF is required to maintain a deposit at NMIC sufficient to fund actuarially determined tail liabilities, to be covered by NMIC upon any cancellation, non-renewal, or other termination for any reason of NMIC's ongoing joint coverage of both NMH and NMFF.

Northwestern Memorial HealthCare and Subsidiaries

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

4. Self-Insurance Liabilities and Related Insurance Recoverables (continued)

NMFF also maintains a deposit at NMIC at a level deemed actuarially sufficient to fund its premium obligations under a premium funding arrangement. Total NMFF deposits at NMIC, which are reported as due to insureds in the accompanying consolidated balance sheets, amounted to \$116,291 and \$62,415 at August 31, 2013 and 2012, respectively.

NLFH retains certain levels of professional and general liability risks for occurrences on or after January 1, 2003. Prior to June 1, 2011, NLFH purchased commercial insurance for risks in excess of its self-insured retention levels. For the period from June 1, 2011 to June 1, 2012, NMIC provides professional and general liability coverage to NLFH in excess of its self-insured retention levels. NMIC is fully reinsured for these risks. Effective June 1, 2012, NMIC provides, on a claims-made basis, professional and general liability coverage to NLFH through an integrated program shared by NMH and NMFF. NLFH purchased tail coverage for claims incurred but not reported as of December 31, 2002.

Northwestern Memorial's self-insurance liability and related amounts recoverable from reinsurers are reported in the accompanying consolidated balance sheets at present value based on a discount rate of 1.5% as of August 31, 2013 and 2012. This discount rate is based on several factors, including rolling averages of risk-free rates based on estimated payment patterns of the underlying liability. The undiscounted gross liabilities for the self-insured programs were \$502,179 and \$520,866 at August 31, 2013 and 2012, respectively. The estimated undiscounted amounts recoverable from reinsurers were \$85,378 and \$93,708 at August 31, 2013 and 2012, respectively. Provisions for the professional and general liability risks are based on an actuarial estimate of losses using actual loss data adjusted for industry trends and current conditions and on an evaluation of claims by Northwestern Memorial's legal counsel. The provision for estimated self-insured claims includes estimates of ultimate costs for both reported claims and claims incurred but not reported.

NMH purchased tail coverage for risks in excess of its self-insured retentions following the expiration of the claims-made professional and general liability program covering the period from October 1, 1999 to October 1, 2002. In conjunction with this transaction, NMH recorded a deferred gain that is being amortized over the estimated runoff period. The balance of the deferred gain was \$2,095 and \$3,121 at August 31, 2013 and 2012, respectively.

Northwestern Memorial HealthCare and Subsidiaries

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

4. Self-Insurance Liabilities and Related Insurance Recoverables (continued)

In the opinion of management, based in part on the advice of outside legal counsel, adequate provision has been made at August 31, 2013, for all claims incurred to date. Management further believes that the ultimate disposition of these claims will not have a material adverse effect on the financial position of Northwestern Memorial.

5. Employee Benefits Obligations

There are two non-contributory defined benefit pension plans (the Plans) maintained within the Northwestern Memorial HealthCare controlled group that covered specified employees of controlled group organizations. The sponsors for the Plans approved resolutions to amend the Plans effective at the end of the day on December 31, 2012. The amendments implement a hard freeze, such that no participant will earn any additional or new benefits under the Plans on and after January 1, 2013, and no compensation earned or service performed by any Plan participant on and after January 1, 2013, will count for any purpose other than continued vesting under the Plans in benefits earned prior to 2013.

The following table summarizes the change in the projected benefit obligation:

	NMH		NLFH	
	2013	2012	2013	2012
Projected benefit obligation, beginning of year:	\$ 441,459	\$ 414,020	\$ 120,727	\$ 101,995
Service cost	6,539	17,426	1,752	4,135
Interest cost	18,361	21,306	5,064	5,285
Curtailment gain	—	(43,638)	—	(5,106)
Net actuarial (gain) loss	(28,939)	46,983	(13,752)	17,157
Expenses paid	—	(927)	—	—
Benefits paid	(21,282)	(13,711)	(3,051)	(2,739)
Projected benefit obligation, end of year	<u>\$ 416,138</u>	<u>\$ 441,459</u>	<u>\$ 110,740</u>	<u>\$ 120,727</u>

Northwestern Memorial HealthCare and Subsidiaries

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

5. Employee Benefits Obligations (continued)

The following table summarizes the changes in the Plans' assets:

	NMH		NLFH	
	2013	2012	2013	2012
Plan assets at fair value, beginning of year:	\$ 472,273	\$ 456,904	\$ 116,864	\$ 112,327
Actual return on the Plans' assets, net of expenses	54,597	29,080	13,439	7,276
Employer contribution		—		—
Benefits paid	(21,282)	(13,711)	(3,051)	(2,739)
Plan assets at fair value, end of year	<u>\$ 505,588</u>	<u>\$ 472,273</u>	<u>\$ 127,252</u>	<u>\$ 116,864</u>

The following table sets forth the Plans' funded status, as well as recognized amounts in the consolidated balance sheets as of August 31:

	NMH		NLFH	
	2013	2012	2013	2012
Plan assets at fair value	\$ 505,588	\$ 472,273	\$ 127,252	\$ 116,864
Projected benefit obligation	416,138	441,459	110,740	120,727
Funded status recognized as prepaid pension cost/ (pension payable)	<u>\$ 89,450</u>	<u>\$ 30,814</u>	<u>\$ 16,512</u>	<u>\$ (3,863)</u>

The accumulated benefit obligations of the Plans are \$526,878 and \$562,003 as of August 31, 2013 and 2012, respectively.

Northwestern Memorial HealthCare and Subsidiaries

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

5. Employee Benefits Obligations (continued)

Included in unrestricted net assets are the Plans' amounts that have not yet been recognized in net periodic pension cost at August 31 as follows:

	NMH		NLFH	
	2013	2012	2013	2012
Unrecognized prior service cost	\$ —	\$ (13)	\$ —	\$ —
Unrecognized actuarial loss	(66,092)	(117,037)	(968)	(19,784)
	<u>\$ (66,092)</u>	<u>\$ (117,050)</u>	<u>\$ (968)</u>	<u>\$ (19,784)</u>

Changes in the Plans' assets and benefit obligations recognized in unrestricted net assets during 2013 and 2012 include the following:

	NMH		NLFH	
	2013	2012	2013	2012
Current year actuarial gain (loss)	\$ 48,912	\$ (50,541)	\$ 18,563	\$ (13,075)
Effect of curtailment accounting on gain	—	43,638	—	—
Recognized actuarial loss	2,034	7,315	253	—
Current year amortization of prior service cost	13	125	—	—
Current year amortization of curtailment accounting credit	—	510	—	—
	<u>\$ 50,959</u>	<u>\$ 1,047</u>	<u>\$ 18,816</u>	<u>\$ (13,075)</u>

The Plans' prior service cost and net actuarial gain included in unrestricted net assets expected to be recognized in net periodic pension cost during 2014 are \$0 and \$401, respectively.

Northwestern Memorial HealthCare and Subsidiaries

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

5. Employee Benefits Obligations (continued)

Net periodic pension (benefit) cost included in operating results for the years ended August 31 consists of the following:

	NMH		NLFH	
	2013	2012	2013	2012
Service cost of benefits earned during the year	\$ 6,539	\$ 17,426	\$ 1,752	\$ 4,135
Interest cost of projected benefit obligation	18,361	21,306	5,064	5,285
Expected return on the Plans' assets	(34,624)	(33,564)	(8,627)	(8,301)
Recognized actuarial loss	2,034	7,315	253	—
Amortization of prior service costs	13	125	—	—
Recognized loss due to curtailment	—	510	—	—
Net periodic pension (benefit) cost	\$ (7,677)	\$ 13,118	\$ (1,558)	\$ 1,119

The following table sets forth the weighted-average assumptions used to determine the projected benefit obligation and benefit cost as of August 31:

	2013	2012
Used to determine projected benefit obligation		
Discount rate	5.15%	4.25%
Rate of compensation increase	—	3.50
Used to determine benefit cost		
Discount rate	4.25%	5.25%
Expected long-term rate of return on the Plans' assets	7.50	7.50
Rate of compensation increase	3.50	3.50

Northwestern Memorial HealthCare and Subsidiaries

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

5. Employee Benefits Obligations (continued)

The expected long-term rate of return on assets is determined based on a capital market asset model, which assumes that future returns are based on long-term, historical performance as adjusted for contemporary dividend yields. The adjusted historical returns were weighted by the current long-term asset allocation targets and reduced by 100 basis points to produce a more normal risk premium. Northwestern Memorial's investment advisor assisted with the analysis.

The Plans' asset allocation and investment strategies are designed to earn returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of loss. Northwestern Memorial uses investment managers specializing in each asset category and, where appropriate, provides the investment manager with specific guidelines that include allowable and/or prohibited investment types. Northwestern Memorial regularly monitors manager performance and compliance with investment guidelines.

The target allocation of the Plans' assets as of August 31 is as follows:

	2013	2012
Cash and cash equivalents	—%	—%
Equity securities	47	42
Alternative investments	43	44
Fixed income	10	14
	<u>100%</u>	<u>100%</u>

Northwestern Memorial HealthCare and Subsidiaries

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

5. Employee Benefits Obligations (continued)

The following table presents the Plans' financial instruments as of August 31, 2013, measured at fair value on a recurring basis by the valuation hierarchy described in Note 3:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:	\$ 342	\$ —	\$ —	\$ 342
103-12 investment entities:				
International equities	—	44,017	—	44,017
Private equity	—	—	1,474	1,474
Total 103-12 investment entities	—	44,017	1,474	45,491
Common collective trusts:				
Fixed income	—	2,986	—	2,986
International equities	—	21,149	—	21,149
Private equity	—	—	2,213	2,213
U.S. equities	—	18,008	—	18,008
Total common collective trusts	—	42,143	2,213	44,356
U.S. government debt:				
Treasury notes	—	1,655	—	1,655
Corporate debt:				
Corporate debt instruments – other	—	13,863	—	13,863
Equity securities:				
U.S. equities	20,930	103	—	21,033
Hedge funds and other:				
Absolute return hedge fund	—	17,183	69,900	87,083
Equity long/short hedge fund	—	44,747	56,871	101,618
Fixed income	—	844	—	844
Natural resources	—	3,300	9,923	13,223
Total hedge funds and other	—	66,074	136,694	202,768
Interest in limited partnerships:				
U.S. equities	—	25,685	—	25,685
International equities	—	28,118	—	28,118
Natural resources	—	—	18,015	18,015
Private equity	—	—	60,251	60,251
Real estate	—	—	22,483	22,483
Total interest in limited partnerships	—	53,803	100,749	154,552
Mutual funds:				
Fixed income	28,915	11,641	—	40,556
International equities	15,879	—	—	15,879
U.S. equities	92,345	—	—	92,345
Total mutual funds	137,139	11,641	—	148,780
Grand total	\$ 158,411	\$ 233,299	\$ 241,130	\$ 632,840

Northwestern Memorial HealthCare and Subsidiaries

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

5. Employee Benefits Obligations (continued)

The following table presents the Plans' financial instruments as of August 31, 2012, measured at fair value on a recurring basis by the valuation hierarchy described in Note 3:

	Level 1	Level 2	Level 3	Total
103-12 investment entities:				
International equities	\$ —	\$ 35,169	\$ —	\$ 35,169
Private equity	—	—	1,910	1,910
Total 103-12 investment entities	—	35,169	1,910	37,079
Common collective trusts:				
Fixed income	—	5,965	—	5,965
International equities	—	21,815	—	21,815
Private equity	—	—	2,961	2,961
U.S. equities	—	12,928	—	12,928
Total common collective trusts	—	40,708	2,961	43,669
U.S. government debt:				
Treasury notes	—	1,257	—	1,257
Corporate debt:				
Corporate debt instruments – other	—	8,020	—	8,020
Corporate debt instruments – preferred	—	8,043	—	8,043
Total corporate debt	—	16,063	—	16,063
Equity securities:				
U.S. equities	15,018	16	—	15,034
Hedge funds and other:				
Absolute return hedge fund	—	8,222	63,681	71,903
Equity long/short hedge fund	—	7,821	75,986	83,807
Fixed income	—	1,377	—	1,377
Natural resources	—	3,387	3,579	6,966
Total hedge funds and other	—	20,807	143,246	164,053
Interest in limited partnerships:				
Natural resources	—	—	17,807	17,807
Private equity	—	36,866	68,249	105,115
Real estate	—	—	21,846	21,846
Total interest in limited partnerships	—	36,866	107,902	144,768
Mutual funds:				
Fixed income	57,694	—	—	57,694
International equities	30,607	—	—	30,607
U.S. equities	78,913	—	—	78,913
Total mutual funds	167,214	—	—	167,214
Grand total	\$ 182,232	\$ 150,886	\$ 256,019	\$ 589,137

Northwestern Memorial HealthCare and Subsidiaries

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

5. Employee Benefits Obligations (continued)

The fair value of Level 1 investments, which consist of equity securities and certain mutual funds, is based on quoted market prices that are valued on a daily basis. Level 2 investments consist of U.S. government securities, corporate bonds, commingled funds, common collective trusts, interest in 103-12 entities, and fixed income instruments issued by municipalities or foreign government agencies. Included in Level 2 investments are certain hedge funds and limited partnerships that can be liquidated without restrictions. The fair value of the U.S. government securities and corporate bonds is established based on values obtained from nationally recognized pricing services that value the investments based on similar securities and matrix pricing of similar quality and maturity securities. The fair values of the commingled funds, common collective trusts, and 103-12 entities are based on either the fair value of the underlying investments of the fund, as determined by the fund, or based on the Master Trust's ownership interest in the NAV per share of its equivalent of the respective fund. The Plans utilize the NAV as the practical expedient for the fair value estimate as permitted. All Level 2 investments can be redeemed without restrictions on the financial statement date or shortly thereafter.

The fair value of Level 3 investments, which primarily consist of alternative investments (principally limited partnership interests in hedge, private equity, real estate, and natural resources funds) and certain common collective trusts and 103-12 investments, are based on NAV. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner taking into consideration, among other things, the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. In addition, actual market exchanges at period-end provide additional observable market inputs of the exit price. NAV is calculated by the investment's management monthly for all of the Master Trust's alternative investments other than limited partnerships, whose NAV is calculated on a quarterly basis. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plans' valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

All financial instruments with redemption restrictions in the near future or early withdrawal fees are categorized as Level 3 investments. Some of the redemption restrictions are temporary in nature. If restrictions expire and an investment can be redeemed at NAV, such investment is

Northwestern Memorial HealthCare and Subsidiaries

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

5. Employee Benefits Obligations (continued)

reclassified from Level 3 to Level 2 of the fair value hierarchy. During the years ended August 31, 2013 and 2012, \$51,572 and \$28,405 was transferred from Level 3 to Level 2, respectively.

Investments in LPs, which cannot be redeemed on request, totaled \$104,436 as of August 31, 2013. Certain marketable alternative investments are subject to various redemption restrictions. As of August 31, 2013, \$136,694 of alternative investments are subject to various redemption limits and lockup provisions, of which \$96,592 expires within one year and \$40,102 expires after one year from the balance sheet date.

The table below sets forth a summary of changes in the fair value of the Plans' Level 3 assets for the period from September 1, 2011 to August 31, 2013:

	103-12 Investment Entities	Common Collective Trusts	Hedge Funds and Other	Interest in Limited Partnerships	Total
Value at September 1, 2011	\$ 2,223	\$ 3,593	\$ 142,813	\$ 107,691	\$ 256,320
Gain realized on assets sold during the period	299	512	5	6,470	7,286
Change in unrealized (loss) gain related to holdings at August 31, 2012	(477)	(874)	6,520	992	6,161
Purchases at cost	64	65	15,227	19,027	34,383
Sales at cost	(199)	(335)	(1,889)	(17,303)	(19,726)
Transfers to Level 2	—	—	(19,430)	(8,975)	(28,405)
Value at August 31, 2012	1,910	2,961	143,246	107,902	256,019
Gain realized on assets sold during the period	302	486	139	7,584	8,511
Change in unrealized (loss) gain related to holdings at August 31, 2013	(559)	(906)	12,748	(5,426)	5,857
Purchases at cost	13	1	32,000	18,200	50,214
Sales at cost	(192)	(329)	(12,979)	(14,399)	(27,899)
Transfers to Level 2	—	—	(38,460)	(13,112)	(51,572)
Value at August 31, 2013	\$ 1,474	\$ 2,213	\$ 136,694	\$ 100,749	\$ 241,130

Northwestern Memorial HealthCare and Subsidiaries

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

5. Employee Benefits Obligations (continued)

The Plans' assets are managed solely in the interest of the Plans' participants and their beneficiaries. The assets are invested with the investment objective of funding the accumulated and projected retirement benefit obligations of the Plans consistent with the Plans' long-term rate-of-return assumption. A time horizon of greater than five years is assumed, and therefore, interim volatility in returns is regarded with appropriate perspective.

Northwestern Memorial has no current plans to contribute to the Plans during the year ending August 31, 2014.

Benefit payments, which reflect future service, as appropriate, are expected to be paid as follows:

	NMH	NLFH
Year ending August 31:		
2014	\$ 18,861	\$ 3,542
2015	19,288	4,001
2016	20,684	4,478
2017	21,385	4,994
2018	22,128	5,354
2019–2023	128,678	32,323

Northwestern Memorial also maintains defined contribution plans covering substantially all of its full-time and part-time employees. Effective January 1, 2013, employee contributions are limited to 80% of each covered employee's salary and matched at 100% up to the first 6% of the employee's salary contributed each pay period, with an annual maximum of \$15,300 per employee. For the period from September 1, 2011 through December 31, 2012, contributions were limited to 80% of each covered employee's salary and matched at 50% up to the first 6% of the employee's salary contributed each pay period, with an annual maximum of \$7,500 per employee. In addition, a non-elective provision for those employees who were not participants in the defined benefit plans provided for employer contributions of 1% to 2% of each employee's salary, provided that they were employed as of December 31 of the plan year and had at least one thousand hours of service in the plan year. The non-elective provision was eliminated as of January 1, 2013, and the final 2012 contribution was made in early 2013. Employer contributions related to these defined contribution plans included in employee benefits expense in the accompanying consolidated statements of operations and changes in net assets totaled \$21,284 and \$13,220 in 2013 and 2012, respectively.

Northwestern Memorial HealthCare and Subsidiaries

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

5. Employee Benefits Obligations (continued)

NMHC also maintains other noncontributory postretirement benefit plans (the Noncontributory Plans) for certain executive employees.

Included in unrestricted net assets are an unrecognized actuarial gain of \$173 and \$787 at August 31, 2013 and 2012, respectively, for the Noncontributory Plans that have not yet been recognized in net periodic pension cost.

Changes in the Noncontributory Plans' assets and benefit obligations recognized in unrestricted net assets during 2013 and 2012 include the following:

	2013	2012
Current year actuarial loss	\$ 653	\$ 1,313
Recognized actuarial net (gain)/loss	(1,267)	2,850
Recognized service cost	180	—
	<u>\$ (434)</u>	<u>\$ 4,163</u>

As of August 31, 2013 and 2012, the Noncontributory Plans' unfunded projected benefit obligation amounted to \$19,502 and \$19,376, respectively, and is included in other long-term liabilities in the accompanying consolidated balance sheets. The weighted-average discount rate utilized in determining the actuarial present value was 5.15% and 4.25% in 2013 and 2012, respectively. The Noncontributory Plans' actuarial gain included in unrestricted net assets expected to be recognized in net periodic pension cost during 2014 is \$401.

Northwestern Memorial HealthCare and Subsidiaries

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

6. Long-Term Debt

Long-term debt consists of the following at August 31:

	2013	2012
Revenue Bonds, Series 2013 (NMHC), payable in annual installments beginning August 31, 2031 through August 31, 2043 (fixed coupon rates from 4.00% to 5.00%)	\$ 111,235	\$ —
Revenue Bonds, Series 2009A, payable in annual installments through August 15, 2039 (fixed coupon rates range from 5.00% to 6.00%)	330,550	342,260
Revenue Bonds, Series 2009B, payable in annual installments through August 15, 2030 (fixed coupon rates range from 5.00% to 6.00%)	47,415	96,100
Variable-Rate Demand Revenue Bonds, Series 2008A, payable in annual installments through August 15, 2038 (weighted-average interest rate was 0.12% in 2013 and 0.13% in 2012)	78,775	78,775
Variable-Rate Demand Revenue Bonds, Series 2007A, payable in annual installments through August 15, 2042 (weighted-average interest rate was 0.13% in 2013 and 0.14% in 2012)	209,500	210,600
Revenue Bonds, Series 2003 (Lake Forest Hospital)	—	25,950
Variable-Rate Demand Revenue Bonds, Series 2002C, payable in annual installments beginning August 15, 2026 through August 15, 2031 (weighted-average interest rate was 0.13% in 2013 and 0.13% in 2012)	27,450	33,000
Revenue Bonds, Series 2002A (Lake Forest Hospital)	—	40,850
	804,925	827,535
Less:		
Unamortized (premium) discount, net	(2,329)	6,880
Current maturities	13,435	14,500
	\$ 793,819	\$ 806,155

Northwestern Memorial HealthCare and Subsidiaries

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

6. Long-Term Debt (continued)

In February 2013, the following transactions occurred related to NMHC's long-term debt:

- The Illinois Finance Authority issued fixed rate Revenue Bonds, Series 2013 (Series 2013 Bonds) in the aggregate amount of \$111,235 on behalf of NMHC as the borrower and NMH as the user of the bond proceeds. The proceeds of \$119,589 from the bonds included original issue premiums of \$8,354. A portion of the Series 2013 Bonds proceeds was placed in an irrevocable trust to legally defease \$48,685 of the Series 2009B Bonds maturing on August 15, 2039. The remaining proceeds of the Series 2013 Bonds were used to pay or reimburse NMH for the cost of constructing certain of its health care facilities and to pay certain expenses incurred in the issuance of the Series 2013 Bonds.
- NLFH redeemed all the outstanding Series 2002A Bonds (\$40,850) and legally defeased all the outstanding Series 2003 Bonds (\$25,950) by placing the proceeds in an irrevocable trust.
- NMH redeemed \$5,550 of the Series 2002C Bonds maturing on August 15, 2032, with cash.
- The accompanying consolidated statements of operations and changes in net assets include a \$6,381 loss on extinguishment of long-term debt as a result of the above-mentioned transactions.

NMH currently has a line of credit available for operations in the amount of \$50,000, which expires in July 2015. Under this committed line of credit, NMH has the option to borrow at various rates expressed as an adjustment to the LIBOR, prime rate, or other bank-offered rates. At August 31, 2013 and 2012, no amount was borrowed under the available line of credit.

NMH has standby bond purchase agreements (SBPAs) with multiple banks that cover all of its variable-rate demand revenue bonds (VRDBs). The short-term credit rating for each series of VRDBs is based on the respective bank's short-term credit rating. The long-term credit rating for

Northwestern Memorial HealthCare and Subsidiaries

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

6. Long-Term Debt (continued)

each series of VRDBs is based on NMH's long-term credit rating. Changes in credit ratings may impact the interest paid on or remarketing of the VRDBs. The banks provide liquidity support in the event of a failed remarketing as follows:

	<u>Par Value</u>	<u>Expiration Date</u>
Series 2008A	\$ 78,775	July 2017
Series 2002C	27,450	July 2017
Series 2007A	209,500	December 2014

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

Scheduled principal repayments for the next five years, assuming remarketing of VRDBs, on long-term debt are as follows:

Year ending August 31:	
2014	\$ 13,435
2015	14,095
2016	14,785
2017	15,515
2018	16,215

The provisions under the respective debt agreements require the Obligated Group to maintain reporting, financial, and other covenants. At August 31, 2013, the Obligated Group was in compliance with these provisions.

Northwestern Memorial HealthCare and Subsidiaries

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

6. Long-Term Debt (continued)

Northwestern Memorial paid interest of \$37,672 in 2013 and \$40,012 in 2012 (which includes \$8,684 and \$10,570, respectively, for net swap payments included in interest expense in the accompanying consolidated statements of operations and changes in net assets). Northwestern Memorial capitalized interest of \$3,612 and \$2,452 in 2013 and 2012, respectively.

7. Derivatives

Northwestern Memorial's only derivative financial instruments are interest rate swaps, which NMH maintains on its 2007A VRDBs for the sole purpose of risk management. These bonds expose NMH to variability in interest payments due to changes in interest rates. To manage fluctuations in cash flows resulting from interest rate risk, NMH entered into various interest rate swap agreements. These swaps limit the variable-rate cash flow exposure on the VRDBs to synthetically fixed cash flows. By using interest rate swaps to manage the risk of changes in interest rates, NMH exposes itself to credit risk and market risk. Credit risk is the risk that a counterparty will fail to perform under the terms of a derivative contract. When the fair value of a swap is positive, the counterparty owes NMH, which creates credit risk for NMH. When the fair value of a swap is zero or negative, the counterparty does not owe NMH. NMH minimizes the credit risk in its swap contracts by entering into transactions that require the counterparty to post collateral for the benefit of NMH based on the credit rating of the counterparty and the fair value of the swap contract. The aggregate fair value of the swaps on the consolidated balance sheets as of August 31, 2013 and 2012, reflects a reduction of \$2,305 and \$9,497, respectively, for nonperformance risk. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their swap positions in the context of their total blended cost of capital. As shown in the summary below, three interest rate swaps were terminated with their counterparties in February 2013. This termination resulted in the recognition of \$2,467 of unamortized deferred gain remaining from the de-designation as hedging instruments.

Northwestern Memorial HealthCare and Subsidiaries

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

7. Derivatives (continued)

The following is a summary of the outstanding positions under existing interest rate swap agreements at August 31, 2013 and 2012:

Notional Amount		Maturity Date	Rate Paid	Rate Received
2013	2012			
\$ 104,750	\$ 105,300	August 2042	3.889%	63% of LIBOR + 28 bps
104,750	105,300	August 2042	3.889	63% of LIBOR + 28 bps
—	35,250	May 2035	3.310	63% of LIBOR + 28 bps
—	35,250	May 2035	3.310	63% of LIBOR + 28 bps
—	43,200	May 2035	3.313	63% of LIBOR + 28 bps
<u>\$ 209,500</u>	<u>\$ 324,300</u>			

The fair value of derivative instruments at August 31 is as follows:

	Balance Sheet Location	Liabilities	
		2013	2012
Derivatives not designated as hedging instruments:			
Interest rate contracts	Interest rate swaps	\$ 43,916	\$ 104,503

Northwestern Memorial HealthCare and Subsidiaries

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

7. Derivatives (continued)

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for 2013 and 2012 are as follows:

Interest Rate Contracts	Amount of Gain (Loss) Recognized in Excess of Revenue Over Expenses on Derivatives	
	2013	2012
Derivatives not designated as hedging instruments:		
Operating expense – interest	\$ (8,684)	\$ (10,570)
Nonoperating – change in fair value of interest rate swaps	40,585	(30,533)

NMH's derivative instruments contain provisions that require NMH's debt to maintain an investment-grade credit rating from certain major credit rating agencies. If NMH's debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing collateralization on derivative instruments in net liability positions. NMH has posted collateral of \$0 and \$20,451 as of August 31, 2013 and 2012, respectively. If the credit risk-related contingent features underlying these agreements were triggered to the fullest extent on August 31, 2013, NMH would be required to post \$46,221 of collateral to its counterparties.

8. Income Tax Status

NMHC, NMH, NLFH, the Foundation, HFI, and NMPG are qualified under the Internal Revenue Code (the Code) as tax-exempt organizations and are exempt from tax on income related to their tax-exempt purposes under Section 501(a) of the Code. Accordingly, no income taxes are provided for the majority of the income in the accompanying consolidated financial statements for these corporations. NMHC, NMH, NLFH, HFI, and the Foundation had unrelated business income (UBI) generated primarily through limited partnerships within the investment portfolio and the sale of certain services that are not directly related to patient care. NMHC, NMH, NLFH, HFI, and the Foundation have unused net operating loss carryforwards available to offset the UBI tax. The net operating loss carryforwards expire through 2029. The deferred tax

Northwestern Memorial HealthCare and Subsidiaries

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

8. Income Tax Status (continued)

assets associated with these net operating loss carryforwards of \$3,736 and \$4,708 at August 31, 2013 and 2012, respectively, are offset by valuation allowances on the consolidated balance sheets of \$3,736 and \$4,708, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible.

NMIC is incorporated under the laws of the Cayman Islands. The Cayman Islands government imposes no tax on income or capital gains, and NMIC has received an undertaking from the Cayman Islands government exempting it from future income and capital gains taxes until March 25, 2023. However, NMIC is subject to U.S. federal corporate taxation to the extent that it generates net income that is effectively connected with a U.S. trade or business. NMIC is not engaged in any such trade or business in the U.S. In addition, distributions that NMH receives from NMIC are treated as dividends and, as such, are not taxable to NMH. Therefore, no income tax provision has been recorded related to NMIC and its operations.

Interest and penalties on income taxes, when incurred, are included in operating expenses.

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at August 31:

	2013	2012
Health care services:		
Purchase of property and equipment	\$ 16,638	\$ 15,287
Operating expenses and charity care	48,737	49,820
Research, education, and other	92,307	90,156
	<u>\$ 157,682</u>	<u>\$ 155,263</u>

Northwestern Memorial HealthCare and Subsidiaries

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

9. Temporarily and Permanently Restricted Net Assets (continued)

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

	2013	2012
Health care services:		
Purchase of property and equipment	\$ 1,248	\$ 1,579
Operating expenses and charity care	12,473	8,286
Research, education, and other	17,601	18,946
	<u>\$ 31,322</u>	<u>\$ 28,811</u>

Permanently restricted net assets at August 31, 2013 and 2012, are summarized below, the income from which is expendable to support:

	2013	2012
Health care services:		
Purchase of property and equipment	\$ 14,304	\$ 13,415
Operating expenses and charity care	68,420	68,754
Research, education, and other	68,018	59,602
	<u>\$ 150,742</u>	<u>\$ 141,771</u>

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

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

Northwestern Memorial HealthCare and Subsidiaries

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

9. Temporarily and Permanently Restricted Net Assets (continued)

for expenditure, consistent with the donor intent or, where silent, standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Northwestern Memorial considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

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

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

Northwestern Memorial HealthCare and Subsidiaries

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

9. Temporarily and Permanently Restricted Net Assets (continued)

Northwestern Memorial has a policy that limits annual spending from endowment funds to 4% of the endowment fund balance at the midpoint of the preceding fiscal year. In establishing this policy, Northwestern Memorial considered the long-term expected return on its endowment. Accordingly, over the long term, Northwestern Memorial expects the spending policy to allow its endowment to grow at an average annual rate of 2%. This is consistent with its objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term, as well as to provide additional real growth through new gifts and investment return.

The changes in endowment net assets for the years ended August 31, 2013 and 2012, are summarized below:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 1, 2011	\$ 52,833	\$ 126,329	\$ 179,162
Contributions	(535)	16,347	15,812
Change in value of trusts	(62)	(1,025)	(1,087)
Investment return	8,269	—	8,269
Appropriation for expenditure	(5,199)	—	(5,199)
Other	(322)	120	(202)
Endowment net assets, August 31, 2012	54,984	141,771	196,755
Contributions	1,573	2,364	3,937
Change in value of trusts	32	1,057	1,089
Investment return	5,924	—	5,924
Appropriation for expenditure	(8,113)	—	(8,113)
Other	(5,472)	5,550	78
Endowment net assets, August 31, 2013	\$ 48,928	\$ 150,742	\$ 199,670

Northwestern Memorial HealthCare and Subsidiaries

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

10. Pledges Receivable

As of August 31, 2013, donor-restricted pledges are expected to be realized as follows:

Less than one year	\$ 1,616
One to five years	28,204
Thereafter	<u>4,115</u>
Total pledges receivable	33,935
Less discount and allowance	<u>5,425</u>
Net pledges receivable	<u>\$ 28,510</u>

11. Net Patient Revenue

Northwestern Memorial recognizes patient revenue associated with services provided to patients who have third-party payor coverage with Medicare, Medicaid, Blue Cross, other managed care programs, and other third-party payors on the basis of the contractual rates for the services rendered at the time services are provided. Payment arrangements with those payors include prospectively determined rates per admission or visit, reimbursed costs, discounted charges, and per diem rates. Reported costs and/or services provided under certain of the arrangements are subject to retroactive audit and adjustment. Net patient revenue increased by \$15,208 in 2013 and decreased by \$720 in 2012 as a result of changes in estimates due to final prior fiscal years' cost report settlements and the disposition of other payor audits and settlements. Changes in Medicare and Medicaid programs and reduction in funding levels could have an adverse effect on Northwestern Memorial.

Northwestern Memorial also provides care to self-pay patients. Under its Free and Discounted Care Policy (the Policy), Northwestern Memorial provides medically necessary care to patients in its community with inadequate financial resources at discounts of up to 100% of charges using a sliding scale that is based on patient household income as a percentage (up to 600%) of the Federal Poverty Level Guidelines. The Policy also contains a catastrophic financial assistance provision that limits a patient's total financial responsibility to Northwestern Memorial. Since Northwestern Memorial does not pursue collection of these amounts, they are not reported as patient revenue. The Policy has not changed in fiscal year 2013 or 2012. Northwestern Memorial recognizes patient revenue on services provided to these patients at the discounted rate at the time services are rendered.

Northwestern Memorial HealthCare and Subsidiaries

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

11. Net Patient Revenue (continued)

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

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

For the years ended August 31, 2013 and 2012, patient service revenue (including patient co-pays and deductibles), net of contractual allowances and discounts (but before the provision for uncollectible accounts) by primary payor source was as follows:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 353,963	\$ 365,081
Medicaid	153,115	151,854
Other third-party payors	1,097,297	1,081,831
Patients	18,598	15,357
	<u>\$ 1,622,973</u>	<u>\$ 1,614,123</u>

Medicaid patient service revenue includes revenue received through the Illinois Hospital Assessment Program (see Note 12).

Northwestern Memorial HealthCare and Subsidiaries

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

11. Net Patient Revenue (continued)

Northwestern Memorial grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. At August 31, 2013 and 2012, patient accounts receivable, including patient co-pays and deductibles by major primary payor source, before deducting estimated uncollectibles, were as follows:

	2013	2012
Medicare	16%	14%
Medicaid	11	21
Blue Cross	21	21
Other managed care	31	30
Other third-party payors	13	7
Patients	8	7
	<u>100%</u>	<u>100%</u>

Patient accounts receivable, net of contractual adjustments, were \$287,384 and \$318,811 as of August 31, 2013 and 2012, respectively, or 17.7% and 19.8% of patient revenue for the fiscal years then ended. The related allowance for uncollectible accounts was \$41,721 and \$39,036, or 14.5% and 12.2%, of the related patient accounts receivable, net of contractual adjustments as of August 31, 2013 and 2012, respectively. The allowance for uncollectible accounts as a percent of patient accounts receivable, net of contractual allowances, has increased mainly due to the increase in patients' (self-pay) accounts receivables at August 31, 2013, compared to August 31, 2012, compounded by decreases in Medicaid patients' accounts receivables, net of contractual allowances as of August 31, 2013 and August 31, 2012. This decrease was primarily due to the increased cash collections received from the state of Illinois in 2013, offsetting slower cash collections experienced by the Hospital at August 31, 2012.

12. Illinois Hospital Assessment Program

In December 2008, the Illinois Hospital Assessment Program (HAP) was approved by the Federal Centers for Medicare and Medicaid Services for the period from July 1, 2008 through June 30, 2013. Under HAP, the state receives additional federal Medicaid funds for the state's health care system, administered by the Illinois Department of Healthcare and Family Services. HAP includes both a payment to NMH and NLFH from the state and an assessment (the provider tax) against NMH and NLFH, which is paid to the state in the same year. Included in the

Northwestern Memorial HealthCare and Subsidiaries

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

12. Illinois Hospital Assessment Program (continued)

accompanying consolidated statements of operations and changes in net assets for the years ended August 31, 2013 and 2012, respectively, are \$56,216 and \$57,915 of patient service revenue and \$41,395 and \$41,395 of assessment.

13. Functional Expenses

Northwestern Memorial provides general health care services primarily to residents within its geographic location and supports research and education programs. For the years ended August 31, 2013 and 2012, expenses related to providing these services were as follows:

	2013	2012
Health care services	\$ 1,168,571	\$ 1,259,815
Research and education	99,413	64,030
Fund-raising	5,632	7,532
General, administrative, and other	304,703	281,855
	<u>\$ 1,578,319</u>	<u>\$ 1,613,232</u>

The research and education costs include \$5,154 and \$7,553 of expenses supported by federal, state, and corporate grants and \$12,447 and \$11,393 of expenses supported by other donor-restricted funds in 2013 and 2012, respectively.

14. Commitments and Contingencies

Academic, Program, and Other Support

Consistent with its mission, Northwestern Memorial provides academic, program, and other support to other not-for-profit entities. The present value of the total remaining commitments related to this support is \$262,016 and \$134,842 at August 31, 2013 and 2012, respectively, which is reported as grants and academic support payable in the accompanying consolidated balance sheets.

The Alignment Agreement signed on September 1, 2012, between NMHC, NMFF, and Northwestern University (NU) furthers the mutual purpose and mission of the entities. This Alignment Agreement provided for a one-time grant for research of \$167,000 by Northwestern Memorial to NU. In addition, the agreement called for ongoing funding based on net patient

Northwestern Memorial HealthCare and Subsidiaries

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

14. Commitments and Contingencies (continued)

revenue (excluding HAP revenue) and operating income. The remaining commitment of this ongoing funding is \$18,156 as of August 31, 2013, and is reported in accrued expenses and other current liabilities in the accompanying consolidated balance sheet.

NMHC entered into a clinical affiliation agreement with NMFF as of September 1, 2013 (see Note 15). Pursuant to this agreement, the Alignment Agreement was amended and restated, effective as of September 1, 2013, to terminate the ongoing funding obligation described above.

Other

As of August 31, 2013, approximately 15% of Northwestern Memorial employees were represented by a collective bargaining agreement. This collective bargaining agreement does not expire within one year.

Capital and Leases

Various capital projects are currently being constructed that are expected to open over the next three years. The total estimated cost of these projects is approximately \$643,000. As of August 31, 2013, project commitments totaled \$345,384, of which \$195,228 has been incurred.

As part of the affiliation agreement with Lake Forest Hospital in 2010, Northwestern Memorial committed to a plan to refurbish or replace existing inpatient and outpatient facilities on the Lake Forest Campus within 10 years of the affiliation date (Replacement Project). The planning process for the Replacement Project is progressing on schedule. Any Replacement Project plans will be subject to obtaining a Certificate of Need along with other governmental approvals.

Northwestern Memorial HealthCare and Subsidiaries

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

14. Commitments and Contingencies (continued)

Certain Northwestern Memorial buildings are located on land leased from Northwestern University under various lease agreements. The principal lease requires annual payments of \$314 through 2075. At August 31, 2013, minimum future rental payments under other noncancelable operating leases, which consist primarily of leases for office space and equipment, some of which include renewal options, are as follows:

Year ending August 31:

2014	\$ 12,276
2015	10,211
2016	10,066
2017	9,973
2018	10,006
Thereafter	54,824

Regulatory

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

In addition, an increasing number of the operations or practices of not-for-profit health care providers has been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit, tax-exempt organizations. These challenges are broader than concerns about compliance with federal and state statutes and regulations of core business practices of the health care organizations. The laws and regulations regarding these practices are also subject to interpretation and challenge. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, community benefit, executive compensation, exemption of property from real property taxation, and others. Northwestern Memorial expects that the level of review and audit to which it and other health

Northwestern Memorial HealthCare and Subsidiaries

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

14. Commitments and Contingencies (continued)

care providers are subject will increase. There can be no assurance that regulatory authorities will not challenge Northwestern Memorial's compliance with these laws and regulations or that the laws and regulations themselves will not be subject to challenge, and it is not possible to determine the effect, if any, such claims or penalties would have on Northwestern Memorial.

Litigation

On October 25, 2012, NMH received a copy of the complaint in the lawsuit captioned *United States of America Ex Rel. Audra Soulias v. Northwestern University and Northwestern Memorial Hospital*, 10-cv-07233 (N.D. Ill.). Plaintiff Soulias originally filed the lawsuit in November, 2010, but the case remained under seal until July 9, 2012, at which time the United States Department of Justice declined to intervene in the suit. The complaint alleged that NMH violated the False Claims Act by submitting Medicare claims for services that were part of federally funded clinical research, and thus caused the federal government to pay twice for the same patient care services. The case was dismissed with prejudice on July 24, 2013.

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

15. Affiliation Agreement With Northwestern Medical Faculty Foundation

On September 1, 2013, NMFF (now doing business as Northwestern Medical Group, or NMG) became a wholly owned subsidiary of NMHC pursuant to a clinical affiliation agreement by and between NMHC and NMFF. NU is a signatory to the agreement for certain purposes. NMFF is an academic faculty practice plan with approximately 900 physicians and 1,500 additional health professionals and other staff. NMFF's physicians embody the traditional three areas of academic medicine – clinical care, research, and education – and work in an array of medical and surgical specialties and subspecialties. The majority of the physicians serve as full-time faculty at FSM and as members of the medical staff of NMH and NLFH. This affiliation positions Northwestern Memorial for expected market changes, including national healthcare reform, by providing the platform for improving the patient experience through improved quality across care settings and enhanced care coordination. It also allows for better coordination with NU/FSM to enhance support of the research, education and clinical missions of the organizations.

Northwestern Memorial HealthCare and Subsidiaries

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

15. Affiliation Agreement With Northwestern Medical Faculty Foundation (continued)

The affiliation was effected through a membership substitution. A one-time payment, estimated to be approximately \$225 million, will be provided to FSM in furtherance of the shared mission of the three organizations. The final amount of the payment will be based primarily on NMFF's unrestricted net assets as of August 31, 2013. Initial payments of cash and investments of \$220,475 were transferred to FSM in September 2013. For accounting purposes, this transaction is considered an acquisition under ASC 954-805, *Not-for-Profit Entities: Business Combinations*.

Pursuant to the agreement, Northwestern Memorial will provide ongoing funding to NU in support of the research and education mission of FSM. This ongoing funding is based on the average net patient revenue and operating results of Northwestern Memorial, with the minimum annual amount of such funding being \$39,500 plus CPI for fiscal years 2014 through 2016.

The preliminary one-time payment and fair value of assets and liabilities of NMFF at September 1, 2013, consist of the following:

Payment to NU	\$ 224,748
Cash and cash equivalents	56,585
Other current assets	141,978
Property and equipment	84,775
Other long-term assets	355,263
Current liabilities	(162,183)
Long-term debt	(59,424)
Other long-term liabilities	(182,791)
Temporarily restricted net assets	(47,456)
Fair value of identifiable net assets	186,747
Goodwill	\$ 38,001

The valuation of property and equipment, other current and long-term assets, including identifiable intangible assets, and current and long-term liabilities is in the process of being completed and is expected to be completed in fiscal 2014.

Following are the unaudited pro forma results of the years ended August 31, 2013 and 2012, as if the affiliation had occurred on September 1, 2011:

	2013	2012
Total operating revenue	\$ 2,258,411	\$ 2,206,289
Operating income	144,237	126,674
Excess of revenue over expenses	293,840	132,164

Northwestern Memorial HealthCare and Subsidiaries

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

15. Affiliation Agreement with Northwestern Medical Faculty Foundation (continued)

The pro forma information provided should not be construed to be indicative of Northwestern Memorial's results of operations had the affiliation been consummated on September 1, 2011, and is not intended to project Northwestern Memorial's results of operations for any future period.

16. Subsequent Events

Northwestern Memorial evaluated events and transactions occurring subsequent to August 31, 2013 through November 21, 2013, the date of issuance of the consolidated financial statements. There were no unrecognized subsequent events requiring disclosure, except as noted in Note 15 and below.

Effective September 13, 2013, NMG and its not-for-profit subsidiary, Northwestern Foundation for Research and Education, d/b/a Northwestern Management Services (NMS), became members of the obligated group created under the Amended and Restated Master Trust Indenture dated as of May 1, 2004, as supplemented and amended (the NMHC Master Indenture), among NMHC, NMH, NMPG, NLFH, the Foundation, HFI, and Wells Fargo Bank, N.A., as master trustee. The bond trustee for the \$62,095 in aggregate principal amount of tax-exempt bonds issued for the benefit of NMG (the NMG Bonds) accepted a promissory note issued by NMHC under the NMHC Master Indenture as security for the NMG Bonds in substitution for the note previously securing the NMG Bonds. The bondholder accepted a promissory note issued by NMHC under the NMHC Master Indenture related to the purchase by the bondholder of the NMG Bonds in substitution for the note previously issued under the NMG Master Indenture, and the bondholder and other lenders also accepted promissory notes issued by NMHC under the NMHC Master Indenture related to an \$80,000 currently undrawn revolving line of credit now available to NMHC in substitution for the notes previously securing the line of credit. As a result of these transactions, NMG and NMS are both members of the obligated group created under the NMHC Master Indenture and have joint and several liability for all of the outstanding debt secured thereunder. The NMG master trust indenture, together with the master notes issued thereunder, has been terminated.

18a. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Northwestern Memorial HealthCare (NMHC)

Signature of Authorized Officer



Typed or Printed Name of Authorized Officer Dean M. Harrison

Title of Authorized Officer: President and Chief Executive Officer, Northwestern Memorial HealthCare

Address: 251 East Huron Street

City, State & Zip Code: Chicago, IL 60611

Telephone (312) 926-3007

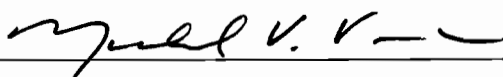
Date:

5/15/14

18b. CERTIFICATION

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the number of beds within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

CDH-Delnor Health System (Cadence Health)

Signature of Authorized Officer 

Typed or Printed Name of Authorized Officer Michael V. Vivoda

Title of Authorized Officer: President and Chief Executive Officer, Cadence Health

Address: 25 North Winfield Road

City, State & Zip Code: Winfield, IL 60190

Telephone (630) 933-5066 Date: 5-15-14

Section 1130.520 Information Requirements

Affirmations

1. Northwestern Memorial HealthCare affirms that the categories of service and number of beds as reflected in the Inventory of Health Care Facilities for Cadence Health will not substantially change for at least 12 months following the project's completion date.
2. Northwestern Memorial HealthCare certifies that the transaction agreement that has been signed by both Northwestern Memorial HealthCare and Cadence Health, contains a provision that execution is subject to HFSRB issuance of an exemption and contains the conditions and terms of change of ownership.
3. Northwestern Memorial HealthCare certifies that there has been no adverse action taken against any healthcare facility owned and operated by them by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois within the past three years.
4. There is no acquisition price for the transaction therefore Northwestern Memorial HealthCare does not need any funding to finance the terms of the change of ownership agreement. However, proof of NMHC's bond rating is provided in ATTACHMENT #6.
5. Northwestern Memorial HealthCare affirms that ownership and control of Cadence Health will be maintained by NMHC for a minimum of three years following the receipt of the Certificate of Exemption for Change of Ownership.
6. Northwestern Memorial HealthCare affirms that any projects for which Certificate of Need or Certificate of Exemption permits have been issued have been completed or will be completed or altered in accordance with the provisions in Section 1130.520.
7. Northwestern Memorial HealthCare hereby affirms that Cadence Health will not adopt a more restrictive charity care policy than the policy in effect one year prior to the transaction. Cadence Health will maintain the compliant charity care policy for two-years, following the change of ownership transaction.
8. Northwestern Memorial HealthCare affirms that it understands that failure to complete the change of ownership of Cadence Health in accordance with the applicable provision of Section 1130.500(d) no later than 24 months from the date of exemption approval and failure to comply with the material change requirements of this Section will invalidate the exemption.

Signature of Authorized Officer:
Typed Name of Authorized Officer:
Title of Authorized Officer:



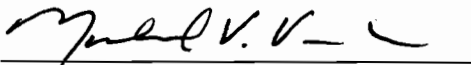
Dean M. Harrison
President and Chief Executive Officer
Northwestern Memorial HealthCare

Section 1130.520 Information Requirements

Affirmations

1. Cadence Health affirms that the categories of service and number of beds as reflected in the Inventory of Health Care Facilities for Cadence Health will not substantially change for at least 12 months following the project's completion date.
2. Cadence Health certifies that the transaction agreement that has been signed by both Northwestern Memorial HealthCare and Cadence Health, contains a provision that execution is subject to HFSRB issuance of an exemption and contains the conditions and terms of change of ownership.
3. Cadence Health certifies that there has been no adverse action taken against any healthcare facility owned and operated by them by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois within the past three years.
4. There is no acquisition price for the transaction therefore Northwestern Memorial HealthCare does not need any funding to finance the terms of the change of ownership agreement. However, proof of NMHC's bond rating is provided in ATTACHMENT #6.
5. Cadence Health affirms that ownership and control of Cadence Health will be maintained by NMHC for a minimum of three years following the receipt of the Certificate of Exemption for Change of Ownership.
6. Cadence Health affirms that any projects for which Certificate of Need or Certificate of Exemption permits have been issued have been completed or will be completed or altered in accordance with the provisions in Section 1130.520.
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Signature of Authorized Officer:
Typed Name of Authorized Officer:
Title of Authorized Officer:


Michael V. Vivoda
President and Chief Executive Officer
Cadence Health