

[ORIGINAL]

E-021-13

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

RECEIVED

SEP 20 2013

HEALTH FACILITIES &
SERVICES REVIEW BOARD

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name: Northwest Community Day Surgery Center

Address: 675 West Kirchoff Road

City: Arlington Heights Zip Code: 60005 County: Cook

Name of current licensed entity for the facility: Northwest Community Day Surgery Center, Inc.

Does the current licensee: own this facility Yes OR lease this facility _____ (if leased, check if sublease)

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

X 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. Matt Murphy

State Senate District Number: 27 Mailing address of the State Senator: 1 East Northwest Highway, Suite 109, Palatine, Illinois 60067

Illinois State Representative for the district where the facility is located: Rep. Thomas Morrison

State Representative District Number: 54 Mailing address of the State Representative: 117 East Palatine Road, Suite 106, Palatine, Illinois 60067

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 #: _____

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

Exact Legal Name of Applicant: Northwest Community Day Surgery Center Inc.

Address: 675 West Kirchoff Road

City, State & Zip Code: Arlington Heights, Illinois 60005

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

X 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: Northwest Community Day Surgery Center II LLC

Address: 675 West Kirchoff Road, Arlington Heights, Illinois 60005

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

_____ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental

X 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: Northwest Community Day Surgery Center Inc.

Address: 675 West Kirchoff Road, Arlington Heights, Illinois 60005

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

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

Exact Legal Name of Applicant: Northwest Community Healthcare

Address: 800 West Central Road

City, State & Zip Code: Arlington Heights, Illinois 60005

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

Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental

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- 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:** \$4,600,000 (See Explanatory Note 9 for additional information)
- 10. FAIR MARKET VALUE OF THE FACILITY:** \$4,600,000 (See Explanatory Note 10 for additional information) (to determine fair market value, refer to 77 IAC 1130.140)
- 11. DATE OF PROPOSED TRANSACTION:** November 6, 2013
- 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: Edward J. Green, Esq., Foley & Lardner LLP
Address: 321 North Clark Street, Suite 2800
City, State & Zip Code: Chicago, Illinois 60654
Telephone: 312-832-4375

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

Name: Wendy L. Rubas, Esq., Vice President & General Counsel, Northwest Community Healthcare
Address: 800 West Central Road
City, State & Zip Code: Arlington Heights, Illinois 60005
Telephone: 847-618-5006

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: _____

Typed or Printed Name of Authorized Officer: Stephen O. Scogna

Title of Authorized Officer: President & CEO, Northwest Community Day Surgery Center, Inc.

Address: 675 West Kirchoff

City, State & Zip Code: Arlington Heights, Illinois 60005

Telephone: (847) 618-5018

Date: 09/09/2013

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

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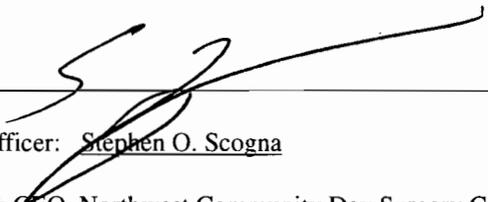
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Typed or Printed Name of Authorized Officer: Stephen O. Scogna

Title of Authorized Officer: President & CEO, Northwest Community Day Surgery Center II LLC

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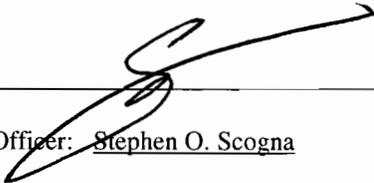
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Telephone: (847) 618-5018

Date: 09/09/2013

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

Attachment 1
Application Fee

A check in the sum of Two Thousand, Five Hundred Dollars (\$2,500) and payable to the Illinois Department of Public Health is attached at Attachment 1.



Attachment 2
Funding

Because this Transaction is merely transferring assets (and liabilities) between two wholly owned affiliates of NCH, no funds are necessary to consummate the Transaction.

Attachment 3
Narrative

Northwest Community Healthcare (“NCH”), Northwest Community Day Surgery Center Inc. (“DSC Inc.”), and Northwest Community Day Surgery Center II LLC (“DSC LLC”) hereby seek a Certificate of Exemption (“COE”) from the Illinois Health Facilities & Services Review Board (the “Board”) to allow consummation of the proposed transaction (the “Transaction”) set forth in that certain Asset Transfer Agreement and Assignment and Assumption Agreement (the “Asset Transfer Agreement”) executed by DSC Inc. and DSC LLC.

As set forth below, DSC Inc. and DSC LLC are wholly owned affiliates of NCH. Thus, the Transaction is merely the transfer of assets (and liabilities) between two wholly owned affiliates of NCH.

NCH, DSC Inc., and DSC LLC are collectively referred to as the “Applicants.”

NCH provides comprehensive, coordinated care to patients in Arlington Heights, Illinois, and surrounding communities through its affiliates and subsidiaries, including, but not limited to, Northwest Community Hospital and DSC Inc.

NCH is the sole corporate member of DSC Inc. DSC Inc. operates a licensed ambulatory surgical treatment center located at 675 West Kirchoff Road, Arlington Heights, Illinois (the “Day Surgery Center”). DSC Inc. also owns the physical plant (and the improvements located therein) that houses the Day Surgery Center (the “Day Surgery Facility”).

In the fall of 2012, as part of its physician alignment strategy, NCH and DSC Inc. determined that it was in the best interests of NCH and DSC Inc. to explore a possible corporate conversion and syndication of DSC Inc. which would ultimately enable the medical staff of DSC Inc. and other physicians in the community served by NCH and DSC Inc. (collectively, the “Day Surgery Physicians”) to purchase a minority interest in the operations of the Day Surgery Center (the “Day Surgery Business”), but excluding the Day Surgery Facility.

In the fall and winter of 2012 and the spring of 2013, NCH and DSC Inc. met with the Day Surgery Physicians to ascertain their interest in a possible corporate conversion and syndication of DSC Inc. which would ultimately enable the Day Surgery Physicians to purchase a minority interest in the Day Surgery Business, excluding the Day Surgery Facility. The Day Surgery Physicians expressed a strong interest in a possible corporate conversion and syndication of DSC Inc. which would ultimately enable the Day Surgery Physicians to purchase a minority interest in the Day Surgery Business, excluding the Day Surgery Facility.

In 2013, an independent valuation firm, experienced in the valuation of licensed ambulatory surgical treatment centers, previously engaged by NCH and DSC Inc., valued the Day Surgery Business, excluding the Day Surgery Facility, as being worth approximately \$4,600,000.

On September 18, 2013, NCH organized DSC LLC. NCH owns one hundred percent (100%) of the membership units of DSC LLC.

On September 18, 2013, DSC Inc. and DSC LLC entered into the Asset Transfer Agreement. Pursuant to the Asset Transfer Agreement, DSC Inc. agreed to transfer substantially all of the assets and liabilities of the Day Surgery Center (i.e., the Day Surgery Business), excluding the Day Surgery Facility, to DSC LLC. The Asset Transfer Agreement set the transfer price for the Day Surgery Business, excluding the Day Surgery Facility, at \$4,600,000.

This COE seeks permission from the Board to consummate the Transaction set forth in the Asset Transfer Agreement.

Upon the approval of this COE, NCH and DSC LLC intend to sell no less than forty percent (40%), but no more than a forty nine percent (49%), of the membership units in DSC LLC to the Day Surgery Physicians (the "Syndication"). The Syndication will value the Day Surgery Business, excluding the Day Surgery Facility, at \$4,600,000. No Day Surgery Physician will be allowed to purchase more than a two and one-half percent (2.5%) interest in DSC LLC. After the Transaction and prior to the Syndication, Day Surgery LLC and Day Surgery Inc. will also enter into a fair market value lease for the Day Surgery Facility.

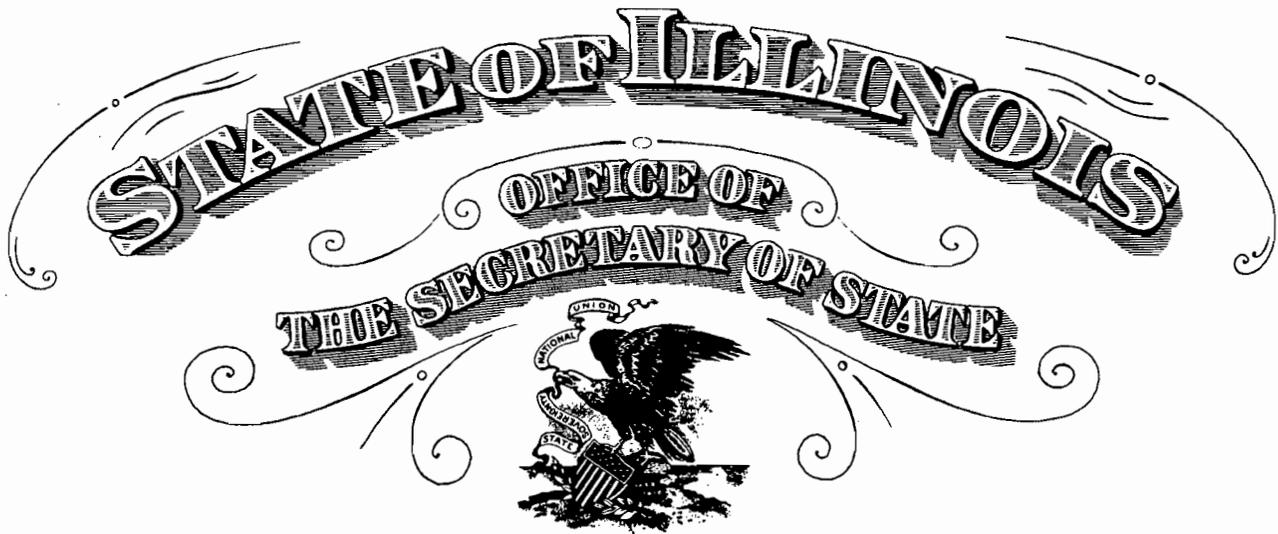
Because the Transaction involves the assignment or transfer of assets that will result in the issuance of a license to an entity different from the current licensee of the Day Surgery Center (i.e., DSC Inc.), the Transaction constitutes a change of ownership under Section 1130.140 of the Board's rules. The Transaction is contingent upon the approval of the Board and the granting of a COE.

The Transaction is expected to close on November 6, 2013.

Attachment 4
Background of Applicants

The following documents are attached at Attachment 4:

1. Certificate of Good Standing for Northwest Community Healthcare (issued by the Illinois Secretary of State).
2. Certificate of Good Standing for Northwest Community Day Surgery Center Inc. (issued by the Illinois Secretary of State).
3. Certificate of Good Standing for Northwest Community Day Surgery Center II LLC (issued by the Illinois Secretary of State).
4. Organizational chart for the Day Surgery Center prior to and following the Transaction.



To all to whom these Presents Shall Come, Greeting:

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

NORTHWEST COMMUNITY HEALTHCARE, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON FEBRUARY 11, 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.



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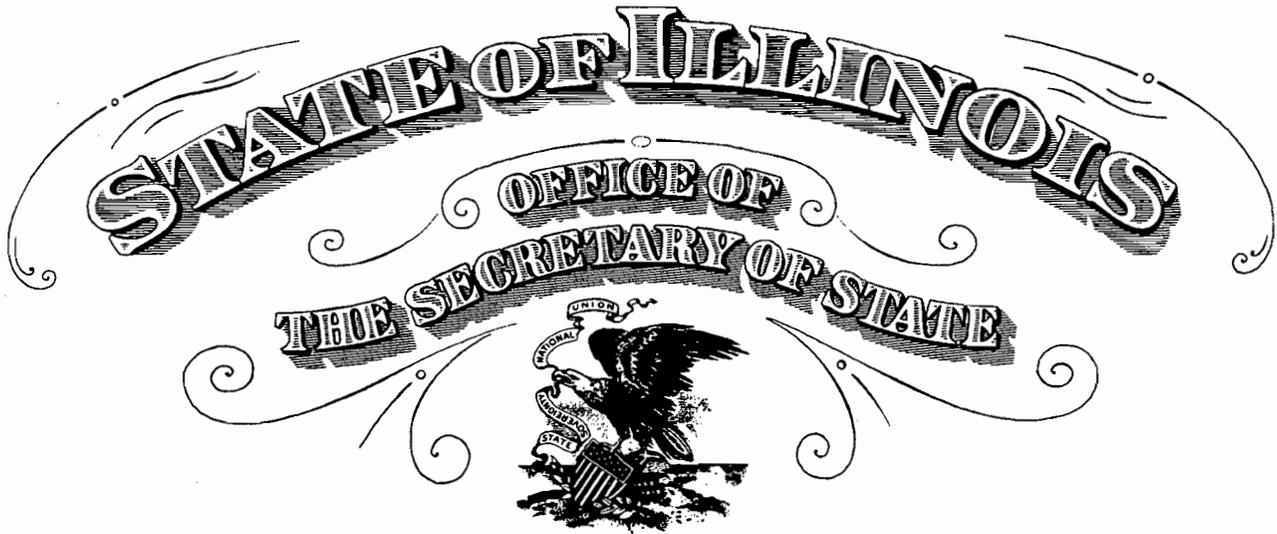
Authenticate at: <http://www.cyberdriveillinois.com>

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 19TH day of SEPTEMBER A.D. 2013 .*

Jesse White

SECRETARY OF STATE

ATTACHMENT



To all to whom these Presents Shall Come, Greeting:

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

NORTHWEST COMMUNITY DAY SURGERY CENTER, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JUNE 19, 1987, 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.



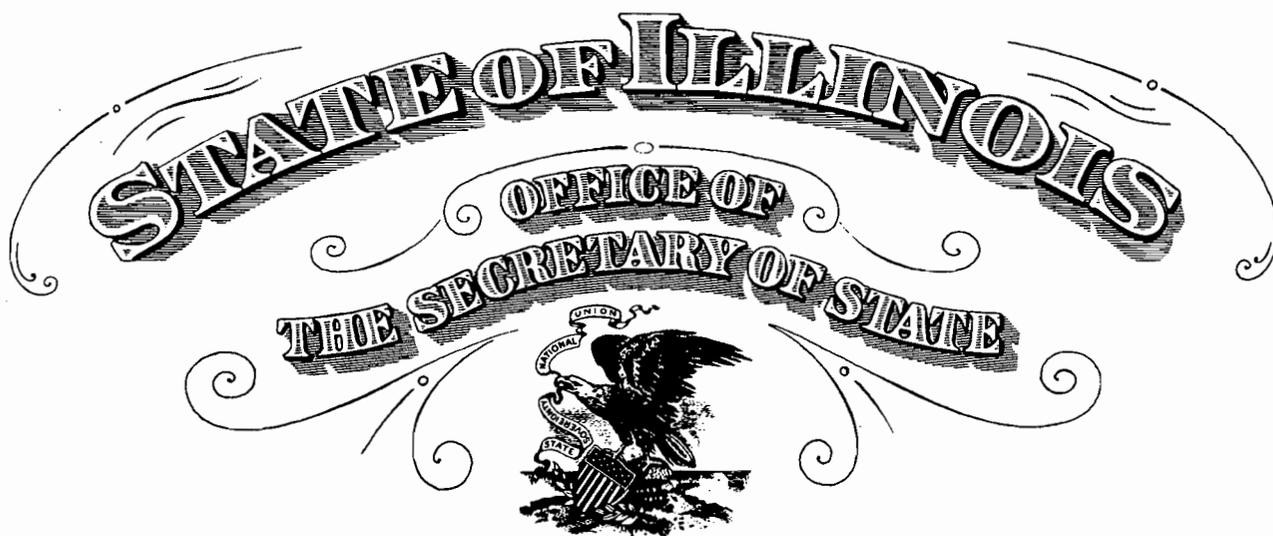
In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 19TH day of SEPTEMBER A.D. 2013 .

Jesse White

SECRETARY OF STATE

Authentication #: 1326201812

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



To all to whom these Presents Shall Come, Greeting:

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

NORTHWEST COMMUNITY DAY SURGERY CENTER II LLC, HAVING ORGANIZED IN THE STATE OF ILLINOIS ON SEPTEMBER 18, 2013, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A DOMESTIC LIMITED LIABILITY COMPANY IN THE STATE OF ILLINOIS.



Authentication #: 1326200568

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 19TH day of SEPTEMBER A.D. 2013 .

Jesse White

SECRETARY OF STATE

Ownership of Day Surgery Center Prior to Transaction

Northwest Community Healthcare
(Not for Profit)

Northwest Community Same Day Surgery Center, Inc.
(Not for Profit)

Ownership of Day Surgery Center After Transaction

Northwest Community Healthcare
(Not for Profit)

Northwest Community Same Day Surgery Center II LLC
(For Profit)

Attachment 5
Transaction Documents

On September 18, 2013, DSC Inc. and DSC LLC executed the Asset Transfer Agreement regarding the Transaction. A copy of the Asset Transfer Agreement is attached at Attachment 5.

**ASSET TRANSFER AGREEMENT AND
ASSIGNMENT AND ASSUMPTION AGREEMENT**

THIS ASSET TRANSFER AGREEMENT AND ASSIGNMENT AND ASSUMPTION AGREEMENT (this "Agreement"), effective as of 12:01 a.m., Central Time, on _____ (the "Effective Time"), is made and entered into by and between Northwest Community Day Surgery Center, Inc., an Illinois not-for-profit corporation ("Transferor"), and Northwest Community Day Surgery Center II LLC, an Illinois limited liability company ("Transferee").

RECITALS

WHEREAS, Transferor operates a licensed ambulatory surgical treatment center located at 675 West Kirchoff Road, Arlington Heights, Illinois (the "Surgery Center");

WHEREAS, Transferor owns the facility (and the improvements located therein) that houses the Surgery Center (the "Facility");

WHEREAS, in 2013, an independent valuation firm, experienced in the valuation of licensed ambulatory surgical treatment centers, valued the business of the Surgery Center (the "Business"), excluding the Facility, as being worth approximately \$4,600,000; and

WHEREAS, Transferor and Transferee desire to cause the transfer of substantially all of the assets and liabilities of the Business, excluding the Facility, to Transferee, subject to the terms of this Agreement.

NOW, THEREFORE, in consideration of the above premises and the mutual promises and covenants herein contained, the parties agree as follows:

1. Transfer of Assets.
 - a. Effective as of the Effective Time, Transferor hereby, conveys, assigns and delivers to Transferee, and Transferee hereby acquires and accepts, all of Transferor's right, title and interest in and to any and all assets of Transferor other than the Excluded Assets (the "Transferred Assets").
 - b. "Excluded Assets" means all right, title and interest of Transferor relating to the Facility.
2. Assignment and Assumption of Liabilities.
 - a. Effective as of the Effective Time, Transferor hereby assigns to Transferee, and Transferee hereby assumes, all liabilities and obligations of Transferor other than the Excluded Liabilities (the "Assumed Liabilities").
 - b. "Excluded Liabilities" means those liabilities and obligations of Transferor arising from Transferor's ownership of the Excluded Assets.

3. Assignment and Assumption of Contracts. Effective as of the Effective Time: (a) Transferor hereby transfers, assigns and delivers to Transferee all of its right, title and interest in, to and arising from any and all written and oral agreements to which Transferor is a party (collectively, the Assigned Contracts"); and (b) Transferee hereby assumes all duties and obligations of Transferor under the Assigned Contracts.

4. Transfer Price. The transfer price for the Business, excluding the Facility, transferred pursuant to this Agreement shall be \$4,600,000.

5. Further Assurance. From time to time, at Transferee's request and without further consideration, Transferor will execute and deliver to Transferee such documents and take such other action as Transferee may reasonably request in order to consummate more effectively the transactions contemplated hereby and to vest in Transferee good, valid and marketable title to the Transferred Assets, including cooperating with Transferee to secure required third-party consents and executing documents as may be necessary to enable Transferee to reflect the transfers contemplated hereby in any government office.

6. Agency. In the event that any Assigned Contract or any right or obligation constituting, or relating to, any Transferred Asset or Assumed Liability, is not capable of being transferred to Transferee until after the Effective Time, Transferee hereby appoints and authorizes Transferor to act as Transferee's agent with respect to such Assigned Contract, Transferred Asset or Assumed Liability from the Effective Time until such time as such Assigned Contract, Transferred Asset or Assumed Liability is fully transferred to, assigned to and assumed by Transferee.

7. Assignment; Parties in Interest.

a. No Assignment. The rights and obligations of a party hereunder may not be assigned, transferred or encumbered without the prior written consent of the other party.

b. Parties in Interest. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by the respective successors and permitted assigns of the parties hereto. Nothing contained herein shall be deemed to confer upon any other person any right or remedy under or by reason of this Agreement.

8. Nonassignable Contracts and Rights. Notwithstanding anything to the contrary in this Agreement, any contract, commitment, license, lease or other agreement of Transferor that is not permitted, or is not permitted to be assigned without the consent of any other party to the agreement ("Nonassignable Contract"), shall not be deemed to constitute an assignment of any such Nonassignable Contract if such consent is not given or if such assignment otherwise would constitute a breach of, or cause a loss of contractual benefits under, any such Nonassignable Contract. Transferor shall use commercially reasonable efforts to advise Transferee promptly in writing with respect to any Nonassignable Contract for which it knows or has reason to believe that any required consent will not be granted. Without in any way limiting Transferor's obligation to obtain all consents and waivers necessary for the assignment and delivery of the Nonassignable Contracts and the other Transferred Assets and Assumed Liabilities to Transferee hereunder, if any such consent is not obtained or if such assignment is not permitted irrespective of consent, Transferor shall cooperate with Transferee in any reasonable arrangement designed

to provide Transferee with the rights and benefits under the Nonassignable Contract, including enforcement for the benefit of Transferee of any and all rights of Transferor against any other person arising out of breach or cancellation by such other person and if requested by Transferee, acting as an agent on behalf of Transferee or as Transferee shall otherwise reasonably require, in each case at Transferee's cost.

9. Regulatory Commitments.

(a) Consistent with the requirements set forth by the Illinois Health Facilities & Services Review Board (the "IHFSRB"), Transferee will maintain the existing charity care policies and practices at the Surgery Center following the proposed transfer set forth in this Agreement, and for no less than two years thereafter.

(b) Consistent with the requirements set forth by the IHFSRB, Transferee will not substantially reduce any services at the Surgery Center for a period of at least 12 months following the proposed transfer set forth in this Agreement.

(c) Consistent with the requirements set forth by the IHFSRB, Transferee will not take measures to reduce access to care at the Surgery Center following the proposed transfer set forth in this Agreement.

(d) Consistent with the requirements set forth by the IHFSRB, Transferee will maintain a controlling interest in the Surgery Center for at least 36 months following the proposed transfer set forth in this Agreement.

(e) The effectiveness of the proposed transfer set forth in this Agreement is expressly conditioned upon the issuance of a Certificate of Exemption from the IHFSRB.

10. Law Governing Agreement. This Agreement shall be construed and interpreted according to the internal laws of the State of Illinois, excluding any choice of law rules that may direct the application of the laws of another jurisdiction.

11. Amendment and Modification. The parties may amend, modify and supplement this Agreement in such manner as may be agreed upon by them in writing.

12. Entire Agreement. This instrument embodies the entire agreement between the parties hereto with respect to the transactions contemplated herein, and there have been and are no agreements, representations or warranties between the parties other than those set forth or provided for herein.

13. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimile signatures shall be deemed original.

14. Headings. The headings in this Agreement are inserted for convenience only and shall not constitute a part hereof.

[Signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first written above.

TRANSFEROR:

**NORTHWEST COMMUNITY DAY SURGERY
CENTER, INC.**

By: _____
Name: _____
Title: _____



TRANSFeree:

**NORTHWEST COMMUNITY DAY SURGERY CENTER
II LLC**

By: Northwest Community Healthcare, its Manager

By: _____
Name: _____
Title: _____



Attachment 6
Financial Statements

The following documents are attached at Attachment 6:

1. Proof of Northwest Community Hospital's "A+" bond rating from Standard & Poor's Rating Services (August 26, 2013)
2. Proof of Northwest Community Hospital's "A2" bond rating from Moody's Investor's Services (dated as of April 4, 2012).
3. Northwest Community Healthcare's audited consolidated financial statements for the year ended September 30, 2012 (which includes comparative data for the year ended September 30, 2011).
4. Northwest Community Healthcare's audited consolidated financial statements for the year ended September 30, 2011 (which includes comparative data for the year ended September 30, 2010).

Northwest Community Healthcare is the sole corporate member of Northwest Community Hospital.

The financial results for Northwest Community Day Surgery Inc. are included in the consolidated financial statements for Northwest Community Healthcare.

Northwest Community Day Surgery Center II LLC was specifically organized for the purpose of this Transaction and has no historical financial data.

RatingsDirect®

Illinois Finance Authority Northwest Community Hospital; Hospital

Primary Credit Analyst:

Martin D Arrick, New York (1) 212-438-7963; martin.arrick@standardandpoors.com

Secondary Contact:

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

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- Expansion of the employed medical staff with plans to accelerate this growth over the next few years.

Partially offsetting credit risks include a negative inpatient admissions trend, in part, due to a growing number of observation stays, as well as broad industry trends to reduce inpatient admissions and lower annual reimbursement increases. Longer term considerations include NCH's position as a stand-alone provider competing in a consolidation market among Chicago providers with a growing list of mergers in the larger market. The rating also reflects NCH's emerging strategy of growing the number employed physicians, who in total are incurring increased subsidies, although these subsidies have been manageable to date.

A revenue pledge of the NCH obligated group secures the series 2008A bonds. The obligated group includes the hospital, the parent, and the day surgery center. Nonobligated entities include a small foundation, a casualty insurance company, and a physician corporation. The obligated group constitutes 95% of revenues, 98% of cash and investments, and roughly 97% of total assets. However, this analysis and all the numbers cited in this report reflect the entire NCH system. NCH is not currently contemplating additional debt and we expect capital expenditures will likely remain low in light of NCH's recently completed capital additions and relatively low average of plant.

NCH is party to one basis swap agreement, with Goldman Sachs as the counterparty. The notional amount is \$76 million and is not considered a credit risk given NCH's large unrestricted reserves.

Outlook

The stable outlook reflects our opinion of that NCH and its management team will be able to maintain its strong financial profile despite some concerns about changes to the business base. A higher rating would depend on sustained coverage above 5x MADS, combined with stabilized business volumes. We would base a lower rating or negative outlook on persistent loss of business volumes, combined with MADS coverage of under 3.5x and a sharp decline in unrestricted investments to less than 110% of debt.

Enterprise Profile

Operations

NCH is a 433 staffed-bed acute-care provider in Arlington Heights, 25 miles northwest of Chicago. Although the area is very competitive, market share in the hospital's core primary market is strong, in our view, at 52% through first-quarter 2013, but down from almost 58% a few years ago. Advocate affiliates (Lutheran General Hospital and Good Shepherd) and Alexian Brothers Medical Center and St. Alexius Medical Center (both part of Ascension Health) draw a 22% share combined from the market.

NCH has experienced declining inpatient admissions every year beginning in 2010 due to deferred elective procedures and a move of inpatient admissions to observation stays. Management reports efforts to more accurately classify patients are part of a broader effort to address this trend, but inpatient volume drops appear to be continuing with a 10% drop in the six months ended March 31, 2013, versus the prior year's comparable period.

Inpatient acute-care admissions for 2012 were 20,143, down 11.9% from 22,863 in fiscal 2011, and down 17.2% from

2010. Equivalent inpatient admissions were also down. Observation stays increased significantly to 9,709 in fiscal 2012 from 8,275 in fiscal 2011 and 4,890 the prior year. Inpatient volume for the six months ended March 31, 2013 is also lighter at 9,313 and also reflected growing observation stays, which have continued to climb since 2010. Total surgeries also declined in fiscal 2012 to 16,644 from 17,184 the prior year, although the rate of decline seems to have slowed in the current year with over 8,000 surgeries year to date. Inpatient case mix rose to 1.64 for the year to date from 1.60 for fiscal 2012.

Emergency room visits increased slightly to 74,365 visits in 2012 from 73,349 in 2011. Outpatient visits have also shown growth in fiscal years 2012 and 2011 after a few years of decline and rose to 358,325 in fiscal 2012. Management believes the completion of the new emergency room in late fiscal 2011 has helped improve access and volume.

With the objective of building a closer relationship with primary-care physicians, NCH acquired Affinity Health Care, a 36-physician group, in September 2010 as well as 17 new physicians in 2012, and has continued its employed physician growth in the NCH Medical group subsidiary, which now includes a 24-hour hospitalist program. Management currently employs approximately 90 physicians and is planning to increase the number of employed physicians to a total of 200--with approximately 60% primary care and the balance specialists--by 2015.

Table 1

	Six-month interim March 31, 2013	Fiscal year ended Sept. 30		
		2012	2011	2010
Inpatient Admissions	9,313	20,143	22,863	24,335
Equivalent inpatient admissions	21,089	41,698	46,390	43,835
Patient days	37,120	78,262	90,021	94,843
Observation days	5,645	9,709	8,275	4,890
Emergency room visits	36,409	74,365	73,349	74,326
Outpatient visits	176,415	358,325	336,981	320,852
Home health visits	22,229	43,248	42,924	43,952
Inpatient surgeries	2,281	4,807	5,071	5,718
Outpatient surgeries	5,747	11,837	12,113	12,347
Births	1,367	2,806	3,124	2,880
Psychiatric/Behavioral health admissions	740	1,457	1,517	1,558
Medicare case mix index	1.650	1.590	1.540	1.520
FTEs	2,850	2,988	3,023	2,887

FTE--Full-time equivalent.

Management

NCH has had a major series of changes in its management team since our last review. The CEO was promoted from the CFO position. A new COO and CFO were hired with a history of experience outside NCH, although they were promoted from within NCH, where they worked for the last one to three years. A new position was created to help manage insurer relations, strategy, and population health management. Under the leadership of the new CEO, NCH has been able to stabilize and improve its financial profile. In addition, the board and management are actively

updating their long-range strategic plan, which we expect will be part of upcoming reviews. We believe that these changes have shown immediate results and could signal a return to the stronger operating margins NCH has historically generated, although clearly the broad decline in business volumes will have to be addressed.

Financial Profile

In accordance with the publication of our article, "New Bad Debt Accounting Rules Will Alter Some U.S. Not-for-Profit Health Care Ratios But Won't Affect Ratings," on Jan. 19, 2012, on RatingsDirect, we recorded NCH's 2012 audit, including the adoption of Financial Accounting Standards Board ASU 2011-07 beginning in 2012, but not in prior periods. The new accounting treatment means that NCH's fiscal 2012 and subsequent financial statistics are not directly comparable with the 2011 and prior years' results. For an explanation of how each financial measure is affected by the change in accounting for bad debt, including the direction and size of the change, please see the article cited above.

For the fiscal year ended Sept. 30, 2012, NCH had an operating gain of \$8.2 million (a 1.7% margin) following an operating loss of \$13.7 million (a negative 2.6% margin) the prior year, according to Standard & Poor's calculations. This was an improvement over the prior year, when the operating loss was \$19.3 million (a negative 4.2% margin). In the current year through March, NCH has shown continued improvement with an operating income of \$6.9 million (a 2.8% margin). Management was able to overcome declining volumes, one-time costs associated with exploration of possible merger partners, and increased subsidies for physicians to improve margins, in part through staff reductions and other cost-control initiatives. These efforts came on top of last year's extensive cost-containment program. Excess income in fiscal 2012 was \$16.9 million (a 3.4% margin), a strong improvement over the fiscal 2011 loss of \$6.8 million. Through March 31, 2013, excess income was also much improved at \$33.1 million (a 12.2% margin) on the strength of nonoperating performance. The realized investment income for the year-to-date period was unusually high as the investment portfolio was rebalanced, creating an unusually high level of realized gains, which we capture in cash flow and income. Coverage of MADS improved in fiscal 2012 to 3.4x from 2.5x in fiscal 2011. The improvement continued in the current year to 5.7x on the strength of nonoperating performance, although the extra high level of realized gains should be considered a one-time event, in our view.

NCH's balance-sheet measures are strong, in our opinion, and are a core strength of its financial profile, giving management considerable flexibility in its strategic plan development and its long-term debt policy. For fiscal 2012, unrestricted cash and investments totaled \$367.3 million (equal to 302 days' cash on hand). While this is down from historical highs, unrestricted cash and investments have improved significantly through March 31, 2013, to \$391.9 million, which we consider strong at 322 days' cash on hand and 144% of outstanding debt. The long-term debt-to-capitalization ratio of 35% is generally manageable for the rating. In addition, NCH's overall average age of plant is moderate at 9 years, reflecting the completion of their recent building projects.

NCH's overall investment allocation is reasonably conservative, with 44% of unrestricted reserves either in cash or fixed-income instruments. Equities or mutual funds equal 47% of unrestricted reserves, with 9% made up of alternative investments. Liquidity coverage of contingent liabilities, including a 10-year direct-purchase series 2011 bond issue, is sound, in our view, at more than 1x.

NCH is party to one basis swap agreement, with Goldman Sachs as the counterparty. The notional amount is \$76 million. The mark-to-market is slightly negative at slightly less than \$900,000 on June 28, 2013. NCH is not posting any collateral for this swap and given NCH's sizable reserves, we currently do not consider this swap a credit risk.

Table 2

Northwest Community Hospital & Affiliates -- Selected Financial Statistics

	Six-month interim ended March 31, 2013	Fiscal year ended Sept. 30			Medians
		2012	2011	2010	Stand-alone hospital 'A+' 2012
Financial Performance					
Net patient revenue (\$000s)	233,731	465,668	500,771	446,164	449,298
Total operating revenue (\$000s)	245,863	489,657	518,718	461,840	MNR
Total operating expenses (\$000s)	238,983	481,423	532,425	481,166	MNR
Operating Income (\$000s)	6,880	8,234	(13,707)	(19,326)	MNR
Operating margin (%)	2.80	1.68	(2.64)	(4.18)	5.00
Net non-operating income (\$000s)	26,170	8,638	6,914	(2,496)	MNR
Excess Income (\$000s)	33,050	16,872	(6,793)	(21,822)	MNR
Excess margin (%)	12.15	3.39	(1.29)	(4.75)	7.50
Operating EBIDA margin (%)	11.63	11.35	7.71	5.25	12.20
EBIDA margin (%)	20.13	12.89	8.92	4.74	14.40
Net available for debt service (\$000s)	54,759	64,233	46,884	21,761	69,965
Maximum annual debt service (\$000s)	19,096	19,096	19,096	19,096	MNR
Maximum annual debt service coverage (x)	5.74	3.36	2.46	1.14	5.10
Operating lease-adjusted coverage (x)	5.30	3.09	2.28	1.14	4.20
Liquidity and Financial Flexibility					
Unrestricted cash and investments (\$000s)	391,908	367,344	329,897	349,364	365,105
Unrestricted days' cash on hand	321.8	301.9	246.4	286.7	278.30
Unrestricted cash/total long-term debt (%)	144.0	134.9	118.4	122.8	197.30
Average age of plant (years)	9.0	7.6	6.5	7.0	10.00
Capital expenditures/Depreciation and amortization (%)	31.9	58.2	80.1	156.9	127.80
Debt and Liabilities					
Total long-term debt (\$000s)	272,128	272,268	278,518	284,459	MNR
Long-term debt/capitalization (%)	35.3	36.8	40.5	38.6	26.80
Contingent liabilities (\$000s)	127,200	127,200	131,360	N.A.	MNR
Contingent liabilities/total long-term debt (%)	46.7	46.7	47.2	N.A.	MNR
Debt burden (%)	3.50	3.82	3.63	4.16	2.70
Defined benefit plan funded status (%)	N/A	81.33	75.88	78.50	69.40

N.A.--Not available. N/A--Not applicable. MNR--Median not reported.

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- U.S. Not-For-Profit Health Care Sector Outlook: Providers Prove Adaptable But Face A Test In 2013 As Reform Looms, Jan. 4, 2013
- U.S. Not-For-Profit Health Care Stand-Alone Ratios: Operating Pressures Led To Mixed Results In 2012, Aug. 8, 2013
- U.S. Not-For-Profit Health Care Providers Hone Their Strategies To Manage Transition Risk, May 16, 2012
- U.S. Not-For-Profit Health Care Providers Hone Their Strategies For Reform, May 16, 2011

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McGRAW-HILL

MOODY'S

INVESTORS SERVICE

Rating Action: MOODY'S DOWNGRADES TO A2 FROM A1 THE RATINGS ASSIGNED TO NORTHWEST COMMUNITY HOSPITAL'S (IL) BONDS; OUTLOOK STABLE AT THE LOWER RATING LEVEL

Global Credit Research - 04 Apr 2012

ACTION AFFECTS A TOTAL OF \$230.2 MILLION OF RATED DEBT

New York, April 04, 2012 -- Moody's Investors Service has downgraded to A2 from A1 the ratings assigned to Northwest Community Hospital's (NCH) bonds issued through the Illinois Finance Authority. The rating outlook is stable at the lower rating level. The rating action affects \$230.2 million of debt as listed at the conclusion of this report.

SUMMARY RATING RATIONALE: The downgrade to A2 follows unfavorable financial performance in FY 2011, which, while better than FY 2010, fell notably short of the 2011 budget. The downgrade also reflects NCH's multi-year departure from its historic financial profile that had included exceptional margins and ample cash resources relative to debt. The A2 rating is well supported by solid demand of over 24,000 admissions annually, still healthy absolute liquidity and solid socio-economics of the service area. The stable rating outlook reflects our belief that NCH will improve operations in FY 2012 given management's proactive strategies to address revenue and institute financial rigor to the operations

STRENGTHS

*Still healthy balance sheet position with approximately 257 days cash on hand and 121% cash-to-debt at FYE 2011 (September 30). Management reports that unrestricted cash and investments have strengthened since the FYE reflecting better operations and improved capital market returns

*Leading market share in its primary service area that boasts favorable demographic indices. Large and loyal medical staff; limited employment although alignment initiatives will likely accelerate.

*Multiple operational initiatives to build rigor and accountability around operational performance that should restore financial strength. Operational initiatives to achieve budget in spite of volume shortfalls.

*Limited immediate cash needs with recent campus construction complete and a frozen defined benefit pension plan that was 76% funded at FYE 2011 (liability is less than \$60 million).

*Operating cash flow in the interim period of FY 2012 improved to nearly \$15.4 million, or 11.6%, equating to a 10% increase over the prior year comparable period.

*Risks of carrying nearly half of System's debt in the variable rate mode are offset by healthy headroom to covenants contained in letters of credit (expiration dates are in 2016) and healthy monthly cash and investment coverage (237%) of demand debt.

CHALLENGES

*Unfavorable operating performance in FY 2011. FY 2011 marked the third consecutive year that NCH incurred an operating loss, reporting an operating margin of -2.4% and operating cash flow margin of 7.9%.

*Leverage is high as compared with A2 rated peers and Moody's adjusted metrics are weak, as evidenced by debt to revenue of 54.7%, debt to cashflow of 5.4 times, and coverage of maximum annual debt service of 3.3 times in FY 2011. Moody's A2 rated medians are 35.7%, 3.3 times, and 4.8 times, respectively.

*Variability in demand indicators with inpatient declines beginning in FY 2009 and continuing through the first quarter of FY 2012, with inpatient admission falling from 25,990 in FY 2009 to 24,286 in FY 2011. Though when combining inpatient visits and observation stays inpatient volume declined 2.6% in FY 2010 but then increased a like amount in FY 2011.

*Significant competition in the northwest suburbs of Chicagoland; market fluidity is high and accelerating with

merger and acquisition activity.

Outlook

The stable rating outlook reflects our belief that NCH will meet the FY 2012 budget given management's proactive strategies to address revenue and institute financial rigor to the operations.

WHAT COULD MAKE THE RATING GO UP

Sustained improvement in operating performance including the ability to meet budgeted expectations; sustained revenue growth; strengthening of debt measures and balance sheet position; growth of patient demand

WHAT COULD MAKE THE RATING GO DOWN

Volume declines that result in further market share loss; inability to restore healthy margins; weaker debt ratios; decline in balance sheet ratios; increase in debt

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.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

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Information sources used to prepare the rating are the following: Parties involved in the ratings, Parties not involved in the ratings, Public Information, Confidential and Proprietary Moody's Investor Services information and Confidential and Proprietary Moody's Analytics information.

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

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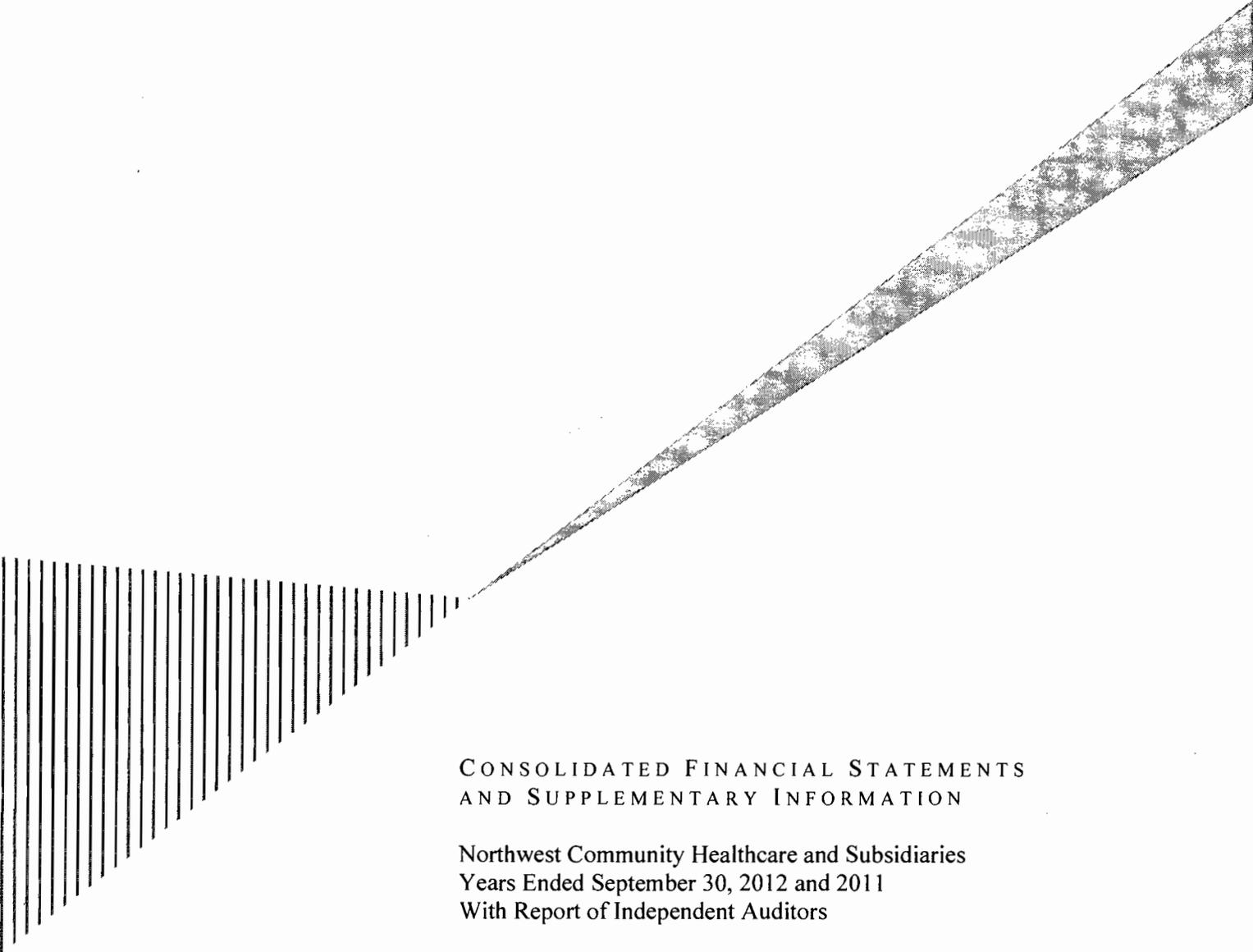
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CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Northwest Community Healthcare and Subsidiaries
Years Ended September 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Northwest Community Healthcare and Subsidiaries
Consolidated Financial Statements and Supplementary Information
Years Ended September 30, 2012 and 2011

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Report of Independent Auditors

The Audit and Compliance Committee and the Board of Directors
Northwest Community Healthcare and Subsidiaries

We have audited the accompanying consolidated balance sheets of Northwest Community Healthcare and Subsidiaries (Healthcare) as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Healthcare's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northwest Community Healthcare and Subsidiaries at September 30, 2012 and 2011, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the consolidated financial statements, in fiscal 2012, Healthcare adopted authoritative guidance issued by the Financial Accounting Standards Board related to the presentation and disclosure of the provision for uncollectible accounts, and the reserve for self-insurance. As discussed in Note 2 to the consolidated financial statements, in fiscal 2011, Healthcare changed its method of accounting for goodwill.

Ernst & Young LLP

January 28, 2013

Northwest Community Healthcare and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 43,990,244	\$ 26,813,583
Investments restricted under bond financings	9,948	177,464
Patient accounts receivable, less allowances for uncollectible accounts (2012 – \$31,421,000; 2011 – \$28,727,000)	62,461,829	56,670,383
Other receivables	4,904,656	2,787,005
Prepaid expenses and other	9,966,701	10,498,245
Total current assets	<u>121,333,378</u>	<u>96,946,680</u>
Assets limited as to use, at fair value:		
Internally designated for operations and liquidity	97,496,695	94,072,643
Internally designated for capital replacement	269,236,590	222,574,842
Internally designated for insurance (NCHCI)	2,977,578	2,904,385
Internally designated for endowment	1,413,685	1,172,195
Externally designated for endowment	1,385,421	1,147,455
	<u>372,509,969</u>	<u>321,871,520</u>
Property and equipment, at cost:		
Land and land improvements	24,524,352	24,568,278
Buildings	346,657,472	355,789,194
Fixed equipment and leasehold improvements	219,822,663	226,280,936
Major movable equipment	117,215,716	117,243,251
Construction-in-progress	1,624,843	2,989,461
	<u>709,845,046</u>	<u>726,871,120</u>
Less accumulated depreciation	<u>(284,852,362)</u>	<u>(285,254,630)</u>
	424,992,684	441,616,490
Reinsurance receivable	23,576,391	–
Other long-term assets	9,068,310	9,124,232
Total assets	<u>\$ 951,480,732</u>	<u>\$ 869,558,922</u>

	September 30	
	2012	2011
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 10,909,468	\$ 12,335,076
Accrued expenses and other	54,935,015	55,710,123
Current maturities of long-term debt obligations	6,233,491	5,935,257
Due to third-party payors	42,168,160	31,117,170
Total current liabilities	<u>114,246,134</u>	<u>105,097,626</u>
Long-term debt obligations, less current maturities:		
Series 2002B bonds	—	51,700,000
Series 2008A bonds	148,825,000	150,415,000
Series 2008B bonds	36,320,000	37,750,000
Series 2008C bonds	36,320,000	37,750,000
Series 2011 bonds	50,200,000	—
Capital lease obligation	602,714	903,181
	<u>272,267,714</u>	<u>278,518,181</u>
Asset retirement obligation	1,085,148	1,046,437
Other long-term liabilities	892,640	1,291,613
Interest rate swap	1,062,418	2,127,017
Reserve for self insurance	43,379,926	13,565,000
Pension obligation	43,274,512	53,071,853
Total noncurrent liabilities	<u>361,962,358</u>	<u>349,620,101</u>
Total liabilities	<u>476,208,492</u>	<u>454,717,727</u>
Net assets:		
Unrestricted	468,349,430	408,812,196
Temporarily restricted	5,690,930	4,798,189
Permanently restricted	1,231,880	1,230,810
Total net assets	<u>475,272,240</u>	<u>414,841,195</u>
Total liabilities and net assets	<u>\$ 951,480,732</u>	<u>\$ 869,558,922</u>

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Consolidated Statements of Operations
and Changes in Net Assets

	Year Ended September 30	
	2012	2011
Revenue		
Net patient service revenue (net of contractual allowances)	\$ 505,575,719	\$ 500,770,828
Provision for uncollectible accounts	<u>(39,908,413)</u>	<u>(42,224,554)</u>
	465,667,306	458,546,274
Other operating revenue	<u>27,493,379</u>	<u>18,444,068</u>
Total revenue	493,160,685	476,990,342
Expenses		
Salaries and employee benefits	273,511,418	271,381,303
Supplies and other	95,904,162	102,828,935
Professional fees and purchased services	52,969,935	50,638,023
Depreciation and amortization	37,308,927	43,732,608
Illinois hospital assessment	11,676,247	11,676,136
Interest	<u>10,052,357</u>	<u>9,943,803</u>
Total expenses	481,423,046	490,200,808
Operating income (loss)	11,737,639	(13,210,466)
Nonoperating revenue (expense)		
Investment income (loss)	45,963,103	(3,567,773)
Change in value of interest rate swap	1,064,599	(151,878)
Other	<u>(1,715,253)</u>	<u>458,504</u>
Total nonoperating revenue (expense)	45,312,449	(3,261,147)
Excess (deficiency) of revenue over expenses	57,050,088	(16,471,613)

Northwest Community Healthcare and Subsidiaries

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

	Year Ended September 30	
	2012	2011
Unrestricted net assets		
Excess (deficiency) of revenue over expenses	\$ 57,050,088	\$ (16,471,613)
Pension-related changes other than net periodic pension cost	1,939,914	(9,400,636)
Net effect of endowment reclassification	-	(67,491)
Net assets released from restrictions used for purchase of property and equipment	<u>547,232</u>	<u>1,038,353</u>
Increase (decrease) in unrestricted net assets before cumulative effect of change in accounting principle	59,537,234	(24,901,387)
Cumulative effect of change in accounting principle	-	(17,919,940)
Increase (decrease) in unrestricted net assets	<u>59,537,234</u>	<u>(42,821,327)</u>
Temporarily restricted net assets		
Contributions	1,999,867	1,866,877
Investment income (loss)	236,837	(5,233)
Net assets released from restrictions used for:		
Purchase of property and equipment	(547,232)	(1,038,353)
Operations	<u>(796,731)</u>	<u>(608,785)</u>
Increase in temporarily restricted net assets	892,741	214,506
Permanently restricted net assets		
Contributions	1,070	6,433
Net effect of endowment reclassification	-	67,491
Increase in permanently restricted net assets	<u>1,070</u>	<u>73,924</u>
Increase (decrease) in net assets	60,431,045	(42,532,897)
Net assets at beginning of year	<u>414,841,195</u>	<u>457,374,092</u>
Net assets at end of year	<u>\$ 475,272,240</u>	<u>\$ 414,841,195</u>

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2012	2011
Operating activities		
Increase (decrease) in net assets	\$ 60,431,045	\$ (42,532,897)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	(1,939,914)	9,400,636
Restricted contributions	(2,000,937)	(1,873,310)
Depreciation and amortization	37,308,927	43,732,608
Provision for uncollectible accounts	39,908,413	42,224,554
Loss on disposal of fixed assets	1,305,368	6,062
Unrealized (gain) loss on investments	(39,113,765)	9,531,546
Change in value of interest rate swap	(1,064,599)	151,878
Changes in other assets and liabilities:		
Accounts receivable, other receivables, and due to third-party payors	(36,766,520)	(45,780,435)
Accounts payable and accrued expenses	(2,200,716)	(702,132)
Investments	(11,357,168)	3,942,302
Other assets and liabilities	(1,656,138)	20,762,071
Net cash provided by operating activities	42,853,996	38,862,883
Investing activities		
Property and equipment additions, net	(21,726,039)	(35,028,547)
Cash used in investing activities	(21,726,039)	(35,028,547)
Financing activities		
Issuance of long-term obligations	53,100,000	-
Payments on long-term obligations	(59,052,233)	(5,731,297)
Restricted contributions	2,000,937	1,873,310
Net cash used in financing activities	(3,951,296)	(3,857,987)
Net increase (decrease) in cash and cash equivalents	17,176,661	(23,651)
Cash and cash equivalents at beginning of year	26,813,583	26,837,234
Cash and cash equivalents at end of year	\$ 43,990,244	\$ 26,813,583
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 8,994,302	\$ 8,516,572

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012

1. Organization and Nature of Operations

Northwest Community Healthcare (Healthcare) was established to own, operate, control, and otherwise coordinate the delivery of health care within the service area of Northwest Community Hospital (the Hospital) and coordinate the activities of the various corporations affiliated with Healthcare. Subsidiaries of Healthcare include the Hospital, Northwest Community Hospital Foundation (the Foundation), and Northwest Community Day Surgery Center, Inc. (DSC), which are not-for-profit entities; Northwest Community Health Services, Inc. (Health Services) and NPC-CyberKnife, LLC (CyberKnife), which are taxable entities; and NCH Casualty Insurance SPC Limited (NCHCI), a Cayman Islands corporation. The Hospital, located in Arlington Heights, Illinois, is a 496-bed acute care facility providing inpatient, outpatient, and emergency care services primarily to residents of Arlington Heights and the surrounding communities. Northwest Community Capco, Inc. (Capco), an Illinois for-profit corporation; Northwest Community Physicians Association, LLC (NCPA), a limited liability company; and NCH Physicians Cooperative (NCHPC), an Illinois not-for-profit corporation, are subsidiaries of the Hospital. NCH Service Company, LLC (NCHSC), a limited liability company, is a subsidiary of NCPA.

Health Services owns and operates the NCH Medical Group (NCHMG), a multi-specialty physician practice that was established in 2010. NCHMG has offices in Arlington Heights, Buffalo Grove, Mt. Prospect, and Palatine, Illinois.

CyberKnife was formed in June 2006 for the purpose of purchasing and owning a stereotactic radiosurgery system and leasing it to the Hospital. CyberKnife is a limited liability corporation that is owned by Healthcare (74% at September 30, 2012 and 2011) and physician investors (26% at September 30, 2012 and 2011). Healthcare consolidates CyberKnife, as Healthcare owns a majority of the units outstanding.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Healthcare, the Hospital, the Foundation, DSC, Health Services, Capco, NCPA, NCHPC, CyberKnife, NCHSC, and NCHCI. NCHPC had no financial transactions during 2012 and 2011 and did not hold any assets or liabilities as of September 30, 2012 and 2011. Significant intercompany transactions have been eliminated in consolidation.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid short-term investments with original maturities of three months or less.

Accounts Receivable

Healthcare evaluates the collectability of its accounts receivable based on the length of time the receivable is outstanding, payor class, and the anticipated future collectible amounts based on historical experience. Accounts receivable are charged to the allowance for uncollectible accounts when they are deemed uncollectible.

Inventories

Inventories are priced at the lower of cost, determined by the first-in, first-out method, or market.

Investments

Healthcare has designated all of its investments as trading. Investments in equity and debt securities and mutual funds with readily determinable fair values are reported at fair value based on quoted market prices. Alternative investments, primarily limited partnerships that invest in hedge funds, are reported using the equity method of accounting based on information provided by the partnership. Income earned, realized gains (losses), and changes in unrealized gains (losses) on funds internally designated for operations and liquidity are reported as other operating revenue. All other investment income (loss), realized gains (losses), and changes in unrealized gains (losses) are reported as nonoperating revenue (expense).

Derivative Instruments

Derivative instruments, specifically interest rate swaps, are recorded on the consolidated balance sheets at their respective fair values. The derivative instruments do not qualify for hedge accounting; therefore, the change in the fair value of those derivative instruments is reflected in nonoperating revenue (expense). The changes in cash flows are reflected in interest expense.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Healthcare uses the straight-line method of computing depreciation for property and equipment. In 2012, Healthcare performed asset useful life studies on all of its major fixed assets, primarily buildings, in order to more appropriately recognize useful lives reflective of the remaining expected lives of those component assets taking into consideration the longevity and functional use of such long-lived assets. As a result of these studies and the change in estimated useful lives, depreciation expense was reduced by \$7,200,000 for the year ended September 30, 2012.

Deferred Financing and Other Costs

Underwriting fees and other costs related to the issuance of the Series 2011 and Series 2008 bonds, which are included in other long-term assets, are deferred and amortized on a straight-line basis over the life of the related debt using methods that approximate the effective interest method.

General and Professional Liability Insurance

The provision for general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, which are included in long-term liabilities.

Reinsurance Receivable

Reinsurance receivable is recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts.

Asset Retirement Obligation

Healthcare records the fair value of legal obligations associated with long-lived asset retirements. The asset retirement obligation is accreted to the present value of the liability each year. Asset retirement obligations include, but are not limited to, certain types of environmental issues that are legally required to be remediated upon an asset's retirement, as well as contractually required asset obligations.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Contributions and Restricted Net Assets

Unconditional promises to give cash and other assets to Healthcare are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions have been met.

Donor-restricted contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets to a specific time period or purpose. Permanently restricted net assets are those that the donor stipulates must be maintained by Healthcare in perpetuity. Permanently restricted net assets increase when Healthcare receives contributions for which donor-imposed restrictions limiting the organization's use of an asset or its economic benefits neither expire with the passage of time nor can be removed by the organization meeting certain requirements.

Substantially all restricted contributions benefiting Healthcare are initially received by the Foundation. When a donor restriction is met, the Foundation transfers the temporarily restricted gift to Healthcare, the Hospital, or DSC, at which time the related net assets are released from restriction in the financial statements.

Patient Service Revenue

Healthcare has agreements with third-party payors that provide for payments to Healthcare at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others 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 in future periods.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Other Operating Revenue

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in calendar year 2011 for eligible hospitals and professionals that implement and achieve meaningful use of electronic medical record (EHR) technology. Healthcare utilized a grant accounting model to recognize revenues for Medicare and Medicaid EHR revenues of \$4,014,000 and \$324,000, respectively, during its fiscal year ended September 30, 2012. Medicare and Medicaid EHR revenue is recorded in other operating revenue in the consolidated statements of operations and changes in net assets. Also recorded in other operating revenues are cafeteria revenues and rental income.

Healthcare attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. In addition, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

Charity Care and Community Benefit

The policy of Healthcare is to treat patients in immediate need of medical services without regard to their ability to pay for such services. Healthcare maintains records to identify and monitor the level of charity care provided. These records include the amount of estimated costs for services rendered and supplies furnished under its charity care policy. The estimated difference between the cost of services provided to Medicare and Medicaid patients and the reimbursement from these governmental programs is also monitored. Healthcare operates or funds two primary care clinics, a mobile dental clinic, and a community center serving low-income families in its service area. In addition, Healthcare provides community benefits in the form of health and wellness education, translation services, maternal/child classes, paramedic training, health screenings, support groups, physician referral, and other social services.

Healthcare policies have been established that define charity care and provide guidelines for assessing a patient's ability to pay. Evaluation procedures for charity care qualification have been established for those situations when previously unknown financial circumstances are revealed or when incurred charges are significant when compared to the individual patient's income and/or net assets. The cost to provide charity care using Healthcare's cost to charge ratio was \$8,943,000 and \$6,765,000 for 2012 and 2011, respectively. The ratio of cost to charges is calculated based on the Healthcare's total operating expenses.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In addition to traditional charity care services, Healthcare has a financial assistance policy, which offers discounted services to uninsured patients who do not otherwise qualify for charity. The payments expected from patients are based on rates negotiated with managed care plans, with discounts determined on a sliding scale tied to the federal poverty level. Healthcare's financial assistance policy prohibits the use of collection practices, which do not respect the dignity of its patients, including the use of debtor's prison. Liens on principal residences must be approved by the Healthcare's Finance Committee and may not be used to force foreclosure or sale.

Effective for tax years beginning after March 23, 2010, the Patient Protection and Affordable Care Act (Affordable Care Act) requires, among other things, that hospital organizations establish a financial assistance policy and a policy relating to emergency medical care. Healthcare has adopted policies to be fully compliant with the new tax provisions as of October 1, 2011.

Excess (Deficiency) of Revenue Over Expenses

The consolidated statements of operations and changes in net assets include excess (deficiency) of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess (deficiency) of revenue over expenses, include net assets released from restrictions used for the purchase of property and equipment, pension-related charges other than net periodic pension cost, and the impact of certain changes in accounting principles.

Asset Impairment

Healthcare considers whether indicators of impairment are present and performs the necessary test 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, except for alternative investments and other nonoperating investment impairments, which are recognized in nonoperating revenue (expense) at the time the impairment is identified. There was no impairment of assets in 2012 and 2011, other than the write-down of goodwill in 2011.

Income Taxes

Healthcare, the Hospital, the Foundation, and DSC are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code), and accordingly, no income taxes are provided for in the accompanying consolidated financial statements.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

NCPA and NCHSC are single-member limited liability companies and are classified as disregarded entities under the Code.

Capco is a taxable entity and accounts for income taxes as provided by Accounting Standards Codification (ASC) 740, *Income Taxes*.

CyberKnife is a limited liability company with multiple members and is treated as a partnership under the Code. As such, income taxes are paid directly by the members.

Health Services and NCHPC are taxed as corporations.

NCHCI has elected to be taxed as a domestic corporation under Section 953(d) of the Code and accounts for income taxes as provided by ASC 740. There is presently no tax imposed by the government of the Cayman Islands on NCHCI.

Use of Estimates

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

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation. Those reclassifications had no impact on net assets or excess (deficiency) of revenue over expenses as previously reported.

Adoption of Accounting and Reporting Standards

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The provisions of ASU 2011-07 require certain health care entities to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue in the statement of operations rather than as an operating expense. Additional disclosures relating to sources of patient service revenue and the allowance for uncollectible accounts are also required.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. Healthcare early adopted the provisions of ASU 2011-07 as of and for the year ended September 30, 2012, and retrospectively applied the presentation requirements to all periods presented. The change in presentation as required by ASU No. 2011-07 is reflected in Healthcare's consolidated statement of operations and changes in net assets and the disclosure is included in Note 4.

In August 2010, the FASB issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. This guidance requires that health care entities present anticipated insurance recoveries separately on the balance sheet from estimated liabilities for medical malpractice claims or similar contingent liabilities. This guidance is effective for fiscal years beginning on or after December 15, 2010. Healthcare adopted the new guidance for the year ended September 30, 2012. The adoption of the standard increased non-current assets and reserve for self-insurance liabilities by \$23,576,000 in the accompanying consolidated balance sheet.

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosures*. This guidance clarifies and defines the calculation of charity care disclosed by not-for-profit entities. This guidance is effective for fiscal years beginning after December 15, 2010, and should be applied retroactively to all periods presented. This guidance was adopted by Healthcare for the year ended September 30, 2012, and had no impact on the consolidated financial statements. This disclosure is included in Note 2 under Charity Care and Community Benefit.

In January 2011, the FASB issued ASU 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, which establishes accounting and disclosure requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, how to account for each, and the required disclosures. In addition, ASU 2010-07 included amendments to FASB's ASC Topic 350, *Intangibles – Goodwill and Other*, and Topic 810, *Consolidation*, to make both applicable to not-for-profit entities.

Effective October 1, 2010, Healthcare adopted the guidance relative to ASU 2010-07, which requires goodwill of not-for-profit entities to be evaluated for impairment at least annually. The goodwill impairment test is a two-step test. Under the first step, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of a reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. Healthcare has determined that the appropriate reporting unit for goodwill is the consolidated Healthcare entity and the annual impairment test was performed at September 30, 2011. Healthcare applied the transition guidance under ASC Topic 350 and, as a result, recognized a goodwill impairment transition loss of \$17,920,000 in the 2011 consolidated statement of operations and changes in net assets, as a cumulative effect of a change in accounting principle.

3. Net Patient Service Revenue

The Hospital's net patient service revenue accounts for approximately 92% and 93% of Healthcare's consolidated net patient service revenue in 2012 and 2011, respectively. In 2012, approximately 31% of the Hospital's net patient service revenue was derived from Medicare, and approximately 57% of the Hospital's net patient service revenue was derived from Medicaid, Blue Cross, and commercial managed care programs, which provide for payments to the Hospital at amounts different from its established rates. Reimbursement under these programs is based on a specific amount per case, or a contracted price, as defined, for rendering services to program beneficiaries.

Net patient service revenue consists of the following at September 30, 2012 (in thousands):

Medicare	\$ 157,304
Medicaid	26,629
Managed care	274,941
Self-pay	34,846
Commercial	11,856
Revenue before provision for uncollectible accounts	<u>505,576</u>
Provision for uncollectible accounts	<u>39,908</u>
Net patient service revenue	<u>\$ 465,668</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue (continued)

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements. The Hospital recorded contractual allowances in the current period representing the difference between charges for services rendered and the expected payments under these programs and adjusts them in future periods as final settlements through cost reports or other means are determined.

Adjustments arising from reimbursement arrangements with third-party payors are accrued for on an estimated basis in the period in which the services are rendered. Estimates for cost report settlements and contractual allowances can differ from actual reimbursement based on the results of subsequent reviews and cost report audits. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2009. During the years ended September 30, 2012 and 2011, changes in estimates related to the settlement of cost reports have been recognized as net patient service revenue for the Hospital by approximately \$(242,000) and \$302,000, respectively, as a result of favorably settled appeals, and changes in estimates related to services rendered in previous years.

Additionally, during 2012, the Hospital recognized as part of net patient service revenue \$5,060,000 for the Medicare Rural Floor Budget Neutrality Act Settlement (the Settlement). The Settlement with Centers for Medicare and Medicaid Services involved numerous hospitals nationwide and was reached to resolve a challenge made by the plaintiff hospitals for underpayment of Medicare services dating back to 1999. Costs associated with attaining the Settlement are included in other operating expenses in the consolidated statements of operations and changes in net assets.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change. Governmental agencies routinely conduct random regulatory investigations and compliance audits of health care organizations. During the last few years, 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. The Hospital is currently undergoing a Medicaid compliance audit, and as a result, recorded amounts may change in the near term. The ultimate resolution of this matter cannot be readily determined at this time; however, management is of the opinion that any changes in recorded amounts will not have a material effect on Healthcare's financial condition. Healthcare believes that it is in compliance with applicable laws and regulations and is not aware of any other pending or threatened investigations involving allegations of potential wrongdoing.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Uncollectible Accounts

Healthcare analyzes the allowance for uncollectible accounts quarterly using a hindsight calculation that utilizes write-off data for all payer classes during the previous twelve-month period to estimate the allowance for uncollectible accounts at a point in time. The standard percentages in the allowance for uncollectible accounts reserve are adjusted as necessary given changes in trends from these analyses or policy changes. Significant changes in payer mix, business office operations, general economic conditions, and health care coverage provided by federal or state governments or private insurers may have a significant impact on Healthcare's estimates and significantly affect its liquidity, results of operations, and cash flows.

Healthcare's estimate of the allowance for uncollectible accounts and recoveries of accounts previously written off determines its provision for uncollectible accounts recorded during the period. Healthcare records the provision for uncollectible accounts at the time the services are provided for uninsured patients, since historical experience shows that the significant majority of uninsured balances will not be collected. Healthcare also supplements its analysis by monitoring self-pay utilization. Healthcare records the provision for doubtful accounts related to self-pay after insurance accounts at the time the insurance payment has been received. Healthcare also records a provision for uncollectible accounts related to uninsured accounts to record the net self-pay accounts receivable at the estimated amounts expected to be collected.

Healthcare manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for contractual discounts and uncollectible amounts. Healthcare typically writes off uncollected accounts receivable 120 days subsequent to discharge date. Healthcare has periodically adjusted its policy to increase the standard percentages applied to uninsured accounts and self-pay after insurance/Medicare accounts to account for pricing changes and for the impact of its uninsured discount policy.

Healthcare classifies accounts pending Medicaid approval as either Medicaid or self-pay in its accounts receivable analysis. An estimated approval percentage is utilized to estimate those accounts that will be approved for Medicaid, and a contractual allowance amount is calculated for these accounts. The net account balance is further subject to the allowance for uncollectible accounts reserve policy. For those accounts that do not qualify for Medicaid coverage, the balances are reclassified to self-pay and charity or provision for uncollectible accounts are calculated, as appropriate.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Uncollectible Accounts (continued)

Healthcare serves certain patients whose medical care costs are not paid at established rates. These patients include those sponsored under government programs such as Medicare and Medicaid, those sponsored under private contractual agreements, charity patients, and other uninsured patients who have limited ability to pay.

Patient service revenue is reported at estimated net realizable amounts for services rendered. Healthcare recognizes patient service revenue associated with patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, revenue is recognized on the basis of discounted rates in accordance with Healthcare's policy. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the period from these major payor sources for the years ended September 30, 2012 and 2011, is as follows (in thousands):

<u>Fiscal Year Ended</u>	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
September 30, 2012	\$ 470,730	\$ 34,846	\$ 505,576
September 30, 2011	\$ 464,826	\$ 35,944	\$ 500,770

The allowance for uncollectible accounts was \$31.4 million and \$28.7 million as of September 30, 2012 and 2011, respectively. These balances as a percent of accounts receivable, net of contractual adjustments, were approximately 33.5% and 33.7% at September 30, 2012 and 2011, respectively. Healthcare's combined allowance for uncollectible accounts, uninsured discounts, and charity care covered approximately 94.7% and 92.6% of combined uninsured and self-pays after insurance accounts receivable at September 30, 2012 and 2011, respectively.

The increase in allowance for uncollectible accounts during the year ended September 30, 2012, was primarily the result of an increase in uninsured and self-pay balances after estimates of insurance accounts receivable.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Uncollectible Accounts (continued)

A summary of Healthcare's allowance for uncollectible accounts activity during 2012 and 2011 fiscal years is as follows (in thousands):

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Accounts Written Off, Net of Recoveries and Other	Balance at End of Year
Allowance for doubtful accounts:				
Year ended September 30, 2012	<u>\$ 28,720</u>	<u>\$ 42,173</u>	<u>\$ (39,497)</u>	<u>\$ 31,396</u>
Year ended September 30, 2011	<u>\$ 19,012</u>	<u>\$ 57,508</u>	<u>\$ (47,800)</u>	<u>\$ 28,720</u>

5. Concentrations of Credit Risk

The Hospital, DSC, and NCHMG grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables, net of reserves for contractual allowances, charity care, and uncollectible accounts, at September 30 was as follows:

	2012	2011
Medicare	13%	18%
Medicaid	22	22
Managed care	48	45
Other third-party payors	13	12
Self-pay patients	4	3
	<u>100%</u>	<u>100%</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Investments

The composition of investments restricted under bond financings and assets limited as to use at September 30 is as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Investments restricted under bond financings:		
Cash and cash equivalents	<u>\$ 10</u>	<u>\$ 177</u>
Assets limited as to use:		
Internally designated for operations and liquidity:		
Cash and money market funds	\$ 854	\$ 1,203
U.S. government and agency obligations	11,531	14,896
Corporate bonds	83,625	75,365
Municipal bonds	1,487	2,609
	<u>97,497</u>	<u>94,073</u>
Internally designated for capital replacement:		
Alternative investments	35,915	34,763
Common stocks	233,322	187,812
	<u>269,237</u>	<u>222,575</u>
Internally designated for insurance (NCHCI):		
Mutual funds	2,977	2,904
	<u>2,977</u>	<u>2,904</u>
Internally and externally designated for endowment:		
Mutual funds	2,799	2,320
Total assets limited as to use	<u>\$ 372,510</u>	<u>\$ 321,872</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Investments (continued)

The composition and presentation of investment income are as follows for the years ended September 30 (in thousands):

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 6,201	\$ 5,880
Net realized gains (losses) on investments	4,389	(458)
Change in net unrealized gains and losses on investments	39,114	(9,532)
	<u>\$ 49,704</u>	<u>\$ (4,110)</u>
Reported as:		
Other operating revenue	\$ 3,504	\$ (537)
Investment income (loss)	45,963	(3,568)
Temporarily restricted investment income (loss)	237	(5)
	<u>\$ 49,704</u>	<u>\$ (4,110)</u>

7. Fair Value Measurements

All investments in marketable securities are reported at fair value as defined in ASC 820, *Fair Value Measurements and Disclosures*.

ASC 820-10-50-2 establishes a three-level valuation hierarchy. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. 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 instruments.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments carried at fair value, except certain alternative investments, as of September 30, 2012, by caption on the consolidated balance sheet by the valuation hierarchy defined above (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 43,990	\$ -	\$ -	\$ 43,990
Investments restricted under bond financings:				
Cash and cash equivalents	10	-	-	10
Internally designated for operations and liquidity:				
Cash and money market funds	854	-	-	854
U.S. government and agency obligations	-	11,531	-	11,531
Corporate bonds	-	83,625	-	83,625
Municipal bonds	-	1,487	-	1,487
	854	96,643	-	97,497
Internally designated for capital replacement:				
Cash and cash equivalents	80	-	-	80
Mutual funds:				
U.S. equity	191,811	-	-	191,811
Fixed income	41,431	-	-	41,431
	233,322	-	-	233,322
Internally designated for insurance:				
Mutual funds – short-term fixed income	2,977	-	-	2,977
Internally and externally designated for endowment:				
Mutual funds:				
U.S. equity	1,395	-	-	1,395
International equity	401	-	-	401
Fixed income	1,003	-	-	1,003
	2,799	-	-	2,799
Investments at fair value	\$ 283,952	\$ 96,643	\$ -	\$ 380,595
Alternative investments not at fair value (equity method)				35,915
				\$ 416,510
Liabilities				
Interest rate swap	\$ -	\$ 1,062	\$ -	\$ 1,062

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value, except certain alternative investments, as of September 30, 2011, by caption on the consolidated balance sheet by the valuation hierarchy defined above (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 26,814	\$ -	\$ -	\$ 26,814
Investments restricted under bond financings:				
Cash and cash equivalents	177	-	-	177
Internally designated for operations and liquidity:				
Cash and money market funds	1,203	-	-	1,203
U.S. government and agency obligations	-	14,896	-	14,896
Corporate bonds	-	75,365	-	75,365
Municipal bonds	-	2,609	-	2,609
	<u>1,203</u>	<u>92,870</u>	<u>-</u>	<u>94,073</u>
Internally designated for capital replacement:				
Cash and cash equivalents	36	-	-	36
Mutual funds:				
U.S. equity	122,459	-	-	122,459
International equity	26,500	-	-	26,500
Fixed income	38,817	-	-	38,817
	<u>187,812</u>	<u>-</u>	<u>-</u>	<u>187,812</u>
Internally designated for insurance:				
Mutual funds – short-term fixed income	2,904	-	-	2,904
Internally and externally designated for endowment:				
Mutual funds:				
U.S. equity	1,133	-	-	1,133
International equity	327	-	-	327
Fixed income	860	-	-	860
	<u>2,320</u>	<u>-</u>	<u>-</u>	<u>2,320</u>
Investments at fair value	<u>\$ 221,230</u>	<u>\$ 92,870</u>	<u>\$ -</u>	<u>\$ 314,100</u>
Alternative investments not at fair value (equity method)				<u>34,763</u>
				<u>\$ 348,863</u>
Liabilities				
Interest rate swap	\$ -	\$ 2,127	\$ -	\$ 2,127

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Fair Value Measurements (continued)

The fair value of Level 1 investments is based on quoted market prices and is valued on a daily basis. Level 2 pricing is based on the custodian's pricing methodologies that are based on institutional bid evaluations. Institutional bid evaluations are estimated prices computed by pricing vendors. These prices are determined using observable inputs for similar securities as of the measurement date. Redemption frequency is monthly. The fair value of the interest rate swap is based on discounted cash flows adjusted for nonperformance risk. The adjustment is based on bond pricing for equivalent credit-related entities.

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value because of the short maturity of those assets and liabilities.

The estimated fair value of long-term debt (including current portion) based on quoted market prices for the same or similar issues was \$292,482,000 and \$285,141,000 at September 30, 2012 and 2011, respectively.

Healthcare's investments are exposed to various kinds and levels of risk. Equity securities and mutual funds expose Healthcare to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a company's operating performance. Fixed income securities and mutual funds expose Healthcare to interest rate risk, credit risk, and liquidity risk. As interest rates change, the values of many fixed income securities are 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 and tends to be higher for equities related to small capitalization companies. 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.

8. Long-Term Obligations

Healthcare's long-term debt is issued pursuant to a master trust indenture dated February 1, 2002. The master trust indenture establishes an "Obligated Group," consisting of the Hospital, Healthcare, and DSC. All members of the Obligated Group are jointly and severally obligated to pay all debt under the master trust indenture and are required to maintain their status as tax-exempt, not-for-profit health care providers.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Obligations (continued)

All obligations issued under the master trust indenture are secured by a security interest in the receivables of the Obligated Group as defined in the master trust indenture.

Under the terms of the master trust indenture and reimbursement agreements obtained in relation to the Series 2011 debt, the Obligated Group must meet certain financial covenants, including minimum debt service coverage levels. As of September 30, 2012, the Obligated Group was in compliance with these covenants.

Interest expense, including cash settlements from swap agreements during 2012 and 2011, was approximately \$8,929,000 and \$8,536,000, respectively. In 2012 and 2011, \$0 and \$18,000 of net interest, respectively, was capitalized.

Series 2011 Bonds

Pursuant to the Bond Supplemental Master Indenture dated December 1, 2011, the Illinois Finance Authority (IFA) issued \$53,100,000 of variable rate demand revenue bonds (the Series 2011 debt) on behalf of the Hospital. The proceeds were used to currently refund the Series 2002B debt. The bonds were initially purchased by a bank. For an initial term of ten years, the bonds bear interest at a variable rate based on a percentage of LIBOR plus an agreed-upon spread. Effective December 1, 2021, the bonds are payable on demand. The bonds have a final maturity date of July 1, 2032. The average interest rate during 2012 was 1.53%.

Series 2008A Bonds

In September 2008, the IFA issued \$154,765,000 of revenue bonds (the Series 2008A debt) on behalf of the Hospital to fund certain capital projects. The bonds are payable in varying installments through July 1, 2038, and bear interest at fixed rates ranging from 4.00% to 5.37%. Proceeds from the Series 2008A debt were used to reimburse the Hospital for prior capital expenditures and to pay issuance costs of the bonds.

Series 2008B and Series 2008C Bonds

In October 2008, the IFA issued \$86,820,000 of variable rate demand revenue bonds (the Series 2008B/C debt) on behalf of the Hospital. The proceeds were used to refinance a taxable bank loan originally obtained to refund the Obligated Group's Series 2002A debt. The bonds are payable in varying installments through July 1, 2032, and bear interest at a variable rate not to exceed 12%. The average interest rate during 2012 and 2011 was 0.2%.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Obligations (continued)

The direct pay letter of credit securing the Series 2008B/C debt was replaced on December 1, 2011, with irrevocable transferable letters of credit that expire on December 1, 2016. The letters of credit provide a commitment to provide funds for the purchase of Series 2008B/C bonds that may be tendered pursuant to an optional or a mandatory tender and that have not been remarketed. Such advances convert to term loans, with principal payments payable no earlier than a year and a day from the date of the advance.

Unamortized underwriting fees and other costs related to the issuance of the Series 2008 and 2011 bonds of \$5,692,000 and \$5,644,000 are included in other long-term assets at September 30, 2012 and 2011, respectively.

Series 2002B Bonds

In February 2002, the IFA issued \$62,000,000 of variable rate demand revenue bonds (the Series 2002B debt) on behalf of the Hospital to fund certain capital projects and to refund the Series 1995 and Series 1997 debt. The bonds are payable in varying installments through July 1, 2032, and bear interest at a variable rate not to exceed 16%. The average interest rate during 2012 and 2011 was 0.2%. The Series 2002B bonds were refunded by the 2011 issuance of \$53,100,000 of variable rate demand revenue bonds (the Series 2011 debt) and resulted in a loss of \$319,000, which is included in other nonoperating expense for the year ended September 30, 2012.

The future principal payments on the bonds and capital lease obligations are as follows (in thousands):

	Series 2008A	Series 2008B/C	Series 2011	Capital Leases	Total
Year ending September 30:					
2013	\$ 1,590	\$ 2,860	\$ 1,500	\$ 283	\$ 6,233
2014	1,685	2,910	1,600	301	6,496
2015	1,770	2,970	1,700	302	6,742
2016	1,855	3,150	1,700	-	6,705
2017	1,960	3,250	1,800	-	7,010
Thereafter	141,555	60,360	43,400	-	245,315
Total principal payments	<u>\$ 150,415</u>	<u>\$ 75,500</u>	<u>\$ 51,700</u>	<u>\$ 886</u>	<u>\$ 278,501</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Derivatives

The Hospital has an interest rate-related derivative instrument to manage its exposure on its variable rate debt and does not enter into derivative instruments for any purpose other than risk management purposes. By using a derivative financial instrument to manage the risk of changes in interest rates, the Hospital exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Hospital, which creates credit risk for the Hospital. When the fair value of a derivative contract is negative, the Hospital owes the counterparty and therefore does not possess credit risk. The Hospital minimizes the credit risk in its derivative instrument by requiring that the counterparty post collateral for the benefit of the Hospital based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from 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. The Hospital also mitigates risk through periodic review of its derivative position in the context of the total blended cost of capital.

During 2003, the Hospital entered into an interest rate swap agreement (the swap agreement) with a notional amount of \$100,000,000 to hedge against changing interest rates. Under the terms of the swap agreement, the Hospital receives semiannual payments based upon 81% of the one-month LIBOR and makes semiannual payments based upon the SIFMA Index. The scheduled termination date of the swap agreement is July 1, 2032. During 2012, the notional amount was reduced to \$75,950,000.

The Hospital's swap agreement contains a provision requiring posting of collateral to the counterparty if the swap is in a liability position and the liability amount exceeds certain specific threshold amounts. The threshold amounts are determined based on the credit rating assigned by Moody's or Standard & Poor's to the Hospital's variable rate bonds. As of September 30, 2012, the liability of \$1,062,000 is below the threshold, and as such, no collateral has been posted. Similarly, the swap agreement requires the counterparty to post collateral to the Hospital if the swap is in an asset position and exceeds certain threshold amounts.

Net amounts paid or received under the swap agreement are included in interest expense. The change in the fair value of the swap agreement was approximately \$1,065,000 and \$(152,000) in 2012 and 2011, respectively, and is recorded as a nonoperating revenue (expense). The fair value of the swap agreement recognized as a noncurrent liability approximates \$1,062,000 and \$2,127,000 at September 30, 2012 and 2011, respectively.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Derivatives (continued)

Following is a summary of the swap agreement as of September 30, 2012 and 2011:

<u>Year</u>	<u>Notional Amount</u>	<u>Maturity Date</u>	<u>Rate Paid</u>	<u>Rate Received</u>
2012	\$ 75,950,000	July 2032	USD-SIFMA Municipal Swap Index	81% of LIBOR
2011	\$ 78,900,000	July 2032	USD-SIFMA Municipal Swap Index	81% of LIBOR

The fair value of derivative instruments at September 30 is as follows (in thousands):

	<u>Balance Sheet</u>		
	<u>Location</u>	<u>2012</u>	<u>2011</u>
Derivative not designated as hedging instrument under ASC 815:			
Interest rate contract	Interest rate swap	\$ (1,062)	\$ (2,127)

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for 2012 and 2011 are as follows (in thousands):

	<u>Location of Gain (Loss)</u>	<u>Amount of Gain (Loss)</u>	
		<u>2012</u>	<u>2011</u>
Derivative not designated as hedging instrument under ASC 815:	Included in excess (deficiency) of revenue over expenses		
Interest rate contract	Interest expense	\$ 39	\$ (27)
	Change in value of interest rate swap (nonoperating expense)	1,065	(152)

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Restricted Net Assets

Restricted net assets are available for the following purposes at September 30 (in thousands):

	2012	2011
Temporarily restricted:		
Patient care addition/emergency department expansion	\$ 582	\$ 1,188
Emergency department imaging center	1,466	1,380
Intensive care nursery	74	117
Specific hospital programs	23	57
Other special uses	790	1,076
Youth treatment center	121	197
Nursing education	87	133
Women's services	156	78
Community services	64	24
Cancer services	1,840	548
Presidents innovation	475	-
Pediatrics	13	-
	\$ 5,691	\$ 4,798
Permanently restricted:		
Youth treatment center	\$ 318	\$ 318
Nursing education	689	689
Endowment – general	225	224
	\$ 1,232	\$ 1,231

Healthcare'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.

Healthcare 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, Healthcare 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 directions of the applicable donor gift instrument at the time the accumulation is added to the fund.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Restricted Net Assets (continued)

Any 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 for expenditure by the organization in a manner consistent with the donor intent or, where silent, standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Healthcare considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The purposes of Healthcare 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

Healthcare has adopted investment and spending policies for endowment assets that attempt 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. Under the investment policy, endowment assets are invested in a manner that is intended to produce a real return, net of inflation, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

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

Healthcare has a policy of appropriating for distribution each year 4% of the average of the most recent 12 quarters' endowment fund balance. In establishing this policy, Healthcare considered the long-term expected return on its endowment. Accordingly, over the long term, Healthcare expects to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Restricted Net Assets (continued)

The changes in restricted net assets for the years ended September 30, 2012 and 2011, are summarized below (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Restricted net assets, October 1, 2010	\$ 4,584	\$ 1,157	\$ 5,741
Contributions	1,866	6	1,872
Investment loss	(5)	-	(5)
Appropriation for expenditure	(1,647)	-	(1,647)
Other	-	68	68
Restricted net assets, September 30, 2011	4,798	1,231	6,029
Contributions	2,000	1	2,001
Investment gain	237	-	237
Appropriation for expenditure	(1,344)	-	(1,344)
Other	-	-	-
Restricted net assets, September 30, 2012	<u>\$ 5,691</u>	<u>\$ 1,232</u>	<u>\$ 6,923</u>

11. Insurance Programs

Healthcare is a defendant in certain lawsuits and may be subject to additional claims alleging professional liability. Effective November 1, 1978, Healthcare began insuring basic professional and general liability coverage, subject to a nominal deductible, through the Chicago Hospital Risk Pooling Program (CHRPP). CHRPP was a self-insured trust established under the Illinois Religious and Charitable Risk Pooling Trust Act of 1977.

As of December 31, 2010, CHRPP discontinued the issuance of professional and general liability coverage and commenced a voluntary runoff of its claim portfolio effective January 1, 2011. As of that date, Healthcare established a self-insured retention program in which it retains the risk for all claims with individual values under \$4,000,000. An additional "buffer" self-insured retention exists for the first claim that exceeds \$4,000,000. Healthcare has obtained commercial insurance on a claims-made basis for claims exceeding the self-insured retention. Healthcare's self-insurance and tail liabilities as of September 30, 2012 and 2011, of \$43,380,000 and \$13,565,000, respectively, are reported in the accompanying consolidated balance sheets at present value based on discount rates of 5.0% and 4.5% as of September 30, 2012 and 2011, respectively. The undiscounted gross self-insurance and tail liabilities were \$54,168,000 and

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Insurance Programs (continued)

\$16,545,000 at September 30, 2012, and 2011, respectively. Provisions for professional and general liability risks are based on an actuarial estimate of losses using actual loss data adjusted for industry trends and current conditions. The provision for estimated self-insured claims includes estimates of ultimate costs for both reported claims and claims incurred but not reported. A reinsurance receivable of \$23,576,000 was recorded at September 30, 2012.

Actuarial estimates are subject to uncertainty from various sources, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. The actual claim payments could be materially different from the estimate. In the opinion of management, although certain of these claims could potentially exceed Healthcare and subsidiaries' coverage, the final premiums and costs and the ultimate disposition of claims covered under the self-insured program will not have a material adverse effect on the financial position of Healthcare.

12. Commitments

Lease Agreements

Healthcare leases space under operating lease agreements and equipment under capital lease obligations. Total expense recognized for operating lease agreements during 2012 and 2011 was approximately \$2,492,000 and \$2,695,000, respectively.

As of September 30, 2012, Healthcare is required to make the following future minimum payments under the noncancelable lease agreements (in thousands):

2013	\$	2,082
2014		2,003
2015		1,982
2016		1,650
2017		1,279
Thereafter		2,658
	\$	<u>11,654</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Employee Retirement Plans

Substantially all employees of Healthcare participate in one of two retirement plans. The Northwest Community Hospital Employees' Retirement Plan (the Plan) is a trustee, noncontributory, defined-benefit plan. The Northwest Community Healthcare Employees' Retirement Plan (the DC Plan) is a defined-contribution plan.

Defined-Benefit Plan

ASC 715 requires plan sponsors of defined-benefit pension plans to recognize the funded status of their plans in the balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end balance sheet, and provide additional disclosures. A September 30 measurement date was utilized for 2012 and 2011.

During fiscal 2010, the Hospital elected to freeze benefit accruals for all participants in the Plan. An amendment to the Plan eliminated all future benefit accruals, including participants' credited service, final average earnings, and final average compensation amounts used to calculate Plan benefits.

The Plan's prior service cost and actuarial (gains) losses included in unrestricted net assets during 2012 and 2011 are \$(1,940,000) and \$9,401,000, respectively.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Employee Retirement Plans (continued)

The status of the Plan at September 30 and for the years then ended is as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 220,070	\$ 217,257
Service cost	-	-
Interest cost	8,835	9,387
Actuarial loss	18,689	6,123
Settlements	(14,343)	(11,430)
Benefits paid	(1,418)	(1,267)
Projected benefit obligation at end of year	<u>231,833</u>	<u>220,070</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	166,998	170,554
Actual gain on plan assets	28,321	6,141
Employer contributions	9,000	3,000
Settlements	(14,343)	(11,430)
Benefits paid	(1,418)	(1,267)
Fair value of plan assets at end of year	<u>188,558</u>	<u>166,998</u>
Funded status as of measurement date	<u>(43,275)</u>	<u>(53,072)</u>
Unrestricted net assets:		
Adjustment to unrestricted net assets	(73,564)	(75,504)
Components of unrestricted net assets:		
Unrecognized net actuarial loss	73,564	75,504
Net amount recognized at end of year	<u>\$ (43,275)</u>	<u>\$ (53,072)</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Employee Retirement Plans (continued)

Net periodic pension cost for all of the Plan's participants consists of the following for the years ended September 30 (in thousands):

	<u>2012</u>	<u>2011</u>
Interest cost on projected benefit obligation	\$ 8,835	\$ 9,388
Expected return on plan assets	(13,996)	(14,775)
Net amortization and deferral	1,694	1,433
Settlement charge	4,610	3,921
Net periodic pension cost	<u>\$ 1,143</u>	<u>\$ (33)</u>

The accumulated benefit obligation for the Plan was approximately \$231,833,000 and \$220,070,000 at September 30, 2012 and 2011, respectively.

Weighted-average assumptions used to determine benefit obligations at the measurement date are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	3.3%	4.3%
Expected long-term rate of return on plan assets	8.5%	8.5%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic pension cost for the years ended September 30 are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	4.1%*	4.5%
Expected long-term rate of return on plan assets	8.5%	9.0%
Rate of compensation increase	N/A	N/A

*Computed as weighted-average discount rate of 4.3% for nine months and 3.58% for three months.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Employee Retirement Plans (continued)

The expected long-term rate of return on plan assets was developed using expected investment returns of the Plan's investment portfolio. The portfolio's actual rate of return has averaged 6.2% since 2001.

The Plan's weighted-average asset allocations at September 30, 2012 and 2011, by asset category are as follows:

Asset category	Target	2012	2011
Equity securities	43%	45%	42%
Fixed income securities	47	46	48
Alternative investments	10	9	10
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Plan exists to provide retirement benefits for covered employees consistent with the long-term interests of the Plan's participants and their beneficiaries. The Plan's investment objectives may include, but are not limited to, the following: maintaining a portfolio of assets of appropriate liquidity and diversification, which generate investment returns that, together with future contributions, are sufficient to maintain or improve the Plan's funding level; limiting the increase or variability of future contributions; and earning a rate of return in excess of a customized index.

Minimum contributions for 2013 are expected to be \$8,404,000.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Employee Retirement Plans (continued)

The following are the Plan's financial instruments at September 30, 2012, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7 (in thousands):

	<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>		<u>Total</u>
Cash and money market funds	\$ 668	\$	-	\$	-	\$	668
Mutual funds:							
U.S. equity	56,101		-		-		56,101
International equity	27,650		-		-		27,650
Fixed income	64,570		-		-		64,570
High-yield bonds	15,262		-		-		15,262
Emerging markets debt	7,420		-		-		7,420
Hedge fund of funds	-		-		16,887		16,887
	<u>\$ 171,671</u>	\$	<u>-</u>	\$	<u>-</u>	\$	<u>188,558</u>

The following are the Plan's financial instruments at September 30, 2011, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7 (in thousands):

	<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>		<u>Total</u>
Cash and money market funds	\$ 335	\$	-	\$	-	\$	335
Mutual funds:							
U.S. equity	47,265		-		-		47,265
International equity	22,993		-		-		22,993
Fixed income	59,737		-		-		59,737
High-yield bonds	13,358		-		-		13,358
Emerging markets debt	6,483		-		-		6,483
Hedge fund of funds	-		-		16,827		16,827
	<u>\$ 150,171</u>	\$	<u>-</u>	\$	<u>16,827</u>	\$	<u>166,998</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Employee Retirement Plans (continued)

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 7. Fair value measurements for Level 3 represent the Plan's ownership interests in the net asset value of a limited partnership investing in hedge funds for which active markets do not exist (alternative investments). The fair values of the alternative investments that do not have readily determinable fair values are determined by the general partner or fund manager taking into consideration, among other things, the cost of the securities or other investments, prices of recent significant transfers of like assets, and subsequent developments concerning the companies or other assets to which the alternative investments relate.

There is inherent uncertainty in such valuations, and the estimated fair values may differ from the values that would have been used had a ready market for these investments existed. The Plan's alternative investments also have liquidity restrictions and can be divested only at specified times based on terms in the partnership agreements.

The Plan's investment assets are exposed to the same kinds and levels of risk as described in Note 7.

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the period from September 30, 2010 to September 2012 (in thousands):

	Hedge Fund of Funds
Value at October 1, 2010	\$ 16,049
Change in unrealized gain related to holdings at September 30, 2011	<u>778</u>
Value at September 30, 2011	16,827
Change in unrealized gain related to holdings at September 30, 2012	<u>60</u>
Value at September 30, 2012	<u><u>\$ 16,887</u></u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Employee Retirement Plans (continued)

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid (in thousands):

	Pension Benefits
2013	\$ 19,987
2014	19,814
2015	17,695
2016	16,636
2017	16,952
2018 to 2022	72,865

Defined-Contribution Plan

As of January 1, 2005, substantially all new employees are eligible for the DC Plan. Total DC Plan expense was approximately \$12,456,000 and \$12,296,000 in 2012 and 2011, respectively.

14. Functional Expenses

Healthcare provides general health care services to residents within its geographic location. Expenses related to providing these services are approximately as follows (in thousands):

	2012	2011
Health care services	\$ 401,741	\$ 398,209
General and administrative	79,171	91,533
Fund-raising	511	459
	\$ 481,423	\$ 490,201

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. 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 July 1, 2008 through June 30, 2013. Under HAP, Illinois 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 the Hospital from the state and an assessment against the Hospital, which is paid to the state in the same year.

The Hospital recognized the following amounts in the years ended September 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
HAP revenue in net patient service revenue	\$ 11,704	\$ 11,798
HAP assessment in operating expense	11,676	11,676
Net excess from HAP	<u>\$ 28</u>	<u>\$ 122</u>

16. Subsequent Events

Healthcare and subsidiaries evaluated events and transactions occurring subsequent to September 30, 2012 through January 28, 2013, the issuance date of these consolidated financial statements. During this period, it is management's determination that there were no other subsequent events requiring recognition that have not been recorded in the consolidated financial statements or no subsequent events requiring disclosure in the consolidated financial statements, except for the following:

On January 1, 2013, Healthcare incorporated a related captive insurance company in the Cayman Islands. The newly formed company will provide medical professional and general liability coverage for the risks of Healthcare and its subsidiaries, which are currently self-insured. In addition, it is anticipated that the new company will provide prospective coverage for the employed physicians of Healthcare who are currently covered by NCHCI. NCHCI will continue to operate and provide coverage for non-employed physicians associated with Healthcare.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Audit and Compliance Committee and the Board of Directors
Northwest Community Healthcare and Subsidiaries

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements of Northwest Community Healthcare and Subsidiaries. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements themselves in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

January 28, 2013

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Balance Sheet

September 30, 2012

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center	NCH Casualty Insurance	NPC- Cyberknife, LLC	NWC Health Services	Consolidating Eliminations	Total
Assets									
Current assets:									
Cash and cash equivalents	\$ 3,592,670	\$ 31,390,144	\$ 2,879,547	\$ 918,977	\$ 1,226,051	\$ 321,646	\$ 3,661,209	\$ -	\$ 43,990,244
Investments restricted under bond financings	-	9,948	-	-	-	-	-	-	9,948
Patient accounts receivable, less allowance for uncollectible accounts (\$31,421,000)	-	58,986,627	-	1,199,515	-	-	2,275,687	-	62,461,829
Other receivables	491,548	1,845,313	897,896	25,095	1,451,552	-	193,252	-	4,904,656
Prepaid expenses and other	-	8,208,181	-	1,282,660	3,643	81,249	390,968	-	9,966,701
Due from affiliates	-	2,843,744	-	-	-	98,016	-	(2,941,760)	-
Total current assets	4,084,218	103,283,957	3,777,443	3,426,247	2,681,246	500,911	6,521,116	(2,941,760)	121,333,378
Assets limited as to use, at fair value:									
Internally designated for operations and liquidity	-	97,484,804	11,891	-	-	-	-	-	97,496,695
Internally designated for capital replacement	269,236,590	-	-	-	-	-	-	-	269,236,590
Internally designated for insurance (NCHCI)	-	-	-	-	2,977,578	-	-	-	2,977,578
Internally designated for endowment	-	-	1,413,685	-	-	-	-	-	1,413,685
Externally designated for endowment	-	-	1,385,421	-	-	-	-	-	1,385,421
Total	269,236,590	97,484,804	2,810,997	-	2,977,578	-	-	-	372,509,969
Property and equipment, at cost:									
Land and land improvements	8,486,216	16,007,779	-	30,357	-	-	-	-	24,524,352
Buildings	41,174,406	297,135,319	-	8,347,747	-	-	-	-	346,657,472
Fixed equipment and leasehold improvements	8,726,547	205,678,088	-	5,098,811	-	-	319,217	-	219,822,663
Major movable equipment	878,209	107,414,349	-	3,179,996	-	3,555,000	2,188,162	-	117,215,716
Construction-in-progress	-	1,624,843	-	-	-	-	-	-	1,624,843
Less accumulated depreciation	(26,274,739)	(245,628,349)	-	(8,800,127)	-	(3,555,000)	(594,147)	-	(284,852,362)
Total	32,990,639	382,232,029	-	7,836,784	-	-	1,913,232	-	424,992,684
Interest in net assets of Foundation	-	6,698,999	-	-	-	-	-	(6,698,999)	-
Interest in affiliate	523,316	-	-	-	-	-	-	(523,316)	-
Reinsurance receivable	-	23,576,391	-	-	-	-	-	-	23,576,391
Other long-term assets	-	6,461,896	933,151	-	1,491,510	-	181,753	-	9,068,310
Investment in subsidiaries	28,000,000	-	-	-	-	-	-	(28,000,000)	-
Total assets	\$ 334,834,763	\$ 619,238,076	\$ 7,521,591	\$ 11,283,031	\$ 7,150,334	\$ 500,911	\$ 8,616,101	\$ (38,164,075)	\$ 951,480,732

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Balance Sheet (continued)

September 30, 2012

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center	NCH Casualty Insurance	NPC- CyberKnife, LLC	NWC Health Services	Consolidating Eliminations	Total
Liabilities, net assets, and equity									
Current liabilities:									
Accounts payable	\$ 460,922	\$ 9,729,479	\$ 7,182	\$ 398,961	\$ -	\$ -	\$ 312,924	\$ -	\$ 10,909,468
Accrued expenses and other	1,315,564	41,175,482	199,177	523,777	6,627,018	16,070	5,077,927	-	54,935,015
Current maturities of long-term debt obligations	-	6,233,491	-	-	-	-	-	-	6,233,491
Due to third-party payors	-	40,702,369	-	1,465,791	-	-	-	-	42,168,160
Due to affiliates	229,239	98,016	57,288	726,984	-	-	1,830,233	(2,941,760)	-
Total current liabilities	2,005,725	97,938,837	263,647	3,115,513	6,627,018	16,070	7,221,084	(2,941,760)	114,246,134
Long-term debt obligations, less current maturities:									
Series 2008A bonds	-	148,825,000	-	-	-	-	-	-	148,825,000
Series 2008B bonds	-	36,320,000	-	-	-	-	-	-	36,320,000
Series 2008C bonds	-	36,320,000	-	-	-	-	-	-	36,320,000
Series 2011 bonds	-	50,200,000	-	-	-	-	-	-	50,200,000
Capital lease obligation	-	602,714	-	-	-	-	-	-	602,714
	-	272,267,714	-	-	-	-	-	-	272,267,714
Asset retirement obligation	-	1,085,148	-	-	-	-	-	-	1,085,148
Other long-term liabilities	-	-	-	-	-	-	767,430	125,210	892,640
Interest rate swap	-	1,062,418	-	-	-	-	-	-	1,062,418
Reserve for self insurance	1,573,566	41,045,860	-	760,500	-	-	-	-	43,379,926
Pension obligation	-	43,274,512	-	-	-	-	-	-	43,274,512
Total noncurrent liabilities	1,573,566	358,735,652	-	760,500	-	-	767,430	125,210	361,962,358
Total liabilities	3,579,291	456,674,489	263,647	3,876,013	6,627,018	16,070	7,988,514	(2,816,550)	476,208,492
Net assets:									
Unrestricted	331,255,472	156,364,588	335,134	7,407,018	-	-	-	(28,648,526)	466,713,686
Temporarily restricted	-	5,587,588	5,690,930	-	-	-	-	(5,587,588)	5,690,930
Permanently restricted	-	1,111,411	1,231,880	-	-	-	-	(1,111,411)	1,231,880
Common shares	-	-	-	-	120,000	-	28,001,000	-	28,121,000
Preferred shares	-	-	-	-	2,880,000	-	-	-	2,880,000
Retained earnings	-	-	-	-	(2,476,684)	484,841	(27,373,413)	-	(29,365,256)
Total net assets	331,255,472	163,063,587	7,257,944	7,407,018	523,316	484,841	627,587	(35,347,525)	475,272,240
Total liabilities and net assets	\$ 334,834,763	\$ 619,738,076	\$ 7,521,591	\$ 11,283,031	\$ 7,150,334	\$ 500,911	\$ 8,616,101	\$ (38,164,075)	\$ 951,480,732

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets

Year Ended September 30, 2012

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center	NCH Casualty Insurance	NPC- CyberKnife, LLC	NWC Health Services	Consolidating Eliminations	Total
Revenue									
Net patient service revenue	\$ -	\$ 468,005,263	\$ -	\$ 14,609,931	\$ -	\$ -	\$ 23,813,461	\$ (852,936)	\$ 505,575,719
Provision for uncollectible accounts	-	(39,720,635)	-	(187,778)	-	-	-	-	(39,908,413)
Other operating revenue	9,005,942	428,284,628	413,349	14,422,153	2,198,036	1,152,000	23,813,461	(852,936)	465,667,306
Total revenue	9,005,942	445,212,297	413,349	14,425,005	2,198,036	1,152,000	26,774,201	(6,020,145)	493,160,685
Expenses									
Salaries and employee benefits	2,364,377	241,424,562	1,013,834	5,948,201	-	8,568	22,940,461	(188,585)	273,511,418
Supplies and other	2,342,165	86,694,785	141,071	4,648,097	2,120,647	3,912	4,654,443	(4,700,958)	95,904,162
Professional fees and purchased services	2,399,931	46,366,322	93,557	508,406	416,232	348,221	3,666,033	(828,767)	52,969,935
Depreciation and amortization	2,001,678	34,148,954	-	723,727	-	-	434,568	-	37,308,927
Illinois hospital assessment	-	11,676,247	-	-	-	-	-	-	11,676,247
Interest	-	10,052,357	-	-	-	-	-	-	10,052,357
Total expenses	9,108,151	430,363,227	1,248,462	11,828,431	2,536,879	360,701	31,695,505	(5,718,310)	481,423,046
Operating (loss) income	(102,209)	14,849,070	(835,113)	2,596,574	(338,843)	791,299	(4,921,304)	(301,835)	11,737,639
Nonoperating revenue (expense)									
Investment income (loss)	45,845,131	(123,697)	241,669	-	-	-	-	-	45,963,103
Change in value of interest rate swap	-	1,064,599	-	-	-	-	-	-	1,064,599
Other	(223,637)	(1,417,424)	-	(24,698)	115,206	-	-	(164,700)	(1,715,233)
Net nonoperating revenue (expense)	45,621,494	(476,522)	241,669	(24,698)	115,206	-	-	(164,700)	45,312,449
Excess (deficiency) of revenue over expenses	45,519,285	14,372,548	(593,444)	2,571,876	(223,637)	791,299	(4,921,304)	(466,535)	57,050,088

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2012

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Surgery Center	NCH Casualty Insurance	NPC- CyberKnife, LLC	NWC Health Services	Consolidating Eliminations	Total
Unrestricted net assets									
Excess (deficiency) of revenue over expenses	\$ 45,519,285	\$ 14,372,548	\$ (593,444)	\$ 2,571,876	\$ (223,637)	\$ 791,299	\$ (4,921,304)	\$ (466,535)	\$ 57,050,088
Transfers from (to) affiliates	8,000,000	(6,500,000)	500,000	(2,000,000)	-	-	-	-	-
Additional paid-in capital	-	-	-	-	-	-	6,000,000	(6,000,000)	-
Pension-related changes other than net periodic pension cost	-	1,939,914	-	-	-	-	-	-	1,939,914
Net assets released from restrictions used for purchase of property and equipment	-	547,232	-	-	-	(655,105)	-	655,105	547,232
Distribution to CyberKnife investors	-	-	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	53,519,285	10,359,694	(93,444)	571,876	(223,637)	136,194	1,078,696	(5,811,430)	59,537,234
Temporarily restricted net assets									
Contributions	-	-	1,999,867	-	-	-	-	-	1,999,867
Investment income	-	-	236,837	-	-	-	-	-	236,837
Transfers to affiliates	-	-	(1,315,302)	-	-	-	-	1,315,302	-
Net assets released from restrictions used for:									
Purchase of property and equipment	-	(547,232)	-	-	-	-	-	-	(547,232)
Operations	-	(768,070)	(28,661)	-	-	-	-	-	(796,731)
Change in interest in net assets of the Foundation	-	2,109,668	-	-	-	-	-	(2,109,668)	-
Increase (decrease) in temporarily restricted net assets	-	794,366	892,741	-	-	-	-	(794,366)	892,741
Permanently restricted net assets									
Contributions	-	-	1,070	-	-	-	-	-	1,070
Change in interest in net assets of the Foundation	-	151,342	-	-	-	-	-	(151,342)	-
Increase (decrease) in permanently restricted net assets	-	151,342	1,070	-	-	-	-	(151,342)	1,070
Increase (decrease) in net assets	53,519,285	11,305,402	800,367	571,876	(223,637)	136,194	1,078,696	(6,757,138)	60,431,045
Net assets at beginning of year	277,736,187	151,758,185	6,457,577	6,835,142	746,953	348,647	(451,109)	(28,590,387)	414,841,195
Net assets at end of year	\$ 331,255,472	\$ 163,063,587	\$ 7,257,944	\$ 7,407,018	\$ 523,316	\$ 484,841	\$ 627,587	\$ (35,347,525)	\$ 475,272,240

Northwest Community Healthcare and Subsidiaries

Schedule of Charity Care and Community Benefits (Unaudited)

September 30, 2012

The policy of Healthcare is to treat patients in immediate need of medical services without regard to their ability to pay for such services. Healthcare maintains records to identify and monitor the level of charity care provided. These records include the amount of estimated costs for services rendered and supplies furnished under its charity care policy. The estimated difference between the cost of services provided to Medicare and Medicaid patients and the reimbursement from these governmental programs is also monitored. Healthcare operates or funds two primary care clinics, a mobile dental clinic, and a community center serving low-income families in its service area. In addition, Healthcare provides community benefits in the form of health and wellness education, translation services, maternal/child classes, paramedic training, health screenings, support groups, physician referral, and other social services.

During the years ended September 30, 2012 and 2011, the following levels of charity care and community benefit, at cost, were provided (in thousands):

	<u>2012</u>	<u>2011</u>
Cost of charity care provided	\$ 8,943	\$ 6,765
Estimated excess of cost over reimbursement for Medicare patients	59,738	58,908
Estimated excess of cost over reimbursement for Medicaid patients	12,651	14,416
Cost of other community benefits	6,834	3,833
Cost to operate clinics	286	156
Cost to operate Palatine Opportunity Center	272	269
Total	<u>\$ 88,724</u>	<u>\$ 84,347</u>

Healthcare also provides a significant amount of uncompensated care for patients, which is not included above, but is reported in the consolidated statements of operations and changes in net assets as a provision for uncollectible accounts that totaled \$39,908,000 and \$42,225,000 in 2012 and 2011, respectively. Many of those patients are uninsured or underinsured, but did not apply for, or qualify for, charity care.

Ernst & Young LLP

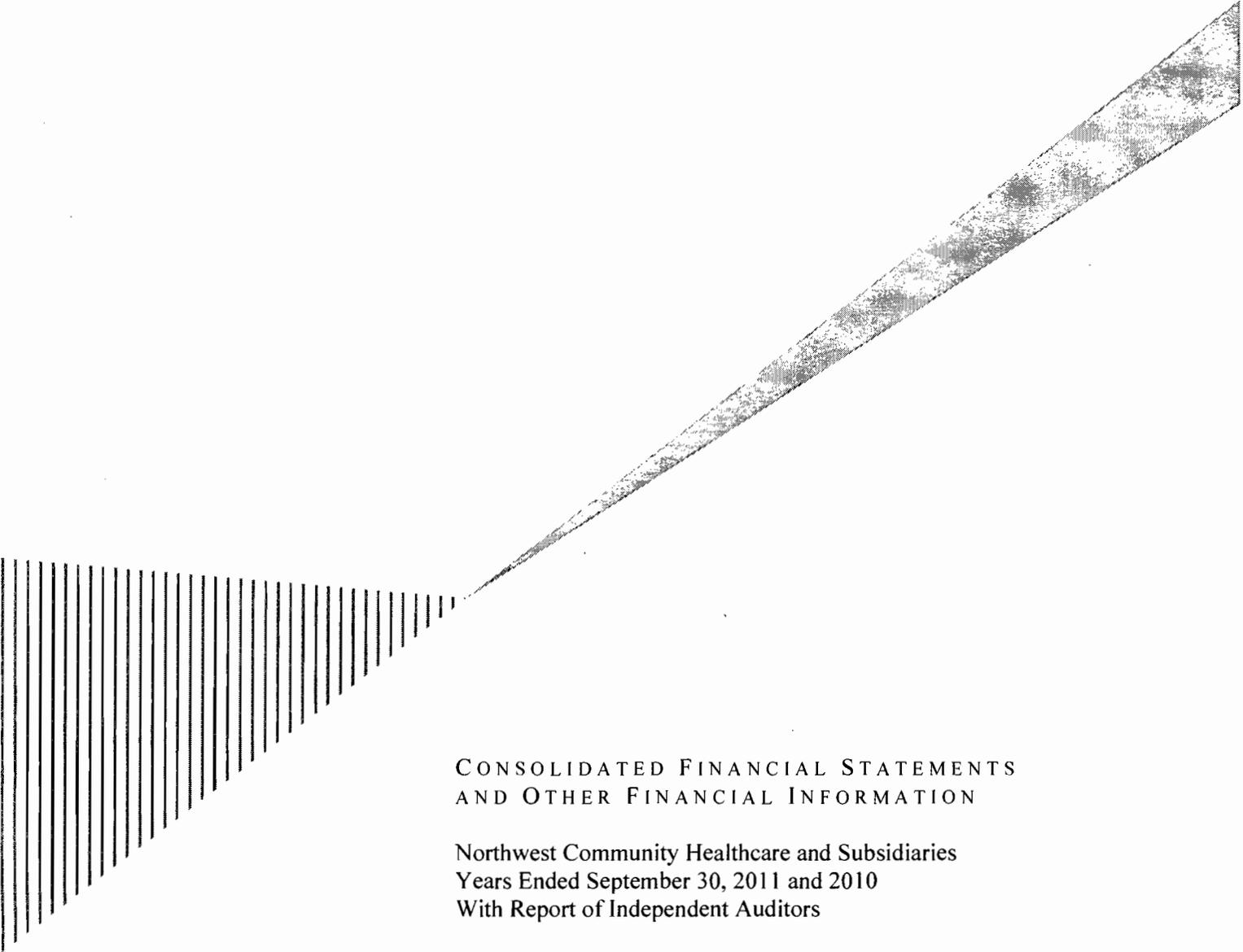
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CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Northwest Community Healthcare and Subsidiaries
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

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ATTACHMENT
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Northwest Community Healthcare and Subsidiaries
Consolidated Financial Statements and Other Financial Information
Years Ended September 30, 2011 and 2010

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Report of Independent Auditors

The Audit and Compliance Committee and the Board of Directors
Northwest Community Healthcare and Subsidiaries

We have audited the accompanying consolidated balance sheets of Northwest Community Healthcare and Subsidiaries (Healthcare) as of September 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Healthcare's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northwest Community Healthcare and Subsidiaries at September 30, 2011 and 2010, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the consolidated financial statements, on October 1, 2010, Healthcare changed its method of accounting for goodwill.

Ernst & Young LLP

February 10, 2012

Northwest Community Healthcare and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 26,813,583	\$ 26,837,234
Investments restricted under bond financings	177,464	62,288
Patient accounts receivable, less allowances for uncollectible accounts (2011 – \$28,727,000; 2010 – \$20,124,000)	56,670,383	52,290,315
Other receivables	2,787,005	2,795,241
Prepaid expenses and other	10,498,245	13,404,190
Total current assets	<u>96,946,680</u>	<u>95,389,268</u>
Assets limited as to use, at fair value:		
Internally designated for operations and liquidity	94,072,643	104,626,887
Internally designated for capital replacement	222,574,842	225,268,672
Internally designated for insurance (NCHCI)	2,904,385	3,316,251
Internally designated for endowment	1,172,195	1,183,846
Externally designated for endowment	1,147,455	1,064,888
	<u>321,871,520</u>	<u>335,460,544</u>
Property and equipment, at cost:		
Land and land improvements	24,568,278	21,980,930
Buildings	355,789,194	335,768,573
Fixed equipment and leasehold improvements	226,280,936	218,685,939
Major movable equipment	117,243,251	109,858,835
Construction-in-progress	2,989,461	17,053,630
	<u>726,871,120</u>	<u>703,347,907</u>
Less accumulated depreciation	<u>(285,254,630)</u>	<u>(253,241,756)</u>
	441,616,490	450,106,151
Other long-term assets	9,124,232	26,983,524
Total assets	<u>\$ 869,558,922</u>	<u>\$ 907,939,487</u>

	September 30	
	2011	2010
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 12,335,076	\$ 18,309,616
Accrued expenses and other	55,710,123	50,437,715
Current maturities of long-term debt obligations	5,935,257	5,725,257
Due to third-party payors	31,117,170	30,301,219
Total current liabilities	<u>105,097,626</u>	<u>104,773,807</u>
Long-term debt obligations, less current maturities:		
Series 2002B bonds	51,700,000	53,100,000
Series 2008A bonds	150,415,000	151,940,000
Series 2008B bonds	37,750,000	39,132,500
Series 2008C bonds	37,750,000	39,132,500
Capital lease obligation	903,181	1,154,478
	<u>278,518,181</u>	<u>284,459,478</u>
Asset retirement obligation	1,046,437	1,223,382
Other long-term liabilities	14,856,613	11,430,248
Interest rate swap	2,127,017	1,975,139
Pension obligation	53,071,853	46,703,341
Total noncurrent liabilities	<u>349,620,101</u>	<u>345,791,588</u>
Total liabilities	454,717,727	450,565,395
Net assets:		
Unrestricted	408,812,196	451,633,523
Temporarily restricted	4,798,189	4,583,683
Permanently restricted	1,230,810	1,156,886
Total net assets	<u>414,841,195</u>	<u>457,374,092</u>
Total liabilities and net assets	<u>\$ 869,558,922</u>	<u>\$ 907,939,487</u>

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Consolidated Statements of Operations
and Changes in Net Assets

	Year Ended September 30	
	2011	2010
Revenue		
Net patient service revenue	\$ 500,770,828	\$ 446,164,227
Other operating revenue	<u>18,444,068</u>	<u>20,850,212</u>
Total revenue	<u>519,214,896</u>	<u>467,014,439</u>
Expenses		
Salaries and employee benefits	271,381,303	249,649,070
Supplies and other	102,828,935	98,231,429
Professional fees and purchased services	50,638,023	48,939,454
Depreciation and amortization	43,732,608	36,605,699
Provision for uncollectible accounts	42,224,554	29,086,489
Illinois hospital assessment	11,676,136	11,676,662
Interest	9,943,803	6,977,145
Total expenses	<u>532,425,362</u>	<u>481,165,948</u>
Operating loss	(13,210,466)	(14,151,509)
Nonoperating (expense) revenue		
Investment (loss) income	(3,567,773)	20,302,341
Change in value of interest rate swap	(151,878)	(896,370)
Other	458,504	228,401
Total nonoperating (expense) revenue	<u>(3,261,147)</u>	<u>19,634,372</u>
(Deficiency) excess of revenue over expenses	(16,471,613)	5,482,863

Northwest Community Healthcare and Subsidiaries

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

	Year Ended September 30	
	2011	2010
Unrestricted net assets		
(Deficiency) excess of revenue over expenses	\$ (16,471,613)	\$ 5,482,863
Pension-related changes other than net periodic pension cost	(9,400,636)	(10,859,112)
Net effect of endowment reclassification	(67,491)	(128,177)
Net assets released from restrictions used for purchase of property and equipment	<u>1,038,353</u>	<u>2,631,298</u>
Decrease in unrestricted net assets before cumulative effect of change in accounting principle	(24,901,387)	(2,873,128)
Cummulative effect of change in accounting principle	<u>(17,919,940)</u>	—
Decrease in unrestricted net assets	<u>(42,821,327)</u>	<u>(2,873,128)</u>
Temporarily restricted net assets		
Contributions	1,866,877	1,748,173
Investment (loss) income	(5,233)	36,922
Net assets released from restrictions used for:		
Purchase of property and equipment	(1,038,353)	(2,631,299)
Operations	<u>(608,785)</u>	<u>(596,113)</u>
Increase (decrease) in temporarily restricted net assets	<u>214,506</u>	<u>(1,442,317)</u>
Permanently restricted net assets		
Contributions	6,433	6,365
Net effect of endowment reclassification	<u>67,491</u>	<u>128,177</u>
(Decrease) increase in permanently restricted net assets	<u>73,924</u>	<u>134,542</u>
Decrease in net assets	(42,532,897)	(4,180,903)
Net assets at beginning of year	<u>457,374,092</u>	<u>461,554,995</u>
Net assets at end of year	<u><u>\$ 414,841,195</u></u>	<u><u>\$ 457,374,092</u></u>

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2011	2010
Operating activities		
Decrease in net assets	\$ (42,532,897)	\$ (4,180,903)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension-related changes other than net periodic pension cost	9,400,636	10,859,112
Restricted contributions	(1,873,310)	(1,754,537)
Depreciation and amortization	43,732,608	36,605,699
Provision for uncollectible accounts	42,224,554	29,086,489
Loss (gain) on disposal of fixed assets	6,062	(61,234)
Unrealized loss (gain) on investments	9,531,546	(28,261,118)
Change in value of interest rate swap	151,878	896,370
Changes in other assets and liabilities:		
Accounts receivable, other receivables and due to third-party payors	(45,780,435)	(27,992,858)
Accounts payable and accrued expenses	(702,132)	1,403,286
Investments	3,942,302	70,627,126
Other assets and liabilities	20,762,071	(8,666,217)
Net cash provided by operating activities	38,862,883	78,561,215
Investing activities		
Property and equipment additions, net	(35,028,547)	(57,076,438)
Purchase of physician practice	-	(16,270,000)
Cash used in investing activities	(35,028,547)	(73,346,438)
Financing activities		
Payments on long-term obligations	(5,731,297)	(5,014,743)
Restricted contributions	1,873,310	1,754,537
Net cash used in financing activities	(3,857,987)	(3,260,206)
Net (decrease) increase in cash and cash equivalents	(23,651)	1,954,571
Cash and cash equivalents at beginning of year	26,837,234	24,882,663
Cash and cash equivalents at end of year	\$ 26,813,583	\$ 26,837,234
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 8,516,572	\$ 8,547,904

See accompanying notes.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2011

1. Organization and Nature of Operations

Northwest Community Healthcare (Healthcare) was established to own, operate, control, and otherwise coordinate the delivery of health care within the service area of Northwest Community Hospital (the Hospital) and coordinate the activities of the various corporations affiliated with Healthcare. Subsidiaries of Healthcare include the Hospital, Northwest Community Hospital Foundation (the Foundation), and Northwest Community Day Surgery Center, Inc. (DSC), which are not-for-profit entities; Northwest Community Health Services, Inc. (Health Services) and NPC-CyberKnife, LLC (CyberKnife), which are taxable entities; and NCH Casualty Insurance SPC Limited (NCHCI), a Cayman Islands corporation. The Hospital, located in Arlington Heights, Illinois, is a 496-bed acute care facility providing inpatient, outpatient, and emergency care services primarily to residents of Arlington Heights and the surrounding communities. Northwest Community Capco, Inc. (Capco), an Illinois for-profit corporation; Northwest Community Physicians Association, LLC (NCPA), a limited liability company; and NCH Physicians Cooperative (NCHPC), an Illinois not-for-profit corporation, are subsidiaries of the Hospital. NCH Service Company, LLC (NCHSC), a limited liability company, is a subsidiary of NCPA.

Health Services owns and operates the NCH Medical Group (NCHMG), a multi-specialty physician practice that was established in 2010. NCHMG has offices in Arlington Heights, Buffalo Grove, and Mt. Prospect, Illinois.

CyberKnife was formed in June 2006 for the purpose of purchasing and owning a stereotactic radiosurgery system and leasing it to the Hospital. CyberKnife is a limited liability corporation that is owned by Healthcare (74% at September 30, 2011 and 2010) and physician investors (26% at September 30, 2011 and 2010). Healthcare consolidates CyberKnife, as Healthcare owns a majority of the units outstanding.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Healthcare, the Hospital, the Foundation, DSC, Health Services, Capco, NCPA, NCHPC, CyberKnife, NCHSC, and NCHCI. NCHPC had no financial transactions during 2011 and 2010 and did not hold any assets or liabilities as of September 30, 2011 and 2010. Significant intercompany transactions have been eliminated in consolidation.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid short-term investments with original maturities of three months or less.

Accounts Receivable

Healthcare evaluates the collectibility of its accounts receivable based on the length of time the receivable is outstanding, payor class, and the anticipated future collectible amounts based on historical experience. Accounts receivable are charged to the allowance for uncollectible accounts when they are deemed uncollectible.

Inventories

Inventories are priced at the lower of cost, determined by the first-in, first-out method, or market.

Investments

Healthcare has designated all of its investments as trading. Investments in equity and debt securities and mutual funds with readily determinable fair values are reported at fair value based on quoted market prices. Alternative investments, primarily limited partnerships that invest in hedge funds, are reported using the equity method of accounting based on information provided by the partnership. Income earned, realized gains (losses), and changes in unrealized gains (losses) on funds internally designated for operations and liquidity are reported as other operating revenue. All other investment (loss) income, realized gains (losses), and changes in unrealized gains (losses) are reported as nonoperating (expense) revenue.

Derivative Instruments

Derivative instruments, specifically interest rate swaps, are recorded on the consolidated balance sheets at their respective fair values. The derivative instruments do not qualify for hedge accounting; therefore, the change in the fair value of those derivative instruments is reflected in nonoperating (expense) revenue.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Healthcare uses the straight-line method of computing depreciation for property and equipment. Typical service lives are 20 to 50 years for buildings, 12 to 20 years for land improvements, 15 to 20 years for fixed equipment, and 5 to 15 years for major movable equipment.

Goodwill

Goodwill has been recorded at the excess of the fair value of the assets purchased in acquisitions over the purchase price and is recorded as other long-term assets in the consolidated balance sheets. Goodwill is reviewed annually for impairment. The total amount of goodwill recorded at September 30, 2010 was impaired and written off in fiscal 2011. See Note 2 for further information.

Deferred Financing and Other Costs

Underwriting fees and other costs related to the issuance of the Series 2002 and Series 2008 bonds, which are included in other long-term assets, are deferred and amortized on a straight-line basis over the life of the related debt using methods that approximate the effective interest method.

General and Professional Liability Insurance

The provision for general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, which are included in other long-term liabilities.

Asset Retirement Obligation

Healthcare records the fair value of legal obligations associated with long-lived asset retirements. The asset retirement obligation is accreted to the present value of the liability each year. Asset retirement obligations include, but are not limited to, certain types of environmental issues that are legally required to be remediated upon an asset's retirement, as well as contractually required asset obligations.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Contributions and Restricted Net Assets

Unconditional promises to give cash and other assets to Healthcare are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions have been met.

Donor-restricted contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. Permanently restricted net assets are those that the donor stipulates must be maintained by Healthcare in perpetuity. Permanently restricted net assets increase when Healthcare receives contributions for which donor-imposed restrictions limiting the organization's use of an asset or its economic benefits neither expire with the passage of time nor can be removed by the organization meeting certain requirements.

Temporarily restricted net assets are those whose use by Healthcare has been limited to a specific time period or purpose by donors. Permanently restricted net assets are those that the donor stipulates must be maintained by Healthcare in perpetuity. Permanently restricted net assets increase when Healthcare receives contributions for which donor-imposed restrictions limiting the organization's use of an asset or its economic benefits neither expire with the passage of time nor can be removed by the organization meeting certain requirements. Substantially all restricted contributions benefiting Healthcare are initially received by the Foundation. When a donor restriction is met, the Foundation transfers the temporarily restricted gift to Healthcare, the Hospital, or DSC, at which time the related net assets are released from restriction in the financial statements.

Patient Service Revenue

Healthcare has agreements with third-party payors that provide for payments to Healthcare at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others 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 in future periods.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The percentage mix of gross patient service revenues by third-party payor at September 30 was as follows:

<u>Payor</u>	<u>2011</u>	<u>2010</u>
Medicare	48%	49%
Blue Cross	27	26
Managed Care	14	14
Medicaid	6	6
Self-pay	4	4
Commercial	1	1
Total	<u>100%</u>	<u>100%</u>

Charity Care and Community Benefit

The policy of Healthcare is to treat patients in immediate need of medical services without regard to their ability to pay for such services. Healthcare maintains records to identify and monitor the level of charity care provided. These records include the amount of estimated costs for services rendered and supplies furnished under its charity care policy. The estimated difference between the cost of services provided to Medicare and Medicaid patients and the reimbursement from these governmental programs is also monitored. Healthcare operates or funds two primary care clinics, a mobile dental clinic, and a community center serving low-income families in its service area. In addition, Healthcare provides community benefits in the form of health and wellness education, translation services, maternal/child classes, paramedic training, health screenings, support groups, physician referral, and other social services.

(Deficiency) Excess of Revenue Over Expenses

The consolidated statements of operations and changes in net assets include (deficiency) excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from (deficiency) excess of revenue over expenses, include net assets released from restrictions used for the purchase of property and equipment, pension-related charges other than net periodic pension cost, and the impact of certain changes in accounting principles.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Asset Impairment

Healthcare considers whether indicators of impairment are present and performs the necessary test 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, except for alternative investment impairments, which are recognized in nonoperating (expense) revenue at the time the impairment is identified. There was no impairment of assets in 2011 and 2010, other than the write-down of goodwill in 2011.

Income Taxes

Healthcare, the Hospital, the Foundation, and DSC are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (Code), and accordingly, no income taxes are provided for in the accompanying consolidated financial statements.

NCPA and NCHSC are single-member limited liability companies and are classified as disregarded entities under the Code.

Capco is a taxable entity and accounts for income taxes as provided by ASC 740, *Income Taxes*.

CyberKnife is a limited liability company with multiple members and is treated as a partnership under the Code. As such, income taxes are paid directly by the members.

Health Services and NCHPC are taxed as corporations.

NCHCI has elected to be taxed as a domestic corporation under Section 953(d) of the Code and accounts for income taxes as provided by ASC 740. There is presently no tax imposed by the government of the Cayman Islands on NCHCI.

Use of Estimates

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

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

Adoption of New Accounting Standards

In January 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, which establishes accounting and disclosure requirements for how a not-for profit entity determines whether a combination is a merger or an acquisition, how to account for each, and the required disclosures. In addition, ASU 2010-07 included amendments to FASB's Accounting Standards Codification (the Codification or ASC) Topic 350, *Intangibles – Goodwill and Other*, and Topic 810, *Consolidation*, to make both applicable to not-for-profit entities.

Effective October 1, 2010, NCH adopted the guidance relative to ASU 2010-07, which requires goodwill of not-for-profit entities to be evaluated for impairment at least annually. The goodwill impairment test is a two-step test. Under the first step, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of a reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. Healthcare has determined that the appropriate reporting unit for goodwill is the consolidated Healthcare entity and the annual impairment test was performed as of September 30. Healthcare applied the transition guidance under ASC Topic 350, and as a result, recognized a goodwill impairment transition loss of \$17, 920,000 in the consolidated statement of operations and changes in net assets, as a cumulative effect of a change in accounting principle.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Net Patient Service Revenue

The Hospital's net patient service revenue accounts for approximately 93% and 95% of Healthcare's consolidated net patient service revenue in 2011 and 2010, respectively. In 2011, approximately 35% of the Hospital's net patient service revenue was derived from Medicare, and approximately 53% of the Hospital's net patient service revenue was derived from Blue Cross and commercial managed care programs, which provide for payments to the Hospital at amounts different from its established rates. Reimbursement under these programs is based on a specific amount per case, or a contracted price, as defined, of rendering services to program beneficiaries.

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements. The Hospital recorded contractual allowances in the current period representing the difference between charges for services rendered and the expected payments under these programs and adjusts them in future periods as final settlements through cost reports or other means are determined.

Adjustments arising from reimbursement arrangements with third-party payors are accrued for on an estimated basis in the period in which the services are rendered. Estimates for cost report settlements and contractual allowances can differ from actual reimbursement based on the results of subsequent reviews and cost report audits. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2009. For the years ended September 30, 2011 and 2010, net patient service revenue for the Hospital has been increased by approximately \$302,000 and \$192,000, respectively, for third-party settlements, favorably settled appeals, and changes in estimates related to services rendered in previous years.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change. Healthcare believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Concentrations of Credit Risk

The Hospital, DSC, and NCHMG grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables, net of reserves for contractual allowances, charity care, and uncollectible accounts, at September 30 was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	18%	19%
Medicaid	22	16
Managed care	45	39
Other third-party payors	12	11
Self-pay patients	3	15
	<u>100%</u>	<u>100%</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Investments

The composition of investments restricted under bond financings and assets limited as to use at September 30 is as follows (in thousands):

	2011	2010
Investments restricted under bond financings:		
Cash and cash equivalents	\$ 177	\$ 62
Assets limited as to use:		
Internally designated for operations and liquidity:		
Cash and money market funds	\$ 1,203	\$ 1,121
U.S. government and agency obligations	14,896	68,285
Corporate bonds	75,365	32,541
Municipal bonds	2,609	2,680
	94,073	104,627
Internally designated for capital replacement:		
Alternative investments	34,763	34,126
Common stocks	187,812	191,143
	222,575	225,269
Internally designated for insurance (NCHCI):		
Cash and short-term investments	-	383
Mutual funds	2,904	2,933
	2,904	3,316
Internally and externally designated for endowment:		
Mutual funds	2,320	2,249
Total assets limited as to use	\$ 321,872	\$ 335,461

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Investments (continued)

The composition and presentation of investment income are as follows for the years ended September 30 (in thousands):

	2011	2010
Interest and dividends	\$ 5,880	\$ 7,222
Net realized losses on investments	(458)	(11,293)
Change in net unrealized gains and losses on investments	(9,532)	28,261
	\$ (4,110)	\$ 24,190
Reported as:		
Other operating revenue	\$ (537)	\$ 3,851
Investment (loss) income	(3,568)	20,302
Temporarily restricted investment (loss) income	(5)	37
	\$ (4,110)	\$ 24,190

6. Fair Value Measurements

All investments in marketable securities are reported at fair value as defined in ASC 820, *Fair Value Measurements and Disclosures*.

ASC 820-10-50-2 establishes a three-level valuation hierarchy. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. 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 instruments.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Fair Value Measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents the financial instruments carried at fair value, except certain alternative investments, as of September 30, 2011, by caption on the consolidated balance sheet by the valuation hierarchy defined above (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 26,814	\$ -	\$ -	\$ 26,814
Investments restricted under bond financings:				
Cash and cash equivalents	177	-	-	177
Internally designated for operations and liquidity:				
Cash and money market funds	1,203	-	-	1,203
U.S. government and agency obligations	-	14,896	-	14,896
Corporate bonds	-	75,365	-	75,365
Municipal bonds	-	2,609	-	2,609
	<u>1,203</u>	<u>92,870</u>	<u>-</u>	<u>94,073</u>
Internally designated for capital replacement:				
Cash and short-term investments	36	-	-	36
Mutual funds:				
U.S. equity	122,459	-	-	122,459
International equity	26,500	-	-	26,500
Fixed income	38,817	-	-	38,817
	<u>187,812</u>	<u>-</u>	<u>-</u>	<u>187,812</u>
Internally designated for insurance:				
Mutual funds – short-term fixed income	2,904	-	-	2,904
Internally and externally designated for endowment:				
Mutual funds:				
U.S. equity	1,133	-	-	1,133
International equity	327	-	-	327
Fixed income	860	-	-	860
	<u>2,320</u>	<u>-</u>	<u>-</u>	<u>2,320</u>
Investments at fair value	<u>\$ 221,230</u>	<u>\$ 92,870</u>	<u>\$ -</u>	<u>\$ 314,100</u>
Alternative investments not at fair value (equity method)				<u>34,763</u>
				<u>\$ 348,863</u>
Liabilities				
Interest rate swap	<u>\$ -</u>	<u>\$ 2,127</u>	<u>\$ -</u>	<u>\$ 2,127</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value, except certain alternative investments, as of September 30, 2010, by caption on the consolidated balance sheet by the valuation hierarchy defined above (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 26,837	\$ —	\$ —	\$ 26,837
Investments restricted under bond financings:				
Cash and cash equivalents	62	—	—	62
Internally designated for operations and liquidity:				
Cash and money market funds	1,121	—	—	1,121
U.S. government and agency obligations	—	68,285	—	68,285
Corporate bonds	—	32,541	—	32,541
Municipal bonds	—	2,680	—	2,680
	<u>1,121</u>	<u>103,506</u>	<u>—</u>	<u>104,627</u>
Internally designated for capital replacement:				
Cash and short-term investments	132	—	—	132
Mutual funds:				
U.S. equity	124,224	—	—	124,224
International equity	29,645	—	—	29,645
Fixed income	37,142	—	—	37,142
	<u>191,143</u>	<u>—</u>	<u>—</u>	<u>191,143</u>
Internally designated for insurance:				
Cash and short-term investments	383	—	—	383
Mutual funds – short-term fixed income	2,933	—	—	2,933
	<u>3,316</u>	<u>—</u>	<u>—</u>	<u>3,316</u>
Internally and externally designated for endowment:				
Mutual funds:				
U.S. equity	1,131	—	—	1,131
International equity	340	—	—	340
Fixed income	778	—	—	778
	<u>2,249</u>	<u>—</u>	<u>—</u>	<u>2,249</u>
Investments at fair value	<u>\$ 224,728</u>	<u>\$ 103,506</u>	<u>\$ —</u>	<u>\$ 328,234</u>
Alternative investments not at fair value (equity method)				<u>34,126</u>
				<u>\$ 362,360</u>
Liabilities				
Interest rate swap	\$ —	\$ 1,975	\$ —	\$ 1,975

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Fair Value Measurements (continued)

The fair value of Level 1 investments is based on quoted market prices and is valued on a daily basis. The fair value of the interest rate swap is based on discounted cash flows adjusted for nonperformance risk. The adjustment is based on bond pricing for equivalent credit-related entities.

Level 2 pricing is based on the custodian's pricing methodologies which are based on institutional bid evaluations. Institutional bid evaluations are estimated prices computed by pricing vendors. These prices are determined using observable inputs for similar securities as of the measurement date. Redemption frequency is monthly.

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value because of the short maturity of those assets and liabilities.

The estimated fair value of long-term debt (including current portion) based on quoted market prices for the same or similar issues was \$285,141,000 and \$298,949,000 at September 30, 2011 and 2010, respectively.

Healthcare's investments are exposed to various kinds and levels of risk. Equity securities and mutual funds expose Healthcare to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a company's operating performance. Fixed income securities and mutual funds expose Healthcare to interest rate risk, credit risk, and liquidity risk. As interest rates change, the values of many fixed income securities are 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 and tends to be higher for equities related to small capitalization companies. 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.

7. Long-Term Obligations

Healthcare's long-term debt is issued pursuant to a master trust indenture dated February 1, 2002. The master trust indenture establishes an "Obligated Group," consisting of the Hospital, Healthcare, and DSC. All members of the Obligated Group are jointly and severally obligated to pay all debt under the master trust indenture and are required to maintain their status as tax-exempt, not-for-profit health care providers. All obligations issued under the master trust indenture are secured by a security interest in the receivables of the Obligated Group as defined in the master trust indenture.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-Term Obligations (continued)

Under the terms of the master trust indenture and a liquidity facility that was obtained in relation to the Series 2002B debt, the Obligated Group must meet certain financial covenants, including minimum debt service coverage levels. As of September 30, 2011, the Obligated Group was in compliance with these covenants.

Interest expense, including cash settlements from swap agreements during 2011 and 2010, was approximately \$8,536,000 and \$8,571,000, respectively. In 2011 and 2010, \$18,000 and \$3,157,000 of net interest, respectively, was capitalized.

Series 2002B Bonds

In February 2002, the Illinois Finance Authority (IFA) issued \$62,000,000 of variable rate demand revenue bonds (the Series 2002B debt) on behalf of the Hospital to fund certain capital projects and to refund the Series 1995 and 1997 debt. The bonds are payable in varying installments through July 1, 2032, and bear interest at a variable rate not to exceed 16%. The average interest rate during 2011 and 2010 was 0.2%.

The Series 2002B debt is secured by a three-year standby bond purchase agreement, which expires on November 2, 2012. Under the terms of the Series 2002B debt, if the bonds are not remarketed or if the standby bond purchase agreement is not renewed or replaced prior to expiration, the bond trustee is required to purchase the related bonds with proceeds from the standby bond purchase agreement. Such liquidity advances convert to term loans on the expiration date of the standby bond purchase agreement. Principal payments on the term loans would be payable no earlier than a year and a day from September 30, 2011.

Series 2008A Bonds

In September 2008, the IFA issued \$154,765,000 of revenue bonds (the Series 2008A debt) on behalf of the Hospital to fund certain capital projects. The bonds are payable in varying installments through July 1, 2038, and bear interest at fixed rates ranging from 4.00% to 5.37%. Proceeds from the Series 2008A debt were used to reimburse the Hospital for prior capital expenditures and to pay issuance costs of the bonds. As of September 30, 2010, all bond proceeds had been spent.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-Term Obligations (continued)

Series 2008B and Series 2008C Bonds

In October 2008, the IFA issued \$86,820,000 of variable rate demand revenue bonds (the Series 2008B/C debt) on behalf of the Hospital. The proceeds were used to refinance a taxable bank loan originally obtained to refund the Obligated Group's Series 2002A debt. The bonds are payable in varying installments through July 1, 2032, and bear interest at a variable rate not to exceed 12%. The average interest rate during 2011 and 2010 was 0.2%.

The Series 2008B/C debt is secured by an irrevocable direct pay letter of credit that expired on December 18, 2011. See Note 16 for further information on this letter of credit. Under the terms of the 2008B/C debt, if the bonds are not remarketed or if principal or interest is not paid when due, the bond trustee is required to purchase the bonds or make the payments with proceeds from the letter of credit. Such advances convert to term loans, with principal payments payable no earlier than a year and a day from September 30, 2011.

Unamortized underwriting fees and other costs related to the issuance of the Series 2002 and 2008 bonds of \$5,644,000 and \$5,825,000 are included in other long-term assets at September 30, 2011 and 2010, respectively.

The Obligated Group's future principal payments on the bonds are as follows (in thousands):

	Series 2002B	Series 2008A	Series 2008B/C	Total
Year ending September 30:				
2012	\$ 1,400	\$ 1,525	\$ 2,760	\$ 5,685
2013	1,500	1,590	2,860	5,950
2014	1,600	1,685	2,910	6,195
2015	1,700	1,770	2,970	6,440
2016	1,700	1,855	3,150	6,705
Thereafter	45,200	143,515	63,610	252,325
Total principal payments	<u>\$ 53,100</u>	<u>\$ 151,940</u>	<u>\$ 78,260</u>	<u>\$ 283,300</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Derivatives

The Hospital has an interest rate-related derivative instrument to manage its exposure on its variable rate debt and does not enter into derivative instruments for any purpose other than risk management purposes. By using a derivative financial instrument to manage the risk of changes in interest rates, the Hospital exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Hospital, which creates credit risk for the Hospital. When the fair value of a derivative contract is negative, the Hospital owes the counterparty and therefore does not possess credit risk. The Hospital minimizes the credit risk in its derivative instrument by requiring that the counterparty post collateral for the benefit of the Hospital based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from 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. The Hospital also mitigates risk through periodic review of its derivative position in the context of the total blended cost of capital.

During 2003, the Hospital entered into an interest rate swap agreement (the swap agreement) with a notional amount of \$100,000,000 to hedge against changing interest rates. Under the terms of the swap agreement, the Hospital receives semiannual payments based upon 81% of the one-month LIBOR and makes semiannual payments based upon the SIFMA Index. The scheduled termination date of the swap agreement is July 1, 2032. During 2011, the notional amount was reduced to \$78,900,000.

The Hospital's swap agreement contains a provision requiring posting of collateral to the counterparty if the swap is in a liability position and the liability amount exceeds certain specific threshold amounts. The threshold amounts are determined based on the credit rating assigned by Moody's or Standard & Poor's to the Hospital's variable rate bonds. As of September 30, 2011, the liability of \$2,127,000 is below the threshold, and as such, no collateral has been posted. Similarly, the swap agreement requires the counterparty to post collateral to the Hospital if the swap is in an asset position and exceeds certain threshold amounts.

Net amounts paid or received under the swap agreement are included in interest expense. The change in the fair value of the swap agreement was approximately \$(152,000) and \$(896,000) in 2011 and 2010, respectively, and is recorded as a nonoperating item. The fair value of the swap agreement approximates \$(2,127,000) and \$(1,975,000) at September 30, 2011 and 2010, respectively, and is recognized as a noncurrent liability.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Derivatives (continued)

Following is a summary of the swap agreement as of September 30, 2011 and 2010:

<u>Year</u>	<u>Notional Amount</u>	<u>Maturity Date</u>	<u>Rate Paid</u>	<u>Rate Received</u>
			USD-SIFMA	
2011	\$ 78,900,000	July 2032	Municipal Swap Index	81% of LIBOR
			USD-SIFMA	
2010	\$ 81,825,000	July 2032	Municipal Swap Index	81% of LIBOR

The fair value of derivative instruments at September 30 is as follows (in thousands):

	<u>Balance Sheet</u>		
	<u>Location</u>	<u>2011</u>	<u>2010</u>
Derivative not designated as hedging instrument under ASC 815:			
Interest rate contract	Interest rate swap	\$ (2,127)	\$ (1,975)

The effects of derivative instruments on the consolidated statements of operations and changes in net assets for 2011 and 2010 are as follows (in thousands):

	<u>Location of Loss</u>	<u>Amount of Loss</u>	
		<u>2011</u>	<u>2010</u>
Derivative not designated as hedging instrument under ASC 815:	Included in (deficiency) excess of revenue over expenses		
Interest rate contract	Interest expense	\$ (27)	\$ (36)
	Change in value of interest rate swap (nonoperating expense)	(152)	(896)

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Restricted Net Assets

Restricted net assets are available for the following purposes at September 30 (in thousands):

	2011	2010
Temporarily restricted:		
Patient care addition/emergency department expansion	\$ 1,188	\$ 1,855
Emergency department imaging center	1,380	329
Intensive care nursery	117	299
Specific hospital programs	57	351
Other special uses	1,164	1,294
Youth treatment center	197	167
Nursing education	133	171
Women's services	78	118
Community services	24	-
Cancer services	548	-
	\$ 4,886	\$ 4,584
Permanently restricted:		
Youth treatment center	\$ 307	\$ 305
Nursing education	620	652
Endowment – general	216	200
	\$ 1,143	\$ 1,157

Healthcare'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.

Healthcare 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, Healthcare 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 directions of the applicable donor gift instrument at the time the accumulation is added to the fund. Any 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 for expenditure by the organization in a manner consistent with the donor intent or, where silent, standard of prudence

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Restricted Net Assets (continued)

prescribed by UPMIFA. In accordance with UPMIFA, Healthcare considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The purposes of Healthcare 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

Healthcare has adopted investment and spending policies for endowment assets that attempt 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. Under the investment policy, endowment assets are invested in a manner that is intended to produce a real return, net of inflation, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

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

Healthcare has a policy of appropriating for distribution each year 4% of the average of the most recent 12 quarters' endowment fund balance. In establishing this policy, Healthcare considered the long-term expected return on its endowment. Accordingly, over the long term, Healthcare expects to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Restricted Net Assets (continued)

The changes in restricted net assets for the years ended September 30, 2011 and 2010, are summarized below (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Restricted net assets, October 1, 2009	\$ 6,027	\$ 1,023	\$ 7,050
Contributions	1,748	6	1,754
Investment return	37	-	37
Appropriation for expenditure	(3,228)	-	(3,228)
Other	-	128	128
Restricted net assets, September 30, 2010	4,584	1,157	5,741
Contributions	1,866	6	1,872
Investment loss	(5)	-	(5)
Appropriation for expenditure	(1,647)	-	(1,647)
Other	-	68	68
Restricted net assets, September 30, 2011	<u>\$ 4,798</u>	<u>\$ 1,231</u>	<u>\$ 6,029</u>

10. Insurance Programs

Healthcare is a defendant in certain lawsuits and may be subject to additional claims alleging professional liability. Effective November 1, 1978, Healthcare began insuring basic professional and general liability coverage, subject to a nominal deductible, through the Chicago Hospital Risk Pooling Program (CHRPP). CHRPP is a self-insured trust established under the Illinois Religious and Charitable Risk Pooling Trust Act of 1977. CHRPP provides coverage through the use of three funds, "A," "B," and "X." While the "A" fund is hospital-specific, the "B" and "X" funds are pooled funds, which include all CHRPP members. Following an actuarial formula, contributions, reserves, and payment of losses are allocated to each fund based on varying percentages, which may be subject to future retroactive adjustments.

Effective January 1, 2003, the coverage changed from an occurrence basis to a claims-made basis. Accordingly, Healthcare recorded an actuarial estimate of its tail liability of \$7,639,000 at September 30, 2010, discounted at 5.0%, and included in other long-term liabilities in the consolidated balance sheet. The corresponding undiscounted estimate is \$10,408,000 at September 30, 2010. Healthcare and subsidiaries are also covered by an excess liability policy with limits of \$5,000,000 in the aggregate per year for calendar year 2010.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Insurance Programs (continued)

As of December 31, 2010, CHRPP discontinued the issuance of professional and general liability coverage and commenced a voluntary runoff of its claim portfolio effective January 1, 2011. As of that date, Healthcare established a self-insured retention program in which it retains the risk for all claims with individual values under \$4,000,000. An additional "buffer" self-insured retention exists for the first claim that exceeds \$4,000,000. Healthcare has obtained commercial insurance on a claims-made basis for claims exceeding the self-insured retention. Healthcare's self-insurance and tail liabilities of \$13,565,000 are reported in the accompanying consolidated balance sheets at present value based on a discount rate of 4.5% as of September 30, 2011. The undiscounted gross self-insurance and tail liabilities were \$16,545,000 at September 30, 2011. Provisions for professional and general liability risks are based on an actuarial estimate of losses using actual loss data adjusted for industry trends and current conditions. The provision for estimated self-insured claims includes estimates of ultimate costs for both reported claims and claims incurred but not reported.

Actuarial estimates are subject to uncertainty from various sources, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. The actual claim payments could be materially different from the estimate. In the opinion of management, although certain of these claims could potentially exceed Healthcare and subsidiaries' coverage, the final premiums and costs under the CHRPP arrangement and the ultimate disposition of claims covered under CHRPP and the self-insured program will not have a material adverse effect on the financial position of Healthcare.

During 2007, the Hospital established an owner-controlled insurance program related to its patient care addition construction project, requiring a bank letter of credit in the amount of \$2,000,000. No amounts have been drawn on this letter of credit.

11. Commitments

Lease Agreements

Healthcare leases space under operating lease agreements and equipment under capital lease obligations. Total expense recognized for operating lease agreements during 2011 and 2010 was approximately \$2,695,000 and \$597,000, respectively.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Commitments (continued)

As of September 30, 2011, Healthcare is required to make the following future minimum payments under the noncancelable lease agreements (in thousands):

2012	\$	2,141
2013		2,031
2014		2,003
2015		1,982
2016		1,650
Thereafter		3,937
	\$	<u>13,744</u>

12. Employee Retirement Plans

Substantially all employees of Healthcare participate in one of two retirement plans. The Northwest Community Hospital Employees' Retirement Plan (the Plan) is a trustee, noncontributory, defined-benefit plan. The Northwest Community Healthcare Employees' Retirement Plan (the DC Plan) is a defined-contribution plan.

Defined-Benefit Plan

ASC 715 requires plan sponsors of defined-benefit pension plans to recognize the funded status of their plans in the balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end balance sheet, and provide additional disclosures. A September 30 measurement date was utilized for 2011 and 2010.

During fiscal 2010, the Hospital elected to freeze benefit accruals for all participants in the Plan. An amendment to the Plan eliminated all future benefit accruals, including participants' credited service, final average earnings, and final average compensation amounts used to calculate Plan benefits.

The Plan's prior service cost and actuarial losses (gains) included in unrestricted net assets during 2011 and 2010 are \$9,401,000 and \$10,859,000, respectively.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employee Retirement Plans (continued)

The status of the Plan at September 30, and for the year then ended, is as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year:	\$ 217,257	\$ 197,227
Service cost	-	3,320
Interest cost	9,387	10,409
Actuarial loss	6,123	16,863
Curtailment	(11,430)	62
Benefits paid	(1,267)	(10,624)
Projected benefit obligation at end of year	<u>220,070</u>	<u>217,257</u>
Change in plan assets:		
Fair value of plan assets at beginning of year:	170,554	155,965
Actual gain on plan assets	6,141	18,713
Employer contributions	3,000	6,500
Settlements	(11,430)	-
Benefits paid	(1,267)	(10,624)
Fair value of plan assets at end of year	<u>166,998</u>	<u>170,554</u>
Funded status as of measurement date	<u>(53,072)</u>	<u>(46,703)</u>
Unrestricted net assets:		
Adjustment to unrestricted net assets	(75,504)	(66,103)
Components of unrestricted net assets:		
Unrecognized net actuarial loss	75,504	66,103
Net amount recognized at end of year	<u>\$ (53,072)</u>	<u>\$ (46,703)</u>

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employee Retirement Plans (continued)

Net periodic pension cost for all of the Plan's participants consists of the following for the years ended September 30 (in thousands):

	<u>2011</u>	<u>2010</u>
Service cost for benefits earned during the year	\$ —	\$ 3,320
Interest cost on projected benefit obligation	9,388	10,409
Expected return on plan assets	(14,775)	(13,808)
Net amortization and deferral	1,433	1,100
Settlement charge	3,921	—
Net periodic pension cost	<u>\$ (33)</u>	<u>\$ 1,021</u>

The accumulated benefit obligation for the Plan was approximately \$220,070,000 and \$217,257,000 at September 30, 2011 and 2010, respectively.

Weighted-average assumptions used to determine benefit obligations at the measurement date are as follows:

	<u>2011</u>	<u>2010</u>
Discount rate	4.3%	4.5%
Expected long-term rate of return on plan assets	8.5%	9.0%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic pension cost for the years ended September 30 are as follows:

	<u>2011</u>	<u>2010</u>
Discount rate	4.5%	5.5%
Expected long-term rate of return on plan assets	9.0%	9.0%
Rate of compensation increase	N/A	1.5–3.0%

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employee Retirement Plans (continued)

The expected long-term rate of return on plan assets was developed using expected investment returns of the Plan's investment portfolio. The portfolio's actual rate of return has averaged 5.1% since 2001.

The Plan's weighted-average asset allocations at September 30, 2011 and 2010, by asset category are as follows:

Asset category	Target	2011	2010
Equity securities	43%	42%	44%
Fixed income securities	47	48	46
Alternative investments	10	10	9
Cash equivalents	—	—	1
	100%	100%	100%

The Plan exists to provide retirement benefits for covered employees consistent with the long-term interests of the Plan's participants and their beneficiaries. The Plan's investment objectives may include, but are not limited to, the following: maintaining a portfolio of assets of appropriate liquidity and diversification, which generate investment returns that, together with future contributions, are sufficient to maintain or improve the Plan's funding level; limiting the increase or variability of future contributions; and earning a rate of return in excess of a customized index.

Minimum contributions for 2012 are expected to be \$4,360,000.

The following are the Plan's financial instruments at September 30, 2011, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 6 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 335	\$ —	\$ —	\$ 335
Mutual funds:				
U.S. equity	47,265	—	—	47,265
International equity	22,993	—	—	22,993
Fixed income	59,737	—	—	59,737
High-yield bonds	13,358	—	—	13,358
Emerging markets debt	6,483	—	—	6,483
Hedge fund of funds	—	—	16,827	16,827
	\$ 150,171	\$ —	\$ 16,827	\$ 166,998

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employee Retirement Plans (continued)

The following are the Plan's financial instruments at September 30, 2010, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 6 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 719	\$ -	\$ -	\$ 719
Mutual funds:				
U.S. equity	49,795	-	-	49,795
International equity	25,314	-	-	25,314
Fixed income	58,817	-	-	58,817
High-yield bonds	13,178	-	-	13,178
Emerging markets debt	6,682	-	-	6,682
Hedge fund of funds	-	-	16,049	16,049
	<u>\$ 154,505</u>	<u>\$ -</u>	<u>\$ 16,049</u>	<u>\$ 170,554</u>

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 6. Fair value measurements for Level 3 represents the Plan's ownership interests in the net asset value of a limited partnership investing in hedge funds for which active markets do not exist (alternative investments). The fair values of the alternative investments that do not have readily determinable fair values are determined by the general partner or fund manager taking into consideration, among other things, the cost of the securities or other investments, prices of recent significant transfers of like assets, and subsequent developments concerning the companies or other assets to which the alternative investments relate. There is inherent uncertainty in such valuations, and the estimated fair values may differ from the values that would have been used had a ready market for these investments existed. The Plan's alternative investments also have liquidity restrictions and can be divested only at specified times based on terms in the partnership agreements.

The Plan's investment assets are exposed to the same kinds and levels of risk as described in Note 6.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Employee Retirement Plans (continued)

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the period from October 1, 2010 to September 30, 2011 (in thousands):

	Hedge Fund of Funds
Value at October 1, 2009	\$ —
Purchases at cost	16,000
Change in unrealized gain related to holdings at September 30, 2010	49
Value at September 30, 2010	<u>16,049</u>
Change in unrealized gain related to holdings at September 30, 2011	778
Value at September 30, 2011	<u><u>\$ 16,827</u></u>

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid (in thousands):

	Pension Benefits
2012	\$ 18,748
2013	18,328
2014	18,752
2015	16,898
2016	16,448
2017 to 2021	76,268

Defined-Contribution Plan

As of January 1, 2005, substantially all new employees are eligible for the DC Plan. Total DC Plan expense was approximately \$12,296,000 and \$9,587,000 in 2011 and 2010, respectively.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Functional Expenses

Healthcare provides general health care services to residents within its geographic location. Expenses related to providing these services are approximately as follows (in thousands):

	2011	2010
Health care services	\$ 440,594	\$ 394,707
General and administrative	91,679	86,298
Fund-raising	152	161
	\$ 532,425	\$ 481,166

14. Illinois Hospital Assessment Program

In December 2008, the Illinois Hospital Assessment Program (HAP) was approved by the Federal Centers for Medicare and Medicaid Services (CMS) for the period July 1, 2008 through June 30, 2013. Under HAP, Illinois 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 the Hospital from the state and an assessment against the Hospital, which is paid to the state in the same year.

The Hospital recognized the following amounts in the years ended September 30, 2011 and 2010 (in thousands):

	2011	2010
HAP revenue in net patient service revenue	\$ 11,798	\$ 11,800
HAP assessment in operating expense	11,676	11,677
Net excess from HAP	\$ 122	\$ 123

15. Acquisition

On September 1, 2010, Health Services purchased certain assets and assumed certain liabilities of Affinity Health Care, LLC, a physician practice with offices in Arlington Heights and Buffalo Grove, Illinois. This transaction has been accounted for as a purchase under ASC 954-805. Net liabilities of \$1,527,000 were assumed, and goodwill in the amount of \$17,920,000 was recorded in conjunction with this transaction.

Northwest Community Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

16. Subsequent Events

On December 1, 2011, the IFA issued \$53,100,000 of variable rate demand revenue bonds (the Series 2011 debt) on behalf of the Hospital. The proceeds were used to currently refund the Series 2002B debt. The bonds were purchased directly by a bank for an initial term of ten years and bear interest based on a percentage of LIBOR plus an agreed-upon spread. The bonds have a final maturity date of July 1, 2032.

The direct pay letter of credit securing the Series 2008 B/C debt was replaced on December 1, 2011, with irrevocable transferable letters of credit that expire on December 1, 2016. The letters of credit provide a commitment to provide funds for the purchase of Series 2008 B/C bonds that may be tendered pursuant to an optional or a mandatory tender and that have not been remarketed. Such advances convert to term loans, with principal payments payable no earlier than a year and a day from the date of the advance.

Healthcare and subsidiaries evaluated events and transactions occurring subsequent to September 30, 2011 through February 10, 2012, the date of issuance of the financial statements. During this period, there were no other subsequent events requiring recognition or disclosure in the consolidated financial statements.

Other Financial Information



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Report of Independent Auditors on Other Financial Information

The Audit and Compliance Committee and the Board of Directors
Northwest Community Healthcare and Subsidiaries

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

Ernst & Young LLP

February 10, 2012

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Balance Sheet

September 30, 2011

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center	NCH Casualty Insurance	NPC- Cyberknife, LLC	NWC Health Services	Consolidating Eliminations	Total
Assets									
Current assets:									
Cash and cash equivalents	\$ 1,385,936	\$ 19,232,592	\$ 2,572,912	\$ 1,072,087	\$ 831,316	\$ 178,381	\$ 1,540,359	\$ -	\$ 26,813,583
Investments restricted under bond financings	-	177,464	-	-	-	-	-	-	177,464
Patient accounts receivable, less allowance for uncollectible accounts (\$28,727,000)	-	54,388,609	-	778,481	-	-	1,503,293	-	56,670,383
Other receivables	484,487	784,470	825,877	-	579,166	-	113,005	-	2,787,005
Prepaid expenses and other	17,500	10,120,370	-	-	3,643	87,005	269,727	-	10,498,245
Due from affiliates	-	1,431,712	-	-	-	95,217	-	(1,526,929)	-
Total current assets	1,887,923	86,135,217	3,398,789	1,850,568	1,414,125	360,603	3,426,384	(1,526,929)	96,946,680
Assets limited as to use, at fair value:									
Internally designated for operations and liquidity	-	94,056,794	15,849	-	-	-	-	-	94,072,643
Internally designated for capital replacement	222,574,842	-	-	-	-	-	-	-	222,574,842
Internally designated for insurance (NCHCI)	-	-	-	-	2,904,385	-	-	-	2,904,385
Internally designated for endowment	-	-	1,172,195	-	-	-	-	-	1,172,195
Externally designated for endowment	-	-	1,147,455	-	-	-	-	-	1,147,455
Total	222,574,842	94,056,794	2,335,499	-	2,904,385	-	-	-	321,871,520
Property and equipment, at cost:									
Land and land improvements	8,464,658	16,073,263	-	30,557	-	-	-	-	24,568,278
Buildings	40,392,963	307,048,484	-	8,347,747	-	-	-	-	355,789,194
Fixed equipment and leasehold improvements	8,652,057	213,114,256	-	4,514,643	-	-	-	-	226,280,936
Major movable equipment	1,781,885	105,980,254	-	4,685,794	-	3,555,000	1,240,318	-	117,243,251
Construction-in-progress	-	2,982,290	-	-	-	-	7,171	-	2,989,461
Total	59,291,563	645,198,527	-	17,578,541	-	3,555,000	1,247,489	-	726,871,120
Less accumulated depreciation	(25,256,127)	(245,766,920)	-	(10,536,184)	-	(3,555,000)	(160,399)	-	(285,254,630)
Total	34,035,436	399,431,607	-	7,042,357	-	-	1,087,090	-	441,616,490
Interest in net assets of Foundation	-	5,753,291	-	-	-	-	-	(5,753,291)	-
Interest in affiliate	746,953	-	-	-	-	-	-	(746,953)	-
Other long-term assets	-	6,783,661	964,268	-	1,376,303	-	-	-	9,124,232
Investment in subsidiaries	20,000,000	-	-	-	-	-	-	(20,000,000)	-
Total assets	\$ 279,265,154	\$ 592,160,570	\$ 6,698,556	\$ 8,892,925	\$ 5,094,813	\$ 360,603	\$ 4,513,474	\$ (28,027,173)	\$ 869,558,922

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Balance Sheet (continued)

September 30, 2011

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center	NCH Casualty Insurance	NPC- CyberKnife, LLC	NWC Health Services	Consolidating Eliminations	Total
Liabilities, net assets, and equity									
Current liabilities:									
Accounts payable	\$ 352,326	\$ 11,239,516	\$ 3,432	\$ 226,574	\$ -	\$ -	\$ 513,228	\$ -	\$ 12,335,076
Accrued expenses and other	1,588,995	45,535,706	139,603	489,603	4,947,860	11,956	2,996,400	-	55,710,123
Current maturities of long-term debt obligations	-	5,935,257	-	-	-	-	-	-	5,935,257
Due to third-party payors	-	30,447,201	-	669,969	-	-	-	-	31,117,170
Due to affiliates	939,646	95,217	97,944	140,637	-	-	253,485	(1,526,929)	-
Total current liabilities	2,880,967	95,252,897	240,979	1,526,783	4,947,860	11,956	3,763,113	(1,526,929)	105,097,626
Long-term debt obligations, less current maturities:									
Series 2002B bonds	-	51,700,000	-	-	-	-	-	-	51,700,000
Series 2008A bonds	-	150,415,000	-	-	-	-	-	-	150,415,000
Series 2008B bonds	-	37,750,000	-	-	-	-	-	-	37,750,000
Series 2008C bonds	-	37,750,000	-	-	-	-	-	-	37,750,000
Capital lease obligation	-	903,181	-	-	-	-	-	-	903,181
	-	278,518,181	-	-	-	-	-	-	278,518,181
Asset retirement obligation	-	1,046,437	-	-	-	-	-	-	1,046,437
Other long-term liabilities	648,000	12,386,000	-	531,000	-	-	1,201,470	90,143	14,856,613
Interest rate swap	-	2,127,017	-	-	-	-	-	-	2,127,017
Pension obligation	-	53,071,853	-	-	-	-	-	-	53,071,853
Total noncurrent liabilities	648,000	347,149,488	-	531,000	-	-	1,201,470	90,143	349,620,101
Total liabilities	3,528,967	440,402,385	240,979	2,057,783	4,947,860	11,956	4,964,583	(1,436,786)	454,717,727
Net assets:									
Unrestricted	275,736,187	146,004,894	428,578	6,835,142	-	-	-	(20,837,096)	408,167,705
Temporarily restricted	-	4,793,222	4,798,189	-	-	-	-	(4,793,222)	4,798,189
Permanently restricted	-	960,069	1,230,810	-	-	-	-	(960,069)	1,230,810
Common shares	-	-	-	120,000	-	-	20,001,000	-	20,121,000
Preferred shares	-	-	-	2,880,000	-	-	-	-	2,880,000
Retained earnings	-	-	-	(2,253,047)	-	348,647	(20,452,109)	-	(22,356,509)
Total net assets	275,736,187	151,738,185	6,457,577	6,835,142	746,953	348,647	(451,109)	(26,590,387)	414,841,195
Total liabilities and net assets	\$ 279,265,154	\$ 592,160,570	\$ 6,698,556	\$ 8,892,925	\$ 5,694,813	\$ 360,603	\$ 4,513,474	\$ (28,027,173)	\$ 869,558,922

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets

Year Ended September 30, 2011

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center	NCH Casualty Insurance	NPC- CyberKnife, LLC	NWC Health Services	Consolidating Eliminations	Total
Revenue									
Net patient service revenue	\$ -	\$ 464,111,994	\$ -	\$ 15,301,576	\$ -	\$ -	\$ 21,970,775	\$ (613,517)	\$ 500,770,828
Other operating revenue	8,415,483	8,468,318	402,774	4,896	2,412,992	1,152,000	1,384,274	(3,796,669)	18,444,068
Total revenue	8,415,483	472,580,312	402,774	15,306,472	2,412,992	1,152,000	23,355,049	(4,410,186)	519,214,896
Expenses									
Salaries and employee benefits	2,291,637	244,063,965	901,964	5,815,255	-	8,436	18,455,267	(155,221)	271,381,303
Supplies and other	2,076,898	89,355,905	134,854	6,011,991	3,754,381	843	4,624,711	(3,130,648)	102,828,935
Professional fees and purchased services	2,287,857	43,765,508	89,515	508,191	360,268	348,320	3,892,201	(613,837)	50,638,023
Depreciation and amortization	1,862,652	40,268,458	-	980,996	-	355,500	265,002	-	43,732,608
Provision for uncollectible accounts	5,305	41,909,976	9,305	249,968	-	-	50,000	-	42,224,554
Illinois hospital assessment	-	11,676,136	-	-	-	-	-	-	11,676,136
Interest	-	9,903,200	-	-	-	-	40,603	-	9,943,803
Total expenses	8,524,349	480,943,148	1,135,638	13,566,401	4,114,649	713,099	27,327,784	(3,899,706)	532,425,362
Operating (loss) income	(108,866)	(8,362,836)	(732,864)	1,740,071	(1,701,657)	438,901	(3,972,735)	(510,480)	(13,210,466)
Nonoperating (expense) revenue									
Investment (loss) income	(3,588,553)	26,123	(5,343)	-	-	-	-	-	(3,567,773)
Change in value of interest rate swap	-	(151,878)	-	-	-	-	-	-	(151,878)
Other	(1,168,936)	210,881	-	12,000	578,564	-	(500)	826,495	458,504
Net nonoperating (expense) revenue	(4,757,489)	85,126	(5,343)	12,000	578,564	-	(500)	826,495	(3,261,147)
(Deficiency) excess of revenue over expenses	(4,866,355)	(8,277,710)	(738,207)	1,752,071	(1,123,093)	438,901	(3,973,235)	316,015	(16,471,613)

Northwest Community Healthcare and Subsidiaries

Details of Consolidated Statement of Operations and Changes in Net Assets (continued)

	Northwest Community Healthcare	Northwest Community Hospital	NWC Hospital Foundation	NWC Day Surgery Center	NCH Casualty Insurance	NPC- CyberKnife, LLC	NWC Health Services	Consolidating Eliminations	Total
Unrestricted net assets									
(Deficiency) excess of revenue over expenses	\$ (4,866,355)	\$ (8,277,710)	\$ (738,207)	\$ 1,752,071	\$ (1,123,093)	\$ 438,901	\$ (3,973,235)	\$ 316,015	\$ (16,471,613)
Transfers from (to) affiliates	2,000,000	3,998,415	750,000	(2,000,000)	500,000	-	(4,748,415)	(500,000)	-
Pension-related changes other than net periodic pension cost	-	(9,400,636)	-	-	-	-	-	-	(9,400,636)
Net effect of endowment reclassification	-	-	(67,491)	-	-	-	-	-	(67,491)
Net assets released from restrictions used for purchase of property and equipment	-	1,038,353	-	-	-	-	-	-	1,038,353
Distribution to CyberKnife investors	-	-	-	-	-	(982,997)	-	982,997	-
Decrease in unrestricted net assets before cumulative effect of change in accounting principle	(2,866,355)	(12,641,578)	(55,698)	(247,929)	(623,093)	(544,096)	(8,721,690)	799,012	(24,901,387)
Cumulative effect of change in accounting principle	-	(6,748,415)	-	-	-	-	(11,171,525)	-	(17,919,940)
Decrease in unrestricted net assets	(2,866,355)	(19,389,993)	(55,698)	(247,929)	(623,093)	(544,096)	(19,893,175)	799,012	(42,821,327)
Temporarily restricted net assets									
Contributions	-	-	1,866,877	-	-	-	-	-	1,866,877
Investment loss	-	-	(5,233)	-	-	-	-	-	(5,233)
Transfers to affiliates	-	-	(1,618,853)	-	-	-	-	1,618,853	-
Net assets released from restrictions used for:									
Purchase of property and equipment	-	(1,038,353)	-	-	-	-	-	-	(1,038,353)
Operations	-	(580,501)	(28,284)	-	-	-	-	-	(608,785)
Change in interest in net assets of the Foundation	-	1,956,217	-	-	-	-	-	(1,956,217)	-
Increase in temporarily restricted net assets	-	317,363	214,507	-	-	-	-	(317,364)	214,506
Permanently restricted net assets									
Contributions	-	-	6,433	-	-	-	-	-	6,433
Net effect of endowment reclassification	-	-	67,491	-	-	-	-	-	67,491
Change in interest in net assets of the Foundation	-	2,510	-	-	-	-	-	-	(2,510)
Increase (decrease) in permanently restricted net assets	-	2,510	73,924	-	-	-	-	-	(2,510)
(Decrease) increase in net assets	(2,866,355)	(19,070,120)	232,733	(247,929)	(623,093)	(544,096)	(19,893,175)	479,138	(42,552,897)
Net assets at beginning of year	278,602,542	170,828,305	6,224,844	7,083,071	1,370,046	892,743	19,442,066	(27,069,525)	457,374,092
Net assets at end of year	\$ 275,736,187	\$ 151,758,185	\$ 6,457,577	\$ 6,835,142	\$ 746,953	\$ 348,647	\$ (451,109)	\$ (26,590,387)	\$ 414,841,195

Supplemental Information



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Report of Independent Auditors on Supplemental Information

The Audit and Compliance Committee and the Board of Directors
Northwest Community Healthcare and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following Schedule of Charity Care and Community Benefits for the years ended September 30, 2011 and 2010, is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in our audits of the consolidated financial statements, and accordingly, we express no opinion on it.

Ernst & Young LLP

February 10, 2012

Northwest Community Healthcare and Subsidiaries

Schedule of Charity Care and Community Benefits (Unaudited)

The policy of Healthcare is to treat patients in immediate need of medical services without regard to their ability to pay for such services. Healthcare maintains records to identify and monitor the level of charity care provided. These records include the amount of estimated costs for services rendered and supplies furnished under its charity care policy. The estimated difference between the cost of services provided to Medicare and Medicaid patients and the reimbursement from these governmental programs is also monitored. Healthcare operates or funds two primary care clinics, a mobile dental clinic, and a community center serving low-income families in its service area. In addition, Healthcare provides community benefits in the form of health and wellness education, translation services, maternal/child classes, paramedic training, health screenings, support groups, physician referral, and other social services.

During the years ended September 30, 2011 and 2010, the following levels of charity care and community benefit, at cost, were provided (in thousands):

	2011	2010
Cost of charity care provided	\$ 6,765	\$ 9,062
Estimated excess of cost over reimbursement for Medicare patients	58,908	56,573
Estimated excess of cost over reimbursement for Medicaid patients	14,416	13,754
Cost of other community benefits	3,833	3,568
Cost to operate clinics	156	203
Cost to operate Palatine Opportunity Center	269	280
Total	\$ 84,347	\$ 83,440

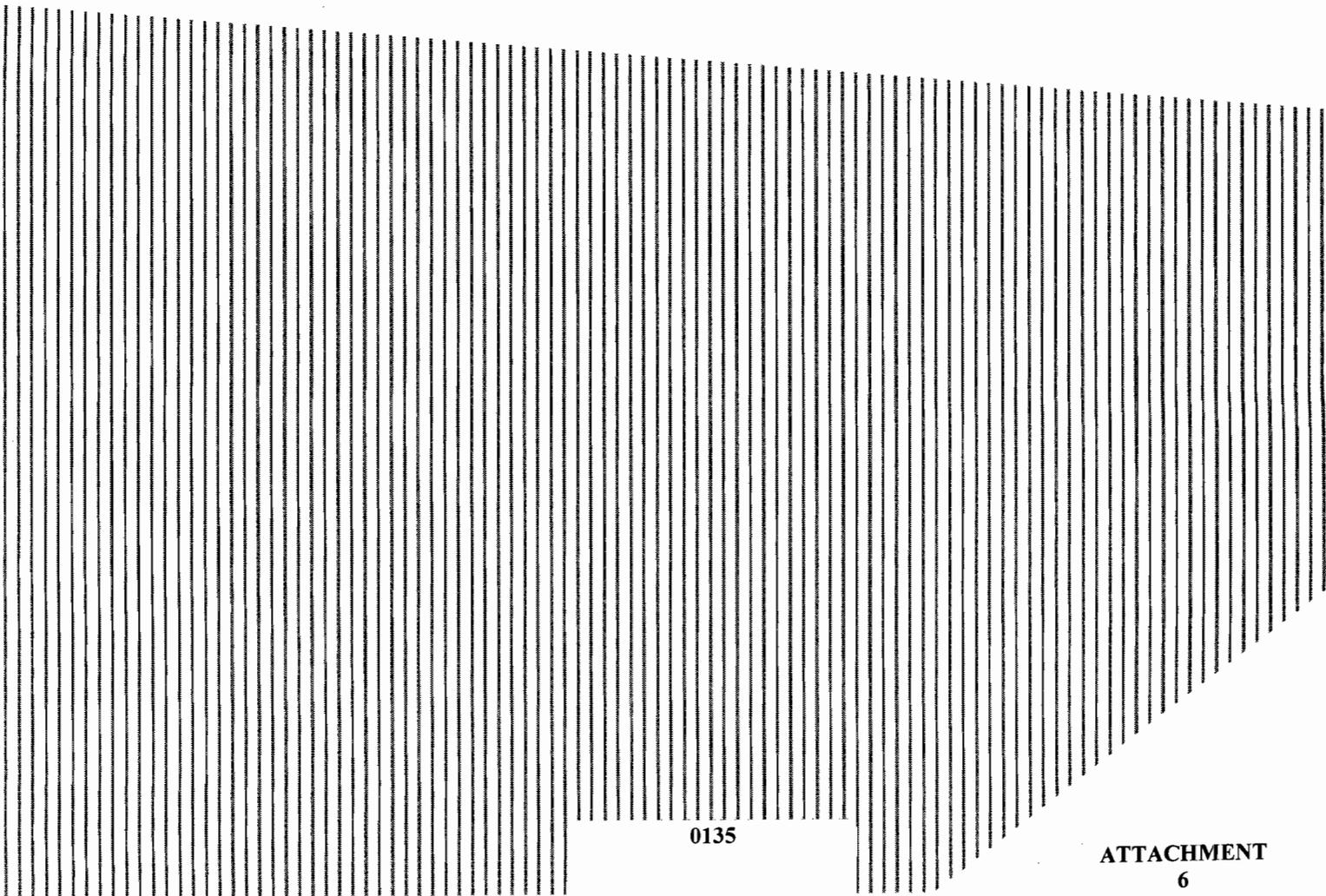
Healthcare also provides a significant amount of uncompensated care for patients, which is not included above, but is reported in the statements of operations as a provision for uncollectible accounts which totaled \$42,225,000 and \$29,086,000 in 2011 and 2010, respectively. Many of those patients are uninsured or underinsured, but did not apply for, or qualify for, charity care.

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Explanatory Note 9
Anticipated Acquisition Price

In 2013, an independent valuation firm, experienced in the valuation of licensed ambulatory surgical treatment centers, previously engaged by NCH and DSC Inc., valued the Day Surgery Business, excluding the Day Surgery Facility, as being worth approximately \$4,600,000. For that reason, the Asset Transfer Agreement set the transfer price for the Day Surgery Business, excluding the Day Surgery Facility, at \$4,600,000.

Explanatory Note 10
Fair Market Value

In 2013, an independent valuation firm, experienced in the valuation of licensed ambulatory surgical treatment centers, previously engaged by NCH and DSC Inc., valued the Day Surgery Business, excluding the Day Surgery Facility, as being worth approximately \$4,600,000. For that reason, the Asset Transfer Agreement set the transfer price for the Day Surgery Business, excluding the Day Surgery Facility, at \$4,600,000.

Explanatory Notes
Section 1130.520

1130.520(b)(1)

No Change in Services or Beds

Because this Transaction is merely transferring assets (and liabilities) between two wholly owned affiliates of NCH, there will be no impact on the Day Surgery Center. Thus, the Day Surgery Center will continue to operate ten (10) operating rooms following the Transaction. See Section 9(b) of the Asset Transfer Agreement.

1130.520(b)(2)

Transaction Documents

On September 18, 2013, DSC Inc. and DSC LLC executed the Asset Transfer Agreement. A copy of the Asset Transfer Agreement is attached at Attachment 5. The effectiveness of the Asset Transfer Agreement is expressly conditioned upon the issuance of a COE from the Board. See Section 9(e) of the Asset Transfer Agreement.

1130.520(b)(3)

Qualified to Provide Healthcare in Illinois

NCH has not had any adverse actions taken against any facility owned or operated by NCH during the three (3) years prior to the filing of this COE Application. DSC Inc. has not had any adverse actions taken against any facility owned or operated by DSC Inc. during the three (3) years prior to the filing of this COE Application. Because DSC LLC is a recently organized limited liability company, DSC LLC has not had any adverse actions taken against any facility owned or operated by DSC LLC during the three (3) years prior to the filing of this COE Application. See the attached affidavit from Mr. Stephen Scogna ("Mr. Scogna"), the President and CEO of NCH, DSC Inc., and DSC LLC, attesting to the foregoing statements. See Attachment 7.

1130.520(b)(4)

Sufficient Funding

Because this Transaction is merely transferring assets (and liabilities) between two wholly owned affiliates of NCH, no funds are necessary to consummate the Transaction.

1130.520(b)(5)

Ownership

DSC LLC will maintain a controlling interest in the Day Surgery Center, and DSC Inc. will continue to own the Day Surgery Facility, for at least 36 months following the Transaction. See Section 9(d) of the Asset Transfer Agreement. After the Transaction and prior to the Syndication, DSC LLC and DSC Inc. will enter into a fair market value lease for the Day Surgery Facility.

1130.520(b)(6)
Pending CON Projects

NCH, DSC Inc., and DSC LLC do not have any outstanding permits.

1130.520(b)(7)
Charity Care

Because this Transaction is merely transferring assets (and liabilities) between two wholly owned affiliates of NCH, the charity care policies for the Day Surgery Center will not change following the Transaction, and for no less than two years thereafter. See the attached affidavit from Mr. Scogna attesting to the foregoing statements set forth at Attachment 8. See also Section 9(a) of the Asset Transfer Agreement.

The charity care policies currently in place at the Day Surgery Center are attached at Attachment 8.

1130.520(b)(8)
Project Completion

The Transaction is set to close on or about November 6, 2013.

1130.520(d)(1)
Community Benefits

Because this Transaction is merely transferring assets (and liabilities) between two wholly owned affiliates of NCH, there will be no impact on the Day Surgery Center (and thus, no impact on the communities served by the Day Surgery Center.) Following the Syndication, the Applicants believe that the Syndication will generate short and long term benefits because “physician alignment” is a key feature of the Patient Protection and Affordable Care Act. With proper physician alignment, the Applicants believe that the Day Surgery Center will be able to address the rapidly changing health care environment that requires more focus on quality outcomes, cost savings, efficiency enhancements, population health, and the delivery of more coordinated and integrated care.

1130.520(d)(2)
Cost Savings

Because this Transaction is merely transferring assets (and liabilities) between two wholly owned affiliates of NCH, there will be no impact on the Day Surgery Center (and thus, no impact on the cost structure of the Day Surgery Center). Following the Syndication, the Applicants believe that the Syndication will generate short and long term benefits because “physician alignment” is a key feature of the Patient Protection and Affordable Care Act. With proper physician alignment, the Applicants believe that the Day Surgery Center will be able to address the rapidly changing health care environment that requires more focus on quality outcomes, cost savings, efficiency enhancements, population health, and the delivery of more coordinated and integrated care.

1130.520(d)(3)

Quality Control

Because this Transaction is merely transferring assets (and liabilities) between two wholly owned affiliates of NCH, there will be no impact on the Day Surgery Center (and thus, no impact on the quality of care provided at the Day Surgery Center). Following the Syndication, the Applicants believe that the Syndication will generate short and long term benefits because “physician alignment” is a key feature of the Patient Protection and Affordable Care Act. With proper physician alignment, the Applicants believe that the Day Surgery Center will be able to address the rapidly changing health care environment that requires more focus on quality outcomes, cost savings, efficiency enhancements, population health, and the delivery of more coordinated and integrated care.

1130.520(d)(4)

Organizational Structure Following the Transaction

Following the Transaction, DSC LLC will own and operate the Day Surgery Center and DSC Inc. will continue to own the Day Surgery Facility. After the Transaction and prior to the Syndication, DSC LLC and DSC Inc. will enter into a fair market value lease for the Day Surgery Facility.

1130.520(d)(5)

Selection of Board

Because this Transaction is merely transferring assets (and liabilities) between two wholly owned affiliates of NCH, there will be no impact on the Day Surgery Center. Thus, the current DSC Inc. Board of Directors will be appointed to serve as the DSC LLC Board of Directors.

1130.520(d)(6)

1110.240 Compliance

See Explanatory Notes for Section 1110.240 set forth below.

1130.520(d)(7)

No Change in Services or Beds

Because this Transaction is merely transferring assets (and liabilities) between two wholly owned affiliates of NCH, there will be no impact on the Day Surgery Center. Thus, the Day Surgery Center will continue to operate ten (10) operating rooms following the Transaction.



September 16, 2013

Ms. Courtney R. Avery
Administrator
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Mr. Michael Constantino
Supervisor, Project Review Section
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Re: Criterion 1130.520(b)(3), No Adverse Actions Certification

Dear Ms. Avery and Constantino:

I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1130.520(b)(3), that there have been no adverse actions taken against any facility owned or operated by Northwest Community Healthcare, Northwest Community Day Surgery Center Inc., or Northwest Community Day Surgery Center II LLC, during the three (3) years prior to the filing of this Certificate of Exemption.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen O. Scogna".

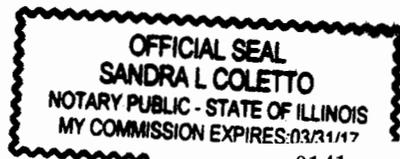
Stephen O. Scogna
President & CEO

Northwest Community Healthcare
Northwest Community Day Surgery Center Inc.
Northwest Community Day Surgery Center II
LLC

SUBSCRIBED AND SWORN
to before me this 18TH day
of September, 2013.

A handwritten signature in black ink, appearing to read "Sandra L. Coletto".

Notary Public



0141

ATTACHMENT



September 16, 2013

Ms. Courtney R. Avery
Administrator
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Mr. Michael Constantino
Supervisor, Project Review Section
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Re: Criterion 1130.520(b)(7), Charity Care Certification

Dear Ms. Avery and Mr. Constantino:

I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1130.520(b)(7), that neither Northwest Community Healthcare, nor Northwest Community Day Surgery Center Inc., nor Northwest Community Day Surgery Center II LLC, shall cause the licensed ambulatory surgical treatment center located at 675 West Kirchoff Road, Arlington Heights, Illinois (the "Day Surgery Center"), currently owned and operated by Northwest Community Day Surgery Center Inc., to adopt more restrictive charity care policies at the Day Surgery Center following the proposed transaction between Northwest Community Day Surgery Center Inc. and Northwest Community Day Surgery Center II LLC, and for no less than two years thereafter.

Sincerely,

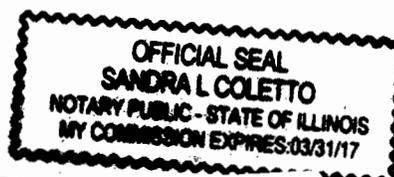
A handwritten signature in black ink, appearing to read "Stephen O. Scogna".

Stephen O. Scogna
President & CEO
Northwest Community Healthcare
Northwest Community Day Surgery Center Inc.
Northwest Community Day Surgery Center II LLC

SUBSCRIBED AND SWORN
to before me this 18TH day
of September, 2013.

A handwritten signature in black ink, appearing to read "Sandra L. Coletto".

Notary Public



**NORTHWEST COMMUNITY HOSPITAL
ADMINISTRATIVE POLICY**

PREPARED BY:	Melissa Jacobsen	NUMBER:	FN-014
REVIEWED BY:		DATE:	01/18/2013
APPROVED BY:	Brent Singer	REVISION DATE:	7/24/13
DEPT OF ORIGIN:	Access Services	PAGE:	1 of 12
RESPONSIBLE AUTHORITY:		REGULATORY COMPLIANCE:	

SUBJECT: Financial Assistance

STATEMENT OF POLICY:

The policy of NCH and DSC is to treat patients fairly and with respect regardless of their ability to pay for the services they receive. In order to promote the health and well-being of the community, NCH and DSC provide care without charge or at a discount to individuals who have no health insurance, with limited financial resources or who are unable to access entitlement programs.

In that regard, NCH and the DSC will provide Financial Assistance in accordance with the Illinois Hospital Uninsured Patient Discount Act, commonly referred to as charity care, to those patients that provide supportive documentation to verify their financial status

The policy will be reviewed annually and is aligned with the Federal Poverty Guidelines (FPG) in conjunction with the published updates by the United States Department of Health and Human Services.

STATEMENT OF PURPOSE:

To provide standards and guidelines for the Financial Assistance Program that provides charity care to patients of Northwest Community Hospital (NCH) and Day Surgery Center (DSC) in accordance with the requirements of the Illinois Hospital Uninsured Patient Discount Act.

DEFINITIONS:

Assets: Assets include immediately available cash and investments, such as a rental property, checking and savings account balances as well as other investments. Assets do not include patient's primary residence, personal property, and any amounts held in a pension and/or retirement plan, provided, however, that distributions and payments from pension or retirement plans may be included as income.

Catastrophic: Medical expenses incurred for which payment would require liquidation of assets critical to living or would cause undue financial hardship to the family support system. Additionally, catastrophic shall also include medical expenses of patients where after payment by third party payers, the residual amount exceeds a specified percentage of a patient's annual family income.

**NORTHWEST COMMUNITY HOSPITAL
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Catastrophic Cap: The maximum amount that may be collected in a 12 month period for a patient determined to be eligible for financial assistance is 25% of a patient's family income and is subject to patient's continued eligibility. The patient will be excluded from this cap when the patient owns assets having a value in excess of 600% of the FPG.

Family: The patient, her/his spouse (including a legal common law spouse), his/her domestic partner and his/her legal dependents according to the Internal Revenue Service rules. If the patient claims someone as dependent on her/his income tax return, that person may be considered a dependent for purposes of the Financial Assistance Program.

Family Income: The sum of a family's annual earnings and cash benefits from all sources before taxes, less payments made for child support. Examples include but are not limited to gross wages, salaries, dividends, interest, Social Security Benefits, workers' compensation, regular support from other person(s), government pensions, private pensions, insurance and annuity payments, royalties, rental income, estates and trusts.

Financial Assistance: Health care services provided without charge or at a discount to individuals who have no health insurance, with limited financial resources, or who are unable to access entitlement programs. This term is also synonymous with "charity care".

Financial Assistance Committee: A leadership team that meets monthly, or as needed, to review requests for Financial Assistance.

Illinois Hospital Uninsured Patient Discount Act: Legislation that regulates a charitable discount offered from hospital charges to any Illinois uninsured patient who applies for a discount and has a family income of not more than 600% of the federal poverty income guidelines for all medically necessary services exceeding \$300 in any one inpatient admission or outpatient encounter. Eligible patients are defined as an Illinois resident who is a patient of a hospital and is not covered under a policy of health insurance and is not a beneficiary under a public or private health insurance, health benefit, or other health plans, workers' compensation, accident liability insurance or other third party liability.

Illinois resident: A person who lives in Illinois and who intends to remain living in Illinois indefinitely. Relocation to Illinois for the sole purpose of receiving health care benefits does not satisfy the residency requirement.

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Medically necessary: Any inpatient or outpatient hospital service provided by a hospital to a patient, regardless if the patient is insured or uninsured. A “medically necessary” service does not include elective cosmetic surgery, non-medical services such as social and vocational services, or services that are considered experimental in nature.

Presumptive Eligibility: Determination to provide financial assistance using a predictive model that incorporates a patient’s socio-economic, income and dependent, and homeownership factors in the result.

Self-Employment: To carry on a trade or business as a sole proprietor or an independent contractor, to be a member of a partnership that carries on a trade or business or be otherwise in business for yourself.

Self-Pay Balance: Any portion of medically necessary expenses not covered by insurance or other third-party payer or full balance for uninsured patients.

Self-Pay Discount: Discount offered by NCH to uninsured patients regardless of their ability to pay and without any formal documentation to determine if other health care payment programs or the NCH Financial Assistance Policy discounts apply. The Self Pay Discount will be provided before any determination of additional financial assistance through other health insurance programs or NCH’s Financial Assistance Program to provide charity care (*refer to Self-Pay Discount Policy*).

Underinsured: A patient whose insurance plan provides inadequate coverage that results in a large deductible or a large remaining balance after insurance. An underinsured patient is eligible to apply for financial assistance under the NCH Financial Assistance Policy.

**NORTHWEST COMMUNITY HOSPITAL
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Uninsured: An Illinois resident who is a patient of a hospital and is not covered under a policy of health insurance and is not a beneficiary under a public or private health insurance, health benefit, or other health plans, workers' compensation, accident liability insurance or other third party liability. The definition of "uninsured" under this policy differs from the NCH Self-Pay Discount Policy which is open to all patients regardless of residency in the State of Illinois. This complies with Federal Regulations concerning discounts from charges unrelated to providing charity care.

Patients who do not reside or work within the service area (*refer to Appendix A*) will not be considered for charity or financial assistance unless one of the following circumstances exists:

- Emergency care has been provided by the Emergency Department (ED). If this applies, the services covered under the financial assistance are only those services provided to the patient related to the ED episode of care;
- Immediate care (unscheduled/drop-in visits) has been provided at any of the NCH Immediate Care Centers (ICC). If this applies, the services covered under the financial assistance are only those services provided to the patient at the ICC and not services provided subsequent to the immediate care visit;
- The service the patient has received or is seeking is not available at a provider closer to the patient's residence;
- The referring physician works within the service area or the referring physician is on the NCH medical staff.

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II. NOTIFICATION OF FINANCIAL ASSISTANCE POLICY:

Signage: Signage will be visible at all points of registration in order to create awareness of the Financial Assistance Program. At a minimum, signage will be posted in all patient intake areas, including, but not limited to, the emergency department and the admission/patient registration areas.

Statement: Each invoice or other summary of charges to a patient shall include with it, or on it, a prominent statement that a patient who meets certain income requirements may qualify for a Financial Assistance or Uninsured Patient discount and information regarding how a patient may apply for consideration under the hospital's financial assistance policy.

Policy: Upon request, NCH and DSC must provide any member of the public or state governmental entity a copy of its financial assistance policy. All public information and/or forms regarding the provision of financial assistance will use languages that are appropriate for NCH's service area in accordance with the state's Language Assistance Services Act. This policy will be translated to and made available in Spanish.

Website: Information relating to and the application for the Financial Assistance Program will be available to patients on the NCH website, www.nch.org.

Application Form: NCH and DSC must make available the application used to determine a patient's eligibility for financial assistance. The application will also be available on the NCH website.

Additional Information: Financial Assistance applications and instructions will be available by contacting the Financial Counselors' office at 847.618.4542.

III. FINANCIAL ASSISTANCE GUIDELINES

- A. A patient must comply with the NCH Financial Assistance Program requirements and provide the documentation necessary to apply for other existing financial resources that may be available to pay for his or her healthcare, such as government sponsored programs, grants, community funding, etc. Patients are responsible for completing the required application forms, information gathering and assessment process in order to determine eligibility for financial assistance.

**NORTHWEST COMMUNITY HOSPITAL
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- B. NCH will provide, without discrimination, care for emergency medical conditions (within the meaning of Emergency Medical Treatment and Active Labor Act (EMTALA) to individuals, regardless of whether they are eligible for financial assistance. NCH prohibits engaging in actions that discourage individuals from seeking emergency medical care, such as by demanding that emergency patients pay before receiving treatment for emergency medical conditions or by permitting debt collection activities in the emergency department or in other areas of the hospital where such activities could interfere with the provision, without discrimination, of emergency medical care.
- C. The patient is required to submit proof of income which shall include, as applicable, the following:
- Copy of the most recent tax return;
 - Copy of any tax return claiming patient as dependent;
 - Copy of the most recent W-2 and 1099 forms;
 - Copy of the 2 most recent pay stubs;
 - Self-Employment Verification (*refer to Appendix B*);
 - Employer Wage Letter if paid in cash (*refer to Appendix C*); or
 - One other reasonable form of third party income verification deemed acceptable to NCH.
- D. Acceptable verification of Illinois residency shall include one of the following:
- Valid state-issued identification card;
 - Recent residential utility bill;
 - Lease agreement;
 - Letter from a homeless organization, transitional house or other similar facility verifying that the uninsured patient resides at the facility;
 - Vehicle registration card;
 - Voter registration card;
 - Mail addressed to the uninsured patient at an Illinois address from a government or other credible source; or
 - Statement from a family member of the uninsured patient who resides at the same address and presents verification of residency.

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- E.** The patient is required to certify the existence of assets and to provide documentation of the value of such assets. Acceptable documentation may include:
- Three months all checking/saving account statements;
 - Most recent quarterly investment account statement;
 - Statements from financial institutions or other third party verification; or
 - If no third party verification exists, then patient shall certify as to the estimated value of the asset.
- F.** Other documents required to process an application shall include any of the following, if applicable:
- Notarized Primary Support Form (*refer to Appendix D*);
 - Homeless Affidavit (*refer to Appendix E*);
 - Patient Appeal Letter (*refer to Appendix F*).
- G. Special Circumstances:** If financial counselors become aware of special circumstances on any patient not described above, the financial counselors can refer the case to the Financial Assistance Committee for special consideration. The review of these special cases that do not clearly meet the criteria and the decisions and rationale for those decisions will be reviewed with the Financial Assistance Committee and will be documented and maintained in the account file.
- H.** The Illinois Hospital Uninsured Patient Discount is available to Illinois patients meeting criteria (*refer to Appendix G*).
- I.** Patients who are underinsured may have significant deductibles or payments after insurance. Such balances may be discounted up to 100% based on family size and income according to the Federal Poverty Guidelines. Insured patients are eligible only for the NCH Financial Assistance criteria, not the Illinois Hospital Uninsured Discount. For patients with income exceeding 300% FPG but less than 600% FPG, a sliding scale will be used to determine the percent reduction of charges that will apply in accordance with the NCH Financial Assistance Program (*refer to Appendix H*).

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IV. PRESUMPTIVE ELIGIBILITY

- A. Presumed Eligible patients receive 100% financial assistance for the account balance.
- B. A patient is presumed eligible if the patient has one of the following. A patient must provide documentation listing eligibility or qualification, or print screen of web page listings eligibility:
- Participation in state funded prescription programs;
 - Participation in Women's, Infant's, and Children's Programs (WIC);
 - Food Stamp eligibility (LINK card);
 - Eligibility for other state or local assistance program that is unfunded;
 - Low income/subsidized housing are provided as a valid address;
 - Patient is deceased with no known estate;
 - Patient status is verified as homeless/PADS;
 - Enrolled in SNAP, Illinois Free Breakfast/Lunch, Low Income Home Energy Assistance Program, or a community-based medical assistance program with low-income criteria;
 - Receiving grant assistance for medical services;
 - Recent personal bankruptcy, incarceration, religious order affiliation and vow of poverty or enrollment in TANF or IHDA's Rental Housing Support Program;
 - A patient who has been unresponsive to efforts to apply for financial assistance but has been assessed under the post-care process and meets the criteria;
 - Patient is mentally or physically incapacitated and has no one to act on his/her behalf; or
 - Patient is eligible for subsidized school lunch programs.

V. IDENTIFICATION OF POTENTIALLY ELIGIBLE PATIENTS

- A. Where possible, financial counselors will conduct a pre-registration/admission interview with the patient or designated representative to determine whether patient requires Financial Assistance and pre-approval prior to services being rendered.

**NORTHWEST COMMUNITY HOSPITAL
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- B. If a pre-registration/admission interview is not possible, a financial counselor interview should be conducted upon admission, registration, or as soon as possible thereafter. In case of an emergency admission, the financial counselor evaluation of payment alternatives should not take place until the required medical screening has been provided.
- C. NCH will make reasonable efforts to determine whether the individual is eligible during a notification period which begins on the date of care and ends on the 120th day after the hospital provides the individual with the first bill for the care.
- D. The application period ends on the 365th day after the hospital provides the individual with the first bill for the care. NCH will accept and process applications during this period.
- E. During the notification period, NCH will provide a plain language summary of the Financial Assistance Program and offer a financial assistance application prior to discharge; the Financial Assistance Program with all (at least three) bills; discuss the Financial Assistance Program in oral communications about the charges; and give at least one written notice of the types of extraordinary collection action (ECA) the hospital may take and the deadline after which ECAs may begin (not earlier than 30 days from the date of the notice).
- F. Those patients who may qualify for financial assistance from a government sponsored program(s), grants, community funding, etc. should be referred to the appropriate program prior to consideration for financial assistance in accordance with the FPG (*refer to Appendix I*).
- G. Upon review of the financial assistance application, all eligible account charges for family members are included.

**NORTHWEST COMMUNITY HOSPITAL
ADMINISTRATIVE POLICY**

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VI. DETERMINATION OF ELIGIBILITY

A. Financial Assistance approvals will be made in accordance with these guidelines and decisions will be documented. The approval limits for Financial Assistance are as follows:

- Balances <\$300 *are not* eligible for Financial Assistance
- Financial Counselor or Designee \$300 - \$1500
- Manager of Patient Access Services or Designee \$1500.01 - \$20,000
- Director of Patient Access Services or Designee \$20,000.01 - \$100,000
- Executive Director Revenue Cycle or Designee \$100,000.01 – or above
- All Appeals approved by Chairman of Financial Assistance Appeal Committee or Designee

VII. NOTIFICATION OF ELIGIBILITY DETERMINATION

- A. Generally within 30 days of the review of a completed application, a written determination letter (*refer to Appendix J*) will be mailed to the patient. The patient will be notified in the determination letter of options to resolve the self pay balance and how to appeal the initial decision.
- B. If a financial assistance determination allows for a percent reduction but leaves the patient with a self-pay balance the customary collection steps will be taken with the patient.
- C. Patients may reapply beyond the original application period if there is a change in their family income, assets, family size or other circumstances that may influence financial assistance eligibility. The patient should promptly notify a financial counselor if there is a change in his or her financial status.

VIII. APPEAL

- A. The Financial Assistance Committee will meet to review all appeals. The patient must submit a Request for Appeal form within 45 days of receiving the Financial Assistance Determination letter. The patient will receive a communication in writing of the Committee's decision normally within 45 days of receiving the form.

**NORTHWEST COMMUNITY HOSPITAL
ADMINISTRATIVE POLICY**

PREPARED BY:	Melissa Jacobsen	NUMBER:	FN-014
REVIEWED BY:		DATE:	01/18/2013
APPROVED BY:	Brent Singer	REVISION DATE:	7/24/13
DEPT OF ORIGIN:	Access Services	PAGE:	11 of 12
RESPONSIBLE AUTHORITY:		REGULATORY COMPLIANCE:	

- B. If a financial assistance determination and/or appeal review allows for a percent reduction but leaves the patient with a self-pay balance, or if it is determined that the patient has the ability to pay all or a portion of a bill, the standard collection processes will be followed. Such a determination does not prevent a reassessment of the person's ability to pay at a later date. The patient may opt to reapply for financial assistance, or request a change in their payment plan terms.

IX. FINANCIAL ASSISTANCE COMMITTEE

- A. The Financial Assistance Committee is responsible for oversight and monitoring over the NCH Financial Assistance Program.
- B. The Committee will consist of the Chief Executive Officer, Chief Financial Officer, Executive Director of Revenue Cycle, Vice President of Clinical Affairs, Risk Management, Director of Case Management, Director of Patient Access, and the Director of Patient Accounting or a similar mix of individuals associated with NCH.
- C. The Committee will meet at least once per month to review appeal referrals for financial assistance. In lieu of a committee meeting, the CFO and appointed designee may approve an application.
- D. The Committee will meet quarterly to review and monitor the Financial Assistance Program.

X. MONITORING AND REPORTING

- A. A paper or electronic record, from which periodic reports can be developed, will be maintained to reflect authorized financial assistance. This record must include copies of all applications and supporting documentation. These documents shall be kept for a period of seven (7) years. At a minimum, the financial assistance logs are to include:
- Account number and date of service;
 - Dates application received and processed;
 - Date of determination; or
 - Self-pay balance amount(s) and financial assistance percentage granted.

**NORTHWEST COMMUNITY HOSPITAL
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- B. The cost of Financial Assistance will be reported annually in the NCH Community Benefit Report; in accordance with regulations pertaining to IRS Form 990, Schedule H and the Illinois AG Form 990; and in compliance with the Illinois Community Benefit Act. Financial Assistance will be reported as the cost of care provided (not charges) using the required documented criteria.

XI. COLLECTION OF ACCOUNTS

- A. Collection activity will be suspended on all accounts for which NCH has received a completed financial assistance application or an application for any other healthcare bracket (i.e., Medicare, or Medicaid, etc.). A note will be entered into the patient's account(s) to suspend collection activity until the financial assistance process is completed.
- B. If a patient requests an application after the account has already been sent to collections, the agency will be notified to suspend collection efforts until a determination has been made. This notification will be documented in the account notes.
- C. No refunds of patient payments will be given for payments made prior to or during the financial assistance process or prior to the financial assistance approval date. Refund any excess payments made, See IRS 501r guidelines.

XII. REFERENCE SECTION

STANDARD	REGULATORY REFERENCE SOURCES
Illinois Statute	Illinois Uninsured Discount Act PA95-0965
Illinois Statute	Enforcement of Judgment-Exemption of Property 735ILCS5/12-1001
Illinois Statute	35 ILCS 200/15-65 – Illinois Not-For-Profit Corporation Act
JCAHO Standard(s)	RI 1.40 – Patient Rights
Federal	42USC.1395/dd
Federal	26 U.S.C. 501 (c)(3) – Internal Revenue Service Code – Tax Exempt Organizations
Illinois Statute	Language Assistance Services Act
STANDARD	NCH and DSC DISCOUNT WORKFLOW
Discount Work Flow	Financial Assistance (Charity Care) Discount Flow (Appendix K)

**NORTHWEST COMMUNITY HOSPITAL
ADMINISTRATIVE POLICY**

PREPARED BY:	Melissa Jacobsen	NUMBER:	FN-014
REVIEWED BY:	Brent Singer	DATE:	01/18/2013
APPROVED BY:	Wendy Rubas	REVISION DATE:	9/13/13
DEPT OF ORIGIN:	Access Services	PAGE:	1 of 10
RESPONSIBLE AUTHORITY:		RESOURCE:	Laurie Brents Tracy Wilson

SUBJECT: Service Area Designation

Appendix A

NCH Service Area Designation

60004-60009; 60010-60011; 60016-60019; 60038; 60042; 60047; 60049; 60055-60056; 60067; 60070; 60074;
60078; 60084; 60089-60090; 60094-60095; 60103; 60107; 60133; 60159; 60168; 60172; 60173; 60179;
60192-60196.

**NORTHWEST COMMUNITY HOSPITAL
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APPROVED BY:	Wendy Rubas	REVISION DATE:	9/13/13
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RESPONSIBLE AUTHORITY:		RESOURCE:	Laurie Brents Tracy Wilson

SUBJECT: Employer Wage Verification

Appendix C

Patient Name: _____

Account Number: _____

To Whom It May Concern:

This statement is to confirm that _____ has been employed
Name of Employee

at _____ since _____
Name of Employer *Date of Hire*

_____ receives a gross income (before deductions for taxes,
Name of employee
social security, insurance, etc) of \$_____.

The frequency of payment is: (circle one)

Weekly Every two weeks Twice a month Monthly Annually

Signature of Employer Title Date

Address State Zip Code Telephone Number

Upon completion return form to:
Northwest Community Hospital
Patient Services Center
ATTN: Financial Counseling
800 West Central Road
Arlington Heights, IL 60005
847.618.4542

**NORTHWEST COMMUNITY HOSPITAL
ADMINISTRATIVE POLICY**

PREPARED BY:	Melissa Jacobsen	NUMBER:	FN-014
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APPROVED BY:	Wendy Rubas	REVISION DATE:	9/13/13
DEPT OF ORIGIN:	Access Services	PAGE:	4 of 10
RESPONSIBLE AUTHORITY:		RESOURCE:	Laurie Brents Tracy Wilson

SUBJECT: Primary Support Form

Appendix D

Patient Name: _____

Account Number: _____

To Whom It May Concern:

I, _____, have provided *(select all that apply)*

Financial Support Room and Board

to _____ for the past _____.

I am not liable for medical expenses incurred by the above mentioned person.

Comments: _____

Relationship to patient: _____

Signature: _____ Date: _____

(For Notary Use Only)

STATE OF ILLINOIS

COUNTY OF: _____

Subscribed and sworn before me this _____ day of _____, 20_____.

Notary Signature

Commission expires: _____

Upon completion return form to:
Northwest Community Hospital
Patient Services Center
ATTN: Financial Counseling
800 West Central Road
Arlington Heights, IL 60005
847.618.4542

**NORTHWEST COMMUNITY HOSPITAL
ADMINISTRATIVE POLICY**

PREPARED BY:	Melissa Jacobsen	NUMBER:	FN-014
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APPROVED BY:	Wendy Rubas	REVISION DATE:	9/13/13
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RESPONSIBLE AUTHORITY:		RESOURCE:	Laurie Brents Tracy Wilson

SUBJECT: Homeless Affidavit

Appendix E

Patient Name: _____

Account Number: _____

Please provide all applicable information below.

- I have been homeless since _____
- My primary source of support is from: _____
Name/Organization
Address
Phone Number
- I receive daily meals/living essentials from _____
- I receive monetary gifts from family and/or friends in the amount of \$ _____ per week/month.
- I have been unemployed since _____
- I have not filed taxes since _____
- My assets are as follows:
____ Savings Account ____ Investment/Retirement Account
____ Checking Account ____ Other: _____

I hereby state that the information provided in this document is true and accurate to the best of my knowledge.

Signature: _____ Date: _____

Upon completion return form to:
Northwest Community Hospital
Patient Services Center
ATTN: Financial Counseling
800 West Central Road
Arlington Heights, IL 60005
847.618.4542

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RESPONSIBLE AUTHORITY:		RESOURCE:	Laurie Brents Tracy Wilson

SUBJECT: Illinois Hospital Uninsured Patient Discount Act (Illinois Residents Only)

Appendix G

Illinois Hospital Uninsured Patient Discount Act Eligibility Criteria Table		
Percentage of Federal Poverty Guidelines (FPG)	Discount Percentage	Catastrophic Cap
Up to 200%	100%	N/A
201 to 600%	64%	25% of annual family income
In excess of 600%	N/A	N/A

SUBJECT: NCH Uninsured and Underinsured Financial Assistance Discounts

Appendix H

NCH Financial Assistance Eligibility Criteria Table		
Percentage of Federal Poverty Guidelines (FPG)	Discount Percentage	Catastrophic Cap
Up to 300%	100%	N/A
301 – 400%	90%	25% of annual family income
401 – 500%	80%	25% of annual family income
501 – 600%	70%	25% of annual family income

**NORTHWEST COMMUNITY HOSPITAL
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APPROVED BY:	Wendy Rubas	REVISION DATE:	9/13/13
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RESPONSIBLE AUTHORITY:		RESOURCE:	Laurie Brents Tracy Wilson

SUBJECT: Federal Poverty Guidelines

Appendix I

The table below is based upon 2013 Federal Poverty Guidelines (FPG)

Family Size	2013 Federal Poverty Guidelines	Hospital Uninsured Patient Discount Act 200% FPG	NCH Financial Assistance Program 300% FPG	600% FPG
1	\$11,490	\$22,980	\$34,470	\$68,940
2	\$15,510	\$31,020	\$46,530	\$93,060
3	\$19,530	\$39,060	\$58,590	\$117,180
4	\$23,550	\$47,100	\$70,650	\$141,300
5	\$27,570	\$55,140	\$82,710	\$165,420
6	\$31,590	\$63,180	\$94,770	\$189,540
7	\$35,610	\$71,220	\$106,830	\$213,660
8	\$39,630	\$79,260	\$118,890	\$237,780
For families/households with more than 8 persons, add \$4020 for each additional person.				

<http://aspe.hhs.gov/poverty/12fedreg.shtml>

**NORTHWEST COMMUNITY HOSPITAL
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RESPONSIBLE AUTHORITY:		RESOURCE:	Laurie Brents Tracy Wilson

SUBJECT: Determination Letter

Appendix J

PATIENT NAME
ADDRESS
CITY, STATE, ZIP CODE

Date:

Thank you for submitting your application for financial assistance. After reviewing your financial assistance application and supporting documentation we have made the following determination:

You qualify for 100% financial assistance which expires on _____. The account(s) on the next page have been adjusted so that the balance you owe is now zero.

You qualify for partial financial assistance in the amount of _____% which expires on _____. The account(s) on the next page have been adjusted to reflect the balance that you now owe.

Due to the insufficient documentation you have provided, your application for financial assistance has been closed and no assistance can be provided at this time. To make payment arrangements, please call us at 855-705-1120 between the hours of 8:00am to 7:00pm Monday through Thursday and 8:00am to 4:00pm on Friday.

You do not qualify for financial assistance.

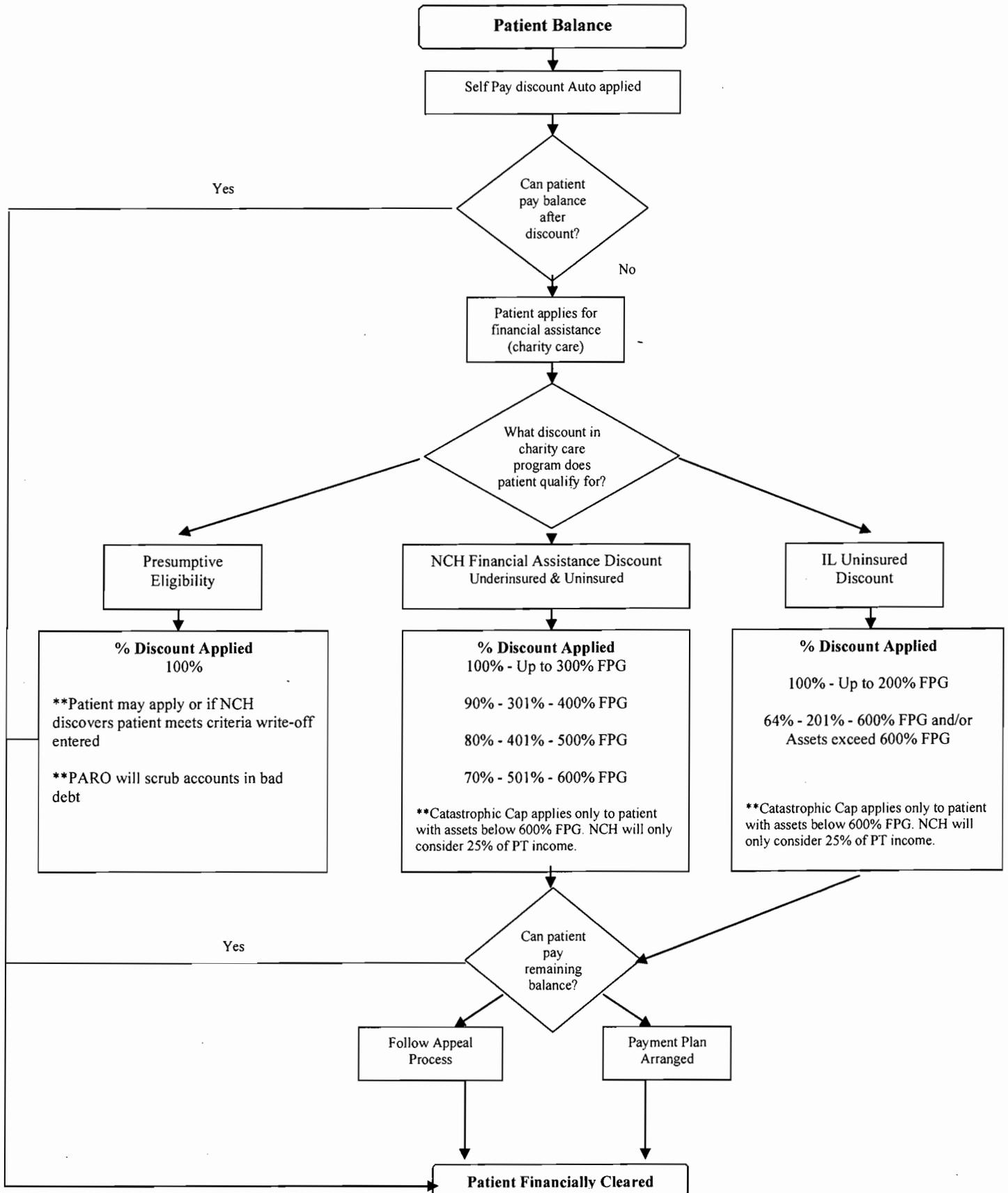
As a community healthcare provider, our mission is to provide quality, compassionate healthcare services. We are pleased to have served your healthcare needs, and we hope to remain your trusted healthcare provider.

If you choose to appeal the decision please contact a financial counselor and submit an appeal request within 30 days of receipt of this communication. The Financial Assistance Committee will review your appeal and provide a written response normally within 45 days of receipt of an appeal form.

Sincerely,

Northwest Community Hospital
Patient Services Center
ATTN: Financial Counseling
800 West Central Road
Arlington Heights, IL 60005
847.618.4542

Appendix K



Explanatory Notes
Section 1110.240

1110.240(b)
Impact Statement

As support for this Criterion, please see the above Explanatory Notes for Sections 1130.520(b)(1), 1130.520(d)(1), 1130.520(d)(2), 1130.520(d)(7), and the Narrative set forth in Attachment 3.

1110.240(c)
Access

Because this Transaction is merely transferring assets (and liabilities) between two wholly owned affiliates of NCH, the policies and procedures for the Day Surgery Center will not change following the Transaction. Also, as set forth in the attached affidavit from Mr. Scogna, NCH, DSC Inc., and/or DSC LLC will not take measures to reduce access to care at the Day Surgery Center following the Transaction. Mr. Scogna's access affidavit is attached at Attachment 9. See also Section 9(c) of the Asset Transfer Agreement.

1110.240(d)
Other Health Care Providers

Because this Transaction is merely transferring assets (and liabilities) between two wholly owned affiliates of NCH, there will be no impact on any other healthcare provider in the service areas currently served by the Day Surgery Center.



September 16, 2013

Ms. Courtney R. Avery
Administrator
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Mr. Michael Constantino
Supervisor, Project Review Section
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761-0001

Re: Criterion 1110.240(c), Access to Care Certification

Dear Ms. Avery and Mr. Constantino:

I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1110.240(c), that neither Northwest Community Healthcare, nor Northwest Community Day Surgery Center Inc., nor Northwest Community Day Surgery Center II LLC, shall cause the licensed ambulatory surgical treatment center located at 675 West Kirchoff Road, Arlington Heights, Illinois (the "Day Surgery Center"), currently owned and operated by Northwest Community Day Surgery Center Inc., to adopt more restrictive policies or take measures to reduce access to care at the Day Surgery Center following the proposed transaction between Northwest Community Day Surgery Center Inc. and Northwest Community Day Surgery Center II LLC.

Sincerely,

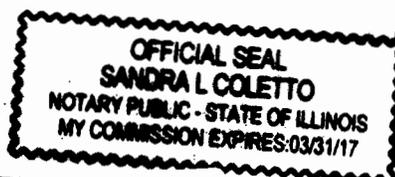
A handwritten signature in black ink, appearing to read "Stephen O. Scogna".

Stephen O. Scogna
President & CEO
Northwest Community Healthcare
Northwest Community Day Surgery Center Inc.
Northwest Community Day Surgery Center II LLC

SUBSCRIBED AND SWORN
to before me this 16TH day
of September, 2013.

A handwritten signature in black ink, appearing to read "Sandra L. Coletto".

Notary Public



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