

# **Genesis Health System and Related Organizations**

Consolidated Financial Report  
June 30, 2011

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## Independent Auditor's Report

To the Audit and Compliance Committee  
Genesis Health System  
Davenport, Iowa

We have audited the accompanying consolidated balance sheets of Genesis Health System and related organizations (System) as of June 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Misericordia Assurance Company, Ltd., a consolidated subsidiary, which statements reflect total assets and revenue constituting approximately 4% and 1%, respectively, of the related consolidated totals in 2011 and 2010. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Misericordia Assurance Company, Ltd., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Genesis Health System and related organizations as of June 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, effective July 1, 2010 the System adopted the new accounting provisions relating to consolidation of noncontrolling interests in the consolidated financial statements. The adoption of this guidance resulted in a retroactive restatement on the consolidated financial statements.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
October 25, 2011

**Genesis Health System  
and Related Organizations**

**Consolidated Balance Sheets  
June 30, 2011 and 2010**

| <b>Assets</b>                               | <b>2011</b>           | <b>2010</b>           |
|---|-----------------------|-----------------------|
| <b>Current Assets:</b>                      |                       |                       |
| Cash and cash equivalents                   | \$ 76,241,207         | \$ 58,099,247         |
| Short-term investments                      | 1,323,897             | 1,355,211             |
| Receivables:                                |                       |                       |
| Patients, net                               | 79,121,728            | 81,302,404            |
| Other, including assets limited as to use   | 14,414,865            | 12,575,013            |
| Inventories, supplies and materials         | 13,709,309            | 12,553,702            |
| Prepaid expenses and deposits               | 5,766,598             | 4,551,157             |
| <b>Total current assets</b>                 | <b>190,577,604</b>    | <b>170,436,734</b>    |
| <br>  |                       |                       |
| Investments                                 | <b>54,388,983</b>     | <b>52,821,697</b>     |
| <br>  |                       |                       |
| <b>Assets Limited as to Use:</b>            |                       |                       |
| Internally designated                       | 157,778,420           | 136,440,158           |
| Under bond indenture, funds held by trustee | 5,899,175             | 13,855,860            |
| Interest in net assets of Foundation        | 737,849               | 654,132               |
| Donor restricted                            | 17,278,889            | 17,204,300            |
|   | <b>181,694,333</b>    | <b>168,154,450</b>    |
| <br>  |                       |                       |
| Property and Equipment, net                 | <b>248,326,560</b>    | <b>255,657,359</b>    |
| <br>  |                       |                       |
| <b>Other Assets:</b>                        |                       |                       |
| Bond issuance costs, net                    | 775,920               | 750,334               |
| Goodwill                                    | 30,730,877            | 820,444               |
| Other                                       | 1,456,314             | 1,536,851             |
|   | <b>32,963,111</b>     | <b>3,107,629</b>      |
|   | <b>\$ 707,950,591</b> | <b>\$ 650,177,869</b> |

See Notes to Consolidated Financial Statements.

| <b>Liabilities and Net Assets</b>  | <b>2011</b>           | <b>2010</b>           |
|--|-----------------------|-----------------------|
| <b>Current Liabilities:</b>  |                       |                       |
| Current maturities of long-term debt   | \$ 8,245,803          | \$ 7,688,885          |
| Accounts payable   | 17,530,976            | 18,512,293            |
| Accrued salaries and wages   | 14,943,124            | 13,643,144            |
| Accrued paid leave   | 16,646,147            | 15,907,419            |
| Due to third-party payors  | 5,471,502             | 2,782,867             |
| Unpaid losses and loss adjustment expenses   | 15,364,020            | 13,902,001            |
| Other accrued expenses   | 5,646,273             | 5,970,263             |
| <b>Total current liabilities</b>   | <b>83,847,845</b>     | <b>78,406,872</b>     |
| <br>Long-Term Debt, less current maturities  | <br>96,477,661        | <br>104,482,761       |
| <br>Unpaid Losses and Loss Adjustment Expenses, Retirement<br>Benefits and Other Long-Term Liabilities | <br>32,837,656        | <br>54,837,630        |
| <br>Commitments and Contingent Liabilities (Notes 8 and 11)  |                       |                       |
| <b>Total liabilities</b>   | <b>213,163,162</b>    | <b>237,727,263</b>    |
| <br><b>Net Assets:</b>   |                       |                       |
| Unrestricted   | 465,923,057           | 394,143,518           |
| Noncontrolling interests - unrestricted  | 10,847,634            | 448,656               |
| Temporarily restricted   | 16,112,867            | 16,206,874            |
| Permanently restricted   | 1,903,871             | 1,651,558             |
|  | <b>494,787,429</b>    | <b>412,450,606</b>    |
|  | <b>\$ 707,950,591</b> | <b>\$ 650,177,869</b> |

**Genesis Health System  
and Related Organizations**

**Consolidated Statements of Operations**  
**Years Ended June 30, 2011 and 2010**

|   | 2011                 | 2010                 |
|---|----------------------|----------------------|
| Change in unrestricted net assets:  |                      |                      |
| Unrestricted revenue:   |                      |                      |
| Net patient service revenue   | \$ 515,041,430       | \$ 524,122,709       |
| Other service revenue, net of cost of revenue   |                      |                      |
| 2011 \$12,031,987; 2010 \$11,150,387  | 11,583,867           | 13,027,106           |
| Medical office building rental revenue  | 1,471,455            | 1,400,144            |
| Other revenue   | 14,050,197           | 19,490,378           |
| <b>Total revenue</b>  | <b>542,146,949</b>   | <b>558,040,337</b>   |
| Expenses:   |                      |                      |
| Salaries and wages  | 223,166,468          | 214,759,377          |
| Employee benefits   | 54,366,072           | 52,546,749           |
| Contracted professionals and services   | 40,843,532           | 43,521,383           |
| Supplies  | 86,171,666           | 88,407,998           |
| Other expenses  | 61,469,867           | 64,798,613           |
| Provision for bad debts   | 27,792,024           | 35,782,769           |
| Interest  | 5,303,384            | 7,176,171            |
| Depreciation and amortization   | 36,178,677           | 36,861,277           |
| <b>Total expenses</b>   | <b>535,291,690</b>   | <b>543,854,337</b>   |
| <b>Operating income</b>   | <b>6,855,259</b>     | <b>14,186,000</b>    |
| Nonoperating gains and losses:  |                      |                      |
| Interest and dividend income and realized gains on sales of investments               | 7,780,802            | 11,208,910           |
| Current year change in unrealized gains on trading securities                         | 19,008,724           | 13,658,929           |
| Other nonoperating income   | 588,871              | 306,405              |
| Loss on extinguishment of debt  | -                    | (1,514,471)          |
| Excess of fair value over equity acquired for GenGastro, LLC                          | 24,765,464           | -                    |
| <b>Nonoperating gains</b>   | <b>52,143,861</b>    | <b>23,659,773</b>    |
| <b>Excess of revenue over expenses</b>  | <b>58,999,120</b>    | <b>37,845,773</b>    |
| Less excess of revenue (over) under expenses attributable to noncontrolling interests | (10,649,020)         | 12,530               |
| <b>Excess of revenue over expenses attributable to Genesis Health System</b>          | <b>48,350,100</b>    | <b>37,858,303</b>    |
| Net assets released from restrictions, for capital expenditures                       | 2,511,419            | -                    |
| Change in unrecognized funded status of retirement plan                               | 20,918,020           | (13,457,401)         |
| <b>Increase in unrestricted net assets</b>  | <b>\$ 71,779,539</b> | <b>\$ 24,400,902</b> |

See Notes to Consolidated Financial Statements.

**Genesis Health System  
and Related Organizations**

**Consolidated Statements of Changes in Net Assets  
Years Ended June 30, 2011 and 2010**

|  | Unrestricted<br>Net Assets | Temporarily<br>Restricted<br>Net Assets | Permanently<br>Restricted<br>Net Assets | Noncontrolling<br>Interests -<br>Unrestricted<br>Net Assets | Total<br>Net Assets   |
|--|----------------------------|---|---|---|-----------------------|
| Net assets, June 30, 2009  | \$ 369,742,616             | \$ 14,663,847                           | \$ 1,854,555                            | \$ 1,200,484  | \$ 387,461,502        |
| Excess of revenue over (under) expenses                            | 37,858,303                 | -                                       | -                                       | (12,530)  | 37,845,773            |
| Change in unrecognized funded status<br>of retirement plan         | (13,457,401)               | -                                       | -                                       | -   | (13,457,401)          |
| Contributions, investment income (losses) and other                | -                          | 2,440,407                               | (202,997)                               | -   | 2,237,410             |
| Net assets released from restrictions, for<br>operating activities | -                          | (958,547)                               | -                                       | -   | (958,547)             |
| Change in interest in net assets of Foundation                     | -                          | 61,167                                  | -                                       | -   | 61,167                |
| Distributions to noncontrolling interests                          | -                          | -                                       | -                                       | (739,298)   | (739,298)             |
| <b>Change in net assets</b>  | <b>24,400,902</b>          | <b>1,543,027</b>                        | <b>(202,997)</b>                        | <b>(751,828)</b>  | <b>24,989,104</b>     |
| Net assets, June 30, 2010  | 394,143,518                | 16,206,874                              | 1,651,558                               | 448,656   | 412,450,606           |
| Excess of revenue over expenses                                    | 48,350,100                 | -                                       | -                                       | 10,649,020  | 58,999,120            |
| Change in unrecognized funded status<br>of retirement plan         | 20,918,020                 | -                                       | -                                       | -   | 20,918,020            |
| Contributions, investment income and other                         | -                          | 3,816,401                               | 252,313                                 | -   | 4,068,714             |
| Net assets released from restrictions, for<br>operating activities | -                          | (1,482,706)                             | -                                       | -   | (1,482,706)           |
| Net assets released from restrictions, for<br>capital expenditures | 2,511,419                  | (2,511,419)                             | -                                       | -   | -                     |
| Change in interest in net assets of Foundation                     | -                          | 83,717                                  | -                                       | -   | 83,717                |
| Consolidate GenGastro, LLC   | -                          | -                                       | -                                       | 493,268   | 493,268               |
| Distributions to noncontrolling interests                          | -                          | -                                       | -                                       | (743,310)   | (743,310)             |
| <b>Change in net assets</b>  | <b>71,779,539</b>          | <b>(94,007)</b>                         | <b>252,313</b>                          | <b>10,398,978</b>   | <b>82,336,823</b>     |
| <b>Net assets, June 30, 2011</b>                                   | <b>\$ 465,923,057</b>      | <b>\$ 16,112,867</b>                    | <b>\$ 1,903,871</b>                     | <b>\$ 10,847,634</b>  | <b>\$ 494,787,429</b> |

See Notes to Consolidated Financial Statements.

**Genesis Health System  
and Related Organizations**

**Consolidated Statements of Cash Flows  
Years Ended June 30, 2011 and 2010**

|   | 2011                  | 2010                   |
|---|-----------------------|------------------------|
| <b>Cash Flows from Operating Activities:</b>  |                       |                        |
| Change in net assets  | \$ 82,336,823         | \$ 24,989,104          |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                       |                        |
| Depreciation  | 35,991,783            | 36,501,853             |
| Amortization  | 186,894               | 359,424                |
| Excess of fair value over equity in GenGastro, LLC  | (24,765,464)          | -                      |
| Change in interest in net assets of Foundation  | (83,717)              | (61,167)               |
| Loss on disposal of equipment   | 339,240               | 232,684                |
| Earnings in (excess) deficit of distributions of associated companies                       | (73,162)              | 367,558                |
| Loss on extinguishment of debt  | -                     | 1,514,471              |
| Restricted contributions  | (1,067,663)           | (1,233,772)            |
| Realized and unrealized (gains) on investments  | (24,769,135)          | (20,612,772)           |
| Net changes in assets and liabilities:  |                       |                        |
| (Increase) decrease in patient and other receivables  | 1,020,188             | (5,442,060)            |
| (Increase) in inventories, supplies and materials   | (1,155,607)           | (1,151,448)            |
| (Increase) in prepaid expenses and deposits   | (1,215,441)           | (239,493)              |
| (Increase) in funded status of retirement plan  | (23,018,130)          | (27,723)               |
| Increase (decrease) in accounts payable   | (1,079,268)           | 5,417,949              |
| Increase in accrued expenses, due to third-party payors, retirement benefits and other      | 6,883,528             | 4,373,034              |
| <b>Net cash provided by operating activities</b>  | <b>49,530,869</b>     | <b>44,987,642</b>      |
| <b>Cash Flows from Investing Activities:</b>  |                       |                        |
| Purchase of property and equipment  | (28,684,459)          | (31,850,931)           |
| Proceeds from sale of equipment   | 92,389                | 1,055,726              |
| Purchase of investments   | (44,568,055)          | (56,008,829)           |
| Purchase of additional investment from noncontrolling interests                             | (5,855,614)           | -                      |
| Proceeds from sale of investments   | 54,632,560            | 46,958,567             |
| Consolidate noncontrolling interests in GenGastro, LLC                                      | (493,268)             | -                      |
| (Increase) in other assets  | (148,784)             | (256,064)              |
| <b>Net cash (used in) investing activities</b>  | <b>(25,025,231)</b>   | <b>(40,101,531)</b>    |
| <b>Cash Flows from Financing Activities:</b>  |                       |                        |
| Principal payments on long-term debt, including capital lease obligations                   | (7,431,341)           | (107,294,012)          |
| Proceeds from long-term borrowings  | -                     | 94,794,486             |
| Restricted contributions  | 1,067,663             | 1,233,772              |
| Payments of bond issuance costs   | -                     | (641,318)              |
| <b>Net cash (used in) financing activities</b>  | <b>\$ (6,363,678)</b> | <b>\$ (11,907,072)</b> |

(Continued)

**Genesis Health System  
and Related Organizations**

**Consolidated Statements of Cash Flows (Continued)  
Years Ended June 30, 2011 and 2010**

|   | 2011                        | 2010                        |
|---|-----------------------------|-----------------------------|
| <b>Net increase (decrease) in cash and cash equivalents</b>                                 | <b>\$ 18,141,960</b>        | <b>\$ (7,020,961)</b>       |
| Cash and cash equivalents:  |                             |                             |
| Beginning   | <u>58,099,247</u>           | <u>65,120,208</u>           |
| Ending  | <u><b>\$ 76,241,207</b></u> | <u><b>\$ 58,099,247</b></u> |
| Supplemental Disclosure of Cash Flow Information,<br>cash payments for interest             | <b>\$ 5,305,504</b>         | <b>\$ 7,180,392</b>         |
| Supplemental Disclosures of Noncash Investing Activities,<br>Acquisition of GenGastro, LLC: |                             |                             |
| Patient receivables acquired  | <b>\$ 679,364</b>           |                             |
| Property and equipment acquired   | <b>408,154</b>              |                             |
| Accounts payable acquired   | <b>(97,951)</b>             |                             |
| Consolidate GenGastro, LLC  | <b>(493,268)</b>            |                             |
| Goodwill  | <b>(29,910,433)</b>         |                             |
| Noncontrolling interests  | <b>9,796,670</b>            |                             |
| Excess of fair value over equity acquired   | <b>24,765,464</b>           |                             |
| <b>Cash payment</b>   | <u><b>\$ 5,148,000</b></u>  |                             |

See Notes to Consolidated Financial Statements.

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Business and Significant Accounting Policies**

**Nature of business:**

Genesis Health System – Iowa (GHS Iowa), an Iowa nonprofit corporation, and Genesis Health System – Illinois (GHS Illinois), an Illinois not-for-profit corporation, have identical governing boards, management and bylaws and can act jointly. GHS Iowa and GHS Illinois collectively represent the Obligated Group on certain of the System's long-term debt.

GHS Iowa is also the sole member of Genesis Health Services Foundation and Genesis Health System Workers' Compensation Plan and Trust, the sole stockholder of GenVentures, Inc., a member of Misericordia Assurance Company, Ltd. and a partner in GenGastro, LLC and Davenport SRS Leasing, LLC. GHS Illinois is the sole member of Illini Hospital Foundation and a partner in The Larson Center Partnership.

GHS Iowa and GHS Illinois (collectively GHS) operate the following business units:

**Genesis Health System** provides administrative, management, information technology and other support services to its affiliates.

**Genesis Clinical Services:** GHS owns and operates physician medical practices, convenient care practices, operates an occupational medicine clinic and provides behavioral health services to the residents of eastern Iowa and western Illinois.

**Genesis Medical Center – Davenport (GMC – Davenport)** is licensed as a 502-bed acute care hospital which provides services from two hospital facilities located in Davenport, Iowa.

**Genesis Family Medical Center (GFMC)** is a family practice residency training program that operates clinics in Davenport and Blue Grass, Iowa to provide a clinical setting for the residents to treat patients.

**Genesis Medical Center – DeWitt (GMC – DeWitt)** is certified as a critical access hospital, which has 13-acute care and swing beds, and has a 77-bed long-term care facility, which provides services from its facility in DeWitt, Iowa.

**Genesis Illinois Properties (GIP)** owns land located in Moline, Illinois.

**Genesis Visiting Nurse Association and Hospice (VNA)** provides home health care, community nursing services and hospice services to patients in eastern Iowa and western Illinois.

**Genesis Medical Center – Illini (GMC – Illini)** is licensed as a 149-bed acute care hospital which provides services from its facility in Silvis, Illinois.

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**Illini Hospital Nursing Home (INH)** operates Illini Restorative Care Center and Crosstown Square. Illini Restorative Care Center operates a 75-bed licensed nursing facility which provides skilled and intermediate health care and related services to patients. Twenty-two of Illini Restorative Care Center's beds are designated as hospital-based Medicare certified beds. Illini Restorative Care's Sheltered Care unit is a 45-bed facility which provides rehabilitative and personal care in a family-oriented setting. Crosstown Square is an independent living facility containing 76 rentable apartments and two guest rooms that offers services designed to meet the needs of senior adults.

GHS Iowa and GHS Illinois have a controlling ownership interest or membership in the following organizations:

**Genesis Health Services Foundation (Genesis Foundation)** is an organization whose mission is to develop, manage and grant charitable support to meet the health-related needs of the communities served by Genesis Health System

**Illini Hospital Foundation (Illini Foundation)** supports GMC – Illini by providing financial and fundraising assistance. The mission of the Illini Foundation is to assist GMC – Illini in providing quality, compassionate care for all those in need by raising, managing and granting charitable funds.

The Genesis Foundation and Illini Foundation are collectively referred to as the Foundations.

**The Larson Center Partnership (LCP)** is a for-profit real estate partnership which owns a medical office building adjacent to GMC – Illini and leases space for clinics, laboratory, pharmacy and offices to GMC – Illini and other third-party organizations. GHS Illinois is a general partner and owns approximately 75.6% of LCP.

**GenVentures, Inc. (GenVentures)** is a wholly-owned for-profit corporation which operates the following divisions, primarily in the Quad Cities:

**Genesis at Home, Continuing Care** sells and leases home medical equipment; provides intravenous therapy services, including sales of related solutions and supplies to patients; and provides retail pharmaceutical and over the counter products to patients and employees of the System.

**GenProperties** owns, leases and/or manages office space in thirteen medical office buildings located in Davenport, Eldridge, LeClaire, Muscatine and Bettendorf, Iowa.

**Crescent Laundry** provides commercial laundry services to health care facilities in eastern Iowa and in north-central Illinois.

**Genesis Health System Workers' Compensation Plan and Trust (Workers' Compensation Trust)** provides a fund which can be used to pay workers' compensation claims and costs for the benefit of Genesis Health System.

**Misericordia Assurance Company, Ltd. (Misericordia)** is a wholly-owned Cayman based captive insurance company which underwrites the general and professional liability risks of Genesis Health System and affiliates.

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**GenGastro, LLC (d/b/a the Center for Digestive Health)** is a limited liability company, which was formed in 2003, a single-specialty gastroenterology ambulatory surgery center located in Bettendorf, Iowa. Genesis Health System is a general partner and owned 50% of GenGastro as of June 30, 2010. In December 2010, Genesis Health System acquired an additional 16.67% interest in GenGastro and maintains a 66.67% ownership interest as of June 30, 2011. Upon obtaining a controlling interest, the System consolidated the accounts of GenGastro, LLC in its consolidated financial statements in January 2011.

**Davenport SRS Leasing, LLC (SRS)** is a limited liability company, which was formed in 2008, which leases medical equipment. Genesis Health System is a general partner and owned 55% of SRS as of June 30, 2009. On September 30, 2009, Genesis Health System acquired an additional 38.75% interest in SRS to obtain a 93.75% ownership interest as of June 30, 2011 and 2010.

GHS and its related organizations are collectively referred to as the System.

**Significant accounting policies:**

**Principles of consolidation:** The accompanying consolidated financial statements include the accounts of Genesis Health System and related organizations. All significant intercompany balances and transactions have been eliminated upon consolidation.

**Accounting estimates:** The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in the estimates and assumptions in the near term would be material to the financial statements.

**Cash and cash equivalents:** Cash and cash equivalents include unrestricted cash and temporary cash investments not limited as to use. The cash equivalents have a maturity of three months or less at date of issuance. Certain temporary cash investments internally designated as long-term investments are excluded from cash and cash equivalents.

**Patient receivables:** The collection of receivables from third-party payors and patients is the System's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts for deductibles and copayments remain outstanding. Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

Patient receivables due directly from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Receivables due from medical office building tenants and from commercial laundry customers are carried at the original invoice amount less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts, by historical experience applied to an aging of accounts, and by considering the patient's financial history, credit history and current economic conditions. The System does not charge interest on receivables. Receivables are written off as bad debts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Receivables or payables related to estimated settlements on various payor contracts, primarily Medicare, are reported as amounts due from or to third-party payors. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental health care coverage could affect the System's collection of accounts receivable, cash flows and results of operations.

Inventories, supplies and materials: Inventories, supplies and materials are valued at the lower of cost (first-in, first-out method) or market.

Assets limited as to use: Assets limited as to use include assets internally designated by the System's Board of Directors for future capital improvements and other purposes, over which the Board retains control and may at their discretion subsequently use for other purposes, assets held by trustees under bond indenture agreements, interest in the net assets of the DeWitt Community Hospital Foundation and donor restricted assets.

Donor restricted assets limited as to use as of June 30, 2011 and 2010 include approximately \$100,000 and \$134,000, respectively, of pledges receivable for unconditional promises which are restricted by the donors to be used for capital projects. All of the pledges receivable are expected to be collected within the next year and are included in other receivables as a current asset on the accompanying consolidated balance sheets. The pledges are recorded net of an estimated allowance for uncollectible receivables of approximately \$8,000 and \$13,000 as of June 30, 2011 and 2010, respectively.

Investments: Short-term investments consist of certificates of deposit which are stated at cost which approximates fair value. Investments in equity securities, including assets limited as to use, with readily determinable fair values and all investments in debt securities are measured at fair value on the consolidated balance sheets based on quoted market prices. Investments also include alternative investments which are carried at fair value, which is estimated at the most recent valuations provided by external investment managers. Management has reviewed and evaluated the values provided by the managers and agrees with the valuation methods and assumptions used to determine their values.

Investment income includes dividends, interest and other investment income and realized gains and losses on investments. Changes in unrealized gains and losses on investments classified as trading securities are included in excess of revenue over expenses.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

Investment income earned on Misericordia's investments, which are restricted for the payment of general and professional liabilities, is included in other operating revenue. Investment income included as other operating revenue was \$1,424,505 and \$2,664,678 for the years ended June 30, 2011 and 2010, respectively.

The System classifies substantially all of its investments in debt and equity securities as trading. This classification as trading requires the System to recognize unrealized gains and losses on substantially all of its unrestricted and internally designated investments in debt and equity securities as a component of nonoperating income and expense in the consolidated statements of operations and changes in net assets.

Investments in associated companies are accounted for by the equity method of accounting under which the System's share of the net income (loss) of the associated companies that provide patient related services are recognized as operating income (loss) and the share of net income (loss) of the associated companies that do not provide patient related services are recognized as nonoperating income (loss) in the consolidated statements of operations and changes in net assets and added to (deducted from) the investment account. Dividends and distributions received from the associated companies are treated as a reduction of the investment account. The System has investments in companies that provide: lithotripsy, ultrasound services, endoscopy procedures, specialized and orthopedic care, ambulatory surgery procedures, occupational and physical therapy rehabilitation services, a medical office building partnership, an equipment leasing company, mobile clinical and medical services, health insurance plans and in the Genesis Heart Institute. Subsequent to year-end, the System entered into a transaction to increase its ownership interest in the company that provides ambulatory surgery procedures.

As of June 30, 2009, the System held a 5% interest in Wellmark Health Plan of Iowa, which was recorded at its cost. The System sold its 5% interest to Wellmark Health Plan of Iowa during the year ended June 30, 2010 and recognized a gain of approximately \$5,400,000 which is included in investment income on the accompanying statement of operations for the year ended June 30, 2010.

Property and equipment: Property and equipment is carried at cost or, if donated, at fair market value at date of donation. Depreciation is computed by the straight-line method over the assets' estimated useful lives. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are included in the income or loss from operations unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Bond issuance costs: Bond issuance costs are being amortized over the term the bonds are outstanding.

Goodwill: Goodwill is being tested for impairment annually. Management performed assessments for impairment as of June 30, 2011 and 2010 and determined no goodwill impairment exists.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

Unpaid losses and loss adjustment expenses: Misericordia Assurance Company Ltd. and the Workers' Compensation Trust have liabilities for unpaid losses and loss adjustment expenses which are determined using case basis evaluations and statistical analyses and represent estimates of the ultimate net cost of all reported and unreported losses which are unpaid at year-end. Management concurs with the independent actuary on the determination of the estimated ultimate net costs for losses and loss adjustment expenses.

All estimates of unpaid losses and loss adjustment expenses are reviewed at least annually, and any adjustments determined to be necessary are reflected in current operations. Since these liabilities are based on estimates, the ultimate settlement of losses and related expense may vary from the amounts included in the consolidated financial statements. Misericordia records its estimated liability for unpaid losses and loss adjustment expenses at an undiscounted actuarially determined amount. The Workers' Compensation Trust records its estimated liability for unpaid losses and loss adjustment expenses at a discounted actuarially determined amount, discounted using a 3% yield for the years ended June 30, 2011 and 2010.

Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate. No representation is made, however, that the ultimate liabilities may not be in excess of the amounts provided. Also, the Trust's participants are obligated by the terms of the Trust agreement to contribute retrospective payments to the Trust, if deemed necessary, in order to support claims and costs in excess of the amounts provided.

Misericordia and the Workers' Compensation Trust record their estimated liabilities gross of any amounts recoverable under their own reinsurance, which amounts, if any, are recorded separately in the balance sheet. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, they would be liable to pay all losses under the reinsurance assumed but would only receive reimbursement to the extent that the reinsurers can meet their obligations.

Premiums written and ceded: Premiums written and ceded are recognized in income pro-rata over the term of the policies and the unearned and unexpensed portions at the consolidated balance sheet dates are transferred to unearned premiums or deferred reinsurance premiums ceded, respectively.

Reinsurance premiums ceded are similarly recognized on a pro-rata basis over the terms of the policy issued and the unearned portion, if any, deferred and transferred to deferred reinsurance premiums ceded in the consolidated balance sheet.

The policies insured by Misericordia are subject to a retrospective rating plan, under which retrospective premiums are recomputed annually based on incurred loss. Retrospective premium adjustments are included in income in the period in which they are determined.

Consistent with this policy, all available income of Misericordia is transferred to the provision for outstanding losses and retrospective premium adjustments. Accordingly, Misericordia's statements of income reflect a break-even position in income.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

Temporarily and permanently restricted net assets: The System is required to report information regarding its financial position and operations according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The three classes are based on the presence or absence of donor-imposed restrictions. Temporarily restricted net assets include net assets restricted by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Noncontrolling interests: The Hospital has a 66.67% interest in GenGastro, LLC, a 75.60% interest in The Larson Center Partnership and a 93.75% interest in Davenport SRS Leasing, LLC, while other members own a noncontrolling interest of the companies. A pro rata share of the income or losses and net assets, in the form of members' equity, applicable to this interest has been recognized in the System's consolidated financial statements.

Fair value of financial instruments: Financial instruments are described as cash or contractual obligations or rights to pay or to receive cash. The fair value for certain financial instruments approximates the carrying value because of the short-term maturity of these instruments which include cash and cash equivalents, short-term investments, receivables, accounts payable, accrued liabilities, due to third-party payors and other current liabilities. The System's investments and assets limited as to use are carried at fair value on the consolidated balance sheets. Based on borrowing rates currently available to the System with similar terms and maturities, the fair value of the long-term debt excluding capital leases and unamortized bond premium approximates \$99,136,000 and \$97,351,000 as of June 30, 2011 and 2010, respectively.

Fair value measurements: The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements, which applies to all assets and liabilities that are measured and reported on a fair value basis. See Note 6 for additional information.

Net patient service revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments with third-party payors are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Other service revenue, net of cost of revenue: The consolidated statements of operations include other service revenue, net of cost of revenue which primarily consists of the leasing of medical equipment, home medical equipment and office buildings through GenVentures, Inc. and Davenport SRS Leasing, LLC.

Operating income: The consolidated statements of operations include operating income. Changes in unrestricted net assets, which are excluded from operating income include investment income, contribution income and other income which management views as outside of normal activity.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

Excess of revenue over expenses: The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include the change in unrealized gains and losses on investments classified as other-than-trading, permanent transfers of assets for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets), and change in unrecognized funded status of the retirement plan.

New accounting guidance: The System adopted certain provisions of FASB Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures* (Topic 820): *Improving Disclosures about Fair Value Measurements*, effective for the System for the year ended June 30, 2011. The remaining provisions are effective for the year ending June 30, 2012. The adoption improves the disclosures and increases the transparency in financial reporting of fair values in the footnotes of the System's financial statements.

The System adopted accounting standards on *Not-for-Profit Entities: Mergers and Acquisitions* (formerly SFAS No. 164). This standard determines whether a combination is a merger or an acquisition; applies the carryover method in accounting for a merger; applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer; and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. This standard also amends an accounting standard on *Goodwill and Other Intangible Assets* (formerly SFAS No. 142), to make it fully applicable to not-for-profit entities. This amendment requires that goodwill of the System, if any, cease to be amortized, but must be tested for impairment at the "reporting unit" level, a new concept for not-for-profit entities. The standard also established accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity and may be reported as net assets in the consolidated financial statements, rather than as a liability in the mezzanine section between liabilities and net assets. The adoption of this guidance resulted in a retroactive restatement which increased net assets and decreased liabilities on the consolidated balance sheets as of June 30, 2010 and 2009 by \$448,656 and \$1,200,484, respectively, and modified the presentation of the consolidated statements of operations to include amounts attributable to Genesis Health System and the noncontrolling interests.

Charity care: The System provides care to patients who meet certain criteria under charity care policies without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Also see Note 3.

Reclassifications: Certain items on the consolidated financial statements as of and for the year ended June 30, 2010 have been reclassified to be consistent with classifications adopted during the year. The reclassifications had no impact on total assets or total net assets with the exception of the adoption of the accounting standards on *Not-for-Profit Entities: Mergers and Acquisitions* as discussed above.

Subsequent events: The System has evaluated subsequent events through October 25, 2011, the date on which the consolidated financial statements were issued.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 2. Net Patient Service Revenue**

Health care providers within the System have agreements with third-party payors that provide for payments at amounts different from its established rates. These third-party payors include: the Medicare and Medicaid programs, Wellmark/Blue Cross, other health maintenance organizations, and various commercial insurance and preferred provider organizations.

Third-party payor rates differ by payor and include: established charges, contracted rates less than established charges, retroactively determined cost-based rates and prospectively determined rates per discharge, per procedure, or per diem.

A summary of net patient service revenue for the years ended June 30, 2011 and 2010 is as follows:

|   | 2011                  | 2010                  |
|---|-----------------------|-----------------------|
| Gross patient service revenue   | \$ 1,177,273,400      | \$ 1,185,229,388      |
| Less discounts, allowances and estimated contractual adjustments under third-party reimbursement programs | 662,202,982           | 661,106,679           |
|   | <u>\$ 515,070,418</u> | <u>\$ 524,122,709</u> |

Estimated contractual adjustments for the years ended June 30, 2011 and 2010 includes the effect of a change in the estimate of the amount due to third-party payors. The effect of this change in estimate is a decrease in estimated contractual adjustments of approximately \$4,071,000 and \$3,526,000 for the years ended June 30, 2011 and 2010, respectively, and is related to the recognition of disproportionate share reimbursement and retroactive adjustments based on final settlements of cost reports.

In December 2008, the Federal Centers for Medicare and Medicaid Services (CMS) approved the State of Illinois Medicaid Hospital Assessment Program. Under the Program, which is retroactive to July 1, 2008, a hospital receives additional Medicaid reimbursement from the State and pays a related assessment. Total reimbursement revenue recognized by the System related to this Program for each of the years ended June 30, 2011 and 2010 amounted to approximately \$5,814,000 which is recorded as a reduction of estimated contractual adjustments. Total assessments incurred by the System related to this Program for each of the years ended June 30, 2011 and 2010 amounted to approximately \$1,846,000 which is included in other operating expenses. The Program is effective through June 2014.

In 2011, CMS approved the State of Iowa's Hospital Provider Tax Program. Under the Program, which is retroactive to July 1, 2010, a hospital is required to pay a quarterly provider tax assessment. The tax assessments collected by the State are used to fund a health care access improvement fund and are used to obtain federal matching funds, all of which must be distributed to Iowa hospitals to help bring Medicaid reimbursement closer to the cost of providing care. The allocation of these funds to specific health care providers is based primarily on the amount of care provided to Medicaid recipients. The Plan increases inpatient DRG reimbursement rates and also implements several supplemental inpatient and outpatient methodologies. The Program is effective through June 2013.

The System's additional reimbursement for the year ended June 30, 2011 has been recorded in the accompanying consolidated financial statements. Total reimbursement revenue recognized by the System related to this Program amounted to approximately \$3,465,000 for the year ended June 30, 2011, which is recorded as a reduction of contractual adjustments. Total assessments incurred by the System related to this Program amounted to approximately \$2,491,000 for the year ended June 30, 2011, which is included in other operating expenses.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 3. Charity Care and Community Service**

The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and the estimated cost of those services and supplies. The amount of charges foregone, based on established rates during the years ended June 30, 2011 and 2010 was approximately \$31,816,000 and \$21,198,000, respectively. These charges foregone represent approximately 79% and 65% of the System's operating income before charity care adjustments for the years ended June 30, 2011 and 2010, respectively.

Although not accounted for as charity care, the System considers the contractual adjustment expense related to the Medicaid services as additional charity care. Contractual adjustments related to Medicaid services performed were approximately \$89,317,000 and \$93,605,000 for the years ended June 30, 2011 and 2010, respectively.

In addition to its charity policy, the System provided community benefits, including, but not limited to, the following:

- Operation of full-time emergency rooms providing emergency medical services to all patients accessing the System, regardless of race, creed, sex, national origin, handicap, age or ability to pay.
- Operation of a community based hospice program along with the only residential hospice house in the Quad Cities.
- Maintenance of provider agreements with the Medicare and Medicaid programs.
- Health screenings, promotions, education and prevention programs offered free or at low cost to its communities.
- A medical education program which provides for the education of Family Practice residents at GFMC, as well as support to nursing programs.
- Volunteer services provided by the System's staff to the communities, including major community events and fund raising activities.
- Not-for-profit community funding, including those community groups' activities that are consistent with Genesis' mission.
- Subsidized services to other charitable organizations providing health related services.

Genesis Health System and the Foundations, as part of their missions, grant charitable support to meet the health related needs of the communities served by the System.

**Note 4. Receivables**

Patient receivables as of June 30, 2011 and 2010 consist of the following:

|  | 2011                 | 2010                 |
|--|----------------------|----------------------|
| Patient receivables before allowances            | \$ 150,843,416       | \$ 157,464,354       |
| Less:  |                      |                      |
| Estimated third-party contractual allowances     | 57,347,065           | 59,283,446           |
| Allowance for doubtful accounts and charity care | 14,374,623           | 16,878,504           |
|  | <u>\$ 79,121,728</u> | <u>\$ 81,302,404</u> |

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 5. Composition of Long-Term Investments and Assets Limited as to Use**

Long-term investments and assets limited as to use that are internally designated and donor restricted consist of the following as of June 30, 2011 and 2010:

|                                    | 2011                  | 2010                  |
|------------------------------------|-----------------------|-----------------------|
| Cash, primarily money market funds | \$ 1,879,842          | \$ 614,035            |
| Certificates of deposit            | 8,500,254             | 12,343,444            |
| Common stocks                      | 67,975,262            | 20,818,396            |
| Fixed income mutual funds          | 57,348,154            | 56,174,212            |
| Equity mutual funds                | 40,474,950            | 65,151,028            |
| Equity collective investment funds | 43,199,585            | 41,760,355            |
| Investment in associated companies | 9,527,473             | 9,059,217             |
| Pledges receivable                 | 100,238               | 133,975               |
| Other                              | 540,772               | 545,468               |
| <b>Total</b>                       | <b>\$ 229,546,530</b> | <b>\$ 206,600,130</b> |

Long-term investments and assets limited as to use that are internally designated and donor restricted are included in the accompanying consolidated balance sheets under the following captions as of June 30, 2011 and 2010:

|                                    | 2011                  | 2010                  |
|------------------------------------|-----------------------|-----------------------|
| Other receivables, current portion | \$ 100,238            | \$ 133,975            |
| Investments                        | 54,388,983            | 52,821,697            |
| Assets limited as to use:          |                       |                       |
| Internally designated              | 157,778,420           | 136,440,158           |
| Donor restricted                   | 17,278,889            | 17,204,300            |
|                                    | <b>\$ 229,546,530</b> | <b>\$ 206,600,130</b> |

Assets limited as to use under bond indenture, funds held by trustee, consist of money market funds of \$5,899,175 and \$13,855,860 as of June 30, 2011 and 2010, respectively. These assets, including related investment income, are restricted to be maintained as debt service reserve funds and for capital projects and, therefore, are unavailable for the System's general use.

The investments of the System are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 5. Composition of Long-Term Investments and Assets Limited as to Use (Continued)**

The return on investments, including assets limited as to use, is reported in the consolidated statements of operations and changes in net assets as follows:

|   | 2011                 | 2010                 |
|---|----------------------|----------------------|
| Unrestricted:   |                      |                      |
| Interest and dividend income  | \$ 3,847,388         | \$ 6,045,598         |
| Equity in net income of associated companies                        | 3,070,992            | 4,576,865            |
| Net realized gains on investments                                   | 3,022,169            | 299,168              |
| Other operating revenue   | 1,424,505            | 2,664,678            |
| Realized gain on sale of Wellmark Health<br>Plan of Iowa investment | -                    | 5,445,600            |
| Change in net unrealized gains and losses on investments            | 19,008,724           | 13,658,929           |
|   | <u>30,373,778</u>    | <u>32,690,838</u>    |
| Temporarily restricted:   |                      |                      |
| Interest and dividend income  | 219,612              | 197,823              |
| Net realized gains (losses) on investments                          | 836,944              | (639,820)            |
| Change in net unrealized gains and losses on investments            | 1,755,964            | 1,782,091            |
|   | <u>2,812,520</u>     | <u>1,340,094</u>     |
| Permanently restricted:   |                      |                      |
| Interest and dividend income  | 3,412                | 3,781                |
| Net realized gains (losses) on investments                          | 11,796               | (12,034)             |
| Change in net unrealized gains and losses on investments            | 133,538              | 78,838               |
|   | <u>148,746</u>       | <u>70,585</u>        |
|   | <u>\$ 33,335,044</u> | <u>\$ 34,101,517</u> |

**Note 6. Investments and Fair Value Measurements**

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, this guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

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**Note 6. Investments and Fair Value Measurements (Continued)**

The fair value hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

Investments in common stocks and mutual funds traded on a national securities exchange are valued at the last reported sales price on the day of valuation. These financial instruments are classified as level 1 in the fair value hierarchy.

The System invests in alternative investments consisting of equity mutual funds and collective investment funds for which fair value is determined using the net asset value per share of each fund. The NAV for level 2 mutual funds and collective investment funds is primarily determined based on the underlying assets and liabilities held in the fund. The estimated fair values of certain investments of the underlying investment funds, which may include securities for which prices are not readily available, are determined by the managers of the respective other investment fund and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the System's investments in funds generally represents the amount the System would expect to receive if it were to liquidate its investments in funds excluding any redemption charges that may apply.

There have been no changes in valuation techniques used for any assets measured at fair value during the year ended June 30, 2011.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 6. Investments and Fair Value Measurements (Continued)**

**Assets recorded at fair value on a recurring basis:**

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2011 and 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

|  | Investments at Fair Value as of June 30, 2011 |                       |                      |             |
|--|---|-----------------------|----------------------|-------------|
|  | Fair Value                                    | Level 1               | Level 2              | Level 3     |
| <b>Common Stocks:</b>                      |   |                       |                      |             |
| Healthcare                                 | \$ 9,900,971                                  | \$ 9,900,971          | \$ -                 | \$ -        |
| Financial                                  | 8,801,278                                     | 8,801,278             | -                    | -           |
| Consumer Discretionary                     | 11,073,908                                    | 11,073,908            | -                    | -           |
| Energy                                     | 6,716,894                                     | 6,716,894             | -                    | -           |
| Information Technology                     | 14,774,970                                    | 14,774,970            | -                    | -           |
| Industrials                                | 5,663,132                                     | 5,663,132             | -                    | -           |
| ADR's (American Depository Receipts)       | 4,332,997                                     | 4,332,997             | -                    | -           |
| Materials                                  | 2,543,524                                     | 2,543,524             | -                    | -           |
| Consumer Staples                           | 2,512,983                                     | 2,512,983             | -                    | -           |
| Utilities                                  | 878,506                                       | 878,506               | -                    | -           |
| Telecommunication Services                 | 776,099                                       | 776,099               | -                    | -           |
| <b>Equity Mutual Funds:</b>                |   |                       |                      |             |
| Thornburg International Value Fund         | 17,000,179                                    | 17,000,179            | -                    | -           |
| PIMCO Cayman U.S. Total Return Fund        | 11,818,129                                    | -                     | 11,818,129           | -           |
| Other                                      | 11,656,642                                    | 11,656,642            | -                    | -           |
| <b>Equity Collective Investment Funds:</b> |   |                       |                      |             |
| JP Morgan Core Bond Trust                  | 32,945,337                                    | -                     | 32,945,337           | -           |
| JP Morgan U.S. Aggregate Bond Fund         | 10,254,248                                    | -                     | 10,254,248           | -           |
| <b>Fixed Income Mutual Funds:</b>          |   |                       |                      |             |
| PIMCO Total Return Fund                    | 45,378,123                                    | 45,378,123            | -                    | -           |
| Other                                      | 11,970,031                                    | 11,970,031            | -                    | -           |
|  | <b>\$ 208,997,951</b>                         | <b>\$ 153,980,237</b> | <b>\$ 55,017,714</b> | <b>\$ -</b> |

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 6. Investments and Fair Value Measurements (Continued)**

|  | Investments at Fair Value as of June 30, 2010 |                       |                      |             |
|--|---|-----------------------|----------------------|-------------|
|  | Fair Value                                    | Level 1               | Level 2              | Level 3     |
| <b>Common Stocks:</b>                        |   |                       |                      |             |
| Healthcare                                   | \$ 4,228,250                                  | \$ 4,228,250          | \$ -                 | \$ -        |
| Financial                                    | 1,807,175                                     | 1,807,175             | -                    | -           |
| Consumer Discretionary                       | 4,061,483                                     | 4,061,483             | -                    | -           |
| Energy                                       | 1,546,359                                     | 1,546,359             | -                    | -           |
| Information Technology                       | 7,588,280                                     | 7,588,280             | -                    | -           |
| Industrials                                  | 795,487                                       | 795,487               | -                    | -           |
| ADR's (American Depository Receipts)         | 791,362                                       | 791,362               | -                    | -           |
| <b>Equity Mutual Funds:</b>                  |   |                       |                      |             |
| Lord Abbett Small Cap Blend Fund             | 11,151,680                                    | 11,151,680            | -                    | -           |
| Quantitative Equity Large Cap Value AP Trust | 18,440,666                                    | -                     | 18,440,666           | -           |
| Thornburg International Value Fund           | 13,047,096                                    | 13,047,096            | -                    | -           |
| PIMCO Cayman U.S. Total Return Fund          | 11,917,933                                    | -                     | 11,917,933           | -           |
| Other  | 10,593,653                                    | 10,593,653            | -                    | -           |
| <b>Equity Collective Investment Funds:</b>   |   |                       |                      |             |
| JP Morgan Core Bond Trust                    | 31,082,853                                    | -                     | 31,082,853           | -           |
| JP Morgan U.S. Aggregate Bond Fund           | 10,677,502                                    | -                     | 10,677,502           | -           |
| <b>Fixed Income Mutual Funds:</b>            |   |                       |                      |             |
| PIMCO Total Return Fund                      | 44,259,177                                    | 44,259,177            | -                    | -           |
| Other  | 11,915,035                                    | 11,915,035            | -                    | -           |
|  | <u>\$ 183,903,991</u>                         | <u>\$ 111,785,037</u> | <u>\$ 72,118,954</u> | <u>\$ -</u> |

There were no transfers of assets or liabilities between levels 1, 2 or 3 of the fair value hierarchy during the year ended June 30, 2011.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 6. Investments and Fair Value Measurements (Continued)**

The following table sets forth additional disclosure of the System's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2011 and 2010:

|                                     | Fair Value           |                      | Unfunded<br>Commitment | Redemption<br>Frequency | Redemption<br>Notice Period |
|-------------------------------------|----------------------|----------------------|------------------------|-------------------------|-----------------------------|
|                                     | 2011                 | 2010                 |                        |                         |                             |
| Investments:                        |                      |                      |                        |                         |                             |
| Equity Mutual Funds:                |                      |                      |                        |                         |                             |
| Quantitative Equity Large Cap       |                      |                      |                        |                         |                             |
| Value AP Trust (A)                  | \$ -                 | \$ 18,440,666        | \$ -                   | Monthly                 | None                        |
| PIMCO Cayman U.S. Total             |                      |                      |                        |                         |                             |
| Return Fund (B)                     | 11,818,129           | 11,917,933           | -                      | Daily                   | Daily                       |
| Equity Collective Investment Funds: |                      |                      |                        |                         |                             |
| JP Morgan Core Bond Trust (C)       | 32,945,337           | 31,082,853           | -                      | Daily                   | Daily                       |
| JP Morgan U.S. Aggregate            |                      |                      |                        |                         |                             |
| Bond Fund (D)                       | 10,254,248           | 10,677,502           | -                      | Daily                   | Trade date, minus 3 days    |
|                                     | <u>\$ 55,017,714</u> | <u>\$ 72,118,954</u> | <u>\$ -</u>            |                         |                             |

- (A) The fund seeks to provide long-term growth of capital through a diversified portfolio comprised primarily of common stocks of high quality, medium to large sized U.S. based companies with leading competitive positions. This fund was redeemed during the year ended June 30, 2011.
- (B) PIMCO Cayman U.S. Total Return Fund is an open-end investment fund incorporated in the Cayman Islands. The Fund's objective is maximum total return, consistent with preservation of capital and prudent investment management. The System has used the net asset value per share (NAV) as the practical expedient to measure fair value.
- (C) The fund seeks to maximize total return by investing primarily in a diversified portfolio of intermediate and long-term debt securities. The System has used the NAV as the practical expedient to measure fair value.
- (D) JP Morgan U.S. Aggregate Bond Fund is an open-end investment fund incorporated in Luxembourg. The Fund's objective is to achieve return in excess of U.S. bond markets by investing primarily in U.S. fixed and floating rate debt securities. The System has used the NAV as the practical expedient to measure fair value.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 7. Property and Equipment**

Property and equipment as of June 30, 2011 and 2010 consists of the following:

|  | 2011                  | 2010                  |
|--|-----------------------|-----------------------|
| Land and land improvements (A)   | \$ 29,963,006         | \$ 29,553,864         |
| Buildings (B)  | 325,215,888           | 318,376,247           |
| Leasehold improvements   | 20,132,450            | 19,257,949            |
| Equipment (C)  | 301,872,301           | 282,218,908           |
| Construction in process  | 11,662,995            | 10,760,876            |
|  | <u>688,846,640</u>    | <u>660,167,844</u>    |
| Less accumulated depreciation, including accumulated<br>depreciation 2011 \$20,981,989; 2010 \$19,424,206 on<br>capital lease assets | 440,520,080           | 404,510,485           |
|  | <u>\$ 248,326,560</u> | <u>\$ 255,657,359</u> |

- (A) Land and land improvements include assets under capital lease as of June 30, 2011 and 2010 of \$1,153,678.
- (B) Buildings include assets under capital lease as of June 30, 2011 and 2010 of \$22,272,145.
- (C) Equipment includes assets under capital lease as of June 30, 2011 and 2010 of \$9,436,085.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 8. Long-Term Debt and Pledged Assets**

Long-term debt and pledged assets as of June 30, 2011 and 2010 consist of the following:

|   | 2011                 | 2010                  |
|---|----------------------|-----------------------|
| <b>GHS Iowa:</b>                            |                      |                       |
| Revenue bonds, Series 2010 (A)              | \$ 85,390,000        | \$ 90,995,000         |
| Unamortized bond premium, Series 2010 (A)   | 3,782,645            | 3,799,486             |
| Notes payable and annuity payable           | -                    | 2,506                 |
| <b>GHS Iowa subtotal</b>                    | <b>89,172,645</b>    | <b>94,796,992</b>     |
| <b>GHS Illinois:</b>                        |                      |                       |
| Capital lease obligations (B)               | 8,450,000            | 8,740,000             |
| Capital lease obligation (C)                | 27,977               | 81,879                |
| <b>GHS Illinois subtotal</b>                | <b>8,477,977</b>     | <b>8,821,879</b>      |
| <b>Obligated Group subtotal</b>             | <b>97,650,622</b>    | <b>103,618,871</b>    |
| <b>GenVentures, note payable, bank (D)</b>  | <b>532,626</b>       | <b>615,012</b>        |
| <b>LCP, line of credit (E)</b>              | <b>675,473</b>       | <b>1,105,470</b>      |
| <b>SRS, capital lease obligation (F)</b>    | <b>5,817,783</b>     | <b>6,795,455</b>      |
| <b>Illini Foundation, annuities payable</b> | <b>46,960</b>        | <b>36,838</b>         |
|   | 104,723,464          | 112,171,646           |
| Less current maturities                     | 8,245,803            | 7,688,885             |
|   | <b>\$ 96,477,661</b> | <b>\$ 104,482,761</b> |

- (A) During fiscal year 2010, GHS Iowa issued Iowa Finance Authority Healthcare Revenue Bonds, Series 2010. The Series 2010 bonds, which had an original principal balance of \$90,995,000 and were issued at a premium of \$3,799,486, have payments due July 1, annually, and mature in varying amounts through July 1, 2026 and bear interest at rates ranging from 3.0% to 5.0%. The Series 2010 bonds are secured by a pledge of the Obligated Group's unrestricted receivables. The proceeds of the bonds were used to extinguish the 1997 and 2000 Series bonds. The loss on extinguishment of the 1997 and 2000 Series bonds was \$1,514,471 for the year ended June 30, 2010.

There are a number of limitations and restrictions contained in the Master Trust Indenture, the most significant of which is for the Obligated Group to maintain a minimum debt service coverage ratio of 1.10 to 1.

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

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**Note 8. Long-Term Debt and Pledged Assets (Continued)**

- (B) GMC – Illini leases its land, land improvements and buildings from Illini Hospital District, a related party, under a capital lease agreement which requires payment in an amount sufficient to pay all principal and interest on outstanding general obligation bonds (alternative revenue source).

The Series 2010 general obligation bonds (alternative revenue source) have an outstanding principal balance of \$8,477,977. These bonds were issued to advance refund \$8,740,000 of the outstanding 2001 general obligation bonds (alternative revenue source). The Series 2010 bonds bear interest at rates varying from 1.27% to 4.53%, which is payable on January 1 and July 1. The bonds mature in varying amounts from \$680,000 to \$905,000 through January 2022.

The depreciated cost of land, land improvements and buildings under this capital lease is approximately \$7,056,000 as of June 30, 2011.

- (C) During fiscal year 2007, GMC – Illini entered into a capital lease agreement, due in monthly installments of approximately \$5,000, including interest at 5% with final payment due in December 2011.
- (D) GenVentures' bank note is due in monthly payments of \$10,200, including interest at a variable rate, 6.95% as of June 30, 2011, through August 2016, secured by building and land. Under this agreement, GenVentures is required to maintain certain restrictive covenants including a minimum tangible net worth and a minimum debt service coverage ratio.
- (E) LCP has a \$1,500,000 line of credit with a bank which matures March 29, 2014. The current balance of the line of credit is due in monthly installments of \$44,304, including interest at 3.96%, through December 15, 2012. The note is collateralized by all property and equipment of LCP.
- (F) During fiscal year 2009, SRS entered into a capital lease agreement, due in monthly installments of \$122,135, including interest at 7.68% with final payment due in March 2016. The lease is secured by equipment. The depreciated cost of the equipment under this capital lease is approximately \$4,824,000 as of June 30, 2011.

**Obligated Group:**

Genesis Health System – Iowa and Genesis Health System – Illinois, collectively, represent the Obligated Group on the revenue bond obligations.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 8. Long-Term Debt and Pledged Assets (Continued)**

The following is a schedule of future minimum lease payments due under capital leases together with the present value of future minimum lease payments as of June 30, 2011:

|   |                                    |
|---|------------------------------------|
| Year ending June 30:                                      |                                    |
| 2012  | \$ 2,436,000                       |
| 2013  | 2,412,000                          |
| 2014  | 2,416,000                          |
| 2015  | 2,416,000                          |
| 2016  | 2,045,000                          |
| Thereafter  | <u>5,693,000</u>                   |
|   | 17,418,000                         |
| Less the amount representing interest                     | <u>3,122,000</u>                   |
| <b>Present value of future minimum<br/>lease payments</b> | <b><u><u>\$ 14,296,000</u></u></b> |

The aggregate principal maturities of the long-term debt, excluding unamortized bond premium, as of June 30, 2011 over the next five years and thereafter are approximately as follows:

|                      |                                     |
|----------------------|-------------------------------------|
| Year ending June 30: |                                     |
| 2012                 | \$ 8,246,000                        |
| 2013                 | 8,170,000                           |
| 2014                 | 8,421,000                           |
| 2015                 | 8,861,000                           |
| 2016                 | 8,961,000                           |
| Thereafter           | <u>58,281,000</u>                   |
|                      | <b><u><u>\$ 100,940,000</u></u></b> |

**Note 9. Employee Retirement Plans**

All employees of the System and affiliates participate in the Genesis Health System Pension Plans. The plans consist of both a defined benefit pension plan and an employer paid match on employee contributions to a defined contribution plan. Pension expense for the employer paid match to the defined contribution plan was approximately \$1,343,000 and \$1,255,000 for the years ended June 30, 2011 and 2010, respectively.

Effective July 1, 2005, current participants in the defined benefit pension plan were given the option to remain in the defined benefit pension plan or to elect to move to the Genesis Retirement Account program, at which time their benefits in the defined benefit pension plan were frozen at current levels. All new full and part-time employees that have worked more than 1,000 hours during a prior calendar year will participate in the new defined contribution plan, with contributions made by the System as specified in the program based on years of service.

Effective December 31, 2006, the Board of Directors of the System adopted a resolution to freeze the defined benefit pension plan. Under terms of the freeze, employees with at least five years of service and a combination of age and years of service of 70 were grandfathered.

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

**Note 9. Employee Retirement Plans (Continued)**

The Compensation – Retirement Benefits Topic of the FASB Accounting Standards Codification requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Actuarial gains and losses, prior service costs or credits and any remaining transition assets or obligations that have not been recognized under previous accounting standards, must be recognized in the changes in unrestricted net assets. As a result, the System has recognized the underfunded status of the defined benefit pension plan in the accompanying consolidated balance sheets as of June 30, 2011 and 2010. The accrual for the defined benefit pension plan asset or liability is based on a comparison of the fair value of Plan assets to the Plan's projected benefit obligation.

The defined benefit pension plan is measured annually at June 30. Information about the Plan follows:

|  | 2011                  | 2010                   |
|--|-----------------------|------------------------|
| Projected benefit obligation at beginning of year  | \$ (160,096,789)      | \$ (131,862,015)       |
| Service cost   | (2,087,076)           | (1,846,051)            |
| Interest cost  | (8,797,842)           | (8,713,253)            |
| Actuarial gain (loss):   |                       |                        |
| Impact of change in assumptions  | 2,238,861             | (23,015,283)           |
| Other  | (591,500)             | (287,324)              |
| Benefits paid  | 6,360,849             | 5,627,137              |
| <b>Projected benefit obligation at end of year</b>   | <b>(162,973,497)</b>  | <b>(160,096,789)</b>   |
| Fair value of plan assets  | 157,073,497           | 131,178,659            |
| <b>Funded status, plan assets (less than)<br/>benefit obligation</b>   | <b>\$ (5,900,000)</b> | <b>\$ (28,918,130)</b> |
| Rollforward of accrued benefit (liability):  |                       |                        |
| Accrued benefit (liability) on balance sheet, beginning of year  | \$ (28,918,130)       | \$ (28,945,853)        |
| Return on plan assets  | 26,255,687            | 18,889,634             |
| System contributions   | 6,000,000             | 15,000,000             |
| Change in plan liability   | (9,237,557)           | (33,861,911)           |
| <b>Accrued (liability) on balance sheet, end of year</b>   | <b>\$ (5,900,000)</b> | <b>\$ (28,918,130)</b> |
| Components of net periodic pension cost, which is included<br>as a component of employee benefits expense on the<br>accompanying consolidated statements of operations<br>and changes in net assets, consist of: |                       |                        |
| Service cost   | \$ 2,087,076          | \$ 1,846,051           |
| Interest cost  | 8,797,842             | 8,713,253              |
| Expected return on plan assets   | (10,793,756)          | (10,526,920)           |
| Amortization of unrecognized net loss  | 3,871,916             | 1,545,610              |
| Amortization of unrecognized prior service cost (credit)   | (63,118)              | (63,118)               |
|  | <b>\$ 3,899,960</b>   | <b>\$ 1,514,876</b>    |

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 9. Employee Retirement Plans (Continued)**

|  | 2011                   | 2010                 |
|--|------------------------|----------------------|
| Amounts not yet recognized as components of net periodic pension cost: |                        |                      |
| Net actuarial loss   | \$ 58,601,688          | \$ 79,582,826        |
| Prior service cost (credit)  | (330,241)              | (393,359)            |
| Unrecognized amounts, end of year                                      | 58,271,447             | 79,189,467           |
| Unrecognized amounts, beginning of year                                | 79,189,467             | 65,732,066           |
| Current year change  | <u>\$ (20,918,020)</u> | <u>\$ 13,457,401</u> |
| Assumptions used in computations:                                      |                        |                      |
| In computing ending obligations:                                       |                        |                      |
| Discount rate  | 5.75%                  | 5.60%                |
| Rate of compensation increase  | 4.00%                  | 4.00%                |
| In computing net periodic benefit cost:                                |                        |                      |
| Discount rate  | 5.60%                  | 6.75%                |
| Expected return on assets  | 7.45%                  | 7.45%                |
| Rate of compensation increase  | 4.00%                  | 4.00%                |

The expected return on plan assets is based upon a blend of historical returns and the System's estimate of a long-term rate of return.

Management's objective is to maximize long-term returns while reducing losses in order to meet future benefit obligations. Management follows the policy of using historical evidence in computing expected return on assets.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 9. Employee Retirement Plans (Continued)**

The fair values of the System's defined benefit pension plan assets as of June 30, 2011 and 2010 by asset category, segregated by the level of the valuation inputs within the fair value hierarchy as described in Note 6, are as follows:

|  | Investments at Fair Value as of June 30, 2011 |                |               |         |
|--|---|----------------|---------------|---------|
|  | Fair Value                                    | Level 1        | Level 2       | Level 3 |
| Common Stocks:   |   |                |               |         |
| Healthcare   | \$ 9,133,965                                  | \$ 9,133,965   | \$ -          | \$ -    |
| Financial  | 9,165,394                                     | 9,165,394      | -             | -       |
| Consumer Discretionary   | 13,600,739                                    | 13,600,739     | -             | -       |
| Energy   | 5,624,998                                     | 5,624,998      | -             | -       |
| Information Technology   | 14,262,079                                    | 14,262,079     | -             | -       |
| Industrials  | 7,172,770                                     | 7,172,770      | -             | -       |
| ADR's (American Depository Receipts)                                     | 4,110,831                                     | 4,110,831      | -             | -       |
| Materials  | 2,002,638                                     | 2,002,638      | -             | -       |
| Consumer Staples   | 2,898,170                                     | 2,898,170      | -             | -       |
| Utilities  | 830,658                                       | 830,658        | -             | -       |
| Telecommunication Services   | 734,333                                       | 734,333        | -             | -       |
| Fixed Income Mutual Fund, PIMCO Total Return Fund                        | 32,019,921                                    | 32,019,921     | -             | -       |
| Equity Mutual Funds,   |   |                |               |         |
| Thornburg International Value Fund                                       | 18,451,798                                    | 18,451,798     | -             | -       |
| Equity Collective Investment Fund, J.P. Morgan<br>Extended Duration Fund | 34,582,632                                    | -              | 34,582,632    | -       |
|  | 154,590,926                                   | \$ 120,008,294 | \$ 34,582,632 | \$ -    |
| Other plan assets, cash and cash equivalents                             | 2,482,571                                     |                |               |         |
| <b>Total plan assets</b>   | <b>\$ 157,073,497</b>                         |                |               |         |

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

**Note 9. Employee Retirement Plans (Continued)**

|  | Investments at Fair Value as of June 30, 2010 |                      |                      |             |
|--|---|----------------------|----------------------|-------------|
|  | Fair Value                                    | Level 1              | Level 2              | Level 3     |
| Common Stocks:   |   |                      |                      |             |
| Healthcare   | \$ 3,928,334                                  | \$ 3,928,334         | \$ -                 | \$ -        |
| Financial  | 1,681,434                                     | 1,681,434            | -                    | -           |
| Consumer Discretionary   | 3,247,746                                     | 3,247,746            | -                    | -           |
| Energy   | 1,430,866                                     | 1,430,866            | -                    | -           |
| Information Technology   | 7,037,260                                     | 7,037,260            | -                    | -           |
| Industrials  | 740,466                                       | 740,466              | -                    | -           |
| ADR's (American Depository Receipts)                                     | 736,022                                       | 736,022              | -                    | -           |
| Fixed Income Mutual Fund, PIMCO Total Return Fund                        | 32,185,955                                    | 32,185,955           | -                    | -           |
| Equity Mutual Funds:   |   |                      |                      |             |
| Lord Abbett Small Cap Blend Fund   | 14,740,729                                    | 14,740,729           | -                    | -           |
| Quantitative Equity Large Cap Value AP Trust                             | 18,048,432                                    | -                    | 18,048,432           | -           |
| Thornburg International Value Fund                                       | 14,178,098                                    | 14,178,098           | -                    | -           |
| Equity Collective Investment Fund, J.P. Morgan<br>Extended Duration Fund | 32,460,424                                    | -                    | 32,460,424           | -           |
|  | <u>\$ 130,415,766</u>                         | <u>\$ 79,906,910</u> | <u>\$ 50,508,856</u> | <u>\$ -</u> |
| Other plan assets, cash and cash equivalents                             | 762,893                                       |                      |                      |             |
| <b>Total plan assets</b>   | <u><b>\$ 131,178,659</b></u>                  |                      |                      |             |

The following table sets forth additional disclosure of the System's defined benefit pension plan assets whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2011 and 2010:

|   | Fair Value           |                      | Unfunded<br>Commitment | Redemption<br>Frequency | Redemption<br>Notice Period |
|---|----------------------|----------------------|------------------------|-------------------------|-----------------------------|
|   | 2011                 | 2010                 |                        |                         |                             |
| Investments:  |                      |                      |                        |                         |                             |
| Equity Mutual Fund, Quantitative<br>Equity Large Cap Value AP<br>Trust (A)      | \$ -                 | \$ 18,048,432        | \$ -                   | Monthly                 | None                        |
| Equity Collective Investment Fund,<br>J.P. Morgan Extended Duration<br>Fund (B) | 34,582,632           | 32,460,424           | -                      | Daily                   | 1 Day                       |
|   | <u>\$ 34,582,632</u> | <u>\$ 50,508,856</u> | <u>\$ -</u>            |                         |                             |

- (A) The fund seeks to provide long-term growth of capital through a diversified portfolio comprised primarily of common stocks of high quality, medium to large sized U.S. based companies with leading competitive positions. This fund was redeemed during the year ended June 30, 2011.
- (B) The fund primarily invests in collateralized mortgage obligations, corporate bonds and U.S. treasury securities. This fund can be redeemed daily at the current net asset value per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 9. Employee Retirement Plans (Continued)**

The following summarizes target asset allocation as of June 30, 2011 and major asset categories as of June 30, 2011 and 2010:

|                                 | Target<br>Allocation | 2011          | 2010          |
|---------------------------------|----------------------|---------------|---------------|
| Domestic equity securities:     |                      |               |               |
| Large cap                       | 28.0%                | 32.9%         | 28.3%         |
| Small cap                       | 11.0                 | 12.6          | 11.2          |
| International equity securities | 11.0                 | 11.8          | 10.8          |
| Fixed income                    | 50.0                 | 42.7          | 49.7          |
|                                 | <u>100.0%</u>        | <u>100.0%</u> | <u>100.0%</u> |

Management's objective is to maintain adequate levels of diversification among plan assets. Management monitors the allocation on an ongoing basis and will allocate plan assets accordingly in the subsequent quarter.

The System expects to contribute approximately \$6,000,000 to its defined benefit pension plan during the year ending June 30, 2012.

Benefit payments from the defined benefit pension plan are expected to be paid as follows:

|                      |                      |
|----------------------|----------------------|
| Year ending June 30: |                      |
| 2012                 | \$ 6,600,000         |
| 2013                 | 6,800,000            |
| 2014                 | 7,100,000            |
| 2015                 | 7,600,000            |
| 2016                 | 8,000,000            |
| Thereafter           | <u>50,700,000</u>    |
|                      | <u>\$ 86,800,000</u> |

Physician employees of the System are eligible to participate in non-qualified deferred compensation plans. The plans allow participants to defer a portion of their salary into the plans. The plan assets are held for the benefit of participating employees. The liability to these participants is recorded at the same amount as the plan assets' value. The assets which are included in investments and corresponding noncurrent liability of the non-qualified deferred compensation plans recorded on the accompanying consolidated balance sheets are approximately \$6,717,000 and \$5,022,000 as of June 30, 2011 and 2010, respectively.

**Genesis Health System  
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**Notes to Consolidated Financial Statements**

**Note 10. Income Tax Matters**

GHS Iowa, GHS Illinois, the Genesis Foundation, the Illini Foundation and the Workers' Compensation Trust are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. GenVentures is subject to income taxes. Misericordia Assurance Company, Ltd. is a foreign corporation not subject to income taxes.

In lieu of corporate income taxes, the partners of The Larson Center Partnership and members of Davenport SRS Leasing, LLC and GenGastro, LLC are taxed on their proportionate share of the respective organization's income, deductions, losses and credits. Therefore, the accompanying consolidated financial statements do not include any provision for income taxes for these entities.

Deferred taxes for GenVentures are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in the tax laws and rates on the date of enactment. The deferred taxes for GenVentures relate primarily to net operating loss carryforwards, property and equipment, allowance for doubtful accounts and accrued compensation.

Net deferred taxes consist of the following components as of June 30, 2011 and 2010:

|                          | 2011         | 2010         |
|--------------------------|--------------|--------------|
| Deferred tax assets      | \$ 1,901,000 | \$ 2,319,000 |
| Less valuation allowance | (1,901,000)  | (2,319,000)  |
|                          | <u>\$ -</u>  | <u>\$ -</u>  |

For the years ended June 30, 2011 and 2010, there are no current income tax provisions due to the utilization of the net operating loss carryforward.

As of June 30, 2011, GenVentures, for federal income tax purposes, has net operating loss carryforwards which are available to offset future federal taxable income and federal tax liabilities. These carryforwards expire from 2012 through 2027. The carryforwards expiring in future years are as follows:

|                      |                     |
|----------------------|---------------------|
| Year ending June 30: |                     |
| 2012                 | \$ 928,000          |
| 2013                 | 1,000               |
| 2014                 | -                   |
| 2015                 | -                   |
| 2016                 | -                   |
| Thereafter           | 3,449,000           |
|                      | <u>\$ 4,378,000</u> |

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

**Note 10. Income Tax Matters (Continued)**

**Uncertainty in income taxes:**

GHS Iowa, GHS Illinois, the Genesis Foundation, the Illini Foundation and the Workers' Compensation Trust all file a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the following: the tax exempt status of each entity, the nature, characterization and taxability of joint venture income and various positions relative to potential sources of unrelated business taxable income. Unrelated business taxable income is reported on Form 990T, as appropriate. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Forms 990 and 990T filed by GHS Iowa, GHS Illinois, the Genesis Foundation, the Illini Foundation and the Workers' Compensation Trust are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990T filed by GHS Iowa, GHS Illinois, the Genesis Foundation, the Illini Foundation and the Workers' Compensation Trust are no longer subject to examination for the fiscal years ended June 30, 2006 and prior. GenVentures is a taxable organization and currently files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. GenVentures is no longer subject to income tax examinations for years June 30, 2006 and prior.

A reconciliation of the uncertain tax positions as of June 30, 2011 and 2010 is as follows:

|   | 2011        | 2010             |
|---|-------------|------------------|
| Balance, beginning of year  | \$ 45,000   | \$ 350,000       |
| Reductions for tax positions of prior years as a result of lapse of the applicable statute of limitations | (45,000)    | (40,000)         |
| Settlements   | -           | (265,000)        |
| Balance, end of year  | <u>\$ -</u> | <u>\$ 45,000</u> |

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

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**Note 10. Income Tax Matters (Continued)**

As of June 30, 2011 and 2010, the total amount of uncertain tax positions have reduced income tax expense and have increased excess of revenue over expenses by \$45,000 and \$40,000, respectively.

Interest expense associated with uncertain tax positions from the years ended June 30, 2011 and 2010 is approximately none and \$7,000, respectively. No amount has been accrued for penalties.

During the years ended June 30, 2011 and 2010, none and \$265,000, respectively, in federal and state income taxes were paid for uncertain tax positions existing as of June 30, 2009 and 2008, as amended or past due income tax returns were filed.

**Note 11. Self-Insurance, Contingent Liabilities and Commitments**

**Self-insured claims:**

The System is primarily self-insured, up to certain limits, for general and professional liability, workers' compensation and employee group health and dental claims. The System has purchased stop-loss insurance for general and professional liability claims, which will reimburse the System for individual claims in excess of \$2,000,000 annually or aggregate claims exceeding \$6,000,000 annually. The System has purchased stop-loss insurance for workers' compensation claims in excess of \$400,000 annually for the years ended June 30, 2011 and 2010, or aggregate claims in excess of \$5,000,000. Insurance coverage is also maintained for health and dental claims in excess of \$150,000.

Operations are charged with the costs of claims reported and an estimate of claims incurred but not reported. Total expense under the self-insured programs was approximately \$26,275,000 and \$31,560,000 for the years ended June 30, 2011 and 2010, respectively. An independent actuarial firm is utilized to assist in determining the provision for general, professional and workers' compensation losses, including incurred but not reported losses. The liabilities for estimated self-insured claims, including unpaid losses and loss adjustment expenses, recorded on the accompanying consolidated balance sheets are \$37,465,000 and \$36,779,000 as of June 30, 2011 and 2010, respectively, which include approximately \$18,303,000 and \$19,063,000, respectively, that are included in other long-term liabilities. The amount of reinsurance recoverable on unpaid losses as of June 30, 2011 and 2010 was approximately \$5,840,000 and \$5,934,000, respectively, that is included in other receivables.

The determination of such claims and expenses and the appropriateness of the related liability is continually reviewed and updated. It is reasonably possible that the accrued estimated liability for self-insured claims may need to be revised in the short term. In addition, participants of self-insurance programs may be required to make retrospective contributions as deemed necessary if loss experience is worse than anticipated.

GFMC participates in a cooperative of University of Iowa-affiliated medical education foundations for the purpose of professional liability insurance to cover claims on a claims-made basis with a loss limit of \$2,000,000 per occurrence and an annual limit of \$4,000,000 and no deductible.

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

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**Note 11. Self-Insurance, Contingent Liabilities and Commitments (Continued)**

**Accounting for conditional asset retirement obligations:**

The Conditional Asset Retirement Obligation Topic of the FASB Accounting Standards Codification clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation, specifically as it related to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Over the past ten years, management has systematically renovated, replaced or newly constructed the majority of the physical plant facilities, resulting in a relatively small portion of the facility with any remaining hazardous material. Management of the System believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the System may settle the obligation is unknown and does not believe that the estimate of the liability related to these asset retirement activities is a material amount as of June 30, 2011 and 2010.

**Laws and regulations:**

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. The System 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.

**CMS RAC Program:**

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. The RAC's identified and corrected a significant amount of improper overpayments and/or underpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. The System has been subject to such an audit and may continue to be subject to additional audits at some time in the future. The System has accrued an estimated liability, which is included in due to third-party payors as of June 30, 2011, as a reserve for such audits based on the number of RAC audit requests, the System's historical defense rate and the analysis and reviews of a consulting firm. It is reasonably possible that the recorded estimates will change materially in the near term.

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

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**Note 11. Self-Insurance, Contingent Liabilities and Commitments (Continued)**

**Current economic conditions:**

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the System.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the System's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payors may significantly impact net patient service revenue, which could have an adverse impact on the System's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts and contributions receivable that could negatively impact the System's ability to meet debt covenants or maintain sufficient liquidity.

**Health care reform:**

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

**Commitments:**

Approximate minimum payments required under a service contract as of June 30, 2011 are summarized below. The term of this service contract is for a period of ten years (until fiscal year 2019), unless the System terminates the contract for cause:

|                      |                      |
|----------------------|----------------------|
| Year ending June 30: |                      |
| 2012                 | \$ 1,845,000         |
| 2013                 | 1,845,000            |
| 2014                 | 1,845,000            |
| 2015                 | 1,845,000            |
| 2016                 | 1,845,000            |
| Thereafter           | 3,537,000            |
|                      | <u>\$ 12,762,000</u> |

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

**Note 12. Net Asset Restrictions**

Temporarily restricted net assets held by the System are restricted by donors for the following purposes as of June 30, 2011 and 2010:

|   | 2011                 | 2010                 |
|---|----------------------|----------------------|
| Cardiac research                            | \$ 403,595           | \$ 509,798           |
| Visiting nurse programs                     | 3,351,713            | 2,688,583            |
| Hospice house                               | 2,004,442            | 3,474,943            |
| Heart of Mercy financial assistance         | 560,531              | 224,814              |
| Inventory and equipment for GMC - Davenport | 2,996,714            | 2,996,714            |
| Cancer research                             | 1,000,535            | 903,845              |
| Adler Fund                                  | 1,276,072            | 944,514              |
| Employee assistance fund                    | 525,016              | 378,296              |
| Other                                       | 3,994,249            | 4,085,367            |
|   | <u>\$ 16,112,867</u> | <u>\$ 16,206,874</u> |

During the years ended June 30, 2011 and 2010, temporarily restricted net asset were released from donor restrictions by incurring expenditures satisfying their restricted purposes for property and equipment and reimbursement of operating expenses, in the amount of \$3,994,125 and \$958,547, respectively.

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable primarily to support the Heart of Mercy financial assistance program. The permanently restricted net assets held by the System are for the following purposes as of June 30, 2011 and 2010:

|                                     | 2011                | 2010                |
|-------------------------------------|---------------------|---------------------|
| Heart of Mercy financial assistance | \$ 1,483,267        | \$ 1,375,974        |
| Other                               | 420,604             | 275,584             |
|                                     | <u>\$ 1,903,871</u> | <u>\$ 1,651,558</u> |

**Note 13. Minimum Future Rentals**

The following is a schedule by year of approximate future minimum rentals, net of rentals from affiliates, to be received under GenVentures' noncancelable operating leases as of June 30, 2011:

|   |                             |
|---|-----------------------------|
| Year ending June 30:                                |                             |
| 2012  | \$ 1,714,000                |
| 2013  | 1,630,000                   |
| 2014  | 1,580,000                   |
| 2015  | 1,149,000                   |
| 2016  | 1,085,000                   |
| Thereafter  | <u>6,664,000</u>            |
| <b>Total approximate future<br/>minimum rentals</b> | <u><u>\$ 13,822,000</u></u> |

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

**Note 14. Interest in Net Assets of Foundation**

The DeWitt Community Hospital Foundation (DCH Foundation), whose financial statements are not included in the accompanying consolidated financial statements since it is not under the control of GHS, was established to establish, promote and support facilities and services providing health care for sick, injured, disabled, indigent or aged persons. The support is to be provided to, or in cooperation with, other organizations including, without limitation, hospitals, ambulatory care services, nursing care facilities, and agencies or facilities providing care for persons in their homes. As of June 30, 2011 and 2010 the DCH Foundation had unaudited assets of approximately \$738,000 and \$654,000, respectively. DCH Foundation's assets consist primarily of cash and pledges receivable. A portion of the DCH Foundation's net assets have been specified by their original donor to be used specifically for the benefit of Genesis Medical Center – DeWitt.

**Note 15. Concentrations of Credit Risk**

The System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of the System's gross receivables from patients and third-party payors as of June 30, 2011 and 2010 was as follows:

|                          | 2011 | 2010 |
|--------------------------|------|------|
| Medicare                 | 29%  | 25%  |
| Medicaid                 | 8    | 12   |
| Blue Cross               | 13   | 9    |
| Other third-party payers | 16   | 19   |
| Patients                 | 34   | 35   |
|                          | 100% | 100% |

As of June 30, 2011, the System had deposits exceeding the federal depository insurance limits in various major financial institutions. Management believes the credit risk related to these deposits is minimal.

The System routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations and various investment grade corporate obligations. Investments in money market funds are not insured or guaranteed by the U.S. government or by the underlying corporation; however, management believes that credit risk related to these investments is minimal.

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

**Note 16. Acquisition**

On December 31, 2010, the System acquired an additional 16.67% interest in GenGastro, LLC (a single-specialty gastroenterology ambulatory surgery center) for \$5,148,000, increasing the System's ownership in GenGastro, LLC to 66.67%. In accordance with the accounting guidance on *Not-for-Profit Entities: Mergers and Acquisitions*, the System remeasured its previously held 50% interest of GenGastro, LLC (which had a recorded value of approximately \$493,000 at the date of acquisition) at fair value and recognized a gain of approximately \$14,959,000. This gain is included in nonoperating gains and (losses) on the June 30, 2011 consolidated statement of operations.

The System previously accounted for its 50% membership interest of GenGastro, LLC under the equity method of accounting and reported its 50% share of GenGastro, LLC's net income (loss). From December 31, 2010 (date of acquisition), the results of GenGastro, LLC's operations have been included in the consolidated financial statements.

The following table summarizes the consideration paid for GenGastro, LLC, estimated fair value of the assets acquired and liabilities assumed and fair value at the acquisition date of the noncontrolling interests in GenGastro, LLC.

|  |                      |
|--|----------------------|
| Consideration:   |                      |
| Cash   | \$ 5,148,000         |
| Fair value of the System's interest in GenGastro, LLC<br>at acquisition date | <u>15,452,000</u>    |
|  | <u>\$ 20,600,000</u> |
| Recognized amounts of assets acquired and liabilities assumed:               |                      |
| Current assets   | \$ 679,364           |
| Property and equipment   | 408,154              |
| Current liabilities  | (97,951)             |
| Noncontrolling interests in GenGastro, LLC                                   | (10,300,000)         |
| Goodwill   | <u>29,910,433</u>    |
|  | <u>\$ 20,600,000</u> |
| Excess of fair value over equity acquired for GenGastro, LLC:                |                      |
| Attributable to the System   | \$ 14,958,732        |
| Attributable to noncontrolling interests                                     | <u>9,806,732</u>     |
|  | <u>\$ 24,765,464</u> |

Fair values of the assets, liabilities and noncontrolling interests at the acquisition date were estimated by a third-party applying the market approach and income approach. The fair value measurement is based on significant inputs that are not observable in the market and, therefore represents a Level 3 measurement as defined in the Fair Value Measurement and Disclosures Topic of the FASB Accounting Standards Codification. Key assumptions include a discount rate of 15%, a terminal growth rate based on long-term sustainable growth of 3% and financial multiples of companies deemed to be similar to GenGastro, LLC.

The goodwill of approximately \$29,910,000 arising from the acquisition consists primarily of current and future expected earnings and profitability.

The amount of GenGastro, LLC's revenue included in the System's consolidated statement of operations for the year ended June 30, 2011 was \$3,151,000. Excess of revenue over expenses and changes in net assets included in the System's consolidated statement of operations for the year ended June 30, 2011 are approximately \$2,156,000.

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

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**Note 17. Pending Accounting Pronouncements**

In August 2010, Accounting Standards Update (ASU) 2010-23, *Health Care Entities (Topic 954) Measuring Charity Care for Disclosure*, was issued. ASU 2010-23 is effective for fiscal years beginning after December 15, 2010. ASU 2010-23 addresses the diversity in the accounting for charity care disclosures, which some entities determine on the basis of a cost measurement, while others use a revenue measurement. ASU 2010-23 requires that the measurement of charity care for disclosure purposes be based on the direct and indirect costs of providing the charity care. Management is evaluating the impact this ASU may have on the System's consolidated financial statements.

In August 2010, ASU 2010-24, *Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries*, was issued. ASU 2010-24 is effective for fiscal years beginning after December 15, 2010. ASU 2010-24 addresses the diversity in the accounting for medical malpractice and similar liabilities and their related anticipated insurance recoveries by health care entities that mostly have netted insurance recoveries against the accrued liability, although some have presented the anticipated insurance recovery and the liability on a gross basis. The ASU clarifies that a health care entity should not net insurance recoveries against a related claim liability; the amount of the claim liability should be determined without consideration of insurance recoveries. Management is evaluating the impact this ASU may have on the System's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU was issued to clarify FASB's intent on application of certain aspects of existing fair value measurement requirements and to change certain requirements for measuring fair value and for disclosing information about fair value measurements. These changes (mostly applicable to financial instruments in levels 2 and 3) include guidance on measuring the fair value of financial instruments that are managed within a portfolio, application of premiums and discounts, and additional disclosures about fair value measurements. FASB has concluded that this ASU will achieve the objective of developing common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. This ASU is effective for the System for annual reporting periods beginning after December 15, 2011. Management is in the process of evaluating the potential impact this ASU will have on the System's consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954) – Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay, to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, ASU 2011-07 requires those health care entities to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts, disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts.

The provisions are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter, with early adoption permitted. The changes to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by ASU 2011-07 should be provided for the period of adoption and subsequent reporting periods. Management is assessing the impact of the implementation of this ASU on the System's consolidated financial statements.

**Genesis Health System  
and Related Organizations**

**Notes to Consolidated Financial Statements**

**Note 17. Pending Accounting Pronouncements (Continued)**

The FASB issued ASU 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. The existing guidance under Accounting Standards Codification Topic 350 requires an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, the second step of the test must be performed to measure the amount of the impairment loss, if any. This ASU gives an entity the option in its annual goodwill impairment test to first assess revised qualitative factors to determine whether it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount (qualitative assessment). If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity must still perform the existing two-step impairment test. Otherwise, an entity would not be required to perform the existing two-step impairment test. This ASU is effective for the System for the first annual reporting period beginning after December 15, 2011.

**Note 18. Functional Expenses**

The System provides general health care services to residents within its geographic location. Expenses for the System's 501(c)(3) entities related to providing these services for the years ended June 30, 2011 and 2010 are as follows:

|   | 2011                  | 2010                  |
|---|-----------------------|-----------------------|
| Health care services                            | \$ 423,174,910        | \$ 431,681,650        |
| General, administrative and support services    | 89,012,051            | 90,089,732            |
| Fund raising, net of intercompany contributions | 1,081,481             | 790,880               |
|   | <u>\$ 513,268,442</u> | <u>\$ 522,562,262</u> |

Included within general, administrative and support services are significant expenditures for information systems which support the delivery of health care services.



**Independent Auditor's Report  
on the Supplementary Information**

To the Audit and Compliance Committee  
Genesis Health System  
Davenport, Iowa

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information on pages 48 – 59 is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and changes in net assets of the individual organizations. The consolidating information on pages 48 – 59 has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, based upon our audits and the reports of other auditors as explained in our report on the basic financial statements on page 1, is fairly presented in all material respects in relation to the basic consolidated financial statements taken as a whole.

The accompanying community benefit information on pages 44 through 47 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. This information has not been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements, and accordingly, we express no opinion on it.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
October 25, 2011

**Genesis Health System  
and Related Organizations**

**Schedule of Community Benefit  
Year Ended June 30, 2011  
(Unaudited)**

Genesis Health System contributed \$38,132,600 in community benefit to the Quad City area in fiscal year (FY) 2011. This represents an increase of 51% when compared to FY 2010. Charity Care, reported as charges foregone, in the amount of \$31,815,963 was provided by the Health System compared to \$21,197,913 in FY 2010. Charity Care is uncompensated care provided without expectation of reimbursement. Charity Care is distinct and separate from bad debt, which is care provided with an expectation of compensation but which we were unable to collect. We do not count bad debt in our community benefit reporting; however, bad debt for Genesis Health System totaled \$27,792,024 for FY 2011, down 22% from \$35,782,769 for FY 2010.

Unreimbursed Medicaid and other means-tested program costs are also not included in our community benefit reporting; however, the unreimbursed Medicaid and other means-tested program costs for FY 2011 were estimated at \$11,627,808. The level of unreimbursed Medicaid costs increased 11% compared to FY 2010's level of \$10,480,537.

Table 1 shows a 34% increase in community benefit for Genesis Medical Center (GMC) – Davenport compared to FY 2010. GMC – Illini increased its community benefit by 75%, and GMC – DeWitt increased by 22%. Other GHS community benefit increased by 1159% as we started to report subsidized losses in FY 2011 for the community-based hospice and hospice house programs.

Table 1: Community Benefit by GHS Entity

|        | Other<br>GHS | GMC -<br>Davenport | GMC - Illini | GMC - DeWitt | Total         |
|--------|--------------|--------------------|--------------|--------------|---------------|
| FY2007 | \$ 330,874   | \$ 16,266,486      | \$ 2,754,361 | \$ 145,117   | \$ 19,496,838 |
| FY2008 | 592,354      | 20,933,460         | 2,747,135    | 243,976      | 24,516,925    |
| FY2009 | 164,537      | 22,495,002         | 3,221,208    | 337,443      | 26,218,190    |
| FY2010 | 234,749      | 20,715,176         | 3,968,714    | 404,892      | 25,323,531    |
| FY2011 | 2,955,378    | 27,718,979         | 6,964,127    | 494,116      | 38,132,600    |

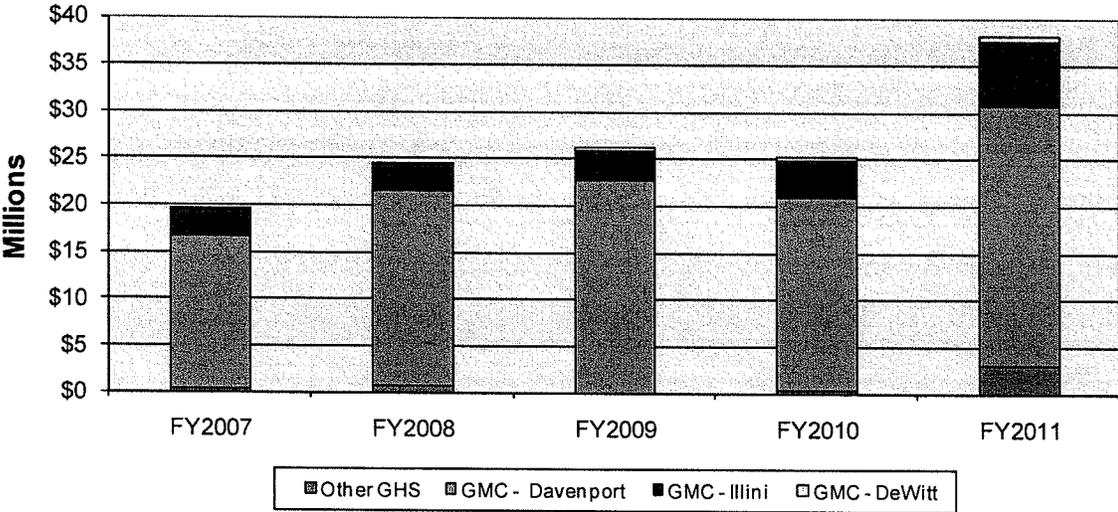
This information is shown graphically in Graph 1.

**Genesis Health System  
and Related Organizations**

**Schedule of Community Benefit  
Year Ended June 30, 2011  
(Unaudited)**

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**Community Benefit by GHS Entity**



**Genesis Health System  
and Related Organizations**

**Schedule of Community Benefit  
Year Ended June 30, 2011  
(Unaudited)**

Graph 2 represents the community benefit funding by category for each of the past five fiscal years. Overall, community benefit funding increased 51% compared to FY 2010. Community Health Improvement increased 131%, Community Building Activities increased 98% and Charity Care increased 50% compared to the prior year, while Health Professions Education decreased 54%, and Financial and In-Kind Contributions decreased 38%.

**GHS Community Benefit Totals**

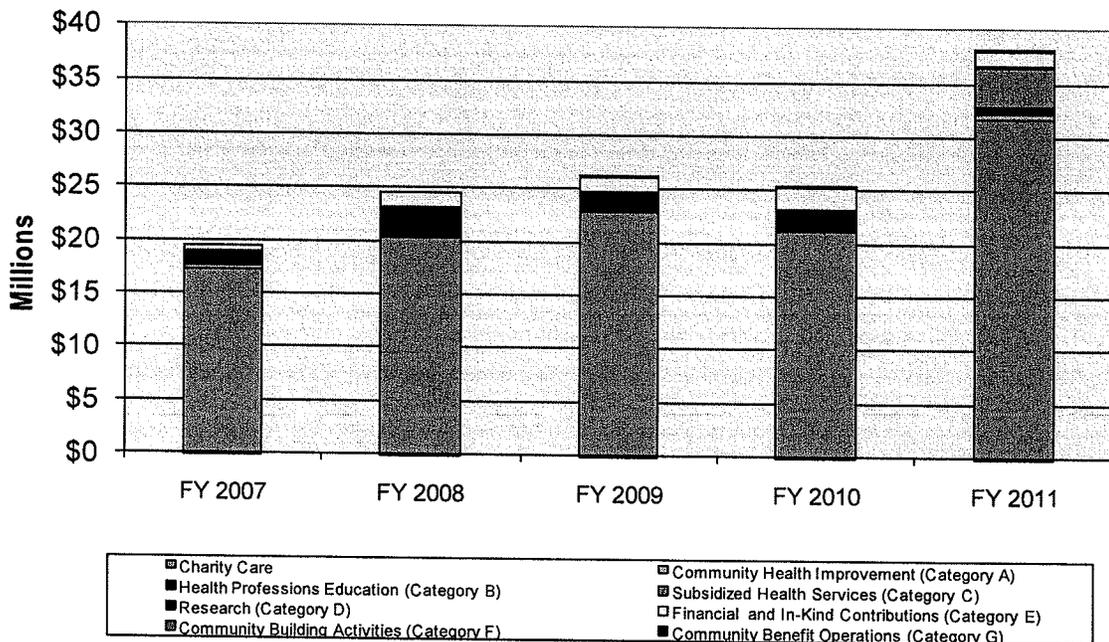


Table 2: 2011 Category Comparisons by GHS Entity

|                 | Charity Care         | Community Health Improvement (Category A) | Health Professions Education (Category B) | Subsidized Health Services (Category C) | Research (Category D) | Financial and In-Kind Contributions (Category E) | Community Building Activities (Category F) | Community Benefit Operations (Category G) | Total                |
|-----------------|----------------------|---|---|---|-----------------------|--|--|---|----------------------|
| GHS - Other     | \$ 1,375,991         | \$ 6,344                                  | \$ -                                      | \$ 1,135,742                            | \$ -                  | \$ 430,006                                       | \$ 7,295                                   | \$ -                                      | \$ 2,955,378         |
| GMC - Davenport | 23,244,368           | 356,988                                   | 785,152                                   | 2,289,455                               | 190,374               | 720,283  | 103,951                                    | 28,408                                    | 27,718,979           |
| GMC - Illini    | 6,797,475            | 14,168                                    | 2,756                                     | 72,984                                  | -                     | 62,701   | 13,994                                     | 49  | 6,964,127            |
| GMC - DeWitt    | 398,129              | 315                                       | -   | 20,019                                  | -                     | 74,820   | 833  | -   | 494,116              |
| <b>Totals</b>   | <b>\$ 31,815,963</b> | <b>\$ 377,815</b>                         | <b>\$ 787,908</b>                         | <b>\$ 3,518,200</b>                     | <b>\$ 190,374</b>     | <b>\$ 1,287,810</b>                              | <b>\$ 126,073</b>                          | <b>\$ 28,457</b>                          | <b>\$ 38,132,600</b> |

**Genesis Health System  
and Related Organizations**

**Schedule of Community Benefit  
Year Ended June 30, 2011  
(Unaudited)**

**Table 3: Category Comparisons for the Past Five Fiscal Years**

|         | Charity<br>Care | Community<br>Health<br>Improvement<br>(Category A) | Health<br>Professions<br>Education<br>(Category B) | Subsidized<br>Health<br>Services<br>(Category C) | Research<br>(Category D) | Financial<br>and In-Kind<br>Contributions<br>(Category E) | Community<br>Building<br>Activities<br>(Category F) | Community<br>Benefit<br>Operations<br>(Category G) | Total         |
|---------|-----------------|--|--|--|--------------------------|---|---|--|---------------|
| FY 2007 | \$ 17,268,018   | \$ 289,885   | \$ 1,434,874                                       | \$ -   | \$ 627                   | \$ 503,434  | \$ -  | \$ -   | \$ 19,496,838 |
| FY 2008 | 20,289,556      | 287,935  | 2,685,992  | -  | -                        | 1,253,442   | -   | -  | 24,516,925    |
| FY 2009 | 22,903,259      | 148,661  | 1,449,671  | 57,123   | 195,493                  | 1,337,504   | 66,346  | 60,133   | 26,218,190    |
| FY 2010 | 21,197,913      | 163,450  | 1,712,897  | -  | 97,744                   | 2,069,189   | 63,587  | 18,751   | 25,323,531    |
| FY 2011 | 31,815,963      | 377,815  | 787,908  | 3,518,200  | 190,374                  | 1,287,810   | 126,073   | 28,457   | 38,132,600    |

**Genesis Health System  
and Related Organizations**

**Consolidating Balance Sheet Information  
June 30, 2011**

| <b>Assets</b>                                  | GHS<br>Iowa           | GHS<br>Illinois      | Eliminations          | Obligated<br>Group *  |
|--|-----------------------|----------------------|-----------------------|-----------------------|
| <b>Current Assets:</b>                         |                       |                      |                       |                       |
| Cash and cash equivalents                      | \$ 53,124,950         | \$ 18,664,240        | \$ -                  | \$ 71,789,190         |
| Short-term investments                         | 704,456               | -                    | -                     | 704,456               |
| <b>Receivables:</b>                            |                       |                      |                       |                       |
| Patients, net                                  | 60,717,960            | 14,961,229           | -                     | 75,679,189            |
| Affiliates                                     | 5,149,212             | -                    | (2,759,455)           | 2,389,757             |
| Notes, affiliate                               | 1,101,947             | -                    | -                     | 1,101,947             |
| Other, including assets limited as to use      | 6,903,948             | 938,367              | -                     | 7,842,315             |
| Inventories, supplies and materials            | 10,437,231            | 2,261,478            | -                     | 12,698,709            |
| Prepaid expenses and deposits                  | 5,121,663             | 388,788              | -                     | 5,510,451             |
| <b>Total current assets</b>                    | <b>143,261,367</b>    | <b>37,214,102</b>    | <b>(2,759,455)</b>    | <b>177,716,014</b>    |
| <b>Long-Term Receivables and Investments:</b>  |                       |                      |                       |                       |
| Affiliate notes                                | 13,512,181            | -                    | -                     | 13,512,181            |
| Investment in subsidiaries                     | 47,364,817            | 1,313,072            | -                     | 48,677,889            |
| Investments                                    | 16,209,642            | 245,719              | -                     | 16,455,361            |
|  | <b>77,086,640</b>     | <b>1,558,791</b>     | <b>-</b>              | <b>78,645,431</b>     |
| <b>Assets Limited as to Use:</b>               |                       |                      |                       |                       |
| Internally designated                          | 157,778,420           | -                    | -                     | 157,778,420           |
| Under bond indenture, funds held<br>by trustee | 5,235,343             | 663,832              | -                     | 5,899,175             |
| Interest in net assets of Foundation           | 9,991,929             | 403,322              | -                     | 10,395,251            |
| Donor restricted                               | 4,133,745             | -                    | -                     | 4,133,745             |
|  | <b>177,139,437</b>    | <b>1,067,154</b>     | <b>-</b>              | <b>178,206,591</b>    |
| Property and Equipment, net                    | 166,193,212           | 35,809,581           | -                     | 202,002,793           |
| <b>Other Assets:</b>                           |                       |                      |                       |                       |
| Bond issuance costs, net                       | 579,508               | 196,412              | -                     | 775,920               |
| Goodwill                                       | 820,444               | -                    | -                     | 820,444               |
| Other  | 968,907               | -                    | -                     | 968,907               |
|  | <b>2,368,859</b>      | <b>196,412</b>       | <b>-</b>              | <b>2,565,271</b>      |
|  | <b>\$ 566,049,515</b> | <b>\$ 75,846,040</b> | <b>\$ (2,759,455)</b> | <b>\$ 639,136,100</b> |

\* The Obligated Group includes Genesis Health System – Iowa (an Iowa nonprofit corporation) and Genesis Health System – Illinois (an Illinois not-for-profit corporation).

| Genesis Health Services Foundation | Illini Hospital Foundation | GenGastro, LLC | The Larson Center Partnership | GenVentures, Inc. | Genesis Health System Workers' Compensation Plan and Trust | Misericordia Assurance Company, Ltd. | Davenport SRS Leasing, LLC | Eliminations    | Total          |
|------------------------------------|----------------------------|----------------|-------------------------------|-------------------|--|--------------------------------------|----------------------------|-----------------|----------------|
| \$ 864,157                         | \$ 13,755                  | \$ 226,568     | \$ 386,977                    | \$ 243,624        | \$ 939,981   | \$ 633,070                           | \$ 1,143,885               | \$ -            | \$ 76,241,207  |
| -                                  | -                          | -              | -                             | 619,441           | -  | -                                    | -                          | -               | 1,323,897      |
| -                                  | -                          | 670,984        | -                             | 2,771,555         | -  | -                                    | -                          | -               | 79,121,728     |
| -                                  | -                          | -              | -                             | -                 | -  | 93,680                               | 148,125                    | (2,631,562)     | -              |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | (1,101,947)     | -              |
| 148,497                            | 451                        | 9,075          | 1,577                         | 419,166           | 2,015,452  | 3,978,332                            | -                          | -               | 14,414,865     |
| -                                  | -                          | 28,417         | -                             | 982,183           | -  | -                                    | -                          | -               | 13,709,309     |
| -                                  | -                          | 7,975          | -                             | 131,774           | -  | 6,390                                | 110,008                    | -               | 5,766,598      |
| 1,012,654                          | 14,206                     | 943,019        | 388,554                       | 5,167,743         | 2,955,433  | 4,711,472                            | 1,402,018                  | (3,733,509)     | 190,577,604    |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | (13,512,181)    | -              |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | (48,677,889)    | -              |
| 2,618,517                          | 226,693                    | -              | -                             | 1,046,000         | 11,970,035   | 22,072,377                           | -                          | -               | 54,388,983     |
| 2,618,517                          | 226,693                    | -              | -                             | 1,046,000         | 11,970,035   | 22,072,377                           | -                          | (62,190,070)    | 54,388,983     |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | -               | 157,778,420    |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | -               | 5,899,175      |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | (9,657,402)     | 737,849        |
| 12,741,822                         | 403,322                    | -              | -                             | -                 | -  | -                                    | -                          | -               | 17,278,889     |
| 12,741,822                         | 403,322                    | -              | -                             | -                 | -  | -                                    | -                          | (9,657,402)     | 181,694,333    |
| 9,975                              | -                          | 330,655        | 2,289,745                     | 38,317,347        | -  | -                                    | 5,376,045                  | -               | 248,326,560    |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | -               | 775,920        |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | 29,910,433      | 30,730,877     |
| -                                  | 82,194                     | -              | 3,722                         | 401,491           | -  | -                                    | -                          | -               | 1,456,314      |
| -                                  | 82,194                     | -              | 3,722                         | 401,491           | -  | -                                    | -                          | 29,910,433      | 32,963,111     |
| \$ 16,382,968                      | \$ 726,415                 | \$ 1,273,674   | \$ 2,682,021                  | \$ 44,932,581     | \$ 14,925,468  | \$ 26,783,849                        | \$ 6,778,063               | \$ (45,670,548) | \$ 707,950,591 |

**Genesis Health System  
and Related Organizations**

**Consolidating Balance Sheet Information  
June 30, 2011**

| <b>Liabilities and Net Assets and Equity</b>   | GHS<br>Iowa           | GHS<br>Illinois      | Eliminations          | Obligated<br>Group *  |
|--|-----------------------|----------------------|-----------------------|-----------------------|
| <b>Current Liabilities:</b>  |                       |                      |                       |                       |
| Current maturities of long-term debt   | \$ 5,860,000          | \$ 727,977           | \$ -                  | \$ 6,587,977          |
| Accounts payable:  |                       |                      |                       |                       |
| Trade  | 14,693,285            | 1,975,491            | -                     | 16,668,776            |
| Affiliates   | -                     | 2,759,455            | (2,759,455)           | -                     |
| Accrued salaries and wages   | 13,925,530            | 525,388              | -                     | 14,450,918            |
| Accrued paid leave   | 14,073,483            | 2,165,375            | -                     | 16,238,858            |
| Due to third-party payors  | 3,525,309             | 1,946,193            | -                     | 5,471,502             |
| Unpaid losses and loss adjustment expenses   | -                     | -                    | -                     | -                     |
| Other accrued expenses   | 3,303,977             | 631,180              | -                     | 3,935,157             |
| <b>Total current liabilities</b>   | <b>55,381,584</b>     | <b>10,731,059</b>    | <b>(2,759,455)</b>    | <b>63,353,188</b>     |
| <br>Long-Term Debt, less current maturities  | <br>83,312,645        | <br>7,750,000        | <br>-                 | <br>91,062,645        |
| <br>Unpaid Losses and Loss Adjustment Expenses, Retirement<br>Benefits and Other Long-Term Liabilities | <br>15,594,348        | <br>673,208          | <br>-                 | <br>16,267,556        |
| <b>Total liabilities</b>   | <b>154,288,577</b>    | <b>19,154,267</b>    | <b>(2,759,455)</b>    | <b>170,683,389</b>    |
| <b>Net Assets and Equity:</b>  |                       |                      |                       |                       |
| Common stock   | -                     | -                    | -                     | -                     |
| Additional paid-in capital   | -                     | -                    | -                     | -                     |
| Retained earnings (deficit)  | -                     | -                    | -                     | -                     |
| Members and partners' equity   | -                     | -                    | -                     | -                     |
| Unrestricted   | 397,635,264           | 56,288,451           | -                     | 453,923,715           |
| Noncontrolling interests - unrestricted  | -                     | -                    | -                     | -                     |
| Temporarily restricted   | 14,125,674            | 359,030              | -                     | 14,484,704            |
| Permanently restricted   | -                     | 44,292               | -                     | 44,292                |
|  | <b>411,760,938</b>    | <b>56,691,773</b>    | <b>-</b>              | <b>468,452,711</b>    |
|  | <b>\$ 566,049,515</b> | <b>\$ 75,846,040</b> | <b>\$ (2,759,455)</b> | <b>\$ 639,136,100</b> |

\* The Obligated Group includes Genesis Health System – Iowa (an Iowa nonprofit corporation) and Genesis Health System – Illinois (an Illinois not-for-profit corporation).

| Genesis Health Services Foundation | Illini Hospital Foundation | GenGastro, LLC | The Larson Center Partnership | GenVentures, Inc. | Genesis Health System Workers' Compensation Plan and Trust | Misericordia Assurance Company, Ltd. | Davenport SRS Leasing, LLC | Eliminations    | Total         |
|------------------------------------|----------------------------|----------------|-------------------------------|-------------------|--|--------------------------------------|----------------------------|-----------------|---------------|
| \$ -                               | \$ -                       | \$ -           | \$ 514,166                    | \$ 1,216,752      | \$ -   | \$ -                                 | \$ 1,055,457               | \$ (1,128,549)  | \$ 8,245,803  |
| 36,490                             | -                          | 72,993         | 5,483                         | 659,930           | 21,005   | 61,224                               | 575                        | 4,500           | 17,530,976    |
| 519,388                            | 49,923                     | -              | 4,500                         | 1,984,681         | 77,570   | -                                    | -                          | (2,636,062)     | -             |
| -                                  | -                          | 16,659         | -                             | 475,547           | -  | -                                    | -                          | -               | 14,943,124    |
| -                                  | -                          | 20,725         | -                             | 386,564           | -  | -                                    | -                          | -               | 16,646,147    |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | -               | 5,471,502     |
| -                                  | -                          | -              | -                             | -                 | 6,052,467  | 9,311,553                            | -                          | -               | 15,364,020    |
| 833,265                            | 8,698                      | -              | 239,432                       | 629,721           | -  | -                                    | -                          | -               | 5,646,273     |
| 1,389,143                          | 58,621                     | 110,377        | 763,581                       | 5,353,195         | 6,151,042  | 9,372,777                            | 1,056,032                  | (3,760,111)     | 83,847,845    |
| -                                  | 46,960                     | -              | 161,307                       | 13,930,002        | -  | -                                    | 4,762,326                  | (13,485,579)    | 96,477,661    |
| -                                  | -                          | -              | -                             | 34,429            | -  | 16,535,671                           | -                          | -               | 32,837,656    |
| 1,389,143                          | 105,581                    | 110,377        | 924,888                       | 19,317,626        | 6,151,042  | 25,908,448                           | 5,818,358                  | (17,245,690)    | 213,163,162   |
| -                                  | -                          | -              | -                             | 1,000             | -  | 120,000                              | -                          | (121,000)       | -             |
| -                                  | -                          | -              | -                             | 28,821,772        | -  | -                                    | -                          | (28,821,772)    | -             |
| -                                  | -                          | -              | -                             | (3,207,817)       | -  | 755,401                              | -                          | 2,452,416       | -             |
| -                                  | -                          | 1,163,297      | 1,757,133                     | -                 | -  | -                                    | 959,705                    | (3,880,135)     | -             |
| 2,252,003                          | 217,512                    | -              | -                             | -                 | 8,774,426  | -                                    | -                          | 755,401         | 465,923,057   |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | 10,847,634      | 10,847,634    |
| 10,882,243                         | 359,030                    | -              | -                             | -                 | -  | -                                    | -                          | (9,613,110)     | 16,112,867    |
| 1,859,579                          | 44,292                     | -              | -                             | -                 | -  | -                                    | -                          | (44,292)        | 1,903,871     |
| 14,993,825                         | 620,834                    | 1,163,297      | 1,757,133                     | 25,614,955        | 8,774,426  | 875,401                              | 959,705                    | (28,424,858)    | 494,787,429   |
| \$ 16,382,968                      | \$ 726,415                 | \$ 1,273,674   | \$ 2,682,021                  | \$ 44,932,581     | \$ 14,925,468  | \$ 26,783,849                        | \$ 6,778,063               | \$ (45,670,548) | \$707,950,591 |

**Genesis Health System  
and Related Organizations**

**Consolidating Balance Sheet Information  
June 30, 2010**

| <b>Assets</b>                                  | GHS<br>Iowa           | GHS<br>Illinois      | Eliminations          | Obligated<br>Group *  |
|--|-----------------------|----------------------|-----------------------|-----------------------|
| <b>Current Assets:</b>                         |                       |                      |                       |                       |
| Cash and cash equivalents                      | \$ 42,722,820         | \$ 10,853,672        | \$ -                  | \$ 53,576,492         |
| Short-term investments                         | 743,809               | -                    | -                     | 743,809               |
| <b>Receivables:</b>                            |                       |                      |                       |                       |
| Patients, net                                  | 62,527,236            | 16,657,990           | -                     | 79,185,226            |
| Affiliates                                     | 5,867,968             | -                    | (2,568,184)           | 3,299,784             |
| Notes, affiliate                               | 1,037,930             | -                    | -                     | 1,037,930             |
| Other  | 4,968,116             | 574,291              | -                     | 5,542,407             |
| Inventories, supplies and materials            | 9,392,564             | 2,089,969            | -                     | 11,482,533            |
| Prepaid expenses and deposits                  | 3,768,127             | 673,203              | -                     | 4,441,330             |
| <b>Total current assets</b>                    | <b>131,028,570</b>    | <b>30,849,125</b>    | <b>(2,568,184)</b>    | <b>159,309,511</b>    |
| <b>Long-Term Receivables and Investments:</b>  |                       |                      |                       |                       |
| Affiliate notes                                | 14,639,185            | -                    | -                     | 14,639,185            |
| Investment in subsidiaries                     | 27,478,286            | 1,115,840            | -                     | 28,594,126            |
| Investments                                    | 14,099,552            | 275,845              | -                     | 14,375,397            |
|  | <b>56,217,023</b>     | <b>1,391,685</b>     | <b>-</b>              | <b>57,608,708</b>     |
| <b>Assets Limited as to Use:</b>               |                       |                      |                       |                       |
| Internally designated                          | 136,440,158           | -                    | -                     | 136,440,158           |
| Under bond indenture, funds held<br>by trustee | 13,192,694            | 663,166              | -                     | 13,855,860            |
| Interest in net assets of Foundation           | 6,855,025             | 744,305              | -                     | 7,599,330             |
| Donor restricted                               | 4,088,817             | -                    | -                     | 4,088,817             |
|  | <b>160,576,694</b>    | <b>1,407,471</b>     | <b>-</b>              | <b>161,984,165</b>    |
| Property and Equipment, net                    | <b>170,252,383</b>    | <b>36,461,493</b>    | <b>-</b>              | <b>206,713,876</b>    |
| <b>Other Assets:</b>                           |                       |                      |                       |                       |
| Bond issuance costs, net                       | 641,318               | 109,016              | -                     | 750,334               |
| Goodwill                                       | 820,444               | -                    | -                     | 820,444               |
| Other  | 951,264               | 9,729                | -                     | 960,993               |
|  | <b>2,413,026</b>      | <b>118,745</b>       | <b>-</b>              | <b>2,531,771</b>      |
|  | <b>\$ 520,487,696</b> | <b>\$ 70,228,519</b> | <b>\$ (2,568,184)</b> | <b>\$ 588,148,031</b> |

\* The Obligated Group includes Genesis Health System – Iowa (an Iowa nonprofit corporation) and Genesis Health System – Illinois (an Illinois not-for-profit corporation).

| Genesis Health Services Foundation | Illini Hospital Foundation | The Larson Center Partnership | GenVentures, Inc. | Genesis Health System Workers' Compensation Plan and Trust | Misericordia Assurance Company, Ltd. | Davenport SRS Leasing, LLC | Eliminations    | Total          |
|------------------------------------|----------------------------|-------------------------------|-------------------|--|--------------------------------------|----------------------------|-----------------|----------------|
| \$ 585,593                         | \$ 97,502                  | \$ 436,335                    | \$ 949,373        | \$ 932,075   | \$ 68,530                            | \$ 1,453,347               | \$ -            | \$ 58,099,247  |
| -                                  | -                          | -                             | 611,402           | -  | -                                    | -                          | -               | 1,355,211      |
| -                                  | -                          | -                             | 2,117,178         | -  | -                                    | -                          | -               | 81,302,404     |
| -                                  | -                          | -                             | -                 | -  | -                                    | 132,778                    | (3,432,562)     | -              |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | (1,037,930)     | -              |
| 162,755                            | 451                        | -                             | 806,663           | 2,047,043  | 4,015,694                            | -                          | -               | 12,575,013     |
| -                                  | -                          | -                             | 1,071,169         | -  | -                                    | -                          | -               | 12,553,702     |
| -                                  | -                          | -                             | 103,678           | -  | 6,149                                | -                          | -               | 4,551,157      |
| 748,348                            | 97,953                     | 436,335                       | 5,659,463         | 2,979,118  | 4,090,373                            | 1,586,125                  | (4,470,492)     | 170,436,734    |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | (14,639,185)    | -              |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | (28,594,126)    | -              |
| 2,985,972                          | 215,661                    | -                             | 1,046,000         | 11,603,232   | 22,595,435                           | -                          | -               | 52,821,697     |
| 2,985,972                          | 215,661                    | -                             | 1,046,000         | 11,603,232   | 22,595,435                           | -                          | (43,233,311)    | 52,821,697     |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | -               | 136,440,158    |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | -               | 13,855,860     |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | (6,945,198)     | 654,132        |
| 12,371,178                         | 744,305                    | -                             | -                 | -  | -                                    | -                          | -               | 17,204,300     |
| 12,371,178                         | 744,305                    | -                             | -                 | -  | -                                    | -                          | (6,945,198)     | 168,154,450    |
| 9,975                              | -                          | 2,423,347                     | 40,042,077        | -  | -                                    | 6,468,084                  | -               | 255,657,359    |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | -               | 750,334        |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | -               | 820,444        |
| -                                  | 81,670                     | -                             | 494,188           | -  | -                                    | -                          | -               | 1,536,851      |
| -                                  | 81,670                     | -                             | 494,188           | -  | -                                    | -                          | -               | 3,107,629      |
| \$ 16,115,473                      | \$ 1,139,589               | \$ 2,859,682                  | \$ 47,241,728     | \$ 14,582,350  | \$ 26,685,808                        | \$ 8,054,209               | \$ (54,649,001) | \$ 650,177,869 |

**Genesis Health System  
and Related Organizations**

**Consolidating Balance Sheet Information  
June 30, 2010**

| <b>Liabilities and Net Assets and Equity</b>   | GHS<br>Iowa           | GHS<br>Illinois      | Eliminations          | Obligated<br>Group *  |
|--|-----------------------|----------------------|-----------------------|-----------------------|
| <b>Current Liabilities:</b>  |                       |                      |                       |                       |
| Current maturities of long-term debt   | \$ 5,607,506          | \$ 603,902           | \$ -                  | \$ 6,211,408          |
| Accounts payable:  |                       |                      |                       |                       |
| Trade  | 15,449,669            | 2,221,990            | -                     | 17,671,659            |
| Affiliates   | -                     | 2,568,184            | (2,568,184)           | -                     |
| Accrued salaries and wages   | 12,613,689            | 405,933              | -                     | 13,019,622            |
| Accrued paid leave   | 13,528,706            | 2,050,675            | -                     | 15,579,381            |
| Due to third-party payors  | 679,427               | 2,103,440            | -                     | 2,782,867             |
| Unpaid losses and loss adjustment expenses   | -                     | -                    | -                     | -                     |
| Other accrued expenses   | 3,733,984             | 701,329              | -                     | 4,435,313             |
| <b>Total current liabilities</b>   | <b>51,612,981</b>     | <b>10,655,453</b>    | <b>(2,568,184)</b>    | <b>59,700,250</b>     |
| <br>Long-Term Debt, less current maturities  | <br>89,189,486        | <br>8,217,977        | <br>-                 | <br>97,407,463        |
| <br>Unpaid Losses and Loss Adjustment Expenses, Retirement<br>Benefits and Other Long-Term Liabilities | <br>36,963,405        | <br>590,785          | <br>-                 | <br>37,554,190        |
| <b>Total liabilities</b>   | <b>177,765,872</b>    | <b>19,464,215</b>    | <b>(2,568,184)</b>    | <b>194,661,903</b>    |
| <b>Net Assets and Equity:</b>  |                       |                      |                       |                       |
| Common stock   | -                     | -                    | -                     | -                     |
| Additional paid-in capital   | -                     | -                    | -                     | -                     |
| Retained earnings (deficit)  | -                     | -                    | -                     | -                     |
| Members and partners' equity   | -                     | -                    | -                     | -                     |
| Unrestricted   | 331,777,982           | 50,019,999           | -                     | 381,797,981           |
| Noncontrolling interest - unrestricted   | -                     | -                    | -                     | -                     |
| Temporarily restricted   | 10,943,842            | 711,000              | -                     | 11,654,842            |
| Permanently restricted   | -                     | 33,305               | -                     | 33,305                |
|  | <b>342,721,824</b>    | <b>50,764,304</b>    | <b>-</b>              | <b>393,486,128</b>    |
|  | <b>\$ 520,487,696</b> | <b>\$ 70,228,519</b> | <b>\$ (2,568,184)</b> | <b>\$ 588,148,031</b> |

\* The Obligated Group includes Genesis Health System – Iowa (an Iowa nonprofit corporation) and Genesis Health System – Illinois (an Illinois not-for-profit corporation).

| Genesis Health Services Foundation | Illini Hospital Foundation | The Larson Center Partnership | GenVentures, Inc. | Genesis Health System Workers' Compensation Plan and Trust | Misericordia Assurance Company, Ltd. | Davenport SRS Leasing, LLC | Eliminations    | Total          |
|------------------------------------|----------------------------|-------------------------------|-------------------|--|--------------------------------------|----------------------------|-----------------|----------------|
| \$ -                               | \$ -                       | \$ 418,905                    | \$ 1,143,515      | \$ -   | \$ -                                 | \$ 977,672                 | \$ (1,062,615)  | \$ 7,688,885   |
| 47,201                             | -                          | 11,429                        | 705,746           | 13,328   | 59,824                               | 3,106                      | -               | 18,512,293     |
| 765,936                            | 180,554                    | 16,846                        | 2,461,635         | 7,591  | -                                    | -                          | (3,432,562)     | -              |
| -                                  | -                          | -                             | 623,522           | -  | -                                    | -                          | -               | 13,643,144     |
| -                                  | -                          | -                             | 328,038           | -  | -                                    | -                          | -               | 15,907,419     |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | -               | 2,782,867      |
| -                                  | -                          | -                             | -                 | 5,413,418  | 8,488,583                            | -                          | -               | 13,902,001     |
| 665,178                            | 1,749                      | 239,924                       | 628,099           | -  | -                                    | -                          | -               | 5,970,263      |
| 1,478,315                          | 182,303                    | 687,104                       | 5,890,555         | 5,434,337  | 8,548,407                            | 980,778                    | (4,495,177)     | 78,406,872     |
| -                                  | 36,838                     | 686,565                       | 15,148,612        | -  | -                                    | 5,817,783                  | (14,614,500)    | 104,482,761    |
| -                                  | -                          | -                             | 21,440            | -  | 17,262,000                           | -                          | -               | 54,837,630     |
| 1,478,315                          | 219,141                    | 1,373,669                     | 21,060,607        | 5,434,337  | 25,810,407                           | 6,798,561                  | (19,109,677)    | 237,727,263    |
| -                                  | -                          | -                             | 1,000             | -  | 120,000                              | -                          | (121,000)       | -              |
| -                                  | -                          | -                             | 28,821,772        | -  | -                                    | -                          | (28,821,772)    | -              |
| -                                  | -                          | -                             | (2,641,651)       | -  | 755,401                              | -                          | 1,886,250       | -              |
| -                                  | -                          | 1,486,013                     | -                 | -  | -                                    | 1,255,648                  | (2,741,661)     | -              |
| 2,265,980                          | 176,143                    | -                             | -                 | 9,148,013  | -                                    | -                          | 755,401         | 394,143,518    |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | 448,656         | 448,656        |
| 10,752,925                         | 711,000                    | -                             | -                 | -  | -                                    | -                          | (6,911,893)     | 16,206,874     |
| 1,618,253                          | 33,305                     | -                             | -                 | -  | -                                    | -                          | (33,305)        | 1,651,558      |
| 14,637,158                         | 920,448                    | 1,486,013                     | 26,181,121        | 9,148,013  | 875,401                              | 1,255,648                  | (35,539,324)    | 412,450,606    |
| \$ 16,115,473                      | \$ 1,139,589               | \$ 2,859,682                  | \$ 47,241,728     | \$ 14,582,350  | \$ 26,685,808                        | \$ 8,054,209               | \$ (54,649,001) | \$ 650,177,869 |

**Genesis Health System  
and Related Organizations**

**Consolidating Statement of Operations and Changes in Net Assets Information  
Year Ended June 30, 2011**

|  | GHS<br>Iowa          | GHS<br>Illinois     | Eliminations       | Obligated<br>Group * |
|--|----------------------|---------------------|--------------------|----------------------|
| <b>Change in unrestricted net assets:</b>  |                      |                     |                    |                      |
| Unrestricted revenue:  |                      |                     |                    |                      |
| Net patient service revenue  | \$ 426,304,354       | \$ 90,335,398       | \$ (501,483)       | \$ 516,138,269       |
| Other service revenue, net   | -                    | 989,704             | -                  | 989,704              |
| Medical office building rental revenue   | -                    | -                   | -                  | -                    |
| Other revenue  | 15,172,870           | 2,920,434           | (665,367)          | 17,427,937           |
| <b>Total revenue</b>   | <b>441,477,224</b>   | <b>94,245,536</b>   | <b>(1,166,850)</b> | <b>534,555,910</b>   |
| Expenses:  |                      |                     |                    |                      |
| Salaries and wages   | 189,098,027          | 28,197,227          | -                  | 217,295,254          |
| Employee benefits  | 46,577,460           | 6,505,022           | (32,762)           | 53,049,720           |
| Contracted professionals and services  | 33,914,573           | 6,579,662           | (624,382)          | 39,869,853           |
| Supplies   | 76,034,429           | 14,001,709          | (157,973)          | 89,878,165           |
| Other expenses   | 41,209,292           | 23,481,509          | (351,733)          | 64,339,068           |
| Provision for bad debts  | 21,627,108           | 5,984,974           | -                  | 27,612,082           |
| Interest   | 4,262,725            | 445,255             | -                  | 4,707,980            |
| Depreciation and amortization  | 27,881,858           | 3,850,479           | -                  | 31,732,337           |
| <b>Total expenses</b>  | <b>440,605,472</b>   | <b>89,045,837</b>   | <b>(1,166,850)</b> | <b>528,484,459</b>   |
| <b>Operating income (loss)</b>   | <b>871,752</b>       | <b>5,199,699</b>    | <b>-</b>           | <b>6,071,451</b>     |
| Nonoperating gains and (losses):   |                      |                     |                    |                      |
| Interest and dividend income and realized gains (losses) on sales of investments                           | 6,863,056            | 359,948             | -                  | 7,223,004            |
| Current year change in unrealized gains on trading securities  | 18,563,225           | -                   | -                  | 18,563,225           |
| Other nonoperating income (expense)  | 573,724              | 322,515             | -                  | 896,239              |
| Excess of fair value over equity acquired for GenGastro, LLC   | 14,958,732           | -                   | -                  | 14,958,732           |
| <b>Nonoperating gains and (losses)</b>   | <b>40,958,737</b>    | <b>682,463</b>      | <b>-</b>           | <b>41,641,200</b>    |
| <b>Excess of revenue over (under) expenses before equity in net income of subsidiaries</b>                 | <b>41,830,489</b>    | <b>5,882,162</b>    | <b>-</b>           | <b>47,712,651</b>    |
| Equity in net income of subsidiaries   | 597,354              | 386,290             | -                  | 983,644              |
| <b>Excess of revenue over (under) expenses</b>   | <b>42,427,843</b>    | <b>6,268,452</b>    | <b>-</b>           | <b>48,696,295</b>    |
| Less excess of fair value over equity acquired for GenGastro, LLC attributable to noncontrolling interests | -                    | -                   | -                  | -                    |
| Less excess of revenue over expenses attributable to noncontrolling interests                              | -                    | -                   | -                  | -                    |
| <b>Excess of revenue over expenses attributable to Genesis Health System</b>                               | <b>42,427,843</b>    | <b>6,268,452</b>    | <b>-</b>           | <b>48,696,295</b>    |
| Consolidate GenGastro, LLC   | -                    | -                   | -                  | -                    |
| Excess of fair value over equity acquired for GenGastro, LLC attributable to noncontrolling interests      | -                    | -                   | -                  | -                    |
| Income associated with noncontrolling interests  | -                    | -                   | -                  | -                    |
| Distributions to noncontrolling interests  | -                    | -                   | -                  | -                    |
| Contributions to (from) affiliates for capital expenditures  | 2,511,419            | -                   | -                  | 2,511,419            |
| Net assets released from restrictions, for capital expenditures  | -                    | -                   | -                  | -                    |
| Change in unrecognized funded status of retirement plan  | 20,918,020           | -                   | -                  | 20,918,020           |
| <b>Increase (decrease) in unrestricted net assets</b>  | <b>65,857,282</b>    | <b>6,268,452</b>    | <b>-</b>           | <b>72,125,734</b>    |
| Change in temporarily restricted net assets:   |                      |                     |                    |                      |
| Contributions, investment income and other   | 44,928               | -                   | -                  | 44,928               |
| Net assets released from restrictions, used for operations   | -                    | -                   | -                  | -                    |
| Net assets released from restrictions, for capital expenditure   | -                    | -                   | -                  | -                    |
| Change in interest in net assets of Foundation   | 3,136,904            | (351,970)           | -                  | 2,784,934            |
| <b>Increase (decrease) in temporarily restricted net assets</b>  | <b>3,181,832</b>     | <b>(351,970)</b>    | <b>-</b>           | <b>2,829,862</b>     |
| Change in permanently restricted net assets,<br>contributions, investment income and other                 | -                    | 10,987              | -                  | 10,987               |
| <b>Increase (decrease) in net assets</b>   | <b>\$ 69,039,114</b> | <b>\$ 5,927,469</b> | <b>\$ -</b>        | <b>\$ 74,966,583</b> |

\* The Obligated Group includes Genesis Health System – Iowa (an Iowa nonprofit corporation) and Genesis Health System – Illinois (an Illinois not-for-profit corporation).

| Genesis Health Services Foundation | Illini Hospital Foundation | GenGastro, LLC | The Larson Center Partnership | GenVentures, Inc. | Genesis Health System Workers' Compensation Plan and Trust | Misericordia Assurance Company, Ltd. | Davenport SRS Leasing, LLC | Eliminations   | Total          |
|------------------------------------|----------------------------|----------------|-------------------------------|-------------------|--|--------------------------------------|----------------------------|----------------|----------------|
| \$ -                               | \$ -                       | \$ 3,150,642   | \$ -                          | \$ 237,200        | \$ -   | \$ -                                 | \$ -                       | \$ (4,484,681) | \$ 515,041,430 |
| -                                  | -                          | -              | -                             | 8,937,090         | -  | -                                    | 1,657,073                  | -              | 11,583,867     |
| -                                  | -                          | -              | 1,224,462                     | 8,087,520         | -  | -                                    | -                          | (7,840,527)    | 1,471,455      |
| 1,028,721                          | 459,746                    | -              | 303                           | 173,005           | 2,042,500  | 3,482,136                            | -                          | (10,564,151)   | 14,050,197     |
| 1,028,721                          | 459,746                    | 3,150,642      | 1,224,765                     | 17,434,815        | 2,042,500  | 3,482,136                            | 1,657,073                  | (22,889,359)   | 542,146,949    |
| 312,840                            | 104,809                    | 208,187        | -                             | 5,245,378         | -  | -                                    | -                          | -              | 223,166,468    |
| 43,629                             | 7,485                      | 117,329        | -                             | 1,150,340         | -  | -                                    | -                          | (2,431)        | 54,366,072     |
| 101,925                            | -                          | 96,010         | 109,595                       | 427,755           | 227,678  | -                                    | 10,716                     | -              | 40,843,532     |
| 64,503                             | 2,856                      | 113,584        | 1,747                         | 311,247           | -  | -                                    | -                          | (4,200,436)    | 86,171,666     |
| 1,384,312                          | 496,898                    | 382,247        | 362,518                       | 6,618,993         | 1,814,822  | 3,482,136                            | 363,769                    | (17,774,896)   | 61,469,867     |
| 37,592                             | -                          | -              | -                             | 142,350           | -  | -                                    | -                          | -              | 27,792,024     |
| 10,252                             | 2,847                      | 25             | 54,623                        | 951,300           | -  | -                                    | 487,953                    | (911,596)      | 5,303,384      |
| -                                  | -                          | 76,827         | 164,674                       | 3,112,800         | -  | -                                    | 1,092,039                  | -              | 36,178,677     |
| 1,955,053                          | 614,895                    | 994,209        | 693,157                       | 17,960,163        | 2,042,500  | 3,482,136                            | 1,954,477                  | (22,889,359)   | 535,291,690    |
| (926,332)                          | (155,149)                  | 2,156,433      | 531,608                       | (525,348)         | -  | -                                    | (297,404)                  | -              | 6,855,259      |
| 243,614                            | -                          | -              | -                             | 40,332            | 273,852  | -                                    | -                          | -              | 7,780,802      |
| 231,094                            | 121,113                    | -              | -                             | -                 | 93,292   | -                                    | -                          | -              | 19,008,724     |
| 437,647                            | 75,405                     | -              | -                             | (81,150)          | (740,731)  | -                                    | 1,461                      | -              | 588,871        |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | 9,806,732      | 24,765,464     |
| 912,355                            | 196,518                    | -              | -                             | (40,818)          | (373,587)  | -                                    | 1,461                      | 9,806,732      | 52,143,861     |
| (13,977)                           | 41,369                     | 2,156,433      | 531,608                       | (566,166)         | (373,587)  | -                                    | (295,943)                  | 9,806,732      | 58,999,120     |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | (983,644)      | -              |
| (13,977)                           | 41,369                     | 2,156,433      | 531,608                       | (566,166)         | (373,587)  | -                                    | (295,943)                  | 8,823,088      | 58,999,120     |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | (9,806,732)    | (9,806,732)    |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | (842,288)      | (842,288)      |
| (13,977)                           | 41,369                     | 2,156,433      | 531,608                       | (566,166)         | (373,587)  | -                                    | (295,943)                  | (1,825,932)    | 48,350,100     |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | 493,268        | 493,268        |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | 9,806,732      | 9,806,732      |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | 842,288        | 842,288        |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | (743,310)      | (743,310)      |
| (2,511,419)                        | -                          | -              | -                             | -                 | -  | -                                    | -                          | -              | -              |
| 2,511,419                          | -                          | -              | -                             | -                 | -  | -                                    | -                          | -              | 2,511,419      |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | -              | 20,918,020     |
| (13,977)                           | 41,369                     | 2,156,433      | 531,608                       | (566,166)         | (373,587)  | -                                    | (295,943)                  | 8,573,046      | 82,178,517     |
| 3,665,316                          | 106,157                    | -              | -                             | -                 | -  | -                                    | -                          | -              | 3,816,401      |
| (1,024,579)                        | (458,127)                  | -              | -                             | -                 | -  | -                                    | -                          | -              | (1,482,706)    |
| (2,511,419)                        | -                          | -              | -                             | -                 | -  | -                                    | -                          | -              | (2,511,419)    |
| -                                  | -                          | -              | -                             | -                 | -  | -                                    | -                          | (2,701,217)    | 83,717         |
| 129,318                            | (351,970)                  | -              | -                             | -                 | -  | -                                    | -                          | (2,701,217)    | (94,007)       |
| 241,326                            | 10,987                     | -              | -                             | -                 | -  | -                                    | -                          | (10,987)       | 252,313        |
| \$ 356,667                         | \$ (299,614)               | \$ 2,156,433   | \$ 531,608                    | \$ (566,166)      | \$ (373,587)   | \$ -                                 | \$ (295,943)               | \$ 5,860,842   | \$ 82,336,823  |

**Genesis Health System  
and Related Organizations**

**Consolidating Statement of Operations and Changes in Net Assets Information  
Year Ended June 30, 2010**

|   | GHS<br>Iowa          | GHS<br>Illinois     | Eliminations       | Obligated<br>Group * |
|---|----------------------|---------------------|--------------------|----------------------|
| <b>Change in unrestricted net assets:</b>   |                      |                     |                    |                      |
| Unrestricted revenue:   |                      |                     |                    |                      |
| Net patient service revenue   | \$ 436,040,490       | \$ 92,948,135       | \$ (467,309)       | \$ 528,521,316       |
| Other service revenue, net  | -                    | 1,203,532           | -                  | 1,203,532            |
| Medical office building rental revenue  | -                    | -                   | -                  | -                    |
| Other revenue   | 16,191,478           | 3,122,969           | (1,817,320)        | 17,497,127           |
| <b>Total revenue</b>  | <b>452,231,968</b>   | <b>97,274,636</b>   | <b>(2,284,629)</b> | <b>547,221,975</b>   |
| Expenses:   |                      |                     |                    |                      |
| Salaries and wages  | 181,201,160          | 27,997,968          | -                  | 209,199,128          |
| Employee benefits   | 44,938,904           | 6,426,016           | (32,756)           | 51,332,164           |
| Contracted professionals and services   | 36,800,610           | 6,432,764           | (634,477)          | 42,598,897           |
| Supplies  | 79,243,121           | 13,139,024          | (158,015)          | 92,224,130           |
| Other expenses  | 41,927,364           | 22,597,513          | (1,459,381)        | 63,065,496           |
| Provision for bad debts   | 27,401,892           | 7,990,850           | -                  | 35,392,742           |
| Interest  | 4,418,926            | 1,171,670           | -                  | 5,590,596            |
| Depreciation and amortization   | 28,953,192           | 3,647,575           | -                  | 32,600,767           |
| <b>Total expenses</b>   | <b>444,885,169</b>   | <b>89,403,380</b>   | <b>(2,284,629)</b> | <b>532,003,920</b>   |
| <b>Operating income (loss)</b>  | <b>7,346,799</b>     | <b>7,871,256</b>    | <b>-</b>           | <b>15,218,055</b>    |
| Nonoperating gains and (losses):  |                      |                     |                    |                      |
| Interest and dividend income and realized gains (losses) on sales of investments                  | 11,127,240           | 118,687             | -                  | 11,245,927           |
| Current year change in unrealized gains (losses) on trading securities                            | 12,491,900           | -                   | -                  | 12,491,900           |
| Other nonoperating income (expense)   | (237,087)            | (75,663)            | -                  | (312,750)            |
| Loss on extinguishment of debt  | (1,514,471)          | -                   | -                  | (1,514,471)          |
| <b>Nonoperating gains and (losses)</b>  | <b>21,867,582</b>    | <b>43,024</b>       | <b>-</b>           | <b>21,910,606</b>    |
| <b>Excess of revenue over (under) expenses before equity in net income (loss) of subsidiaries</b> | <b>29,214,381</b>    | <b>7,914,280</b>    | <b>-</b>           | <b>37,128,661</b>    |
| Equity in net income (loss) of subsidiaries   | (358,454)            | 325,997             | -                  | (32,457)             |
| <b>Excess of revenue over (under) expenses</b>  | <b>28,855,927</b>    | <b>8,240,277</b>    | <b>-</b>           | <b>37,096,204</b>    |
| Less excess of revenue over expenses attributable to noncontrolling interests                     | -                    | -                   | -                  | -                    |
| <b>Excess of revenue over (under) expenses attributable to Genesis Health System</b>              | <b>28,855,927</b>    | <b>8,240,277</b>    | <b>-</b>           | <b>37,096,204</b>    |
| Income associated with noncontrolling interests   | -                    | -                   | -                  | -                    |
| Distributions to noncontrolling interests   | -                    | -                   | -                  | -                    |
| Transfers (to) from related organizations   | 146,142              | (146,142)           | -                  | -                    |
| Change in unrecognized funded status of retirement plan   | (13,457,401)         | -                   | -                  | (13,457,401)         |
| <b>Increase (decrease) in unrestricted net assets</b>   | <b>15,544,668</b>    | <b>8,094,135</b>    | <b>-</b>           | <b>23,638,803</b>    |
| Change in temporarily restricted net assets:  |                      |                     |                    |                      |
| Contributions, investment income and other  | (97,344)             | -                   | -                  | (97,344)             |
| Net assets released from restrictions, used for operations  | -                    | -                   | -                  | -                    |
| Change in interest in net assets of Foundation  | 765,932              | 38,614              | -                  | 804,546              |
| <b>Increase in temporarily restricted net assets</b>  | <b>668,588</b>       | <b>38,614</b>       | <b>-</b>           | <b>707,202</b>       |
| Change in permanently restricted net assets,<br>contributions, investment income and other        |                      |                     |                    |                      |
|   | -                    | 11,305              | -                  | 11,305               |
| <b>Increase (decrease) in net assets</b>  | <b>\$ 16,213,256</b> | <b>\$ 8,144,054</b> | <b>\$ -</b>        | <b>\$ 24,357,310</b> |

\* The Obligated Group includes Genesis Health System – Iowa (an Iowa nonprofit corporation) and Genesis Health System – Illinois (an Illinois not-for-profit corporation).

| Genesis Health Services Foundation | Illini Hospital Foundation | The Larson Center Partnership | GenVentures, Inc. | Genesis Health System Workers' Compensation Plan and Trust | Misericordia Assurance Company, Ltd. | Davenport SRS Leasing, LLC | Eliminations   | Total          |
|------------------------------------|----------------------------|-------------------------------|-------------------|--|--------------------------------------|----------------------------|----------------|----------------|
| \$ -                               | \$ -                       | \$ -                          | \$ -              | \$ -   | \$ -                                 | \$ -                       | \$ (4,398,607) | \$ 524,122,709 |
| -                                  | -                          | -                             | 9,969,149         | -  | -                                    | 1,854,425                  | -              | 13,027,106     |
| -                                  | -                          | 1,144,495                     | 7,730,618         | -  | -                                    | -                          | (7,474,969)    | 1,400,144      |
| 1,207,699                          | 41,106                     | -                             | 154,098           | 1,974,849  | 6,662,546                            | -                          | (8,047,047)    | 19,490,378     |
| 1,207,699                          | 41,106                     | 1,144,495                     | 17,853,865        | 1,974,849  | 6,662,546                            | 1,854,425                  | (19,920,623)   | 558,040,337    |
| 319,340                            | 96,521                     | -                             | 5,144,388         | -  | -                                    | -                          | -              | 214,759,377    |
| 43,015                             | 7,074                      | -                             | 1,167,070         | -  | -                                    | -                          | (2,574)        | 52,546,749     |
| 64,071                             | -                          | 103,690                       | 521,860           | 170,798  | -                                    | 62,067                     | -              | 43,521,383     |
| 87,430                             | 1,362                      | 4,247                         | 343,662           | -  | -                                    | -                          | (4,252,833)    | 88,407,998     |
| 1,334,633                          | 73,470                     | 345,533                       | 6,731,701         | 1,804,051  | 6,662,546                            | 342,371                    | (15,561,188)   | 64,798,613     |
| (1,577)                            | -                          | -                             | 391,604           | -  | -                                    | -                          | -              | 35,782,769     |
| 11,201                             | 3,145                      | 86,928                        | 1,151,406         | -  | -                                    | 560,005                    | (227,110)      | 7,176,171      |
| -                                  | -                          | 159,765                       | 3,010,299         | -  | -                                    | 1,090,446                  | -              | 36,861,277     |
| 1,858,113                          | 181,572                    | 700,163                       | 18,461,990        | 1,974,849  | 6,662,546                            | 2,054,889                  | (20,043,705)   | 543,854,337    |
| (650,414)                          | (140,466)                  | 444,332                       | (608,125)         | -  | -                                    | (200,464)                  | 123,082        | 14,186,000     |
| (172,299)                          | 1,437                      | 609                           | 16,323            | 344,023  | -                                    | -                          | (227,110)      | 11,208,910     |
| 660,445                            | 106,403                    | -                             | -                 | 400,181  | -                                    | -                          | -              | 13,658,929     |
| 174,942                            | 37,847                     | -                             | 298,431           | -  | -                                    | 3,907                      | 104,028        | 306,405        |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | -              | (1,514,471)    |
| 663,088                            | 145,687                    | 609                           | 314,754           | 744,204  | -                                    | 3,907                      | (123,082)      | 23,659,773     |
| 12,674                             | 5,221                      | 444,941                       | (293,371)         | 744,204  | -                                    | (196,557)                  | -              | 37,845,773     |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | 32,457         | -              |
| 12,674                             | 5,221                      | 444,941                       | (293,371)         | 744,204  | -                                    | (196,557)                  | 32,457         | 37,845,773     |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | 12,530         | 12,530         |
| 12,674                             | 5,221                      | 444,941                       | (293,371)         | 744,204  | -                                    | (196,557)                  | 44,987         | 37,858,303     |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | (12,530)       | (12,530)       |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | (739,298)      | (739,298)      |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | -              | -              |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | -              | (13,457,401)   |
| 12,674                             | 5,221                      | 444,941                       | (293,371)         | 744,204  | -                                    | (196,557)                  | (706,841)      | 23,649,074     |
| 2,457,502                          | 80,249                     | -                             | -                 | -  | -                                    | -                          | -              | 2,440,407      |
| (916,912)                          | (41,635)                   | -                             | -                 | -  | -                                    | -                          | -              | (958,547)      |
| -                                  | -                          | -                             | -                 | -  | -                                    | -                          | (743,379)      | 61,167         |
| 1,540,590                          | 38,614                     | -                             | -                 | -  | -                                    | -                          | (743,379)      | 1,543,027      |
| (214,302)                          | 11,305                     | -                             | -                 | -  | -                                    | -                          | (11,305)       | (202,997)      |
| \$ 1,338,962                       | \$ 55,140                  | \$ 444,941                    | \$ (293,371)      | \$ 744,204   | \$ -                                 | \$ (196,557)               | \$ (1,461,525) | \$ 24,989,104  |