E-008-15

ORIGINAL

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

RECEIVED

AUG 17 2015

HEALTH FACILITIES & SERVICES REVIEW BOARD

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name Valley West Community Hospital
Address 1302 North Main Street
City Sandwich Zip Code 60548 County DeKalb
Name of current licensed entity for the facility Valley West Community Hospital
Does the current licensee: own this facility X OR lease this facility ____ (if leased, check if sublease □)
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____
Illinois State Senator for the district where the facility is located: Sen. Tim Bivins
State Senate District Number 45 Mailing address of the State Senator
50 West Douglas, Freeport, IL 61032
Illinois State Representative for the district where the facility is located: Rep. Tom Demmer
State Representative District Number 90 Mailing address of the State Representative
1221 Currency Court, Suite B, Rochelle, IL 61068

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

3. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant See Attachment Response 3
Address ____
City, State & Zip Code ____
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
____ Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

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

Exact Legal Name of Entity to be Licensed Valley West Community Hospital
Address 1302 North Main Street
City, State & Zip Code Sandwich, IL 60548
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

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

Exact Legal Name of Entity That Will Own the Site Valley West Community Hospital
Address 1302 North Main Street
City, State & Zip Code Sandwich, IL 60548
Type of ownership of the current licensed entity (check one of the following:) ____ Sole Proprietorship
X Not-for-Profit Corporation ____ For Profit Corporation ____ Partnership ____ Governmental
____ Limited Liability Company ____ Other, specify ____

6. **TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:**
   - o Purchase resulting in the issuance of a license to an entity different from current licensee;
   - o Lease resulting in the issuance of a license to an entity different from current licensee;
   - o Stock transfer resulting in the issuance of a license to a different entity from current licensee;
   - o Stock transfer resulting in no change from current licensee;
   - o Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
   - o Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
   - o Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
   - ✓ Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
   - o Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
   - o Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
   - o Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"

7. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for $2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**

8. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2.**

9. **ANTICIPATED ACQUISITION PRICE: $** See Attachment Response 9

10. **FAIR MARKET VALUE OF THE FACILITY: $** See Attachment Response 10
(to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION:** December 31, 2015

12. **NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3**.

13. **BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Limited Liability Companies and Partnerships must provide the name and address of each partner/ member and specify the percentage of ownership of each. Append this information to the application as **ATTACHMENT #4**.

14. **TRANSACTION DOCUMENTS.** Provide a copy of the complete transaction document(s) including schedules and exhibits which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities and Services Review Board. Append this document(s) to the application as **ATTACHMENT #5**.

15. FINANCIAL STATEMENTS. (Co-applicants must also provide this information) Provide a copy of the applicants latest audited financial statements, and append it to this application as ATTACHMENT #6. If the applicant is a newly formed entity and financial statements are not available, please indicate by checking YES ____ , and indicate the date the entity was formed _____

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

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

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

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

18. **CERTIFICATION**

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

Signature of Authorized Officer See Attachment Reponse 18

Typed or Printed Name of Authorized Officer _____

Title of Authorized Officer: _____

Address: _____

City, State & Zip Code: _____

Telephone (_____)_____ Date: _____

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

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

Attachment Response 2

3a. NAME OF APPLICANT

Exact Legal Name of Applicant Northwestern Memorial HealthCare

Address 251 East Huron Street

City, State & Zip Code Chicago, IL 60611

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

3b. NAME OF APPLICANT

Exact Legal Name of Applicant KishHealth System

Address 1 Kish Hospital Drive

City, State & Zip Code DeKalb, IL 60115

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

3c. NAME OF APPLICANT

Exact Legal Name of Applicant Valley West Community Hospital

Address 1302 North Main Street

City, State & Zip Code Sandwich, IL 60548

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

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

The proposed transaction will not affect the licensee's status as the licensee/operating entity of the facility.

Exact Legal Name of Entity to be Licensed Valley West Community Hospital

Address 1302 North Main Street

City, State & Zip Code Sandwich, IL 60548

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

Attachment Response 4

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

The proposed transaction will not affect the building ownership of Valley West Community Hospital.

Exact Legal Name of Entity to be Licensed Valley West Community Hospital

Address 1302 North Main Street

City, State & Zip Code Sandwich, IL 60548

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

Attachment Response 5

6. TRANSACTION TYPE.

In the proposed transaction, Northwestern Memorial HealthCare (NMHC) will become the sole corporate member of KishHealth System (KishHealth). As such, NMHC will have the power and authority to govern, direct, and oversee the property, funds, business, and affairs of KishHealth. The transaction will constitute an indirect change of control of KishHealth's existing health care facilities, and therefore a change of ownership of the licensees (as defined in 77 IAC §1130.140).

NORTHWESTERN MEMORIAL HEALTHCARE
541 N. Fairbanks Ct., 16th Floor
Chicago, Illinois 60611

DATE: August 10, 2015
TRACE NUMBER: 5546621119301
CHECK NUMBER: 119301
AMOUNT PAID: $2,500.00

00004 CKS 6B 15219 - 0000119301 YNNNNNNNNNNN 21951000059D1 X375A1 C
ILLINOIS DEPT OF PUBLIC HEALTH
525 WEST JEFFERSON ST. 2ND FL.
SPRINGFIELD IL 62761

VENDOR NO: 0000005878

INVOICE NO.	INVOICE DATE	VOUCHER	GROSS AMOUNT	DISCOUNT	NET AMOUNT
250000080615B	08/06/15	00011720	$2,500.00	$0.00	$2,500.00
VALLEY WEST COMM HOSPITAL EXEMPTION					
		TOTALS	**$2,500.00**	**$0.00**	**$2,500.00**

PLEASE DETACH BEFORE DEPOSITING CHECK

Northwestern Memorial® HealthCare
NORTHWESTERN MEMORIAL HEALTHCARE
541 N. Fairbanks Ct., 16th Floor
Chicago, Illinois 60611

CHECK NUMBER 119301

2-1
710

August 10, 2015

PAY TO THE ORDER OF: **ILLINOIS DEPT OF PUBLIC HEALTH**
525 WEST JEFFERSON ST. 2ND FL.
SPRINGFIELD, IL 62761

CHECK AMOUNT
$2,500.00

EXACTLY *********2,500 DOLLARS AND 00 CENTS

Security features included. Details on back.

JPMorgan Chase Bank, N.A.
Chicago, Illinois

John A Osmo

ATTACHMENT #1
Attachment Response 7

⑈119301⑈ ⑆071000013⑆ 5546621⑈

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

NOT APPLICABLE

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

ATTACHMENT #2
Attachment Response 8

9. ANTICIPATED ACQUISTION PRICE.

There is no anticipated acquisition price for this transaction; however, as of the closing, there will be a fund created with the unrestricted net cash position of the KishHealth System at closing. This fund will be used exclusively to support the mission of KishHealth and benefit the health care needs of KishHealth's geographic service area.

10. FAIR MARKET VALUE OF THE FACILITY.

In June, 2015, NMHC and KishHealth engaged Principle Valuation, LLC to perform a business enterprise valuation of KishHealth. A business enterprise value range was determined for KishHealth using two primary appraisal approaches: 1) Income (Discounted Cash Flow), 2) Market (Guidline Company and Guideline Transaction). Based on a weighted average of the two above methodologies, the business enterprise value, net of long-term liabilities, of KishHealth was concluded to be in the range of $329.1 million to $362.4 million.

Attachment Response 10

APPRAISAL REPORT

KISHHEALTH SYSTEM AND SUBSIDIARIES
DEKALB, ILLINOIS

SUBMITTED TO:
NORTHWESTERN MEMORIAL HEALTHCARE
ATTENTION: MR. DOUGLAS M. YOUNG
VICE PRESIDENT FINANCE
541 N. FAIRBANKS COURT, SUITE 1634
CHICAGO, ILLINOIS 60611

Attachment Response 10

Principle Valuation, LLC

PEOPLE AND VALUES YOU CAN TRUST

August 7, 2015

Northwestern Memorial Healthcare
541 N. Fairbanks Court, Suite 1634
Chicago, Illinois 60611

Attention: Mr. Douglas M. Young
Vice President, Finance

Re: KishHealth System Business Enterprise Valuation

Ladies and Gentlemen:

At your request, the following is an Appraisal Report which estimates the market value of the business enterprise known as KishHealth System ("Subject" or "Healthcare System" or "KishHealth"). The date of our value for this analysis is July 1, 2015. We have been provided financial data for the subject as of April 30, 2015.

KishHealth and Northwestern Memorial Health Care ("NMHC") agreed in May 2015 to explore an Affiliation of KishHealth with NMHC. Pursuant to this transaction we have prepared this appraisal analysis to assist KishHealth and NMHC with regard to determining the overall business enterprise value of the KishHealth System. We understand that our findings may be presented to various State/Federal regulatory agencies in order to facilitate the Affiliation of the Subject with NMHC.

For purpose of our analysis the following definition applies.

Market Value, as defined by Title XI of the Federal Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and the Uniform Standards of Professional Appraisal Practice, 2014-15 Edition, is as follows:

> "...the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:
>
> - Buyer and seller are typically motivated;
> - Both parties are well informed or well advised, and acting in what they consider their own best interest;
> - A reasonable time is allowed for exposure in the open market;

- Payment is made in terms of cash in U.S. Dollars or in term of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

In conducting our analysis we specifically considered the Income (DCF) and Market (Guideline Company & Guideline Transaction) Approaches to value. This appraisal is subject to the definitions of value, assumptions and limiting conditions, and certifications in the attached report.

Descriptions of the Subject, together with the sources of information and the bases of our estimates, are stated in the accompanying sections of this report.

Based upon the results of our analysis, the market value of the business enterprise of KishHealth, as of July 1, 2015, is reasonably represented in the following market value range:

$410,000,000 to $443,300,000

The Overall Enterprise currently has Long-Term Liabilities of $80,934,948. Subtracting the value of the Long-Term Liabilities from the value of the business enterprise would result in an equity or Fund Balance (Restricted and Unrestricted) value of:

$329,100,000 to $362,400,000

This appraisal has been prepared in conformance with the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Foundation, Title XI of the Federal Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), and The Code of Ethics of the Appraisal Institute.

Respectfully Submitted,

PRINCIPLE VALUATION, LLC

Principle Valuation LLC

PV15.1657

SUMMARY OF IMPORTANT DATA AND CONCLUSIONS

Name/Location	KishHealth System – 2 hospitals: Kishwaukee Hospital 1 Kish Hospital Drive DeKalb, Illinois 60115 Valley West Hospital 1302 N. Main Street Sandwich, Illinois 60548
Property Type:	Regional Healthcare System
Property Rights Appraised:	Business Enterprise Value
Valuation Date:	July 1, 2015 (Based upon April 30, 2015 Balance Sheet)
Beds:	123 Hospital beds (98 Kishwaukee Hospital//25 Valley West Hospital)

Attachment Response 10

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SECTION 1. INTRODUCTION

IDENTIFICATION OF THE SUBJECT PROPERTY

KishHealth, based in DeKalb, Illinois, is a community-owned health system with facilities in DeKalb, Sandwich, Sycamore, Plano, Genoa, Hampshire, Waterman, and Rochelle, including the Physician Group, a multi-specialty practice with over 40 healthcare providers with several office locations.

Kishwaukee Hospital, located in DeKalb, is a 98-bed replacement hospital that opened in October 2007. Valley West Hospital, a critical access hospital in Sandwich, became part of the health system in 1998. Valley West Hospital has 25 beds. In addition to the two hospitals, the health system provides hospice, home health, behavioral health, and cancer care services.

In 2011, the Joint Center opened at Kishwaukee Hospital, and in 2013, a Spine Center was added. Also in 2013, a new patient wing was opened at Valley West Hospital.

KishHealth is comprised of entities to promote and encourage health and human service in the communities it serves. The following is a list of the Corporations that comprise KishHealth, their corporate status, and primary business goal.

- Kishwaukee Hospital is a not-for-profit organization that provides comprehensive health care services, including inpatient acute and nonacute care and various outpatient services to residents of DeKalb County, Illinois and surrounding areas. Kishwaukee Hospital owns a 74.5% interest in Midlands Surgical Center, LLC ("MSC"), a for-profit entity.

- Valley West Hospital is a Critical Access Hospital and a not-for-profit organization that provides comprehensive health care services including inpatient acute and nonacute care and various outpatient services, to residents of DeKalb, Kendall, and LaSalle counties of Illinois and surrounding areas.

- KishHealth System Foundation is a not-for-profit organization that raises funds to support and provide benefits to the System and other not-for-profit corporations involved in the health and education of the community.

- KishHealth System Physician Group, Inc. is a not-for-profit organization that was formed in fiscal year 2012 for the purpose of providing employment of physicians within the health system.

- KishHealth System Hospice, formerly known as DeKalb County Hospice is a not-for-profit organization that provides a program of supportive care for the terminally ill and their families in DeKalb County and surrounding areas.

- KishHealth System Center for Family Health Malta is a not-for-profit organization that was formed in fiscal year 2013 in cooperation with the community and the System to provide primary care services to the poor, uninsured and general public of the community.

- KishHealth System Home Care is a not-for-profit organization that was purchased from DeKalb County in fiscal year 2013. KishHealth System Home Care provides skilled nursing, physical therapy, occupational therapy, speech therapy, and social services in the home.

- Health Progress, Inc. ("HPI") is a for-profit organization that operates a physician clinic in Waterman. HPI also invests in healthcare related services and property.

  - HPI has a 51% equity interest in the following entities:
    - Illinois Regional Cancer Center which provides outpatient radiation treatment to the DeKalb community and surrounding areas.
    - Health Ventures, LLC which provides management and rental of a medical office building.
  - HPI has a 30% equity interest in the following entities:
    - MRI Associates d/b/a DeKalb Magnetic Resonance Center which provides MRI services to the Sandwich community.
    - Midlands Surgical Center Capital Assets, LLC which owns the building associated with Midlands Surgical Center, LLC (a surgery center owned 74.5% by KishHealth)
    - Midlands Surgical Center Land Company, LLC which owns the land associated with Midlands Surgical Center, LLC

PROPERTY OWNERSHIP AND THREE-YEAR SALES HISTORY

While the system has sold various assets over the course of the prior three years there have been no sales of the entire systems assets in the prior three years.

PURPOSE AND INTENDED USE

The purpose of this appraisal is to provide the client with an estimate of the Market Value of the business enterprise of KishHealth for presentation to various State/Federal regulatory agencies in order to facilitate the affiliation of the Subject with NMHC. Its use for any other purpose or valuation date may invalidate the appraisal. The intended user of this report is KishHealth System, Northwestern Memorial Health Care and State/Federal regulatory bodies. The use of this report by any other user may invalidate the appraisal.

EFFECTIVE DATE OF VALUE

The effective date of value is July 1, 2015. We have not made a direct physical inspection of the properties owned by the Subject. We have discussed with management the general conditions and assets owned by KishHealth and assume that the assets are in good and operational condition to meet all regulatory guidelines and consistent with a hospital system of this size and nature.

EXTRAORDINARY ASSUMPTIONS

According to the *Uniform Standards of Professional Appraisal Practice* (USPAP), 2014-2015 Edition, an extraordinary assumption is "an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions."

There are no extraordinary assumptions.

HYPOTHETICAL CONDITIONS

According to the *Uniform Standards of Professional Appraisal Practice* (USPAP), 2014-2015 Edition, a hypothetical condition is "a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis."

There are no hypothetical conditions.

TYPE AND DEFINITION OF VALUE

Market Value, as defined by Title XI of the Federal Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and the Uniform Standards of Professional Appraisal Practice, 2014-15 Edition, is as follows:

> "...the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:
>
> - Buyer and seller are typically motivated;
> - Both parties are well informed or well advised, and acting in what they consider their own best interest;
> - A reasonable time is allowed for exposure in the open market;
> - Payment is made in terms of cash in U.S. Dollars or in term of financial arrangements comparable thereto; and

- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

SCOPE OF WORK

Standards Rule 2-2a (vii) of USPAP requires that each written real property appraisal report must describe the scope of work used to develop the appraisal. The report is an Appraisal Report that complies with the reporting requirements set forth in Standards Rule 2-2a of the Uniform Standards of Professional Appraisal Practice.

We have investigated various macroeconomic indicators relative to the market area to determine the strengths and weaknesses of the economy as it affects the value of the subject.

Specifically we have undergone the following appraisal steps in determining our value estimates:

- We have been provided and analyzed financial and operating information for the Subject for periods ended April 30, 2013, April 30, 2014, and April 30, 2015.
- We have been provided with management's budget for the fiscal year ended April 30, 2016.
- We have been provided by management the capital expenditure budget through fiscal 2020.
- We have been provided the April 30, 2015 Balance Sheet and we have relied upon the balances as stated in this balance sheet to be representative of their current value as appropriate.
- We have not independently verified the value any current assets or current liabilities and believe that these values to be stated at their market value on the April 30, 2015 Balance Sheet provided.
- We have not independently verified the value of any Noncurrent Assets Limited As to Use, Restricted Pledges, or Long and Short-Term Investments as stated on the April 30, 2015 balance sheet and have utilized the balances on the April 30, 2015 balance sheet as being reflective of their market value.
- Operating Investments and Joint Ventures are embedded in our overall value of the Operating Assets.
- All liabilities of the Corporation have been assumed to be as stated on the April 30, 2015 balance sheet.
- We have reviewed the historical operations and the forecasts provided to us and have relied upon the financial operating forecasts to be a reasonable estimate for future operations.
- We have utilized public and private data for research of comparable hospital transactions in the region and on a national level.

- We have utilized nationally recognized data sources to abstract out comparable investment rates of return for similar operations.

The data have been examined and analyzed through the use of the two primary appraisal approaches: Income (Discounted Cash Flow) and Market (Guideline Company and Guideline Transaction). The Cost Approach also known as the Adjusted Book Value Approach was not utilized in this analysis as a segregated value estimate for each component of the enterprise was not required under this engagement. Investors in this property primarily rely upon the methods utilized in our analysis to derive an overall market value for similar properties and, as such, we do not believe that our results would be substantially different should this approach have been developed.

This appraisal has addressed no issues of law, engineering, code conformance, insect or rodent infestation, or contamination by or discharge of asbestos or other hazardous materials, unless specifically identified in the body of the report. The appraisal has accordingly been completed under the assumptions and limiting conditions and the certifications presented in this report.

COMPETENCY STATEMENT

Principle Valuation, LLC, specializes in the valuation of healthcare and senior living properties. We are competent in the appraisal of acute care hospitals, medical office buildings, skilled nursing facilities, assisted living residences, independent living communities, Continuing Care Retirement Communities (CCRCs), office buildings, behavioral health (psychiatric), and rehabilitation hospitals, as delineated in the professional qualifications provided in this report.

PROPERTY INTEREST APPRAISED

For this analysis we have developed a value of the Subject's business enterprise. Business Enterprise is defined as the combination of tangible assets and intangible assets of a continuing business. Alternatively, is equivalent to the invested capital of the business, that is, the combination of the value the stockholders' equity and long-term debt.

EXPOSURE TIME

Exposure time is a retrospective estimate of time a property would have been on the market to sell before the effective appraisal date for the appraised value. This estimate assumes a competitive market, which includes an adequate and reasonable effort. Based upon our knowledge of the industry and market conditions, the estimated exposure time for the subject is 12 to 18 months.

SECTION 2. GENERAL DESCRIPTIVE; AREA AND INDUSTRY DATA

IDENTIFICATION OF THE SUBJECT PROPERTY

KishHealth, based in DeKalb, Illinois, is a community-owned health system with facilities in DeKalb, Sandwich, Sycamore, Plano, Genoa, Hampshire, Waterman, and Rochelle, including the Physician Group, a multi-specialty practice with over 40 healthcare providers with several office locations.

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- KishHealth System Foundation is a not-for-profit organization that raises funds to support and provide benefits to the System and other not-for-profit corporations involved in the health and education of the community.

- KishHealth System Physician Group, Inc. is a not-for-profit organization that was formed in fiscal year 2012 for the purpose of providing employment of physicians within the health system.

- KishHealth System Hospice, formerly known as DeKalb County Hospice is a not-for-profit organization that provides a program of supportive care for the terminally ill and their families in DeKalb County and surrounding areas.

- KishHealth System Center for Family Health Malta is a not-for-profit organization that was formed in fiscal year 2013 in cooperation with the community and the System to provide primary care services to the poor, uninsured and general public of the community.

- KishHealth System Home Care is a not-for-profit organization that was purchased from DeKalb County in fiscal year 2013. KishHealth System Home Care provides skilled nursing, physical therapy, occupational therapy, speech therapy, and social services in the home.

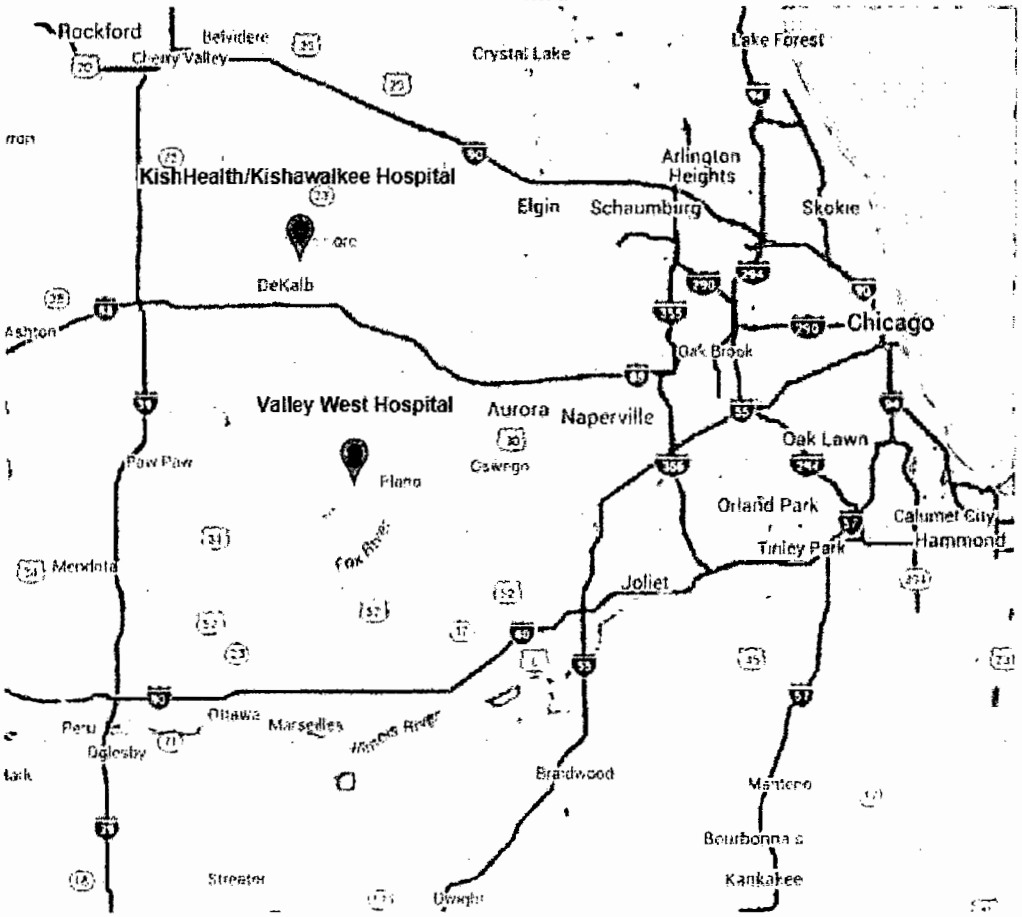
- Health Progress, Inc. ("HPI") is a for-profit organization that operates a physician clinic in Waterman. HPI also invests in healthcare related services and property.

  - HPI has a 51% equity interest in the following entities:
    - Illinois Regional Cancer Center which provides outpatient radiation treatment to the DeKalb community and surrounding areas.
    - Health Ventures, LLC which provides management and rental of a medical office building.
  - HPI has a 30% equity interest in the following entities:
    - MRI Associates d/b/a DeKalb Magnetic Resonance Center which provides MRI services to the Sandwich community.
    - Midlands Surgical Center Capital Assets, LLC which owns the building associated with Midlands Surgical Center, LLC (a surgery center owned 74.5% by KishHealth)
    - Midlands Surgical Center Land Company, LLC which owns the land associated with Midlands Surgical Center, LLC

AREA ANALYSIS

KishHealth System is located approximately 70 miles west of Chicago, IL and 30 miles west of Aurora, IL in the city of DeKalb, IL at 1 Kish Hospital Drive, in the county of DeKalb.

AREA MAP



DEMOGRAPHICS

DEKALB COUNTY

As of the census of 2013, there were 104,741 people, 38,484 households, and 23,781 families residing in the county.

In the city the population was spread out with 13.2% under the age of 18 and 4.5% over the age of 65. The median age in DeKalb County is 29.3.

The median income for a household in the county was $54,002, and the median income for a family was $70,713. The per capita income for the county was $24,179.

TRANSPORTATION

KishHealth System located has many transportation options. Interstate 88 (I-88) is the nearest

major roadway, approximately 2 miles south of the main facility. I-88 runs east/west and is a toll way connecting Chicago with 1-80 at Moline, IL. Interstate 90 (I-90), another major east west highway is about 12 miles north. Running somewhat parallel to I-90, United States Routes 64, 20 and others also easily accessible.

The residents of DeKalb County are provided public transportation by way of Trans-Vac which provides transportation for local businesses and activities within DeKalb County. Trans-VAC has two routes (green line and blue line) that runs Monday thru Friday, offering evening hours for individuals with special needs. Fares for the Trans-Vac are $.50 and children under 5, senior citizens and persons with disabilities and Medicare cardholders ride free.

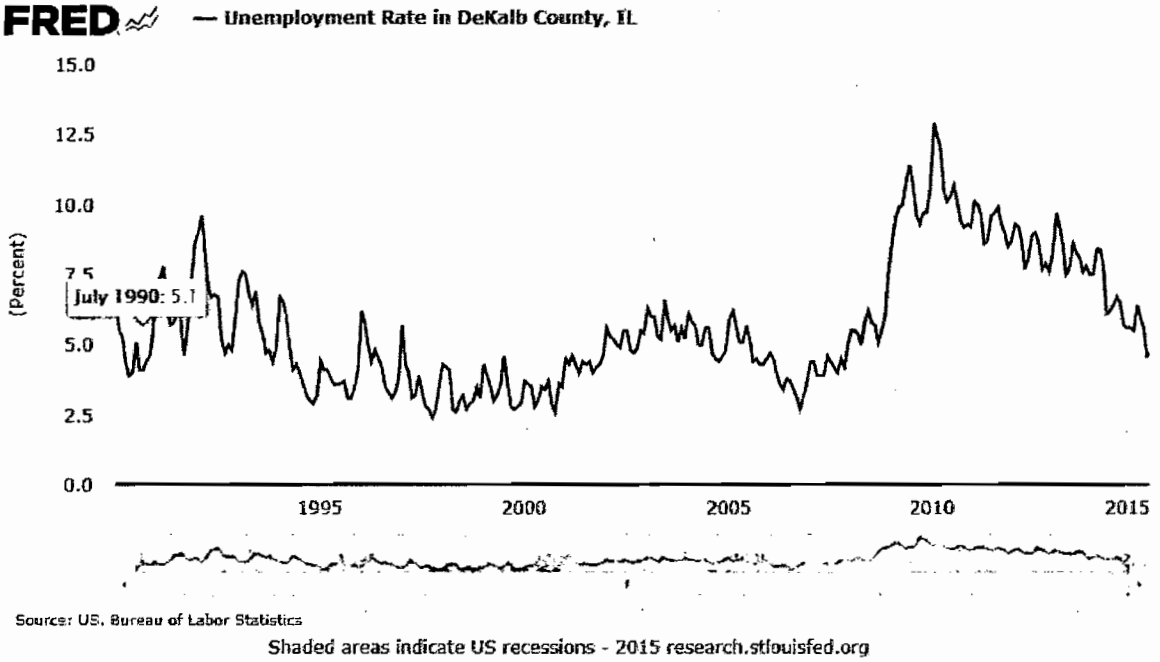
The closest international airport is O'Hare International Airport (ORD), approximately 60 miles (a one hour drive) from DeKalb County. O'Hare International Airport is serviced by most major carriers.

AREA ECONOMY

The area is the home of Northern Illinois University which is the number one employer in DeKalb. Other top employers within DeKalb County are KishHealth System, DeKalb School District, Kishwaukee College, 3M, DeKalb County Government, Sycamore School District, Target Distribution Center, Wal-Mart and Ideal Industries.

Employer	Product or Service	Employment
Northern Illinois University	Education – University	7,395
KishHealth System	Hospital	1,573
DeKalb School District	Education	885
Kiswaukee College	Education	550
3M	Distribution Center	538
DeKalb County Government	County/Government	525
Sycamore School District	Education	515
Target Distribution Center	Distribution Center	435
Wal-Mart Super Center	Retail	400
Ideal Industries	Electrical Contractor/Tools	335

The unemployment rate in DeKalb fell to 4.6% which is down from the 8.4% in January 2015.

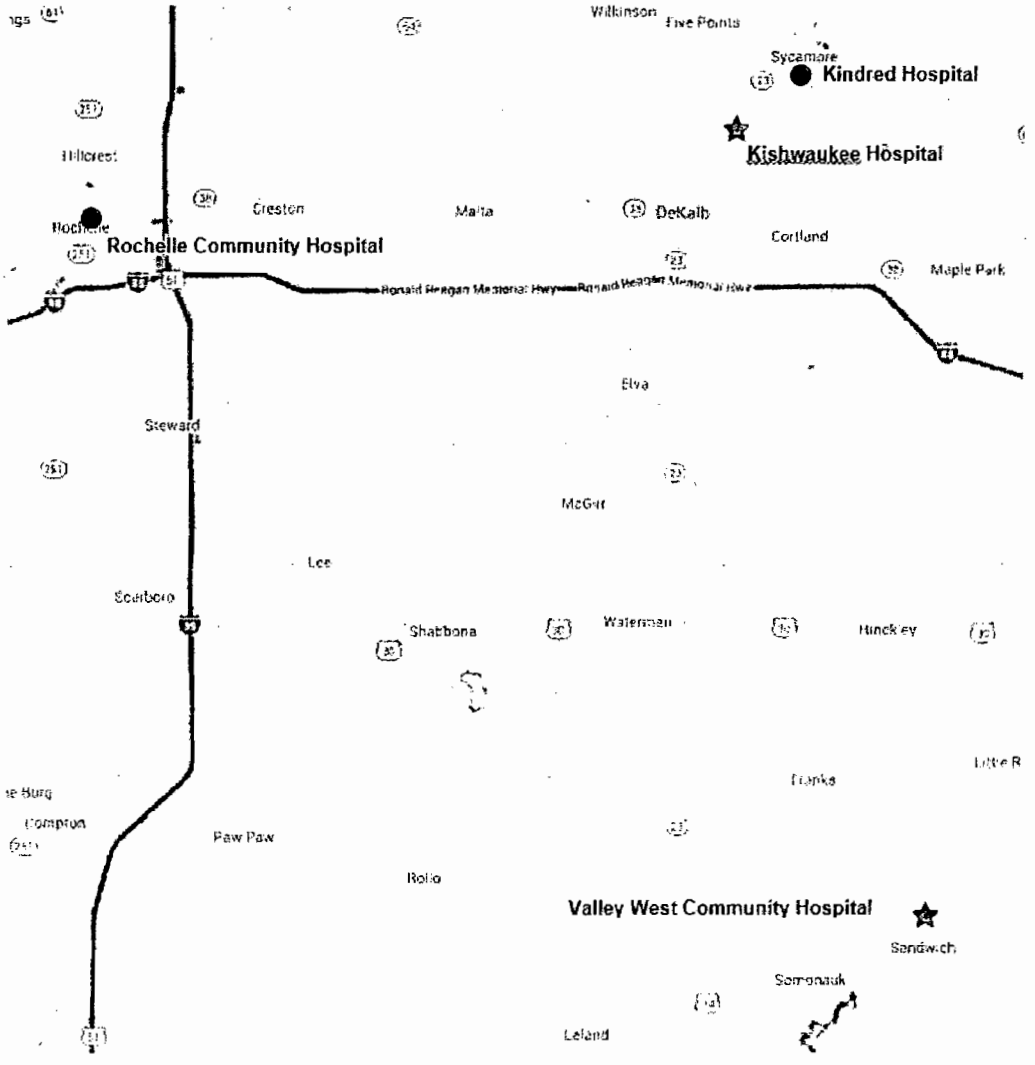


AREA HOSPITALS

Besides the subject facilities, other long-term and short-term acute care facilities in the area include Kindred Hospital-Sycamore and Rochelle Community Hospital.

Kindred Hospital-Sycamore is a 69-bed facility located approximate 3 miles from Kiswaukee Hospital. Services provided include but are not limited to pulmonary care, complex wound care, dialysis, antibiotic therapy, and rehabilitation services.

Rochelle Community Hospital is a 16-bed critical access facility located approximately 20 miles from Kiswaukee Hospital. Services provided include but are not limited to cancer care, emergency services, heart care, occupational health, orthopedics and rehabilitation services.



INDUSTRY OVERVIEW

Below is an industry overview containing excerpts from several publicly traded companies' 10-K filings, Irving Levin Associates "The Health Care Services Acquisition Report", Standard & Poor's Industry Surveys: Health Care Providers & Services, and various other sources:

The Centers for Medicare and Medicaid Services, or CMS, estimated that national healthcare expenditures grew by 5.6% in 2014, up from 3.6% in 2013, and are expected to grow 5.7% in 2015 as individual (including Medicaid eligibility expansion) and small-group coverage expansion experience sustained growth going forward. From 2015 to 2022, healthcare spending is projected to grow at an average rate of 6.0% annually, driven by ACA coverage expansion, faster projected economic growth,

and the end of the sequester. Overall healthcare spending is expected to rise to $4.1 trillion in 2022, up from $2.6 trillion in 2014.

Changes in the health system have kept health care spending growth under 6%, including increased consumer cost sharing, tighter managed care, and modifications in payment and delivery, according to a report published on April 22, 2013 (latest available) by the Henry J. Kaiser Family Foundation (KFF), a nonprofit health care and analysis firm. However, although the KFF expects the annual growth rate in health spending to increase as the economy recovers, health care costs are not likely to spin out of control; neither is the ACA likely to fuel an increase in health costs.

The number of hospital visits increased in 2013, particularly by patients who were commercially insured and who received outpatient treatments, according to an IMS Health report dated April 2014. In September 2014, CMS reported that total hospital spending grew 4.9% to $882.3 billion in 2012, faster than the 3.5% growth in 2011. Estimated hospital spending growth slowed to 4.1% growth in 2013, partly reflecting reduced Medicare hospital spending growth under sequestration. CMS projected that growth would reaccelerate to 4.7% in 2014, bolstered by spending among the newly insured under the ACA, offset by slower Medicare hospital spending updates. CMS sees hospital spending growth of 5.6% in 2015, supported by the continued effects of expansion and the assumption of faster economic growth. Looking ahead, it projects average annual growth of 6.4% per year from 2016 to 2022, reflecting the aging population and assuming improved economic conditions.

The competitive focus of hospitals on cutting-edge technology, niche specialty services, and amenities to attract physicians and patients have led to targeted geographic expansion into new markets. These hospitals were expanding beyond traditional markets to seek well-insured patients, according to a study by the Center for Studying Health System Change (HSC) published in April 2012 Health Affairs. They entered new regions by building full-service hospitals, establishing freestanding emergency departments and other outpatient services, acquiring physician practices, and operating medical transport systems to shore up their referral bases and increase inpatient admissions. However, by placing more people on health insurance rolls, the Health Care Reform law should also help reduce the level of uncompensated care and, hence, bad debt expense. Even so, some dominant hospital systems and large physician groups are still capable of wrestling higher payments from insurers, resulting in higher health care costs. The higher payments may also result from the offering of a unique service or access in a particular geographic area.

Health reforms are likely driving physicians and hospitals to align closely and share resources, as reforms lead to the transition from a fee-for-service (FFS) reimbursement system to one that focuses more on quality outcomes and containing costs. A successful collaboration would require hospitals to invest in people and processes. Hospitals will have to align compensation and reward performance, and alter the practicing pattern to emphasize quality and efficiency rather than just volume.

U.S. HOSPITAL INDUSTRY

The U.S. hospital industry is broadly defined to include acute care, rehabilitation and psychiatric facilities that are either public (government owned and operated), not-for-profit private (religious or secular), or for-profit institutions (investor owned). According to the American Hospital Association, there are approximately 5,000 inpatient hospitals in the U.S. which are not-for-profit owned, investor owned or state or local government owned. Of these hospitals, approximately 40% are located in non-urban communities. These facilities offer a broad range of healthcare services, including internal medicine, general surgery, cardiology, oncology, orthopedics, OB/GYN and emergency services. In addition, hospitals also offer other ancillary services, including psychiatric, diagnostic, rehabilitation, home care and outpatient surgery services.

ACUTE CARE HOSPITALS

Acute care community hospitals comprise the largest sector of the industry. There were 4,974 such facilities nationwide in 2013, according to the 2015 edition of AHA Hospital Statistics. This total was down slightly from 4,999 in 2012. The industry remains dominated by nonprofit entities, which make up approximately 58.4% of the total. For-profit hospitals accounted for 21.3%; facilities owned by state and local governments made up 20.3%. Acute care hospitals generated $849 billion in total net inpatient and outpatient revenues in 2013 (latest available), up from $821 billion in 2012, propelled by an aging domestic population, ongoing advances in healthcare technologies and a generally favorable pricing environment from managed care, offset by the aforementioned volume weakness and increases in bad debt.

REHABILITATION HOSPITALS

Rehabilitation hospitals provide programs to rehabilitate patients experiencing disabilities from a wide variety of causes, including stroke, head injuries, orthopedic problems, neuromuscular disease, and sports-related injuries. Services include physical therapy, sports medicine, neuro-rehabilitation, occupational therapy, respiratory therapy, speech/language therapy, and rehabilitation nursing. In 2013 (latest available), 202 rehabilitation hospitals operated in the U.S., according to the AHA, no change from the 2012 level.

SPECIALTY HOSPITALS

Specialty hospitals include heart, orthopedic, cancer and surgical hospitals, as well as ambulatory surgical centers (ASCs) and other narrowly focused providers. These facilities present traditional acute care providers with an additional competitive challenge, as more procedures no longer require an overnight hospital stay. According to A Data Book: Health Care Spending and the Medicare Program, issued in June 2014, there were 5,364 Medicare-certified ambulatory surgical centers in 2013, up 1.1% over 2012 levels with 5,307 centers.

PSYCHIATRIC HOSPITALS

Psychiatric hospitals numbered 410 nationwide in 2013, down modestly compared with 416 in 2012, according to AHA. They typically provide structured, intensive treatment programs for alcohol- and drug-dependency problems and mental health disorders in children, adolescents and adults. According to the National Association of Psychiatric Health Systems, average length of stay at psychiatric hospitals has remained fairly stable between 9 and 10 days.

URBAN VS. NON-URBAN HOSPITALS

According to the U.S. Census Bureau, 21% of the U.S. population lives in communities designated as non-urban. In these non-urban communities, hospitals are typically the primary source of healthcare. In many cases a single hospital is the only provider of general healthcare services in these communities.

FACTORS AFFECTING PERFORMANCE

Among the many factors that can influence a hospital's financial and operating performance are:

- *Facility size and location;*
- *Facility ownership structure (i.e., tax-exempt or investor owned);*
- *A facility's ability to participate in group purchasing organizations; and*
- *Facility payor mix.*

Patients needing the most complex care are more often served by the larger and/or more specialized urban hospitals. We believe opportunities exist in selected urban markets to create networks between urban hospitals and non-urban hospitals in order to expand the breadth of services offered in the non-urban hospitals while improving physician alignment in those markets and making it more attractive to managed care.

HEALTH CARE REFORM

The federal government passed the Patient Protection and Affordable Care Act (PPACA or ACA), more commonly known as the Health Care Reform law, in March 2010, to set regulations that will govern the health care industry and strengthen the overall U.S. health care system. The U.S. Supreme Court's decision in June 2012 to uphold the individual mandate provision of the law, while also giving states the choice to opt out of the Medicaid expansion plan, has removed the cloud of uncertainty surrounding the legality of the Health Care Reform law.

The Health Care Reform affects all health care stakeholders. In spite of the numerous concessions and additional fees and taxes imposed on the health care sector, the addition of potentially up to 26 to 28 million insured patients estimated by 2019 will likely be a net benefit for the industry.

The central tenet of the Health Care Reform law is to expand health care insurance coverage to virtually all U.S. citizens and legal residents. On January 1, 2014, the individual mandate component of the law became effective. The individual mandate, arguably the most contentious component of the law, requires most U.S. citizens and legal residents to have qualifying health insurance coverage. Those without coverage will have to pay a tax penalty, which gradually increases each year (to be indexed to the rate of inflation after 2016).

Under the law, individuals and families can purchase coverage through a health care exchange established by an individual state or by the federal government. Among the country's marketplace exchanges, as of March 2015, 14 were state-based, 2 were federal supported, 7 were state partnerships and 27 were federal facilitated.

In addition to the establishment of health insurance exchanges, the ACA expanded Medicare to include all non-Medicare-eligible individuals under age 65 (children, pregnant women, parents and adults without dependent children) with incomes up to 133% of the Federal Poverty Level (FPL) based on modified adjusted gross income. Undocumented immigrants are not eligible for Medicaid. As mentioned above, the Supreme Court decision in June 2012 allowed for states to opt out of the Medicaid expansion plan. As of March 2015, only 28 states and the District of Columbia had elected to expand Medicaid, but several more states will likely expand Medicaid over the next several years. Six states have planned discussions for the possible expansion of Medicaid.

Approximately 86.6% of the U.S. population had some form of health insurance in 2013 (latest available), according to the U.S. Census Bureau. Approximately 64.2% of the population had coverage through a private plan, including managed health care, while approximately 34.3% of the population had coverage provided by a government program including Medicare or Medicaid. Around 13.4% of the population, or about 42.0 million, were uninsured in 2013 (the estimate of coverage type is not mutually exclusive and people can be covered by more than one type of health insurance during the year, resulting in percentages that total more than 100%). In 2010, 16.3% of the population, or 49.9 million, were uninsured. However, the number of insured has gradually declined since the passage of the ACA in 2010, as various components of the law have been implemented throughout the years. S&P Capital IQ thinks that the ability of individuals aged 26 years and below to remain under their parents' insurance coverage contributed significantly to the decline of the uninsured, as this part of the law became effective in 2010.

In 2014, approximately eight million people obtained health insurance through the health care exchanges, while an additional 8.7 million people enrolled for Medicaid

and/or the Children's Health Insurance Program (CHIP). Approximately 11.7 million people signed up for health insurance through the healthcare exchanges during the enrollment in early 2015, according to the Department of Health and Human Services (HHS). Further, since October 2013, more than 10.8 million new enrollees enrolled in Medicaid.

As of January 2015, 70 million people were enrolled in the Medicaid and Children Health Insurance Program (CHIP), and this increased 19.3% over the pre-Health Care Reform enrollment of 58.7 million. CHIP is a state-based program that provides low-cost health coverage to children in families that earn more than the qualified income for Medicaid.

The implementation of the ACA has been a positive catalyst and has helped mitigate the impact of an increasingly challenging operating environment. The U.S. recession and its subsequent modest recovery has pressured volume growth, particularly in elective procedures, with most of the for-profit hospitals reporting negative total impatient admissions, flat-to-negative same-store adjusted admissions and low-single-digit growth in revenue per adjusted admission in 2012 through the first quarter of 2014. However, in the second quarter of 2014, numerous hospitals reported an improvement in admission trends and procedures, aided by the increase of the insured population. S&P Capital IQ sees this trend continuing in 2015.

Due to its potential to reduce the costs associated with bad debts and uncompensated care, S&P Capital IQ thinks that the health care legislation is generally considered favorable for health care facilities over the long term. However, S&P notes that caution is warranted because, historically, projections of savings tended to be higher than what was actually achieved. In 2012, there were about 48 million uninsured Americans. Upon the passage of the ACA, it was expected that up to 32 million Americans would gain coverage by 2019. However, that figure has been lowered to a range of 26 to 28 million due to revised assumptions over Medicaid expansion and individuals opting to pay a penalty instead of enrolling for coverage.

IMPACT OF THE HEALTH CARE REFORM ACT ON MEDICARE REIMBURSEMENT

INPATIENT REIMBURSEMENT

The ACA called for reductions in Medicare's inflation rate for hospital reimbursement (known as the market basket). This was a result of a pledge by a group of major health care providers in mid-2009 to reduce the health care spending growth rate by 1.5% a year, or $2 trillion over 10 years, including an agreement to cut hospital reimbursements by $155 billion over 10 years. Beginning with a 0.25% decrease in 2010 and 2011, spending under the Health Care Reform law was expected to see continuous cuts through 2019. In addition, the legislation requires productivity adjustments that started in October 2012, particularly for hospital readmission rates and technology upgrades, which could further reduce the rate of increase in the market basket and potentially lead to negative reimbursement adjustments.

The long-term reimbursement outlook remains tenuous in S&P Capital IQ's view. Medicare spending cuts remain an overhang on the long-term reimbursement outlook. The sequestration procedure, a part of the Budget Control Act signed in 2011, triggered automatic spending cuts in March 2013. With a 2% cap in cuts on Medicare, the sequestration is set to cut $54.6 billion of nondefense spending in each year from 2013 to 2021. Ultimately, Medicare spending cuts pose a risk of further shrinking revenue, margins and, ultimately, profits.

The Health Care Reform Act also provides for reduced payments to hospitals based on readmission rates. Beginning in federal fiscal year 2013, inpatient payments will be reduced if a hospital experiences "excessive" readmissions within a period of 30 days from a patient's discharge due to heart attack, heart failure, pneumonia or other conditions designated by HHS. The reduced payments are applicable to all inpatient discharges, not just discharges relating to the conditions subject to the excessive readmission standard. Moreover, each hospital's performance will be publicly reported by HHS. HHS has the discretion to determine what constitutes "excessive" readmissions, the amount of the payment reduction and other elements of this program.

Under the Health Care Reform Act, reimbursement will also be reduced based on "hospital acquired condition," or HAC, rates. An HAC is a condition that a patient develops while admitted as an inpatient in a hospital, such as a surgical site infection. Beginning in federal fiscal year 2015, hospitals that nationally rank in the top 25% of HACs for all hospitals in the previous year will receive a 1% reduction in their total Medicare payments. Moreover, effective July 1, 2011, the Health Care Reform Act prohibits the use of federal funds under the Medicaid program to reimburse providers for medical services provided to treat HACs.

OUTPATIENT PROCEDURES

The dramatic shift in the number of procedures performed on an outpatient basis that were formerly done in the hospital has contributed to the decline in admissions. Outpatient visits increased 29.8% from 2006 to 2012, according to the AHA. Hospitals have likely been focusing on boosting outpatient and emergency room services amid this ongoing utilization shift.

VALUE-BASED PURCHASING

The Health Care Reform Act establishes a value-based purchasing program to further link reimbursement payments to quality and efficiency. Beginning with federal fiscal year 2013, HHS will implement a value-based purchasing program that will reduce inpatient PPS payment amounts for all discharges by federal fiscal year as follows: 1.0% for 2013; 1.25% for 2014; 1.5% for 2015; 1.75% for 2016; and 2.0% for 2017 and subsequent years. For each federal fiscal year, the total amount collected from these reductions will be pooled and used to fund payments to hospitals that meet certain quality performance standards. HHS will have the authority to determine the

quality performance measures, the quality performance standards hospitals must achieve to meet the quality performance measures and the methodology for calculating payments to hospitals that meet the required quality threshold. HHS will also determine the amount each eligible hospital will receive from the pool created by the reductions under the value-based purchasing program.

BUNDLED PAYMENT PILOT PROGRAMS

The ACA introduced the concept of an "accountable care organization", or ACO, which is being viewed as a mechanism to help combat the rising cost of providing healthcare. An ACO is an organization run by the healthcare service provider, in which the participating providers are collectively responsible for the care of an enrolled population. The goal of coordinated care is to ensure that patients get the right care at the right time, while avoiding unnecessary duplication of services and preventing medical errors. An ACO will share in the savings it achieves for the Medicare program, if it succeeds in delivering high quality care while lowering health care costs.

DEMOGRAPHICS

Over the long term, a shift in demographics toward an older population is likely driving higher levels of utilization and overall health care services. The average lifespan increased to 78 years in 2010 and is expected to increase to 79 years in 2015, while the median age increased from 35 years in 2000 to 37 years in 2010, and is expected to increase to 38 by 2020, according to the U.S. Census Bureau. Further, the proportion of the U.S. population older than age 65 is projected to grow from 12.6% in 2007 to 14.5% in 2015 and to 18.2% in 2025. On the other hand, rising costs and potential changes in reimbursement rates could pressure providers, despite the rising demand.

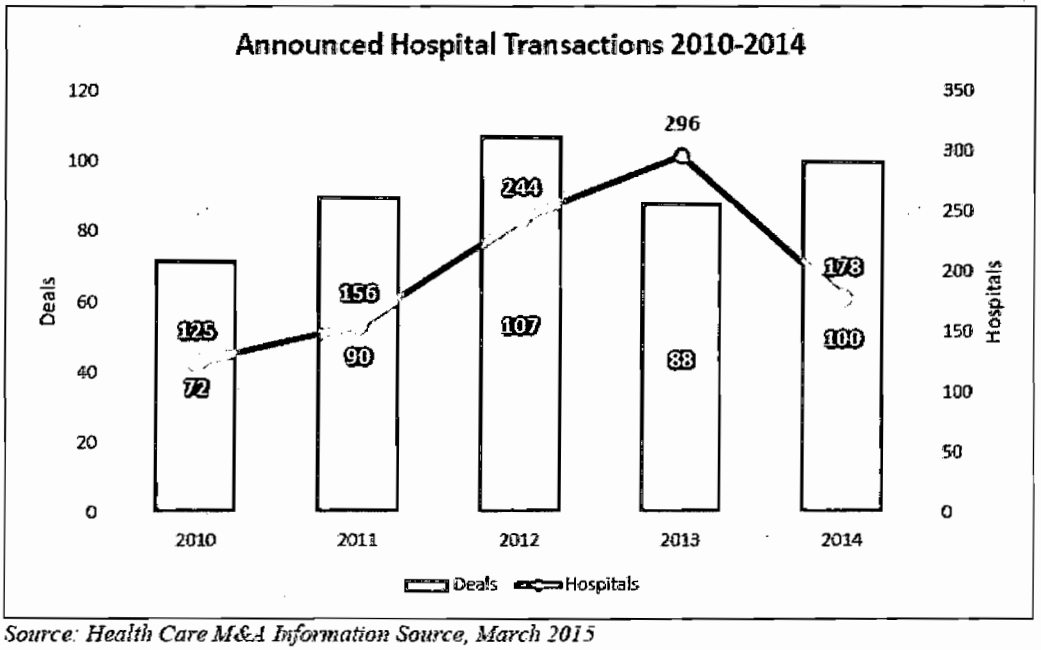
MERGERS AND ACQUISITIONS

Hospital merger and acquisition activity strengthened in 2014, for a variety of reasons. Some of it is direct result of the mega-mergers of 2013, between Tenet Healthcare and Vanguard Systems and, later, Community Health Systems and Health Management Associates. In 2015, these acquirers are still adjusting their portfolios, leaving some markets and buying into others. The ACA and the Centers for Medicare and Medicaid Services continued to reshape the entire healthcare landscape, bringing in more insured consumers while pressuring providers to deliver value-based care. In-patient volumes dropped for the fifth year in a row and many smaller community hospitals were forced to join larger health systems or face closing (by hospitals, we are referring to acute care, critical access, long-term acute care and specialty hospitals but excluding psychiatric and rehabilitation hospitals).

The result wasn't simply to merge or be acquired, however. In 2014, new arrangements grew in the form of affiliations, collaborations, joint ventures and partnerships, among others. In some cases, the terms cloaked a true change of

governance, which we count as an acquisition. For example, in late August 2014, Lodi Health announced it would affiliate with not-for-profit Adventist Health. Adventist agreed to make significant capital commitment, as well as a new electronic medical record, and to create a local advisory board. Others that were labeled mergers were not – the Alexian Health/Adventist Midwest deal is a prime example.

The data in the chart below shows the hospital M&A market in 2014 returned to a more normal state after the huge deals between the for-profit systems in 2013. In that year an average of 3.4 hospitals were involved in each transaction, compared with an average of 1.4 between 2008 and 2011 and 2.3 in 2012. Even with a stronger market for hospitals in 2014, the average number of facilities per deal dropped to 1.8.



Source: Health Care M&A Information Source, March 2015

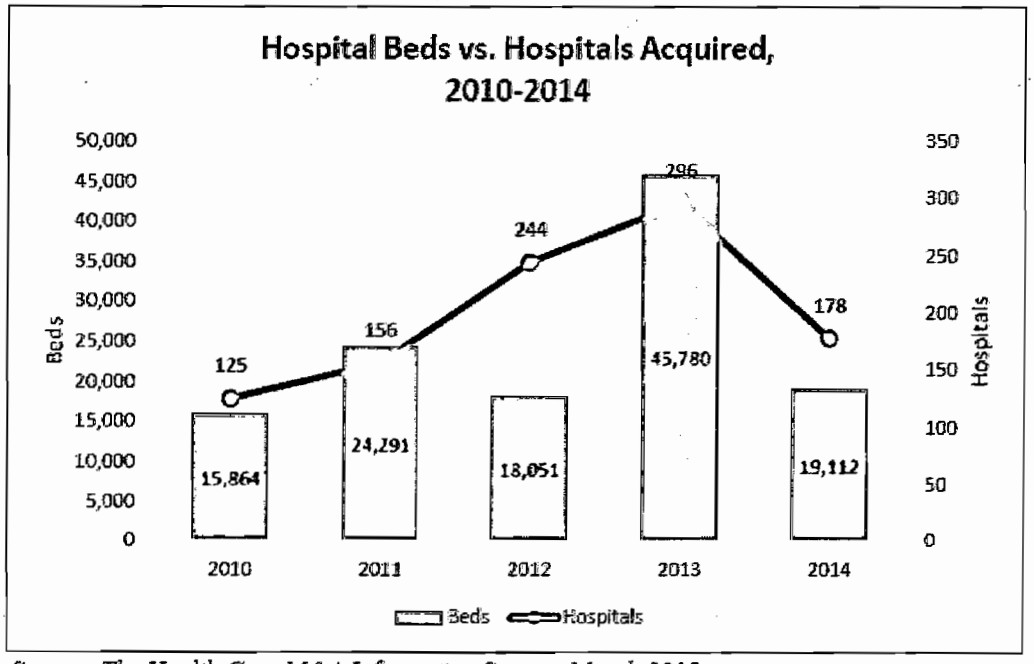
The 2014 hospital market included seven transactions (compared to two in 2013) involving the sale of eight bankrupt facilities (compared to three in 2013) with 1,182 beds (compared to 1,551 in 2013). Because distressed sales are adjudicated and have a distinct acquisition profile, they are omitted from our calculations of acquisition multiples in the hospital M&A market on the following tables.

Of the 100 transactions announced in 2014, eight involved critical access hospitals with a combined total of 150 beds; one deal involved the acquisition of two long-term acute care hospitals, or LTACs, with 240 beds; and two deals involved three surgical hospitals with a total of 138 beds. The remaining 89 deals involved the acquisition of 165 general acute care hospitals with 18,584 beds. With the exception of critical

access hospitals, the pricing characteristics among the various subtypes show negligible differences.

None of 2014's deals had a purchase price of $1.0 billion or greater, compared with four in 2013 and none in 2012. Five transactions were between $100 million and $500 million (compared to six in 2013), and 11 were between $10 million and $99 million (compared to 15 in 2013). Eight deals involved targets in publicly traded corporations, 15 were privately held and 77 were not-for-profit.

The number of hospital beds acquired in 2014 dropped significantly compared with the prior year, to 19,112. Compared with 2013's 45,780 beds, the decrease of 58% is as much an anomaly as the 149% increase between 2012 and 2013. As we noted last year, just four transactions announced in 2013 involved 147 hospitals and approximately 31,000 beds. Excluding those four deals, the number of beds acquired in 2013 would be 14,256, and more in line with bed totals in the 2010 to 2014 period.



Source: The Health Care M&A Information Source, March 2015

The table on the following pages presents a compilation of statistics for all announced hospital transactions in the past five years. Each year has been updated with the latest available information. All foreign-based deals have been removed from these calculations. The first block of data summarizes transactions volume for each of the past five years, followed by financial summaries for these transactions. The next four blocks summarize the financial terms of the aggregate acquisition market.

Based on the 12 deals with the requisite figures, the average price/revenue multiple for U.S. hospitals in 2014 was 0.70x; the corresponding median was 0.57x (the relevant revenue figure used in these calculations is net patient revenue). The average figure represents an increase compared with the figure in 2013, which may be a factor of the smaller sample sizes for both years, compared with 2010 through 2012.

Most acquirers consider the price/EBITDA ratio to be a key measure for valuing an acquisition. Unfortunately for the hospital acquisition market, most analysis rest on older data due to the lack of timely disclosure of financial information, such as Medicare cost reports and the disinclination of buyers to reveal current EBITDA of their target hospitals. For example, for a number of deals announced late in 2014, the EBITDA figures come from the 2013 reporting year or earlier.

Each year a number of single-facility deals involve financially distressed properties, often with a net loss and negative cash flow. These are typically not-for-profit hospitals, which often do not publish acquisition prices and so analysis of multiples can't be done. Thus, the "deal count" for the EBITDA multiples is lower.

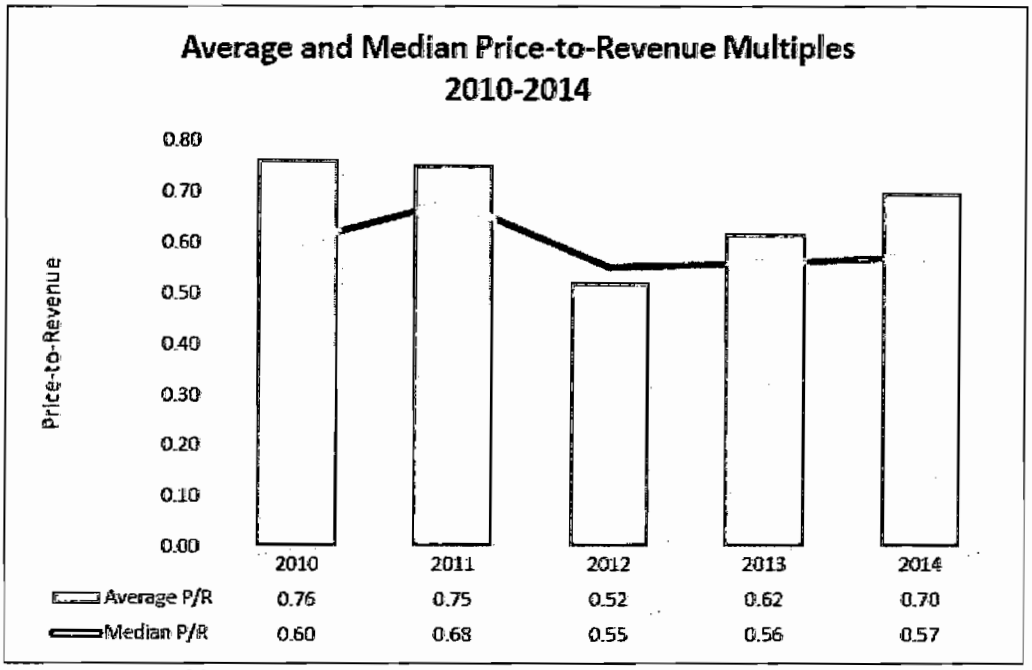
Many observers like to know the price per bed in a given year, on the assumption that if an acquisition can be completed at a lower per-bed value, there may be more upside for the buyer, especially if capital costs will be lower. This report uses the figure for staffed beds rather than licensed beds. Over the past five years, the figures for average and median price per bed peaked in 2011, when 48 transactions reported prices. That year, the average price per bed $511,810, and the median price per bed was $400,879. In 2014, the average price per bed was $503,217, which is comparable to the 2011 figure. The median price per bed, however, dropped to $357,143 in 2014.

The disparities between the average and median prices per bed have grown and shrunk over the past five years, especially as the hospital data is updated with more recent information. It is best not to rely on these figures as a barometer of acquisition values.

Summary of Acquisitions					
	2010	2011	2012	2013	2014
Number of Deals	72	90	100	82	89
Number of Beds	15,864	24,291	18,177	32,422	16,831
Number of Hospitals	125	156	244	227	144
Total Acquired Revenues	$14,029,811,000	$16,163,489,000	$13,767,258,470	$21,409,209,926	$13,850,659,537
Average Revenue/Deal	$209,400,164	$199,549,247	$178,795,565	$362,867,965	$200,734,196
Median Revenue/Deal	$94,700,000	$91,000,000	$122,194,772	$135,316,817	$95,452,729
Deal Count	67	81	78	59	69
Total Purchase Price	$10,515,632,477	$8,305,060,000	$2,050,517,000	$14,359,820,000	$2,699,700,000
Average Price/Deal	$228,600,706	$173,022,083	$78,866,038	$624,340,000	$142,089,474
Median Price/Deal	$68,500,000	$73,550,000	$38,550,000	$54,300,000	$74,800,000
Deal Count	46	48	26	23	19
Average Price/Revenue	0.76x	0.75x	0.52x	0.56x	0.70x
Median Price/Revenue	0.60x	0.68x	0.55x	0.49x	0.57x
Deal Count	40	42	20	17	12
Average Price/EBITDA	12.7x	14.1x	12.0x	9.3x	11.2x
Median Price/EBITDA	8.3x	10.1x	7.9x	7.5x	7.2x
Deal Count	23	24	16	14	11
Average Price/Bed	$431,755	$511,810	$426,704	$482,511	$503,217
Median Price/Bed	$364,543	$400,879	$312,408	$390,909	$357,143
Deal Count	42	48	24	21	11

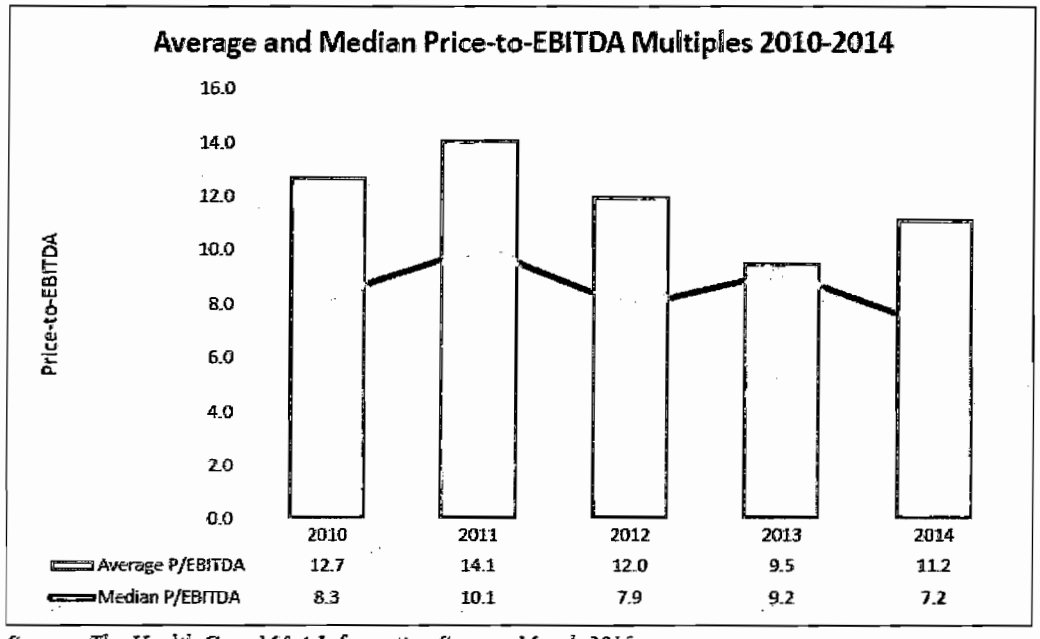
Source: The Health Care M&A Information Source, March 2015

Although not as readily invoked as the price/EBITDA multiple, the price/revenue multiple is a reasonable initial benchmark to consider when looking at hospital acquisitions. In the past five years the average has fallen off, from a high of 0.76x in 2010 to the low of 0.52x in 2012, for a spread of 24 basis points. The median ranged between 0.68x in 2011 to 0.55x in 2012, for a spread of 13 basis points. The degree of consistency seen in previous years remains, as the difference between the average and the median remains small.



Source: The Health Care M&A Information Source, March 2015

It has always been a challenge to derive an accurate price/EBITDA multiple in the hospital acquisition market because the financial data reports tend to lag the announcement of deals. It matters less for price/revenue because the level of revenue tends to fluctuate less from year to year than does the level of cash flow. Because the buyer has more current financial data when making the offer, we have to assume that the price/EBITDA multiples in this report are somewhat high because they are based on one- or sometimes two-year-old information. Also, buyers usually price their acquisitions based on pro forma EBITDA and will ignore the historical performance if they believe it to be misleading.



Source: The Health Care M&A Information Source, March 2015

Attachment Response 10

SECTION 3. FINANCIAL CONSIDERATIONS

BALANCE SHEET ANALYSIS

Below is the April 30, 2015 Balance Sheet associated with the System.

KishHealth System
Consolidated Balance Sheet
As of April 30, 2015

Assets		Liabilities and Net Assets	
Current Assets:		Current liabilities:	
Cash and cash equivalents	$ 35,838,917	Current Portion of LT Debt	$ 4,434,101
Short-term investments	147,614,448	Accounts payable and accrued expenses	20,818,230
Net patient accounts receivable	35,715,538	Deferred revenue	78,825
Unrestricted pledges receivable	64,195	Accrued salaries and employee benefits	13,705,927
Restricted pledges receivable	112,957	Estimated settlements due to third parties	25,211,621
Assets whose use is limited	405,061	Total Current Liabilities	64,248,704
Supplies	5,550,403		
Other current assets	4,676,025	Other Liabilities	
Total Current Assets	229,977,544	Long-term debt, less current portion	71,467,380
		Accrued malpractice and other	5,033,467
Land, Building, and Equip:		Total Other Long-Term Liabilities	76,500,847
Land and Land Improvements	25,692,303		
Buildings and Leaseholds	157,404,938	**Total Liabilities**	$ 140,749,551
Moveable Equipment	84,075,267		
Construction in Process	8,656,780		
Total, at cost	275,829,288	**Total Net Assets/Shareholders' Equity**	$ 328,533,106
Less: Depreciation	(135,144,412)		
Net Land, Building, and Equip	140,684,876	**Total Liabilities and Net Assets**	$ 469,282,657
Other assets:			
Assets whose use is limited	17,652,908		
Restricted pledges, net of current portion	138,708		
Long-term investments	62,444,918		
Investment in joint ventures	754,135		
Goodwill	11,378,791		
Physician recruitment costs	2,673,697		
Deferred bond issuance costs and other	3,577,080		
Total other assets	98,620,237		
Total Assets	$ 469,282,657		

The items highlighted in Green and Blue represent assets or liabilities that were assumed to be at Market Value for the purpose of our analysis. On the asset side these items were generally recognized to be cash or cash equivalent securities or investments or securities that could be converted to cash on a reasonable basis. The debt balances are represented as the net balances on current debt instruments without regard to consideration for pre-payment penalties or market discounts or premiums.

Attachment Response 10

The total assets of the organization are represented at $469.3 million. Assets identified as non-operating assets and were added to the operating value of the Hospital are highlighted in Blue. These assets include Assets whose use is limited of $17.7 million and short and long term investments of $210.1 million.

The debt-free net working capital balance is $170.2 million. Excluding the investments in current assets of $147.6 million, results in a normalized debt-free working capital balance of $22.5 million, or 9.8% of revenue. A review of the working capital of a portfolio of publicly traded companies indicated a normalized industry level of working capital of 11.0% of revenue. As a result, after adjusting out the investments in current assets, the Subject's working capital level is within a reasonable range of the industry.

The balance sheet of the organization shows a relatively strong financial position with total assets of the organization at $469.3 million and total liabilities of $140.7 million, resulting in a total debt ratio of 30.0%.

HISTORICAL OPERATIONS

The following table demonstrates the overall consolidating earnings of the Hospital and its related entities' historical financial performance from the fiscal year ended April 30, 2013 through April 30, 2015.

KishHealth System				
		Fiscal Year Ended April 30,		
		2013	2014	2015
REVENUE FROM OPERATIONS:				
Net patient service revenue		$ 245,695,000	$ 226,852,000	$ 236,984,000
Provision for uncollectible accounts		(22,566,000)	(8,453,000)	(11,036,000)
Net patient service revenue		223,129,000	218,399,000	225,948,000
Other revenue		3,931,000	3,168,000	3,582,000
Gain (loss) on asset dispositions		176,000	155,000	220,000
Total net operating revenue		$ 227,236,000	$ 221,722,000	$ 229,750,000
Growth			-2.4%	3.6%
OPERATING EXPENSES				
Salaries and w ages	v	$ 70,343,000	$ 71,044,000	$ 76,023,000
Employee benefits	v	27,132,000	25,432,000	22,819,000
Professional fees	f	18,843,000	18,810,000	17,613,000
Physician fees	v	15,469,000	14,668,000	14,401,000
Supplies, drugs, and food	v	34,388,000	33,876,000	32,709,000
Insurance	f	4,161,000	3,124,000	6,282,000
Other expenses	f	25,277,000	28,044,000	27,864,000
Subtotal		195,613,000	194,998,000	197,711,000
Depreciation/Amortization	f	16,262,000	16,387,000	16,798,000
Interest Expense		3,821,000	3,713,000	3,630,000
Total Operating Expense		$ 215,696,000	$ 215,098,000	$ 218,139,000
Gain/(Loss) from Operations		$ 11,540,000	$ 6,624,000	$ 11,611,000
Other Income/Expense:				
Noncontrolling interests in earning of subsidiaries		(448,000)	(739,000)	(335,000)
Contributions and other		1,429,000	1,150,000	764,000
Investment Income		10,519,000	11,156,000	12,051,000
Total Non-Operating Income		11,500,000	11,567,000	12,480,000
Excess of revenue over expenses		$ 23,040,000	$ 18,191,000	$ 24,091,000
Operating EBITDA (includes inv in subs)		$ 31,175,000	$ 25,985,000	$ 31,704,000
EBITDA Margin		*13.7%*	*11.7%*	*13.8%*
EBIT		$ 14,913,000	$ 9,598,000	$ 14,906,000

The financial statements demonstrate a strong and steady operation. Revenues have remained fairly steadily over the prior three periods and the operating EBITDA of the organization has ranged from 11.7% to 13.8% of net revenues.

SECTION 4. VALUATION SECTION

APPRAISAL PROCEDURES

In estimating the fair market value of the subject's assets the three traditional approaches to value were considered; Cost Approach, Income Approach and Market Approach. The three approaches are generally described as follows:

The *Cost Approach/Adjusted Book Value Approach:* The value of the subject assets on the balance sheet are brought to their current fair value based upon their present contribution to the overall earnings of the facility in-use. In addition, consideration is given to the value of the assets if sold separately. If the value of the assets if sold separately has an overall value greater than the economic value derived by continued operation of the business, the adjusted book value approach is deemed to have considerable weight in deriving a final value estimate. This approach has particular merit for highly marketable assets that may have significantly appreciated since their purchase by the organization. This approach is generally recognized as the best approach to derive an estimate for the various asset components of a transaction.

The *Market Approach:* In the market approach a company is compared to trading prices for similar companies and or transactions; the guideline publicly-traded company method and the guideline transaction method, respectively. In the guideline publicly-traded company method, an indication of value is developed by comparing the subject company on the basis of certain economic variables to a portfolio of publicly traded companies and applying appropriate multiples, while the guideline transaction method relies upon comparisons of actual sales transactions of companies with similar lines of business. The guideline transaction method is dependent upon gathering reliable comparable data on privately held firms. This data is often scarce in the market place; but the market for similar hospital transactions has appeared to be somewhat active over the past several years.

The *Income Approach*: The income approach recognizes that the current value of an asset is premised on expected receipt of future economic benefits generated over its remaining economic life. These benefits are expressed in the form of earnings, net income, cash flow, or other measures of profitability. Inherent in this approach are the principles of substitution and anticipation: it is assumed that an investor will pay no more for a property than for an alternative investment that produces an equivalent return with equivalent risk. Two common approaches are generally relied upon by the appraisal profession; the discounted cash flow approach and the direct capitalization approach. The discounted cash flow approach takes a future series of anticipated cash flows and estimates a present value of these estimates based upon the required rate of return that incorporates the time value of money and the risks associated with the particular asset. The direct capitalization analysis is used to convert the estimated stabilized NOI of a

single year into an indication of value by dividing the NOI by a market-derived capitalization rate. The discounted cash flow approach has more relevance when cash flows are anticipated to change and capital expenditures are anticipated to vary over the investment period. The overall capitalization methodology has strong reliability when cash flows are deemed to be relatively stable or increasing at constant rates over the investment period.

We primarily considered the Income and Market Approaches to derive an estimate of the overall fair value of the business enterprise.

INCOME APPROACH – PRIMARY BUSINESS RELATED OPERATING ASSETS

The Income Approach determines the value of the business by projecting income and expenses over a period and discounting the free cash flows and the terminal value to a present value at a rate commensurate with the risks of the investment. It is assumed that an investor will pay no more for a business than for an alternative investment that produces an equivalent return with equivalent risk. The discount rate applied represents the risks inherent with the business and takes into consideration competitive alternative investments.

CASH FLOW PROJECTIONS

In estimating our revenue projections we primarily relied upon discussions with, and projections provided to us from, management.

The following pro-forma estimate of earnings was developed from information provided by management regarding the future operations of the Subject, historical operations, and general market data regarding the healthcare industry and like enterprises.

Key assumptions include the following:

- Hospital revenues were budgeted at $255.8 million in fiscal 2016 based on management's budgeted projections. This is an 11.4% increase over fiscal 2015 levels. Revenues were projected to grow 2.5% per year thereafter to a level of $282.4 million in Year 5 of the projection.
- Operating expenses before amortization, depreciation and interest were forecasted at 87.5% of revenues in fiscal 2016. Operating expenses were forecast at 88.2% of revenues throughout the remainder of the forecast period.
- Operating EBITDA (including non-controlling interests in earnings of subsidiaries and excluding contributions and investment income) is forecast at $31.8 million, or 12.4% of revenue, in fiscal 2016, and is forecast to grow to $33.1 million in Year 5, or 11.7% of revenue. The projected EBITDA margins are consistent with historical levels.
- Earnings associated with all non-operating assets transferred, including any excess cash and investments, have been excluded from the analysis.

- Working capital increases were set at the differential to hold working capital balances at 11.0% of anticipated revenues which is consistent with the companies found in the guideline company approach.
- Capital expenditures were estimated based on management's five year projection and total $115.0 million over the five year period.
- Depreciation was based on historical levels and new capital purchases that are anticipated.
- Income taxes were included based on a blended state and federal rate of 40.04%.

WEIGHTED AVERAGE COST OF CAPITAL

The net cash flows for the period analyzed were discounted to present value based upon the weighted average cost of capital ("WACC"). The WACC developed for the subject property takes into consideration the general market's requirements for investment returns, the historical rate of return variances from fixed income and equity investments, current market forces, and economic conditions. In addition the rate takes into consideration the specific risk associated with the company achieving its specific predicted performance and projections against historical achievements. All other things being equal investors that accept higher rates of risk demand higher return requirements.

The discount rate was developed in a process that incorporated aspects of economic theory, capital budgeting techniques, and the capital asset pricing model ("CAPM"). A company's cost of capital can be considered the discount rate applied to the debt-free cash flows, reflecting the opportunity cost to all capital providers weighted by their relative contribution to the total capital of the company. An investor's cost of capital is the opportunity cost to an investor, equal to the rate of return the investor could expect to earn on other investments of equivalent risk.

Capital Structure

The first step in arriving at the company's cost of capital is to estimate what percentage of the company will be financed with debt and what portion will be financed with equity capital. In estimating the capital structure (Debt/Equity) for the subject property we reviewed guideline company debt structures on the public markets, considered the asset compliment of the subject property, and our knowledge of similar enterprises. The debt structure of the guideline companies in the market approach ranged from a low of 18.94% to a high of 67.50% with an overall average of 46.32% and a median of 42.99%. We believe that an overall debt/equity structure for the subject business would be reasonably represented by utilizing 45% debt and 55% equity.

Cost of Debt

We then must establish the subject's cost of debt based upon a review of comparable debt placements in the market place. Historically, financing for properties similar to the subject property would be at rates 2% to 3% percentage points above the prime rate and or rates near the Baa

rated bonds. According to data published by Moody's at the time of the appraisal date Baa bonds were yielding 5.26% and the prime rate was 3.25%. Based upon this data we believe that the pre-tax cost of debt for the subject property would be fairly estimated at 5.26%.

The current effective tax rate for the organization would be 40.04%. This is based upon an effective Federal tax rate of 35% and a State tax rate of 7.75%. The calculation is shown below.

$$35.00\% + (7.75\% \times (1 - 35.00\%) = 40.04\%$$

The rounded after-tax cost of debt would be equal to 3.15%. This is calculated as follows:

$$5.26\% \times (1 - 40.04\%) = 3.15\%$$

Cost of Equity

The third step is to establish required return on equity appropriate for the subject property. The CAPM model applies for our analysis and is presented below:

$$Re_i = R_f + [\beta_p (R_m - R_f)] + SSP \pm RP_i$$

Where

Re_i = Required long-term return on equity for the subject company

β_p = The market-value-weighted average beta of the comparative company stocks (companies of all sizes)

SSP = Small stock premium, or the additional return required by an investor in small capitalization stocks

RP_i = An additional positive or negative increment to the total return for systematic risk factors specific to the subject company that are not already captured in the beta for the comparative companies as a whole and in the SSP risk premium. This increment might include, but would not be limited to, future growth rate, local market considerations, trends, competitive nature of the industry, risk of achieving and sustaining the projected levels of revenues and profitability margins, percent of total ownership being valued, and any other company-specific factors.

The formula generally indicates that an investors rate of return is established by achieving the risk-free rate of return plus a risk premium associated with the risk associated with the market volatility associated with the subject's line of business, a risk premium associated with the companies size and a risk premium associated with the specific lines of business and the forecast developed for the subject.

The risk free rate of return for the subject property was established as the yield rate associated with 20-year Treasury Bonds, 2.92%.

The general equity risk premium was based upon consideration of historical and forward looking evidence of investor's expectations and on data published by Duff & Phelps in the *2015 Valuation Handbook Guide to Cost of Capital.* We have concluded that an equity risk premium of 5.0% is considered reasonable.

To this data we applied a beta adjustment to reflect the volatility associated with comparable healthcare stocks in comparison to the general market place. A beta for the subject property was based upon a comparison to the Betas found for the guideline companies utilized in the Market Approach. As shown in the Market Approach the overall Beta's for the guideline companies ranged from 0.95 to 1.22 with an overall average of 1.10 and a median of 1.11. The Beta source utilized was Capital IQ, a Standard and Poor's Company, contained on Yahoo Finance's current web pages. We have estimated that an overall beta of 1.10 is appropriate for the subject company based upon a consideration of the data for the guideline companies and other healthcare enterprises in the market.

To the general equity risk premium we have added a small company risk premium. We relied upon the *Duff and Phelps 2015 Valuation Handbook – Guide to Cost of Capital* that reflect size premium for the subject property of 5.00% as shown in the following table.

Risk Premia Over CAPM ("Size Premia"), RP_s

Size Study: Exhibits B-1 through B-8	Size Measure	Subject Company Value ($Millions)	Indicated Guideline Portfolio	Using Guideline Portfolios: Smoothed Risk Premium Over CAPM ("Size Premia"), RP_s	Using Regression Equations: Regression Equation = Constant + (Coefficient x Log(Size Measure))		Smoothed Risk Premia Over CAPM ("Size Premia"), RP_s
Exhibit B-1	Market Value of Equity	NA	NA	NA	NA	=	NA
Exhibit B-2	Book Value of Equity	$328.53	22	4.42%	8.469% + (-1.599% x 2.5166)	=	4.44%
Exhibit B-3	5-Year Average Net Incom	NA	NA	NA	NA	=	NA
Exhibit B-4	MVIC	NA	NA	NA	NA	=	NA
Exhibit B-5	Total Assets	$469.28	24	5.19%	9.690% + (-1.736% x 2.0267)	=	5.05%
Exhibit B-6	5-Year Average EBITDA	NA	NA	NA	NA	=	NA
Exhibit B-7	Sales	$229.75	25	5.74%	8.662% + (-1.405% x 2.3458)	=	5.34%
Exhibit B-8	Number of Employees	NA	NA	NA	NA	=	NA

Mean and Median Risk Premia Over CAPM ("Size Premia"), RP_s

	Mean RP_s	Median RP_s			
Guideline Portfolio Method	5.12%	5.19%			
Regression Equation Method	4.95%	5.05%		**Conclude**	**5.00%**

Finally we applied a company specific risk factor of 2.0% to the subject property which is associated with the specific lines of business the company operates in and the forecasts developed. Specific factors considered in establishing this rate for the subject included:

- The hospital operates from a specific geographic location that hinders its ability to broadly diversify its earning base.
- The enterprise is dependent upon Federal and State Funded reimbursement programs that may be revamped or reduced over the foreseeable future.

- The projections and assumptions utilized in our prospective cash flows are considered conservative.
- The subject has been historically cash flow positive.
- The revenues and cash flows achieved during the projection period are similar to what the Hospital has achieved historically.

Conclusion Weighted Average Cost of Capital

The final step in determining the appropriate discount rate is to blend the two components of debt and equity capital to arrive at the discount rate utilized for the subject property of 10.0%. The blending of the rates and the overall development of the WACC is presented on the following chart.

DEVELOPMENT OF WACC - KishHealth System				
			Cost of Capital	% in Capital Structure	Weighted Cost
Debt			3.15%	45%	1.42%
Equity			15.42%	55%	8.48%
Weighted Average Cost of Capital					9.90%
Concluded WACC					**10.00%**
Cost of Equity					
Risk Free Rate of Return		2.92%			
Plus Equity Risk Premium					
Market Risk Premium[1]	5.00%				
Times Beta	1.10				
Adjusted Market Risk Premium		5.50%			
Plus Size Premium[2]		5.00%			
Plus Company Specific Risk Premium		2.0%			
Indicated Cost of Equity		**15.42%**			
Cost of Debt					
Concluded Pre-Tax Cost of Debt	5.26%				
Income Tax Rate	40.04%				
Concluded After-Tax Cost of Debt		**3.15%**			
Selected Yields and Interest Rates					
Rates as of 07/01/2015					
Prime Rate			3.25%		
5-Year Treasury Rates			1.70%		
10-Year Treasury Rates			2.43%		
20-year Treasury Rates			2.92%		
Moody's Aaa			4.26%		
Baa			5.26%		

(1) Long-horizon expected equity risk premium recommended by Duff & Phelps 2015 Valuation Handbook
(2)Estimated based on Duff & Phelps 2015 Valuation Handbook - Guide to Cost of Capital

REVERSIONARY VALUE ESTIMATE

In deriving our reversionary value estimate we applied a multiple against the reversionary year EBITDA. As will be demonstrated in the Market Approach to value the overall EBITDA multiples for publically traded companies range from 9.64 to a high of 12.79. We believe that the subject's reversionary EBITDA multiple would be similar to that currently being achieved in the marketplace. We have discounted this rate moderately, though, as the reversionary year is in the future and based upon an earnings stream that has yet to be achieved. Based up these factors we have chosen an EBITDA multiple of 8.0 to be representative of the future value of the

enterprise. This correlates to an undiscounted reversionary value of $264,712,654 (8.0 * $33,089,082).

PRESENT VALUE OF CASH FLOWS AND VALUE

Gross cash flow is equal to debt-free net income plus depreciation. Net cash flow is the difference between gross cash flow and reinvestment in fixed assets and incremental net working capital, and represents the amount of cash available to service debt and to provide a return on a willing buyer's investment. Net cash flows for the five-year projection period were discounted to present value based on the indicated discount rate. The present worth factors were calculated on a midterm basis to reflect the receipt of funds throughout the course of each year of the projection. The sum of the present worth of the net cash flows over the projected period represents the interim value of the business enterprise. Because the Company will continue to generate earnings beyond the projected period a terminal value was calculated. The terminal value was discounted and added to the present value of the interim cash flows. To this value we subtracted a market level of working capital assumed in the analysis and added in the actual working capital balance as of April 30, 2015.

The discounted cash flow model for the Subject business is detailed on the following pages and indicates an overall business enterprise value of the operating assets of $182,100,000.

Discounted Cash Flow KishHealth System						
		Year 1 Budget	Year 2 Projected	Year 3 Projected	Year 4 Projected	Year 5 Projected
REVENUE FROM OPERATIONS:						
Net patient service revenue		$ 267,401,000	$ 274,086,025	$ 280,938,176	$ 287,961,630	$ 295,160,671
Provision for uncollectible accounts		(14,869,000)	(15,240,725)	(15,621,743)	(16,012,287)	(16,412,594)
Net patient service revenue		252,532,000	258,845,300	265,316,433	271,949,343	278,748,077
Other revenue		3,299,000	3,381,475	3,466,012	3,552,662	3,641,479
Gain (loss) on asset dispositions		-	-	-	-	-
Total net operating revenue		$ 255,831,000	$ 262,226,775	$ 268,782,444	$ 275,502,005	$ 282,389,556
Growth		11.4%	2.5%	2.5%	2.5%	2.5%
OPERATING EXPENSES						
Salaries and wages	v	$ 90,403,000	$ 91,779,371	$ 94,073,856	$ 96,425,702	$ 98,836,344
Employee benefits	v	28,750,000	30,156,079	30,909,981	31,682,731	32,474,799
Professional fees	f	18,883,000	19,355,075	19,838,952	20,334,926	20,843,299
Physician fees	v	15,150,000	15,733,607	16,126,947	16,530,120	16,943,373
Supplies, drugs, and food	v	36,587,000	39,334,016	40,317,367	41,325,301	42,358,433
Insurance	f	4,442,000	4,553,050	4,666,876	4,783,548	4,903,137
Other expenses	f	29,606,000	30,346,150	31,104,804	31,882,424	32,679,484
Subtotal		223,821,000	231,257,348	237,038,782	242,964,751	249,038,870
Depreciation/Amortization	f	19,297,000	21,682,333	23,392,000	24,981,286	26,570,571
Interest Expense		3,768,000	3,862,200	3,958,755	4,057,724	4,159,167
Total Operating Expense		$ 246,886,000	$ 256,801,881	$ 264,389,537	$ 272,003,761	$ 279,768,609
Gain/(Loss) from Operations		$ 8,945,000	$ 5,424,894	$ 4,392,908	$ 3,498,245	$ 2,620,947
Other Income/Expense:						
Noncontrolling interests in earning of subsidiaries		(237,000)	(242,925)	(248,998)	(255,223)	(261,604)
Contributions and other		886,000	-	-	-	-
Investment Income		8,878,000	-	-	-	-
Total Non-Operating Income		9,527,000	(242,925)	(248,998)	(255,223)	(261,604)
Excess of revenue over expenses		$ 18,472,000	$ 5,181,969	$ 4,143,909	$ 3,243,021	$ 2,359,343
Operating EBITDA (includes inv in subs)		$ 31,773,000	$ 30,726,502	$ 31,494,664	$ 32,282,031	$ 33,089,082
EBITDA Margin		*12.4%*	*11.7%*	*11.7%*	*11.7%*	*11.7%*
EBIT		$ 12,476,000	$ 9,044,169	$ 8,102,664	$ 7,300,745	$ 6,518,510

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Discounted Cash Flow KishHealth System					
Discount Rate	10.00%				
Effective Corporate Tax Rate in U.S, IL	40.04%				
	Year 1 Budget	Year 2 Projected	Year 3 Projected	Year 4 Projected	Year 5 Projected
NET INCOME FOR DISCOUNTING (EBIT)	$ 12,476,000	$ 9,044,169	$ 8,102,664	$ 7,300,745	$ 6,518,510
ESTIMATED INCOME TAXES	4,995,390	3,621,285	3,244,307	2,923,218	2,610,012
NET INCOME	**$ 7,480,610**	**$ 5,422,883**	**$ 4,858,358**	**$ 4,377,527**	**$ 3,908,499**
Less Incremental Working Capital	$ (2,868,910)	$ (703,535)	$ (721,124)	$ (739,152)	$ (757,631)
Less Capital Expenditures	(19,012,000)	(42,936,000)	(30,774,000)	(11,125,000)	(11,125,000)
Plus Depreciation	19,297,000	21,682,333	23,392,000	24,981,286	26,570,571
Cash Flow to Discount	$ 4,896,700	$ (16,534,318)	$ (3,244,766)	$ 17,494,661	$ 18,596,440
Discount Periods	0.50	1.50	2.50	3.50	4.50
Present Value Factor	0.9535	0.8668	0.7880	0.7164	0.6512
Present Value of Periodic Cash Flows	$ 4,668,820	$ (14,331,686)	$ (2,556,829)	$ 12,532,310	$ 12,110,518
Sum of PV Periodic Cash Flows		$ 12,423,134			
Perpetuity Value	$ 264,712,654				
PV of Perpetuity Value		$ 172,388,234			
Business Enterprise Value Before Adjustments		**$ 184,811,367**			
Adjustments to Value:					
Less: Market Required Working Capital Balance		$ (25,272,500)			
Add: Actual Net Working Capital Balance		22,548,493			
Excess/(Deficit) Working Capital		$ (2,724,007)			
Business Enterprise Value After Adjustments of Operating Entity		**$ 182,087,360**			
Total Business Enterprise Value of KishHealth System		**$ 182,100,000**			

MARKET APPROACH

In considering the market approach we considered a Guideline Company Approach and a Guideline Transaction Approach.

GUIDELINE COMPANY METHOD

The guideline company method of the market approach provides an indication of value for the appraised Company by relating the equity or invested capital (debt plus equity) of guideline companies to various measures of their earnings and cash flow, then applying such multiples to the businesses being appraised.

The guideline company method is based upon a comparison of the subject property with financial results with those of similar enterprises. The guideline company method to value uses the near-term and current relationships of the market prices of the publicly traded securities of guideline companies to the various measures of their earning power. In other words, the guideline company method makes use of market price data of stocks of corporations engaged in the same or a similar

line of business as those of the subject companies. Stocks of these corporations are actively traded in a public, free, and open market, either on an exchange or over the counter.

To estimate the value for the subject property we deemed five publicly-traded companies as being in similar lines of business as the subject's business lines; Universal Health Services, Inc. (UHS), Tenet Healthcare Corporation (THC), Community Health Systems, Inc. (CYH), HCA Holdings, Inc. (HCA); and LifePoint Hospitals, Inc., (LPNT). The guideline companies' overall adjusted market capitalization value including long-term debt ranged from a low of $7.07 billion to $76.02 billion. Total revenues of the organizations ranged from a low of $4.74 billion to $37.76 billion.

Although no two companies are entirely alike, the five companies chosen are in substantially similar lines of business as the subject property. Though these companies are chosen additional consideration is given to the relative size of the companies, the diversities of the markets served, the historical and predicted growth patterns of the organizations and other factors that have an effect on value.

In using the data abstracted from the market place adjustments have to be made to the data to be comparable to the subject property. The stock prices reported for publicly traded companies are based upon prices paid for minority share holdings in a business. Therefore a control premium was incorporated into the valuation to reflect the value based upon a marketable, majority basis. The control premium is the amount that a buyer is willing to pay above the current market price for a controlling interest in the company. The premium reflects the buyer's ability to set policies, direct operations, and otherwise manage a business. The control premium is industry specific and typically amounts to 20% to 40% of the market capitalization. However, control premium studies report transactional price premiums rather than actual ownership control premiums. The transaction premiums, in addition to reflecting the control premium, reflect other variables such as anticipated synergies and perceptions regarding price to earnings ratios in the market place. Therefore, the control premium utilized in the current analysis is at the lower end of the range and equals 20%.

The chart at the end of this section summarizes our analysis with respect to this approach. The chart demonstrates that the average Revenue multiple (Enterprise Value/Revenue) for the guideline companies was equal to 1.66 and the median was 1.49. The chart demonstrates that the average EBITDA multiple of the guideline companies (Enterprise Value/EBITDA) was equal to 10.76 and the median was 10.04. The guideline companies as a group had EBITDA margins slightly superior to the Subject's fiscal 2015 EBITDA margin; with the guideline companies having an average EBITDA of 15.42% and a median of 14.36% versus the Subject's fiscal 2015 EBITDA of 13.8%.

Though there are significant differences in many aspects of the companies chosen to compare to the subject, prudent investors contemplating the purchase of the subject's business lines would consider all or some of these companies as alternative investment opportunities. Adjustments to the guideline company multiples based on a comparison to the subject would be made on a number of factors. We believe that some of the primary criteria that would impact the value of the subject in comparison to the group of guideline companies studied would be the size of the

companies, the diversity of the markets served, and the relative EBITDA margins of the entities. Though we do not believe, due to the limited size of the sample, that direct quantitative adjustments can be derived, we believe that based upon a consideration of the overall qualitative factors that an overall adjustment can be made to the guideline companies to arrive at a reasonable Fair Value for the subject property. Based on the Subject's smaller size and lack of diversity; we have discounted the median multiples of the comparable companies by 35%.

Based upon a consideration of these factors, the overall value for the Subject would be equal to $214,800,000, prior to adjustments for working capital considerations.

The multiples utilized assume that a debt-free net working capital balance is present. Based upon this data we utilized a required working capital balance near the average/medians of the guideline companies, or 11.0%, of net anticipated revenues as being an appropriate working capital balance to maintain or be contributed upon transfer of the property. For the subject property this works out to $25,272,500. Since the Subject had debt-free net working capital of $22,548,493 as stated on the balance sheet adjusted for short-term investments as of April 30, 2015 the $2,724,007 shortfall against the market has been subtracted from our prior conclusion.

The overall value for the operating business was concluded at $212,100,000. Our conclusions are shown in the table on the following page.

Company Name	Share Price 7/1/2015	Adjusted Equity Value[1]	Adjusted Enterprise Value	% Debt	Revenues	EBITDA	Debt Free NWC	% Debt Free NWC	Beta	EBITDA Margin	Revenue Multiple	EBITDA Multiple
Universal Health Services Inc. (UHS)	$ 142.71	15,719,221,080	19,197,904,080	18.94%	8,352,365,000	1,500,646,000	550,988,000	6.60%	1.22	17.97%	2.30	12.79
Tenet Healthcare Corp. (THC)	$ 58.50	6,965,244,000	19,432,244,000	67.50%	17,117,000,000	1,936,000,000	1,900,000,000	11.10%	1.11	11.31%	1.14	10.04
Community Health Systems, Inc. (CYH)	$ 63.00	8,923,068,000	26,815,068,000	67.00%	19,374,000,000	2,782,000,000	2,494,000,000	12.87%	0.95	14.36%	1.38	9.64
HCA Holdings, Inc. (HCA)	$ 90.87	45,179,110,080	76,020,110,080	42.99%	37,762,000,000	7,730,000,000	3,995,000,000	10.58%	1.00	20.47%	2.01	9.83
LifePoint Health, Inc. (LPNT)	$ 87.21	4,637,130,120	7,070,530,120	35.17%	4,739,600,000	614,800,000	797,300,000	16.82%	1.22	12.97%	1.49	11.50
HIGH:			$76,020,110,080	67.50%	$37,762,000,000			16.82%	1.22	20.47%	2.30	12.79
LOW:			$7,070,530,120	18.94%	$4,739,600,000			6.60%	0.95	11.31%	1.14	9.64
AVERAGE:				46.32%				11.59%	1.10	15.42%	1.66	10.76
MEDIAN:				42.99%				11.10%	1.11	14.36%	1.49	10.04

(1) Adjusted upward 20% to account for a control premium
(2) Information from Yahoo Finance and SEC annual and quarterly reports, KishHealth FY 2015 13.8%
Qualitative Comparisons (Subject Compared to Market Comparables as a Group)

Unit of Comparison	Status	Adjustment
Size of Company	Inferior	Downward
Diversity of Market Served	Inferior	Downward
EBITDA Margin	Inferior	Downward
Overall Adjustment	**Downward**	

KishHealth System		
Description	Revenues	EBITDA
Adjustment	-35%	-35%
Adjusted Multiple*	0.970	6.524
Subject Comparable Units	$ 229,750,000	$ 31,704,000
Value Indication	$ 222,781,520	$ 206,844,996
Weighting	50%	50%
Total Asset Value as Unencumbered and assuming market based working capital (Rounded)	$214,800,000	
Market Required Working Capital Balance	$ (25,272,500)	
Actual Working Capital Balance	$ 22,548,493	
Less: Deficient (Excess) Working Capital	$ (2,724,007)	
Business Enterprise Value	$ 212,075,993	
Overall Value Rounded	$ 212,100,000	

Guideline Transactions Method

The guideline transaction method of the market approach provides an indication of value for the appraised entities by relating the value of the invested capital (equity and interest-bearing debt) of guideline companies, based on market transactions, to various measures of their earnings and revenues, then applying such multiples to the businesses being appraised.

The guideline transaction method is a useful indication of value involving actual acquisitions of individual hospital's and hospital companies in the public market. The basic methodology of the guideline transaction method is deriving market multiples from the prices at which entire companies are being acquired in the marketplace.

In researching transaction data we primarily relied upon data contained in the *Health Care Acquisition Report, Eighteenth through Twenty-First Editions; 2012-2015;* published by Irving Levin Associates, Inc. Irving Levin Associates has been charting and gathering data on healthcare transactions for the past fifteen years. The data is based upon both announced and closed transaction data. It should be noted that the actual purchase considerations paid often do not match up directly against the published data. We find, though, that this data does represent a good general indication of prices found in the marketplace.

Based upon our knowledge of the published sales we generally find that the data found in the report does not reflect consideration for working capital assets or excess assets associated with a sale of a facility.

The data is summarized in the following chart.

Announcement Date	Seller	Number of Beds	Consideration	Revenue Multiple	EBITDA Multiple	Price/Bed	EBITDA Margin	EBITDA/Bed
01/08/14	Wilson Medical Center	274	$96,000,000	0.68	3.82	$350,365	17.8%	$91,642
02/17/14	Chindex International, Inc.		$461,000,000	2.71	29.27	N/A	9.3%	N/A
02/20/14	Foundation Surgical Hospital		$18,900,000	N/A	N/A	N/A	N/A	N/A
02/28/14	Mercy Regional Health Center	111	$7,000,000	0.08	0.54	$63,063	13.9%	$116,035
03/24/14	Cypress Pointe Surgical Hospital	30	$25,000,000	0.83	7.06	$833,333	11.7%	$118,005
05/12/14	Long Beach Medical Center	162	$11,800,000	N/A	N/A	$72,840	N/A	N/A
05/29/14	East Orange General Hospital	212	$84,000,000	N/A	N/A	$396,226	N/A	N/A
06/26/14	UA Health Network		$446,000,000	N/A	N/A	N/A	N/A	N/A
07/01/14	Houston Orthopedic & Spine Hospital campus	64	$76,000,000	N/A	N/A	$1,187,500	N/A	N/A
08/01/14	MedWest Haywood	138	$36,000,000	0.34	9.11	$260,870	3.7%	$28,631
08/21/14	Conemaugh Health System	600	$500,000,000	0.97	N/A	$833,333	N/A	N/A
08/25/14	12 healthcare properties		$283,000,000	N/A	N/A	N/A	N/A	N/A
09/09/14	Community Medical Center	151	$74,800,000	0.46	5.19	$495,364	8.9%	$95,414
10/06/14	Culpeper Regional Hospital	70	$50,000,000	0.72	12.61	$714,286	5.7%	$56,661
10/31/14	Citrus Memorial Hospital	198	$195,000,000	1.09	34.30	$984,848	3.2%	$28,710
11/06/14	SwedishAmerican Health System		$255,000,000	N/A	N/A	N/A	N/A	N/A
11/20/14	Saint Joseph Mercy Port Huron	164	$20,000,000	0.25	2.42	$121,951	10.2%	$50,396
12/04/14	Callaway Community Hospital	36	$6,000,000	0.37	17.28	$166,667	2.1%	$9,646
12/16/14	Runnells Specialized Hospital	44	$26,000,000	1.05	N/A	$590,909	N/A	N/A
12/23/14	Bert Fish Medical Center	112	$40,000,000	0.42	7.16	$357,143	5.9%	$49,874
01/02/13	Knapp Medical Center	209	$110,000,000	0.86	13.46	$526,316	6.4%	$39,113
02/03/13	Cancer Center at Metro Health Village	208	$6,200,000	N/A	N/A	$29,808	N/A	N/A
02/21/13	Emanuel Medical Center	354	$5,000,000	0.02	0.39	$14,124	6.1%	$36,211
03/08/13	Cleveland County HealthCare System	504	$101,000,000	0.45	4.08	$200,397	11.1%	$49,171
03/22/13	CharterCARE Health Partners	454	$95,000,000	N/A	N/A	$209,251	N/A	N/A
03/28/13	Two Kansas Hospitals	232	$54,300,000	0.29	N/A	$234,052	N/A	N/A
04/19/13	St. Luke's Episcopal Health System	1,098	$1,000,000,000	0.78	37.66	$910,747	2.1%	$24,180
06/23/13	Altoona Regional Health System	402	$10,000,000	0.03	0.16	$24,876	16.4%	$151,781
06/24/13	Vanguard Health Systems, Inc.	7,081	$4,300,000,000	0.72	12.05	$607,259	5.9%	$50,402
07/01/13	Physicians Specialty Hospital	20	$22,625,000	0.24	15.13	$1,131,250	1.6%	$74,758
07/11/13	Stanly Health Services	119	$70,000,000	0.67	4.96	$588,235	13.4%	$118,643
07/16/13	Verdugo Hills Hospital	158	$30,000,000	0.32	3.48	$189,873	9.3%	$54,513
07/18/13	3 IASIS Healthcare Hospitals	691	$146,000,000	0.63	9.24	$211,288	6.8%	$22,874
07/18/13	El Paso Surgical Center and MOB	40	$40,000,000	1.42	N/A	$1,000,000	N/A	N/A
07/30/13	Health Management Associates, Inc.	11,000	$7,600,000,000	1.30	10.82	$690,909	12.0%	$63,871
08/06/13	Portage Health	96	$40,000,000	0.49	4.41	$416,667	11.0%	$94,388
08/14/13	3 IASIS Healthcare hospitals	670	$283,300,000	N/A	N/A	$422,836	N/A	N/A
10/25/13	Oak Park Hospital	237	$21,100,000	0.20	9.22	$89,030	2.1%	$9,657
01/24/12	Memorial Health Systems	100	$45,000,000	0.46	6.34	$450,000	7.3%	$71,000
02/03/12	Integris Health joint venture	226	$60,000,000	N/A	N/A	$265,487	N/A	N/A
02/08/12	Cumberland River Hospital	36	$6,750,000	0.61	N/A	$187,500	N/A	N/A
02/28/12	Decatur General Hospital	242	$25,000,000	0.22	4.24	$103,306	5.2%	$24,380
03/01/12	Satilla Health Services	231	$51,000,000	0.33	12.14	$220,779	2.7%	$18,182
03/06/12	Marquette General Health System	307	$147,000,000	0.60	9.42	$478,827	6.4%	$50,814
03/09/12	Memorial Hospital and Convalescent Center	155	$8,300,000	N/A	N/A	$53,548	N/A	N/A
03/27/12	Christ Hospital	227	$43,500,000	0.35	31.07	$191,630	1.1%	$6,167
04/03/12	Bay Medical Center	323	$154,000,000	0.60	16.21	$476,780	3.7%	$29,412
04/04/12	New England Sinai Hospital	212	$37,000,000	0.50	N/A	$174,528	N/A	N/A
05/01/12	Auburn Regional Medical Center	159	$98,000,000	0.72	5.76	$616,352	12.6%	$106,918
06/01/12	Westerly Hospital	101	$69,000,000	0.76	11.96	$683,168	6.4%	$57,129
06/12/12	Jefferson Regional Medical Center	376	$275,000,000	1.34	12.17	$731,383	11.0%	$60,106

Attachment Response 10

Announcement Date	Seller	Number of Beds	Consideration	Revenue Multiple	EBITDA Multiple	Price/Bed	EBITDA Margin	EBITDA/Bed
07/01/12	Fox Chase Cancer Center	100	$83,800,000	0.24	N/A	$838,000	N/A	N/A
07/02/12	Bakersfield Heart Hospital	47	$38,100,000	N/A	N/A	$810,638	N/A	N/A
08/27/12	Hawaii Medical Center - West Campus	102	$70,000,000	N/A	N/A	$686,275	N/A	N/A
10/19/12	St. Vincent's Health System	400	$65,000,000	0.20	4.24	$162,500	4.7%	$38,285
11/14/12	University of Louisville Hospital	345	$543,500,000	1.21	49.77	$1,575,362	2.4%	$31,650
11/15/12	Arkansas Surgical Hospital	51	$36,200,000	0.70	2.71	$709,804	26.0%	$261,817
12/05/12	South Hampton Community Hospital	111	$30,000,000	0.75	2.00	$270,270	37.5%	$135,135
12/10/12	Medical Center of Newark	20	$26,000,000	1.43	N/A	$1,300,000	N/A	N/A
12/13/12	New York Westchester Square Medical Center	140	$14,000,000	0.18	N/A	$100,000	N/A	N/A
12/15/11	Alamance Regional Medical Center	218	$200,000,000	1.12	8.47	$917,431	11.0%	$108,315
11/29/11	Health Central	177	$177,000,000	1.62	11.41	$1,000,000	11.8%	$87,642
09/29/11	Bay Medical Center	323	$155,000,000	0.71	16.31	$479,876	3.6%	$29,422
09/06/11	Mercy Hospital & Medical Center	449	$150,000,000	0.71	9.80	$334,076	6.0%	$34,089
09/01/11	Logan Medical Center	25	$7,200,000	0.38	7.20	$288,000	4.4%	$40,000
07/28/11	Tomball Regional Medical Center	358	$209,500,000	1.66	11.90	$585,196	11.6%	$49,176
07/19/11	Moses Taylor Health Care System	242	$152,000,000	1.22	16.00	$628,099	6.4%	$39,256
06/28/11	Southcrest Hospital, Claremore Regional	269	$154,200,000	0.98	5.12	$573,234	16.0%	$111,960
06/03/11	Person Memorial Hospital	102	$22,700,000	0.65	10.80	$222,549	5.0%	$20,606
04/27/11	Alexian Brothers Health System	752	$645,000,000	0.80	6.32	$857,713	10.6%	$135,714
03/11/11	Hoopeston Regional Health Center	25	$12,400,000	0.72	8.85	$496,000	6.8%	$56,045
02/01/11	Hamot Medical Center	351	$300,000,000	1.14	9.09	$854,701	10.5%	$94,026
01/17/11	Johnston Memorial Hospital	25	$1,600,000	0.61	N/A	$64,000	N/A	N/A
10/03/11	Louisiana Medical Center & Heart Hospital	137	$23,000,000	0.55	N/A	$167,883	N/A	N/A
10/20/11	Cleveland Regional Medical Center	107	$68,500,000	1.43	N/A	$640,187	N/A	N/A
10/27/11	Twin County Regional Hospital	86	$37,500,000	1.02	N/A	$436,047	N/A	N/A
11/29/11	The Drake Center	166	$15,000,000	0.31	N/A	$90,361	N/A	N/A
12/12/11	MetroSouth Medical Center	244	$70,500,000	0.56	N/A	$288,934	N/A	N/A
04/20/11	Tri-Lakes Medical Center (95%)	112	$43,263,158	1.14	6.29	$386,278	15.1%	$61,411
05/15/11	UNC Healthcare System Rex Healthcare System	439	$750,000,000	N/A	N/A	$1,708,428	N/A	N/A
06/25/11	West Penn Allegheny Health System Inc	1,200	$1,500,000,000	N/A	N/A	$1,250,000	N/A	N/A
06/07/11	Lanmdark Medical Center, Wonsocket RI	214	$65,000,000	N/A	N/A	$303,738	N/A	N/A
05/31/11	Morton Hospital and Medical Center	119	$168,500,000	N/A	N/A	$1,415,966	N/A	N/A
05/13/11	Ameris Helath Systems LLC ; Smith Northview Hospi	29	$40,000,000	1.20	6.60	$1,379,310	15.2%	$208,986
05/12/11	Mercy Health Partners Knoxville (7 hospitals)	803	$525,000,000	1.08	N/A	$653,798	N/A	N/A
04/25/11	Hoboken University Medical Center	177	$91,700,000	0.96	N/A	$518,079	N/A	N/A
03/31/11	Texas Regional Medical Center	70	$62,700,000	N/A	N/A	$895,714	N/A	N/A
03/25/11	Hospital of Saint Raphael	423	$135,000,000	N/A	N/A	$319,149	N/A	N/A
03/22/11	St. Mary's Hospital Waterbury Connecticut	347	$135,000,000	N/A	N/A	$389,049	N/A	N/A
03/18/11	St. Joseph Medical Center Houston Texas (78.2%)	792	$210,997,442	N/A	N/A	$266,411	N/A	N/A
03/18/11	Cheyenne Regional Medical Center	217	$181,500,000	0.84	N/A	$836,406	N/A	N/A
02/23/11	Jackson Health System	2,482	$1,100,000,000	N/A	N/A	$443,191	N/A	N/A
02/08/11	Mercy Health Partners Scranton, PA	389	$150,000,000	0.68	12.57	$385,604	4.5%	$30,677
			Low	0.02	0.16	$14,124	1.1%	$6,167
			High	2.71	49.77	$1,708,428	37.5%	$261,817
			Mean	0.74	10.93	$523,718	8.9%	$67,312
			Median	0.69	9.10	$446,595	6.8%	$50,814

Data from the Health Care Acquisition Report, Eighteenth through Twenty-First Editions; 2012-2015; published by Irving Levin Associates, Inc.

Attachment Response 10

Transactions	Revenue Multiple	EBITDA Multiple	Price/Bed	EBITDA Margin	EBITDA/Bed
Low	0.02	0.16	$14,124	1.1%	$6,167
High	2.71	49.77	$1,708,428	37.5%	$261,817
Mean	0.74	10.93	$523,718	8.9%	$67,312
Median	0.69	9.10	$446,595	6.8%	$50,814

KishHealth System - FY 2015

	Revenue	EBITDA	Beds	EBITDA Margin	EBITDA/Bed
FY 2015	$ 229,750,000	$ 31,704,000	123	13.8%	$ 257,756
Selected Multiple	0.80	7.00	$1,500,000		
Indications	$ 183,800,000	$221,928,000	$184,500,000		
Weights	40.0%	50.0%	10.0%		

Indicated Value	**$ 202,934,000**
Overall Indication Before Adjustments	**$ 202,900,000**
Plus: Debt-Free Net Working Capital	$ 22,548,493
Overall Value (Rounded)	**$ 225,400,000**

We found 93 transactions that involved sales of hospitals that could establish some reasonable valuation benchmarks for the subject. These sales indicated an overall revenue multiple range from 0.02 to 2.71 with the mean of 0.74 and a median of 0.69. These sales indicated an overall EBITDA multiple range from 0.16 to 49.77 with a mean of 10.93 and a median of 9.10.

The Subject has an EBITDA margin of 13.8% for the fiscal year ended April 30, 2015, which is greater than the median EBITDA margin of the transacted companies of 6.8% and the average of 8.9%. A revenue multiple of 0.80 was selected which is above the median multiple to account for the subject's superior earnings. An EBITDA multiple slightly below the median, or 7.0, was utilized as we believe this multiple to be less influenced by margin percentages.

The EBITDA-per-bed is far superior at approximately five times the median of the transactions, indicating a far superior price-per-bed than the median. A price-per-bed multiple of $1,500,000 was utilized as it sits near the highest level of the comparable data.

Weighting the EBITDA multiple at 50% and the revenue and price-per-bed multiples at 40% and 10%, respectively, and adjusting for working capital transferred (generally not included in comparable data), a rounded value of the operating business of the Subject was indicated at $225,400,000.

MARKET APPROACH SUMMARY

Giving consideration to both the Guideline Company and Guideline Transaction approach yields a value range from $212,100,000 to $225,400,000, exclusive of non-operating assets. Since limited information is provided about the overall assets transferred in the Guideline Transaction approach, in particular working capital assets, we tend to place primary reliance upon the Guideline Company Approach (weighted 75%) and accordingly have estimated the operating value of the enterprise under the market approach at $215,425,000.

SECTION 5. VALUE CONCLUSION

RECONCILIATION OF VALUE

The primary purpose of our analysis was to provide a market value of the business enterprise that comprises KishHealth System and Subsidiaries.

In developing the overall value we considered the value of the overall operating assets and non-operating assets. The value of the non-operating assets have been based upon the asset values as reported on the April 30, 2015 balance sheet. In deriving our value for the operating assets of the business enterprise consideration was given to the Income and Market Approaches to value.

The results of the Income Approach and the Market Approach indicated a range of $182,100,000 to $215,425,000. We believe that these indications set a reasonable range of value for the subject's operating enterprise.

Non-Operating Assets have been added to the totals derived above to arrive at the overall Business Enterprise Value of the Subject property. The non-operating assets specifically considered are shown below:

Non-Operating Assets	
Assets whose use is limited	$17,652,908
Restricted pledges, net of current portion	$138,708
Long-term investments	$62,444,918
Short-term investments	$147,614,448
Total Non-Operating Assets (April 30, 2015 Book Value)	**$227,850,982**

Based upon a consideration of these factors the following chart summarizes our findings with respect to the overall business enterprise of KishHealth System and Subsidiaries.

KishHealth System Summary and Conclusion			
	Indicated Value		Indicated Value
Discounted Cash Flow Approach			$182,100,000
Market Based Approaches			$215,425,000
Public Company Approach	$212,100,000		
Transaction Approach	$225,400,000		
Total Operating Value	**$182,100,000**	**to**	**$215,400,000**
Non-Operating Assets			
Assets whose use is limited	$17,652,908		$17,652,908
Restricted pledges, net of current portion	$138,708		$138,708
Long-term investments	$62,444,918		$62,444,918
Short-term investments	$147,614,448		$147,614,448
Total Non-Operating Assets (April 30, 2015 Book Value)	**$227,850,982**		**$227,850,982**
Total Business Enterprise Value (Rounded)	**$410,000,000**	**to**	**$443,300,000**
Long-term Liabilities	$80,934,948		$80,934,948
Equity or Fund Balance	**$329,100,000**	**to**	**$362,400,000**

Based upon the results of our analysis, the market value of the Business Enterprise of KishHealth System, as of July 1, 2015, is reasonably represented in the rounded amount of:

$410,000,000 TO $443,300,000

The Overall Enterprise currently has Long-Term Liabilities of $80,934,948. Subtracting the value of the Long-Term Liabilities from the value of the business enterprise would result in an equity or Fund Balance (Restricted and Unrestricted) value of:

$329,100,000 to $362,400,000

Attachment Response 10

APPENDICES

Attachment Response 10

ASSUMPTIONS AND LIMITING CONDITIONS

We strive to clearly and accurately disclose the assumptions and limiting conditions that directly affect a valuation analysis, opinion, or conclusion. This appraisal report has been made with the following general assumptions and limiting conditions. All analyses and conclusions in this appraisal are based on the following Assumptions and Limiting Conditions, Definitions and Concepts, and Identification of the Subject Property. Recognizing the premises of the appraisal is vital to this appraisal assignment and to the analyses and conclusions that grow out of these premises. This appraisal is expressly subject to the following:

1. By use of this valuation report, you agree to be bound by these Assumptions and Limiting Conditions.

2. No opinion is expressed for matters that require legal expertise, specialized investigation or knowledge beyond that customarily employed by valuation industry standard. No investigation has been made of, and no responsibility is assumed for, the legal description or legal matters related to the asset(s) being valued, including title or encumbrances. Title to the asset(s) is assumed to be good and marketable unless otherwise stated. The asset(s) is (are) assumed to be free and clear of any liens, easements or encumbrances unless otherwise stated.

3. Information furnished by others, upon which all or portions of this appraisal are based, is believed to be reliable, but has not been verified in all cases. No warranty is given as to the accuracy of such information.

4. Use of the valuation report for another purpose other than that which has been defined in the report could result in inaccurate or inappropriate conclusions.

5. Neither this report nor any portions thereof including, without limitations, any conclusions as to value, the identity of Principle Valuation or any individuals signing or associated with this report, or the professional associations or organizations with which they are affiliated shall be disseminated to third parties by any means or included or referred to in any Securities and Exchange Commission filing or other public document without the prior written consent and approval of Principle Valuation.

6. Any forecasts of income and expenses are not predictions of the future. Rather, they are our best estimates of current market and management thinking on future income and expenses. We make no warranty or representation that these forecasts will materialize. In addition, it is understood that through this valuation, you accept and take responsibility for any such projections as being realistic and reflective of market conditions as of the valuation date. Additionally, it is understood that such projections represent your realistic projections. The real estate and healthcare markets are constantly fluctuating and changing. It is not our task to predict or in any way warrant the conditions of a future market; we can only reflect what the investment community, as of the date of the engagement, envisions for the future in terms of rates, expenses, and supply and demand.

7. The valuation estimates are based on the status of the local business economy and the purchasing power of the dollar as of the date of the valuation report, unless otherwise stated in the report.

8. Valuation assignments are accepted with the understanding that there is no obligation to furnish services after completion of the original assignment. If the need for subsequent services related to a valuation assignment is contemplated, special arrangements acceptable to Principle Valuation can be made under separate agreement.

9. We are not required to give testimony in court with reference to the valuation or the report, unless otherwise previously arranged. If required to give such testimony or produce documents for the court on matters related to this engagement, you agree to reasonably compensate us for such services. These services and other additional services provided beyond the scope of the engagement letter will be billed separately.

10. We reserve the right to make adjustments to the analyses, opinions and conclusions set forth in this report as it may deem necessary by consideration of additional or more reliable data that may become available. However, we have no responsibility to update the report for events and circumstances occurring after the report date.

11. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national, government or private entity or organization have been, or can readily be, obtained or renewed for any use on which the value estimate contained in this report is based.

12. Full compliance with all applicable federal, state and local zoning, use, environmental and similar laws and regulations is assumed, unless otherwise stated.

13. Responsible ownership and competent property management are assumed.

14. Unless otherwise stated in this report, we have no knowledge of the existence of hazardous material on, or in, the property; however, we are not qualified to detect such substances. The presence of potentially hazardous substances such as asbestos, urea-formaldehyde foam insulation, or industrial wastes may affect the value of the property. The value estimate herein is predicated on the assumption that there is no such material on, in, or near the property that would cause a loss in value. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge required to discover them. The client should retain an expert in this field if further information is desired.

15. Unless otherwise stated in the report, compliance with the requirements of the Americans with Disabilities Act of 1990 (ADA) has not been considered in arriving at the opinion of value. Failure to comply with the requirements of the ADA may adversely affect the valuation. You may wish to obtain an expert in this field.

16. Our description and valuation of the improvements, including, but not limited to the heating, plumbing, and electrical systems is based on the assumption that they will be in normal working condition; no liability is assumed for the soundness of any structural member.

17. This is an Appraisal Report. All supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report.

CERTIFICATION

We certify to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- I have not previously appraised the property in the last three years.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon development or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice.*
- Sally Domijan, provided significant appraisal assistance to the person(s) signing this certification.

Patrick J Simers
Executive Vice President
Florida Certified General Real Estate Appraiser License #RZ3581

Attachment Response 10

TIMOTHY H. BAKER
PRESIDENT

EXPERIENCE

Mr. Baker has been in the appraisal industry since 1981 with a concentration on healthcare and senior living properties. His valuation experience includes valuing the business enterprise, real estate, and personal property. Valuations have been performed on a national and international basis. Consulting engagements include market and financial feasibility studies.

Mr. Baker has experience in the valuation of numerous healthcare facilities including acute care, behavioral health, and rehabilitation hospitals. Senior living properties include nursing homes, assisted living facilities, and retirement centers. Other related operations include research facilities, healthcare leasing companies, physician practices, and medical office buildings. Mr. Baker has also provided consultations on market assessment, demand analysis, reimbursement issues, development of fixed asset records, and provided analysis of strategic opportunities. Valuation reports prepared by Mr. Baker have been used for several purposes including public offerings, litigation support, HUD 232 and 242 mortgage insurance programs, acquisition/divestitures, property tax purposes, state reimbursement, estate planning, and for internal management decision making.

PROFESSIONAL HISTORY

- 2007 to present – President, Principle Valuation, LLC.
- 2001 to 2007 - Senior Vice President, Wellspring Valuation, Ltd.
- 1997 to 2001 - Vice President, Marshall & Stevens National Healthcare Practice.
- 1992 to 1997 - Senior Manager, Capital Valuation Group, specializing in the valuation of the business and real estate of senior living and healthcare related facilities.
- 1981 to 1992 – Manager, Valuation Counselors where he was responsible for performing a multitude of appraisal and consulting services for clients specializing in business enterprise, real estate, and machinery and equipment.

PROFESSIONAL AFFILIATIONS

- Advisory Committee Member American Senior Housing Association
- Healthcare Financial Management Association
- American Health Lawyers Association
- Associate Member Appraisal Institute

EDUCATION LICENSES, AND DESIGNATIONS

- 1980 graduate of Bucknell University with a Bachelor of Science in Business Administration
- Certified General Real Estate Appraiser Arizona, California, Indiana, Maryland, New Jersey, and New York

TESTIMONY

- Testified as expert witness in California, Colorado, Connecticut, New Hampshire, New Jersey and Pennsylvania

Attachment Response 10

PATRICK J. SIMERS
EXECUTIVE VICE PRESIDENT

EXPERIENCE

Mr. Simers has extensive experience in serving the valuation needs of the health-care industry. He has valued all tangible and intangible assets associated with health-care enterprises, including the capital stock of majority and minority share holdings; medical specialty and physician joint ventures; fee simple, leased fee, and leasehold interests in real estate for hospital systems, stand-alone hospital campuses, and medical office buildings; major and minor movable equipment; certificates of need; contractual agreements; and preferred provider arrangements.

Specific healthcare enterprises appraised include acute care hospital facilities, LTACH hospitals, psychiatric hospitals, rehab hospital facilities, single physician practices, multi-specialty practices, cath labs, diagnostic centers, cardiac care practices, home health agencies, nursing homes, assisted living facilities, and medical office buildings.

Mr. Simers has performed fair market value studies for purchase, sale, or financing; merger and acquisition consulting; negotiation of purchase price; fairness opinions; purchase price allocations; financial reporting; SEC reporting; Medicare regulatory requirements; Safe Harbor requirements; and 501(c)(3) private placement offerings.

PROFESSIONAL HISTORY

Mr. Simers began his appraisal career with Valuation Counselors in 1982 and held various consulting, business development, and management roles, including four years as president of Valuation Counselors, leading up to its merger with CBIZ Inc. Most recently, Mr. Simers has served as the National Director for Healthcare services for American Appraisal Associates where he spear-headed the development of healthcare services for this international appraisal firm.

Patrick J. Simers is Executive Vice President for Principle Valuation. He is responsible for the development and overall business plan for Principle's consulting and appraisal services to for-profit, nonprofit, and public health-care providers. Mr. Simers is located in Principle Valuation's Atlanta office.

PROFESSIONAL AFFILIATIONS

- American Health Lawyers Association
- Healthcare Financial Management Association

EDUCATION LICENSES, AND DESIGNATIONS

- Graduate of Northern Illinois University with a Bachelor of Science in Finance and Economics
- Graduate of Moraine Valley College with an Associate in Arts in Business Administration
- Certified General Real Estate Appraiser in Georgia
- Certified General Real Estate Appraiser in Florida (#RZ3581)

11. DATE OF PROPOSED TRANSACTION.

The date of the proposed transaction finalization is on or before December 31, 2015, contingent upon receipt of all necessary regulatory approvals.

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

Northwestern Memorial HealthCare (NMHC) and KishHealth System (KishHealth) seek approval of this Certificate of Exemption (COE) to allow for an affiliation which will result in a single integrated health system operating under the name "Northwestern Medicine" (NM System) that supports NMHC and KishHealth's shared vision to develop a fully integrated health system in DeKalb County that will provide a comprehensive array of services through the effective use of resources while simultaneously fostering discovery and education to improve patient care.

It is KishHealth's vision to join an innovative health system that would support significant improvements in health care delivery and outcomes and would preserve their investments in their communities. NMHC and KishHealth envision that the affiliation will allow NMHC to expand regionally to serve the health care needs of DeKalb County and the neighboring communities, and will allow KishHealth to improve the health status of the populations and communities it serves regardless of changes in care or payment models. In addition, NMHC and KishHealth envision that the affiliation will enable the most advanced health care to be provided with the support of an integrated academic health system, including necessary tertiary and quaternary care.

Through the affiliation, NMHC and KishHealth aim to improve the value of health care in the KishHealth service area by effectively capturing economies of scale and embracing the expansion of non-hospital-based care and new payment mechanisms. Both NMHC and KishHealth intend that the combined health system will maintain a strong financial operation model to generate the capital required to renew infrastructure, programs, and services. The proposed affiliation would create a strong and effective long-term relationship between the NMHC System and the KishHealth System ensuring that they continue to achieve their charitable missions.

Currently, KishHealth is the ultimate corporate parent of the following legal entities holding licenses as existing health care facilities (as defined in 77 I AC §1130.140): Kishwaukee Community Hospital (wholly owned by KishHealth), Valley West Community Hospital (wholly owned by KishHealth), and The Midland Surgical Center (partially owned by Kishwaukee Community Hospital).

KishHealth has entered into an Affiliation Agreement dated August 5, 2015 with NMHC pursuant to which NMHC will become the sole corporate member of KishHealth effective on or before December 31, 2015 and subject to the satisfaction of various closing conditions, including approval of this application by the Illinois Health Facilities and Services Review Board. After the closing of the transaction, NMHC will have the power to direct the management and policies of the licensees named above or their direct parent corporations. The transaction will constitute an indirect change of control of the licensees named above, and therefore a change of ownership (as defined in 77 IAC §1130.140). KishHealth and NMHC also anticipate that fifty percent or more of the Boards of Directors of KishHealth, Kishwaukee Community Hospital, and Valley West Hospital will change as a result of the transaction.

ATTACHMENT #3
Attachment Response 12

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

Affiliation Goals and Objectives

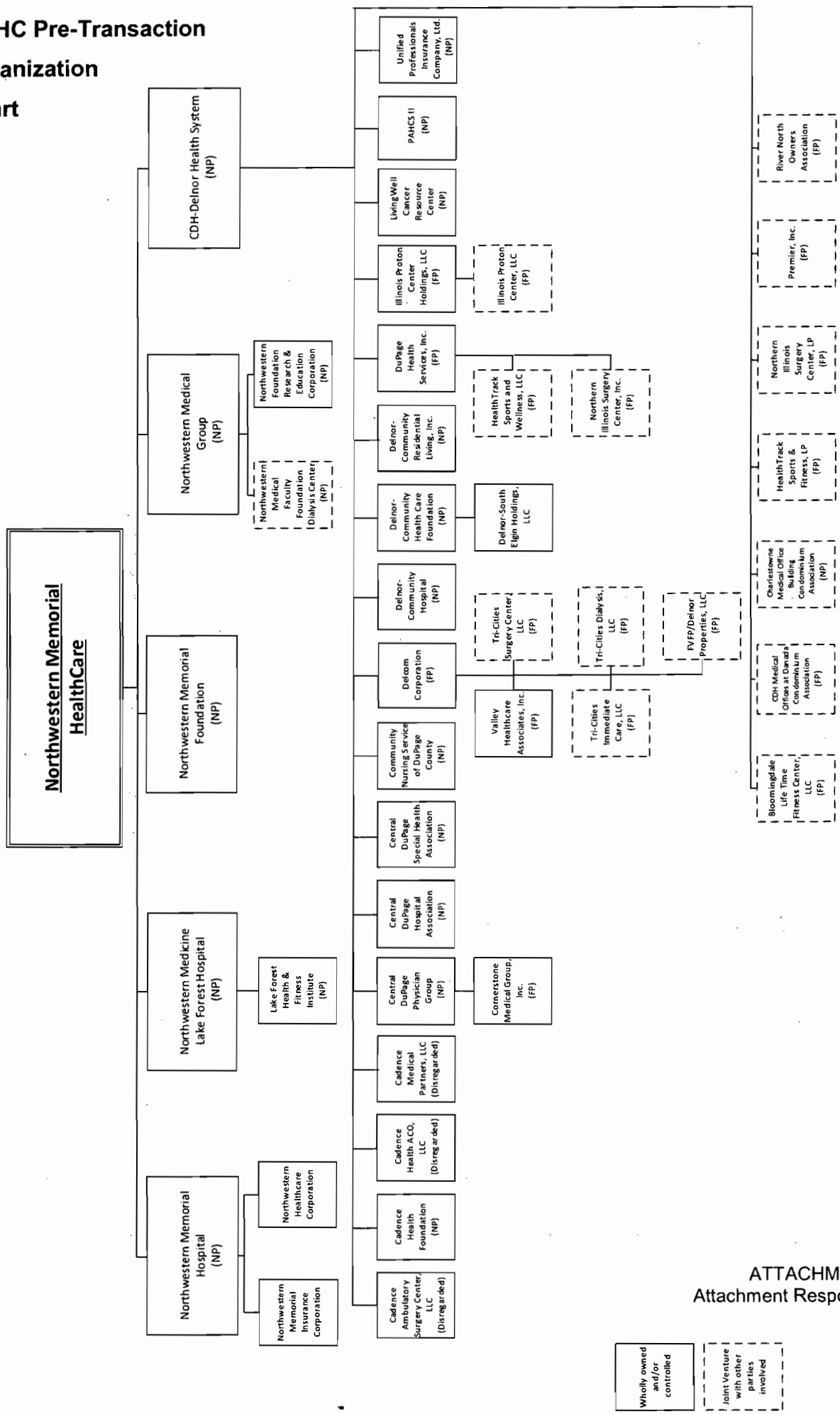
The proposed affiliation intends to further expand an integrated network comprised of nationally leading premier academic health enterprise and an exceptionally successful, community-based health system that incorporates and builds upon the best elements of NMHC and KishHealth's current health systems.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

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

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

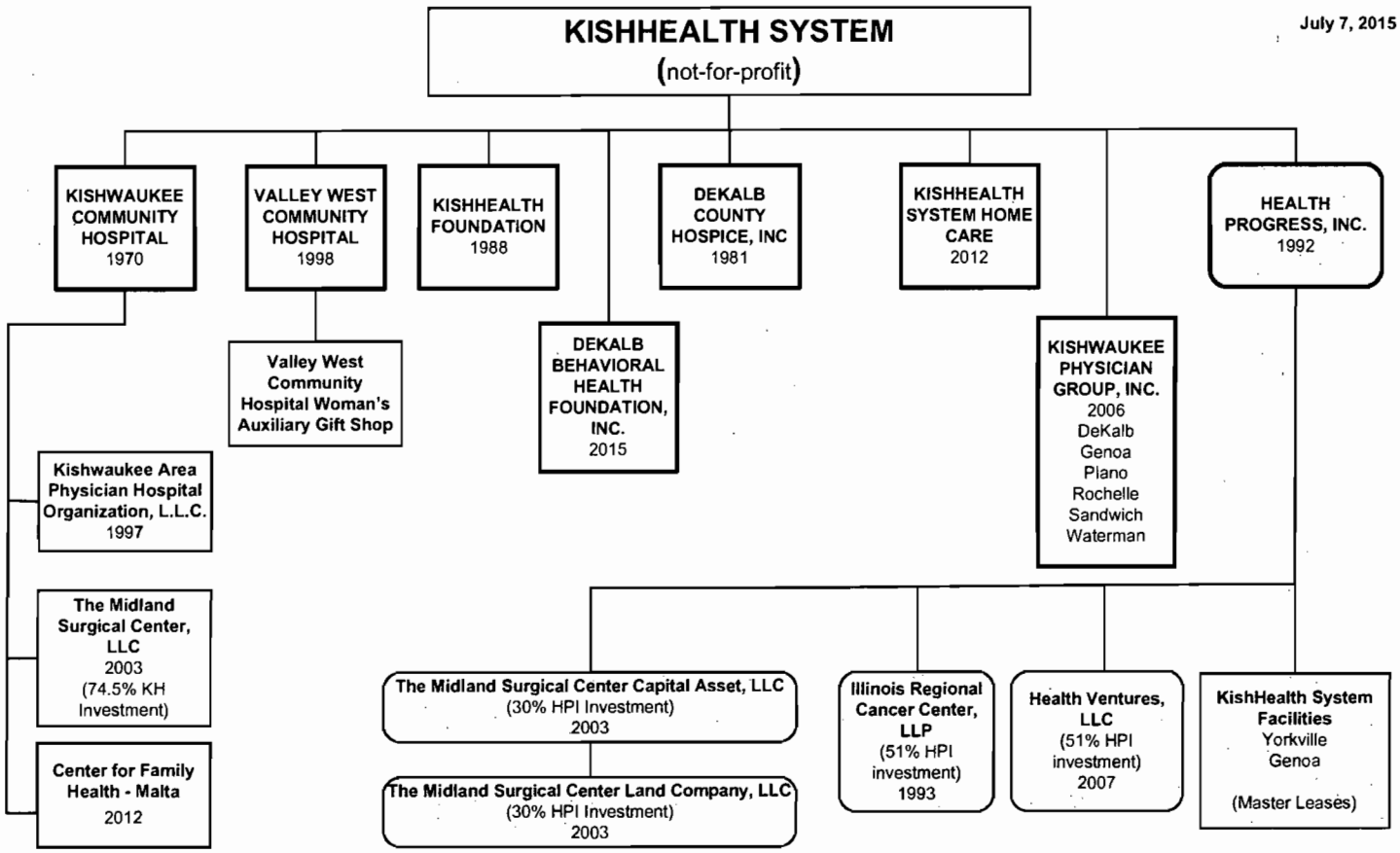
- furthers the charitable missions of NMHC and KishHealth
- continues to improve access to comprehensive, convenient, high quality, lower cost inpatient and outpatient healthcare throughout the communities served by the NM System
- continues to improve the health status of the population of the communities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

NMHC Pre-Transaction Organization Chart



ATTACHMENT #3
Attachment Response 12

KishHealth Pre-Transaction Organization Chart



ATTACHMENT #3
Attachment Response 12

KishHealth System's Existing Health Care Facilities

HEALTH CARE FACILITY	DIRECT CORPORATE OWNERSHIP	LICENSEE	PROPERTY OWNER
Kishwaukee Hospital	• KishHealth System/100%	Kishwaukee Community Hospital I.D. Number: 0005470	Kishwaukee Community Hospital
Valley West Hospital	• KishHealth System/100%	Valley West Community Hospital I.D. Number:0004690	Valley West Community Hospital
The Midland Surgical Center, LLC	• Kishwaukee Community Hospital – 74.5% • TMSCP, LLC – 20% • Regent Surgical Health, LLC – 2.25% • Regent Investment Management, Inc. - .25% • Three individual physicians – 3%	The Midland Surgical Center, LLC ID Number: 7003148	Land: The Midland Surgical Center Land Company, LLC Building: The Midland Surgical Center Capital Asset, LLC

ATTACHMENT #3
Attachment Response 12

TMSCP, LLC

July 30, 2015

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

RE: KishHealth System—Northwestern Memorial HealthCare Affiliation

Dr. Ms. Olson:

The Midland Surgical Center, LLC is aware of the proposed affiliation between Northwestern Memorial HealthCare and KishHealth System. We do not anticipate this affiliation negatively affecting our joint venture relationship.

Sincerely,

Steven G. Glasgow
Managing Partner

SGG/nrk

Steven G. Glasgow, Managing Partner
Cell 815-739-2135
E-mail steven.glasgow@kishwest.com
Assistant Nichole R. King
Nichole.King@nmh.org
Phone 815.971.2380

ATTACHMENT #3
Attachment Response 12

REGENT SURGICAL HEALTH

Experience. Capital. Results.

July 27, 2015

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

RE: KishHealth System—Northwestern Memorial HealthCare Affiliation

Dr. Ms. Olson:

The Midland Surgical Center, LLC is aware of the proposed affiliation between Northwestern Memorial HealthCare and KishHealth System. We do not anticipate this affiliation negatively affecting our joint venture relationship.

Sincerely,

William M. Karnes
Co-Founder and Board Member
Regent Surgical Health

4 Westbrook Corporate Center
Suite 440
Westchester, IL 60154

P. 708-492-0531
F. 708-731-5134
www.RegentSurgicalHealth.com

ATTACHMENT #3
Attachment Response 12

Regent Investment Management, Inc.
c/o Scott Becker
77 West Wacker
Suite 4100
Chicago, IL 60601

July 27, 2015

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

RE: KishHealth System—Northwestern Memorial HealthCare Affiliation

Dr. Ms. Olson:

The Midland Surgical Center, LLC is aware of the proposed affiliation between Northwestern Memorial HealthCare and KishHealth System. We do not anticipate this affiliation negatively affecting our joint venture relationship.

Sincerely,

Scott Becker

Scott Becker

ATTACHMENT #3
Attachment Response 12

KishHealth System
Be Health Empowered.

Medical Staff Office
1 Kish Hospital Drive
DeKalb, IL 60115
p: 815.756.1521 x153572 | f: 815.756.7665

July 28, 2015

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

RE: KishHealth System—Northwestern Memorial HealthCare Affiliation

Dr. Ms. Olson:

The Midland Surgical Center, LLC is aware of the proposed affiliation between Northwestern Memorial HealthCare and KishHealth System. We do not anticipate this affiliation negatively affecting our joint venture relationship.

Sincerely,

Jay Burstein

Jay Burstein, MD

KishHealth System
Be Health Empowered.

Medical Staff Office
1 Kish Hospital Drive
DeKalb, IL 60115
p: 815.756.1521 x153572 | f: 815.756.7665

July 28, 2015

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

RE: KishHealth System—Northwestern Memorial HealthCare Affiliation

Dr. Ms. Olson:

The Midland Surgical Center, LLC is aware of the proposed affiliation between Northwestern Memorial HealthCare and KishHealth System. We do not anticipate this affiliation negatively affecting our joint venture relationship.

Sincerely,

Sajit Bux, MD

ENT

July 27, 2015

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

RE: KishHealth System—Northwestern Memorial HealthCare Affiliation

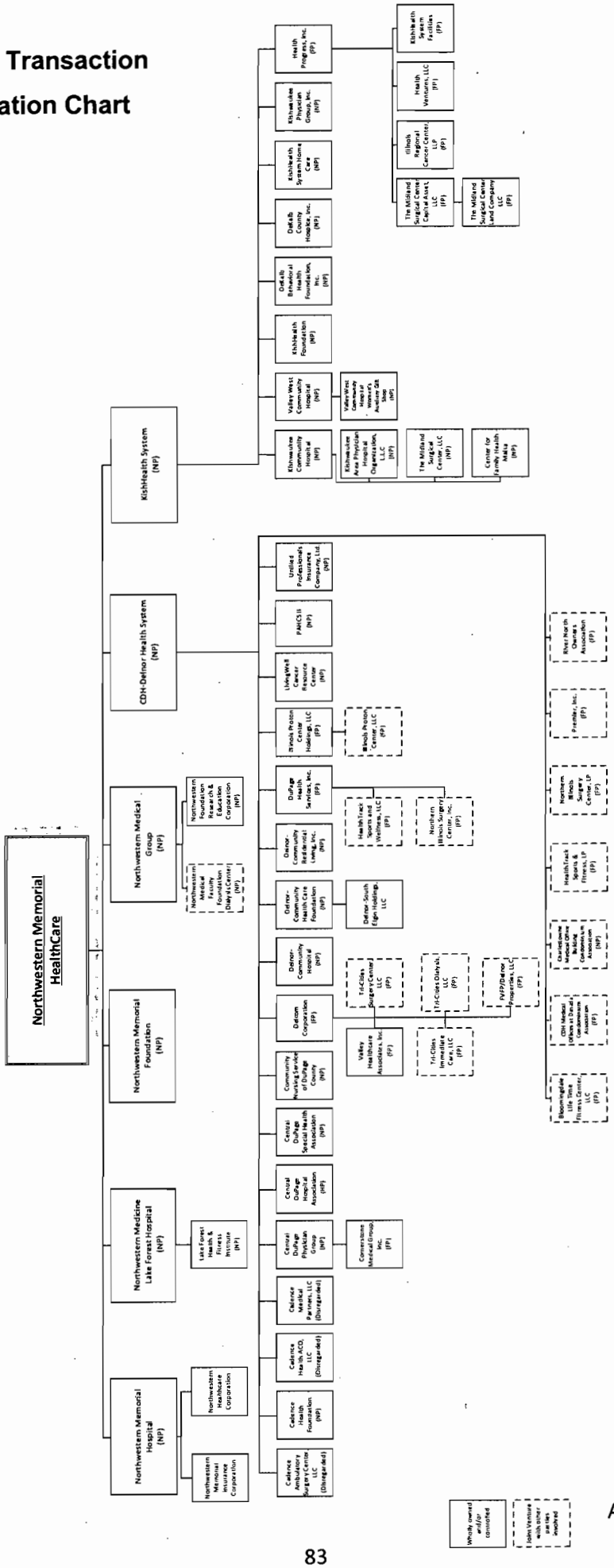
Dr. Ms. Olson:

The Midland Surgical Center, LLC is aware of the proposed affiliation between Northwestern Memorial HealthCare and KishHealth System. We do not anticipate this affiliation negatively affecting our joint venture relationship.

Sincerely,

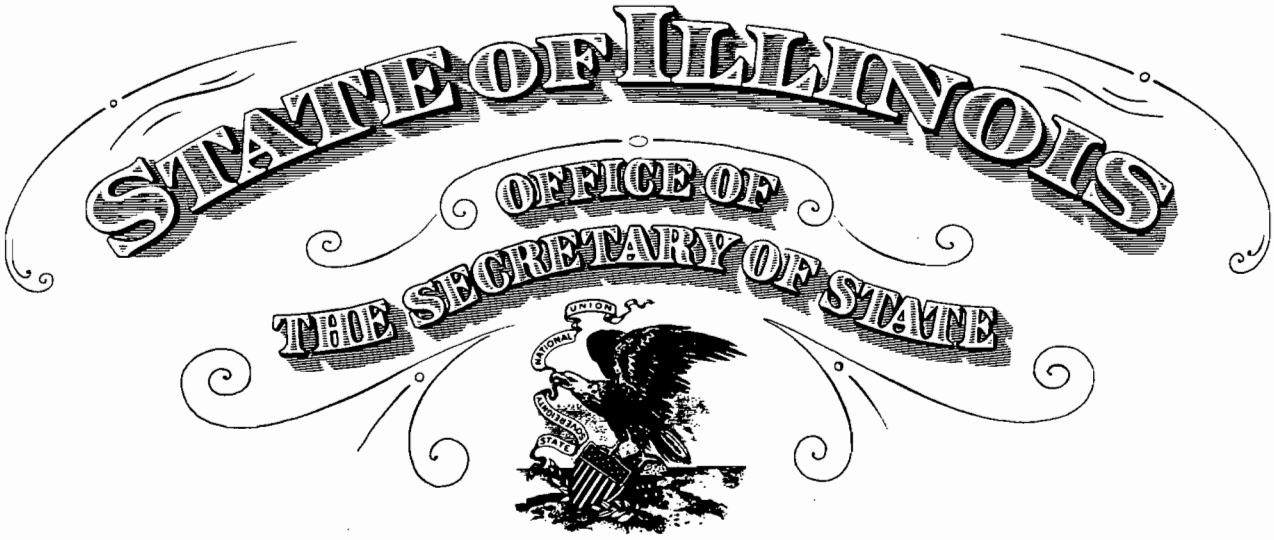
Joseph M. Scianna, M.D.
Northern Illinois ENT Specialists, LTD

Proposed Post Transaction
NMHC Organization Chart



ATTACHMENT #3
Attachment Response 12

File Number 5257-740-3



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

NORTHWESTERN MEMORIAL HEALTHCARE, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON NOVEMBER 30, 1981, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 21ST *day of* JULY *A.D.* 2015 .

Jesse White

SECRETARY OF STATE

Authentication #: 1520201406 verifiable until 07/21/2016

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

ATTACHMENT #4
Attachment Response 13

File Number 5500-387-4

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

KISHHEALTH SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MARCH 14, 1988, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 21ST *day of* JULY ***A.D.*** 2015 .

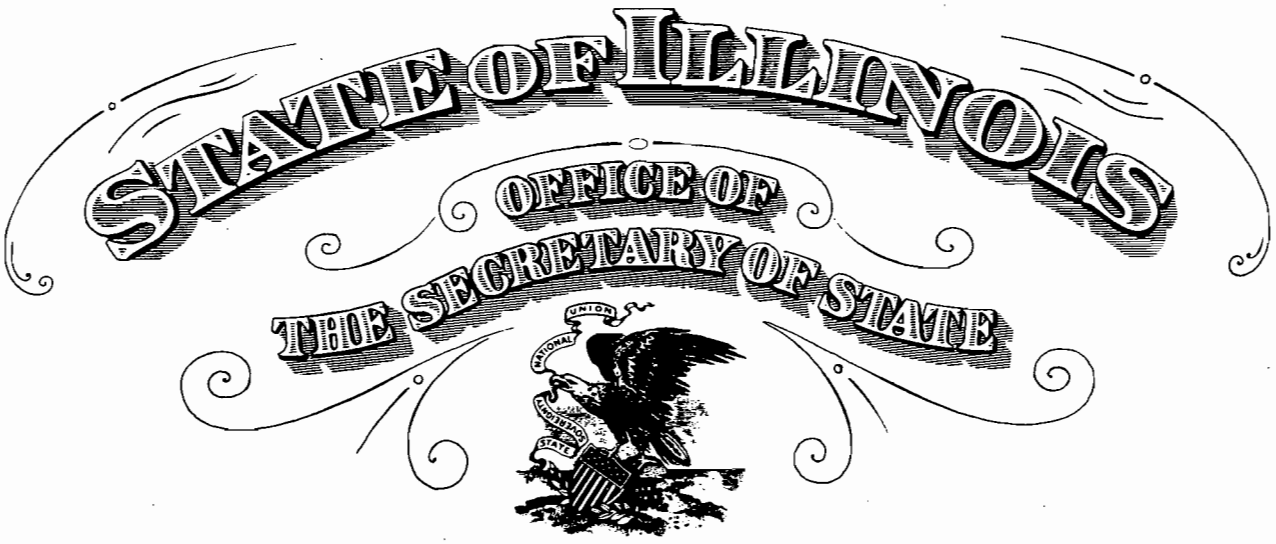
Jesse White

SECRETARY OF STATE

Authentication #: 1520201230 verifiable until 07/21/2016
Authenticate at: http://www.cyberdriveillinois.com

ATTACHMENT #4
Attachment Response 13

File Number 4962-796-3



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

KISHWAUKEE COMMUNITY HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON FEBRUARY 25, 1970, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 21ST *day of* JULY *A.D.* 2015 .

Jesse White

SECRETARY OF STATE

Authentication #: 1520201300 verifiable until 07/21/2016
Authenticate at: http://www.cyberdriveillinois.com

ATTACHMENT #4
Attachment Response 13

File Number 6004-200-4

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

VALLEY WEST COMMUNITY HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JULY 14, 1998, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 21ST *day of* JULY *A.D.* 2015 .

Authentication #: 1520201332 verifiable until 07/21/2016
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

ATTACHMENT #4
Attachment Response 13

File Number 0084933-2

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

THE MIDLAND SURGICAL CENTER, LLC, HAVING ORGANIZED IN THE STATE OF ILLINOIS ON JANUARY 21, 2003, APPEARS TO HAVE COMPLIED WITH ALL PROVISIONS OF THE LIMITED LIABILITY COMPANY ACT OF THIS STATE, AND AS OF THIS DATE IS IN GOOD STANDING AS A DOMESTIC LIMITED LIABILITY COMPANY IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 21ST *day of* JULY *A.D.* 2015 .

Authentication #: 1520201430 verifiable until 07/21/2016
Authenticate at: http://www.cyberdriveillinois.com

Jesse White

SECRETARY OF STATE

ATTACHMENT #4
Attachment Response 13

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

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

ATTACHMENT #6
Attachment Response 15

MOODY'S
INVESTORS SERVICE

Rating Update: Moody's affirms Northwestern Memorial HealthCare, IL's Aa2 and Aa2/VMIG 1; stable outlook

Global Credit Research - 11 Feb 2015

Aa2 assigned to $378M of Cadence Health's debt, now secured by NMHC

ILLINOIS FINANCE AUTHORITY
Hospitals & Health Service Providers
IL

NEW YORK, February 11, 2015 --Moody's Investors Service affirmed the Aa2 and Aa2/VMIG 1 ratings on Northwestern Memorial HealthCare's outstanding bonds. The rating outlook is stable. Cadence Health recently joined NMHC's obligated group; as a result, Cadence's debt is now secured by the NMHC obligated group. At this time, we are assigning ratings to the following Cadence Health outstanding fixed rate bonds: (1) Aa2 rating to the Series 2009 and Series 2009B bonds, originally issued under the name Central DuPage Health, and (2) Aa2 underlying rating (bonds are insured by Assured Guaranty) to the Series 2002A, Series 2002B, Series 2002C, Series 2002D, Series 2003A, Series 2003B, and Series 2003C bonds, originally issued under the name Delnor-Community Hospital.

SUMMARY RATING RATIONALE

The Aa2 long-term rating is based on NMHC's prominent market position in the greater Chicagoland area, excellent investment position providing good coverage of debt, solid operating margins, and improved debt measures. The Aa2 rating also incorporates challenges related to increasing competition in a consolidating market, comparatively moderate liquidity with a relatively high allocation to alternative investments, and several years of low revenue growth. NMHC's recent merger with Cadence will bring integration challenges given the scope of operations and intended consolidation. However, we expect NMHC's measured approach of executing strategies will minimize risks, including coordinating activities among academic and community physicians. Additionally, the combined organization's financial strength affords the system time to implement strategies and realize benefits.

The short-term VMIG 1 ratings are based on support from bank standby bond purchase agreements.

OUTLOOK

The stable rating outlook is based on our expectation that NMHC will maintain strong operating cash flow margins as suggested by proforma numbers and the first quarter including Cadence, integration risks will be manageable with little disruption to operations, and the relative investment position will be maintained given capital spending can be funded with cashflow.

WHAT COULD MAKE THE RATING GO UP

-Diversification of cashflow geographically

-Significant increase in market share

-Material and sustained improvement in operating margins, along with reduction in debt

-Stronger wealth position with greater liquidity

WHAT COULD MAKE THE RATING GO DOWN

-Large increase in debt with weakening of debt metrics

-Multi-year decline in margins or investment position

-Greater than expected integration challenges, resulting in lower margins

-Materially dilutive acquisition or merger

STRENGTHS

-NMHC maintains a prominent market position with attractive facilities (average age of plant is very low at 8.9 years) in favorable locations in the greater Chicago area.

-The merger with Cadence Health expands NMHC's geographic coverage and market share in the western suburbs of Chicago. Cadence Health's exceptional margins and balance sheet result in an accretive impact to most measures.

-Strong growth in investments resulted in over $2.6 billion of unrestricted cash and investments at fiscal yearend 2014, equating to a very strong 446 days of cash on hand and 335% cash-to-debt.

-The system achieved a solid 12% operating cashflow margin in FY 2014, including transfers for academic support, driven by cost reductions that compensated for low revenue growth.

-The Clinical Affiliation Agreement between NMHC and Northwestern Medical Faculty Foundation (d/b/a Northwestern Medical Group (NMG)) and NMHC's relationship with Northwestern University's Feinberg School of Medicine support a strong brand identity.

-Following operating improvement and investment growth, debt metrics improved to be consistent with the rating category with favorably low 1.7 times debt-to-cashflow and 9.7 times peak debt service coverage.

-Medicare and Medicaid dependency is below average, limiting exposure to funding delays and cuts, especially in Medicaid.

-The pension plan is fully funded and the system has modest operating lease obligations.

-The management team has shown a disciplined and detailed approach to evaluating strategic alternatives and capital commitments and ability to adapt to slower revenue growth with effective expense management strategies.

CHALLENGES

-Same-facility revenue growth has been low at 0-2% annually since 2011, in part reflecting declines in area use rates.

-The greater Chicago market is an increasingly competitive market with rapid consolidation, several large academic medical centers in the market, and competitors expanding facilities.

-Integrating the legacy Cadence Health and NMHC organizations poses execution risks given the scope of operations and difference in academic and non-academic cultures.

-NMHC has a high asset allocation to alternative investments, resulting in a low 46% of unrestricted investments that can be liquidated monthly, indicating comparatively less liquidity than other health systems in the Aa rating category. Mitigating factors to this risk are the system's large investment portfolio, manageable liquidity needs related to pension and swap collateral and availability of $130 million in operating lines.

RECENT DEVELOPMENTS

On September 1, 2014, CDH-Delnor Health System d/b/a Cadence Health (Cadence) became a wholly owned subsidiary of NMHC pursuant to a Clinical Affiliation Agreement between NMHC and Cadence. The affiliation was effected through a membership substitution with no consideration paid.

DETAILED RATING RATIONALE

MARKET POSITION: GOOD MARKET POSITION IN COMPETITIVE MARKET

The affiliation with Cadence expands and enhances NMHC's locations in attractive and growing markets in the region, which is especially important in a market that is quickly consolidating. With $3.7 billion in revenue, the combined organization is one of the largest in the region and state. Both legacy organizations have large employed physician groups, including the Northwestern Medical Group and the Cadence Physician Group. While the system may consider adding hospitals, there will be a strong focus on building ambulatory capabilities.

Typical of mergers of this scope, there are integration risks but we expect NMHC to manage these risks to

minimize disruption. Primary risks include integrating hospitals and physician organizations with academic and non-academic cultures as well as eventually combining information systems. The organization will move to centralize corporate services and organize management around regions, which will reduce costs and increase strategic coordination. NMHC has a history of executing strategies with a measured and deliberate approach and the financial strength of both legacy organizations afford NMHC time to achieve benefits while minimizing risk.

NMHC continues to further integrate and coordinate strategies with Northwestern University's Feinberg School of Medicine (NU) through a joint planning process and governance oversight structure that coordinates activities for the school, the faculty practice plan and hospitals. Strategically, we believe closer integration is positive in advancing the strong brand of Northwestern and building on clinical capabilities.

The Chicago market is increasingly competitive with an increase in the pace of consolidation among hospitals. Of note is the intended merger between Advocate Health Network and NorthShore University HealthSystem, which would become the largest healthcare system in the state if completed.

OPERATING PERFORMANCE, BALANCE SHEET AND CAPITAL PLANS: SOLID MARGINS AND REDUCED LEVERAGE

Despite flat same-store revenue for several years, NMHC's operating margins remain solid. Absolute operating cashflow in fiscal year 2014 was relatively stable to fiscal year 2013; the margin declined reflecting the addition of NMG, although the operating cashflow margins remained solid at 12%. Proforma operating cashflow margin approaches 15% with Cadence Health and is very strong at 16% in the first quarter of fiscal year 2015. The system benefitted from extensive cost reductions and increased net payments under the state's Hospital Assessment Program. Margins include transfers to the school of medicine as an operating expense, as noted below. The transfers are formulaic and tied to net patient revenue and operating cashflow of NMHC.

NMHC's primary operating challenge is several years of relatively flat revenue. Same-facility revenue (excluding NMG) grew 2% in fiscal year 2014. Revenue is challenged by declining use rates in the region. NMHC's admissions declined 2.6% in 2014.

Liquidity

NMHC has a strong investment position, but liquidity is less than peers due to the asset allocation. Days cash on hand grew to 446 days at fiscal yearend 2014 and is slightly stronger at approximately 460 days on a proforma basis with Cadence. Proforma cash-to-debt is lower, but still strong, at under 300%. Based on fiscal yearend data, monthly liquidity is low at 46%, reflecting a heavy allocation to alternative investments. NMHC has minimal swap collateral posted and no expected pension payments, which limits liquidity needs.

Capital spending is expected to be manageable and under operating cashflow levels. The largest project is a replacement hospital for Northwestern Lake Forest Hospital, estimated to cost $400 million. While there are no definitive new debt plans, the system is completing a new strategic plan.

DEBT AND OTHER LIABILITIES

With growth in operating cashflow and investments, NMHC has deleveraged and debt measures are more consistent with the peers in the rating category.

Debt Structure

NMHC had 40% variable rate debt at fiscal yearend 2014, including bonds supported by bank standby bond purchase agreements. The bank counterparties are diversified with three banks and expiration dates are staggered. Monthly liquidity-to-demand debt was good at 390%. Cadence adds several series of privately placed bank debt.

Debt-Related Derivatives

As of February 2015, NMHC (including legacy Cadence Health) has interest rate swaps with three counterparties with a total notional amount of $396 million. All of the swaps convert variable rate bonds to synthetic fixed rate bonds. Two of the swaps have $35 million thresholds at Aa2, two have no collateral requirements and two have no collateral requirements unless the rating falls below A3. NMHC has posted limited collateral over time; at FYE 2014 no collateral was posted.

Pensions and OPEB

NMHC's pension plan is fully funded.

MANAGEMENT AND GOVERNANCE

The management team has shown a disciplined and detailed approach to evaluating strategic alternatives and capital commitments and ability to adapt to slower revenue growth with effective expense management strategies. This measured approach will be important as the system integrates the historically academic culture of legacy NMHC and non-academic culture of legacy Cadence.

Debt structure risks have been well managed with diversified counterparties and staggered commitment periods. Importantly, with the merger NMHC amended all bank agreements to make covenants and reporting requirements consistent across agreements.

KEY STATISTICS

Assumptions & Adjustments:

-Based on financial statements for Northwestern Memorial HealthCare & Subsidiaries

-First number reflects audit year ended August 31, 2013

-Second number reflects audit year ended August 31, 2014

-Investment returns normalized at 6% unless otherwise noted

-Comprehensive debt includes direct debt, operating leases, and pension obligation, if applicable

-Monthly liquidity to demand debt ratio is not included if demand debt is de minimis

-Adjustments: $18 million and $41 million of Grants and academic support (representing transfers to the school of medicine and faculty) reallocated to total expenses from nonoperating gains/(losses) in FY 2013 and FY 2014, respectively

-Inpatient admissions: 53,986; 52,607

-Observation stays: 17,864; 17,873

-Medicare % of gross revenues: 33%; 33%

-Medicaid % of gross revenues: 10%; 9%

-Total operating revenues ($): $1.7 billion; $2.4 billion

-Revenue growth rate (%) (3 yr CAGR): 3%; 13%

-Operating margin (%): 6.6%; 4.2%

-Operating cash flow margin (%): 17.2%; 11.8%

-Debt to cash flow (x): 1.7 times; 1.7 times

-Days cash on hand: 601 days; 446 days

-Maximum annual debt service (MADS): $52 million; $52 million

-Moody's-adjusted MADS Coverage with normalized investment income (x): 9.6 times; 9.7 times

-Direct debt ($): $805 million; $791 million

-Cash to direct debt (%): 297%; 335%

-Comprehensive debt: $868 million; $865 million

-Cash to comprehensive debt (%): 275%; 306%

-Monthly liquidity to demand debt (%): 526%; 390%

OBLIGOR PROFILE

NMHC's largest subsidiaries are noted in the Legal Security section. Northwestern Memorial Hospital is a major academic medical center located in the Streeterville neighborhood of Chicago, providing a complete range of adult inpatient and outpatient services, primarily to residents of Chicago and surrounding areas, in an educational and research environment. It is licensed for 894 beds. NMH is the primary teaching hospital for Northwestern University's Feinberg School of Medicine (FSM).

LEGAL SECURITY

The bonds are an unsecured general obligation of the Obligated Group, including Northwestern Memorial HealthCare (parent), Northwestern Memorial Hospital, Northwestern Lake Forest Hospital, Northwestern Memorial Foundation, and Northwestern Memorial Faculty Foundation (dba Northwestern Medical Group). The indentures do not provide limitations on additional indebtedness. On November 25, 2014, Cadence, and three of its subsidiaries, Central DuPage Physician Group (doing business as Cadence Physician Group), Central DuPage Hospital Association and Delnor-Community Hospital became members of the obligated group created under the NMHC Master Indenture. All debt of NMHC and its subsidiaries (other than certain capital leases and letters of credit) is secured by, or guaranteed by, the NMHC obligated group.

USE OF PROCEEDS

Not applicable

RATING METHODOLOGIES

The principal methodology used in this rating was Not-for-Profit Healthcare Rating Methodology published in March 2012. An additional methodology used for the short-term enhanced rating was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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Related Criteria And Research

Illinois Finance Authority
Northwestern Memorial HealthCare; Hospital

Credit Profile

Illinois Fin Auth, Illinois
Northwestern Mem HlthCare, Illinois

Series 2009 A&B. 2013

Long Term Rating	AA+/Stable	Affirmed

Rationale

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

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

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

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

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

- Softening of inpatient admissions;

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

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

Outlook

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

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

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

Enterprise Profile

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

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

Utilization

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

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

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

Table 1

Northwestern Memorial HealthCare and Subsidiaries Utilization

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

Management

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

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

ATTACHMENT #6
MAY 5, 2014 4
Attachment Response 15
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Financial Profile

Operations

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

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

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

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

Balance sheet

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

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

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

Short-term bank-supported ratings

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

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

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

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

Swap profile

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

Table 2

Northwestern Memorial HealthCare and Subsidiaries Financial Summary

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

Table 2

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

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

Related Criteria And Research

Related Criteria

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

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

Related Research

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

Ratings Detail (As Of May 6, 2014)

Illinois Fin Auth, Illinois		
Northwestern Mem HlthCare, Illinois		
Illinois Finance Authority (Northwestern Memorial Hospital) hosp VRDO ser 2007A-1		
Long Term Rating	AA+/A-1/Stable	Affirmed
Illinois Finance Authority (Northwestern Memorial Hospital) hosp VRDO ser 2007A-2		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Illinois Finance Authority (Northwestern Memorial Hospital) hosp VRDO ser 2007A-3		
Long Term Rating	AA+/A-1/Stable	Affirmed
Illinois Finance Authority (Northwestern Memorial Hospital) hosp VRDO ser 2007A-4		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Series 2002C		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Series 2008A-1 & A-2		
Long Term Rating	AA+/A-1+/Stable	Affirmed

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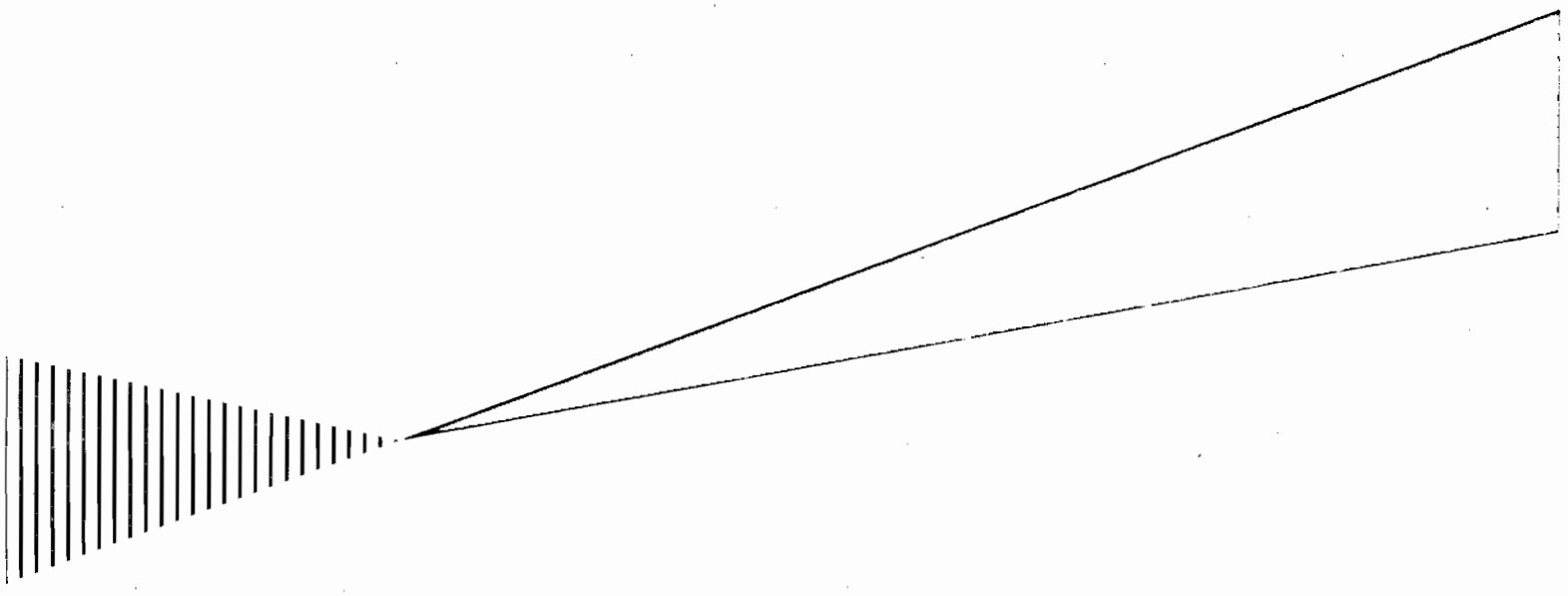
CONSOLIDATED FINANCIAL STATEMENTS

Northwestern Memorial HealthCare and Subsidiaries
Years Ended August 31, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP



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ATTACHMENT #6
Attachment Response 15

Northwestern Memorial HealthCare and Subsidiaries

Consolidated Financial Statements

Years Ended August 31, 2014 and 2013

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Report of Independent Auditors

The Board of Directors
Northwestern Memorial HealthCare and Subsidiaries

We have audited the accompanying consolidated balance sheets of Northwestern Memorial HealthCare (an Illinois not-for-profit corporation) and Subsidiaries (Northwestern Memorial) as of August 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northwestern Memorial HealthCare and Subsidiaries at August 31, 2014 and 2013, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

December 2, 2014

Northwestern Memorial HealthCare and Subsidiaries

Consolidated Balance Sheets
(In Thousands)

	August 31 2014	2013
Assets		
Current assets:		
Cash and cash equivalents	**$ 108,490**	$ 230,326
Short-term investments	**59,280**	195,195
Current portion of investments, including assets limited as to use	**99,518**	77,320
Patient accounts receivable, net of estimated uncollectible accounts of $70,977 and $41,721 in 2014 and 2013, respectively	**344,850**	245,663
Current portion of pledges and grants receivable, net	**41,299**	11,844
Current portion of insurance recoverable	**7,624**	10,412
Inventories	**36,075**	33,873
Other current assets	**36,026**	45,161
Total current assets	**733,162**	849,794
Investments, including assets limited as to use, less current portion	**3,148,448**	2,676,116
Property and equipment, at cost:		
Land	**264,324**	237,953
Buildings	**1,884,384**	1,701,356
Equipment and furniture	**558,349**	535,490
Construction in progress	**295,612**	152,770
	3,002,669	2,627,569
Less accumulated depreciation	**1,378,205**	1,239,777
	1,624,464	1,387,792
Prepaid pension cost	**93,063**	105,962
Insurance recoverable, less current portion	**58,927**	69,233
Other assets, net	**129,908**	150,998
Total assets	**$ 5,787,972**	$ 5,239,895

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ATTACHMENT #6
Attachment Response 15

	August 31	
	2014	**2013**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 135,434**	$ 111,294
Accrued salaries and benefits	**145,281**	88,769
Grants and academic support payable, current portion	**126,213**	70,381
Accrued expenses and other current liabilities	**50,546**	54,472
Due to third-party payors	**230,996**	229,052
Current accrued liabilities under self-insurance programs	**59,437**	60,025
Current maturities of long-term debt	**14,095**	13,435
Total current liabilities	**762,002**	627,428
Long-term debt, net, less current maturities	**779,337**	793,819
Accrued liabilities under self-insurance programs, less current portion	**409,247**	409,126
Grants and academic support payable, less current portion	**106,333**	191,635
Due to insureds	**–**	116,291
Interest rate swaps	**52,872**	43,916
Other liabilities	**94,061**	50,187
Total liabilities	**2,203,852**	2,232,402
Net assets:		
Unrestricted:		
Undesignated	**3,055,576**	2,553,524
Board-designated	**198,506**	145,545
Total unrestricted	**3,254,082**	2,699,069
Temporarily restricted	**175,990**	157,682
Permanently restricted	**154,048**	150,742
Total net assets	**3,584,120**	3,007,493
Total liabilities and net assets	**$ 5,787,972**	$ 5,239,895

See accompanying notes to consolidated financial statements.

Northwestern Memorial HealthCare and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended August 31	
	2014	**2013**
Revenue		
Net patient service revenue	**$ 2,379,932**	$ 1,622,973
Provision for uncollectible accounts	**83,086**	30,652
Net patient service revenue after provision for uncollectible accounts	**2,296,846**	1,592,321
Rental and other revenue	**98,614**	98,583
Net assets released from donor restrictions and federal and state grants	**31,000**	18,762
Total revenue	**2,426,460**	1,709,666
Expenses		
Salaries and professional fees	**938,973**	578,924
Employee benefits	**245,654**	156,971
Supplies	**387,976**	267,505
Purchased services	**214,963**	174,449
Depreciation and amortization	**155,058**	145,643
Insurance	**47,484**	40,500
Rent and utilities	**48,525**	39,431
Repairs and maintenance	**71,145**	46,686
Interest	**29,115**	35,387
Illinois Hospital Assessment	**74,044**	41,395
Other	**71,412**	51,428
Total expenses	**2,284,349**	1,578,319
Operating income	**142,111**	131,347
Nonoperating gains (losses)		
Investment return	**444,959**	301,730
Change in fair value of interest rate swaps	**(8,956)**	40,585
Contribution of Northwestern Medical Faculty Foundation unrestricted net assets in excess of consideration	**28,730**	–
Loss on extinguishment of long-term debt	**(2,867)**	(6,381)
Grants and academic support provided	**(41,111)**	(188,858)
Other	**23,378**	31,053
Total nonoperating gains, net	**444,133**	178,129
Excess of revenue over expenses	**586,244**	309,476

Northwestern Memorial HealthCare and Subsidiaries

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

(In Thousands)

	Year Ended August 31	
	2014	**2013**
Unrestricted net assets		
Excess of revenue over expenses	**$ 586,244**	$ 309,476
Net assets released from restrictions used for property and equipment additions	**1,348**	1,248
Postretirement benefit-related changes other than net periodic pension cost	**(32,621)**	69,340
Other	**42**	(2,535)
Increase in unrestricted net assets	**555,013**	377,529
Temporarily restricted net assets		
Contributions	**29,900**	31,254
Investment return	**8,625**	7,380
Net assets released from restrictions used for:		
Operating expenses, charity care, and research and education	**(29,946)**	(30,074)
Property and equipment additions	**(1,348)**	(1,248)
Contribution of Northwestern Medical Faculty Foundation restricted net assets	**10,374**	–
Change in fair value of split-interest agreements	**645**	660
Other	**58**	(5,553)
Increase in temporarily restricted net assets	**18,308**	2,419
Permanently restricted net assets		
Contributions	**2,420**	2,364
Change in fair value of split-interest agreements	**986**	1,057
Other	**(100)**	5,550
Increase in permanently restricted net assets	**3,306**	8,971
Change in total net assets	**576,627**	388,919
Net assets, beginning of year	**3,007,493**	2,618,574
Net assets, end of year	**$ 3,584,120**	$ 3,007,493

See accompanying notes to consolidated financial statements.

Northwestern Memorial HealthCare and Subsidiaries

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended August 31	
	2014	2013
Operating activities		
Change in total net assets	**$ 576,627**	$ 388,919
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Postretirement benefit-related changes other than net periodic pension cost	**32,621**	(69,340)
Change in fair value of interest rate swaps	**8,956**	(38,056)
Loss on extinguishment of long-term debt	**2,867**	6,381
Net investment return and net change in unrealized investment gains	**(445,852)**	(301,730)
Restricted contributions, change in fair value of split interest agreements, and realized investment return	**(41,683)**	(42,715)
Contribution of Northwestern Medical Faculty Foundation net assets	**(39,104)**	–
Depreciation and amortization	**155,058**	145,643
Provision for uncollectible accounts	**83,140**	30,720
Change in operating assets and liabilities:		
Patient accounts receivable	**(108,588)**	3,392
Due to third-party payors	**2,363**	19,158
Grants and academic support payable	**(65,922)**	127,174
Other operating assets and liabilities	**(131,978)**	(10,276)
Net cash provided by operating activities	**28,505**	259,270
Investing activities		
Purchases of trading securities	**(837,572)**	(771,618)
Sales of trading securities	**933,472**	606,773
Acquisition of Northwestern Medical Faculty Foundation, net of cash acquired	**(123,557)**	–
Building acquisition, net of cash acquired	**(79,673)**	–
Net unrestricted realized investment return	**201,622**	150,467
Capital expenditures, net	**(210,786)**	(175,384)
Net cash used in investing activities	**(116,494)**	(189,762)
Financing activities		
Payments of long-term debt	**(75,530)**	(139,162)
Payments of bond issue costs	–	(1,667)
Proceeds from issuance of long-term debt	–	119,589
Restricted contributions and realized investment return	**41,683**	42,715
Net cash (used in) provided by financing activities	**(33,847)**	21,475
Net (decrease) increase in cash and cash equivalents	**(121,836)**	90,983
Cash and cash equivalents, beginning of year	**230,326**	139,343
Cash and cash equivalents, end of year	**$ 108,490**	$ 230,326

See accompanying notes to consolidated financial statements.

Northwestern Memorial HealthCare and Subsidiaries

Notes to Consolidated Financial Statements
(In Thousands)

As of and for the Years Ended August 31, 2014 and 2013

1. Organization and Summary of Significant Accounting Policies

Northwestern Memorial HealthCare (NMHC) serves as the sole corporate member of Northwestern Memorial Hospital (NMH), Northwestern Medical Faculty Foundation (doing business as Northwestern Medical Group) (NMG), Northwestern Lake Forest Hospital (NLFH), and Northwestern Memorial Foundation (Foundation). NMH's subsidiaries are Northwestern HealthCare Corporation (NHC) and Northwestern Memorial Insurance Company (NMIC). NMG's subsidiaries are Northwestern Foundation for Research and Education (doing business as Northwestern Medical Group Management Services) (NMGMS), Northwestern/Rosin Eyecare LLC (Rosin Eyecare) and Northwestern Dialysis Center, LLC (Dialysis Center). NLFH's subsidiary is Lake Forest Health and Fitness Institute (HFI). On September 1, 2013, NMG became a wholly owned subsidiary of NMHC (see Note 2). Effective September 1, 2013, all entities are members of the obligated group for all outstanding bonds, except NHC, NMIC, Rosin Eyecare and Dialysis Center. On May 1, 2014, Northwestern Memorial Physicians Group (NMPG) was merged into NMG.

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

NMG is an academic faculty practice plan with approximately 1,100 physicians. NMG's physicians embody the traditional three areas of academic medicine – clinical care, research and education – and work in an array of medical and surgical specialties and subspecialties. The majority of the physicians serve as full-time faculty at FSM and as members of the medical staff of NMH and NLFH.

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

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

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

Basis of Presentation

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

Charity Care and Community Benefit

Northwestern Memorial provides care to patients regardless of their ability to pay. Northwestern Memorial developed a Free and Discounted Care Policy (the Policy) for both the uninsured and the underinsured. Under the Policy, patients are offered discounts of up to 100% of charges on a sliding scale, which is based on income as a percentage of the Federal Poverty Level guidelines (up to 600%). The Policy also contains provisions that are responsive to those patients subject to catastrophic health care expenses and uninsured patients not covered by the provisions above. Since Northwestern Memorial does not pursue collection of these amounts, they are not reported as net patient service revenue, and the cost of providing such care is recognized within operating expenses.

Northwestern Memorial estimates the direct and indirect costs of providing charity care by applying a cost to gross charges ratio to the gross uncompensated charges associated with providing charity care to patients. The cost of providing charity care was $57,498 and $61,243 for the years ended August 31, 2014 and 2013, respectively. Northwestern Memorial also received certain funds of $513 and $468 for the years ended August 31, 2014 and 2013, respectively, to offset or subsidize charity care services provided. These funds are primarily received from investment return on free care endowment funds. In the Annual Non Profit Hospital Community Benefits Plan Report filed with the Illinois Attorney General for the year ended August 31, 2013, Northwestern Memorial reported total community benefit of $419,816 (unaudited), including unreimbursed cost of charity care of $58,878 (unaudited), which is calculated using a different methodology than that used for the consolidated financial statements. Management is currently collecting the information needed to file the 2014 report.

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

Use of Estimates

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

Cash and Cash Equivalents

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

Patient Accounts Receivable

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

Assets Limited as to Use

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

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

Investments

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

Derivative Instruments

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

Inventories

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

Property and Equipment

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

Other Intangible Assets

Intangible assets are stated at fair value at time of purchase and are amortized using the straight-line method over the estimated life based on terms of the underlying agreement giving rise to the intangible.

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

Asset Impairment

Northwestern Memorial considers whether indicators of impairment are present and performs the necessary tests to determine if the carrying value of an asset is appropriate. Impairment write-downs are recognized in operating income at the time the impairment is identified. The impairment of long-lived assets was $0 and $2,603 for the years ended August 31, 2014 and 2013, respectively.

Deferred Charges

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

Net Assets

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

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

Net Patient Service Revenue

Northwestern Memorial has agreements with third-party payors that provide for payments to Northwestern Memorial at amounts different from its established rates. Payment arrangements include prospectively determined rates per admission or visit, reimbursed costs, discounted

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

charges, and per diem rates. Net patient service revenue is reported at the estimated net amount due from patients and third-party payors for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted, as needed, in future periods.

EHR Incentive Payments

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

Northwestern Memorial recognizes HITECH incentive payments as revenue under the grant accounting model when it is reasonably assured that the meaningful use objectives have been achieved. Northwestern Memorial recognized incentive payments totaling $8,485 and $3,937 for the years ended August 31, 2014 and 2013, respectively, as net assets released from donor restrictions and federal and state grants in the accompanying consolidated statements of operations and changes in net assets. Northwestern Memorial's compliance with the meaningful use criteria is subject to audit by the federal government.

Contributions

Unrestricted gifts, other than long-lived assets, are recorded as a component of other nonoperating gains in the accompanying consolidated statements of operations and changes in net assets. Unrestricted gifts of long-lived assets, such as land, buildings, or equipment, are recorded at fair value as an increase in unrestricted net assets. Contributions are reported as

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

either temporarily or permanently restricted net assets if they are received with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restrictions.

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

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

Nonoperating Gains (Losses)

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

Excess of Revenue Over Expenses

The accompanying consolidated statements of operations and changes in net assets include the excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from the excess of revenue over expenses, consist primarily of contributions of long-lived assets

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

(including assets acquired using contributions, which, by donor restriction, are to be used for the purposes of acquiring such assets), transfers between net asset categories based on changes in donor restrictions, and postretirement benefit-related changes other than net periodic pension cost.

New Accounting Pronouncements

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

In October 2012, the FASB issued ASU 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. ASU 2012-05 requires not-for-profit entities (NFPs) to classify cash receipts from the sale of donated financial assets consistent with cash donations if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. These cash receipts would be classified as inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case they would be classified as cash flows from financing activities. This new guidance was effective for fiscal years beginning on or after June 15, 2013. This guidance became effective for Northwestern Memorial in fiscal year 2014. The adoption of ASU 2012-05 had no effect on the accompanying consolidated statements of cash flows as cash receipts from the sale of donated assets were already classified as required.

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should disclose sufficient information to enable the financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This new guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2016. Northwestern Memorial is evaluating the effect this guidance will have on its consolidated financial statements.

2. Affiliation Agreement With Northwestern Medical Faculty Foundation

On September 1, 2013, NMG became a wholly owned subsidiary of NMHC pursuant to a Clinical Affiliation Agreement by and between NMHC and NMG. Northwestern University (NU) was a signatory to the agreement for certain purposes. This affiliation positions Northwestern Memorial for expected market changes, including national healthcare reform, by providing the platform for improving the patient experience through improved quality across care settings and enhanced care coordination. This affiliation, which resulted in a contribution, allows for better coordination with FSM to enhance support of the research, education and clinical missions of the organizations.

The affiliation was effected through a membership substitution. Consideration of $169,548 included a cash payment of $180,337 and a non-cash transfer of $50,331 of investments held as the NMG share of the NU investment pool less a remaining amount due from FSM of $6,399 and the impact of the elimination of preexisting payables and receivables between the parties of $46,349. For accounting purposes, this transaction is considered an acquisition under Accounting Standards Codification (ASC) 958-805 *Not-for-Profit Entities: Business Combinations*.

2. Affiliation Agreement With Northwestern Medical Faculty Foundation (continued)

The fair value of identifiable assets and liabilities of NMG and subsidiaries at the September 1, 2013 acquisition date, and consideration therefor, consisted of the following:

Fair value of identifiable net assets:	
Cash and cash equivalents	$ 56,780
Other current assets	104,419
Property and equipment	116,960
Other long-term assets	140,930
Current liabilities	(122,238)
Long-term debt	(59,168)
Other long-term liabilities	(29,031)
Temporarily restricted net assets	(10,374)
	198,278
Less: consideration	169,548
Contribution	$ 28,730

The valuation of property and equipment, other current and long-term assets, including identifiable intangible assets, and current and long-term liabilities have been completed. In valuing these assets and liabilities, fair values were based on, but not limited to, independent appraisals, discounted cash flows, replacement costs, and actuarially determined values.

Following are the results for the acquired entities for the twelve months ended August 31, 2014:

Total operating revenue	$ 682,828
Revenue in excess of expenses	42,737
Change in unrestricted net assets	42,737
Change in temporarily restricted net assets	318
Change in permanently restricted net assets	–

3. Acquisition

On March 31, 2014, NMH acquired the office building, in-place leases and certain equipment located at 541 North Fairbanks Court in Chicago, IL (541 N. Fairbanks). NMH leased approximately 40% of this building prior to the acquisition. The acquisition allows for continued growth of NMHC by providing space for the support staff of NMHC at a lower cost than continued leasing in the neighborhood around NMHC's corporate offices.

3. Acquisition (continued)

Consideration of $71,019 consisted of a cash payment of $79,902 less the impact of the elimination of preexisting payables and receivables between the parties of $8,883. For accounting purposes, this transaction is considered an acquisition under ASC 958-805.

The fair value of identifiable assets and liabilities of 541 N. Fairbanks at the March 31, 2014 acquisition date, and consideration therefor, consist of the following:

Fair value of identifiable net assets:	
Cash	$ 229
Current assets	64
Property and equipment	60,739
Other long-term assets	457
Intangible assets	17,723
Current liabilities	(3,357)
Other long-term liabilities	(4,836)
	71,019
Less: consideration	71,019
	$ –

The valuation of property and equipment, other current and long-term assets, identifiable intangible assets, and current liabilities have been completed. In valuing these assets and liabilities, fair values were based on, but not limited to, independent appraisals, discounted cash flows and replacement costs.Following are the results for the acquired entity for the five months ended August 31, 2014:

Total operating revenue	$ 3,000
Excess of expenses over revenue	3,046
Change in unrestricted net assets	(3,046)
Change in temporarily restricted net assets	–
Change in permanently restricted net assets	–

3. Acquisition (continued)

Following are the unaudited pro forma results as if the affiliation in Note 2 and this acquisition had occurred on September 1, 2012:

	Twelve Months Ended August 31	
	2014	**2013**
Total operating revenue	**$ 2,430,976**	$ 2,279,350
Operating income	**142,521**	121,924
Excess of revenue over expenses	**586,654**	280,998

The pro forma information provided should not be construed to be indicative of Northwestern Memorial's results of operations had the affiliation been consummated on September 1, 2012, and is not intended to project Northwestern Memorial's results of operations for any future period.

4. Investments and Other Financial Instruments

The composition of investments, including assets limited as to use, and cash and cash equivalents and short-term investments, at August 31 is as follows:

	2014	**2013**
Measured at fair value:		
Cash and short-term investments	**$ 210,732**	$ 435,329
Mutual funds	**695,055**	685,570
Common collective trusts	**115,312**	96,205
Commingled funds	**66,946**	112,859
Corporate bonds	**60,784**	49,555
U.S. government and agency issues	**38,528**	16,804
Equity securities	**104,766**	91,675
103-12 entities	**201,969**	171,741
	1,494,092	1,659,738
Accounted for under the equity method:		
Alternative investments	**1,921,644**	1,519,219
	$ 3,415,736	$ 3,178,957

4. Investments and Other Financial Instruments (continued)

Investments including assets limited as to use, and cash and cash equivalents and short-term investments, consist of the following:

	2014	2013
Assets limited as to use:		
Trustee-held funds	**$ 3**	$ 26
Self-insurance programs	**498,939**	538,349
Board-designated funds	**153,024**	145,545
Total assets limited as to use	**651,966**	683,920
Donor-restricted funds	**267,848**	252,175
Unrestricted, undesignated funds	**2,328,152**	1,817,341
Total investments, excluding short-term investments	**3,247,966**	2,753,436
Other financial instruments:		
Cash and cash equivalents and short-term investments	**167,770**	425,521
	$ 3,415,736	$ 3,178,957

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

	2014	2013
Interest and dividend income	**$ 26,435**	$ 28,280
Investment expenses	**(3,760)**	(3,109)
Realized gains on alternative investments, net	**69,191**	45,129
Realized gains on other investments, net	**117,488**	87,547
Net increase in unrealized gains on alternative investments	**200,958**	116,066
Net increase in unrealized gains on other investments	**43,272**	35,197
	$ 453,584	$ 309,110
Reported as:		
Nonoperating investment return	**$ 444,959**	$ 301,730
Temporarily restricted – investment return	**8,625**	7,380
	$ 453,584	$ 309,110

4. Investments and Other Financial Instruments (continued)

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

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

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

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

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

Real estate includes LPs that invest in land and buildings and seek to improve property-level operations by increasing lease rates, recapitalizing properties, rehabilitating aging or distressed properties, and repositioning properties to maximize revenues. Real estate LPs typically use moderate leverage. Natural resources include a diverse set of LPs that invest in oil and natural gas-related companies, commodity-oriented companies, and timberland. Private equity includes LPs formed to make equity and debt investments in operating companies that are not publicly

4. Investments and Other Financial Instruments (continued)

traded. These LPs typically seek to influence decision-making within the operating companies. Investment strategies in this category may include venture capital, buyouts, and distressed debt. These three categories of investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying assets of the fund are expected to be liquidated periodically over the lives of the LPs, which generally run 10 to 12 years.

As of August 31, 2014, $1,199,927 of alternative investments are subject to various redemption limits and lockup provisions, of which $966,611 expires within one year and $233,316 expires after one year from the balance sheet date.

At August 31, 2014, Northwestern Memorial had commitments to fund an additional $403,715 to alternative investment entities, which is expected to occur over the next 12 years.

5. Fair Value Measurements

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

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

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Examples of Level 2 inputs are quoted prices for similar assets or liabilities in inactive markets or pricing models with inputs that are observable for substantially the full term of the asset or liability.

5. Fair Value Measurements (continued)

- Level 3 – Inputs to the valuation methodology are significant to the fair value of the asset or the liability and less observable. These inputs reflect the assumptions market participants would use in the estimation of the fair value of the asset or the liability.

Fair Values

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

5. Fair Value Measurements (continued)

The following table presents the financial instruments measured at fair value on a recurring basis as of August 31, 2014:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 108,490	$ –	$ –	$ 108,490
Investments:				
Short-term investments:				
Currency	27	–	–	27
Fixed income	–	59,253	–	59,253
Total short-term investments	27	59,253	–	59,280
Mutual funds:				
Fixed income	240,790	–	–	240,790
International equities	78,774	–	–	78,774
U.S. equities	375,491	–	–	375,491
Total mutual funds	695,055	–	–	695,055
Common collective trusts:				
International equities	–	61,432	–	61,432
U.S. equities	–	53,880	–	53,880
Total common collective trusts	–	115,312	–	115,312
Commingled funds:				
International equities	–	59,951	–	59,951
Natural resources	–	1,831	–	1,831
Global equities	–	5,164	–	5,164
Total commingled funds	–	66,946	–	66,946
Bonds:				
Corporate bonds	–	60,784	–	60,784
U.S. government and agencies' issues	–	38,528	–	38,528
Total bonds	–	99,312	–	99,312
Equity securities	104,437	329	–	104,766
103-12 entities – international equities	–	201,969	–	201,969
Cash equivalents in investment accounts	42,962	–	–	42,962
Total investments	842,481	543,121	–	1,385,602
Beneficial interests in trusts	–	14,924	–	14,924
Total assets	$ 950,971	$ 558,045	$ –	$ 1,509,016
Liabilities				
Interest rate swaps	$ –	$ 52,872	$ –	$ 52,872

5. Fair Value Measurements (continued)

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

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

5. Fair Value Measurements (continued)

There were no transfers into or out of Level 2 or Level 1 during the year ended August 31, 2014.

Reconciliation to the Consolidated Balance Sheets

A reconciliation of the fair value of the assets to the consolidated balance sheets at August 31, 2014 and 2013, is as follows:

	2014	2013
Short-term investments measured at fair value	**$ 59,280**	$ 195,195
Investments, including assets limited as to use measured at fair value	**1,326,322**	1,234,217
Total investments at fair value	**1,385,602**	1,429,412
Alternative investments accounted for under equity method included in investments, including assets limited as to use	**1,921,644**	1,519,219
Total investments	**$ 3,307,246**	$ 2,948,631
Other long-term assets:		
Beneficial interests in trusts at fair value	**$ 14,924**	$ 13,282
Other long-term assets, net	**114,984**	137,716
Total other long-term assets	**$ 129,908**	$ 150,998

Valuation Techniques and Inputs

Beneficial Interests in Trusts

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

5. Fair Value Measurements (continued)

Interest Rate Swaps

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

Investments

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

Northwestern Memorial's investments are exposed to various kinds and levels of risk. Equity securities and equity mutual funds expose Northwestern Memorial to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of the equity markets. Performance risk is that risk associated with a company's operating performance. Fixed income securities and fixed income mutual funds expose Northwestern Memorial to interest rate risk, credit risk, and liquidity risk. As interest rates change, the value of many fixed income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities. Liquidity risk tends to be higher for

5. Fair Value Measurements (continued)

equities related to small capitalization companies and certain alternative investments. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value, resulting in additional gains and losses in the near term.

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

The estimated fair value of the long-term debt portfolio, including the current portion, was $807,131 and $812,408 at August 31, 2014 and 2013, respectively. The fair value of this Level 2 liability is based on quoted market prices for the same or similar issues and the relationship of those bond yields with various market indices. The market data used to determine yield and calculate fair value represents Aa/AA-rated tax-exempt municipal health care bonds. The effect of third-party credit valuation adjustments, if any, is immaterial.

The fair value of pledges receivable, a Level 2 asset, is based on discounted cash flow analysis and approximates the carrying value at August 31, 2014 and 2013.

6. Self-Insurance Liabilities and Related Insurance Recoverables

NMH retains certain levels of professional and general liability risks covering itself and NMPG (through May 1, 2014, the merger date). NMH also retains certain levels of workers' compensation risks. For those risks, NMH has established trust funds to pay claims and related costs.

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

Effective November 1, 2004, NMIC provides, on a claims-made basis, professional and general liability coverage to NMH and professional liability coverage to NMG under a joint indemnification program. NMIC also provides excess general liability coverage to otherwise commercially insured NMHC subsidiaries. NMIC receives funding from the covered entities for the risk it covers under its indemnity policies. Under the terms of a mutual funding agreement, NMH was required to maintain cash and investments sufficient to fund actuarially determined

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

tail liabilities, to be covered by NMIC upon any cancellation, non-renewal, or other termination for any reason of NMIC's ongoing joint coverage of both NMH.

Prior to September 1, 2013, NMG was required to maintain a deposit at NMIC at a level deemed actuarially sufficient to fund its premium obligations under a premium funding arrangement. Total NMG deposits at NMIC, which are reported as due to insureds in the accompanying consolidated balance sheets, amounted to $116,291 in 2013.

In connection with NMG becoming a wholly owned subsidiary of NMHC, the mutual funding agreement was terminated effective September 1, 2013, and the NMG deposits held at NMIC were liquidated and transferred to NMHC to be maintained with assets of NMHC and subsidiaries for payment of future funding obligations under the joint insurance program. NMG retains certain levels of worker's compensation risks.

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

Northwestern Memorial's self-insurance liability and related amounts recoverable from reinsurers are reported in the accompanying consolidated balance sheets at present value based on an annual discount rate of 1.5% as of August 31, 2014 and 2013. This discount rate is based on several factors, including rolling averages of risk-free rates based on estimated payment patterns of the underlying liability. The undiscounted gross liabilities for the self-insured programs were $497,933 and $502,179 at August 31, 2014 and 2013, respectively. The estimated undiscounted amounts recoverable from reinsurers were $70,135 and $85,378 at August 31, 2014 and 2013, respectively. Provisions for the professional and general liability risks are based on an actuarial estimate of losses using actual loss data adjusted for industry trends and current conditions and on an evaluation of claims by Northwestern Memorial's legal counsel. The provision for estimated self-insured claims includes estimates of ultimate costs for both reported claims and claims incurred but not reported.

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

NMH purchased tail coverage for risks in excess of its self-insured retentions following the expiration of the claims-made professional and general liability program covering the period from October 1, 1999 to October 1, 2002. In conjunction with this transaction, NMH recorded a deferred gain that was amortized over an estimated runoff period. As of August 31, 2014, no more recoveries under this policy are expected and the deferred gain was fully amortized. The balance of the deferred gain was $2,095 at August 31, 2013.

In the opinion of management, based in part on the advice of outside legal counsel, adequate provision has been made at August 31, 2014, for all claims incurred to date. Management further believes that the ultimate disposition of these claims will not have a material adverse effect on the financial position of Northwestern Memorial.

7. Employee Benefits Obligations

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

The following table summarizes the change in the projected benefit obligation for the years ended August 31:

	2014	2013
Projected benefit obligation, beginning of year:	**$ 526,878**	$ 562,186
Service cost	**–**	8,291
Interest cost	**26,564**	23,425
Net actuarial loss (gain)	**86,186**	(42,691)
Benefits paid	**(21,695)**	(24,333)
Projected benefit obligation, end of year	**$ 617,933**	$ 526,878

7. Employee Benefits Obligations (continued)

The following table summarizes the changes in the Plans' assets for the years ended August 31:

	2014	2013
Plan assets at fair value, beginning of year:	**$ 632,840**	$ 589,137
Actual return on the Plans' assets, net of expenses	**99,851**	68,036
Benefits paid	**(21,695)**	(24,333)
Plan assets at fair value, end of yea	**$ 710,996**	$ 632,840

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

	2014	2013
Plan assets at fair value	**$ 710,996**	$ 632,840
Projected benefit obligation	**617,933**	526,878
Funded status recognized as prepaid pension cost	**$ 93,063**	$ 105,962

The accumulated benefit obligations of the Plans are $617,933 and $526,878 as of August 31, 2014 and 2013, respectively.

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

	2014	2013
Unrecognized actuarial loss	**$ 98,226**	$ 67,060
	$ 98,226	$ 67,060

7. Employee Benefits Obligations (continued)

Changes in the Plans' assets and benefit obligations recognized in unrestricted net assets for the years ended August 31, include the following:

	2014	2013
Current year actuarial (loss) gain	**$ (31,627)**	$ 67,475
Recognized actuarial loss	**461**	2,287
Current year amortization of prior service cost	**–**	13
	$ (31,166)	$ 69,775

The Plans' prior service cost and net actuarial gain included in unrestricted net assets expected to be recognized in net periodic pension cost during 2015 are $0 and $737, respectively.

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

	2014	2013
Service cost of benefits earned during the year	**$ 1,251**	$ 8,291
Interest cost of projected benefit obligation	**26,564**	23,425
Expected return on the Plans' assets	**(46,545)**	(43,251)
Recognized actuarial loss	**461**	2,287
Amortization of prior service costs	**–**	13
Net periodic pension benefit	**$ (18,269)**	$ (9,235)

7. Employee Benefits Obligations (continued)

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

	2014	2013
Used to determine projected benefit obligation		
Discount rate	**4.30%**	5.15%
Used to determine benefit cost		
Discount rate	**5.15%**	4.25%
Expected long-term rate of return on the Plans' assets	**7.50**	7.50
Rate of compensation increase	–	3.50

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

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

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

	2014	2013
Cash and cash equivalents	**–%**	–%
Equity securities	**47**	47
Alternative investments	**43**	43
Fixed income	**10**	10
	100%	100%

7. Employee Benefits Obligations (continued)

The following table presents the Plans' financial instruments as of August 31, 2014, measured at fair value on a recurring basis by the valuation hierarchy described in Note 5:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 252	$ –	$ –	$ 252
103-12 investment entities:				
International equities	–	51,686	–	51,686
Private equity	–	–	1,325	1,325
Total 103-12 investment entities	–	51,686	1,325	53,011
Common collective trusts:				
Fixed income	–	9,664	–	9,664
International equities	–	18,239	–	18,239
Private equity	–	–	1,766	1,766
U.S. equities	–	23,824	–	23,824
Total common collective trusts	–	51,727	1,766	53,493
U.S. government debt:				
Treasury notes	–	694	–	694
Mortgage backed securities	–	8,595	–	8,595
Total government securities	–	9,289	–	9,289
Corporate debt:				
Corporate debt instruments – preferred	–	3,299	–	3,299
Corporate debt instruments –other	–	8,661	–	8,661
Total government securities	–	11,960	–	11,960
Equity securities:				
U.S. equities	24,044	30	–	24,074
Hedge funds and other:				
Absolute return hedge fund	–	14,171	73,166	87,337
Equity long/short hedge fund	–	40,792	91,541	132,333
Fixed income	–	3,796	–	3,796
Natural resources	–	1,947	10,393	12,340
Total hedge funds and other	–	60,706	175,100	235,806
Interest in limited partnerships:				
U.S. equities	–	34,266	–	34,266
International equities	–	30,432	–	30,432
Natural resources	–	–	19,324	19,324
Private equity	–	–	70,266	70,266
Real estate	–	–	20,896	20,896
Total interest in limited partnerships	–	64,698	110,486	175,184
Mutual funds:				
Fixed income	48,756	–	–	48,756
International equities	11,339	–	–	11,339
U.S. equities	87,832	–	–	87,832
Total mutual funds	147,927	–	–	147,927
Grand total	$ 172,223	$ 250,096	$ 288,677	$ 710,996

7. Employee Benefits Obligations (continued)

The following table presents the Plans' financial instruments as of August 31, 2013, measured at fair value on a recurring basis by the valuation hierarchy described in Note 5:

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

7. Employee Benefits Obligations (continued)

The fair value of Level 1 investments, which consist of equity securities and certain mutual funds, is based on quoted market prices that are valued on a daily basis. Level 2 investments consist of U.S. government securities, corporate bonds, commingled funds, common collective trusts, interest in 103-12 entities, and fixed income instruments issued by municipalities or government agencies. Included in Level 2 investments are certain hedge funds and limited partnerships that can be liquidated without restrictions. The fair value of the U.S. government securities and corporate bonds is established based on values obtained from nationally recognized pricing services that value the investments based on similar securities and matrix pricing of similar quality and maturity securities. The fair values of the commingled funds, common collective trusts, and 103-12 entities are based on either the fair value of the underlying investments of the fund, as determined by the fund, or based on the Master Trust's ownership interest in the NAV per share of its equivalent of the respective fund. The Plans utilize the NAV as the practical expedient for the fair value estimate as permitted. All Level 2 investments can be redeemed without restrictions on the financial statement date or shortly thereafter.

The fair value of Level 3 investments, which primarily consist of alternative investments (principally limited partnership interests in hedge, private equity, real estate, and natural resources funds) and certain common collective trusts and 103-12 entities, are based on NAV. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner taking into consideration, among other things, the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. In addition, actual market exchanges at period-end provide additional observable market inputs of the exit price. NAV is calculated by the investment's management monthly for all of the Master Trust's alternative investments other than limited partnerships, whose NAV is calculated on a quarterly basis. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plans' valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

All financial instruments with redemption restrictions in the near future or early withdrawal fees are categorized as Level 3 investments. Some of the redemption restrictions are temporary in nature. If restrictions expire and an investment can be redeemed at NAV, such investment is

7. Employee Benefits Obligations (continued)

reclassified from Level 3 to Level 2 of the fair value hierarchy. During the years ended August 31, 2014 and 2013, $13,043 and $51,572 was transferred from Level 3 to Level 2, respectively, and $13,072 and $0 was transferred from Level 2 to Level 3, respectively.

Investments in LPs, which cannot be redeemed on request, totaled $113,577 as of August 31, 2014. Certain marketable alternative investments are subject to various redemption restrictions. As of August 31, 2014, $177,047 of alternative investments are subject to various redemption limits and lockup provisions, of which $150,521 expires within one year and $26,526 expires after one year from the balance sheet date.

The table below sets forth a summary of changes in the fair value of the Plans' Level 3 assets for the period from September 1, 2012 to August 31, 2014:

	103-12 Investment Entities	Common Collective Trusts	Hedge Funds and Other	Interest in Limited Partnerships	Total
Value at September 1, 2012	$ 1,910	$ 2,961	$ 143,246	$ 107,902	$ 256,019
Gain realized on assets sold during the period	302	486	139	7,584	8,511
Change in unrealized (loss) gain related to holdings at August 31, 2013	(559)	(906)	12,748	(5,426)	5,857
Purchases at cost	13	1	32,000	18,200	50,214
Sales at cost	(192)	(329)	(12,979)	(14,399)	(27,899)
Transfers to Level 2	–	–	(38,460)	(13,112)	(51,572)
Value at August 31, 2013	1,474	2,213	136,694	100,749	241,130
Gain realized on assets sold during the period	**190**	**456**	**2,461**	**11,299**	**14,406**
Change in unrealized (loss) gain related to holdings at August 31, 2014	**(124)**	**(521)**	**16,401**	**(1,753)**	**14,003**
Purchases at cost	–	–	**37,000**	**13,961**	**50,961**
Sales at cost	**(215)**	**(382)**	**(17,485)**	**(13,770)**	**(31,852)**
Transfers to Level 2	–	–	**(13,043)**	–	**(13,043)**
Transfers from Level 2	–	–	**13,072**	–	**13,072**
Value at August 31, 2014	**$ 1,325**	**$ 1,766**	**$ 175,100**	**$ 110,486**	**$ 288,677**

7. Employee Benefits Obligations (continued)

The Plans' assets are managed solely in the interest of the Plans' participants and their beneficiaries. The assets are invested with the investment objective of funding the accumulated and projected retirement benefit obligations of the Plans consistent with the Plans' long-term rate-of-return assumption. A time horizon of greater than five years is assumed, and therefore, interim volatility in returns is regarded with appropriate perspective.

Northwestern Memorial has no current plans to contribute to the Plans during the year ending August 31, 2015.

Benefit payments, which reflect future service, as appropriate, are expected to be paid as follows:

Year ending August 31:	
2015	$ 24,833
2016	25,102
2017	26,262
2018	27,341
2019	29,029
2020–2024	167,376

Northwestern Memorial also maintains defined contribution plans covering substantially all of its full-time and part-time employees. Participants can make voluntary tax-deferred contributions to the plans, subject to certain IRS limitations. Northwestern Memorial contributes a specified percentage of eligible compensation to the plans on behalf of each participant. Participants are always fully vested in their own tax-deferred contributions and related earnings and become fully vested in Northwestern Memorial contributions and related earnings upon completion of vesting service. Employer contributions related to these defined contribution plans included in employee benefits expense in the accompanying consolidated statements of operations and changes in net assets totaled $54,603 and $21,284 in 2014 and 2013, respectively.

7. Employee Benefits Obligations (continued)

NMHC also maintains other noncontributory postretirement benefit plans (the Noncontributory Plans) for certain executive employees.

Included in unrestricted net assets are an unrecognized actuarial loss (gain) of $1,282 and $(173) at August 31, 2014 and 2013, respectively, for the Noncontributory Plans that have not yet been recognized in net periodic pension cost.

Changes in the Noncontributory Plans' assets and benefit obligations recognized in unrestricted net assets during 2014 and 2013, include the following:

	2014	2013
Current year actuarial loss	**$ (1,021)**	$ 653
Recognized actuarial net gain	**(434)**	(1,267)
Recognized service cost	**–**	180
	$ (1,455)	$ (434)

As of August 31, 2014 and 2013, the Noncontributory Plans' unfunded projected benefit obligation amounted to $1,609 and $19,502, respectively, and is included in other long-term liabilities in the accompanying consolidated balance sheets. The weighted-average discount rate utilized in determining the actuarial present value was 4.30% and 5.15% in 2014 and 2013, respectively. The Noncontributory Plans' actuarial gain included in unrestricted net assets expected to be recognized in net periodic pension cost during 2015 is $892.

8. Long-Term Debt

Long-term debt consists of the following at August 31:

	2014	2013
Revenue Bonds, Series 2013 (NMHC), payable in annual installments beginning August 31, 2031 through August 31, 2043 (fixed coupon rates from 4.00% to 5.00%)	**$ 111,235**	$ 111,235
Revenue Bonds, Series 2009A, payable in annual installments through August 15, 2039 (fixed coupon rates range from 5.00% to 6.00%)	**319,610**	330,550
Revenue Bonds, Series 2009B, payable in annual installments through August 15, 2030 (fixed coupon rates range from 5.00% to 6.00%)	**46,020**	47,415
Variable-Rate Demand Revenue Bonds, Series 2008A, payable in annual installments through August 15, 2038 (weighted-average interest rate was 0.05% in 2014 and 0.12% in 2013)	**78,775**	78,775
Variable-Rate Demand Revenue Bonds, Series 2007A, payable in annual installments through August 15, 2042 (weighted-average interest rate was 0.06% in 2014 and 0.13% in 2012)	**208,400**	209,500
Variable-Rate Demand Revenue Bonds, Series 2002C, payable in annual installments beginning August 15, 2026 through August 15, 2031 (weighted-average interest rate was 0.05% in 2014 and 0.13% in 2013)	**27,450**	27,450
	791,490	804,925
Less:		
Unamortized premium, net	**(1,942)**	(2,329)
Current maturities	**14,095**	13,435
	$ 779,337	$ 793,819

8. Long-Term Debt (continued)

Effective September 13, 2013, NMG and NMGMS became members of the obligated group created under the Amended and Restated Master Trust Indenture dated as of May 1, 2004, as supplemented and amended (the NMHC Master Indenture), among NMHC, NMH, NLFH, the Foundation, HFI, and Wells Fargo Bank, N.A., as master trustee. The bond trustee for the $62,095 in aggregate principal amount of tax-exempt bonds issued for the benefit of NMG (the NMG Bonds) accepted a promissory note issued by NMHC under the NMHC Master Indenture as security for the NMG Bonds in substitution for the note previously securing the NMG Bonds. The bondholder accepted a promissory note issued by NMHC under the NMHC Master Indenture related to the purchase by the bondholder of the NMG Bonds in substitution for the note previously issued under the NMG Master Indenture. The bondholder and other lenders also accepted promissory notes issued by NMHC under the NMHC Master Indenture related to an $80,000 currently undrawn revolving line of credit now available to NMHC in substitution for the notes previously securing the line of credit. As a result of these transactions, NMG and NMGMS are both members of the obligated group created under the NMHC Master Indenture and have joint and several liability for all of the outstanding debt secured thereunder. The NMG master trust indenture and the master notes issued thereunder have been terminated. In January 2014, NMG redeemed all the outstanding Series 2012 Bonds ($58,775). The accompanying consolidated statements of operations and changes in net assets include a $2,867 loss on extinguishment of long-term debt as a result of the above-mentioned transactions.

In February 2013, the following transactions occurred related to NMHC's long-term debt:

- The Illinois Finance Authority issued fixed rate Revenue Bonds, Series 2013 (Series 2013 Bonds) in the aggregate amount of $111,235 on behalf of NMHC as the borrower and NMH as the user of the bond proceeds. The proceeds of $119,589 from the bonds included original issue premiums of $8,354. A portion of the Series 2013 Bonds proceeds was placed in an irrevocable trust to legally defease $48,685 of the Series 2009B Bonds maturing on August 15, 2039. The remaining proceeds of the Series 2013 Bonds were used to pay or reimburse NMH for the cost of constructing certain of its health care facilities and to pay certain expenses incurred in the issuance of the Series 2013 Bonds. The proceeds used to refund previously outstanding 2009B bonds were placed in an irrevocable trust and the bonds were legally defeased.

8. Long-Term Debt (continued)

- NLFH redeemed all the outstanding Series 2002A Bonds ($40,850) and advanced refunded all the outstanding Series 2003 Bonds ($25,950) with cash. The proceeds used to refund previously outstanding 2003 bonds were placed in an irrevocable trust and the bonds were legally defeased.

- NMH redeemed $5,550 of the Series 2002C Bonds maturing on August 15, 2032, with cash.

- The accompanying consolidated statements of operations and changes in net assets include a $6,381 loss on extinguishment of long-term debt as a result of the above-mentioned transactions.

NMH currently has lines of credit available for operations in the amount of $50,000 and $80,000, which expire in July 2015 and September 2015, respectively. NMH has the option to borrow at various rates expressed as an adjustment to LIBOR, prime rate, or other bank-offered rates. At August 31, 2014 and 2013, no amount was borrowed under the lines of credit.

NMH has standby bond purchase agreements (SBPAs) with multiple banks that cover all of its variable-rate demand revenue bonds (VRDBs). The short-term credit rating for each series of VRDBs is based on the respective bank's short-term credit rating. The long-term credit rating for each series of VRDBs is based on NMH's long-term credit rating. Changes in credit ratings may impact the interest paid on or remarketing of the VRDBs. The banks provide liquidity support in the event of a failed remarketing as follows:

	Par Value	Expiration Date
Series 2007A-1, 2007A-3	$ 104,200	December 2016
Series 2008A	78,775	July 2017
Series 2002C	27,450	July 2017
Series 2007A-2, 2007A-4	104,200	December 2018

The SBPAs require NMH to maintain reporting, financial, and other covenants. If an SBPA is not renewed or replaced prior to its expiration, or if some portion, or all, of the related VRDBs are not successfully remarketed (failed remarketing) during the term of the SBPAs, the related VRDBs convert to a term loan at the earlier of the expiration date of the related SBPA or after 90

8. Long-Term Debt (continued)

consecutive days of failed remarketing. Principal payment on the term loan would then be payable over a three-year term. The earliest principal payment on any term loan associated with the bonds is 367 days from the failed remarketing date. Therefore, the VRDBs, less any current portion, are classified as long-term debt in the accompanying consolidated balance sheets. Scheduled principal repayments for the next five years, assuming remarketing of VRDBs, on long-term debt are as follows:

Year ending August 31:	
2015	$ 14,095
2016	14,785
2017	15,515
2018	16,215
2019	16,940

The provisions under the respective debt agreements require the obligated group to maintain reporting, financial, and other covenants. At August 31, 2014, the obligated group was in compliance with these provisions.

Northwestern Memorial paid interest of $34,733 and $37,672 in 2014 and 2013, respectively, (which includes $7,589 and $8,684, respectively, for net swap payments included in interest expense in the accompanying consolidated statements of operations and changes in net assets). Northwestern Memorial capitalized interest of $8,683 and $3,612 in 2014 and 2013, respectively.

9. Derivatives

Northwestern Memorial's only derivative financial instruments are interest rate swaps, which NMH maintains on its 2007A VRDBs for the sole purpose of risk management. These bonds expose NMH to variability in interest payments due to changes in interest rates. To manage fluctuations in cash flows resulting from interest rate risk, NMH entered into various interest rate swap agreements. These swaps limit the variable-rate cash flow exposure on the VRDBs to synthetically fixed cash flows. By using interest rate swaps to manage the risk of changes in interest rates, NMH exposes itself to credit risk and market risk. Credit risk is the risk that a counterparty will fail to perform under the terms of a derivative contract. When the fair value of

9. Derivatives (continued)

a swap is positive, the counterparty owes NMH, which creates credit risk for NMH. When the fair value of a swap is zero or negative, the counterparty does not owe NMH. NMH minimizes the credit risk in its swap contracts by entering into transactions that require the counterparty to post collateral for the benefit of NMH based on the credit rating of the counterparty and the fair value of the swap contract. The aggregate fair value of the swaps on the accompanying consolidated balance sheets as of August 31, 2014 and 2013, reflects a reduction of $7,442 and $2,305, respectively, for nonperformance risk. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of its swap positions in the context of its total blended cost of capital.

The following is a summary of the outstanding positions under existing interest rate swap agreements at August 31:

Notional Amount		Maturity		
2014	**2013**	**Date**	**Rate Paid**	**Rate Received**
$ 104,200	$ 104,750	August 2042	3.889%	63% of LIBOR + 28 bps
104,200	104,750	August 2042	3.889%	63% of LIBOR + 28 bps
$ 208,400	$ 209,500			

The fair value of derivative instruments at August 31 is as follows:

	Balance Sheet	Liabilities	
	Location	**2014**	**2013**
Derivatives not designated as hedging instruments:			
Interest rate contracts	Interest rate swaps	**$ 52,872**	$ 43,916

9. Derivatives (continued)

The effects of derivative instruments on the accompanying consolidated statements of operations and changes in net assets for 2014 and 2013, are as follows:

	Amount of Gain (Loss) Recognized in Excess of Revenue Over Expenses on Derivatives	
Interest Rate Contracts	**2014**	**2013**
Derivatives not designated as hedging instruments:		
Operating expense – interest	**$ (7,589)**	$ (8,684)
Nonoperating – change in fair value of interest rate swaps	**(8,956)**	40,585

NMH's derivative instruments contain provisions that require NMH's debt to maintain an investment-grade credit rating from certain major credit rating agencies. If NMH's debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing collateralization on derivative instruments in net liability positions. NMH has posted collateral of $0 as of August 31, 2014 and 2013. If the credit risk-related contingent features underlying these agreements were triggered to the fullest extent on August 31, 2014, NMH would be required to post $60,314 of collateral to its counterparties.

10. Goodwill and Other Intangible Assets

Goodwill has been recorded at the excess of purchase price over fair value of assets purchased in business acquisitions of several medical practices. Northwestern Memorial has goodwill of $14,546 and $10,614 included in other assets, net, at August 31, 2014 and 2013, respectively.

The fair value of in-place leases is the present value associated with re-leasing the in-place lease as if the property was vacant. The value of at market in-place leases is amortized as amortization expense over the expected life of the lease. Above-market and below-market lease values for acquired properties are recorded based upon the present value of the difference between the contractual amounts to be paid pursuant to the in-place leases and management's estimates of the fair market lease rates for comparable leases. The value of above- and below-market leases are recorded as an adjustment to rental revenue over the remaining terms of the leases.

10. Goodwill and Other Intangible Assets (continued)

The following table summarizes NMHC's indentifiable intangible asset balances as of August 31, 2014 which are included in other assets, net on the accompanying consolidated balance sheets. NMHC had no indentifiable intangible assets as of August 31, 2013.

	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
In-place leases	$ 16,832	$ (3,024)	$ 13,808
Above-market leases	891	(267)	624
Other	350	(221)	129
Total intangible assets	$ 18,073	$ (3,512)	$ 14,561
Below-market lease intangibles	$ (4,836)	$ 589	$ (4,247)

Amortization expense, which is included in depreciation and amortization, was $3,245 and $0 for the years ended August 31, 2014 and 2013, respectively. The estimated amortization expense for intangible assets subject to amortization for each of the years ending August 31, 2015 through August 31, 2019 is as follows: $5,095, $2,888; $2,359; $1,963; and $1,483.

11. Income Tax Status

NMHC, NMH, NMG, NLFH, the Foundation, HFI, NMGMS and NMPG (through May 1, 2014, the merger date) are qualified under the Internal Revenue Code (the Code) as tax-exempt organizations and are exempt from tax on income related to their tax-exempt purposes under Section 501(a) of the Code. Accordingly, no income taxes are provided for the majority of the income in the accompanying consolidated financial statements for these corporations. NMHC, NMH, NLFH, HFI, NMG and the Foundation had unrelated business income (UBI) generated primarily through limited partnerships within the investment portfolio and the sale of certain services that are not directly related to patient care. NMH, NLFH, HFI, and the Foundation have unused net operating loss carryforwards available to offset the UBI tax. The net operating loss carryforwards expire through 2029. The deferred tax assets associated with these net operating loss carryforwards of $3,315 and $3,736 at August 31, 2014 and 2013, respectively, are offset by valuation allowances on the accompanying consolidated balance sheets of $3,315 and $3,736, respectively.

11. Income Tax Status (continued)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible.

NMIC is incorporated under the laws of the Cayman Islands. The Cayman Islands government imposes no tax on income or capital gains, and NMIC has received an undertaking from the Cayman Islands government exempting it from future income and capital gains taxes until March 25, 2023. However, NMIC is subject to U.S. federal corporate taxation to the extent that it generates net income that is effectively connected with a U.S. trade or business. NMIC is not engaged in any such trade or business in the U.S. In addition, distributions that NMH receives from NMIC are treated as dividends and, as such, are not taxable to NMH. Therefore, no income tax provision has been recorded related to NMIC and its operations.

Interest and penalties on income taxes, when incurred, are included in operating expenses.

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at August 31:

	2014	2013
Health care services:		
Purchase of property and equipment	**$ 27,095**	$ 16,638
Operating expenses and charity care	**54,090**	48,737
Research, education, and other	**94,805**	92,307
	$ 175,990	$ 157,682

12. Temporarily and Permanently Restricted Net Assets (continued)

Net assets were released from donor restrictions by incurring expenditures for the following purposes:

	2014	2013
Health care services:		
Purchase of property and equipment	**$ 1,348**	$ 1,248
Operating expenses and charity care	**12,519**	12,473
Research, education, and other	**17,427**	17,601
	$ 31,294	$ 31,322

Permanently restricted net assets at August 31, are summarized below, the income from which is expendable to support:

	2014	2013
Health care services:		
Purchase of property and equipment	**$ 14,304**	$ 14,304
Operating expenses and charity care	**69,696**	68,420
Research, education, and other	**70,048**	68,018
	$ 154,048	$ 150,742

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

Northwestern Memorial has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), as adopted by the state of Illinois, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Northwestern Memorial classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time. The remaining portion of the donor-restricted

12. Temporarily and Permanently Restricted Net Assets (continued)

endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure, consistent with the donor intent or, where silent, standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, Northwestern Memorial considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of Northwestern Memorial and the endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from investment income and the appreciation
- Other resources of Northwestern Memorial
- The investment policies of Northwestern Memorial

Northwestern Memorial has adopted investment and spending policies for endowment assets designed to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that must be held in perpetuity or for a donor-specified period. Under this policy, endowment assets are allocated a fixed annual return, which is currently set at 6%.

Northwestern Memorial has a policy that limits annual spending from endowment funds to 4% of the endowment fund balance at the midpoint of the preceding fiscal year. In establishing this policy, Northwestern Memorial considered the long-term expected return on its endowment. Accordingly, over the long term, Northwestern Memorial expects the spending policy to allow its endowment to grow at an average annual rate of 2%. This is consistent with its objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term, as well as to provide additional real growth through new gifts and investment return.

12. Temporarily and Permanently Restricted Net Assets (continued)

The changes in endowment net assets for the years ended August 31, 2014 and 2013, are summarized below:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 1, 2012	$ 54,984	$ 141,771	$ 196,755
Contributions	1,573	2,364	3,937
Change in value of trusts	32	1,057	1,089
Investment return	5,924	–	5,924
Appropriation for expenditure	(8,113)	–	(8,113)
Other	(5,472)	5,550	78
Endowment net assets, August 31, 2013	48,928	150,742	199,670
Contributions	**163**	**2,420**	**2,583**
Change in value of trusts	**114**	**986**	**1,100**
Investment return	**6,350**	–	**6,350**
Appropriation for expenditure	**(5,354)**	–	**(5,354)**
Other	**(1,617)**	**(100)**	**(1,717)**
Endowment net assets, August 31, 2014	**$ 48,584**	**$ 154,048**	**$ 202,632**

13. Pledges Receivable

As of August 31, 2014, donor-restricted pledges are expected to be realized as follows:

Less than one year	$ 10,573
One to five years	25,821
Thereafter	2,153
Total pledges receivable	38,547
Less discount and allowance	(5,820)
Net pledges receivable	$ 32,727

14. Net Patient Revenue

Northwestern Memorial recognizes net patient service revenue associated with services provided to patients who have third-party payor coverage with Medicare, Medicaid, Blue Cross, other managed care programs, and other third-party payors on the basis of the contractual rates for the services rendered at the time services are provided. Payment arrangements with those payors include prospectively determined rates per admission or visit, reimbursed costs, discounted charges, and per diem rates. Reported costs and/or services provided under certain of the arrangements are subject to retroactive audit and adjustment. Patient service revenue increased by $13,191 and $15,208 in 2014 and 2013, respectively, as a result of changes in estimates due to settlements of cost reports and the disposition of other payor audits and settlements related to prior years. Changes in Medicare and Medicaid programs and reduction in funding levels could have an adverse effect on Northwestern Memorial.

Northwestern Memorial also provides care to self-pay patients. Under its Free and Discounted Care Policy (the Policy), Northwestern Memorial provides medically necessary care to patients in its community with inadequate financial resources at discounts of up to 100% of charges using a sliding scale that is based on patient household income as a percentage (up to 600%) of the Federal Poverty Level Guidelines. The Policy also contains a catastrophic financial assistance provision that limits a patient's total financial responsibility to Northwestern Memorial. Since Northwestern Memorial does not pursue collection of these amounts, they are not reported as net patient service revenue. The Policy has not changed in fiscal year 2014 or 2013. Northwestern Memorial implemented presumptive eligibility screening procedures for free care in fiscal year 2014. Northwestern Memorial recognizes net patient service revenue on services provided to these patients at the discounted rate at the time services are rendered.

Net patient service revenue, net of contractual allowances and discounts, is reduced by the provision for uncollectible accounts, and net patient accounts receivable are reduced by allowances for uncollectible accounts. These amounts are based primarily on management's assessment of historical and expected write-offs and net collections, along with the aging status for each major payor source. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. Based on historical experience, a portion of Northwestern Memorial's self-pay patients who do not qualify for charity care will be unable or unwilling to pay for the services provided. Thus, a provision is recorded for uncollectible accounts in the period services are provided related to these patients. After all reasonable collection efforts have been exhausted in accordance with Northwestern Memorial's policies, accounts receivable are written off and charged against the allowance for uncollectible accounts.

14. Net Patient Revenue (continued)

Northwestern Memorial has determined, based on an assessment at the reporting-entity level, that net patient service revenue is primarily recorded prior to assessing the patient's ability to pay, and as such, the entire provision for uncollectible accounts is recorded as a deduction from net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

Net patient service revenue (including patient co-pays and deductibles), net of contractual allowances and discounts (but before the provision for uncollectible accounts) by primary payor source was as follows for the years ended August 31:

	2014	2013
Third-party payors	**$ 2,317,450**	$ 1,604,375
Patients	**62,482**	18,598
	$ 2,379,932	$ 1,622,973

Third party payors include Medicaid net patient service revenue received through the Illinois Hospital Assessment Program (see Note 15).

Northwestern Memorial grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Net patient accounts receivable, including patient co-pays and deductibles by major primary payor source, before deducting estimated uncollectibles, was as follows at August 31:

	2014	2013
Medicare	**15%**	16%
Medicaid	**7**	11
Blue Cross	**23**	21
Other managed care	**30**	31
Other third-party payors	**14**	13
Patients	**11**	8
	100%	100%

14. Net Patient Revenue (continued)

Patient accounts receivable, net of contractual adjustments, were $415,827 and $287,384 as of August 31, 2014 and 2013, respectively, or 17.5% and 17.7% of patient revenue for the fiscal years then ended. The related allowance for uncollectible accounts was $70,977 and $41,721, or 17.1% and 14.5%, of the related patient accounts receivable, net of contractual adjustments as of August 31, 2014 and 2013, respectively. The allowance for uncollectible accounts as a percent of patient accounts receivable, net of contractual allowances, has increased mainly due to the proportionate increase in self pay patient accounts receivables at August 31, 2014, compared to August 31, 2013.

15. Illinois Hospital Assessment Program

In December 2008, the Illinois Hospital Assessment Program was approved by the Federal Centers for Medicare and Medicaid Services (CMS) for the period from July 1, 2008 through June 30, 2013. In July 2012, this program was extended to December 31, 2014 as part of the Save Medicaid Access and Resources Together (SMART) Act. In June 2014, this program was extended to June 30, 2018 as part of the Omnibus Medicaid Bill Senate Bill 741.

In October 2013, the Enhanced Illinois Hospital Assessment Program as authorized under Illinois Public Act 97-688 was approved by Centers for Medicare and Medicaid (CMS). This program was retroactive to June 10, 2012. As such, 26 months and 21 days of this program are included in operating results for the year ending August 31, 2014. Together these two programs are referred to herein as HAP.

Under HAP, the state receives additional federal Medicaid funds for the state's healthcare system, administered by the Illinois Department of Healthcare and Family Services. HAP includes both payments to NMH and NLFH from the state and assessments against NMH and NLFH, which are paid to the state in the same year. Included in the accompanying consolidated statements of operations and changes in net assets for the years ended August 31, 2014 and 2013, respectively, are $103,410 and $56,216 of net patient service revenue and $74,044 and $41,395 of assessment.

16. Functional Expenses

Northwestern Memorial provides general health care services primarily to residents within its geographic location and supports research and education programs. Expenses related to providing these services were as follows for the years ended August 31:

	2014	2013
Health care services	**$ 1,748,490**	$ 1,168,571
Research and education	**78,823**	99,413
Fundraising	**5,891**	5,632
General, administrative, and other	**451,145**	304,703
	$ 2,284,349	$ 1,578,319

The research and education costs include $2,819 and $5,154 of expenses supported by federal, state, and corporate grants and $14,608 and $12,447 of expenses supported by other donor-restricted funds in 2014 and 2013, respectively.

17. Commitments and Contingencies

Academic, Program, and Other Support

Consistent with its mission, Northwestern Memorial provides academic, program, and other support to other not-for-profit entities. The present value of the total remaining commitments related to this support is $232,546 and $262,016 at August 31, 2014 and 2013, respectively, which is reported as grants and academic support payable in the accompanying consolidated balance sheets.

The Alignment Agreement signed on September 1, 2012, among NMHC, NMG and NU furthers the mutual purpose and mission of the entities and provided ongoing funding to FSM. The remaining commitment of this ongoing funding is $0 and $18,156 as of August 31, 2014 and 2013, respectively, and is reported in accrued expenses and other current liabilities in the accompanying consolidated balance sheets. Northwestern Memorial entered into a Clinical Affiliation Agreement with NMG as of September 1, 2013 (see Note 2). Pursuant to this agreement, the Alignment Agreement was amended and restated, effective as of September 1, 2013, to terminate the ongoing funding obligation described above.

17. Commitments and Contingencies (continued)

Pursuant to the Clinical Affiliation Agreement, Northwestern Memorial will provide continuing funding to NU in support of the research and education mission of FSM. This continuing funding is based on the average net patient revenue and operating results of Northwestern Memorial, with the minimum annual amount of such funding being $39,500, plus consumer price index, for fiscal years 2014 through 2016. The expense incurred is $40,924 for the year ended August 31, 2014 and is recorded in other expense in the accompanying consolidated statements of operations and changes in net assets; and $713 is reported in accrued expenses and other current liabilities in the accompanying consolidated balance sheets as of August 31, 2014.

Other

As of August 31, 2014, approximately 11% of Northwestern Memorial employees were represented by a collective bargaining agreement. This collective bargaining agreement does not expire within one year.

Capital and Leases

Various capital projects are currently being constructed that are expected to open over the next three years. The total estimated cost of these projects is approximately $1,028,000 (unaudited). As of August 31, 2014, project commitments totaled $493,528, of which $419,840 has been incurred.

As part of the affiliation agreement with Lake Forest Hospital in 2010, Northwestern Memorial committed to a plan to refurbish or replace existing inpatient and outpatient facilities on the Lake Forest Campus within ten years of the affiliation date (Replacement Project). The planning process for the Replacement Project is progressing on schedule. In June 2014, the Replacement Project received regulatory approval from the Illinois Health Facilities and Services Review Board.

17. Commitments and Contingencies (continued)

Certain Northwestern Memorial buildings are located on land leased from Northwestern University under various lease agreements. The principal lease requires annual payments of $314 through 2075. At August 31, 2014, minimum future rental payments under other noncancelable operating leases, which consist primarily of leases for office space and equipment, some of which include renewal options, are as follows:

Year ending August 31:	
2015	$ 8,928
2016	9,904
2017	9,740
2018	9,690
2019	9,836
Thereafter	67,208

Regulatory

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded amounts will change by a material amount in the near term. During the last few years, as a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the Medicare and Medicaid programs.

In addition, an increasing number of the operations or practices of not-for-profit health care providers has been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit, tax-exempt organizations. These challenges are broader than concerns about compliance with federal and state statutes and regulations of core business practices of the health care organizations. The laws and regulations regarding these practices are also subject to interpretation and challenge. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, community benefit, executive compensation, exemption of property from real property taxation, and others. Northwestern Memorial expects that the level of review and audit to which it and other health

17. Commitments and Contingencies (continued)

care providers are subject will increase. There can be no assurance that regulatory authorities will not challenge Northwestern Memorial's compliance with these laws and regulations or that the laws and regulations themselves will not be subject to challenge, and it is not possible to determine the effect, if any, such claims or penalties would have on Northwestern Memorial.

Northwestern Memorial is a defendant in other various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, management believes the ultimate disposition of such matters will not have a material effect on Northwestern Memorial's financial condition or operations.

18. Affiliation Agreement With Cadence Health

On September 1, 2014, CDH–Delnor Health System d/b/a Cadence Health (Cadence) became a wholly owned subsidiary of NMHC pursuant to a Clinical Affiliation Agreement between NMHC and Cadence. This affiliation positions Northwestern Memorial, under the Northwestern Medicine brand, to create an integrated academic health delivery system that serves a broad community, offering patients access to leading-edge care closer to where they live and work.

The affiliation was effected through a membership substitution with no consideration paid. For accounting purposes, this transaction is considered an acquisition under ASC 958-805 and a contribution will be recorded for the fair value of assets net of liabilities of Cadence. No goodwill will be recorded as a result of this transaction.

18. Affiliation Agreement with Cadence Health (continued)

The preliminary acquisition-date fair value of identifiable assets and liabilities of Cadence at September 1, 2014, consist of the following:

Fair value of identifiable net assets:	
Cash and cash equivalents	$ 123,105
Other current assets	245,839
Property and equipment	1,057,611
Other long-term assets	1,501,637
Current liabilities	(333,389)
Long-term debt	(680,965)
Other long-term liabilities	(105,652)
Temporarily restricted net assets	(17,834)
Permanently restricted net assets	(5,655)
Contribution	$ 1,784,697

The valuation of property and equipment, other current and long-term assets, including identifiable intangible assets, long-term debt and current and long-term liabilities is in the process of being completed and is expected to be completed in fiscal 2015. In valuing these assets and liabilities, fair values will be based on, but not limited to independent appraisals, discounted cash flows, replacement costs, and actuarially determined values.

Following are the unaudited pro forma results for the years ended August 31, 2014 and 2013, as if the affiliation had occurred on September 1, 2012:

	2014	2013
Total operating revenue	**$ 3,726,802**	$ 3,429,009
Operating income	**261,791**	244,602
Excess of revenue over expenses	**788,963**	421,216

On November 25, 2014, Cadence, and three of its subsidiaries, Central DuPage Physician Group (doing business as Cadence Physician Group), Central DuPage Hospital Association and Delnor-Community Hospital became members of the obligated group created under the NMHC Master Indenture referenced in Note 8. All debt of NMHC and its subsidiaries (other than certain capital leases and letters of credit) is secured by, or guaranteed by, the NMHC obligated group.

19. Subsequent Events

Northwestern Memorial evaluated events and transactions occurring subsequent to August 31, 2014 through December 2, 2014, the date of issuance of the accompanying consolidated financial statements. There were no unrecognized subsequent events requiring disclosure, except as noted in Note 18.

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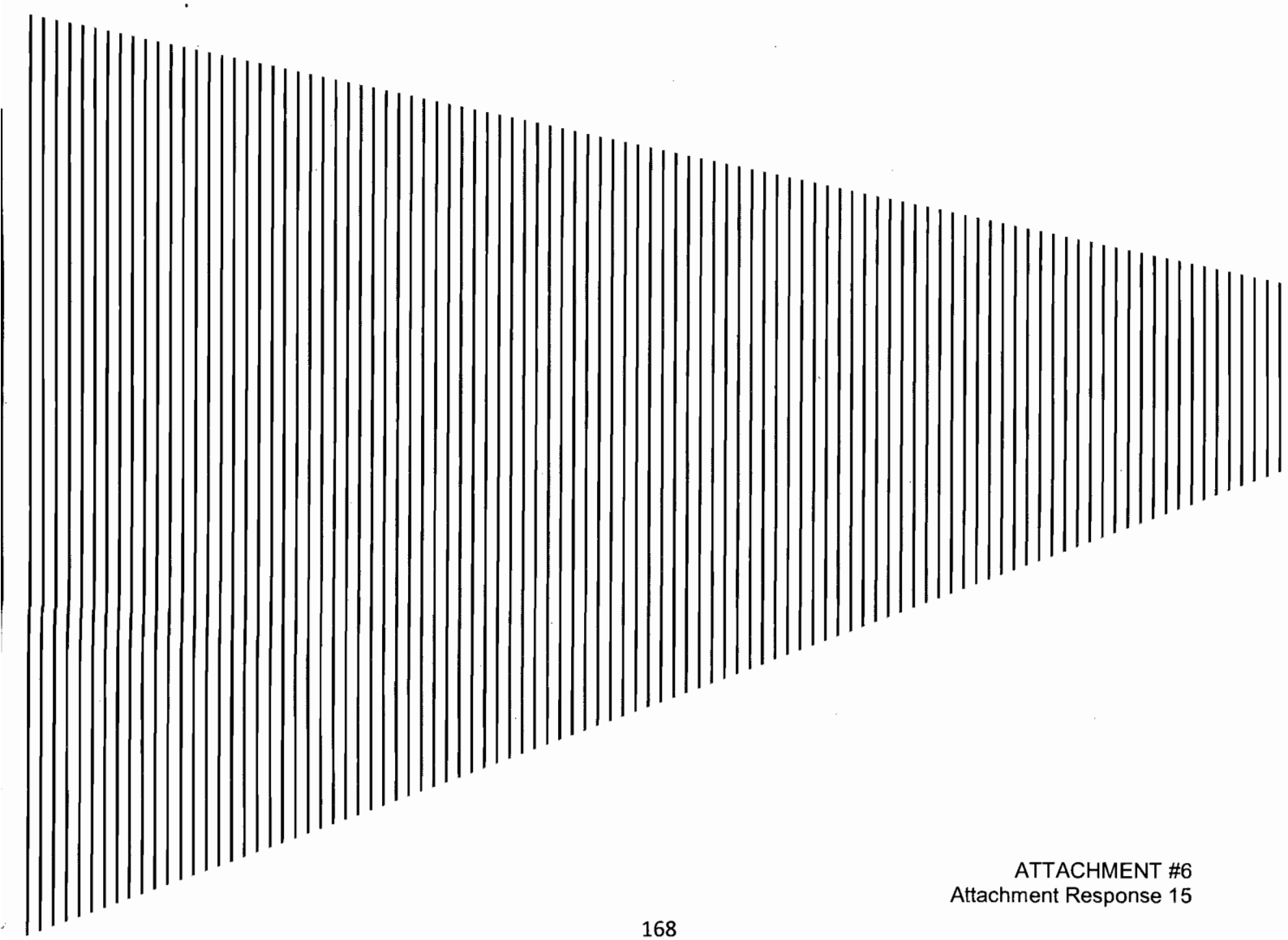
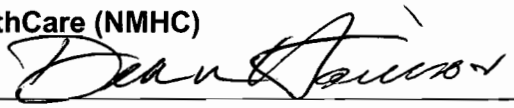


ATTACHMENT #6
Attachment Response 15

18a. CERTIFICATION

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

Northwestern Memorial HealthCare (NMHC)

Signature of Authorized Officer 

Typed or Printed Name of Authorized Officer Dean M. Harrison

Title of Authorized Officer: President and Chief Executive Officer, Northwestern Memorial HealthCare

Address: 251 East Huron Street

City, State & Zip Code: Chicago, IL 60611

Telephone (312) 926-3007 Date:

18b. CERTIFICATION

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

KishHealth System (KishHealth)

Signature of Authorized Officer Kevin P. Poorten

Typed or Printed Name of Authorized Officer Kevin P. Poorten

Title of Authorized Officer: President and Chief Executive Officer, KishHealth System

Address: 1 Kish Hospital Drive

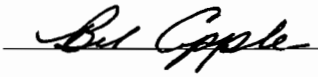
City, State & Zip Code: DeKalb, IL 60115

Telephone (815) 756-1521 Date:

18c. CERTIFICATION

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

Kishwaukee Community Hospital

Signature of Authorized Officer 

Typed or Printed Name of Authorized Officer Brad Copple

Title of Authorized Officer: President, Kishwaukee Community Hospital

Address: 1 Kish Hospital Drive

City, State & Zip Code: DeKalb, IL 60115

Telephone (815) 758-1521 Date:

Section 1130.520 Information Requirements

Affirmations

1. N/A

2. Northwestern Memorial HealthCare certifies that the transaction agreement that has been signed by both Northwestern Memorial HealthCare and KishHealth System, contains a provision that execution is subject to HFSRB issuance of an exemption and contains the conditions and terms of change of ownership.

3. Northwestern Memorial HealthCare certifies that there has been no adverse action taken against any healthcare facility owned and operated by them by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois within the past three years.

4. N/A

5. Northwestern Memorial HealthCare affirms that any projects for which Certificate of Need or Certificate of Exemption permits have been issued have been completed or will be completed or altered in accordance with the provisions in Section 1130.520.

6. Northwestern Memorial HealthCare hereby affirms that The Midland Surgical Center, LLC will not adopt a more restrictive charity care policy than the policy in effect one year prior to the transaction. The Midland Surgical Center, LLC will maintain the compliant charity care policy for a minimum of two years following the change of ownership transaction.

7. Northwestern Memorial HealthCare affirms that it understands that failure to complete the change of ownership of The Midland Surgical Center, LLC in accordance with the applicable provisions of Section 1130.500(d) no later than 24 months from the date of exemption approval and failure to comply with the material change requirements of this Section will invalidate the exemption.

8. The anticipated benefit of the proposed affiliation is that it will allow NMHC to expand regionally to service the health care needs of DeKalb County and neighboring communities. This will enable the most advanced health care to be provided with the support of an integrated academic health system, including necessary tertiary and quaternary care.

9. Through the proposed affiliation, NMHC and KishHealth aim to improve the value of health care in the Kish service area by effectively capturing economies of scale and embracing the expansion of non-hospital-based care and new payment mechanisms. Both NMHC and KishHealth intend that the combined health system will maintain a strong financial operation model to generate the capital required to renew infrastructure, programs, and services. The proposed affiliation will create a strong and effective long-term relationship between the NMHC System and the KishHealth System ensuring that they continue to achieve their charitable missions.

10. KishHealth and NMHC share a longstanding commitment to a culture of quality, safety, and service. By aspiring to the highest standards for quality and patient satisfaction, KishHealth and NMHC continue to advance the commitment to delivering care that is of the highest quality, is evidence based, and eliminates preventable harm. It is anticipated that KishHealth will integrate their quality plan with NMHC's quality plan after the closing of the proposed transaction. NMHC's quality plan is designed to align leadership, staff, and resources to accomplish defined quality improvement goals. The goals consider key components of the national quality agendas, value, and input from stakeholders both internal and external to the system including patients and their family members. NMHC follows a DMAIC-based approach to process improvement. DMAIC (Define, Measure, Analyze, Improve, and Control), the process improvement methodology from Six Sigma, is the "roadmap" that is followed on every improvement project. Change Management is also a core element of the approach.

11. If the proposed transaction is approved, NMHC will become the sole corporate member of KishHealth and the ultimate corporate parent of the NM System. Organization charts for NMHC, KishHealth and the proposed new NM System are included in ATTACHMENT #3.

12. As of the closing of the proposed transaction, the Board of Directors of KishHealth, Kishwaukee Community Hospital, Valley West Hospital will be identical to the Board of Directors of CDH-Delnor Health System, Central DuPage Hospital and Delnor Community Hospital (known as the West Region Board) and will be comprised of fifteen individuals, five of whom will be nominated by KishHealth before the transaction closing. The Nominating and Corporate Governance Committee of the NMHC Board will review proposed candidates to fill vacancies and make recommendations to the Executive Committee of the NMHC Board. The NMHC Board will elect approved candidates to the West Region Board.

13. NMHC has prepared a written response addressing the review criteria contained in 77 Ill. Adm. Code 1110.240 that is available for public review on the premises of the health care facility.

14. NMHC and KishHealth do not anticipate any reductions to the scope of services or levels of care currently provided at The Midland Surgical Center, LLC within 24 months after the affiliation.

Signature of Authorized Officer:

Typed Name of Authorized Officer: Dean M. Harrison

Title of Authorized Officer: President and Chief Executive Officer
Northwestern Memorial HealthCare

Section 1130.520 Information Requirements

Affirmations

1. N/A

2. KishHealth System certifies that the transaction agreement that has been signed by both Northwestern Memorial HealthCare and KishHealth System, contains a provision that execution is subject to HFSRB issuance of an exemption and contains the conditions and terms of change of ownership.

3. KishHealth System certifies that there has been no adverse action taken against any healthcare facility owned and operated by them by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois within the past three years.

4. N/A

5. KishHealth System affirms that any projects for which Certificate of Need or Certificate of Exemption permits have been issued have been completed or will be completed or altered in accordance with the provisions in Section 1130.520.

6. KishHealth System hereby affirms that The Midland Surgical Center, LLC will not adopt a more restrictive charity care policy than the policy in effect one year prior to the transaction. The Midland Surgical Center, LLC will maintain the compliant charity care policy for a minimum of two years following the change of ownership transaction.

7. KishHealth System affirms that it understands that failure to complete the change of ownership of The Midland Surgical Center, LLC in accordance with the applicable provisions of Section 1130.500(d) no later than 24 months from the date of exemption approval and failure to comply with the material change requirements of this Section will invalidate the exemption.

8. The anticipated benefit of the proposed affiliation is that it will allow NMHC to expand regionally to service the health care needs of DeKalb County and neighboring communities. This will enable the most advanced health care to be provided with the support of an integrated academic health system, including necessary tertiary and quaternary care.

9. Through the proposed affiliation, NMHC and KishHealth aim to improve the value of health care in the Kish service area by effectively capturing economies of scale and embracing the expansion of non-hospital-based care and new payment mechanisms. Both NMHC and KishHealth intend that the combined health system will maintain a strong financial operation model to generate the capital required to renew infrastructure, programs, and services. The proposed affiliation will create a strong and effective long-term relationship between the NMHC System and the KishHealth System ensuring that they continue to achieve their charitable missions.

10. KishHealth and NMHC share a longstanding commitment to a culture of quality, safety, and service. By aspiring to the highest standards for quality and patient satisfaction, KishHealth and NMHC continue to advance the commitment to delivering care that is of the highest quality, is evidence based, and eliminates preventable harm. It is anticipated that KishHealth will integrate their quality plan with NMHC's quality plan after the closing of the proposed transaction. NMHC's quality plan is designed to align leadership, staff, and resources to accomplish defined quality improvement goals. The goals consider key components of the national quality agendas, value, and input from stakeholders both internal and external to the system including patients and their family members. NMHC follows a DMAIC-based approach to process improvement. DMAIC (Define, Measure, Analyze, Improve, and Control), the process improvement methodology from Six Sigma, is the "roadmap" that is followed on every improvement project. Change Management is also a core element of the approach.

11. If the proposed transaction is approved, NMHC will become the sole corporate member of KishHealth and the ultimate corporate parent of the NM System. Organization charts for NMHC, KishHealth and the proposed new NM System are included in ATTACHMENT #3.

12. As of the closing of the proposed transaction, the Board of Directors of KishHealth, Kishwaukee Community Hospital, Valley West Hospital will be identical to the Board of Directors of CDH-Delnor Health System, Central DuPage Hospital and Delnor Community Hospital (known as the West Region Board) and will be comprised of fifteen individuals, five of whom will be nominated by KishHealth before the transaction closing. The Nominating and Corporate Governance Committee of the NMHC Board will review proposed candidates to fill vacancies and make recommendations to the Executive Committee of the NMHC Board. The NMHC Board will elect approved candidates to the West Region Board.

13. NMHC and KishHealth have prepared a written response addressing the review criteria contained in 77 Ill. Adm. Code 1110.240 that is available for public review on the premises of the health care facility.

14. NMHC and KishHealth do not anticipate any reductions to the scope of services or levels of care currently provided at Kishwaukee Community Hospital within 24 months after the affiliation. NMHC and KishHealth share a vision that through the proposed affiliation both scope of services and level of care could increase at Kishwaukee Community Hospital. For example, specialty areas that have been hard to staff in DeKalb, such as neurology and pulmonology, are priorities for the new system to staff on at least a part-time basis. This will result in increased utilization and a higher level of care in the Intensive Care unit at Kishwaukee Community Hospital.

Signature of Authorized Officer: Kevin P. Poorten

Typed Name of Authorized Officer: Kevin P. Poorten

Title of Authorized Officer: President and Chief Executive Officer
KishHealth System

Section 1130.520 Information Requirements

Affirmations

1. N/A

2. Valley West Community Hospital certifies that the transaction agreement that has been signed by both Northwestern Memorial HealthCare and KishHealth System, contains a provision that execution is subject to HFSRB issuance of an exemption and contains the conditions and terms of change of ownership.

3. Valley West Community Hospital certifies that there has been no adverse action taken against any healthcare facility owned and operated by them by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois within the past three years.

4. N/A

5. Valley West Community Hospital affirms that any projects for which Certificate of Need or Certificate of Exemption permits have been issued have been completed or will be completed or altered in accordance with the provisions in Section 1130.520.

6. Valley West Community Hospital hereby affirms that Valley West Community Hospital will not adopt a more restrictive charity care policy than the policy in effect one year prior to the transaction. Valley West Community Hospital will maintain the compliant charity care policy for a minimum of two years following the change of ownership transaction.

7. Valley West Community Hospital affirms that it understands that failure to complete the change of ownership of Valley West Community Hospital in accordance with the applicable provisions of Section 1130.500(d) no later than 24 months from the date of exemption approval and failure to comply with the material change requirements of this Section will invalidate the exemption.

8. The anticipated benefit of the proposed affiliation is that it will allow NMHC to expand regionally to service the health care needs of DeKalb County and neighboring communities. This will enable the most advanced health care to be provided with the support of an integrated academic health system, including necessary tertiary and quaternary care.

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Signature of Authorized Officer:
Typed Name of Authorized Officer: Brad Copple
Title of Authorized Officer: President
Valley West Community Hospital