ORIGINAL

E-039-14

RECEIVED

OCT 29 2014

HEALTH FACILITIES & SERVICES REVIEW BOARD

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

1. **INFORMATION FOR EXISTING FACILITY**

Current Facility Name_____Mercy Harvard Memorial Hospital a/k/a Mercy Harvard Hospital_____
Address _____901 South Grant Street_____
City _____Harvard, IL_____ Zip Code ___60033_____ County _____McHenry_____
Name of current licensed entity for the facility ___Mercy Harvard Hospital, Inc._____
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.___Pam Althoff_____
State Senate District Number _____32_____ Mailing address of the State Senator _____
_____5400 West Elm McHenry, IL 62706_____
Illinois State Representative for the district where the facility is located: Rep. ____Jack Franks_____
State Representative District Number ___63_____ Mailing address of the State Representative _____
_____1193 South Eastwood Drive Woodstock, IL 60098_____

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 #
_____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant _____PLEASE SEE FOLLOWING PAGE_____
Address _____
City, State & Zip Code _____ Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship
__ALL_____ 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 ____Mercy Harvard Hospital, Inc._____
Address_____901 South Grant Street_____
City, State & Zip Code ___Harvard, IL 60033_____
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship _____
Not-for-Profit Corporation ___X___ 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_____Mercy Harvard Hospital, Inc._____
Address_____901 South Grant Street_____
City, State & Zip Code ___Harvard, IL 60033_____
Type of ownership of the current licensed entity (check one of the following:) _____ Sole Proprietorship _____
Not-for-Profit Corporation ___X___ For Profit Corporation _____ Partnership _____ Governmental _____
Limited Liability Company _____ Other, specify _____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant _____Interstate Alliance, Inc._____
Address _____2400 North Rockton Avenue_____
City, State & Zip Code _____Rockford, IL 61103_____
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 _____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant _____Mercy Alliance, Inc._____
Address _____1000 Mineral Point Avenue_____
City, State & Zip Code _____Janesville, WI 53548_____
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 _____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant _____Rockford Health System_____
Address _____2350 North Rockton Avenue_____
City, State & Zip Code _____Rockford, IL 61103_____
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 _____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant _____Mercy Harvard Hospital, Inc._____
Address _____901 South Grant Street_____
City, State & Zip Code _____Harvard, IL 60033_____
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 _____

3. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).
Exact Legal Name of Applicant _____Rockford Memorial Hospital_____
Address _____2400 North Rockton Avenue_____
City, State & Zip Code _____Rockford, IL 61103_____
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;
   - o 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;

   X 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. NOT APPLICABLE**

9. **ANTICIPATED ACQUISITION PRICE: $____NOT APPLICABLE_____**

10. **FAIR MARKET VALUE OF THE FACILITY: $___20,203,000*_____**
    (to determine fair market value, refer to 77 IAC 1130.140)

11. **DATE OF PROPOSED TRANSACTION: ___within 60 days of receipt of COE_____**

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 __X__, and indicate the date the entity was formed _October, 2014_____

*Per page 40 of Mercy Alliance, Inc. and Affiliates Consolidated Financial Statements and Supplementary Information (attached). An independent valuation was not and will not be performed.

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: Paul Van Den Heuvel Vice President and General Counsel Mercy Health System
Address: 1000 Mineral Point Road
City, State & Zip Code: Janesville, WI 53548
Telephone: 608/756-6000

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

Name: Jacob M. Axel President Axel & Associates, Inc.
Address: 675 North Court Suite 210
City, State & Zip Code: Palatine, IL 60067
Telephone: 847/776-7101

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

Name: Honey Skinner Partner Sidley
Address: 1 South Dearborn
City, State & Zip Code: Chicago, IL 60603
Telephone: 312/853-7577

18. **CERTIFICATION**

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

Signature of Authorized Officer

Typed or Printed Name of Authorized Officer Javon R. Bea

Title of Authorized Officer: CEO

Address: 2400 N. Rockton Avenue

City, State & Zip Code: Rockford, IL 61103

Telephone (815) 971-5000 Date: October 27, 2014

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

Interstate Alliance, Inc.

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: Paul Van Den Heuvel Vice President and General Counsel Mercy Health System
Address: 1000 Mineral Point Road
City, State & Zip Code: Janesville, WI 53548
Telephone: 608/756-6000

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

Name: Jacob M. Axel President Axel & Associates, Inc.
Address: 675 North Court Suite 210
City, State & Zip Code: Palatine, IL 60067
Telephone: 847/776-7101

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

Name: Honey Skinner Partner Sidley
Address: 1 South Dearborn
City, State & Zip Code: Chicago, IL 60603
Telephone: 312/853-7577

18. **CERTIFICATION**

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

Signature of Authorized Officer

Typed or Printed Name of Authorized Officer Javon R. Bea

Title of Authorized Officer: President

Address: 1000 Mineral Point Avenue

City, State & Zip Code: Janesville, WI 53548

Telephone (608) 756-6000 Date: October 27, 2014

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

Mercy Alliance, Inc.

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: Paul Van Den Heuvel Vice President and General Counsel Mercy Health System
Address: 1000 Mineral Point Road
City, State & Zip Code: Janesville, WI 53548
Telephone: 608/756-6000

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

Name: Jacob M. Axel President Axel & Associates, Inc.
Address: 675 North Court Suite 210
City, State & Zip Code: Palatine, IL 60067
Telephone: 847/776-7101

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

Name: Honey Skinner Partner Sidley
Address: 1 South Dearborn
City, State & Zip Code: Chicago, IL 60603
Telephone: 312/853-7577

18. **CERTIFICATION**

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

Signature of Authorized Officer

Typed or Printed Name of Authorized Officer Javon R. Bea

Title of Authorized Officer: President

Address: 1000 Mineral Point Avenue

City, State & Zip Code: Janesville, WI 53548

Telephone (608) 756-6000 Date: October 27, 2014

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

Mercy Harvard Hospital, Inc.

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: Paul Van Den Heuvel Vice President and General Counsel Mercy Health System
Address: 1000 Mineral Point Road
City, State & Zip Code: Janesville, WI 53548
Telephone: 608/756-6000

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

Name: Jacob M. Axel President Axel & Associates, Inc.
Address: 675 North Court Suite 210
City, State & Zip Code: Palatine, IL 60067
Telephone: 847/776-7101

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

Name: Honey Skinner Partner Sidley
Address: 1 South Dearborn
City, State & Zip Code: Chicago, IL 60603
Telephone: 312/853-7577

18. **CERTIFICATION**

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

Signature of Authorized Officer

Typed or Printed Name of Authorized Officer Gary E. Kaatz

Title of Authorized Officer: President and CEO

Address: 2400 North Rockton Avenue

City, State & Zip Code: Rockford, IL 61103

Telephone (815) 971-7250 Date: 10-20-14

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

Rockford Health System

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: Paul Van Den Heuvel Vice President and General Counsel Mercy Health System
Address: 1000 Mineral Point Road
City, State & Zip Code: Janesville, WI 53548
Telephone: 608/756-6000

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

Name: Jacob M. Axel President Axel & Associates, Inc.
Address: 675 North Court Suite 210
City, State & Zip Code: Palatine, IL 60067
Telephone: 847/776-7101

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

Name: Honey Skinner Partner Sidley
Address: 1 South Dearborn
City, State & Zip Code: Chicago, IL 60603
Telephone: 312/853-7577

18. **CERTIFICATION**

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

Signature of Authorized Officer

Typed or Printed Name of Authorized Officer Gary E. Kaatz

Title of Authorized Officer: President and CEO

Address: 2400 North Rockton Avenue

City, State & Zip Code: Rockford, IL 61103

Telephone (815) 971-7250 Date: 10-20-14

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

Rockford Memorial Hospital

Narrative Description

Mercy Alliance, Inc. ("MAI") and Rockford Health System ("RHS") propose to amend their respective governing documents to name Interstate Alliance, Inc. ("IAI") as their sole corporate member. Both MAI and RHS are organized as not-for-profit corporations, and will retain that status. IAI is a recently-formed Illinois not-for-profit corporation, which will be headquartered in Rockford.

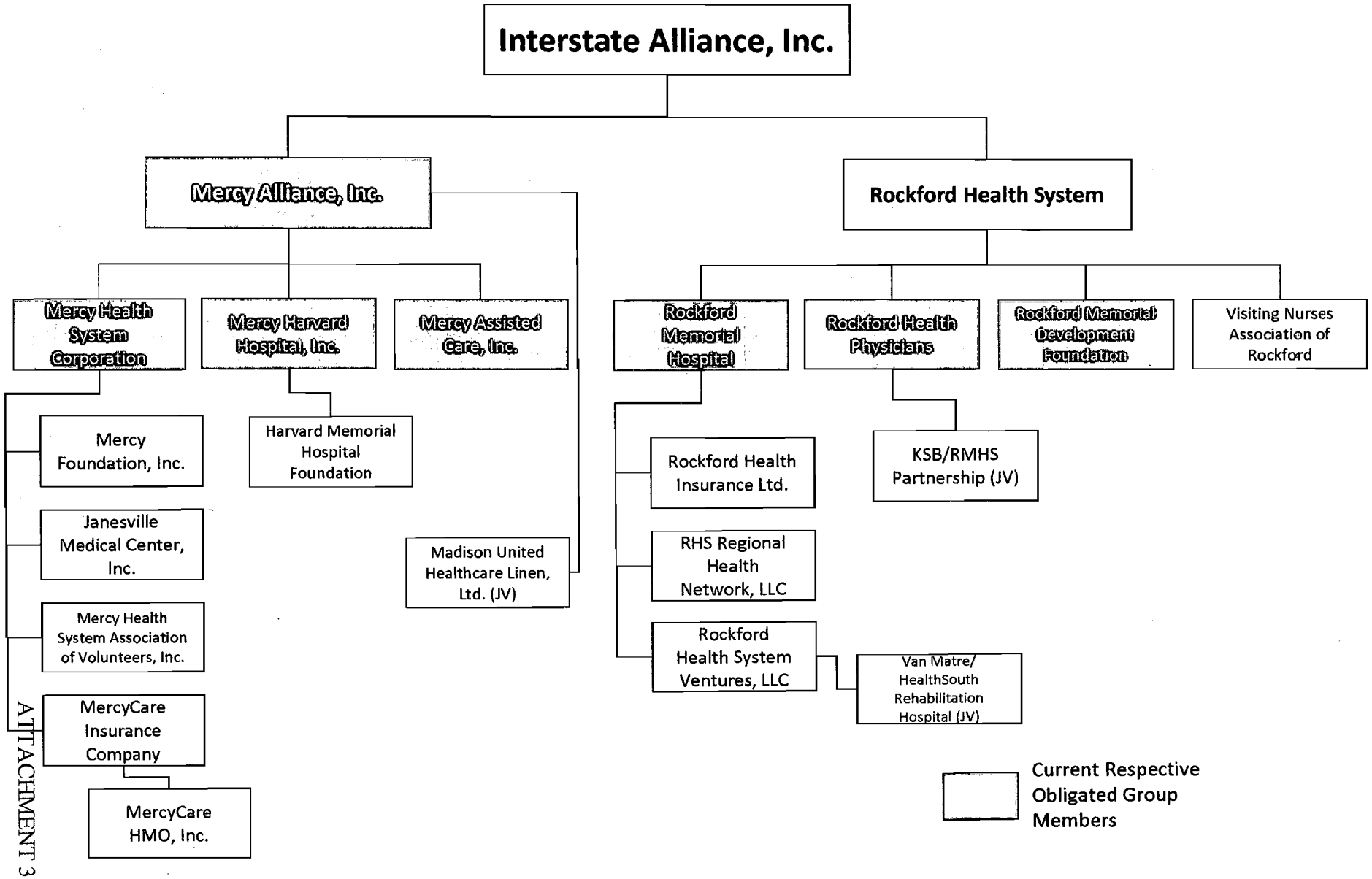
MAI and RHS are the corporate parents of two Illinois hospitals that are licensed by the Illinois Department of Public Health and are subject to the jurisdiction of the Illinois Health Facilities and Services Review Board ("IHFSRB") in connection with the "change of ownership" that will result from this merger. These hospitals are MAI's Mercy Harvard Hospital and RHS' Rockford Memorial Hospital. This application proposes the change of ownership of Mercy Harvard Hospital. A companion application will propose the change of ownership of Rockford Memorial Hospital. All of the subsidiaries of MAI and RHS, including those that do not fall under IHFSRB jurisdiction, are identified in the organizational chart on the following page.

MAI and RHS have committed themselves to providing access to care for the medically at-risk and indigent populations in their respective primary service areas. It is their intention to continue this commitment following the merger of their hospitals and affiliate organizations.

MAI and RHS believe that the joining of the two systems will improve access to care for the residents of north-central Illinois and south-central Wisconsin, and provide the synergies necessary to ensure the long-term availability of high quality affordable health care services for the residents of the communities traditionally served by the applicants.

IAI will have the authority, as identified in the Affiliation Agreement (ATTACHMENT 5), to initiate and/or approve certain actions of MAI and RHS that are consistent with the Illinois Health Facilities and Services Review Board's definition of a "change of ownership", therein mandating the filing of this and the accompanying COE applications. The legal and governance relationship between RHS and Rockford Memorial Hospital and the legal and governance relationship between MAI and Mercy Harvard Hospital, respectively, will not change, and the licensees of the two hospitals will not change. Neither MAI nor RHS will acquire any existing assets of the other, nor assume any existing liabilities of the other as a result of the proposed transaction.

ATTACHMENT 3



ATTACHMENT 3

MOODY'S
INVESTORS SERVICE

7 World Trade Center
250 Greenwich Street
New York, NY 10007
www.moodys.com

August 7, 2014

Mr. John Cook
Vice President/Chief Financial Officer
Mercy Alliance
1000 Mineral Point Avenue, P.O. Box 5003
Janesville, WI 53547

Dear Mr. Cook:

We wish to inform you that Moody's Investors Service has affirmed the A2 rating assigned to Mercy Alliance's bonds issued by the Wisconsin Health & Educational Facilities Authority. The rating outlook is stable.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time.

The ratings as well as any other revisions or withdrawals thereof will be publicly disseminated by Moody's through the normal print and electronic media and in response to verbal requests to Moody's rating desk.

In order for us to maintain the currency of our rating, we request that you provide ongoing disclosure, including annual and quarterly financial and statistical information.

Should you have any questions regarding the above, please do not hesitate to contact me.

Sincerely,

Beth Wexler

Beth I. Wexler
Vice President/Senior Credit Officer
Phone: 212-553-1384
Fax: 212-298-7155
Email: beth.wexler@moodys.com

BIW:rl

ATTACHMENT 3

MERCY
HEALTH SYSTEM

Malcolm Baldrige National Quality Award
Award Recipient

1000 MINERAL POINT AVE. • P.O. BOX 5003 • JANESVILLE, WI 53547-5003 • 608.756.6000 • MercyHealthSystem.org

October 27, 2014

Illinois Health Facilities and Services Review Board
525 West Jefferson Street – 2nd Floor
Springfield, Illinois 62761

To Whom It May Concern:

This letter is being provided as part of the Certificate of Exemption applications addressing the changes of ownership/changes of control of Rockford Memorial Hospital and Mercy Harvard Memorial Hospital.

I hereby attest on behalf of Mercy Alliance, Inc. and Interstate Alliance, Inc. to the following:

1. The categories of service and number of beds as reflected in the Inventory of Health Care Facilities will not substantially change for either of the above-identified hospitals for at least 12 months following the completion date of the change of ownership/change of control.

2. A transaction document signed by all required parties has been provided, and that document contains a provision that execution is subject to HFSRB issuance of an exemption, and that document contains the conditions and terms of the change of ownership/change of control.

3. No adverse action has been taken against any Illinois applicant health care facility currently controlled by Mercy Health System by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any Illinois health care facility owned or operated by Mercy Health System, directly or indirectly, within three years preceding the filing of the applications.

4. A bond rating sufficient to meet HFSRB requirements is held by an applicant.

5. Ownership and control of the above-identified hospitals is intended to be maintained for a minimum of three years.

6. Any projects for which Permits have been issued have been completed, are obligated, or will be completed or altered in accordance with the provisions of this Section.

ATTACHMENT 3

7. Neither of the above-identified hospitals will adopt a more restrictive charity care policy than the policy that was in effect one year prior to the transaction; and the charity care policy will remain in effect for a two-year period following the change of ownership/change of control transaction.

8. Failure to complete the project in accordance with applicable provisions of Section 1130.500(d) no later than 24 months from the date of exemption approval (or by a later date established by HFSRB upon a finding that the project has proceeded with due diligence) and failure to comply with the material change requirements of this Section will invalidate the exemption.

Sincerely,

Javon R. Bea
President and CEO

Notarized:

State of Wisconsin
County of Rock
Signed or attested before me this 27th day of October, 2014,
by Javon R. Bea.

(SEAL)

Judith K Reynolds
Wisconsin Notary Public

My Commission expires: 10/9/16.

ATTACHMENT 3

ROCKFORD HEALTH
system

Respectful Care

Office of the President and CEO
Gary E. Kaatz
Rockford Medical Building
2350 North Rockton Avenue, Suite 402
Rockford, Illinois 61103
Phone (815) 971-7250
Fax (815) 968-4908

Illinois Health Facilities and
Services Review Board
Springfield, Illinois

To Whom It May Concern:

This letter is being provided as part of the Certificate of Exemption applications addressing the changes of ownership/changes of control of Rockford Memorial Hospital and Mercy Harvard Memorial Hospital.

I hereby attest on behalf of Rockford Health System to the following:

1. The categories of service and number of beds as reflected in the Inventory of Health Care Facilities will not substantially change for either of the above-identified hospitals for at least 12 months following the completion date of the change of ownership/change of control.

2. A transaction document signed by all required parties has been provided, and that document contains a provision that execution is subject to HFSRB issuance of an exemption, and that document contains the conditions and terms of the change of ownership/change of control.

3. No adverse action has been taken against any Illinois applicant health care facility currently controlled by Rockford Health System by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any Illinois health care facility owned or operated by Rockford Health System, directly or indirectly, within three years preceding the filing of the applications.

4. A bond rating sufficient to meet HFSRB requirements is held by an applicant.

5. Ownership and control of the above-identified hospitals is intended to be maintained for a minimum of three years.

6. Any projects for which Permits have been issued have been completed, are obligated, or will be completed or altered in accordance with the provisions of this Section.

7. Neither of the above-identified hospitals will adopt a more restrictive charity care policy than the policy that was in effect one year prior to the transaction; and the charity care policy will remain in effect for a two-year period following the change of ownership/change of control transaction.

8. Failure to complete the project in accordance with applicable provisions of Section 1130.500(d) no later than 24 months from the date of exemption approval (or by a later date established by HFSRB upon a finding that the project has proceeded with due diligence) and failure to comply with the material change requirements of this Section will invalidate the exemption.

Sincerely,

GARY E. KAATZ
President and CEO

Date: October 17, 2014

STATE OF ILLINOIS)
) SS
COUNTY OF WINNEBAGO)

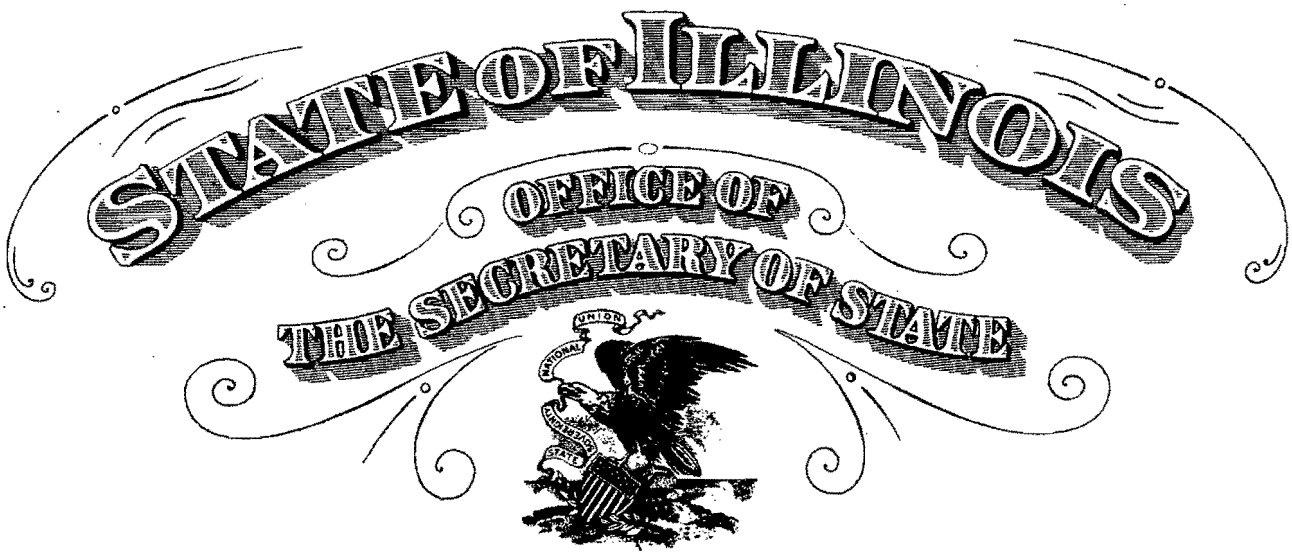
I, Julie A. Peterson, a Notary Public in and for the said County in the State aforesaid, do hereby certify that GARY E. KAATZ personally known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that he signed said instrument as his own free and voluntary act.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 17th day of October 17, 2014.

OFFICIAL SEAL
JULIE A PETERSON
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 12/12/2015

Notary Public

File Number 6975-235-7



To all to whom these Presents Shall Come, Greeting:

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

INTERSTATE ALLIANCE, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON OCTOBER 24, 2014, 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* 24TH *day of* OCTOBER *A.D.* 2014 .

Authentication #: 1429701792

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

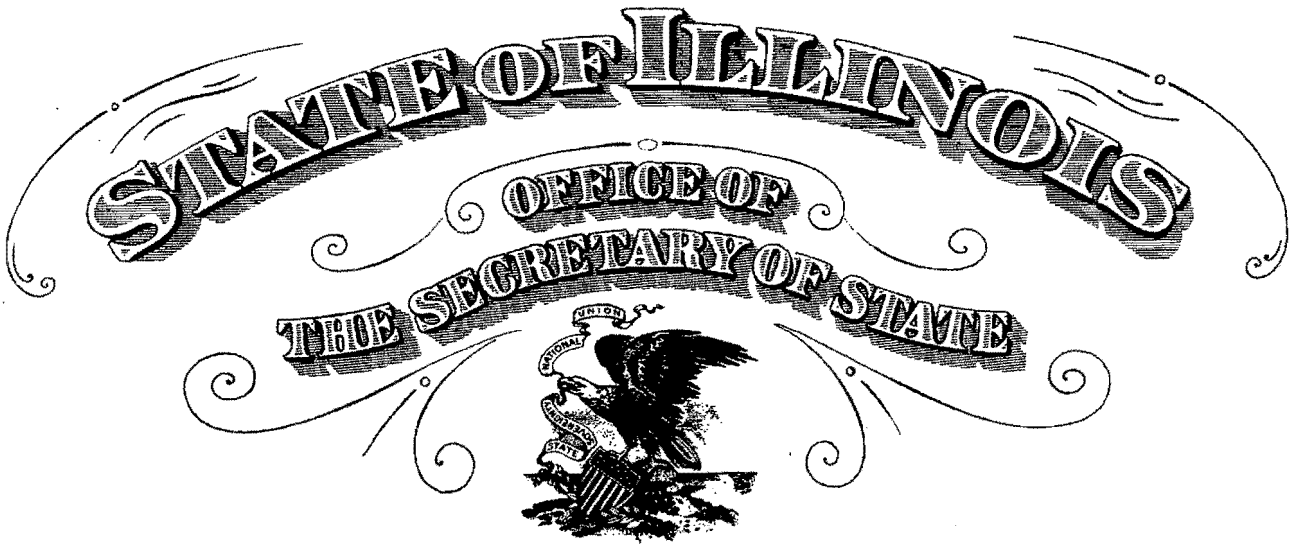
Jesse White

SECRETARY OF STATE

ATTACHMENT 4

17

File Number 5939-585-8



To all to whom these Presents Shall Come, Greeting:

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

MERCY HARVARD HOSPITAL, INC., A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON MAY 01, 1997, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

Authentication #: 1428201746

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

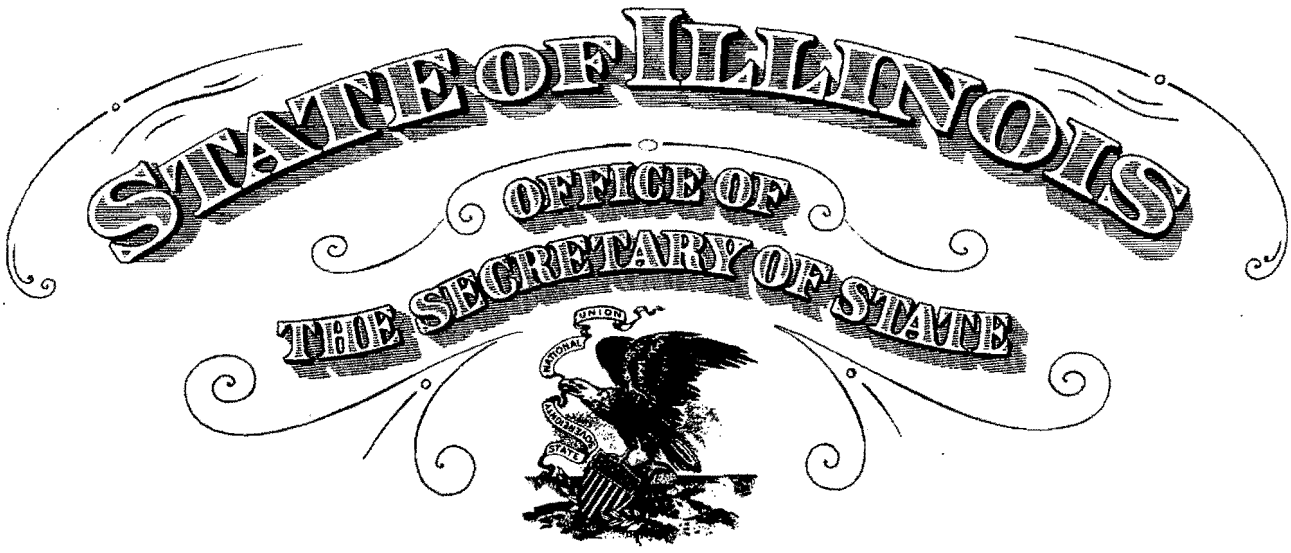
In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 9TH *day of* OCTOBER *A.D.* 2014 .

Jesse White

SECRETARY OF STATE

ATTACHMENT 4

File Number 5280-599-6



To all to whom these Presents Shall Come, Greeting:

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

ROCKFORD HEALTH SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JULY 29, 1982, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

Authentication #: 1428201734

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

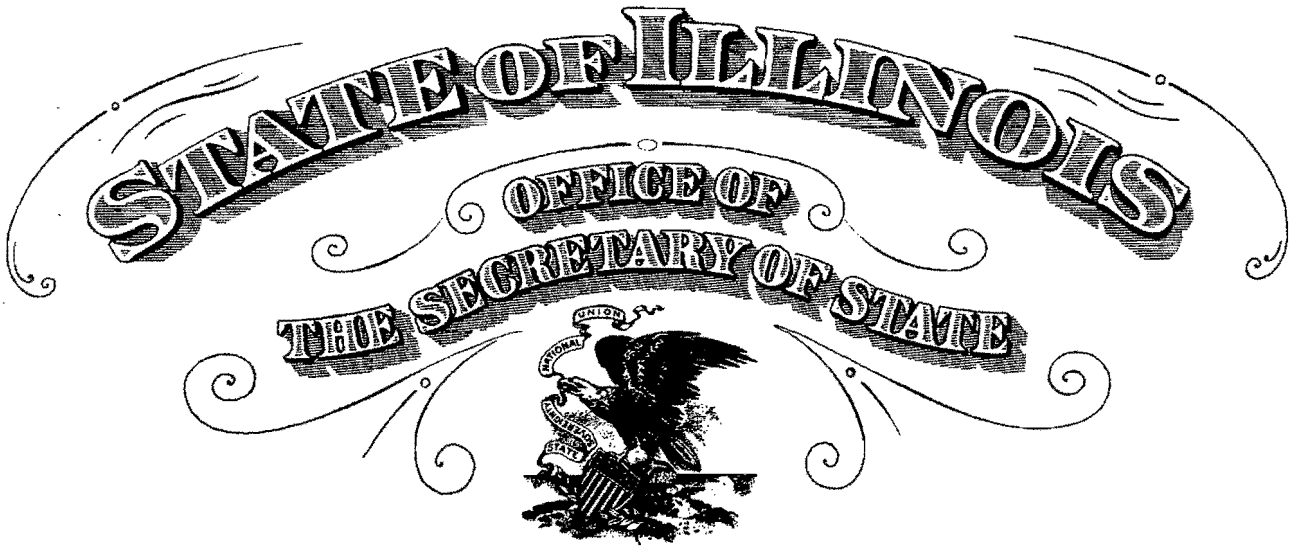
In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 9TH *day of* OCTOBER *A.D.* 2014 .

Jesse White

SECRETARY OF STATE

ATTACHMENT 4

File Number 6270-860-3



To all to whom these Presents Shall Come, Greeting:

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

MERCY ALLIANCE, INC., INCORPORATED IN WISCONSIN AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON FEBRUARY 11, 2003, 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 A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS 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* 25TH *day of* APRIL *A.D.* 2014 .

Jesse White

SECRETARY OF STATE

Authentication #: 1411501950

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

ATTACHMENT 4

File Number 0215-546-0

To all to whom these Presents Shall Come, Greeting:

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

ROCKFORD MEMORIAL HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON DECEMBER 15, 1883, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

Authentication #: 1428101458

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

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 8TH *day of* OCTOBER *A.D.* 2014 .

Jesse White

SECRETARY OF STATE

ATTACHMENT 4

Execution Version

CONFIDENTIAL

SYSTEM FORMATION AGREEMENT

BY AND BETWEEN

ROCKFORD HEALTH SYSTEM

AND

MERCY ALLIANCE, INC.

October 23, 2014

ATTACHMENT 5

TABLE OF CONTENTS

		Page
ARTICLE 1	TRANSACTION GOALS AND OBJECTIVES	2
1.1	Goal	2
1.2	Transaction Objectives	2
ARTICLE 2	OVERVIEW OF TRANSACTION	2
2.1	Formation of New Parent	2
2.2	Construction of this Agreement	2
ARTICLE 3	CREATION, GOVERNANCE AND MANAGEMENT OF NEW PARENT	3
3.1	New Parent Governing Documents	3
3.2	Governance of New Parent	3
3.3	Manner of Acting	4
3.4	New Parent Board Committees	5
3.5	New Parent Board Chairman	5
3.6	Consultation with RHS and MAI Boards	6
ARTICLE 4	RHS AND MAI GOVERNANCE AND OPERATIONS	6
4.1	Reorganization of RHS and MAI	6
4.2	Composition of Boards	6
ARTICLE 5	GOVERNANCE AND OPERATIONS OF THE AFFILIATES	6
5.1	Operations of the Affiliates	6
5.2	Composition of Affiliate Boards	6
ARTICLE 6	EFFECT OF THE TRANSACTION	7
6.1	Corporate Maintenance; Ownership of Assets	7
6.2	Retention of Liabilities	7
6.3	Foundation Funds	7
6.4	Joint Ventures	7
ARTICLE 7	EFFECTS ON OPERATIONS	8
7.1	Financing	8
7.2	Strategic Plan	8
7.3	Capital Commitment	9
7.4	Integration Plan	10
7.5	Management	10
7.6	Academic and Clinical Affiliations	10
7.7	Medical Staff Continuity	10
7.8	Employees	11
7.9	Contracts	11

TABLE OF CONTENTS
(continued)

Page

7.10 Charity Care and Other Policies 11

ARTICLE 8 REPRESENTATIONS AND WARRANTIES OF ROCKFORD ENTITIES 11

8.1 Due Organization; Good Standing; Power 11
8.2 Corporate Authority 12
8.3 No Violation; Approvals 12
8.4 Financial Statements 12
8.5 Interim Changes 13
8.6 Material Contracts 14
8.7 Legal Proceedings 14
8.8 Licenses and Permits 14
8.9 Compliance with Law 14
8.10 Owned Real Property 14
8.11 Leased Real Property 16
8.12 Title to Assets 16
8.13 Rockford Affiliates 17
8.14 Tax Exempt Status 17
8.15 Insurance 17
8.16 Taxes 17
8.17 Labor and Employment Matters 17
8.18 Employee Benefits 17
8.19 Payment Programs 19
8.20 Accreditation 20
8.21 Compliance Program 20
8.22 Exclusion from Health Care Programs 20
8.23 Medical Staff Matters 21
8.24 Experimental or Research Procedures 21
8.25 Intellectual Property; Computer Software 21
8.26 Disclosure; No Material Omissions 21

ARTICLE 9 REPRESENTATIONS AND WARRANTIES OF MERCY PARTIES 22

9.1 Due Organization; Good Standing; Power 22
9.2 Corporate Authority 22
9.3 No Violation; Approvals 22
9.4 Financial Statements 23
9.5 Interim Changes 24
9.6 Material Contracts 24
9.7 Legal Proceedings 24
9.8 Licenses and Permits 24
9.9 Compliance with Law 25
9.10 Owned Real Property 25
9.11 Leased Real Property 26

TABLE OF CONTENTS
(continued)

Page

9.12 Title to Assets 27
9.13 Mercy Affiliates 27
9.14 Tax Exempt Status 27
9.15 Insurance 27
9.16 Taxes 27
9.17 Labor and Employment Matters 28
9.18 Employee Benefits 28
9.19 Payment Programs 29
9.20 Accreditation 30
9.21 Compliance Program 30
9.22 Exclusion from Health Care Programs 31
9.23 Medical Staff Matters 31
9.24 Experimental or Research Procedures 31
9.25 Intellectual Property; Computer Software 31
9.26 Disclosure; No Material Omissions 31

ARTICLE 10 PRE CLOSING COVENANTS 32

10.1 Pre-Closing Covenants of the Parties 32

ARTICLE 11 CONDITIONS PRECEDENT 34

11.1 Conditions Precedent to Each Party's Obligations 34

ARTICLE 12 CLOSING 35

12.1 Closing and Closing Date 35
12.2 Closing Documents 36

ARTICLE 13 TERMINATION 36

13.1 Termination Prior to Closing 36

ARTICLE 14 GENERAL PROVISIONS 38

14.1 Modification of Schedules 38
14.2 Equitable Relief 38
14.3 Survival 38
14.4 Performance of Undertakings 39
14.5 Notices 39
14.6 Confidentiality; Publicity 40
14.7 Cost of Transaction 40
14.8 No Brokerage 41
14.9 Entire Agreement; Amendment 41
14.10 No Assignment 41
14.11 No Third Party Beneficiaries 41
14.12 Severability 41
14.13 Applicable Law 41

TABLE OF CONTENTS
(continued)

Page

14.14 Headings; Cross References 42
14.15 Waiver of Terms 42
14.16 Counterparts; Signatures 42
14.17 Time is of the Essence 42
14.18 Access to Records and Information 42

ARTICLE 15 DEFINITIONS 42

15.1 Defined Terms 42

LIST OF EXHIBITS

EXHIBIT	DESCRIPTION
A	Rockford Affiliates
B	Mercy Affiliates
C	New Parent Articles
D	New Parent Bylaws
E	Post-Closing Organizational Structure

ATTACHMENT 5

LIST OF SCHEDULES

SCHEDULE	DESCRIPTION
8.5	Rockford Interim Changes
8.10(b)	Rockford Exceptions to Owned Real Property
8.12	Rockford Title to Assets
8.18(a)	Rockford ERISA Plans
9.5	Mercy Interim Changes
9.10(b)	Mercy Exceptions to Owned Real Property
9.12	Mercy Title to Assets
9.18(a)	Mercy ERISA Plans

ATTACHMENT 5

SYSTEM FORMATION AGREEMENT

This **SYSTEM FORMATION AGREEMENT** (the "**Agreement**") is made and entered into as of October __, 2014 (the "**Execution Date**"), by and between **ROCKFORD HEALTH SYSTEM**, an Illinois not-for-profit corporation ("**RHS**") and **MERCY ALLIANCE, INC.**, a Wisconsin nonstock, nonprofit corporation ("**MAI**" or "**Mercy**"). RHS and Mercy are each referred to individually herein as a "**Party**" and, collectively, as the "**Parties**" to this Agreement. Capitalized terms not defined in the body of this Agreement shall have the meanings ascribed to them in the Definitions set forth in Article 15.

RECITALS

WHEREAS, RHS is the system parent corporation of a Rockford, Illinois-based, not-for-profit health care system comprising a full continuum of health care services; and

WHEREAS, RHS directly or indirectly controls the affiliated health care organizations listed on Exhibit A, including its flagship hospital, Rockford Memorial Hospital ("**RMH**"), whose sole member is RHS (the "**Rockford Affiliates,**" which together with RHS are referred to as the "**Rockford Entities**"); and

WHEREAS, Mercy is the system parent corporation of a Janesville, Wisconsin-based, nonprofit health care system comprising a full continuum of health care services; and

WHEREAS, Mercy directly or indirectly controls the affiliated health care organizations listed on Exhibit B, including its flagship hospital, Mercy Hospital and Trauma Center ("**MH**"), which is owned and operated by Mercy Health System Corporation ("**MHS**") (such affiliated organizations are referred to as the "**Mercy Affiliates**", and together with Mercy are referred to as the "**Mercy Entities**"); and

WHEREAS, RHS and Mercy are committed to the growth and development of high quality health care, and meeting the health care needs of all in their respective communities in a compassionate manner that addresses the needs of the whole person; and

WHEREAS, the Parties each desire to create a strong, mission-driven organization whose combined resources and attributes will further the ability of its affiliated primary, secondary and tertiary providers to offer personalized, high-quality, coordinated care and access to all members of the diverse communities they serve (the "**New System**"); and

WHEREAS, mindful of this common objective, and building on the mission, vision and values of both Mercy and RHS, the Parties desire to become one consolidated system, all as more fully set forth in this Agreement (the "**Transaction**"), to preserve and strengthen efficient, high quality health care, and to further the charitable missions of the Parties; and

WHEREAS, the Parties now desire to enter into this Agreement to evidence the full and complete terms of their agreement with respect to the Transaction and related matters.

NOW, THEREFORE, for and in consideration of the premises, and the agreements, covenants, representations and warranties hereinafter set forth, and other good and valuable

consideration, the receipt and adequacy of which are forever acknowledged and confessed, the Parties agree as follows:

ARTICLE 1

TRANSACTION GOAL AND OBJECTIVES

1.1 Transaction Goal. The Transaction will combine the respective health care systems of RHS and Mercy into one unified health care system in the manner more specifically set forth in Articles 2 through 5 hereof with the goal of providing integrated primary, secondary and advanced tertiary medical and surgical services for the benefit of the residents of the New System's combined service area.

1.2 Transaction Objectives. The Transaction is designed to meet the current and future health care needs of the communities served by the Parties by, among other things, assuring and providing for: (a) more effective and efficient health care in the New System's service area in furtherance of the charitable missions of the Parties; (b) sound stewardship supporting the financial strength of both Parties to enable long-term continuation of their health care and related missions; (c) development of a shared culture that excels at patient-, resident- and family-centered care; (d) development and growth of a combined service capability with seamless access for caregivers and patients; (e) development of a platform for quality and patient safety that produces top-level performance characterized by collaboration among caregivers, a culture of accountability and a commitment to continuous improvement and learning; (f) transformation of the care delivery model in partnership with the Parties' valued affiliated physicians, nurses and other health care professionals; (g) continued opportunities for employees' professional growth and development; and (h) development and maintenance of high-quality educational programs for health care professionals and professionals in related fields.

ARTICLE 2

OVERVIEW OF TRANSACTION

2.1 Formation of New Parent. Effective on the Closing Date (as herein defined), and subject to the satisfaction of the closing conditions set forth herein, the Parties will consummate the Transaction by: (a) having a new Illinois not-for-profit, charitable entity (the "**New Parent**") become the sole member of RHS and MAI consistent with the terms of Article 3; and (b) amending and restating the organizational documents of RHS and MAI and, as applicable, of certain Rockford Affiliates and Mercy Affiliates, in accordance with the terms of Article 4 and Article 5.

2.2 Construction of This Agreement. Articles 3, 4, and 5 set forth the agreement of the Parties concerning the governance structure of New Parent, RHS, MAI, the Rockford Affiliates, and the Mercy Affiliates, which agreement is to be reflected as of the Closing in the New Parent Governing Documents (as defined below) and the governing documents of RHS, MAI, the Rockford Affiliates, and the Mercy Affiliates, as the same may be amended and/or restated in accordance with this Agreement. From and after the Closing, those entities shall be

governed solely by their respective articles of incorporation and bylaws, and not by this Agreement, and such articles and bylaws may thereafter be amended and interpreted in any manner permitted by such documents and by applicable law, notwithstanding any inconsistency with this Agreement. For the avoidance of doubt, however, this Section 2.2 is not intended to, and shall not be understood or construed in any way that would, limit the enforceability of the post-closing covenants contained in Article 7.

ARTICLE 3

CREATION, GOVERNANCE AND MANAGEMENT OF NEW PARENT

3.1 **New Parent Governing Documents**. The Articles of Incorporation of New Parent shall be in substantially the form attached hereto at Exhibit C (the "**New Parent Articles**") and the Bylaws of New Parent shall be in substantially the form attached hereto at Exhibit D (the "**New Parent Bylaws**", which, along with New Parent Articles, are collectively referred to as the "**New Parent Governing Documents**"). The Parties shall file the New Parent Articles with the Illinois Secretary of State prior to the Closing Date. The Parties shall develop a branding strategy for the use and marketing of the name of the New Parent (and/or its assumed or trade name), to be used in conjunction with the RHS and Mercy names. The New Parent shall maintain its corporate office in Winnebago County, Illinois, and shall carry on its health care and health care-related, and organizational support activities, in both Wisconsin and Illinois.

3.2 **Governance of New Parent.**

(a) **Board of Directors.** The Board of Directors of the New Parent ("**New Parent Board**") shall be comprised of the following (9) individuals: (i) four (4) appointed by RHS, at least one of whom is a current or former member of the Active Medical Staff of RMH and two (2) of whom are members of the RHS Board of Directors; (ii) four (4) appointed by MAI, at least one of whom is a current or former member of the Active Medical Staff of MHS and two (2) of whom are members of the MAI Board of Directors; and (iii) the Chief Executive Officer of the New Parent, as an *ex officio* voting member thereof. Vacancies on the New Parent Board, whether arising mid-term or upon expiration of terms, shall be filled in the same manner as the initial appointment of the applicable director position(s). Individuals serving on the New Parent Board shall be subject to removal either: (i) by RHS, if initially appointed by RHS, or by MAI, if initially appointed by MAI; or (ii) by the New Parent Board upon Supermajority Approval (as defined in Section 3.3) and upon a finding of Cause for removal.

(b) **Reserved Powers Over RHS and MAI.** The New Parent, acting through the New Parent Board, shall have and shall exercise reserved powers over RHS and MAI (collectively, the "**Reserved Powers**") as provided in this subsection. Except as expressly stated to the contrary in subsection (i) immediately below and in Section 3.4, the New Parent Board may exercise its Reserved Powers with or without a prior action or recommendation from the RHS and/or MAI Boards.

(i) The following actions of, or with respect to, MAI and RHS, respectively, shall require both: (a) the approval of the MAI and/or RHS Board, as applicable, and (b) Supermajority Approval (as defined in Section 3.3(c)) of the New Parent Board:

ATTACHMENT 5

(1) Initiation (either by RHS, MAI, the Affiliate, or by the New Parent Board, as the case may be) or approval of any amendment of their respective Articles of Incorporation and Bylaws, and those of any of their respective Affiliates.

(2) Initiation (either by RHS, MAI, the Affiliate, or by the New Parent Board, as the case may be) or approval of any merger, consolidation, dissolution, or sale of substantially all of the assets involving either entity or any of their respective Affiliates.

(ii) The following actions of, or with respect to, RHS and MAI, respectively, shall require approval only by the New Parent Board (but shall not require Supermajority Approval):

(1) Initiation or approval of any sale or other disposition of assets of either entity or any of its Affiliates having a book or market value exceeding $500,000;

(2) Initiation or approval of the formation of new subsidiaries or Affiliates, or an equity investment in any unrelated person;

(3) Approval of their respective annual consolidated operating and capital budgets;

(4) Initiation or approval of unbudgeted or out-of-budget expenditures that exceed $500,000 as either a single item or a series or related items;

(5) Initiation or approval of capital expenditures exceeding $1,500,000;

(6) Approval of local banking relationships and the engagement by such entity or any of its Affiliates of independent auditors;

(7) Initiation or approval of loans or other incurrence of debt by such entity or any of its Affiliates exceeding $500,000;

(8) Approval of any action that could impair the tax-exempt status of either RHS or MAI or any of their respective Affiliates; and

(9) Election, from a slate of nominees put forward by each of MAI and RHS, of their respective Directors as vacancies arise.

3.3 <u>Manner of Acting</u>.

(a) Except as stated in subsection (b) immediately below, the affirmative vote of a majority of those New Parent Directors who are present at a meeting at which a quorum exists shall constitute the act of the New Parent for all purposes.

(b) Notwithstanding the foregoing, the following actions shall require Supermajority Approval but not the approval of the MAI and RHS Boards:

(i) Removal of RHS and MAI Directors for Cause;

(ii) Approval of the sale, within a single year, of more than ten percent (10%) of the total assets included within the New System;

(iii) Approval of the Strategic Plan and Strategic Capital Plan for the New System, per Section 7.2 below;

(iv) Approval of the issuance of indebtedness exceeding $5 million on behalf of any entity included within the New System;

(v) Approval of any acquisition, merger, consolidation or other affiliation of New System with an unrelated entity;

(vi) Removal of the New System CEO and selection of any successor New System CEO to Javon Bea, initial New System CEO;

(vii) Redevelopment of RHS's West Side campus or development of the Riverside property;

(viii) Initiation or approval of changes to the New System, RHS, and/or MAI respective missions; and

(ix) Initiation or approval of material changes to the scope of services of RHS or MAI's respective systems, whether contemplated by the Integration Plan, or otherwise, if such action would have a Material net effect on the operating margin of RHS or MAI, as the case may be.

(c) As used in this Article 3, **"Supermajority Approval"** means the affirmative vote of at least six (6) of the nine (9) Directors of the New Parent Board.

3.4 **Consultation with RHS and MAI Boards.** New Parent shall not, without first obtaining the formal advice and input of the RHS Board or the MAI Board (as the case may be), initiate any action to: (i) select or remove the CEO of RHS or MAI, (ii) change the mission of RHS or MAI, (iii) potentially impair the tax-exempt status of RHS or MAI, (iv) initiate or approve a material reduction in the scope of services provided by RHS or MAI (other than as contemplated by the Integration Plan) if such action would have a Material net adverse effect on the operating margin of RHS or MAI, as the case may be, or (v) initiate the sale, transfer, or other disposition of assets of RHS or MAI having a current value in excess of $10 million. For this purpose, "formal advice and input" means the position of the Board as expressed in an action taken at a single, duly-noticed meeting (which may include a telephonic meeting), which action shall not be binding on New Parent.

3.5 **New Parent Board Committees.** The New Parent Board shall have such committees as specified in the New Parent Bylaws including committees with oversight over the

following areas: Finance/Investment/Audit, Compensation, Quality/Professional Affairs, Governance, and Strategic Planning.

3.6 **New Parent Board Chair.** The Chair of the MAI Board immediately prior to Closing shall also serve as the initial Chair of the New Parent Board for a one-year transitional term (subject to potential re-election for a full term in the New Parent Board's discretion one year post-Closing). Thereafter, the New Parent Board shall elect a successor Chair.

ARTICLE 4

RHS AND MAI GOVERNANCE AND OPERATIONS

4.1 **Reorganization of RHS and MAI.** Each of RHS and MAI shall amend and restate their respective Articles of Incorporation and Bylaws effective as of the Closing Date to set forth terms consistent with the New Parent Governing Documents, provide that New Parent shall be its sole member, and make other related changes to fulfill the terms and conditions of this Agreement. On or before the Closing Date, to be effective as of the Closing Date, RHS shall file with the Illinois Secretary of State's Office its Amended and Restated Articles of Incorporation, and MAI shall file with the Wisconsin Department of Financial Institutions its Amended and Restated Articles of Incorporation.

4.2 **Composition of Boards.** From and after the Closing Date, the Boards of Directors of each of RHS and MAI shall be those same individuals who serve as directors thereon immediately prior to the Closing Date; provided, however, that: (i) the MAI Board shall increase by two (2) directors by RHS appointing two (2) directors of to serve thereon effective as of such date (and those two (2) directors shall also sit on the New Parent Board); and (ii) the RHS Board shall increase by two (2) directors by MAI appointing two (2) directors to serve thereon effective as of such date (and those two (2) directors shall also sit on the New Parent Board). All directors, officers, and committee members of RHS and MAI shall continue to serve in such capacities as of the Closing Date.

ARTICLE 5

GOVERNANCE AND OPERATIONS OF THE AFFILIATES

5.1 **Operations of the Affiliates.** Each Affiliate's corporate and governance structure shall remain substantially the same as of the Closing Date, subject to such changes as may be required or appropriate to reflect the existence of the New Parent for the New System. Prior to the Closing Date, RHS and MAI shall cause their respective Affiliates to take any and all necessary or desirable corporate actions to effectuate the post-transaction organizational structure of the Parties set forth in Exhibit E. Notwithstanding the foregoing, the Parties acknowledge that the structure described in this section may be revised following the Closing Date upon approval of the applicable Boards of the affected entities and subject to the New Parent's exercise of its Reserved Powers as set forth herein.

5.2 **Composition of Affiliate Boards.** Unless otherwise agreed to by the Parties, the members of each Affiliate Board as of the Closing Date shall serve as the members of such

Affiliate Board on and after the Closing Date until the expiration of such trustee's or director's term, or by the death, resignation or removal of the trustee or director, as set forth in each applicable Affiliate's corporate bylaws.

ARTICLE 6

EFFECT OF THE TRANSACTION

6.1 **Corporate Maintenance; Ownership of Assets**. Unless otherwise provided in the Agreement, all Rockford Affiliates and Mercy Affiliates shall remain separate corporate entities as of the Closing Date. The transactions contemplated hereby shall not, in and of themselves, effect any transfer, conveyance or change in the direct ownership of the assets of the Rockford Entities or the Mercy Entities.

6.2 **Retention of Liabilities**. The transactions contemplated hereby shall not, in and of themselves, effect any assignment or assumption of any liabilities, indebtedness, commitments or other financial or operational obligations of the Rockford Entities or the Mercy Entities to or by any other person, whether such liabilities, indebtedness, commitments or obligations are known or unknown, fixed or contingent, recorded or unrecorded, currently existing as of the Closing Date (collectively, the "**Existing Liabilities**"), all of which shall remain the liabilities and obligations exclusively of the entity that was liable or obligated for such Existing Liabilities immediately prior to the Closing Date.

6.3 **Foundation Funds**. Following the Closing Date, the assets respectively held by the Rockford Memorial Development Foundation ("**RMDF**") and Mercy Foundation, Inc. shall continue to be held by each of them and used exclusively in furtherance of their respective charitable missions as their respective governing boards shall determine. Any of such assets that are restricted as to use or manner of investment shall continue to be so restricted, and New Parent shall honor donative intent with respect thereto.

6.4 **Joint Ventures**.

(a) The Parties acknowledge that the Rockford Entities are members and equity holders of joint ventures in which they hold less than all of the outstanding membership or equity interests, all of which are identified on Exhibit A (each a "**Rockford Joint Venture**," and collectively, the "**Rockford Joint Ventures**"), which sets forth the name of the Rockford Joint Venture, the business or operations conducted by the Rockford Joint Venture, the percentage membership or relative number of equity interest held by the Rockford Entity in each Rockford Joint Venture, the names of the other members or equity holders in each Rockford Joint Venture, the percentage or relative number of membership or equity interest held by the other members or equity holders in each Rockford Joint Venture, and if there is more than one class of membership or equity interests of the Rockford Joint Venture, a description of each class and the relative rights and obligations associated therewith.

(b) The Parties acknowledge that the Mercy Entities are members and equity holders of joint ventures in which they hold less than all of the outstanding membership or equity interests, all of which are identified on Exhibit B (each a "**Mercy Joint Venture**," and

collectively, the "**Mercy Joint Ventures**"), which sets forth the name of the Mercy Joint Venture, the business or operations conducted by the Mercy Joint Venture, the percentage or relative number of membership or equity interest held by the Mercy Entity in each Mercy Joint Venture, the names of the other members or equity holders in each Mercy Joint Venture, the percentage or relative number of membership or equity interest held by the other members or equity holders in each Mercy Joint Venture, and if there is more than one class of membership or equity interests of the Mercy Joint Venture, a description of each class and the relative rights and obligations associated therewith.

(c) The transactions contemplated hereby shall not, in and of themselves, effect a transfer, conveyance or change in the direct ownership of any Rockford Joint Venture or Mercy Joint Venture to any other person. The Parties shall review the organizational documents of the Rockford Joint Ventures and the Mercy Joint Ventures, respectively, and shall provide to the other a list of any third party consents, notices or waivers necessary to consummate the Transaction (the "**Joint Venture Consents**"). Each Party shall use commercially reasonable efforts to obtain the Joint Venture Consents prior to the Closing Date.

ARTICLE 7

EFFECTS ON OPERATIONS

7.1 Financial Matters.

(a) There will be no change to the existing indebtedness of the Parties (the "**Outstanding Debt**") as of the Closing Date. The Parties and all Affiliates shall continue to comply with the terms of their existing financing documents. Following the Closing Date, the Parties shall evaluate options for revising the existing financing structures and may develop a detailed plan by which all Outstanding Debt shall be consolidated under a single master trust indenture.

(b) Subsequent to the Closing and prior to the adoption of the Strategic Plans described in this Article 7 and the adoption of related budgets, the Parties shall continue to operate in accordance with their respective capital and operating budgets as are in effect immediately prior to the Closing, subject in all respects to the powers and authority granted to the New Parent Board under the New Parent Bylaws.

7.2 Strategic and Strategic Capital Plans.

(a) The New Parent Board, shall adopt a strategic plan which will set forth the strategic vision of the New System (including RHS and MAI), and will serve as a roadmap for its operations (the "**Strategic Plan**"). The Parties anticipate that the Strategic Plan will include initiatives related to facilities and programmatic expansion, renovation, and/or enhancement, patient-centered care, health care reform-readiness, quality, physician alignment, community benefit effectiveness, employee engagement and financial strength.

(b) The expenditure of the Initial Capital Commitment (as defined in Section 7.3) with respect to the Rockford Entities shall be undertaken pursuant to a comprehensive, long-term Strategic Capital Plan for the New System, which shall be consistent with the

ATTACHMENT 5

Strategic Plan established pursuant to subsection (a) above. The Strategic Capital Plan shall take into account previously-identified capital needs for the Rockford Entities and the Mercy Entities, as well as future New System needs.

(c) The Strategic Plan and the Strategic Capital Plan (the "Plans") shall be developed and adopted during the twelve (12)-month period immediately following the Closing Date based on a collaborative process among senior management of the New Parent, MAI and RHS, and of their respective Boards. The Plans shall be presented to the RHS and MAI Boards for review and comment and, with the benefit of such input, shall be presented to the New Parent Board for approval. Thereafter, annual budgets shall be established consistent with the approved Plans.

7.3 Capital Commitment.

(a) In furtherance of the objective of sustaining and enhancing the Rockford Entities' status as a regional health system and acute care hub, meeting the likely future challenges facing the New System, and building upon the Parties' past investments, Mercy acknowledges the need and desirability of making a substantial financial commitment to ensure that appropriate ongoing investments are made to support the capital, programmatic, clinical, and market development needs of the patients served by the Rockford Entities, both in the short term and long term. Mercy also recognizes the importance of investments to the Rockford area economy and the maintenance of an engaged workforce in the service area. RHS has estimated that over the next five (5) years, in order to realize the Parties' common objectives, the Rockford Entities will require a minimum of $105 million in routine capital expenditures ("**Routine Capital**") and $110 million for growth projects related to facility improvements, clinical initiatives and service line expansions ("**Growth Capital**").

(b) Mercy hereby commits on behalf of the New System that, during the five (5)-year period immediately following the Closing Date, the New System shall make available to the Rockford Entities an aggregate amount of at least $250 million for purposes of Routine Capital and Growth Capital (the "**Initial Capital Commitment**"). Thereafter, the New System shall ensure capital expenditures on behalf of the Rockford Entities in amounts not less than eighty percent (80%) of RHS's rolling five-year average depreciation expense (together with the Mercy Commitment, the "**Subsequent Capital Commitment**").

(c) Neither the Initial Capital Commitment nor the Subsequent Capital Commitment shall be funded from RMDF assets except upon the prior agreement and approval of the RHS Board and the RMDF Board; any such use of RMDF assets so approved shall be consistent with RMDF's charitable purposes and any applicable donor restrictions. Subject to compliance with existing financing covenants, the assets of the Rockford Entities (including RMDF) may be pledged to secure any indebtedness incurred to fund the Initial Capital Commitment and/or the Subsequent Capital Commitment. Further, RHS acknowledges and agrees that cash flow from operations of the Rockford Entities (excluding RMDF) shall be available to (i) make debt service payments associated with the Initial Capital Commitment and/or the Aggregate Capital Commitment, and (ii) otherwise satisfy the Subsequent Capital Commitment.

(d) Growth Capital Expenditures shall be made by and on behalf of the Rockford Entities when and as set forth in such approved capital budgets and consistent with the provisions of Section 3.2 above; Routine Capital Expenditures shall be made by and on behalf of the Rockford Entities in the ordinary course of business under the direction of New Parent and RHS management consistent with the same.

7.4 **Integration Plan**. The Parties desire to begin meaningful joint planning for post-closing integration as soon as possible, consistent with scrupulous compliance with antitrust and other legal requirements. To that end, the Parties shall form an integration task force whose purpose will be to develop detailed post-Closing Date Integration Plans (the "**Integration Task Force**"), including a growth plan for the New System and its service areas, plans for employee, physician and patient engagement, a branding and marketing strategy, and in each such matter develop a post-Closing Date work plan, including detailed tactics and target implementation timetables. The Parties agree to commence integration planning immediately upon execution of this Agreement; provided, however, that to the extent that plans are not completed before the Closing Date, the Parties shall agree on a process to complete such plans as soon as practicable thereafter. The objective of the Integration Task Force will be to enhance the level of care provided to the patients served by the Parties, and to standardize corporate functions across the New System, thereby enhancing clinical care and rendering the New System more fiscally sustainable.

7.5 **Management**. The initial New System CEO shall be Javon Bea, who will also continue to serve as Mercy CEO. Gary Kaatz shall serve as the RHS CEO, and shall report to Mr. Bea, with accountability for supporting the RHS Board. The specific management structure for New System, including positions and reporting structures and taking into consideration each Party's existing senior management talent, shall be developed by Messrs. Bea and Kaatz in anticipation of the Closing Date, with the mutual objective that such management structure and corresponding transition plans shall be finalized prior to Closing and implemented as of the Closing Date.

7.6 **Academic and Clinical Affiliations**. The Parties, and their respective medical staff leadership, shall work to identify opportunities for enhanced New System involvement in clinical research, in undergraduate and graduate medical education, and in training of other health professions. Further, the Parties agree that the New System Parent shall prioritize the New System's entry into meaningful clinical and academic affiliation relationships with one or more academic medical centers and specialized pediatric providers in furtherance of the New System's mission, and to jointly approach potential academic and pediatric partners for such activities.

7.7 **Medical Staff Continuity**. The Parties anticipate that the Transaction will serve as a catalyst for numerous opportunities for collaboration on clinical issues and initiatives by members of the Medical Staffs of the New System-affiliated hospitals and health care facilities. However, on and after the Closing Date, the Medical Staff of each of the RHS and Mercy hospitals (and any other health care facilities with an organized medical staff) shall remain independent from each other. The transactions contemplated by this Agreement shall not, in and of themselves, affect or change: (a) the medical staff privileges held by members of the RHS or Mercy Medical Staffs on the Closing Date; (b) the medical staff bylaws, rules and regulations, or

ATTACHMENT 5

credentialing procedures of the RMH or Mercy Medical Staffs in effect on the Closing Date; or (c) any agreements with physician members of the RMH or Mercy Medical Staffs, whether as employees or independent contractors. The consummation of the transactions contemplated by this Agreement, in and of itself, shall not result in a need for any reapplications for credentials or privileges by current members of any of the RMH or Mercy Medical Staffs.

7.8 **Employees**. As of the Closing Date, all employees of the Parties are anticipated to remain employees of their current employer, in positions, at compensation levels, and with employee benefits equivalent to those provided by the respective employers immediately prior to the Closing Date.

7.9 **Contracts**. Contractual arrangements in effect as of the Closing, including agreements with physicians, will be honored and performed following the Closing in accordance with their established terms, subject to ongoing regulatory compliance thereafter, and except as otherwise specified in this Agreement or as otherwise agreed by one or both of the Parties and applicable vendors.

7.10 **Charity Care and Other Policies**. Prior to the Closing Date, the New Parent Board shall adopt a standardized charitable assistance policy for hospital patients that reflects material concepts present in the Parties' existing policies, and that is designed to best meet the needs of the communities served by the New System, consistent with industry standards and Applicable Law. Such policy shall be implemented as soon as practicable after the Closing Date, and shall include the training of applicable personnel and preparation of brochures, signage, website information and other documents to inform patients regarding their potential eligibility for charitable assistance. The Parties shall also develop other policies applicable to New System operations, and work towards standardizing system polices for all entities across the New System, after the Closing Date.

ARTICLE 8

REPRESENTATIONS AND WARRANTIES OF THE ROCKFORD ENTITIES

The Rockford Entities hereby jointly and severally give to the Mercy Entities the representations and warranties set forth in this Article 8, which shall be true and correct as of the Execution Date and all times thereafter up to and including the Closing Date.

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

(a) RHS is an Illinois not-for-profit corporation, which is exempt from federal income taxation under Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code and is not a "private foundation" within the meaning of Section 509(a) of the Code.

(b) Each of the Rockford Entities, and to the Knowledge of RHS, each of the Rockford Joint Ventures, is duly formed, validly existing and in good standing under the laws of its respective state of formation, and has the power and authority to own, operate or hold under lease its properties and assets and to carry on its business and operations as presently conducted. Each of the Rockford Entities and to the Knowledge of RHS, each of the Rockford

ATTACHMENT 5

Joint Ventures, has registered with the proper governmental authorities all assumed names under which it operates its businesses and has continuously maintained all such filings in good standing.

8.2 Corporate Authority.

(a) RHS has full corporate power and authority to enter into and to perform its obligations under this Agreement and the documents to be delivered related hereto (collectively with this Agreement, the "**Transaction Documents**"). The Rockford Affiliates have full corporate power and authority to enter into and to perform their respective obligations under any Transaction Documents to which they are parties.

(b) The execution, delivery and performance of the Transaction Documents by RHS and the Rockford Affiliates have been duly and properly authorized by all necessary corporate action in accordance with their respective articles of incorporation and bylaws.

(c) Assuming the valid authorization, execution and delivery of the same by the parties to the Transaction Documents other than the Rockford Entities, the Transaction Documents constitute the valid and legally binding obligation of RHS and the Rockford Affiliates, and are enforceable against them in accordance with their terms, except as enforceability may be limited by: (i) general principles of equity, regardless of whether enforcement is sought in a proceeding in equity or at law; and (ii) bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application now or hereafter in effect relating to or affecting the enforcement of creditors' rights generally.

8.3 No Violation; Approvals.

(a) The execution, delivery and performance of the Transaction Documents by RHS and the Rockford Affiliates shall not result in the creation of any lien, charge, or encumbrance of any kind or the termination or acceleration of any indebtedness or other obligation of any Rockford Entity, and is not prohibited by, does not constitute a material default under or material breach of any Material Contract, indenture, mortgage, material permit or license or approval to which any Rockford Entity is a party or is subject or by which it is bound, or any Applicable Laws.

(b) No approval, authorization, registration, consent, order, filing or other action that has not occurred or been obtained with or from any person, including any court, administrative agency or other governmental authority, is required for the execution and delivery by RHS and the Rockford Affiliates of the Transaction Documents or the consummation of the transactions contemplated or required hereby.

8.4 Financial Statements.

(a) RHS has delivered to MAI true and correct copies of: (i) its audited financial statements for the two (2) years ended December 31, 2012 and December 31, 2013 (collectively, the "**Rockford Audited Financial Statements**"); and (ii) its unaudited financial statements for the interim period from January 1, 2014, through the most recent month-end date for which financial statements were available prior to the Execution Date (collectively, the

ATTACHMENT 5

"**Rockford Unaudited Financial Statements**" and together with the Rockford Audited Financial Statements, the "**Rockford Financial Statements**").

(b) The Rockford Financial Statements: (i) are true and correct in all material respects and present fairly the consolidated financial position of RHS and the Rockford Affiliates and the results of their operations as of the dates and for the periods indicated; and (ii) are in conformity with United States Generally Accepted Accounting Principles ("**GAAP**"), applied consistently for the periods specified, including the consistent use of assumptions, practices, procedures and terminology, except that the Rockford Unaudited Financial Statements do not contain footnotes and other year-end adjustments required to comply with GAAP.

(c) From and after the most recent month-end date of the Rockford Unaudited Financial Statements, RHS has not made any material changes to its accounting methods or practices, including methods or practices used to:

(i) Establish reserves on any patient, notes and accounts receivable;

(ii) Establish estimates of any third-party settlements;

(iii) Determine the value of any other accounts that require subjective determinations; and

(iv) Establish malpractice, general liability or other self-insurance reserves, including claims incurred but not reported.

(d) To the Knowledge of RHS, neither RHS nor the Rockford Affiliates have any Material items of liability or obligations of any kind, whether contingent or absolute, direct or indirect, or matured or unmatured, that are not disclosed or reserved on the Rockford Financial Statements or on any other Schedule hereto.

8.5 **Interim Changes**. Since the most recent month-end date of the Rockford Unaudited Financial Statements, the Rockford Entities have conducted their businesses in the ordinary course and consistent with past practices. Except for matters expressly permitted or authorized by this Agreement and except as set forth on Schedule 8.5, there has not been, after the date of the most recent month-end of the Rockford Unaudited Financial Statements:

(a) Any Material changes in the financial position or condition of the Rockford Entities in the aggregate;

(b) Any disposition by the Rockford Entities of any Material property, rights or other assets owned by or employed in the operation of the Rockford Entities, except for dispositions in the usual and ordinary course of business;

(c) Any amendment or termination of any Material Contract, except in the usual and ordinary course of business;

ATTACHMENT 5

(d) Any Material damage, destruction or other casualty loss affecting the tangible assets of the Rockford Entities; or

(e) Any adoption or material amendment of any compensation, bonus, profit-sharing, incentive, retention or severance agreement or arrangement, or any Rockford Benefit Plan applicable to officers, directors or employees of the Rockford Entities (collectively, "**Rockford Compensation Relationships**").

8.6 **Material Contracts**. To the Knowledge of RHS, no Rockford Entity is in breach or default under any term or provision of any Material Contract to which it is a party or by which it is bound, nor, to RHS's Knowledge, is any other party thereto in breach or default thereunder. All Material Contracts to which a Rockford Entity is a party or by which it is bound are in full force and effect and are valid and enforceable obligations of the Rockford Entities that are parties thereto. RHS has provided to MAI a list of all Material Contracts to which a Rockford Entity is a party or by which it is bound which requires the consent of, or notice to, a third party in order for the Rockford Entities to enter into or to consummate the transactions contemplated by the Transaction Documents.

8.7 **Legal Proceedings**. Except as previously disclosed to MAI, none of the Rockford Entities is a defendant in, or, to the Knowledge of RHS, has been threatened with any action, suit, proceeding, complaint, charge, hearing or arbitration that could reasonably be expected to, if resolved adversely to such person, have a Material adverse impact on the Rockford Entities in the aggregate or adversely affect the ability of the Rockford Entities to perform their respective obligations under the Transaction Documents. Except as previously disclosed to MAI, none of the Rockford Entities has received notice of any investigation or threatened investigation by any Federal, state or local governmental or regulatory agency, including those involving its business practices and policies, that could have a Material adverse impact on the Rockford Entities in the aggregate.

8.8 **Licenses and Permits**. Each of the Rockford Entities holds and is in compliance with all governmental licenses, permits, certificates, consents and approvals required for or pertaining to its business and operations (the "**Rockford Licenses and Permits**"). The Rockford Licenses and Permits held by the Rockford Entities are current, unrestricted and valid.

8.9 **Compliance with Law**. To the Knowledge of RHS, each of the Rockford Entities is in material compliance with all Applicable Laws, including, without limitation, all Health Care Laws.

8.10 **Owned Real Property**.

(a) RHS has provided MAI with a list of all real property owned by any Rockford Entity by common address and property identification number (the "**Rockford Owned Real Property**").

(b) Except as set forth on Schedule 8.10(b), one or more of the Rockford Entities is the sole and exclusive owner of all right, title and interest in and has good and marketable fee simple title to the Rockford Owned Real Property free and clear of all liens, mortgages, security interests, options, pledges, charges, covenants, conditions, restrictions and

ATTACHMENT 5

other encumbrances and claims of any kind or character whatsoever, other than Permitted Encumbrances. There are no outstanding options, rights of first refusal or rights of first offer to purchase any Rockford Owned Real Property or any portion thereof or interest therein. Except as described on Schedule 8.10(b), with respect to the Rockford Owned Real Property:

(i) No Rockford Entity has received during the past three (3) years notice of a violation of any Applicable Laws with respect to the Rockford Owned Real Property, and no Rockford Entity has received notice of condemnation, lien, assessment or the like relating to any part of the Rockford Owned Real Property or the operation thereof;

(ii) Except for the Rockford Entities, there are no tenants or other persons or entities occupying any space in the Rockford Owned Real Property, or claiming any possession, adverse or not, to any portion of the Rockford Owned Real Property, other than pursuant to ground leases or tenant leases that: (A) are in writing and are fully executed by the parties thereto; (B) are upon terms that are commercially reasonable and fair from a financial perspective; (C) are consistent with Applicable Laws; (D) are not in default; (E) have not expired; and (F) have been entered into by a Rockford Entity (or in the case of a sublease, a tenant of a Rockford Entity, pursuant to a sublease approved by a Rockford Entity);

(iii) To the Knowledge of RHS, there are no pending or proposed actions regarding the Rockford Owned Real Property that could have a Material adverse impact on or otherwise affect the ability of any Rockford Entity to continue its operations or maintain its current financial status;

(iv) None of the Rockford Entities have received notice that the status of any Rockford Owned Real Property will change from exempt to taxable;

(v) All permanent certificates of occupancy and all other licenses, permits, authorizations, consents, certificates and approvals required by all governmental authorities having jurisdiction and the requisite certificates of the local board of fire underwriters (or other body exercising similar functions), which, if not obtained, would have a Material adverse impact on any Rockford Entity, have been issued for the Rockford Owned Real Property, have been paid for, are in full force and effect, and, to the Knowledge of RHS, will not be invalidated, violated or otherwise adversely affected by the transactions contemplated by the Transaction Documents.

(c) Except as previously disclosed to MAI: (i) the Rockford Owned Real Property is not in material violation of any Environmental Laws; (ii) the Rockford Entities have not received any notice within the past three (3) years alleging or asserting either a material violation of any Environmental Law or a legal obligation to investigate, assess, remove, or remediate any part or all of the Rockford Owned Real Property under or pursuant to any Environmental Law; (iii) the Rockford Entities have not possessed, managed, processed, released, handled or disposed of or discharged Hazardous Substances at, on or from the Rockford Owned Real Property (including groundwater), except in material compliance with applicable Environmental Laws; (iv) RHS has no Knowledge that any prior owners, operators or occupants of the Rockford Owned Real Property have caused or allowed any Hazardous Substances to be discharged, possessed, managed, processed, released, or otherwise handled on

the Rockford Owned Real Property in violation of any Environmental Law; (v) the Rockford Entities are, and for the past three (3) years have been, in material compliance with all applicable Environmental Laws; (vi) to the Knowledge of RHS, the Rockford Owned Real Property does not contain asbestos containing material in such form or condition for which abatement, repair or removal is required by applicable Environmental Laws; and (vii) there are no, nor to the Knowledge of RHS have there ever been any, dumps, pits, or surface impoundments located on the Rockford Owned Real Property for the disposal or containment of Hazardous Substances. RHS promptly shall notify MAI if it obtains Knowledge, prior to the Closing Date, of any lien, written notice, litigation, or threat of litigation relating to any alleged or actual unauthorized release of any Hazardous Substance with respect to any part of the Rockford Owned Real Property.

(d) Except as previously disclosed to MAI, to the Knowledge of RHS, none of the Rockford Entities has sent, arranged for disposal or treatment, arranged with a transporter for transport for disposal or treatment, transported, or accepted for transport any Hazardous Substances, to a facility, site or location, that, pursuant to CERCLA or any similar state or local law: (i) has been placed or has been publicly proposed by authorities having jurisdiction to be placed, on the National Priorities List or its state equivalent; or (ii) is subject to a claim, administrative order or other demand to take removal or remedial action by any person having jurisdiction and authority in the matter. Except as previously disclosed to MAI, none of the Rockford Entities has received any written requests for information, potentially responsible party letters or general or special notices alleging that any of the Rockford Entities is or may be liable under CERCLA. Without in any way limiting the generality of the foregoing, all existing underground storage tanks used by the Rockford Entities to store Hazardous Substances are in compliance in all material respects with applicable Environmental Laws.

8.11 **Leased Real Property**.

(a) RHS has provided MAI with a list of all leases of real property as to which a Rockford Entity is the tenant (each a "**Rockford Lease**" and collectively, the "**Rockford Leases**").

(b) Each Rockford Entity has valid and enforceable leasehold interests to the leasehold estate in the leased real property, subject to applicable bankruptcy, insolvency, moratorium or other similar laws relating to creditors' rights and general principles of equity and no party is in default under any Rockford Lease, nor, to RHS's Knowledge, has any event occurred that, with notice or the passage of time, or both, would give rise to such a default by any party.

8.12 **Title to Assets**. Except as disclosed on Schedule 8.12, apart from the Rockford Owned Real Property, each of the Rockford Entities has good and defensible title to all of its assets of every kind, character and description, whether personal, tangible or intangible, used in connection with the operation of the businesses of the respective Rockford Entities, free and clear of all liens, mortgages, security interests, options, pledges, charges, covenants, conditions, restrictions and other encumbrances and claims of any kind or character whatsoever, other than Permitted Encumbrances.

8.13 **Rockford Affiliates**. Exhibit A sets forth an accurate and complete list of all Rockford Affiliates.

8.14 **Tax-Exempt Status**. The Internal Revenue Service ("**IRS**") has not taken, or, to the Knowledge of RHS, proposed to take, any action to revoke the tax exemption of any of the tax-exempt Rockford Entities, has not notified any tax-exempt Rockford Entity of any inquiry concerning such Entity's tax-exempt status, and has not determined in writing or, to the Knowledge of RHS, proposed to announce, that any of the Rockford Entities is a "private foundation" within the meaning of Section 509(a) of the Code. RHS has no Knowledge of any condition or circumstance associated with the organization or operation of any of the tax-exempt Rockford Entities that would result in a loss of a Rockford Entity's status as an organization described in Section 501(c)(3) of the Code or that could cause an Rockford Entity to be treated as a "private foundation" within the meaning of Section 509(a) of the Code. To the Knowledge of RHS, RMH and all other "hospital" facilities operated by the Rockford Entities are being operated in compliance with Section 501(r) of the Code.

8.15 **Insurance**. The Rockford Entities maintain insurance policies and programs sufficient to insure them against risks, losses and liabilities which similarly-situated health care companies within the health care industry customarily insure against (the "**Rockford Coverage**"). The Rockford Coverage is in full force and effect and shall remain in full force and effect through the Closing Date. The Rockford Entities have not received notice that any Rockford Coverage will be cancelled or not renewed.

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

8.17 **Labor and Employment Matters**. The Rockford Entities are in compliance in all material respects with all Applicable Laws respecting employment and employment practices, terms and conditions of employment, nondiscrimination, equal opportunity, immigration, benefits, payment of employment, social security and similar taxes, occupational safety and health, plant closings, wages and hours.

8.18 **Employee Benefits**. With respect to all "employee welfare benefit plans" (as defined in Section 3(1) of ERISA), "employee pension benefit plans" (as defined in Section 3(2) of ERISA), and all other employee benefit plan agreements and arrangements and employee benefit policies, whether funded or unfunded, qualified or nonqualified, subject to ERISA or not, maintained or contributed to (or required to be contributed to) by Rockford Entities for the

ATTACHMENT 5

benefit of any of its officers, employees or other persons (all the foregoing being herein referred to as "**Rockford Benefit Plans**"):

(a) All contributions to, and payments from, the Rockford Benefit Plans required to be made in accordance with the terms of the Rockford Benefit Plans and Applicable Laws have been timely made. Except for those Rockford Benefit Plans disclosed on Schedule 8.18(a), no Rockford Benefit Plan is subject to the funding rules of Section 302 of ERISA or Section 412 of the Code.

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

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

(d) No "prohibited transaction" (as defined in Section 4975 of the Code or Section 406 of ERISA) has occurred that involves the assets of any Rockford Benefit Plan and that could reasonably be expected to subject any of the Rockford Entities, or any of their respective employees, or a director, administrator or other fiduciary of any trust created under any Rockford Benefit Plan, to the tax or penalty on prohibited transactions imposed by Section 4975 of the Code or the sanctions imposed under Title I of ERISA. No Rockford Benefit Plan that has been terminated has or, to the Knowledge of RHS, may cause liability to any of the Rockford Entities.

8.19 **Payment Programs**. With respect to all private, commercial and governmental payment and procurement programs (including, without limitation, Medicare and Medicaid) ("**Payment Programs**"), and specific to those Payment Programs with which the Rockford Entities are participating providers (the "**Rockford Payment Programs**"):

(a) No Rockford Entity is engaged in termination proceedings as to its respective participation in any Rockford Payment Program, nor has any Rockford Entity received notice that its current participation in any Rockford Payment Program is subject to any contest, termination or suspension for any reason;

(b) No Rockford Entity has taken or committed to any action, entered into any agreement, contract or undertaking, or taken or omitted to take any other action of any nature whatsoever that was or is in violation of any applicable Rockford Payment Program condition of participation, contract, standard, policy, rule, regulation, procedure or other requirement, that individually or in the aggregate would have a Material adverse impact on the Rockford Entities' business and operations;

(c) To the Knowledge of RHS, all billing and collection practices of each Rockford Entity, and any billing and/or collection agent acting on behalf of any Rockford Entity, have been in material compliance with all Health Care Laws and the conditions for participation, contracts, standards, policies, rules, regulations, manuals, procedures and requirements of all Rockford Payment Programs;

(d) To the Knowledge of RHS, all cost reports and cost statements submitted by the Rockford Entities to any Rockford Payment Program are true, accurate and complete in all material respects and have been prepared and submitted in accordance with cost and accounting principles consistently applied that comply with all applicable Rockford Payment Program conditions for participation, contracts, standards, policies, rules, regulations, manuals, procedures and requirements, including, without limitation, Rockford Payment Program interpretations and guidance;

(e) To the Knowledge of RHS, no Rockford Entity has taken any of the following actions: submitted to any Rockford Payment Program any false, fraudulent, abusive or improper claim for payment, billed any Rockford Payment Program for any service not rendered or not rendered as claimed, or received and retained any payment or reimbursement from any Rockford Payment Program in excess of the proper amount allowed by Applicable Laws and applicable contracts or agreements with the Rockford Payment Programs;

(f) There is no audit, investigation, adverse action, or civil, administrative, or criminal proceeding pending or, to the Knowledge of RHS, threatened, relating to participation in any Rockford Payment Program by any Rockford Entity; and, to the Knowledge of RHS, there is no basis for any such adverse action by the Rockford Payment Program against any Rockford Entity;

(g) No Rockford Payment Program has requested nor, to the Knowledge of RHS, has threatened any Material recoupment, refund, or set off from any Rockford Entity, or imposed any Material fine, penalty or other sanction on any Rockford Entity; and

(h) The Rockford Entities have complied, or will comply, in a timely manner with any notice, approval, application, submission, filing or other requirements of the Rockford Payment Programs with respect to the transactions contemplated by this Agreement, including, without limitation, any change of control requirements.

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

8.21 **Compliance Program**. Within the past three (3) years, no Rockford Entity: (a) is or was a party to a Corporate Integrity Agreement with the Office of Inspector General of the United States Department of Health and Human Services; (b) has been subject to any reporting obligations pursuant to any settlement agreement entered into with any federal, state or local government entity; (c) has been the subject of any government payer program investigation conducted by any federal or state enforcement agency; (d) has been a defendant in any unsealed qui tam/False Claims Act litigation; (e) has been served with or received, or been subject to, any search warrant, subpoena, civil investigative demand, contact letter, or, to RHS's Knowledge, telephone or personal contact by or from any federal or state enforcement agency (except in connection with medical services provided to third parties who may be defendants or the subject of investigation into conduct unrelated to the operation of the health care businesses conducted by the Rockford Entities); or (f) has received any complaints from employees, independent contractors, vendors, physicians, or any other person that resulted or may result in a claim being filed with a federal, state or local government entity alleging that a Rockford Entity has violated any law or regulation. For purposes of this Agreement, "**compliance program**" refers to provider programs of the type described in the compliance guidance published by the Office of Inspector General of the Department of Health and Human Services.

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

8.23 **Medical Staff Matters**. RHS has provided to MAI true, correct, and complete copies of the bylaws and rules and regulations of the Rockford Medical Staffs, as well as a list of all current members of the Rockford Medical Staffs. Except as previously disclosed to MAI: (a) there are no pending adverse actions with respect to any medical staff members of Rockford Entities or any applicant thereto for which a medical staff member or applicant has requested an appellate review under any of the Rockford Medical Staff bylaws that has not been scheduled or has been scheduled but has not been completed; (b) there are no pending or, to the Knowledge of RHS, threatened disputes with applicants, staff members, or health professional affiliates, and Rockford knows of no basis therefor; and (c) all appeal periods in respect of any medical staff member or applicant against whom an adverse action has been taken have expired. Notwithstanding the foregoing provisions of this Section 8.23, Rockford shall not be required to disclose any information pursuant to this Section 8.23 where such disclosure is prohibited by state law or where such disclosure would, in Rockford's reasonable discretion, potentially jeopardize any applicable privilege that would protect the disclosure of such information to third parties.

8.24 **Experimental or Research Procedures**. The Rockford Entities have not performed or permitted the performance of any experimental or research procedures or studies involving their patients not authorized and conducted in accordance with the procedures of the applicable Rockford institutional review board.

8.25 **Intellectual Property; Computer Software**. The Rockford Entities own (or possess adequate and enforceable licenses or other rights to use) all material trademarks, service marks, trade names, patents, copyrights, and applications therefore (whether registered or common law) currently owned or used by it and its Entities or Affiliates (collectively, "**Intellectual Property**") and all computer software programs and similar systems used in the conduct of their businesses.

8.26 **Disclosure; No Material Omissions**.

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

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

ARTICLE 9

REPRESENTATIONS AND WARRANTIES OF THE MERCY PARTIES

The Mercy Entities hereby jointly and severally give to the Rockford Entities the representations and warranties set forth in this Article 9, which shall be true and correct as of the Execution Date and all times thereafter up to and including the Closing Date.

9.1 Due Organization; Good Standing; Power.

(a) Mercy is a Wisconsin nonstock, nonprofit corporation, which is exempt from federal income taxation under Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code and is not a "private foundation" within the meaning of Section 509(a) of the Code.

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

9.2 Corporate Authority.

(a) MAI has the full corporate power and authority to enter into and to perform its obligations under the Transaction Documents. The Mercy Affiliates have full corporate power and authority to enter into and to perform their respective obligations under any Transaction Documents to which they are parties.

(b) The execution, delivery and performance of the Transaction Documents by Mercy and the Mercy Affiliates have been duly and properly authorized by all necessary corporate action in accordance with their respective articles of incorporation and bylaws.

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

9.3 No Violation; Approvals.

(a) The execution, delivery and performance of the Transaction Documents by Mercy and the Mercy Affiliates shall not result in the creation of any lien, charge, or

encumbrance of any kind or the termination or acceleration of any indebtedness or other obligation of any Mercy Entity, and is not prohibited by, does not constitute a material default under or material breach of any Material Contract, indenture, mortgage, material permit or license or approval to which any Mercy Entity is a party or is subject or by which it is bound, or any Applicable Laws.

(b) No approval, authorization, registration, consent, order, filing or other action that has not occurred or been obtained with or from any person, including any court, administrative agency or other governmental authority, is required for the execution and delivery by Mercy and the Mercy Affiliates of the Transaction Documents or the consummation of the transactions contemplated or required hereby.

9.4 Financial Statements.

(a) MAI has delivered to RHS true and correct copies of: (i) its audited financial statements for the two (2) years ended June 30, 2013 and June 30, 2014 (collectively, the "**Mercy Audited Financial Statements**"); and (ii) its unaudited financial statements for the interim period from June 30, 2014, through the most recent month-end date for which financial statements were available prior to the Execution Date (collectively, the "**Mercy Unaudited Financial Statements**" and together with the Mercy Audited Financial Statements, the "**Mercy Financial Statements**").

(b) The Mercy Financial Statements are: (i) true and correct in all material respects and present fairly the consolidated financial position of MAI and the Mercy Affiliates and the consolidated results of their operations as of the dates and for the periods indicated; and (ii) are in conformity with United States GAAP, applied consistently for the periods specified, including the consistent use of assumptions, practices, procedures and terminology, except that the Mercy Unaudited Financial Statements do not contain footnotes and other year-end adjustments required to comply with GAAP.

(c) From and after the most recent month-end date of the Mercy Unaudited Financial Statements, Mercy has not made any material changes to its accounting methods or practices, including methods or practices used to:

(i) Establish reserves on any patient, notes and accounts receivable;

(ii) Establish estimates of any third-party settlements;

(iii) Determine the value of any other accounts that require subjective determinations; and

(iv) Establish malpractice, general liability or other self-insurance reserves, including claims incurred but not reported.

(d) To the Knowledge of MAI, neither MAI nor the Mercy Affiliates have any Material items of liability or obligations of any kind, whether contingent or absolute, direct or indirect, or matured or unmatured, that are not disclosed or reserved on the Mercy Financial Statements or on any other Schedule hereto.

ATTACHMENT 5

9.5 **Interim Changes**. Since the most recent month-end date of the Mercy Unaudited Financial Statements, the Mercy Entities have conducted their businesses in the ordinary course and consistent with past practices. Except for matters expressly permitted or authorized by this Agreement and except as set forth on Schedule 9.5, there has not been, after the date of the most recent month-end of the Mercy Unaudited Financial Statements:

(a) Any Material changes in the financial position or condition of the Mercy Entities in the aggregate;

(b) Any disposition by the Mercy Entities of any Material property, rights or other assets owned by or employed in the operation of the Mercy Entities, except for dispositions in the usual and ordinary course of business;

(c) Any amendment or termination of any Material Contract, except in the usual and ordinary course of business;

(d) Any Material damage, destruction or other casualty loss affecting the tangible assets of the Mercy Entities; or

(e) Any adoption or material amendment of any compensation, bonus, profit-sharing, incentive, retention or severance agreement or arrangement, or any Mercy Benefit Plan applicable to officers, directors or employees of the Mercy Entities (collectively, "**Mercy Compensation Relationships**").

9.6 **Material Contracts**. To the Knowledge of MAI, no Mercy Entity is in breach or default under any term or provision of any Material Contract to which it is a party or by which it is bound, nor, to Mercy's Knowledge, is any other party thereto in breach or default thereunder. All Material Contracts to which a Mercy Entity is a party or by which it is bound are in full force and effect and are valid and enforceable obligations of the Mercy Entities which are parties thereto. MAI has provided to RHS a list of all Material Contracts to which a Mercy Entity is a party or by which it is bound which requires the consent of, or notice to, a third party in order for the Mercy Entities to enter into or to consummate the transactions contemplated by the Transaction Documents.

9.7 **Legal Proceedings**. Except as previously disclosed to RHS, none of the Mercy Entities is a defendant in, or, to the Knowledge of MAI, has been threatened with any action, suit, proceeding, complaint, charge, hearing or arbitration that could reasonably be expected to, if resolved adversely to such person, have a Material adverse impact on the Mercy Entities in the aggregate or adversely affect ability of the Mercy Entities to perform their respective obligations under the Transaction Documents. Except as previously disclosed to RHS, none of the Mercy Entities has received notice of any investigation or threatened investigation by any Federal, state or local governmental or regulatory agency, including those involving its business practices and policies, that could have a Material adverse impact on the Mercy Entities in the aggregate.

9.8 **Licenses and Permits**. Each of the Mercy Entities holds and is in compliance with all governmental licenses, permits, certificates, consents and approvals required for or pertaining to its business and operations (the "**Mercy Licenses and Permits**"). The Mercy Licenses and Permits held by the Mercy Entities are current, unrestricted and valid.

ATTACHMENT 5

9.9 **Compliance with Law**. To the Knowledge of MAI, each of the Mercy Entities is in material compliance with all Applicable Laws, including, without limitation, all Health Care Laws.

9.10 **Owned Real Property**.

(a) MAI has provided RHS with a list of all real property owned by any Mercy Entity by common address and property identification number (the "**Mercy Owned Real Property**").

(b) Except as set forth on Schedule 9.10(b), one or more of the Mercy Entities is the sole and exclusive owner of all right, title and interest in and has good and marketable fee simple title to the Mercy Owned Real Property free and clear of all liens, mortgages, security interests, options, pledges, charges, covenants, conditions, restrictions and other encumbrances and claims of any kind or character whatsoever, other than Permitted Encumbrances. There are no outstanding options, rights of first refusal or rights of first offer to purchase any Mercy Owned Real Property or any portion thereof or interest therein. Except as described on Schedule 9.10(b), with respect to the Mercy Owned Real Property:

(i) No Mercy Entity has received during the past three (3) years notice of a violation of any Applicable Laws with respect to the Mercy Owned Real Property, and no Mercy Entity has received notice of condemnation, lien, assessment or the like relating to any part of the Mercy Owned Real Property or the operation thereof;

(ii) Except for the Mercy Entities, there are no tenants or other persons or entities occupying any space in the Mercy Owned Real Property, or claiming any possession, adverse or not, to any portion of the Mercy Owned Real Property, other than pursuant to tenant leases that: (A) are in writing and are fully executed by the parties thereto; (B) are upon terms that are commercially reasonable and fair from a financial perspective; (C) are consistent with Applicable Laws; (D) are not in default; (E) have not expired; and (F) have been entered into by a Mercy Entity (or in the case of a sublease, a tenant of a Mercy Entity, pursuant to a sublease approved by a Mercy Entity);

(iii) To the Knowledge of MAI, there are no pending or proposed actions regarding the Mercy Owned Real Property that could have a Material adverse impact on or otherwise affect the ability of Mercy or a Mercy Affiliate to continue its operations or maintain its current financial status;

(iv) None of the Mercy Entities have received notice that the status of any Mercy Owned Real Property will change from exempt to taxable; and

(v) All permanent certificates of occupancy and all other licenses, permits, authorizations, consents, certificates and approvals required by all governmental authorities having jurisdiction and the requisite certificates of the local board of fire underwriters (or other body exercising similar functions), which, if not obtained, would have a Material adverse impact on any Mercy Entity, have been issued for the Mercy Owned Real Property, have been paid for, are in full force and effect, and, to the Knowledge of MAI, will not be invalidated,

violated or otherwise adversely affected by the transactions contemplated by the Transaction Documents.

(c) Except as previously disclosed to RHS: (i) the Mercy Owned Real Property is not in material violation of any Environmental Laws; (ii) the Mercy Entities have not received any notice within the past three (3) years alleging or asserting either a material violation of any Environmental Law or a legal obligation to investigate, assess, remove, or remediate any part or all of the Mercy Owned Real Property under or pursuant to any Environmental Law; (iii) the Mercy Entities have not possessed, managed, processed, released, handled or disposed of or discharged Hazardous Substances at, on or from the Mercy Owned Real Property (including groundwater), except in material compliance with applicable Environmental Laws; (iv) Mercy has no Knowledge that any prior owners, operators or occupants of the Mercy Owned Real Property have caused or allowed any Hazardous Substances to be discharged, possessed, managed, processed, released, or otherwise handled on the Mercy Owned Real Property in violation of any Environmental Law; (v) the Mercy Entities are, and for the past three (3) years have been, in material compliance with all applicable Environmental Laws; (vi) to the Knowledge of MAI, the Mercy Owned Real Property does not contain asbestos containing material in such form or condition for which abatement, repair or removal is required by applicable Environmental Laws; and (vii) there are no, nor to the Knowledge of MAI have there ever been any, dumps, pits, or surface impoundments located on the Mercy Owned Real Property for the disposal or containment of Hazardous Substances. MAI promptly shall notify RHS if it obtains Knowledge, prior to the Closing Date, of any lien, written notice, litigation, or threat of litigation relating to any alleged or actual unauthorized release of any Hazardous Substance with respect to any part of the Mercy Owned Real Property.

(d) Except as Previously disclosed to RHS, to the Knowledge of MAI, none of the Mercy Entities has sent, arranged for disposal or treatment, arranged with a transporter for transport for disposal or treatment, transported, or accepted for transport any Hazardous Substances, to a facility, site or location, that, pursuant to CERCLA or any similar state or local law: (i) has been placed or has been publicly proposed by authorities having jurisdiction to be placed, on the National Priorities List or its state equivalent; or (ii) is subject to a claim, administrative order or other demand to take removal or remedial action by any person having jurisdiction and authority in the matter. Except as previously disclosed to RHS, none of the Mercy Entities has received any written requests for information, potentially responsible party letters or general or special notices alleging that any of the Mercy Entities is or may be liable under CERCLA. Without in any way limiting the generality of the foregoing, all existing underground storage tanks used by the Mercy Entities to store Hazardous Substances are in compliance in all material respects with applicable Environmental Laws.

9.11 <u>Leased Real Property</u>.

(a) MAI has provided RHS with a list of all leases of real property as to which a Mercy Entity is the tenant (each a "**Mercy Lease**" and collectively, the "**Mercy Leases**").

(b) Each Mercy Entity has valid and enforceable leasehold interests to the leasehold estate in the leased real property, subject to applicable bankruptcy, insolvency, moratorium or other similar laws relating to creditors' rights and general principles of equity, and no party is in default under any Mercy Lease, nor, to Mercy's Knowledge, has any event occurred that, with notice or the passage of time, or both, would give rise to such a default by any party.

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

9.13 **Mercy Affiliates.** Exhibit B sets forth an accurate and complete list of all Mercy Affiliates.

9.14 **Tax-Exempt Status**. The IRS has not taken, or, to the Knowledge of MAI, proposed to take, any action to revoke the tax exemption of any of the tax-exempt Mercy Entities, has not notified any tax-exempt Mercy Entity of any inquiry concerning such Entity's tax-exempt status, and has not determined in writing or, to the Knowledge of MAI, proposed to announce, that any of the Mercy Entities is a "private foundation" within the meaning of Section 509(a) of the Code. MAI has no Knowledge of any condition or circumstance associated with the organization or operation of any of the tax-exempt Mercy Entities that would result in a loss of a Mercy Entity's status as an organization described in Section 501(c)(3) of the Code or that could cause an Mercy Entity to be treated as a "private foundation" within the meaning of Section 509(a) of the Code. To the Knowledge of MAI, MH and all other "hospital" facilities operated by the Mercy Entities are being operated in compliance with Section 501(r) of the Code.

9.15 **Insurance**. The Mercy Entities maintain insurance policies and programs sufficient to insure them against risks, losses and liabilities which similarly-situated health care companies within the health care industry customarily insure against (the "**Mercy Coverage**"). The Mercy Coverage is in full force and effect and shall remain in full force and effect through the Closing Date. The Mercy Entities have not received notice that any Mercy Coverage will be cancelled or not renewed.

9.16 **Taxes**. The Mercy Entities timely have filed, or timely shall file with the appropriate taxing authority, all returns, declarations, and reports and all information returns and statements required to be filed or sent with respect to all taxes for all periods preceding the Closing Date (collectively, the "**Mercy Returns**"). As of the time of filing, the Mercy Returns correctly reflected, and Mercy Returns prepared or being prepared but not yet filed as of the Execution Date, shall correctly reflect, the income, business, assets, operations, activities and status of the Mercy Entities and any other information required to be shown therein. Each Mercy Entity has timely paid all taxes due and payable and has made provision for timely payment of

all taxes that shall be shown as due and payable on the Mercy Returns and are required to be filed or sent by it after the Execution Date and relating to any period prior to the Closing Date.

9.17 **Labor and Employment Matters**. The Mercy Entities are in compliance in all material respects with all Applicable Laws respecting employment and employment practices, terms and conditions of employment, nondiscrimination, equal opportunity, immigration, benefits, payment of employment, social security, and similar taxes, occupational safety and health, plant closings, wages and hours.

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

(a) All contributions to, and payments from, the Mercy Benefit Plans required to be made in accordance with the terms of the Mercy Benefit Plans and Applicable Laws have been timely made. Except for those Mercy Benefit Plans disclosed on Schedule 9.18(a), no Mercy Benefit Plan is subject to the funding rules of Section 302 of ERISA or Section 412 of the Code.

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

(c) All reports, returns and similar documents with respect to the Mercy Benefit Plans required to be filed with any government agency or distributed to any Mercy Benefit Plan participant have been duly and timely filed or distributed. To the Knowledge of MAI, there are no threatened or pending investigations by any governmental agency, termination proceedings or other claims (except claims for benefits payable in the normal operation of the Mercy Benefit Plans), suits or proceedings against or involving any Mercy Benefit Plan or asserting any rights or claims to benefits under any Mercy Benefit Plan that

could reasonably be expected to give rise to any material liability, nor are there any facts that could reasonably be expected to give rise to any material liability in the event of any such investigation, claim, suit or proceeding.

(d) No "prohibited transaction" (as defined in Section 4975 of the Code or Section 406 of ERISA) has occurred that involves the assets of any Mercy Benefit Plan and that could reasonably be expected to subject any of the Mercy Entities, or any of their respective employees, or a director, administrator or other fiduciary of any trust created under any Mercy Benefit Plan, to the tax or penalty on prohibited transactions imposed by Section 4975 of the Code or the sanctions imposed under Title I of ERISA. No Mercy Benefit Plan that has been terminated has or, to the Knowledge of MAI, may cause liability to any of the Mercy Entities.

9.19 **Payment Programs**. With respect to all Payment Programs, and specific to those Payment Programs with which the Mercy Entities are participating providers (the "**Mercy Payment Programs**"):

(a) No Mercy Entity is engaged in termination proceedings as to its respective participation in any Mercy Payment Program, nor has any Mercy Entity received notice that its current participation in any Mercy Payment Program is subject to any contest, termination or suspension for any reason;

(b) No Mercy Entity has taken or committed to any action, entered into any agreement, contract or undertaking, or taken or omitted to take any other action of any nature whatsoever that was or is in violation of any applicable Mercy Payment Program condition of participation, contract, standard, policy, rule, regulation, procedure or other requirement, that individually or in the aggregate would have a Material adverse impact on the Mercy Entities' business and operations;

(c) To the Knowledge of MAI, all billing and collection practices of each Mercy Entity, and any billing and/or collection agent acting on behalf of any Mercy Entity, have been in compliance with all Health Care Laws and the conditions for participation, contracts, standards, policies, rules, regulations, manuals, procedures and requirements of all Mercy Payment Programs;

(d) To the Knowledge of MAI, all cost reports and cost statements submitted by the Mercy Entities to any Mercy Payment Program are true, accurate and complete in all material respects and have been prepared and submitted in accordance with cost and accounting principles consistently applied that comply with all applicable Mercy Payment Program conditions for participation, contracts, standards, policies, rules, regulations, manuals, procedures and requirements, including, without limitation, Mercy Payment Program interpretations and guidance;

(e) To the Knowledge of MAI, no Mercy Entity has taken any of the following actions: submitted to any Mercy Payment Program any false, fraudulent, abusive or improper claim for payment, billed any Mercy Payment Program for any service not rendered or not rendered as claimed, or received and retained any payment or reimbursement from any

Mercy Payment Program in excess of the proper amount allowed by Applicable Laws and applicable contracts or agreements with the Mercy Payment Programs;

(f) There is no audit, investigation, adverse action, or civil, administrative, or criminal proceeding pending or, to the Knowledge of MAI, threatened, relating to participation in any Mercy Payment Program by any Mercy Entity; and, to the Knowledge of MAI, there is no basis for any such adverse action by the Mercy Payment Program against any Mercy Entity;

(g) No Mercy Payment Program has requested nor, to the Knowledge of MAI, has threatened any Material recoupment, refund, or set off from any Mercy Entity, or imposed any fine, penalty or other sanction on any Mercy Entity; and

(h) The Mercy Entities have complied, or will comply, in a timely manner with any notice, approval, application, submission, filing or other requirements of the Mercy Payment Programs with respect to the transactions contemplated by this Agreement, including, without limitation, any change of control requirements.

9.20 **Accreditation**. With respect to the Mercy Entities' current accreditations by various accreditation organizations, including, without limitation, the Health Facilities Accreditation Program of the American Osteopathic Association (**"HFAP"**) (collectively, the **"Mercy Accreditations"**): (a) all of the Mercy Accreditations of the Mercy Entities have been duly obtained, are held by the respective Mercy Entities, are current and valid, and are in full force and effect; (b) to the Knowledge of MAI, no event has occurred or other fact exists with respect to the Mercy Accreditations that allows, or after notice or lapse of time or both would allow, revocation, suspension, restriction, limitation or termination of any of the Mercy Accreditations or would result in any other impairment of the rights of the holder of any of the Mercy Accreditations; and (c) no notice or threatened notice from any accreditation organization with respect to the revocation, suspension, restriction, limitation or termination of any Mercy Accreditations has been issued, received or, to the Knowledge of MAI, proposed or threatened.

9.21 **Compliance Program**. Within the past three (3) years, no Mercy Entity: (a) is or was a party to a Corporate Integrity Agreement with the Office of Inspector General of the United States Department of Health and Human Services; (b) has been subject to any reporting obligations pursuant to any settlement agreement entered into with any federal, state or local government entity; (c) has been the subject of any government payer program investigation conducted by any federal or state enforcement agency; (d) has been a defendant in any unsealed qui tam/False Claims Act litigation; (e) has been served with or received, or been subject to, any search warrant, subpoena, civil investigative demand, contact letter, or, to Mercy's Knowledge, telephone or personal contact by or from any federal or state enforcement agency (except in connection with medical services provided to third parties who may be defendants or the subject of investigation into conduct unrelated to the operation of the health care businesses conducted by the Mercy Entities); or (f) has received any complaints from employees, independent contractors, vendors, physicians, or any other person that resulted or may result in a claim being filed with a federal, state or local government entity alleging that a Mercy Entity has violated any law or regulation.

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

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

9.24 Experimental or Research Procedures. The Mercy Entities have not performed or permitted the performance of any experimental or research procedures or studies involving their patients not authorized and conducted in accordance with the procedures of the applicable Mercy institutional review board.

9.25 Intellectual Property; Computer Software. The Mercy Entities own (or possess adequate and enforceable licenses or other rights to use) all Intellectual Property and all computer software programs and similar systems used in the conduct of their businesses.

9.26 Disclosure; No Material Omissions.

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

(b) The Mercy Entities have responded (or are continuing to respond as of the date hereof) in all material respects to Rockford's requests for information and documentation as part of Rockford's due diligence review of the business, operations, assets and liabilities of the Mercy Entities. Mercy has not knowingly omitted any material

information relating to the businesses, operations, assets or liabilities of Mercy Entities in its responses to Rockford's requests.

ARTICLE 10

PRE-CLOSING COVENANTS

10.1 **Pre-Closing Covenants of the Parties**. Each of the Parties hereby agrees to keep,.perform and fully discharge, and to cause the Rockford Affiliates and Mercy Affiliates, as applicable, to keep, perform and fully discharge, the following covenants and agreements from the Execution Date until the Closing Date (or thereafter, as specifically noted below):

(a) **Interim Conduct of Business**. Each Party shall continue to operate its businesses and conduct its activities in the ordinary course of business and consistent with past practice. Each Party shall provide the other Party promptly with monthly Unaudited Financial Statements for the immediately preceding month.

(b) **Negative Covenants**. Neither Party shall, without first providing the other Party with prior written notification and an opportunity to comment and provide input:

(i) Make any changes, or permit any changes to be made, in the governing documents of any Entity or Affiliate, except for changes expressly authorized by this Agreement;

(ii) Enter into any new, renewed or amended employment agreement with any executive leaders; or increase compensation payable or to become payable to any executive, officer or director of such Party or any of its Affiliates other than in the ordinary course of business and consistent with existing personnel policies and prior practice;

(iii) Enter into any new, renewed or amended employment agreement or other contractual arrangement with any physician or physician group that either (1) has a term of more than two (2) years, or (2) is other than in the ordinary course of business and consistent with prior practice;

(iv) Enter into any other new, renewed or amended contract or arrangement that is anticipated to have a cost or value exceeding $1 million over the entire term of the arrangement or that has a term of more than two (2) years;

(v) Adopt any new employee benefit plan or make any material change in or to any benefit plan other than as required by law or as necessary to maintain the tax-qualified status of any such benefit plan, in the reasonable opinion of such Party's counsel;

(vi) Enter into a collective bargaining agreement, or enter into negotiations with or recognize voluntarily a bargaining representative;

(vii) Cease to operate its business or that of an Affiliate as a going concern generally consistent with prior practices in the ordinary course of business;

(viii) Sell, lease or agree to sell or lease any Material assets, except for the depletion of inventories consumed or sold or equipment disposed of in the ordinary course of business;

(ix) Enter into a Debt Transaction, or create, assume or permit to exist any new lease, mortgage, pledge or other lien or encumbrance upon any of such Party's assets, whether now owned or hereafter acquired; or

(x) Engage in or enter into any other transaction outside the ordinary course of business.

(c) Preserve Accuracy of Representations and Warranties. Unless permitted by the terms of this Agreement, neither Party shall take, and shall not allow to be taken by any of its Affiliates, any action that would render any representation or warranty contained in Article 8 or Article 9, applicable, materially inaccurate or untrue. Consistent with Section 14.1 below, each Party shall promptly update the disclosures made upon Schedules to this Agreement to reflect newly occurring events or newly discovered information. Upon gaining actual Knowledge, a Party shall promptly notify the other Party of any lawsuits, claims, administrative actions or other proceedings credibly asserted or actually commenced against such Party or any Affiliates, or any of their respective officers, directors or members. The Parties shall promptly notify each other, in writing, of any facts or circumstances that come to its attention after the Execution Date and that cause, or through the passage of time might cause, any of the representations and warranties contained in Article 8 or Article 9, as applicable, to be materially untrue or misleading.

(d) Access to Information. To the extent permitted by Applicable Law, each Party shall give to the other Party and/or to its representatives full and free access, during normal business hours, to all properties, books, records and contracts pertaining to the businesses, properties and assets of such party and Affiliates, as may be reasonably requested with reasonable prior notice.

(e) Maintenance of Books and Accounting Practices. The Parties shall: (i) maintain their respective books of account and records and cause the books and records of account of each Affiliate to be maintained in the usual, regular and ordinary manner in accordance with GAAP consistently applied and on a basis consistent with prior years; and (ii) make no material changes in its accounting methods or practices or cause any Affiliate to make any material change in its accounting methods or practices.

(f) Compliance with Applicable Laws. The Parties shall (i) comply, and cause their Affiliates to comply, in all material respects with all Applicable Laws, and (ii) keep, hold and maintain all certificates, accreditations, licenses and other permits necessary for the conduct and operation of their respective businesses and the ownership of their respective assets.

(g) No Conflicting Transactions. Each Party shall ensure that neither that Party nor its Affiliates, without the prior written consent of the other Party, shall: (i) merge, consolidate or enter into a member substitution or joint operating agreement with any other

entity, business or person; (ii) sell, lease or acquire substantially all of its assets; (iii) enter into any other change of control or other transaction involving substantially all of its operations; and (iv) explore, meet, discuss, negotiate, directly or indirectly, or enter into an agreement with any third party for the purpose of discussing, organizing, formulating, designing, developing, investing in or implementing an arrangement that could lead to any of the foregoing.

(h) Third Party Authorizations. The Parties shall use commercially reasonable efforts and cooperate fully with each other to obtain all consents, approvals, exemptions and authorizations of third parties, whether governmental or private, make all filings, and give all notices that may be necessary or desirable on the part of such Party or its Affiliates in order to consummate the transactions contemplated or required by the Transaction Documents.

(i) Performance of Undertakings.

(i) Each of the Parties shall perform faithfully at all times any and all covenants, undertakings, stipulations and provisions applicable to it contained in this Agreement and in any and every document executed, authenticated and delivered hereunder.

(ii) Each of the Parties shall use commercially reasonable efforts to consummate the transactions contemplated by this Agreement and shall not take any other action inconsistent with its obligations hereunder or that could hinder or delay the consummation of the transactions contemplated or required hereby.

ARTICLE 11

CONDITIONS PRECEDENT

11.1 <u>Conditions Precedent to Each Party's Obligations</u>. The obligations of RHS, on the one hand, and MAI, on the other hand, to consummate the transactions contemplated by this Agreement are, at the option of each such Party, subject to the satisfaction, on or prior to the Closing Date, of the following conditions:

(a) HSR Act. If the Parties are required to file notification under the Hart-Scott Rodino Act, each Party shall have filed such notification and all statutory waiting periods shall have elapsed.

(b) Certificate of Need. The Parties shall have obtained any and all necessary approvals from the Illinois Health Facilities and Services Review Board ("**IHFSRB**") to consummate the transactions contemplated by this Agreement.

(c) Regulatory Approvals. All other regulatory consents and approvals required for the consummation of the transactions contemplated or required by this Agreement shall have been obtained on or before the Closing Date.

(d) No Pending Action. No action or proceeding before any court or governmental body shall be pending or threatened wherein an unfavorable judgment, decree or order would prevent the carrying out of this Agreement or any of the transactions contemplated

ATTACHMENT 5

hereby, declare unlawful the transactions contemplated by this Agreement or cause such transactions to be rescinded.

(e) Loan Consents and Instruments. The Parties shall have obtained receipt of all documents, information, consents and materials required by the loan agreements to which they are parties.

(f) Joint Venture Consents. The Parties shall have obtained any required Joint Venture Consents.

(g) Accuracy of Representations and Warranties. The representations of Rockford contained in Article 8 and of Mercy contained in Article 9, as supplemented or modified pursuant to Amended Schedules delivered prior to Closing pursuant to Section 14.1 below, shall be true and accurate in all material respects as if made on and as of the Closing Date.

(h) Performance of Covenants. Each Party shall have performed all of the obligations and covenants required to be performed or complied with by such Party on or prior to the Closing Date.

(i) No Bankruptcy. No Rockford or Mercy Entity shall: (i) be in receivership or dissolution; (ii) have made any assignment for the benefit of creditors; (iii) have admitted in writing its inability to pay its debts as they mature; (iv) have been adjudicated bankrupt; or (v) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization or an arrangement with creditors under the federal bankruptcy law or any other similar law or statute of the United States or any state, nor shall any such petition have been filed against any such party.

(j) Delivery of Closing Documents. Each Party shall have delivered to the other Party the Closing Documents described in Section 12.2

ARTICLE 12

CLOSING

12.1 Closing and Closing Date. The delivery of all Closing Documents as set forth in Section 12.2 (the "**Closing**") shall take place at 9:00 a.m. on the last business day of the month in which all conditions precedent to Closing set forth herein have been satisfied. The Closing shall occur at the offices of Proskauer Rose LLP, 70 West Madison Street, Chicago, Illinois 60602, or such other date, time and place as the Parties shall mutually agree ("**Closing Date**"), provided that all conditions precedent and other matters required to be satisfied or completed as of the Closing Date have been or will be so satisfied or completed on such date. After the Closing is completed, the Transaction shall be deemed to have occurred and to be effective as between the Parties as of 12:01 a.m. Central time on the next day after the Closing Date or such other date agreed upon by the Parties (the "**Closing Date**").

12.2 **Closing Documents**. At the Closing, each Party shall deliver to the other Party the following documents (the "**Closing Documents**"):

(a) A certificate of the President and Chief Executive Officer, dated as of the Closing Date, certifying the continued accuracy and completeness of representations and warranties of the Party and the performance of the covenants and conditions precedent applicable to that Party;

(b) A certificate of the Secretary, dated as of the Closing Date, certifying: (i) the incumbency of the officers of the Party who have executed Closing Documents; and (ii) the due adoption and continued effectiveness of resolutions of such Party's Board approving: (A) this Agreement, the agreements and instruments referenced herein, and the transactions contemplated hereby; and (B) the New Parent Governing Documents and the amended and restated Articles of Incorporation and Bylaws of the Party and its Entities and Affiliates, effective as of the Closing Date;

(c) Any Joint Venture Consents required in order to consummate the transactions contemplated hereby, applicable to Joint Ventures in which the Party currently owns an interest;

(d) Any material third-party consents required under any Material Contracts to which a the Party is a party, except to the extent waived by the other Party to this Agreement;

(e) An officer's certificate from an officer attesting to the fact that, immediately following consummation of the transactions contemplated by the Transaction Documents, no member of the Party's obligated group (each an "**Obligated Group**") will be in default in the performance or observance of any covenant or condition of its master trust indenture, or any loan or reimbursement agreement entered into in connection with any of its Outstanding Debt;

(f) Such other instruments and documents as may be reasonably requested by the Parties in order to carry out the transactions contemplated or required by this Agreement and to comply with the terms hereof.

ARTICLE 13

TERMINATION

13.1 **Termination Prior to Closing**. Notwithstanding anything herein to the contrary, this Agreement and the Transaction contemplated by this Agreement may be terminated at any time prior to Closing under any one of the following circumstances:

(a) **Mutual Consent**. By mutual written consent of the Parties, acting through their respective boards of directors.

(b) **Legal Proceedings**. By either Party, if at the Closing Date: (i) a bona fide action or proceeding is pending against any Party wherein an unfavorable judgment, decree or order would prevent or make unlawful the carrying out of the transactions contemplated by

this Agreement; or (ii) any governmental agency has notified any Party that the consummation of the transactions contemplated herein would constitute a violation of Applicable Laws and that it has commenced or intends to commence proceedings to restrain the consummation of the transactions contemplated herein, and such agency has not withdrawn such notice prior to such termination.

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

(d) Material Adverse Change. By either Party if at any time prior to the Closing Date, either (i) there has been a Material Adverse Change to the businesses of the other Party or its affiliate Entities, or (ii) information discovered by or disclosed to such Party indicates that such a Material Adverse Change will occur upon the giving of notice by a third party or the passage of time, or both, and, in either such case, such Material Adverse Change (or the circumstances or conditions creating the anticipated Material Adverse Change) is incapable of being remedied prior the Termination Date; provided, however, that if the non-terminating Party disputes the existence of an actual or potential Material Adverse Change, the Parties shall be obligated to meet and confer in good faith for a period of not less than thirty (30) days prior to the termination of this Agreement.

(e) Breach. By either Party if at any time prior to the Closing Date, there has been a material breach by the other Party of any representation, warranty, covenant or agreement contained in this Agreement and such breach cannot be or is not cured prior to the Termination Date.

(f) Expiration. If the Closing shall not have occurred on or before March 31, 2015 (the "**Termination Date**"), provided that the right to terminate this Agreement under this Section 13.1(f) shall not be available to any Party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Closing to occur by such Termination Date.

(g) Effect of Termination. If there has been a termination under Section 13.1, this Agreement shall be deemed terminated, and all further obligations of the Parties hereunder shall terminate, except those obligations specifically identified in this Agreement as surviving termination. Any termination under Section 13.1 shall be without liability to the Parties, except that such termination shall be without prejudice to the rights and remedies that any Party seeking to terminate this Agreement may have if (a) a default is made by the other Party in the observance or in the due and timely performance by such Party of any of the covenants herein contained; or (b) such other Party has breached any of the warranties and representations herein contained. Notwithstanding anything to the contrary, if a Party has made such default or breach, the other Party need not terminate this Agreement but may seek to specifically enforce the defaulting or breaching Party's obligations hereunder.

ARTICLE 14

GENERAL PROVISIONS

14.1 **Modification of Schedules**. During the period from the Execution Date to the date that is ten (10) business days prior to the Closing Date, the Rockford Entities, on the one hand, and the Mercy Entities, on the other hand (each an "Amending Party"), may qualify any of its representations and warranties herein pursuant to a new Schedule, or amend any one or more of the Schedules they delivered at the Execution Date, to reflect newly occurring events or newly discovered information by delivering one or more amended Schedules (each, an "**Amended Schedule**" and, collectively, the "**Amended Schedule**") to the other (a "**Receiving Party**"). Upon receipt of an Amended Schedule, the Receiving Party shall have ten (10) business days to notify the Amending Party that the Receiving Party believes the change may create a Material Adverse Change and to request additional information concerning the facts underlying the Amended Schedule. Within ten (10) business days after obtaining additional information, the Receiving Party may, if it reasonably determines that the change creates a Material Adverse Change that cannot be cured and constitutes a basis for terminating this Agreement pursuant to Section 13.1.(d), give notice to the Amending Party to this effect.

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

14.3 **Survival**.

(a) Article 14 and Article 15 shall survive the termination of this Agreement prior to the Closing Date. Except as provided in the following subsection (b), the provisions set forth in Articles 8 through 13, inclusive, shall be extinguished upon the Closing and consummation of the Transaction contemplated by this Agreement and shall not survive such Closing and consummation.

(b) Notwithstanding the foregoing, the covenant set forth in Sections 8.4(d) and 9.4(d) shall survive the Closing for twelve (12) months thereafter. In the event that, within twelve (12) months of the Closing, RHS or MAI concludes that the other Party has breached Sections 8.4(d) or 9.4(d), respectively, then the Parties agree to undertake the dispute resolution process set forth in subsection (c) immediately below.

(c) The Parties agree to the following dispute resolution process ("Dispute Resolution Process") with respect to any disputes or allegations of breach or violation by the other Party under Sections 8.4(d) or 9.4(d), as applicable, of this Agreement (a "Dispute):

(i) The Party alleging the Dispute shall provide written notice to the other Party setting forth in reasonable detail the nature of the Dispute ("Dispute Notice"). The

Dispute Notice shall be disclosed to, and considered by, the other Party, for a period of thirty (30) days following receipt of the Dispute Notice. Each Party's CEO and Chairman shall meet informally (in person or by telephone) on at least a bi-weekly basis to discuss the areas of disagreement, and to negotiate in good faith possible resolutions to the Dispute before the end of the thirty (30) day review period.

(ii) In the event that the process set forth in Subsection (i) above does not result in the resolution of the Dispute, the Parties shall engage in binding mediation for a period of no less than sixty (60) days (or such longer period as may be mutually agreed by the Parties) (the "Mediation Period"). The mediation shall be conducted by a single mediator mutually selected by the Parties. The Parties shall share equally in the fees of the mediator.

(iii) In the event the Parties cannot reach agreement through the mediation process, the mediator shall determine whether a breach has occurred. If the mediator concludes that a breach has occurred, the sole remedy to be imposed by the mediator shall be as follows: All costs, loss and expenses incurred by the New System in satisfaction of the undisclosed liability(ies) shall result in a dollar-for-dollar reduction, or increase, as the case may be, of the Initial Capital Commitment set forth in Section 7.3(b) above, and such reduction or increase shall be the sole remedy for such breach.

14.4 **Performance of Undertakings**. The Parties agree that the standard that shall apply to the Parties' performance of all covenants and undertakings contained in this Agreement and in any and every document executed and delivered hereunder is that of commercial reasonableness.

14.5 **Notices**. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given or made as follows: (a) if sent by registered or certified mail in the United States return receipt requested, upon receipt; (b) if sent designated for overnight delivery by nationally recognized overnight air courier (such as Federal Express, UPS or DHL), one (1) business day after sending; or (c) if otherwise actually personally delivered, when delivered, provided that such notices, requests, demands and other communications are delivered to the addresses set forth below, or to such other address as any Party shall provide by like notice to the other Party:

If to RHS:	Rockford Health System 2350 N. Rockton Rockford, Illinois 61103 Attention: Gary E. Kaatz Gary E. Kaatz, President and Chief Executive Officer
With a simultaneous copy to:	Rockford Health System 2350 N. Rockton Rockford, Illinois 61103 Attention: James Evans, Esq., Vice President and General Counsel

ATTACHMENT 5

With a simultaneous copy to:	Proskauer Rose LLP 70 West Madison, Suite 3800 Chicago, Illinois 60602 Attention: Monte Dube, Esq.
If to Mercy	Mercy Alliance, Inc. 1000 Mineral Point Avenue Janesville, Wisconsin 55548 Attention: Javon R. Bea, President and CEO
With a simultaneous copy to:	Mercy Alliance, Inc. 1000 Mineral Point Avenue Janesville, Wisconsin 55548 Attention: Paul Van Den Heuvel, Esq., Vice President and General Counsel
With a simultaneous copy to:	Drinker Biddle & Reath LLP 1500 K Street, N.W. Washington, DC 20005-1209 Attention: Robert W. McCann, Esq.

14.6 **Confidentiality; Publicity**. The Parties hereto shall hold in confidence the information contained in this Agreement, and all information related to this Agreement that is not otherwise known to the public. Such information shall be held by each Party hereto as confidential and proprietary information and shall not be disclosed without the prior written consent of the other Party. Accordingly, the Parties shall not discuss with, or provide nonpublic information to, any third party (except for a Party's attorneys, accountants, directors, officers and employees, the directors, officers and employees of any Affiliate of either Party hereto, and other Party consultants and professional advisors) concerning this transaction prior to the Closing Date, except: (a) as required by law or in governmental filings or judicial, administrative or arbitration proceedings, including without limitation any filings to be made by the Parties with respect to the HSR Act, to the IHFSRB, the Attorney General of Illinois or of Wisconsin, or other governmental agencies or bodies and religious congregational leadership; provided, however, each Party shall consult with the other Party prior to making any such filings and the applicable Party shall modify any portion thereof if the other Party reasonably objects thereto, unless the same may be required by Applicable Law; (b) pursuant to public announcements made with the prior written approval of RHS and Mercy; or (c) to enforce its rights under this Agreement. The rights of the Parties under this Section 14.6 shall be in addition and not in substitution for the rights of the Parties under the Confidentiality Agreement, by and between the Parties dated June 4, 2014 (the "**Confidentiality Agreement**"), which Confidentiality Agreement shall survive the Closing.

14.7 **Cost of Transaction**. Whether or not the transactions contemplated hereby shall be consummated, the Parties agree that each Party shall pay their own fees, expenses, and disbursements incurred in connection with the subject matter hereof and any amendments hereto; provided, however, the Parties agree to share equally the filing fees associated with filings

required to be made by the Parties under the HSR Act and IHFSRB and the fees and expenses of any counsel, consultant or expert mutually retained by them.

14.8 **No Brokerage**.

(a) Except as previously disclosed to MAI, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Rockford Entities.

(b) Except as previously disclosed to RHS, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Mercy Entities.

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

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

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

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

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

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

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

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

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

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

ARTICLE 15

DEFINITIONS

15.1 Defined Terms. Capitalized terms not otherwise defined in the body of this Agreement shall have the following meanings:

(a) **"Applicable Laws"** means all applicable federal, state and local laws, statutes, ordinances, rules, regulations, codes and any judgment, decree, order, writ or injunction of any court, governmental or regulatory authority.

(b) **"Cause"**, with respect to the removal of a Director, means a pattern of action or inaction demonstrating a knowing and willful disregard for, or ignorance of, the responsibilities and obligations attendant to service as a Director.

(c) **"Code"** means the Internal Revenue Code of 1986, as amended.

(d) **"Debt Transaction"** means any debt, bond, credit, mortgage, pledge, or other lien or encumbrance agreement or any documents evidencing negative pledges or other covenant or transfer restrictions on the assets of either Party, with (a) a dollar value or liability greater than (or expected to be greater than) $10,000,000, in the aggregate, or (b) covenants which are additional to or more restrictive than those relating to the Outstanding Debt.

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

(f) **"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended.

(g) **"Hazardous Substances"** means petroleum or petroleum products, polychlorinated biphenyls, asbestos containing materials, lead based paint, radioactive materials, toxic mold or fungus of any kind or species, medical wastes, and any substances, materials, chemicals, pollutants, constituents, wastes or noxious substances regulated by any Environmental Law.

(h) **"Health Care Laws"** means all federal, state and local laws, statutes, rules, regulations, ordinances and codes applicable to health care providers and facilities; federal and state health care program conditions of participation, standards, policies, rules, procedures and other requirements; and accreditation standards of any applicable accrediting organization. Health Care Laws include, without limitation, the following laws: the federal (Title XIX of the Social Security Act) and state Medicaid programs and their implementing regulations, the Medicare Program (Title XVIII of the Social Security Act) and its implementing regulations, the federal False Claims Act (31 U.S.C. §§3729 et seq.), the Federal Health Care Program Anti-Kickback Statute (42 U.S.C. §1320a 7b(b)), the Federal Physician Self-Referral Law (42 U.S.C. §1395nn), the Federal Administrative False Claims Law (42 U.S.C. §1320a 7b(a)), the Beneficiary Inducement Statute (42 U.S.C. §1320a-7a(a)(5)), the Health Insurance Portability and Accountability Act of 1996 (**"HIPAA"**) and the HIPAA Privacy Rule, the HIPAA Security Rule and the HIPAA Standards for Transactions and Code Sets (42 U.S.C. 1320d 1329d 8; 45 CFR Parts 160 and 164), the Health Information Technology for Economic and Clinical Health (**"HITECH"**) Act (Title XIII of Division A and Title IV of Division B of the American Recovery and Reinvestment Act of 2009 (**"ARRA"**),

Pub. L. No. 111-5 (Feb. 17, 2009)), the federal Confidentiality of Alcohol and Drug Abuse Patient Records Act (42 U.S.C. 290ee 3), the Rehabilitation Act, the Americans with Disabilities Act, the Occupational Safety and Health Administration statutes and regulations for blood borne pathogens and workplace risks, and any state and local laws and the regulations promulgated pursuant to such laws, that address the same or similar subject matter. Health Care Laws also include federal, state and local laws applicable to health care providers and facilities, including, without limitation, laws related to: federal and state health care program billing, cost reporting, revenue reporting, payment and reimbursement; federal and state health care program fraud, abuse, theft or embezzlement; procurement of health care services, human and social services, and other health related services; employee background checks and credentialing of employees; credentialing and licensure of facilities or providers of such services; zoning, maintenance, safety and operations of group homes, residential facilities and day programs, and other building health and safety codes and ordinances; health facility planning laws; state law restrictions on the corporate practice of medicine (and the corporate practice of any other health related profession); eligibility for federal and state health care program contracting, including any requirements limiting contracting to nonprofit or tax exempt entities; patient information and medical record confidentiality, including psychotherapy and mental health records; splitting of health care fees; patient brokering, patient solicitation, patient capping, and/or payment of inducements to recommend or refer, or to arrange for the recommendation or referral of, patients to health care providers or facilities; standards of care, quality assurance, risk management, utilization review, peer review, and/or mandated reporting of incidents, occurrences, diseases and events; advertising or marketing of health care services; and the enforceability of restrictive covenants on health care providers.

(i) **"Knowledge", "known", "knowingly", "to the knowledge"** or any variant thereof shall, when qualifying any representation, warranty or other statement in this Agreement, mean and refer to: (i) all matters with respect to which an RHS Entity or an MAI Entity (as the case may be) has received written notice; or (ii) the actual knowledge of the Parties' respective Chief Executive Officers, Chief Financial Officers, and General Counsels, which shall consist of their own recollections, information in their files, and information in written or electronic communications to or from them, provided however that each such person shall be obligated to make due inquiry of any of other employee or agent of RHS or MAI, as the case may be, who, by the nature of such employee's or agent's responsibilities, is likely to have personal knowledge of the subject matter of the particular representation, warranty or other statement.

(j) **"Material"** (when capitalized and except as used in the terms "Material Adverse Change" and "Material Contracts") means having an actual or reasonably foreseeable value or economic effect of at least $1,000,000.

(k) **"Material Adverse Change"** means any condition, change, event, violation, inaccuracy, circumstance or effect that individually or in the aggregate, could reasonably be expected to result in: (i) uninsured liabilities or losses (including, without limitation, lost revenues and asset values) exceeding Ten Million Dollars ($10,000,000); (ii) the inability of any of the Parties to maintain their respective Section 501(c)(3) status or the tax-exempt status of their respective Outstanding Debt; (iii) the inability of any of the Rockford Entities or Mercy Entities that operate as licensed health care facilities to continue to operate as

such licensed health care facilities; (iv) the debarment or exclusion of any Rockford Entity or Mercy Entity from participation in the Medicare or Medicaid programs; (v) the imposition of criminal sanctions or penalties; (vi) the cancellation or revocation of Rockford Coverage or Mercy Coverage; (vii) final loss of accreditation by the hospitals from the Joint Commission or HFAP; (viii) an inability of a Rockford Entity or a Mercy Entity to materially perform their respective obligations under the Transaction Documents; (ix) the insolvency of a Rockford Entity or Mercy Entity; (x) a material downgrading of the credit rating of a Rockford Entity or Mercy Entity, as applicable; or (xi) the acceleration of obligations under tax-exempt bond indebtedness of the Rockford Entities or the Mercy Entities. Notwithstanding anything to the contrary, "Material Adverse Change" shall not include: (A) changes in financial or operating performance to the extent due to or caused by seasonal changes; (B) changes or proposed changes to any Applicable Laws, reimbursement rates or policies of governmental agencies or bodies that are generally applicable to hospitals or healthcare facilities and that do not disproportionately affect the applicable entities; (C) requirements, reimbursement rates, policies or procedures of third party payors or accreditation commissions or organizations that are generally applicable to hospitals or healthcare facilities and that do not disproportionately affect the applicable entities; (D) general business, industry or economic conditions, including such conditions related to the business of the Rockford Entities, taken as a whole, or the Mercy Entities, taken as a whole, that do not disproportionately affect the applicable entities; (E) local, regional, national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack, that do not disproportionately affect the applicable entities; (F) changes in financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index) that do not disproportionately affect the applicable entities taken as a whole and as compared to other similar health care businesses; or (G) changes in GAAP.

(l) "**Material Contracts**" shall mean the following categories of contracts, leases (capital and operating), and other agreements entered into by or on behalf of any one or more of the Rockford Entities or Mercy Entities that are currently in effect:

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

(ii) all joint venture agreements to which any Rockford Entity or Mercy Entity is a party and which generates net income to a Party or any of its Affiliates (separately or together) in excess of One Million Dollars ($1,000,000) annually;

(iii) all agreements for employment, indemnity, retention, severance or change in control;

(iv) all Payment Program contracts that individually account for payments in excess of Five Million Dollars ($5,000,000) annually;

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

(vi) corporate integrity agreements to which a Rockford Entity or a Mercy Entity is a party;

(vii) agreements that contain executory non-competition covenants binding upon or running in favor of, a Rockford Entity or a Mercy Entity;

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

(ix) any other agreement that: (A) involves an obligation in excess (or expected to be in excess) of One Million Dollars ($1,000,000) in any one year; or (B) involves an obligation in excess of Three Million Dollars ($3,000,000) over the remaining term of the agreement.

(m) "**Medical Staff**" means the medical staff of one or more Mercy Entity or Rockford Entity hospitals or healthcare facilities with an organized medical staff.

(n) "**Permitted Encumbrances**" means: (i) encumbrances for taxes not yet due and payable or being diligently contested in good faith and for which appropriate reserves have been established in accordance with GAAP (provided that Permitted Encumbrances shall not apply to omitted or reassessed taxes imposed due to incorrect, false or misleading real estate tax exemption applications or annual exemption certifications filed pursuant to 35 ILCS 200/15-10); (ii) liens for inchoate mechanics' and materialmen's liens for construction in progress and workmen's, repairmen's, warehousemen's and carriers' liens arising in the ordinary course of business; (iii) easements, restrictive covenants, rights of way and other similar restrictions of record that do not impair in any material respect the value of the assets or the continued conduct of the business of any Rockford Entity or Mercy Entity or such party's continued use of its assets in the manner currently used; (iv) zoning, building and other similar restrictions that do not impair in any material respect the value the asset or the continued conduct of the business of any Rockford Entity or Mercy Entity or such party's continued use of its assets in the manner currently used; (v) encumbrances, encroachments and other imperfections of title, licenses or encumbrances, if any, of record that do not impair in any material respect the value of the asset or the continued conduct of the business of any Rockford Entity or Mercy Entity or such party's continued use of its assets in the manner currently used (including, but not limited to, ground leases to which RHS or a Rockford Affiliate is a party); (vi) encumbrances arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business; (vii) in the case of leased property, all matters, whether or not of record, affecting the title of the lessor (and any underlying lessor) of the leased property do not impair in any material respect the value of its assets or the continued conduct of the business of any Rockford Entity or Mercy Entity, or such party's continued use of its assets in the manner currently used; and (viii) mortgages and security interests granted in favor of the master trustees under the Parties' existing master trust indentures.

[Signatures on following page]

ATTACHMENT 5

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

ROCKFORD HEALTH SYSTEM

Signed: Gary E. Kaatz

Print Name: Gary E. Kaatz

Print Title: President + CEO

MERCY ALLIANCE, INC.

Signed: Javon R. Bea

Print Name: JAVON R. BEA

Print Title: Oct 23, 2014
PRESIDENT/CEO

ROCKFORD DISCLOSURE SCHEDULES

Schedule 8.5 Rockford Interim Changes

None

Schedule 8.10(b) Rockford Exceptions to Owned Real Property

None

Schedule 8.12 Rockford Title to Assets

None

Schedule 8.18(a) Rockford ERISA Plans

None

MERCY DISCLOSURE SCHEDULES

Schedule 9.5 Mercy Interim Changes

None

Schedule 9.10(b) Mercy Exceptions to Owned Real Property

None

Schedule 9.12 Mercy Title to Assets

None

Schedule 9.18(a) Mercy ERISA Plans

None

ATTACHMENT 5

EXHIBIT A TO AGREEMENT

Rockford Affiliates

Rockford Memorial Hospital
Rockford Health Physicians
Rockford Memorial Development Foundation
Visiting Nurses Association of the Rockford Area
RHS Regional Health Network, LLC
Rockford Health System Ventures, LLC
Rockford Health Insurance Ltd.

Rockford Joint Ventures

Van Matre HealthSouth Rehabilitation Hospital (Rockford Health System Ventures 50% ownership, HealthSouth 50% ownership; rehabilitation hospital)

KSB/RMHSC Partnership (RHS 27% ownership, KSB Hospital 73% ownership; medical office building)

EXHIBIT B TO AGREEMENT

Mercy Affiliates

Mercy Alliance, Inc.
Mercy Harvard Hospital, Inc.
Mercy Assisted Care, Inc.
Mercy Foundation, Inc.
Janesville Medical Center, Inc.
Mercy Health System Association of Volunteers, Inc.
MercyCare Insurance Company
MercyCare HMO, Inc.
Harvard Hospital Foundation

Mercy Joint Venture

Madison United Healthcare Linen (Mercy Health System 15% ownership, University of Wisconsin 42% ownership, Meriter Health Services 33% ownership, Agnesian Healthcare 10% ownership; Hospital Linen Service)

EXHIBIT C

New Parent Articles of Incorporation

ATTACHMENT 5

FORM **NFP 102.10** (rev. Dec. 2003)
ARTICLES OF INCORPORATION
General Not For Profit Corporation Act

Jesse White, Secretary of State
Department of Business Services
501 S. Second St., Rm. 350
Springfield, IL 62756
217-782-9522
www.cyberdriveillinois.com

Remit payment in the form of a cashier's check, certified check, money order or Illinois attorney's or C.P.A.'s check payable to Secretary of State.

_____ File # _____ Filing Fee: $50 Approved: _____

----- Submit in duplicate ----- Type or Print clearly in black ink ----- Do not write above this line -----

Article 1.
Corporate Name: Interstate Alliance, Inc.

Article 2.
Name and Address of Registered Agent and Registered Office in Illinois:

Registered Agent: Javon (First Name) R. (Middle Name) Bea (Last Name)

Registered Office: 2400 (Number) N. Rockton Ave. (Street) (Suite # (P.O. Box alone is unacceptable))

Rockford (City) IL 61103 (ZIP Code) Winnebago (County)

Article 3.
The first Board of Directors shall be Nine (Not less than three) in number, their Names and Addresses being as follows

Director Name	Street Address	City	State	Zip Code
SEE ATTACHMENT				

Article 4.
Purpose(s) for which the Corporation is organized:
SEE ATTACHMENT

(continued on back)

ATTACHMENT 5

Article 4.(continued)
Is this Corporation a Condominium Association as established under the Condominium Property Act? (check one)
☐ Yes ☑ No

Is this Corporation a Cooperative Housing Corporation as defined in Section 216 of the Internal Revenue Code of 1954? (check one)
☐ Yes ☑ No

Is this Corporation a Homeowner's Association, which administers a common-interest community as defined in subsection (c) of Section 9-102 of the code of Civil Procedure? (check one)
☐ Yes ☑ No

Article 5.
Other provisions (**For more space, attach additional sheets of this size.**):

Article 6.
Names & Addresses of Incorporators
The undersigned incorporator(s) hereby declare(s), under penalties of perjury, that the statements made in the foregoing Articles of Incorporation are true.

Dated October 24 (Month & Day), 2014 (Year)

Signatures and Names	Post Office Address
1. James P. Evans (Signature)	1. 2400 N. Rockton Ave. (Street)
James Evans, Esq. (Name (print))	Rockford, IL 61103 (City, State, ZIP)
2. (Signature)	2. (Street)
(Name (print))	(City, State, ZIP)
3. (Signature)	3. (Street)
(Name (print))	(City, State, ZIP)
4. (Signature)	4. (Street)
(Name (print))	(City, State, ZIP)
5. (Signature)	5. (Street)
(Name (print))	(City, State, ZIP)

Signatures must be in BLACK INK on the original document.
Carbon copies, photocopies or rubber stamped signatures may only be used on the duplicate copy.

- If a corporation acts as incorporator, the name of the corporation and the state of incorporation shall be shown and the execution shall be by a duly authorized corporate officer. Please print name and title beneath the officer's signature.
- The registered agent cannot be the corporation itself.
- The registered agent may be an individual, resident in Illinois, or a domestic or foreign corporation, authorized to act as a registered agent.
- The registered office may be, but need not be, the same as its principal office.
- A corporation that is to function as a club, as defined in Section 1-3.24 of the "Liquor Control Act" of 1934, must insert in its purpose clause a statement that **it will comply with the State and local laws and ordinances relating to alcoholic liquors.**

ATTACHMENT 5

ATTACHMENT A

Attached to and made a part of the Articles of Incorporation (Form NFP 102.10)
of

INTERSTATE ALLIANCE, INC.

ARTICLE THREE The names and addresses of the initial Board of Directors of the Corporation shall be:

Javon R. Bea
2813 Cortland Drive
Janesville, WI 53548

Jack J. Becherer, Ed.D.
2946 Applewood Lane
Rockford, IL 61114

Thomas D. Budd
2307 Clifton Place
Rockford, IL 61103

Mark L. Goelzer
4126 North River's Edge Drive
Janesville, WI 53548

Paul A. Green
5314 Wilderness Trail
Rockford, IL 61114

Rowland J. McClellan
2009 North Parker Drive
Janesville, WI 53545

Thomas R. Pool
1415 8-1/2 Avenue Southeast
Rochester, MN 55904

Dave L. Syverson
6757 Flower Hill Road
Rockford, IL 61114

Connie M. Vitali, M.D.
14981 Northview Trail
South Beloit, IL 61080

ARTICLE FOUR The Corporation is organized and operated exclusively for charitable, educational, and scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue Law) (the "Code"), including specifically for the benefit of, to perform the functions of, or to carry out the purposes of Mercy Health System Corporation (a Wisconsin nonstock corporation), Mercy Assisted Care, Inc. (a Wisconsin nonstock corporation), Mercy Harvard Hospital, Inc. (an Illinois not for profit corporation), Rockford Memorial Hospital (an Illinois not for profit corporation), Rockford Health Physicians (an Illinois not for profit corporation), Visiting Nurses Association of the Rockford Area (an Illinois not for profit corporation), and affiliates of the foregoing so long as, and to the extent that, such organizations and their affiliates are described in Code Section 509(a)(1) or (2) (collectively, the "Supported

Organizations") within the meaning of Code Section 509(a)(3). The Corporation shall carry out such purposes through the provision of strategic oversight, coordinated management, and administrative support on behalf of the Supported Organizations as part of a comprehensive regional health care system serving Wisconsin and Illinois.

ARTICLE FIVE

In the course of carrying out its purposes, the Corporation shall be subject to the following restrictions:

(i) No part of the net earnings of the Corporation shall inure to the benefit of, or be distributable to, its directors, officers, or other private persons, except that the Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments in furtherance of the purposes set forth herein.

(ii) No substantial part of the activities of the Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and the Corporation shall not participate in, or intervene in (including the publishing or distribution of statements) any political campaign on behalf of, or in opposition to, any candidate for public office.

(iii) Notwithstanding any other provision of these Articles of Incorporation, the Corporation shall not carry on any other activities not permitted to be carried on (a) by a corporation exempt from federal income tax under Section 501(c)(3) of the Code, or (b) by a corporation, contributions to which are deductible under Section 170(c)(2) of the Code.

The Corporation shall be a non-membership entity.

In the event of the dissolution of the Corporation, the Board of Directors, after paying or making provision for the payment of all of the liabilities of the Corporation, shall cause the remaining assets of the Corporation to be distributed to one or more organizations organized and operated for charitable purposes consistent with those of the Corporation, provided that any and all such organizations must be described in Section 501(c)(3) of the Code. Any such assets not so disposed of shall be disposed of by a court of competent jurisdiction of the county in which the principal office of the Corporation is then located, exclusively for such purposes or to such organization or organizations, as said court shall determine, which are organized and operated exclusively for such purposes.

EXHIBIT D

New Parent Bylaws

ATTACHMENT 5

pr

BYLAWS
OF
INTERSTATE ALLIANCE, INC.

ARTICLE I -- GENERAL

Section 1.1 Organization

Interstate Alliance, Inc. (the "Corporation") is a not for profit corporation organized under the General Not For Profit Corporation Act of the State of Illinois, 805 ILCS 105 (the "Act"). The Corporation is organized and shall be operated in furtherance of the purposes set forth in its Articles of Incorporation (the "Articles"). Except as otherwise provided in the Articles, the Corporation shall have all the authority necessary to achieve its purposes and permitted to a not for profit corporation organized under Illinois law.

Section 1.2 Registered Office

The Corporation shall have and continuously maintain a registered office in the State of Illinois which may, but need not, be the same as its place of business, and a registered agent whose business office is identical with such registered office. The Corporation may also have offices at such other places both within and without the State of Illinois as the Board of Directors may from time to time determine or as the business of the Corporation may require.

ARTICLE II – MEMBERS

Section 2.1 Non-Member Entity

The Corporation shall not have members.

ARTICLE III – BOARD OF DIRECTORS

Section 3.1 Authority and Responsibility

(a) The property, funds and affairs of the Corporation shall be managed by or under the direction of its Board of Directors (together, the "Board", and individually, one or more "Directors"). The Board shall direct and control the assets, business and activities of the Corporation, acting at all times in a manner consistent with the provisions of the Articles and these Bylaws, including without limitation the purposes of the Corporation as set forth in the Articles. In particular, the Board shall cause the Corporation to carry out its purposes through the provision of strategic oversight, coordinated management, and administrative support on behalf of Rockford Health System, an Illinois not for profit corporation ("RHS"), Mercy Alliance, Inc., a Wisconsin nonstock corporation ("MAI"), and their respective subsidiaries (each, a "System Affiliate," and collectively with RHS and MAI, the "System Affiliates") as part of a comprehensive regional health care

ATTACHMENT 5

system (the "System") serving defined areas of Wisconsin and Illinois and other areas as approved by the Board in accordance with the powers set forth herein (the "Community"). The Board's specific powers as to the Corporation and the System shall be as set forth in Section 3.2 below.

(b) With respect to each articulated power of the Board as to a System Affiliate in Section 3.2 below, it is the intention and expectation that the organizational documents controlling such System Affiliate will be revised accordingly, following the effective date of these Bylaws, to vest such authority in the Corporation. Unless expressly stated to the contrary herein and in the organizational documents controlling the pertinent System Affiliate, the Corporation's Board of Directors may exercise such power with or without a prior action or recommendation from the board of the pertinent System Affiliate or from the board of RHS or MAI, as the case may be. Notwithstanding the foregoing, as to any matter described in Section 3.2 as being subject to advice and input, the Corporation's Board may not take such action without first obtaining the formal advice and input of the RHS board, as to any action regarding RHS and/or any of its controlled System Affiliates, or the MAI board, as to any action regarding MAI or any of its controlled System Affiliates ("Advice and Input"). For these purposes, Advice and Input shall mean the position of the RHS or MAI board, as applicable, as expressed in an action taken at a single duly-noticed meeting (which may include a telephonic meeting), which action shall not be binding on the Corporation's Board.

Section 3.2 Specific Powers of Board

(a) The Board shall have exclusive authority over the actions set forth below, with such authority to be exercised as provided in Section 3.7(b) below and with Advice and Input if required:

(i) Initiation or approval of any sale or other disposition of assets by a System Affiliate having a book or market value exceeding $500,000; *provided, however,* the Corporation shall initiate or approve any sale, transfer or other disposition of assets having a current value in excess of $10,000,000 only after obtaining Advice and Input;

(ii) Initiation or approval of the formation of new System Affiliates, or an equity investment by a System Affiliate in any unrelated person;

(iii) Approval of the annual consolidated operating and capital budgets of the System Affiliates, which shall be consistent with the strategic plans and strategic capital plans of the System;

(iv) Initiation or approval of unbudgeted or out-of-budget expenditures by one or more System Affiliates that exceed $500,000 as either a single item or a series of related items;

(v) Initiation or approval of capital expenditures by one or more System Affiliates exceeding $1,500,000;

(vi) Approval of local banking relationship of the System Affiliates and any System Affiliate's engagement of independent auditors;

(vii) Initiation or approval of loans or other incurrence of debt by one or more System Affiliates exceeding $500,000;

(viii) Approval of any action that could impair the tax-exempt status of any System Affiliate, after obtaining Advice and Input;

(ix) Election, from a slate of nominees put forward by each of RHS and MAI, of their respective directors as vacancies arise;

(x) Initiation or approval of the hiring or removal of the chief executive officers of RHS and MAI, after obtaining Advice and Input; and

(xi) Approval of any and all such other matters regarding the Corporation and the conduct of its business activities and ownership of its assets as may rightly come before the Board.

(b) The Board shall have exclusive authority over the actions set forth below, with such authority to be exercised upon the affirmative vote of a Supermajority of the Board as provided in Section 3.7(b) below and with Advice and Input if required:

(i) Removal of one or more members of the board of directors of RHS or MAI for Cause; for these purposes, "Cause" shall mean a pattern of action or inaction demonstrating a knowing and willful disregard for, or ignorance of, the responsibilities and obligations attendant to service as a director;

(ii) Approval of the sale, within a single year, of more than 10% of the total assets included within the System;

(iii) Approval of the strategic plans and strategic capital plans of the System, after review and comment from the RHS and MAI boards;

(iv) Approval of the issuance of indebtedness exceeding $5 million on behalf of any System Affiliate;

(v) Approval of any acquisition, merger, consolidation or other affiliation of the System or any System Affiliate with an unrelated entity;

(vi) Removal of the Corporation's Chief Executive Officer and selection of any successor Chief Executive Officer to Javon Bea, as the initial Chief Executive Officer of the Corporation;

ATTACHMENT 5

(vii) Redevelopment by RHS or any System Affiliate of the West Side campus or initial development by RHS or any System Affiliate of RHS's Riverside property;

(viii) Initiation or approval of changes to the mission of the Corporation or any other amendment or restatement of the Corporation's Articles or these Bylaws;

(ix) Initiation or approval of changes to the respective missions of RHS or MAI, after obtaining Advice and Input; and

(x) Initiation or approval of material changes to the scope of services of RHS and its controlled System Affiliates, on one hand, or MAI and its controlled System Affiliates, on the other hand, if such changes would have a material net effect (*i.e.*, an actual or reasonably foreseeable value or economic effect of at least $1,000,000) on the operating margin of RHS and its controlled System Affiliates or MAI and its controlled System Affiliates, as the case may be; any such action may be taken only after obtaining Advice and Input.

(c) The Board's authority over the actions set forth below may be exercised upon both the affirmative vote of a Supermajority of the Board as provided in Section 3.7(b) below and the approval of RHS, as to RHS and/or any of its controlled System Affiliates, or MAI, as to MAI and/or any of its controlled System Affiliates:

(i) Initiation or approval of any amendment to the articles of incorporation or bylaws of a System Affiliate, as amended and restated to date; and

(ii) Initiation or approval of any merger, consolidation, dissolution, or sale of all or substantially all of the assets of a System Affiliate.

Section 3.3 Number, Composition and Attendance

(a) *Number and Composition.* The Board of Directors shall consist of nine (9) voting directors, as follows:

(i) Four (4) directors shall be appointed by RHS, at least one (1) of whom shall be a current or former member of the active medical staff of Rockford Memorial Hospital, and at least two (2) of whom shall be members of the RHS board of directors ("RHS Appointees");

(ii) Four (4) directors shall be appointed by MAI, at least one (1) of whom shall be a current or former member of the active medical staff of Mercy Hospital and Trauma Center, and at least two (2) of whom shall be members of the MAI board of directors ("MAI Appointees"); and

(iii) The Chief Executive Officer of the Corporation, who shall serve in an *ex officio* capacity, with vote.

Section 3.4 Election and Term

(a) *Election.* In anticipation of the Annual Meeting of the Board of Directors, RHS and MAI shall appoint Directors to fill vacancies occurring due to expiration of terms. Directors so appointed shall take office as of the start of the Annual Meeting.

(b) *Term.* Directors shall serve a term of approximately three (3) years, continuing until the commencement of the Annual Meeting in the third year thereafter or, if later, until their successors are duly appointed. Terms shall be staggered so that the terms of approximately one-third (1/3) of the RHS Appointees, and approximately one (1/3) of the MAI Appointees, expire each year. The Chief Executive Officer of the Corporation shall serve on the Board without limitation as to tenure or term of office.

Section 3.5 Resignation or Removal; Vacancy

(a) *Resignation or Removal.* A Director may resign at any time by filing a written resignation with the Secretary. RHS may remove one or more RHS Appointees at any time, and MAI may remove one or more MAI Appointees at any time. Further, any Director may be removed by the Corporation's Board by a Supermajority (as defined in Section 3.7(b) below), based on a finding of Cause; for these purposes, "Cause" shall mean a pattern of action or inaction demonstrating a knowing and willful disregard for, or ignorance of, the responsibilities and obligations attendant to service as a Director.

(b) *Vacancy.* A vacancy on the Board of Directors, occurring by reason of death, incapacity, removal or resignation, or for any reason other than by expiration of a Director's term, shall be filled in the same manner as the initial appointment. The newly-elected Director shall serve for the unexpired portion of the vacating director's term.

Section 3.6 Meetings and Notice

(a) *Annual, Regular and Special Meetings.* The Annual Meeting of the Board shall be held during the month of June in each year, unless otherwise determined by the Board, for the purpose of electing Officers of the Corporation and taking other routine actions with respect to the Corporation and the System Affiliates. Regular meetings of the Board shall be held at least four (4) times per year (including the Annual Meeting as a regular meeting for this purpose). Special meetings may be called by the Chair, the Chief Executive Officer, or upon the written request of one-third (1/3) of the members of the Board.

(b) *Notice.* Written notice of the date, time and place of all meetings of the Board of Directors shall be delivered to all Directors at least forty-eight (48) hours prior

thereto. Such notice shall be provided by first class mail, courier, fax or e-mail to the address, fax number or e-mail address of each Director as it appears on the records of the Corporation. Written notice shall be considered delivered: (i) if sent by first class mail, two (2) days after it is deposited in the United States mail in a sealed, properly addressed envelope, first class, postage prepaid; (ii) if sent by courier, one (1) day after being placed in the hands of the courier in a sealed, properly addressed envelope; (iii) if sent by fax, when the receipt of the facsimile is confirmed by fax printout; and (iv) if sent via e-mail (including an e-mail notification of materials posted to a shared Board portal), when receipt of the e-mail is confirmed through electronic confirmation of delivery. Notice of any special meeting shall state the purpose for which the special meeting has been called, and no business other than that stated in the notice shall be transacted at such special meeting.

(c) *Waiver.* A Director may waive any notice required to be provided hereunder. Any such waiver shall be in writing and signed by the Director, and shall be filed with the meeting minutes or other corporate records. In addition, a Director's attendance at or participation in a meeting shall constitute a waiver of notice of such meeting, except where a Director attends or participates in the meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or conveyed.

Section 3.7 Quorum and Action

(a) *Quorum.* At each meeting of the Board, a majority of the Directors then in office shall constitute a quorum. However, a majority of the Directors present at a meeting, though less than such quorum, may adjourn the meeting from time to time without further notice.

(b) *Voting and Action.* Each Director shall be entitled to cast one (1) vote on all matters presented to the Board for its approval. Voting by proxy shall not be permitted. Except as otherwise expressly provided herein, action of the Board shall require the affirmative vote of a majority of those Directors who are present at a meeting at which a quorum exists. Notwithstanding the foregoing, as to any matter expressly described herein as being subject to supermajority approval ("Supermajority"), action of the Board shall require the affirmative vote of at least six (6) of the nine (9) Directors then serving.

(c) *Participation by Electronic Means.* Any one or more Directors may participate in, and shall be deemed present at, any meeting of the Board or any committee thereof conducted by means of conference telephone or other communications equipment through which all persons participating in the meeting can hear each other simultaneously.

(d) *Presumed Assent.* A Director who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his or her dissent shall be entered in the

minutes of the meeting or unless he or she files his or her written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof, or forwards such dissent in writing to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

(e) *Action by Unanimous Written Consent.* Any action required or permitted to be taken by the Board of Directors at a meeting or by resolution may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the Directors then in office and entitled to vote with respect to such action.

ARTICLE IV -- COMMITTEES

Section 4.1 Types of Committees

The Board of Directors shall be assisted through the work of various standing and special committees. Each committee shall have a charter, which must be approved by the Board and which shall specify the composition of the committee (including qualifications of committee members, if any), and the authority and responsibilities of the committee. Except as specifically determined by the Board of Directors, committees shall account directly to the Board of Directors through regular reporting at such time and in such format as may be determined by the Board. To the extent provided by its charter, a standing committee may be granted the authority to exercise the power of the Board between Board meetings, except that no committee shall take any of the following actions:

(a) Adopt a plan for distribution of the assets or dissolution of the Corporation;

(b) Fill vacancies on the Board or any committee thereof;

(c) Elect, appoint or remove any director, officer or committee member, or fix the compensation of any committee member;

(d) Amend or repeal the Articles or these Bylaws;

(e) Adopt a plan of merger or consolidation, or authorize the sale, lease, exchange or mortgage of all or substantially all of the property or assets of the Corporation; or

(f) Amend, alter, repeal or take action inconsistent with any resolution or action of the Board if, by its terms, such resolution or action provides that it shall not be amended, altered or repealed by a committee.

Section 4.2 Standing Committees

The standing committees of the Board shall include the following:

(a) Finance, Investment, and Audit;

(b) Compensation;

(c) Governance;

(d) Quality and Professional Affairs; and

(e) Strategic Planning.

Additional standing committees may be established by amendment of these Bylaws.

Section 4.3 Special Committees

The Board may establish such special committees as it shall deem appropriate for the conduct of the business of the Corporation. The Board of Directors may create or terminate special committees at any time by resolution. Special committees shall serve as long as the purpose for which they were created continues to exist, unless dissolved prior thereto by the Board of Directors. A special committee shall serve in an advisory capacity to the Board and shall not be authorized to exercise any of the powers of the Board.

Section 4.4 Composition and Election

Committees may consist of Directors and non-Directors. Each standing committee and each committee exercising Board-delegated authority (*i.e.*, the authority to act on behalf of the Board, without need for Board confirmation or approval) shall include at least two (2) Directors (at least one (1) of whom shall be an RHS Appointee and at least one (1) of whom shall be an MAI Appointee) and a majority of its total membership shall consist of Directors. The chair of each committee shall in all cases be a Director. Committee members and committee chairs shall be elected by the Board of Directors at the Annual Meeting. The Governance Committee shall prepare a slate of candidates for committees and committee chairs, taking into considerations recommendations provided by the Board Chair (pursuant to Section 5.4 below).

Section 4.5 Term

Committee members shall take office immediately following their election, and shall serve a term of one (1) year or until their successors are elected. Notwithstanding the foregoing, committee members shall serve at the pleasure of the Board. In the event that a Director serving on any committee ceases to be a Board member (whether due to resignation, removal, expiration of term or any other reason), such individual shall concurrently cease to serve on any committees on which he or she had been serving, unless otherwise specifically determined by the Board.

Section 4.6 Committee Procedures

Unless otherwise provided in its charter, committees shall meet at least four (4) times per year and shall function pursuant to the procedures applicable to the Board, as described in Article III above. A recording secretary shall be appointed by each committee to keep written minutes of all business conducted by the committee. Such minutes shall be maintained for review and analysis by the Board.

ARTICLE V -- OFFICERS

Section 5.1 Officers

(a) *Board Officers.* The officers of the Board (the "Officers") shall consist of a Chair, Vice Chair, Chief Executive Officer, Secretary, Treasurer, and such other officers as shall be chosen and elected. Officers other than the Chief Executive Officer shall be selected by the Board from among its number. Any two (2) offices may be held simultaneously by one person, except for the offices of Chair and Vice Chair, Chair and Chief Executive Officer, and Chief Executive Officer and Secretary.

(b) *Other Corporate Officers.* Notwithstanding the Board Officer positions described in Section 5.1(a) above, the Corporation may employ individuals to serve as administrative officers of the Corporation. Except as otherwise determined by the Board, such individuals shall be accountable to the Chief Executive Officer and shall have authority to act on behalf of the Corporation to the extent specified in their written job description or as otherwise delegated by the Board or the Chief Executive Officer (including by policies in effect from time to time). Except as otherwise specifically provided in these Bylaws, the term "Officers" as used herein shall include only the Board Officers set forth in Section 5.1(a) above, and shall not include the administrative officers of the Corporation described in this Section 5.1(b).

Section 5.2 Election and Term

(a) *Election.* Officers other than the Chief Executive Officer shall be elected by the Board of Directors at the Annual Meeting thereof. The Governance Committee shall prepare a slate of candidates for such Officer positions.

(b) *Term.* Officers, other than the Chief Executive Officer, shall take office at the close of the Annual Meeting at which they are elected. Officers shall serve a term of one (1) year, continuing through the close of the Annual Meeting in the year following their election or, if later, until their successors are elected. Notwithstanding the foregoing, the Chief Executive Officer shall serve for so long as he or she continues to be employed by the Corporation in such capacity, without other limitation as to tenure or term of office.

ATTACHMENT 5

Section 5.3 Resignation or Removal; Vacancy

(a) *Resignation or Removal.* An Officer may resign at any time by filing a written resignation with the Secretary. Further, the Board may remove an Officer, other than the Chief Executive Officer, from office, with or without cause, and without prejudice to any contract rights (if any) of the person so removed. The Chief Executive Officer may be removed from office as set forth in Section 3.2(b)(vi).

(b) *Vacancy.* A vacancy in any office other than that of Chief Executive Officer, occurring by reason of death, incapacity, removal or resignation, or for any reason other than by expiration of an Officer's term, shall be filled through election by the Board based on a slate of candidates prepared by the Governance Committee. The newly-elected Officer shall serve for the unexpired portion of the vacating Officer's term. A vacancy in the office of Chief Executive Officer shall be filled as set forth in Section 3.2(b)(vi).

Section 5.4 Chair

The Chair shall preside at all meetings of the Board of Directors and the Executive Committee, and shall oversee the implementation of Board-approved policies and measures designed to promote integrity, prudence, transparency and efficiency in the governance of the Corporation and the System. The Chair shall have such other duties as may be prescribed from time to time by the Board. The Chair shall recommend to the Governance Committee individuals to comprise the various standing committees of the Corporation, for election by the Board. The Chair shall serve as a resource and counsel for the Chief Executive Officer, including as a liaison between the executive leadership of the Corporation and the Board, and shall serve as an external representative of the Corporation within the Community.

Section 5.5 Vice Chair

The Vice Chair shall assist the Chair in a manner and to a degree determined by the Board or by the Chair. In the absence of the Chair, or in the event of his/her death, inability or refusal to act, the Vice Chair shall perform the duties of the Chair. When acting in such capacity, he/she shall have all of the powers of and be subject to the restrictions upon the Chair. The Vice Chair shall perform such other duties as may be assigned by the Chair or by the Board from time to time.

Section 5.6 Chief Executive Officer

The Chief Executive Officer shall be an individual selected by the Board of Directors and employed by the Corporation or a System Affiliate to serve in such capacity. The Chief Executive Officer shall function as the president of the Corporation and, in such role, shall have the necessary authority and responsibility to manage the day-to-day assets, businesses and activities of the Corporation, subject to the direction and oversight of the Board. The Board of Directors shall cause the Corporation to maintain a written job description for the Chief Executive Officer, which description shall be reviewed and updated from time to time as appropriate. The Chief Executive Officer shall be authorized to sign all significant documents, contracts or instruments pertaining to the affairs of the Corporation unless such signing and execution has been expressly delegated by the Board of Directors or these Bylaws to some other

ATTACHMENT 5

Officer or agent, or shall otherwise be required by law. The Chief Executive Officer shall act as the duly authorized representative of the Board in all matters in which the Board has not formally designated some other person or committee to act. The Chief Executive Officer shall be authorized to exercise the authority of the Corporation in relation to System Affiliates and joint ventures, unless that authority is specifically reserved to the Board of the Corporation per the governing documents of the pertinent System Affiliate or joint venture. As provided in Section 3.3 above, the Chief Executive Officer shall serve as an *ex officio*, voting member of the Board of Directors.

Section 5.7 Secretary

The Secretary shall oversee: (i) the preparation of minutes of meetings of the Board of Directors and committees thereof; (ii) the provision of notice required for all such meetings; attending all meetings of the Board; and (iii) the secure retention of all books, records, and papers of the Corporation, except those as shall be in charge of the Treasurer or some other person authorized to have custody and possession thereof by a Board resolution. The Secretary shall have all such other power and authority as necessary and appropriate to carry out the specific duties as set forth above, and shall perform such other duties as may be assigned by the Chair or by the Board from time to time.

Section 5.8 Treasurer

The Treasurer shall oversee the receipt and deposit of all funds of the Corporation in the depository institution or institutions selected by the Board of Directors. Unless otherwise determined by the Board, such funds shall be withdrawn only by checks or orders executed in the name of the Corporation and signed by the Treasurer or the Chief Executive Officer (or subordinates under their respective direction and control). The Treasurer shall ensure the making of true and accurate accountings of the assets, business transactions, and financial condition of the Corporation, with regular reports regarding the same provided to the Board. The Treasurer shall have all such other power and authority as necessary and appropriate to carry out the Treasurer's specific duties as set forth above, and shall perform such other duties as may be assigned by the Chair or by the Board from time to time.

ARTICLE VI – INDEMNIFICATION

Section 6.1 Directors and Officers

The Corporation shall, to the maximum extent permitted under the Act, indemnify against liability and allow reasonable expenses of any person who was or is a party or threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a Director or Officer of the Corporation (including, for purposes of this Article VI, the administrative officers described in Section 5.1(b) above); or is or was serving at the request of the Corporation as a director, officer, employee or agent of any committee or of any other corporation or enterprise. Such right of indemnification shall inure to the benefit of the heirs, executors, administrators and personal representatives of such a person. The foregoing provisions shall not preclude or limit any additional rights to indemnification which a Director or Officer may have,

ATTACHMENT 5

or to which he or she may be entitled, under the Articles of Incorporation, these Bylaws, a written agreement with the Corporation, or a resolution of the Board.

Section 6.2 Other Employees, Agents and Volunteers

The Corporation may indemnify and allow reasonable expenses of an employee, agent or volunteer who is not a Director or Officer if and to the extent provided by the Act, by general or specific action of the Board of Directors, or by contract.

Section 6.3 Insurance

The Corporation may procure and maintain insurance on behalf of an individual who is an employee, agent, volunteer, Director or Officer against liability asserted against and incurred by the individual in his or her capacity as an employee, agent, volunteer, Director or Officer, or arising from his or her status as an employee, agent, volunteer, Director or officer, regardless of whether the Corporation is required or authorized to indemnify or allow expenses to the individual against the same liability.

ARTICLE VII - AMENDMENTS

Section 7.1 Amendment

The Articles and/or these Bylaws may be amended or restated by the Corporation's Board of Directors upon the affirmative vote of a Supermajority thereof, as provided in Section 3.2(b)(viii) above.

* * *

IN WITNESS WHEREOF, the undersigned hereby certifies that the foregoing Bylaws of the Corporation were approved by the Board of Directors on the ____ day of _____ in accordance with 805 ILCS 105/102.20 and 805 ILCS 105/108.45.

Dated this _____ day of _____, 20__.

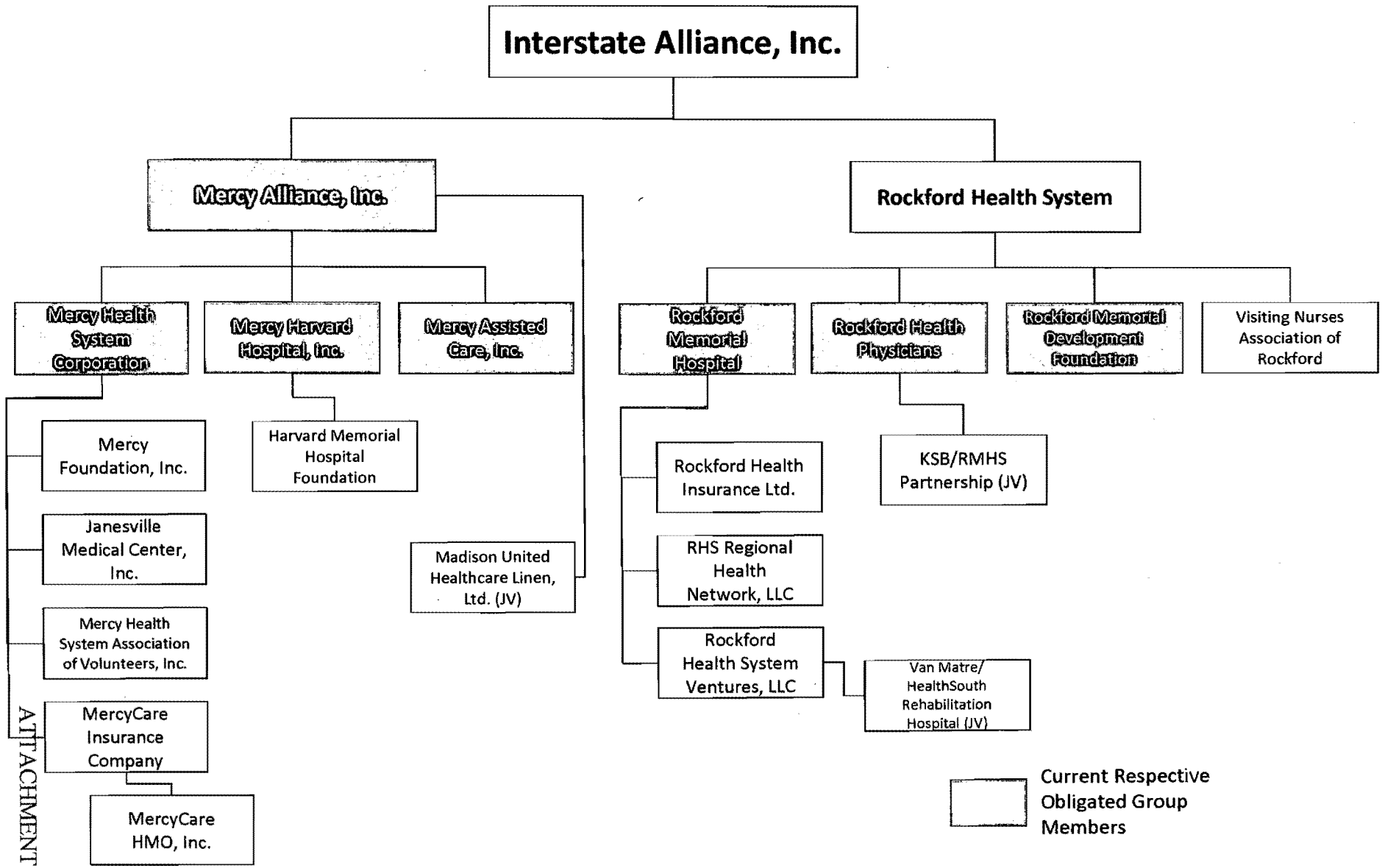
_____
Javon R. Bea, Chief Executive Officer

ATTACHMENT 5

EXHIBIT E

Post-Closing Organizational Structure

ATTACHMENT 5



ATTACHMENT 5

Mercy Alliance, Inc. and Affiliates

Janesville, Wisconsin

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2014 and 2013

ATTACHMENT 6

Mercy Alliance, Inc. and Affiliates

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2014 and 2013

Table of Contents

Independent Auditor's Report 1

Financial Statements

- Consolidated Balance Sheets 3
- Consolidated Statements of Operations and Changes in Net Assets 4
- Consolidated Statements of Cash Flows 5
- Notes to Consolidated Financial Statements 7

Independent Auditor's Report on Supplementary Information 39

Supplementary Information

- Consolidating Balance Sheets 40
- Consolidating Statements of Operations and Changes in Net Assets 42

ATTACHMENT 6

WIPFLi LLP

Independent Auditor's Report

Board of Directors
Mercy Alliance, Inc.
Janesville, Wisconsin

We have audited the accompanying consolidated financial statements of Mercy Alliance, Inc. and Affiliates, which comprise the consolidated balance sheets as of June 30, 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mercy Alliance, Inc. and Affiliates as of June 30, 2014 and 2013, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

August 25, 2014
Milwaukee, Wisconsin

Mercy Alliance, Inc. and Affiliates

Consolidated Balance Sheets

June 30, 2014 and 2013

	(In Thousands)	
Assets	2014	2013
Current assets:		
Cash and cash equivalents	$ 22,326	$ 13,284
Patient accounts receivable - Net	92,886	83,071
Supplies	11,893	11,329
Prepaid expenses	4,140	3,980
Due from third-party payors	572	546
Other receivables	9,271	10,149
Total current assets	141,088	122,359
Assets limited as to use	276,043	241,728
Property and equipment - Net	304,740	309,518
Other assets:		
Unamortized debt issuance costs - Net	2,177	2,289
Other	2,040	2,070
Total other assets	4,217	4,359
TOTAL ASSETS	$ 726,088	$ 677,964

ATTACHMENT 6

Liabilities and Net Assets	(In Thousands) 2014	2013
Current liabilities:		
Current maturities of long-term debt	$ 6,469	$ 5,974
Accounts payable		
Trade	10,071	8,871
Construction	488	695
Accrued salaries, wages, and payroll taxes	27,211	24,249
Due to third-party payors	648	870
Other accrued expenses	44,199	43,286
Total current liabilities	89,086	83,945
Long-term liabilities:		
Long-term debt, less current maturities	213,017	218,178
Deferred compensation	9,970	7,493
Pension liability	13,522	19,580
Total long-term liabilities	236,509	245,251
Total liabilities	325,595	329,196
Total net assets - Unrestricted	400,493	348,768
TOTAL LIABILITIES AND NET ASSETS	$ 726,088	$ 677,964

See accompanying notes to consolidated financial statements.

Mercy Alliance, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

Years Ended June 30, 2014 and 2013

	(In Thousands)	
	2014	2013
Revenue:		
Patient service revenue (net of contractual allowances and discounts)	$ 466,928	$ 426,168
Provision for bad debts	(30,934)	(23,059)
Net patient service revenue less provision for bad debts	435,994	403,109
Premium revenue	84,038	88,845
Other revenue	7,101	10,679
Total revenue	527,133	502,633
Expenses:		
Salaries and wages	256,847	245,843
Employee benefits	41,316	40,201
Professional fees and purchased services	32,302	32,744
Medical claims and capitation payments	26,299	23,653
Medical supplies, other supplies, and drugs	83,683	78,047
Utilities	7,233	6,674
Insurance	4,775	1,302
Other	27,606	25,919
Depreciation and amortization	27,731	26,140
Interest	10,336	9,062
Total expenses	518,128	489,585
Income from operations	9,005	13,048
Nonoperating income - Net	13,735	10,517
Excess of revenue over expenses	22,740	23,565
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on investments other than trading securities	28,724	18,248
Changes in pension obligation other than pension expense	195	3,274
Other	66	-
Change in unrestricted net assets	51,725	45,087
Unrestricted net assets at beginning	348,768	303,681
Unrestricted net assets at end	$ 400,493	$ 348,768

See accompanying notes to consolidated financial statements.

ATTACHMENT 6

106

Mercy Alliance, Inc. and Affiliates

Consolidated Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	(In Thousands)	
	2014	2013
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in unrestricted net assets	$ 51,725	$ 45,087
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Provision for bad debts	30,934	23,059
Changes in pension obligation other than pension expense	(195)	(3,274)
Change in net unrealized gains and losses on investments other than trading securities	(28,724)	(18,248)
Net realized gains on sales of investments	(7,500)	(4,201)
Depreciation and amortization	27,731	26,140
(Gain) loss on sale of property and equipment	14	(11)
Changes in operating assets and liabilities:		
Patient accounts receivable	(40,749)	(32,087)
Supplies and other current assets	154	(4,366)
Accounts payable	1,200	2,267
Accrued liabilities and other	489	(7,704)
Due to/from third-party payors	(248)	(275)
Net cash provided by operating activities	34,831	26,387
Cash flows from investing activities:		
Decrease in assets limited as to use	1,909	16,989
Purchases of property and equipment	(23,697)	(35,702)
Proceeds from sale of property and equipment	176	11
Change in other assets	30	(389)
Net cash used in investing activities	(21,582)	(19,091)

Mercy Alliance, Inc. and Affiliates

Consolidated Statements of Cash Flows (Continued)

Years Ended June 30, 2014 and 2013

	(In Thousands)	
	2014	2013
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$ 1,950	$ 3,944
Principal payments on long-term debt	(6,157)	(5,755)
Net cash used in financing activities	(4,207)	(1,811)
Net increase in cash and cash equivalents	9,042	5,485
Cash and cash equivalents at beginning	13,284	7,799
Cash and cash equivalents at end	$ 22,326	$ 13,284

Supplemental cash flow information:

Cash paid for interest, net of capitalized interest of $91,000 and $248,000 in 2014 and 2013, respectively	$ 10,370	$ 10,721
Capital expenditures in accounts payable	$ 488	$ 695

See accompanying notes to consolidated financial statements.

Mercy Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

The Entity and Principles of Consolidation

The consolidated financial statements include the accounts and operations of Mercy Alliance, Inc. and its affiliates and wholly owned subsidiaries (collectively "Alliance"):

- Mercy Alliance, Inc. (MAI)
  Serves as parent corporation for the corporate group and supports the operations of its affiliates and subsidiaries.

- Mercy Health System Corporation (MHSC)
  Operates a 240-bed hospital (licensed beds) in Janesville, Wisconsin; approximately 43 physician clinics in southern Wisconsin and northern Illinois; a skilled nursing facility (SNF) that operates as a subacute care unit of the hospital building; and Mercy Walworth Hospital and Medical Center (MWH), a 25-bed hospital facility in Walworth County, Wisconsin. MWH is reimbursed by Medicare as a critical access hospital (CAH).

- Mercy Assisted Care, Inc. (MAC)
  MAC operates Mercy Homecare, a supplier of durable medical equipment, the Cooperative Childcare Institute (CCI), a residential care center for children and youth, and coordinates home care and hospice services through nurses, physical therapists, and speech therapist. CCI ceased operations in September 2013.

- Mercy Harvard Hospital, Inc. (MHH)
  Operates a hospital with 25 acute and 45 long-term care beds located in Harvard, Illinois. MHH also has a controlled affiliate, Harvard Memorial Hospital Foundation, whose purpose is to support the programs of MHH. MHH is reimbursed by Medicare as a CAH.

- Mercy Foundation, Inc. (MFI)
  MFI's primary activity is fund-raising for MHSC and its programs in accordance with its by-laws.

Note 1 Summary of Significant Accounting Policies (Continued)

The Entity and Principles of Consolidation (Continued)

- MercyCare Insurance Company (MCIC)
  An indemnity insurance company that contracts with local employers. MCIC has a wholly owned subsidiary, MercyCare HMO which operates as a health maintenance organization (HMO) under Wisconsin statutes. MCIC and its subsidiary contract for services with MHSC and other MAI affiliates.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Financial Statement Presentation

Alliance follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Alliance considers critical accounting estimates to be those that require more significant judgments which include the valuation of accounts receivable (including contractual allowances and allowance for doubtful accounts), estimated third-party settlements, reserves for losses and expenses related to self-insurance for employee health care claims and malpractice claims, valuation of the defined benefit plan liability, and reserves for unpaid claims for participants in MCIC insurance programs.

Note 1 Summary of Significant Accounting Policies (Continued)

Cash Equivalents

Highly liquid debt instruments with an original maturity of three months or less are considered to be cash equivalents, excluding amounts limited as to use.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. Alliance bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement. Alliance does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying consolidated balance sheets net of contractual adjustments and discounts, and an allowance for doubtful accounts, which reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements and uninsured patient discounts through a reduction of gross revenue and a credit to patient accounts receivable. In evaluating the collectability of patient accounts receivable, Alliance analyzes historical loss experience on revenue from all payors. Using the loss experience rate, Alliance estimates the appropriate allowance for doubtful accounts and provision for bad debts. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

Note 1 Summary of Significant Accounting Policies (Continued)

Supplies

Supplies are valued at the lower of cost, determined on the first-in, first-out (FIFO) method, or market.

Assets Limited as to Use and Investment Income

Assets limited as to use include assets the Board of Directors have designated for future capital improvements and expansion over which the Board retains control and may at its discretion subsequently use for other purposes, amounts set aside for compensation agreements, amounts held by MCIC to meet regulatory compliance requirements, and assets held by a trustee under bond indenture agreements.

Certificates of deposit are stated at the principal contributed plus any accrued interest earned. All other investments included in assets limited as to use are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating income unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenue over expenses unless the investments are trading securities. Realized gains and losses are determined by specific identification.

Alliance monitors the difference between the cost and fair value of its investments. A decline in market value of an individual investment security below cost that is deemed to be other-than-temporary results in an impairment and Alliance reduces the investment's carrying value to fair value. A new cost basis is established for the investment and any impairment loss is recorded as a realized loss in investment income.

Note 1 Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

Alliance measures fair value of its financial instruments, including assets within the defined benefit noncontributory retirement plan, using a three-tier hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Alliance has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs, other than quoted prices, that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 1 Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Leasehold improvements are amortized over the shorter period of the estimated useful life or the remaining term of the lease. Donated property and equipment are recorded at fair value at the date of donation, which is then treated as cost. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of any earnings on those funds. Estimated useful lives range from 2 to 20 years for land improvements, 5 to 20 years for leasehold improvements, 5 to 25 years for buildings and improvements, and 3 to 20 years for fixed and major moveable equipment.

Unamortized Debt Issue Costs and Bond Premiums

Bond issue costs and original issue premiums related to the issuance of long-term debt are amortized over the life of the related debt using the straight-line method, and are included with depreciation and amortization expense in the accompanying consolidated statements of operations and changes in net assets.

Asset Retirement Obligation

ASC Topic 410-20, *Accounting for Conditional Asset Retirement Obligation,* clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered ASC Topic 410-20, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Management believes there is an indeterminate settlement date for the asset retirement obligations because the range of time over which Alliance may settle the obligation is unknown and cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2014 and 2013.

Note 1 Summary of Significant Accounting Policies (Continued)

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an impairment has occurred, a loss will be recognized. No impairment losses were recognized in 2014 or 2013.

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. All of Alliance's net assets are free from donor-imposed restrictions at June 30, 2014 and 2013.

Patient Service Revenue

Alliance recognizes patient service revenue associated with services provided to patients who have third-party payor coverage primarily on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, Alliance recognizes revenue on the basis of discounted rates established under Alliance's uninsured patient policy. The provision for contractual adjustments (that is, the differences between established rates and expected third-party payor payments) and the discounts (that is, the difference between established rates and the amount billable) are recognized on the accrual basis. These amounts are deducted from gross patient service revenue to determine patient service revenue (net of contractual allowances and discounts). Based on the historical experience of Alliance, a significant portion of uninsured patients will be unwilling or unable to pay for services provided. Thus, Alliance records a provision for bad debts related to uninsured patients in the period the services are provided. The provision for bad debts is based on historical loss experience and is deducted from patient service revenue (net of contractual allowances and discounts) to determine net patient service revenue less provision for bad debts. Alliance also accrues retroactive adjustments under reimbursement agreements with third-party payors on an estimated basis in the period the related services are provided. Estimates are adjusted in future periods as final settlements are determined.

Note 1 Summary of Significant Accounting Policies (Continued)

Premium Revenue and Claims Payable

Premiums are billed monthly for coverage in the following month and are recognized as revenue in the month for which insurance protection is provided. Claims payable, included in other accrued expenses, are determined using statistical analyses and represent estimates of the ultimate net cost of all reported and unreported claims that are unpaid at the end of each accounting period. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for claims are adequate. The estimates are reviewed periodically, and as adjustments to these liabilities become necessary, such adjustments are reflected in current operations. Alliance has recorded a provision of $7,656,000 and $7,604,000 at June 30, 2014 and 2013, respectively, for claims payable.

Hospital Assessments

Wisconsin state regulations require eligible hospitals to pay the state an annual assessment. The assessment period is the state's fiscal year, which runs from July 1 to June 30. The assessment is based on each hospital's gross revenues, as defined. The revenue generated from the assessment is to be used, in part, to increase overall reimbursement under the Wisconsin Medicaid program. Alliance's assessment expense was approximately $7,417,000 and $7,119,000 for the years ended June 30, 2014 and 2013, respectively, and is included in other expense in the accompanying consolidated statements of operations and changes in net assets. Increases in reimbursement from Medicaid are included in patient service revenue (net of contractual allowances and discounts).

Excess of Revenue Over Expenses

The accompanying consolidated statements of operations and changes in net assets include excess of revenue over expenses, which is considered the operating indicator. Changes in unrestricted net assets which are excluded from the operating indicator include unrealized gains and losses on investments other than trading securities, changes in pension obligation other than pension expense, permanent transfer of assets to and from affiliates for other than goods and services, and contributions of long-lived assets.

Note 1 Summary of Significant Accounting Policies (Continued)

Charity Care

Alliance provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because collection is not pursued on amounts determined to qualify as charity care, these amounts are not included in net patient service revenue less provision for bad debts in the accompanying consolidated statements of operations and changes in net assets.

The estimated cost of providing care to patients under Alliance's charity care policy is calculated by multiplying the ratio of cost to gross charges by the gross uncompensated charity care charges. The costs to provide Alliance's charity care was approximately $4,668,000 and $6,560,000 for the years ended June 30, 2014 and 2013, respectively.

Contributions and Unconditional Promises to Give

Contributions are considered to be available for unrestricted uses unless specifically restricted by the donor.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is deemed unconditional. The gifts are reported as either temporarily restricted or permanently restricted support if they are received with donor stipulations that limit the use of donated assets. Donor-imposed contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

Advertising Costs

Advertising costs are expensed as incurred.

Note 1 Summary of Significant Accounting Policies (Continued)

Income Taxes

MAI, MHSC, MAC, MHH, and MFI are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. They are also exempt from state income taxes on related income.

Federal and state income taxes are paid on nonexempt unrelated business income in accordance with the Code.

MCIC and MercyCare HMO are taxable entities for both federal and Wisconsin income tax purposes and file a consolidated return on a calendar year basis. Deferred income taxes have been provided under the asset and liability method. Deferred tax assets and liabilities are determined based upon the difference between the financial statement and tax bases of assets and liabilities, as measured by the enacted tax rates which are to be in effect when these differences are expected to reverse. Income tax expense is not significant in relation to the consolidated financial statements.

In order to account for any uncertain tax positions, Alliance determines whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. Alliance recorded no assets or liabilities related to uncertain tax positions in 2014 and 2013. Federal tax returns of MAI, MHSC, MAC, MHH and MFI for tax years 2010 and beyond remain subject to examination by the Internal Revenue Service (IRS). The Federal returns for MCIC and MercyCare HMO for tax years 2011 and beyond remain subject to examination by the IRS, and their state tax returns for tax years 2010 and beyond remain subject to examination by the state taxing authority.

Subsequent Events

Subsequent events have been evaluated through August 25, 2014, which is the date the financial statements were issued.

Note 2 Reimbursement Arrangements With Third-Party Payors

Agreements are maintained with third-party payors that provide for reimbursement at amounts which vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

Government Payors

MHSC and MAC

Medicare - Inpatient hospital acute care services are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient, clinic, home health, and subacute care services are reimbursed primarily on a prospective payment methodology based upon a patient classification system or fixed fee schedules.

Medicaid - Inpatient and outpatient services are reimbursed primarily based upon prospectively determined rates.

MHH and MWH

Under the CAH designation, inpatient and outpatient hospital services rendered to Medicare and Wisconsin Medicaid beneficiaries are paid based upon a cost-reimbursement methodology. Hospital services rendered to Illinois Medicaid beneficiaries are paid at prospectively determined rates based on a patient classification system.

Other Payors

Alliance has entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determined daily rates.

Accounting for Contractual Arrangements

Certain Medicare and Medicaid charges are reimbursed at tentative rates, with final settlements determined after audit of the related annual cost reports. The cost reports have been audited by the Medicare and Medicaid fiscal intermediaries through June 30, 2011.

Note 2 Reimbursement Arrangements With Third-Party Payors (Continued)

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes Alliance is in substantial compliance with current laws and regulations.

The Centers for Medicare and Medicaid Services (CMS) uses Recovery Audit Contractors (RACs) as part of its efforts to ensure accurate payments under the Medicare program. RACs search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The provider will then have the opportunity to appeal the adjustment before final settlement of the claim is made. As of June 30, 2014, Alliance has received notices from the RAC of certain claims identified by the RAC as inaccurate. Alliance is appealing a number of these adjustments and management believes any reimbursement adjustments related to these claims will not be significant.

Electronic Health Record Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

Note 2 Reimbursement Arrangements With Third-Party Payors (Continued)

Electronic Health Record Payments (Continued)

Alliance recognizes revenue for EHR incentive payments when there is reasonable assurance that the conditions of the program will be met, primarily demonstrating meaningful use of certified EHR technology for the applicable period. The demonstration of meaningful use is based on meeting a series of objectives. Meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by CMS. Amounts recognized under the Medicare and Medicaid EHR incentive programs for non-CAH providers are based on management's best estimates which are based in part on cost report data that is subject to audit by fiscal intermediaries; accordingly, amounts recognized are subject to change. Incentive payments to CAH providers are based on the cost of the EHR technology for which the CAH has demonstrated meaningful use. In addition, Alliance's compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

Alliance recorded approximately $4,453,000 and $6,218,000 in EHR incentive revenue from the Medicare program in 2014 and 2013, respectively, which is recorded in other revenue in the accompanying consolidated statements of operations and changes in net assets. In addition, Alliance recorded approximately $648,000 and $1,037,000 in EHR incentive revenue from the Medicaid program in 2014 and 2013, respectively, which is also included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

Note 3 Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30:

	(In Thousands)	
	2014	2013
Patient accounts receivable	$ 200,565	$ 172,467
Less:		
Contractual adjustments and discounts	87,086	64,548
Allowance for doubtful accounts	20,593	24,848
Patient accounts receivable - Net	$ 92,886	$ 83,071

Write-offs as a percentage of gross revenue decreased 0.04% in 2014 compared to 2013; however, gross revenue increased approximately 14.8% in 2014 compared to 2013. These factors reduced the amount of past due accounts and contributed to the allowance for doubtful accounts decreasing from 14.4% of patient accounts receivable at June 30, 2013 to 10.3% of patient accounts receivable at June 30, 2014. Alliance has not changed its charity care or uninsured discount policies during 2014 or 2013.

Note 4 Assets Limited as to Use

Assets limited as to use, stated at fair value, are invested as follows at June 30:

	(In Thousands)	
	2014	2013
Certificates of deposit	$ 1,683	$ 1,451
Money market funds	2,520	2,170
Government and agency obligations	16,322	19,154
Municipal obligations	59	71
Corporate obligations	12,138	10,812
Foreign obligations	2,959	1,526
Equity mutual funds	27,935	21,569
Pooled separate accounts:		
Fixed income	63,618	42,643
Domestic equity	121,376	117,245
International equity	27,433	25,087
Total assets limited as to use	$ 276,043	$ 241,728

Note 4 Assets Limited as to Use (Continued)

The composition of assets limited as to use was as follows at June 30:

	(In Thousands)	
	2014	2013
Held by trustee under bond indenture agreements:		
Debt service reserve and sinking funds	$ 4,858	$ 4,798
Project funds	-	609
Held by Treasurer of State of Wisconsin for regulatory requirements	4,266	4,080
Internally designated:		
Deferred compensation	9,970	7,493
Expansion and capital improvements	246,644	214,331
Regulatory compliance	10,305	10,417
Total assets limited as to use	$ 276,043	$ 241,728

Investment income, which includes investment earnings on cash equivalents and assets limited as to use, was comprised of the following:

	(In Thousands)	
	2014	2013
Interest and dividend income	$ 5,922	$ 5,794
Net realized gains on sales of investments	7,500	4,201
Total investment income - Included in nonoperating income	13,422	9,995
Change in net unrealized gains and losses on investments other than trading securities	28,724	18,248
Totals	$ 42,146	$ 28,243

Note 4 Assets Limited as to Use (Continued)

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Management assesses individual investment securities as to whether declines in market value are other-than-temporary and result in an impairment. For equity securities and mutual funds, Alliance considers whether it has the ability and intent to hold the investment until a market price recovery. Evidence considered in this includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, the issuer's financial condition, and the general market condition in the geographic area or industry the investee operates in. For debt securities, if Alliance has made a decision to sell the security, or if it's more likely than not the Alliance will sell the security before the recovery of the security's cost basis, an other-than-temporary impairment is considered to have occurred. If Alliance has not made a decision or does not have intent to sell the debt security, but the debt security is not expected to recover its value due to a credit loss, an other-than temporary impairment is considered to have occurred.

Because Alliance has the intent and the ability to hold investment securities until a market price recovery or maturity, investment securities at June 30, 2014 and 2013, are not considered other-than temporarily impaired. No impairment losses were recognized by Alliance during 2014 and 2013.

Note 5 Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value, including assets held in Alliance's defined benefit retirement plan (Note 9).

Money market funds: Valued using a net asset value (NAV) of $1.

Equity mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by Alliance are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by Alliance are deemed to be actively traded.

Government and agency obligations, municipal obligations, corporate obligations, and foreign obligations: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Pooled separate accounts and common trust fund (Note 9): Accounts invested in a single mutual fund are valued at the daily closing price as reported by the mutual fund. Other accounts are valued at the NAV of units of the separate account or fund. The NAV, as provided by the issuer/trustee, is used as a practical expedient to estimating fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities.

Note 5 Fair Value Measurements (Continued)

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 Alliance believes its 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 fair value measurement at the reporting date.

The following tables sets forth by level, within the fair value hierarchy, Alliance's assets and liabilities measured at fair value on a recurring basis, as of June 30:

	(In Thousands)			
	2014			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 10	$ 3,291	$ -	$ 3,301
Government and agency obligations	-	16,322	-	16,322
Municipal obligations	-	59	-	59
Corporate obligations	-	12,138	-	12,138
Foreign obligations	-	2,959	-	2,959
Equity mutual funds	27,935	-	-	27,935
Pooled separate accounts:				
Fixed income	42,650	20,968	-	63,618
Domestic equity	121,376	-	-	121,376
International equity	27,433	-	-	27,433
Total assets at fair value	$ 219,404	$ 55,737	$ -	$ 275,141

Note 5 Fair Value Measurements (Continued)

	(In Thousands) 2013			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 48	$ 4,542	$ -	$ 4,590
Government and agency obligations	-	19,154	-	19,154
Municipal obligations	-	71	-	71
Corporate obligations	-	10,812	-	10,812
Foreign obligations	-	1,526	-	1,526
Equity mutual funds	21,569	-	-	21,569
Pooled separate accounts:				
Fixed income	22,457	20,186	-	42,643
Domestic equity	117,245	-	-	117,245
International equity	25,087	-	-	25,087
Total assets at fair value	$ 186,406	$ 56,291	$ -	$ 242,697

Note 5 Fair Value Measurements (Continued)

The following table set forth additional disclosures of Alliance's investments whose fair value is estimated at net asset value per share as of June 30:

2014				
Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts:				
Fixed income (a)	$ 20,968	$ -	Continuously	N/A

2013				
Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts:				
Fixed income (a)	$ 20,186	$ -	Continuously	N/A

(a) Fund's strategy is to maximize total return by investing primarily in a diversified portfolio of intermediate and long-term debt securities, primarly investment-grade bonds.

Note 6 Property and Equipment

Property and equipment consisted of the following at June 30:

	(In Thousands)	
	2014	2013
Land	$ 27,301	$ 27,301
Land improvements	6,972	6,793
Leasehold improvements	5,519	5,666
Buildings and improvements	323,105	312,189
Equipment	1,637	1,607
Major movable equipment	208,728	199,051
Total property and equipment	573,262	552,607
Less - Accumulated depreciation	274,593	247,663
Net depreciated value	298,669	304,944
Construction in progress	6,071	4,574
Property and equipment - Net	$ 304,740	$ 309,518

Alliance substantially completed a construction project to expand and renovate MWH in 2013. During 2014 and 2013, Alliance placed approximately $1,500,000 and $43,000,000, respectively, of costs into service related to the project.

The remaining amounts in construction in progress relate to routine capital projects for renovating and updating Alliance's facilities.

Note 7 Long-Term Debt

Long-term debt consisted of the following at June 30:

	(In Thousands)	
	2014	2013
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2012, dated May 17, 2012; interest payable semi-annually at varying rates (4.38% to 5.00%), principal due in annual installments beginning June 2018 continuing through June 2039	$ 169,475	$ 169,475
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2010A, dated June 9, 2010; interest payable semi-annually at varying rates (5.00% to 5.50%), principal due in annual installments through June 2026	31,995	36,150
Equipment loans and other	7,303	7,355
Totals	208,773	212,980
Less:		
Unamortized bond premiums	(10,713)	(11,172)
Current maturities	6,469	5,974
Long-term portion	$ 213,017	$ 218,178

Note 7 Long-Term Debt (Continued)

The bond indenture agreements require the creation of funds to be held by a trustee for payment of construction costs and bond principal and interest. These funds, which are not available for general purposes, are classified as assets limited as to use under bond indenture agreements. In addition, the bond agreements require maintenance of certain debt service coverage ratios, limit additional borrowings, and require compliance with various other restrictive covenants. Management believes Alliance is in compliance with all such covenants. Mercy Health System Obligated Group, which includes MAI, MAC, MHSC, and MHH, has pledged as security for long-term debt substantially all of its property, equipment, and revenue.

Scheduled payments of principal on long-term debt at June 30, 2014, including current maturities, are summarized as follows:

	(In Thousands)
2015	$ 6,469
2016	6,479
2017	6,277
2018	6,119
2019	5,658
Thereafter	177,771
Total	$ 208,773

The carrying value of long-term debt approximates fair value.

Note 8 Retirement Plans

Alliance has a defined benefit noncontributory retirement plan (the "Plan") which covers its employees who work more than 1,000 hours annually, in addition to meeting certain eligibility requirements as specified in the Plan. All assets of the Plan, principally marketable securities, are held in a separate bank-administered trust. The funding policy is to contribute amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

The following table provides further information about the Plan as of the Plan years ended June 30:

	(In Thousands)	
	2014	2013
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 111,361	$ 106,413
Service cost	7,309	6,674
Interest cost	4,965	4,489
Benefits paid	(8,122)	(6,136)
Actuarial (gain) loss	9,252	(79)
Benefit obligation at end of year	124,765	111,361
Change in Plan assets:		
Fair value of Plan assets at beginning of year	84,836	75,023
Actual return on Plan assets	14,728	7,914
Employer contributions	11,200	8,035
Benefits paid	(8,122)	(6,136)
Fair value of Plan assets at end of year	102,642	84,836
Funded status	$ (22,123)	$ (26,525)
Accumulated benefit obligation	$ 119,625	$ 107,112

Note 8 Retirement Plans (Continued)

Amounts recognized in the accompanying consolidated balance sheets at June 30, 2014 and 2013 consisted of:

	(In Thousands)	
	2014	2013
Current liability - Other accrued expenses	$ 8,601	$ 6,945
Noncurrent liability	13,522	19,580
Total	$ 22,123	$ 26,525
Total net assets - Unrestricted:		
Prior service cost	$ 407	$ 514
Net actuarial loss	20,938	21,026
Total amount recognized in net assets	$ 21,345	$ 21,540

Pension expense for the years ended June 30, 2014 and 2013, was comprised of the following:

	(In Thousands)	
	2014	2013
Pension expense:		
Service cost	$ 7,309	$ 6,674
Interest cost	4,965	4,489
Expected return on assets	(6,466)	(5,890)
Amortization of prior service cost	107	107
Amortization of unrecognized actuarial loss	1,078	1,064
Total pension expense	6,993	6,444
Other changes in Plan assets and benefit obligations recognized in other changes in net assets:		
Net actuarial loss (gain)	990	(2,103)
Amortization of actuarial loss	(1,078)	(1,064)
Amortization of prior service cost	(107)	(107)
Total recognized in other changes in net assets	(195)	(3,274)
Total recognized as pension expense and other changes in net assets	$ 6,798	$ 3,170

Note 8 Retirement Plans (Continued)

The estimated prior service cost and actuarial loss that will be amortized from net assets into pension expense over the next fiscal year will be $1,606,000.

Weighted average assumptions used at June 30, the measurement date, in developing the projected benefit obligation are as follows:

	2014	2013
Discount rate for obligation	4.05%	4.60%
Discount rate for net periodic cost	4.60%	4.35%
Expected long-term return on plan assets	7.25%	7.50%
Rate of compensation increase for obligation	2.00%	2.00%
Rate of compensation increase for net periodic cost	2.00%	1.50% grading to 2.00%

To develop the expected long-term rate of return on assets assumptions, Alliance considered the historical returns and future expectations for returns in each asset class, as well as targeted allocation percentages within the Plan's portfolio.

Alliance intends to provide an appropriate range of investment options that span the risk/return spectrum. The investment options allow for an investment portfolio consistent with the Plan's circumstances, goals, time horizons, and tolerance for risk.

Alliance's asset allocations are as follows at June 30:

	2014	2013
Asset category:		
Cash equivalents	0.6%	1.7%
Pooled separate accounts:		
Fixed income	50.9%	47.0%
Domestic equity	43.3%	46.5%
International real estate	5.2%	4.8%
Totals	100.0%	100.0%

Note 8 Retirement Plans (Continued)

The following table sets forth by level, within the fair value hierarchy, the Corporation's Plan assets at fair value as of June 30:

	(In Thousands) 2014			
	Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 634	$ -	$ 634
Pooled separate accounts:				
Fixed income	-	52,212	-	52,212
Domestic equity	-	44,473	-	44,473
International real estate	-	5,323	-	5,323
Total assets at fair value	$ -	$ 102,642	$ -	$ 102,642

	(In Thousands) 2013			
	Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 1,421	$ -	$ 1,421
Pooled separate accounts:				
Fixed income	-	39,867	-	39,867
Domestic equity	-	39,469	-	39,469
International equity	-	4,079	-	4,079
Total assets at fair value	$ -	$ 84,836	$ -	$ 84,836

Note 8 Retirement Plans (Continued)

The following table sets forth additional disclosures of Alliance's investments whose fair value is estimated at NAV per share as of June 30:

	2014			
Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts:				
Fixed income (a)	$ 52,212	$ -	Continuously	N/A
Domestic equity (b)	44,473	-	Continuously	N/A
International real estate (c)	5,323	-	Continuously	N/A

	2013			
Investment	(In Thousands) Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts:				
Fixed income (a)	$ 39,867	$ -	Continuously	N/A
Domestic equity (b)	39,469	-	Continuously	N/A
International real estate (c)	4,079	-	Continuously	N/A

(a) Invests mainly in bonds or debt of a company or government entity (including U.S. and non-U.S.).

(b) Invests in stock or shares of ownership of U.S. companies.

(c) Invests in ventures or entities that hold a variety of foreign properties

Note 8 Retirement Plans (Continued)

Alliance expects to contribute $11,200,000 to the Plan in fiscal 2014.

Benefit payments are expected to be paid as follows:

	(In Thousands)
2015	$ 8,601
2016	$ 8,548
2017	$ 9,150
2018	$ 10,079
2019	$ 10,292
Years 2020 through 2024	$ 63,106

MHSC, MAC, and MHH also participate in a contributory tax-deferred annuity plan, which covers all employees at least 18 years of age with one year of service. Employees may contribute up to 4% of compensation to the annuity plan on a tax-deferred basis, plus additional amounts subject to a regulatory limit. MHSC, MAC, and MHH may contribute discretionary amounts up to 50% of employees' tax-deferred contribution, up to 4% of compensation. MHSC, MAC, and MHH recognized expense of $2,141,000 and $2,369,000 related to this plan for the years ended June 30, 2014 and 2013, respectively.

MHSC also contributes to a multi-employer defined benefit plan, which covers employees pursuant to the terms of collective bargaining agreements. MHSC recognized expense of $240,000 and $235,000 related to this plan for the years ended June 30, 2014 and 2013, respectively. MHSC also contributes to a 401(k) plan for this same group of employees an amount, based on a matching percentage of participant contributions, set by the terms of collective bargaining agreements. MHSC recognized expense of $84,000 and $94,000 related to the 401(k) plan for the years ended June 30, 2014 and 2013, respectively.

MHSC also sponsors deferred compensation programs covering certain physicians and officers. Investments designated for deferred compensation and corresponding liabilities totaling $9,970,000 and $7,493,000 at June 30, 2014 and 2013, respectively, are included in the accompanying consolidated balance sheets. Total deferred compensation expense was $1,456,000 and $1,420,000 in 2014 and 2013, respectively.

Note 9 Patient Service Revenue (Net of Contractual Allowances and Discounts)

The following table sets forth the detail of patient service revenue (net of contractual allowances and discounts) for the years ended June 30:

	(In Thousands)	
	2014	2013
Gross patient service revenue	$ 1,096,491	$ 955,131
Deductions - Contractual allowances and discounts:		
Medicare	(264,597)	(220,329)
Medicaid	(118,545)	(94,139)
Managed care	(62,308)	(61,428)
Commercial and other	(175,038)	(146,112)
Uninsured patients	(9,075)	(6,955)
Patient service revenue (net of contractual allowances and discounts)	$ 466,928	$ 426,168

During 2014 and 2013, approximately 34.7% and 35.8%, respectively, of Alliance's patient service revenue (net of contractual allowances and discounts) related to patients participating in the Medicare and Medicaid programs.

Patient service revenue (net of contractual allowances and discounts) recognized in the years ended June 30, from major payor sources is as follows:

	(In Thousands)	
	2014	2013
Medicare and Medicaid	$ 162,107	$ 152,614
Managed care, and commercial and other	275,810	249,886
Uninsured patients	29,011	23,668
Patient service revenue (net of contractual allowances and discounts)	$ 466,928	$ 426,168

Note 10 Operating Leases

Alliance leases office space, office equipment, and certain medical equipment from unrelated organizations. Total rental expense was approximately $3,459,000 and $3,526,000 in 2014 and 2013, respectively.

Future minimum lease payments, by year and in the aggregate, under non-cancelable lease agreements are summarized as follows:

	(In Thousands)
2015	$ 1,404
2016	888
2017	631
2018	423
2019	139
Total minimum lease payments	$ 3,485

Note 11 Malpractice Insurance

Alliance manages a self-insurance program for its professional liability on a claims-made basis. Alliance retains the first $1,000,000 per occurrence and $3,000,000 per year for Wisconsin claims. Coverage against losses in excess of these amounts is maintained through mandatory participation in the Patients' Compensation Fund of the State of Wisconsin. For Illinois claims, the Alliance generally retains the first $2,000,000 of loss per claim and has purchased an umbrella policy that provides excess coverage.

Alliance has provided a reserve of $20,000,000 and $20,677,000 for potential professional liability claims for services provided to patients through June 30, 2014 and 2013, respectively, which have not yet been asserted. These amounts are included in other accrued expenses in the accompanying consolidated balance sheets.

Note 12 Concentration of Credit Risk

Financial instruments that potentially subject Alliance to credit risk consist principally of accounts receivable and cash deposits in excess of insured limits in financial institutions.

The mix of receivables from patients and third-party payors is as follows at June 30:

	2014	2013
Medicare	30%	27%
Medicaid	10%	8%
Other third-party payors	36%	33%
Patients	24%	32%
Totals	100%	100%

Alliance maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Alliance maintains cash in accounts at these institutions which are insured by the FDIC up to $250,000. At June 30, 2014, Alliance's deposits exceeded the insured limits by approximately $25,031,000.

Note 13 Functional Expenses

Alliance provides general health care services to residents within its geographic location and contracts with various health care providers to provide medical services to members insured by MCIC. Expenses related to providing these services are as follows:

	(In Thousands)	
	2014	2013
Health care services	$ 381,791	$ 361,244
General and administrative	136,337	128,341
Total expenses	$ 518,128	$ 489,585

Supplementary Information

ATTACHMENT 6

WIPFLi LLP

Independent Auditor's Report on Supplementary Information

Board of Directors
Mercy Alliance, Inc.
Janesville, Wisconsin

We have audited the consolidated financial statements of Mercy Alliance, Inc. and Affiliates as of and for the years ended June 30, 2014 and 2013, and our report thereon dated August 25, 2014 which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information appearing on pages 40 through 43 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Wipfli LLP

Wipfli LLP

August 25, 2014
Milwaukee, Wisconsin

Mercy Alliance, Inc. and Affiliates

Consolidating Balance Sheet

June 30, 2014

	(In Thousands)				
Assets	Mercy Alliance, Inc.	Mercy Assisted Care, Inc.	Mercy Health System Corporation	Mercy Harvard Hospital, Inc.	Eliminations
Current assets:					
Cash and cash equivalents	$ 485	$ 1,232	$ 18,401	$ 1,089	$ -
Patient accounts receivable - Net	-	2,116	87,098	5,047	-
Supplies	-	587	10,738	568	-
Prepaid expenses	-	98	5,824	185	-
Due from third-party payors	-	-	572	-	-
Due from related party	4,549	401	2,835	31	(7,816)
Other receivables	92	8	6,143	409	-
Total current assets	5,126	4,442	131,611	7,329	(7,816)
Assets limited as to use	191,408	586	52,131	-	-
Property and equipment - Net	-	3,338	288,590	12,812	-
Other assets:					
Unamortized debt issuance costs - Net	-	52	2,063	62	-
Investment in subsidiaries	202,758	-	21,816	-	(200,886)
Due from related party, less current portion	214,210	-	-	-	(214,210)
Other	-	-	1,315	-	-
Total other assets	416,968	52	25,194	62	(415,096)
TOTAL ASSETS	$ 613,502	$ 8,418	$ 497,526	$ 20,203	$ (422,912)
Liabilities and Net Assets					
Current liabilities:					
Current maturities of long-term debt	$ 4,355	$ -	$ 2,112	$ 2	$ -
Accounts payable					
Trade	-	237	9,645	189	-
Construction	-	-	488	-	-
Accrued salaries, wages, and payroll taxes	-	392	26,001	818	-
Due to related party	-	600	4,404	2,850	(7,816)
Due to third-party payors	-	124	-	524	-
Other accrued expenses	826	8	33,881	95	-
Total current liabilities	5,181	1,361	76,531	4,478	(7,816)
Long-term liabilities:					
Long-term debt, less current maturities	207,828	-	5,187	2	-
Deferred compensation	-	-	9,970	-	-
Pension liability	-	-	13,522	-	-
Due to related party, less curent maturities	-	2,921	197,842	13,447	(214,210)
Total long-term liabilities	207,828	2,921	226,521	13,449	(214,210)
Total liabilities	213,009	4,282	303,052	17,927	(222,026)
Total net assets - Unrestricted	400,493	4,136	194,474	2,276	(200,886)
TOTAL LIABILITIES AND NET ASSETS	$ 613,502	$ 8,418	$ 497,526	$ 20,203	$ (422,912)

ATTACHMENT 6

(In Thousands)

Mercy Health System Obligated Group	MercyCare Insurance Company	Mercy Foundation, Inc.	Eliminations	Consolidated Total
$ 21,207	$ 979	$ 140	$ -	$ 22,326
94,261	-	-	(1,375)	92,886
11,893	-	-	-	11,893
6,107	-	-	(1,967)	4,140
572	-	-	-	572
-	4	34	(38)	-
6,652	3,901	-	(1,282)	9,271
140,692	4,884	174	(4,662)	141,088
244,125	30,220	1,698	-	276,043
304,740	-	-	-	304,740
2,177	-	-	-	2,177
23,688	-	-	(23,688)	-
-	-	-	-	-
1,315	725	-	-	2,040
27,180	725	-	(23,688)	4,217
$ 716,737	$ 35,829	$ 1,872	$ (28,350)	$ 726,088
$ 6,469	$ -	$ -	$ -	$ 6,469
10,071	-	-	-	10,071
488	-	-	-	488
27,211	-	-	-	27,211
38	-	-	(38)	-
648	-	-	-	648
34,810	14,013	-	(4,624)	44,199
79,735	14,013	-	(4,662)	89,086
213,017	-	-	-	213,017
9,970	-	-	-	9,970
13,522	-	-	-	13,522
-	-	-	-	-
236,509	-	-	-	236,509
316,244	14,013	-	(4,662)	325,595
400,493	21,816	1,872	(23,688)	400,493
$ 716,737	$ 35,829	$ 1,872	$ (28,350)	$ 726,088

See Independent Auditor's Report on Supplementary Information.

Mercy Alliance, Inc. and Affiliates

Consolidating Balance Sheet

June 30, 2013

	(In Thousands)				
Assets	Mercy Alliance, Inc.	Mercy Assisted Care, Inc.	Mercy Health System Corporation	Mercy Harvard Hospital, Inc.	Eliminations
Current assets:					
Cash and cash equivalents	$ 427	$ 1,180	$ 8,648	$ 933	$ -
Patient accounts receivable - Net	-	2,073	78,130	4,196	-
Supplies	-	600	10,104	625	-
Prepaid expenses	-	106	5,604	218	-
Due from third-party payors	-	-	546	-	-
Due from related party	4,358	-	6,207	17	(10,545)
Other receivables	82	-	5,972	1,140	-
Total current assets	4,867	3,959	115,211	7,129	(10,545)
Assets limited as to use	182,391	579	31,295	-	-
Property and equipment - Net	-	3,675	291,762	14,081	-
Other assets:					
Unamortized debt issuance costs - Net	-	57	2,168	64	-
Investment in subsidiaries	162,132	-	18,985	-	(160,532)
Due from related party, less current portion	218,406	-	-	-	(218,406)
Other	-	-	1,317	-	-
Total other assets	380,538	57	22,470	64	(378,938)
TOTAL ASSETS	$ 567,796	$ 8,270	$ 460,738	$ 21,274	$ (389,483)
Liabilities and Net Assets					
Current liabilities:					
Current maturities of long-term debt	$ 4,155	$ -	$ 1,817	$ 2	$ -
Accounts payable:					
Trade	-	281	8,391	199	-
Construction	-	-	695	-	-
Accrued salaries, wages, and payroll taxes	-	398	23,084	767	-
Due to related party	1,388	636	3,852	4,669	(10,545)
Due to third-party payors	-	100	-	770	-
Other accrued expenses	843	9	32,929	136	-
Total current liabilities	6,386	1,424	70,768	6,543	(10,545)
Long-term liabilities:					
Long-term debt, less current maturities	212,642	-	5,532	4	-
Deferred compensation	-	-	7,493	-	-
Pension liability	-	-	19,580	-	-
Due to related party, less current portion	-	3,327	202,185	12,894	(218,406)
Total long-term liabilities	212,642	3,327	234,790	12,898	(218,406)
Total liabilities	219,028	4,751	305,558	19,441	(228,951)
Total net assets (deficit) - Unrestricted	348,768	3,519	155,180	1,833	(160,532)
TOTAL LIABILITIES AND NET ASSETS	$ 567,796	$ 8,270	$ 460,738	$ 21,274	$ (389,483)

ATTACHMENT 6

(In Thousands)				
Mercy Health System Obligated Group	MercyCare Insurance Company	Mercy Foundation, Inc.	Eliminations	Consolidated Total
$ 11,188	$ 1,995	$ 101	$ -	$ 13,284
84,399	-	-	(1,328)	83,071
11,329	-	-	-	11,329
5,928	-	-	(1,948)	3,980
546	-	-	-	546
37	-	-	(37)	-
7,194	2,955	-	-	10,149
120,621	4,950	101	(3,313)	122,359
214,265	25,948	1,515	-	241,728
309,518	-	-	-	309,518
2,289	-	-	-	2,289
20,585	-	-	(20,585)	-
-	-	-	-	-
1,317	753	-	-	2,070
24,191	753	-	(20,585)	4,359
$ 668,595	$ 31,651	$ 1,616	$ (23,898)	$ 677,964
$ 5,974	$ -	$ -	$ -	$ 5,974
8,871	-	-	-	8,871
695	-	-	-	695
24,249	-	-	-	24,249
-	21	16	(37)	-
870	-	-	-	870
33,917	12,645	-	(3,276)	43,286
74,576	12,666	16	(3,313)	83,945
218,178	-	-	-	218,178
7,493	-	-	-	7,493
19,580	-	-	-	19,580
-	-	-	-	-
245,251	-	-	-	245,251
319,827	12,666	16	(3,313)	329,196
348,768	18,985	1,600	(20,585)	348,768
$ 668,595	$ 31,651	$ 1,616	$ (23,898)	$ 677,964

See Independent Auditor's Report on Supplementary Information.

Mercy Alliance, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2014

	(In Thousands)				
	Mercy Alliance, Inc.	Mercy Assisted Care, Inc.	Mercy Health System Corporation	Mercy Harvard Hospital, Inc.	Eliminations
Revenue:					
Patient service revenue (net of contractual allowances and discounts)	$ -	$ 9,982	$ 499,568	$ 25,027	$ -
Provision for bad debts	-	(187)	(28,097)	(2,650)	-
Net patient service revenue less provision for bad debts	-	9,795	471,471	22,377	-
Premium revenue	-	-	-	-	-
Other revenue	325	4	6,925	123	(276)
Total revenue	325	9,799	478,396	22,500	(276)
Expenses:					
Salaries and wages	-	4,069	244,616	8,162	-
Employee benefits	2,385	1,143	52,698	2,213	-
Professional fees and purchased services	96	259	27,645	3,483	-
Medical claims and capitation payments	-	-	-	-	-
Medical supplies, other supplies, and drugs	-	2,347	79,025	2,311	-
Utilities	-	176	6,609	448	-
Insurance	-	14	4,508	253	-
Other	15	587	16,254	2,808	
Depreciation and amortization	(459)	503	25,843	1,844	-
Interest	508	177	9,358	569	(276)
Total expenses	2,545	9,275	466,556	22,091	(276)
Income (loss) from operations	(2,220)	524	11,840	409	-
Nonoperating income - Net	28,279	93	3,223	34	(16,754)
Excess of revenue over expenses	26,059	617	15,063	443	(16,754)
Other changes in unrestricted net assets:					
Change in net unrealized gains and losses on investments other than trading securities	25,666	-	370	-	-
Changes in pension obligation other than pension expense	-	-	195	-	-
Other	23,600	-	66	-	(23,600)
Transfers (to) from affiliates	(23,600)	-	23,600	-	-
Change in unrestricted net assets	51,725	617	39,294	443	(40,354)
Unrestricted net assets at beginning	348,768	3,519	155,180	1,833	(160,532)
Unrestricted net assets at end	$ 400,493	$ 4,136	$ 194,474	$ 2,276	$ (200,886)

ATTACHMENT 6

(In Thousands)				
Mercy Health System Obligated Group	MercyCare Insurance Company	Mercy Foundation, Inc.	Eliminations	Consolidated Total
$ 534,577	$ -	$ -	$ (67,649)	$ 466,928
(30,934)	-	-	-	(30,934)
503,643	-	-	(67,649)	435,994
-	101,161	-	(17,123)	84,038
7,101	-	-	-	7,101
510,744	101,161	-	(84,772)	527,133
256,847	-	-	-	256,847
58,439	-	-	(17,123)	41,316
31,483	819	-	-	32,302
-	93,948	-	(67,649)	26,299
83,683	-	-	-	83,683
7,233	-	-	-	7,233
4,775	-	-	-	4,775
19,664	7,942	-	-	27,606
27,731	-	-	-	27,731
10,336	-	-	-	10,336
500,191	102,709	-	(84,772)	518,128
10,553	(1,548)	-	-	9,005
14,875	1,663	300	(3,103)	13,735
25,428	115	300	(3,103)	22,740
26,036	2,716	(28)	-	28,724
195	-	-	-	195
66	-	-	-	66
-	-	-	-	-
51,725	2,831	272	(3,103)	51,725
348,768	18,985	1,600	(20,585)	348,768
$ 400,493	$ 21,816	$ 1,872	$ (23,688)	$ 400,493

See Independent Auditor's Report on Supplementary Information.

Mercy Alliance, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2013

	(In Thousands)				
	Mercy Alliance, Inc.	Mercy Assisted Care, Inc.	Mercy Health System Corporation	Mercy Harvard Hospital, Inc.	Eliminations
Revenue:					
Patient service revenue (net of contractual allowances and discounts)	$ -	$ 10,207	$ 464,742	$ 23,261	$ -
Provision for bad debts	-	(22)	(20,829)	(2,208)	-
Net patient service revenue less provision for bad debts	-	10,185	443,913	21,053	-
Premium revenue	-	-	-	-	-
Other revenue	334	8	9,329	1,292	(284)
Total revenue	334	10,193	453,242	22,345	(284)
Expenses:					
Salaries and wages	-	4,742	232,824	8,277	-
Employee benefits	2,095	1,250	50,573	2,076	-
Professional fees and purchased services	228	402	27,606	3,711	-
Medical claims and capitation payments	-	-	-	-	-
Medical supplies, other supplies, and drugs	-	2,328	73,572	2,147	-
Utilities	-	212	6,071	391	-
Insurance	-	14	1,038	250	-
Other	11	689	15,925	2,407	-
Depreciation and amortization	(459)	531	24,594	1,474	-
Interest	515	197	8,150	484	(284)
Total expenses	2,390	10,365	440,353	21,217	(284)
Income (loss) from operations	(2,056)	(172)	12,889	1,128	-
Nonoperating income - Net	30,625	27	5,375	8	(22,101)
Excess (deficiency) of revenue over expenses	28,569	(145)	18,264	1,136	(22,101)
Other changes in unrestricted net assets:					
Change in net unrealized gains and losses on investments other than trading securities	16,518	-	(428)	-	-
Changes in pension obligation other than pension expense	-	-	3,274	-	-
Change in unrestricted net assets	45,087	(145)	21,110	1,136	(22,101)
Unrestricted net assets at beginning	303,681	3,664	134,070	697	(138,431)
Unrestricted net assets at end	$ 348,768	$ 3,519	$ 155,180	$ 1,833	$ (160,532)

ATTACHMENT 6

(In Thousands)				
Mercy Health System Obligated Group	MercyCare Insurance Company	Mercy Foundation, Inc.	Eliminations	Consolidated Total
$ 498,210	$ -	$ -	$ (72,042)	$ 426,168
(23,059)	-	-	-	(23,059)
475,151	-	-	(72,042)	403,109
-	104,638	-	(15,793)	88,845
10,679	-	-	-	10,679
485,830	104,638	-	(87,835)	502,633
245,843	-	-	-	245,843
55,994	-	-	(15,793)	40,201
31,947	797	-	-	32,744
-	95,695	-	(72,042)	23,653
78,047	-	-	-	78,047
6,674	-	-	-	6,674
1,302	-	-	-	1,302
19,032	6,887	-	-	25,919
26,140	-	-	-	26,140
9,062	-	-	-	9,062
474,041	103,379	-	(87,835)	489,585
11,789	1,259	-	-	13,048
13,934	1,088	84	(4,589)	10,517
25,723	2,347	84	(4,589)	23,565
16,090	2,094	64	-	18,248
3,274	-	-	-	3,274
45,087	4,441	148	(4,589)	45,087
303,681	14,544	1,452	(15,996)	303,681
$ 348,768	$ 18,985	$ 1,600	$ (20,585)	$ 348,768

See Independent Auditor's Report on Supplementary Information.

Rockford Health System and Affiliated Corporations

Consolidated Financial Statements and Supplemental Consolidating Information
December 31, 2013 and 2012

ATTACHMENT 6

Rockford Health System and Affiliated Corporations
Index
December 31, 2013 and 2012

	Page(s)
Report of Independent Auditors	1
Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations	3
Consolidated Statements of Changes in Net Assets	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-28
Supplemental Consolidating Information	
Report of Independent Auditors	29
Consolidating Balance Sheet	30
Consolidating Statement of Operations and Change in Unrestricted Assets	31

ATTACHMENT 6

pwc

Independent Auditor's Report

To the Board of Directors of
Rockford Health System:

We have audited the accompanying consolidated financial statements of Rockford Health System and Affiliated Corporations (the "System"), which comprise the consolidated balance sheets as of December 31, 2013 and December 31, 2012, and the results of their operations, of changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the System's preparation and fair presentation of the consolidated 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 System'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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rockford Health System and Affiliated Corporations at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 31, 2014

PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606
T: (312) 298 2000, F: (312) 298 2001, www.pwc.com/us

ATTACHMENT 6

Rockford Health System and Affiliated Corporations
Consolidated Balance Sheets
December 31, 2013 and 2012
(in thousands of dollars)

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	$ 46,244	$ 53,387
Short term investments	23,281	22,794
Patient accounts receivable, less allowance for doubtful accounts for 2013 - $22,772 and 2012 - $18,412	66,020	70,525
Other receivables	6,636	11,707
Current portion of assets limited as to use	11,390	10,605
Inventories	8,265	6,969
Prepaid expense and other current assets	3,737	3,899
Total current assets	165,573	179,886
Assets limited as to use, non-current		
Board-designated and trustee held investments	194,556	170,886
Donor-restricted and endowment funds	3,751	3,602
Total assets limited as to use, non-current	198,307	174,488
Property, plant and equipment, net	141,426	146,048
Investments in joint ventures	9,258	8,886
Other assets	28,166	26,388
Total assets	$ 542,730	$ 535,696
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 3,200	$ 3,368
Accounts payable	15,354	15,410
Accrued expenses	45,595	50,555
Deferred revenues	320	446
Due to third-party payors	13,249	13,495
Total current liabilities	77,718	83,274
Other liabilities		
Long-term debt, net of current portion	88,071	91,265
Accrued liabilities under self-insurance program	51,944	55,409
Accrued pension	2,844	27,314
Accrued postretirement medical benefits	7,363	7,839
Other liabilities	11,013	11,021
Total liabilities	238,953	276,122
Net assets		
Unrestricted	281,934	239,623
Temporarily restricted	13,545	12,123
Permanently restricted	8,298	7,828
Total net assets	303,777	259,574
Total liabilities and net assets	$ 542,730	$ 535,696

The accompanying notes are an integral part of the consolidated financial statements.

ATTACHMENT 6

Rockford Health System and Affiliated Corporations
Consolidated Statements of Operations
Years Ended December 31, 2013 and 2012
(in thousands of dollars)

	2013	2012
Revenues		
Net patient service revenue	$ 383,175	$ 381,269
Provision for doubtful patient accounts	(25,082)	(22,450)
Total net patient service revenue	358,093	358,819
Provider tax revenue	25,160	23,560
Other operating revenues and net assets released from restrictions	45,660	33,352
Total revenue	428,913	415,731
Expenses		
Salaries and wages	198,618	196,606
Employee benefits	41,799	37,560
Supplies	63,286	60,941
Purchased services and professional fees	69,585	68,492
Depreciation and amortization	22,565	22,419
Provision for doubtful accounts	131	71
Insurance	9,834	5,175
Provider tax assessment	12,254	11,012
Interest	2,272	3,050
Other	7,906	7,259
Total expenses	428,250	412,585
Operating income	663	3,146
Nonoperating gains (losses)		
Investment income	15,938	12,642
Change in fair market value of swap	1,764	(535)
Other, net	800	1,284
Excess of revenues over expenses	$ 19,165	$ 16,537

The accompanying notes are an integral part of the consolidated financial statements.

ATTACHMENT 6

Rockford Health System and Affiliated Corporations
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2013 and 2012
(in thousands of dollars)

	2013	2012
Unrestricted net assets		
Excess of revenues over expenses	$ 19,165	$ 16,537
Change in unrealized gains (losses) on investments	-	(23)
Pension adjustment	21,745	(8,878)
Postretirement medical benefit adjustment	1,381	(605)
Net assets released from restriction for capital	20	432
Increase in unrestricted net assets	42,311	7,463
Temporarily restricted net assets		
Contributions	858	772
Unrealized gains on investments, net	442	386
Net change in beneficial interest in trusts	677	451
Net assets released from restriction	(555)	(883)
Increase in temporarily restricted net assets	1,422	726
Permanently restricted net assets		
Net change in beneficial interest in trusts	470	290
Increase in temporarily restricted net assets	470	290
Increase in net assets	44,203	8,479
Net assets at beginning of year	259,574	251,095
Net assets at end of year	$ 303,777	$ 259,574

The accompanying notes are an integral part of the consolidated financial statements.

ATTACHMENT 6

Rockford Health System and Affiliated Corporations
Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012
(in thousands of dollars)

	2013	2012
Cash flows from operating activities		
Increase in net assets	$ 44,203	$ 8,479
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Net realized and unrealized gains on investments	(28,664)	(19,212)
Equity gains in joint ventures	(3,344)	(2,900)
Unrealized (gain) loss on interest rate swap	(1,764)	535
Net pension and postretirement medical benefit adjustment	(23,126)	9,483
Depreciation and amortization	22,565	22,418
Provision for doubtful accounts	25,213	22,521
Loss on disposal of assets	266	461
Changes in assets and liabilities		
Increase in patient accounts receivable, net	(20,708)	(27,194)
Decrease in accounts payable and accrued expenses	(6,651)	(6,838)
Decrease in deferred revenues	(126)	(10,873)
Decrease in due to third-party payors	(246)	(833)
Decrease in accrued liabilities under self-insurance program	(3,465)	(14,729)
Net change in other assets and liabilities	5,403	260
Net cash provided by (used in) operating activities	9,556	(18,422)
Cash flows from investing activities		
Purchases of property and equipment	(16,451)	(18,654)
Purchases of investments	(351,943)	(427,692)
Proceeds from sales of investments	355,063	486,849
Net cash provided by (used in) investing activities	(13,331)	40,503
Cash flows from financing activities		
Principal payments on long-term debt	(3,368)	(1,865)
Proceeds from issuance of long-term debt	-	35,075
Extinguishment of long-term debt	-	(35,530)
Net cash used in financing activities	(3,368)	(2,320)
Net increase (decrease) in cash and cash equivalents	(7,143)	19,761
Cash and cash equivalents		
Beginning of year	53,387	33,626
End of year	$ 46,244	$ 53,387
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 2,247	$ 2,848
Property and equipment purchases accrued at year-end	$ 287	$ 1,922

The accompanying notes are an integral part of the consolidated financial statements.

1. Organization and Nature of Operations

Rockford Health System (RHS) consists of affiliated corporations, which include Rockford Memorial Hospital (the "Hospital"), Rockford Health Physicians (RHPH), Visiting Nurses Association of the Rockford Area (VNA), Rockford Memorial Development Foundation (RMDF), Rockford Health System Ventures, LLC (RHSV), and Rockford Health Insurance Ltd. (RHIL) (collectively the "System").

RHS is the sole corporate member of the Hospital, RHPH, and VNA, all of which are Illinois not-for-profit corporations previously determined by the Internal Revenue Service to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and the sole shareholder of RMDF, an Illinois not-for-profit corporation previously determined by the Internal Revenue Service to be exempt from federal income taxes under Section 509(a)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes related to these entities has been made. RHS and its affiliated corporations operate in northern Illinois.

The Hospital provides inpatient, outpatient, and emergency care services to area residents. RHPH provides physician and ambulatory care services at several sites. VNA provides home health nursing services and rents medical equipment to area residents. RMDF is organized to promote education and scientific and charitable health care activities. RHSV is a wholly owned subsidiary of the Hospital and was created to manage the organization's investments in joint ventures. RHIL is a wholly owned subsidiary of the Hospital and is incorporated under the laws of Bermuda. RHIL provides the affiliated corporations with excess professional and general liability insurance.

2. Summary of Significant Accounting Policies

Basis of Accounting and Principles of Consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). The consolidated financial statements include the accounts of all of the entities outlined above. All intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are made in the areas of patient accounts receivable, investments, accruals for settlements with third-party payors, reserves for losses and expenses related to health care professional and general liabilities, and risks and assumptions for measurement of pension and postretirement medical liabilities.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term would materially affect the amounts reported in the consolidated balance sheets and the consolidated statements of operations.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments, including repurchase obligations, which have maturities at the time of purchase of three months or less. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate their fair value.

Inventory
Inventory is valued at lower of cost or market, with cost determined using average cost method.

Investments
Short-term investments include bank deposits, money markets, and fixed-income securities, and are held for short-term cash management purposes and will mature within one year. The carrying amounts reported in the consolidated balance sheets for short-term investments approximate their fair value.

Assets Limited as to Use
Assets limited as to use include investments or other assets held by trustees under indenture agreements and professional liability programs and designated assets set aside by the Board of Directors (the "Board"). The Board-designated assets have been set aside for future capital improvements. The Board retains control of these assets and may, at its discretion, use them for other purposes. In addition, assets limited as to use include the temporarily restricted and donor-restricted endowment funds, except for the interest in beneficial trusts. Amounts required to meet current liabilities of the System that can be paid by assets limited as to use have been reflected as current assets in the consolidated balance sheets at December 31, 2013 and 2012.

Fair Value
Fair value is defined as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value is estimated based on quoted market prices, except for alternative investments for which quoted market prices are not available. The System has adopted a hierarchy of valuation inputs based on the extent to which observable inputs are available. Observable inputs reflect market data and unobservable inputs reflect the System's own assumptions about how market participants would value an asset based on the best information available. Cash and cash equivalents are carried at cost, which approximates fair value. Investment income or loss (including realized gains and losses on investments, investments determined to be other than temporarily impaired, interest, dividends and unrealized gains and losses on trading securities) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Investment income restricted for specific purposes by donor or legal requirements is recorded as temporarily or permanently restricted on the consolidated statements of changes in net assets.

Property, Plant and Equipment
Property, plant and equipment are reported on the basis of cost less accumulated depreciation and amortization. Donated items are recorded at fair market value at the date of contribution. Cost incurred in the development and installation of internal-use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post implementation stage. The carrying value of property, plant and equipment is reviewed if the facts and circumstances suggest that it may be impaired. Depreciation of property, plant and equipment is calculated by use of the straight-line, half-year method at rates intended to depreciate the cost of assets over their estimated useful lives, which generally range from three to forty years.

Long-Lived Assets
Management continually reviews its long-lived assets for potential impairment in accordance with authoritative guidance on impairment or disposal of long-lived assets.

Accrued Expenses
Accrued expense includes the liability for incurred items which are anticipated to be paid within a year. This primarily includes accruals for payroll, payroll taxes and withholdings, employee

benefits, incentive compensation, real estate taxes as well as the current portion of workers compensation, malpractice and debt financing activities.

Deferred Revenues
Deferred revenue includes payments received in advance for the Visiting Nurses Association's Home Health program and a rebate incentive program.

Deferred Financing Costs
Financing costs incurred in connection with the issuance of long-term debt are amortized over the life of the debt based on the interest method.

Derivative Instruments
Derivative instruments are recorded in the consolidated balance sheet at their fair value in accordance with authoritative guidance on derivative instruments. In connection with the issuance of certain indebtedness, the Obligated Group entered into an interest rate swap agreement (see Note 10).The change in fair value of the swap agreement is recorded within non-operating gains (losses) in the consolidated statement of operations.

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets are assets whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

Donor-Restricted Contributions
Donor-restricted contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When donor-restricted contributions are expended for operating purposes or capital improvements, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as other revenue or in the consolidated statements of changes in net assets as net assets released from restrictions, respectively. Permanently restricted support is maintained in perpetuity, with income generated reflected as increases in temporarily restricted net assets until such time as the restrictions for use of the income are met. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

RMDF recognizes its interest in trustee-held funds at various financial institutions for which RMDF has a beneficial interest. Periodically, the financial institutions distribute a portion of the income earned on these funds to RMDF.

Excess of Revenues over Expenses
The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include the change in net unrealized investment gains and losses on non-trading investments, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and the change in pension liability.

Net Patient Service Revenue
Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered. Contractual adjustments represent the difference between established rates for services and amounts paid by third-party payors. Payments under these agreements and programs are based on either a specific amount per case; costs, as defined, of rendering services to program beneficiaries; or contracted price. Amounts for uncollectible

accounts are also included as reductions to net patient service revenue. Contractual adjustments and bad debts are accrued on an estimated basis in the period the related services are rendered, and are adjusted in future periods as final settlements are determined.

Revenue from managed care payors accounted for 46% and 48% of the System's net patient service revenue excluding bad debts in 2013 and 2012, respectively. Revenue from Medicare and Medicaid programs accounted for approximately 45% and 44% of net patient service revenue excluding bad debts in 2013 and 2012, respectively.

Due to the complexity and subjectivity of interpreting the Medicare and Medicaid programs, there is a reasonable possibility that recorded estimates will change by a material amount in the near term. The impact of any change in estimates is recorded in the year the change is determined. Changes in prior-year estimated amounts due to third parties impacted net patient service revenue by ($35) and $820 in 2013 and 2012, respectively. In 2012, RHS recognized $2,405 in net patient service revenue as a result of a favorable settlement with Medicare relating to the rural floor budget neutrality adjustment for fiscal years 1999 through 2011.

Presented below is the System's patient service revenue and contractual allowance activity for the years ended December 31, 2013 and 2012, not including the Illinois Provider Assessment Program revenues:

	2013	2012
Gross patient service revenue:		
Inpatient hospital services	$ 541,767	$ 508,886
Outpatient hospital services	346,145	327,392
Physician and other	179,952	179,269
	1,067,864	1,015,547
Less contractual allowances and charity care	(669,994)	(619,164)
Net patient service revenue--before eliminations	397,870	396,383
Consolidation eliminations	(14,695)	(15,114)
Net patient service revenue	$ 383,175	$ 381,269

Charity Care
The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reflected as net patient service revenue (Note 4).

Other Operating Revenue
Other operating revenue consists of cafeteria and other sales to patients, employees, and visitors; grants; income or loss from joint ventures; investment income derived from RMDF's activities; unrestricted donations, auxiliary services, electronic medical record incentives, Medicaid interest, and other miscellaneous income.

Presented below is a table of other operating revenue for the years ended December 31, 2013 and 2012:

	2013	2012
Investment income	$ 15,070	$ 9,889
Grants	6,301	8,129
Electronic medical record incentive	5,446	1,306
Medical lab	3,842	3,759
Joint ventures	3,343	2,900
Medicaid prompt-pay interest	3,083	-
Cafeteria	1,788	1,757
Daycare center	1,542	1,454
Donations and contributions	1,458	555
Lease and rental	760	754
Other	3,027	2,849
Other operating revenues and net assets released from restrictions	$ 45,660	$ 33,352

New Accounting Pronouncements
During 2012, Rockford Health System adopted the provisions of Accounting Standards Update 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision of Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ("ASU 2011-07"). ASU 2011-07 requires health care entities to change the presentation of the statements of operations by reclassifying the provision for doubtful accounts from an operating expense to a deduction from patient service revenues. All periods presented in the consolidated financial statements and notes to the consolidated financial statements have been reclassified in accordance with this new authoritative guidance.

Subsequent Events
The System has evaluated subsequent events through March 31, 2014, which coincides with the release of the financial statements.

3. Third-Party Reimbursement Programs

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from their established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* — Inpatient acute care services provided to Medicare program beneficiaries are paid based on Medicare's Prospective Payment System (PPS). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient rehabilitation services are paid based on Medicare's PPS for rehabilitation facilities. These rates vary based on clinical and other factors, similar to PPS. Inpatient psychiatric services are paid on a prospective per diem rate based on diagnostic related group assignments and other factors. Most outpatient services are paid under Medicare's Outpatient Prospective Payment System (OPPS) based on Ambulatory Payment Classification groups. Those outpatient services excluded from OPPS continue to be paid based on fee schedules or cost-based methodologies. The Hospital is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports. The Hospital's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through the year ended December 31, 2009.

- *Medicaid* — Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, discounts from established charges, and fee schedules.

- *Illinois Provider Reimbursements* — In December 2004, the Centers for Medicare and Medicaid Services (CMS) approved the Illinois Hospital Assessment Program (the "Program") to improve Medicaid reimbursement for Illinois hospitals. The Program requires the hospitals to pay a tax which is determined based on certain factors including bed numbers and various hospital utilization factors. The funds raised through the tax are matched by the federal government and then a distribution is made to the hospitals based on certain factors including Medicaid inpatient and outpatient utilization, trauma status, and other measures. The program is effective through December 31, 2014.

  The Hospital's tax assessment for the years ended December 31, 2013 and 2012 was $12,254 and $11,012, respectively. The amount distributed to the Hospital was $25,160 and $23,560 for 2013 and 2012, respectively. No amounts were due to or from the Hospital under the program at December 31, 2013 and 2012.

- *Other* — Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments, and discounts from established charges.

- *Regulatory Environment Including Fraud and Abuse Matters* — The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the System is in compliance with fraud and abuse, as well as other applicable government laws and regulations. However, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

4. Charity, Uncompensated Care and Community Benefits

The System's policy is to provide medically necessary health care services regardless of the patient's ability to pay for such care. The System maintains records to identify and monitor the level of charity, uncompensated care and community benefit it provides. These records include the costs for services and supplies furnished under its policy as well as the estimated difference between the cost of services provided to Medicaid patients and the reimbursement received from the state for this care. The costs of service are estimated using the annual cost-to-charge ratio.

During the years ended December 31, 2013 and 2012, the following levels of charity care and community service, including services for which the System received no reimbursement or was reimbursed below cost, were provided:

	(unaudited) 2013	(unaudited) 2012
Estimated costs and expenses incurred for charity care	$ 12,631	$ 10,655
Estimated costs over reimbursement for Medicaid patient's care	16,624	14,059
Cost of other community service, research and education	5,162	5,083
Total Charity Care and Community Benefits	$ 34,417	$ 29,797
Estimated cost over reimbursement for Medicare patient's care	53,625	41,386
Estimated costs for bad debt	11,052	9,682
Total Cost of Charity, Uncompensated Care & Other Community Benefits	$ 99,094	$ 80,865

The System actively sponsors community benefits that respond to community needs. These programs focus on the underserved with the intention of improving the overall health of the entire community. Examples of this outreach include mobile clinics, partnering with local schools and employers to provide health screenings, support and health education; providing social services, such as multi-faith ministry, interpreters and support groups; providing emergency medical training to other providers across the region; and serving as the region's emergency disaster response center. The System's 24 hour emergency room, mental health services, and multiple convenient care locations provide for various and timely health care needs throughout the region.

5. Concentration of Credit Risk

The System grants credit without collateral from its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of and for the years ended December 31, 2013 and 2012 was as follows:

	2013	2012
Medicare	13 %	11 %
Medicaid	31	39
Managed care	32	31
Commercial	8	8
Self-pay and other	16	11
	100 %	100 %

6. Fair Value Measurements

Authoritative guidance on fair value establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the System and unobservable inputs reflect management's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under the authoritative guidance must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the System for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- *Level 1* – Quoted prices in active markets for identical assets
- *Level 2* – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets.
- *Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for assets at fair value:

- *Marketable equity securities:* Valued at the closing price reported in the active market in which the individual securities are traded.
- *Corporate bonds*: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds traded in the over-the-counter market and listed securities for which no sale was reported on the last business day of the fiscal year are valued at the average of the last reported bid and asked prices. For certain corporate bonds that do not have an established fair value, a fair value is established based on yields currently available on comparable securities of issuers with similar credit ratings.
- *U.S. treasury and government obligations*: Certain securities are valued at the closing price reported in the active market in which the individual security is traded. For certain securities that do not have an established fair value, a fair value is established based on yields currently available on comparable securities.
- *Mutual funds*: Valued at the published net asset value (NAV) of shares held by the System at year end.
- *Interests held in trusts:* Valued at the percentage of the System's interests at year end based upon current market value of the underlying assets. Trusts which may distribute their principal following specified time restrictions or other criteria are classified as temporarily restricted net assets on the consolidated balance sheets. Trusts which are held in perpetuity are classified as permanently restricted net assets.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the System believes its 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 fair value measurement at the reporting date.

The following table presents the financial instruments reported or disclosed at fair value as of December 31, 2013 and 2012, by category on the statement of financial position in accordance with the valuation hierarchy defined above:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
2013 Assets				
Cash and equivalents	$ 6,010	$ -	$ -	$ 6,010
U.S. Treasury and government obligations	13,957	18,161	-	32,118
Corporate bonds	-	37,767	-	37,767
Mutual funds	109,738	-	-	109,738
Marketable equity securities	46,842	-	-	46,842
Other	472	-	-	472
Total short-term investments and assets limited as to use	177,019	55,928	-	232,947
Beneficial interests in trust	-	11,563	-	11,563
Total assets at fair value	$ 177,019	$ 67,491	$ -	$ 244,510
2013 Liabilities				
Long term debt	$ -	$ 91,380	$ -	$ 91,380
Interest rate swap	-	1,954	-	1,954
Total liabilities at fair value	$ -	$ 93,334	$ -	$ 93,334
2012 Assets				
Cash and equivalents	$ 6,793	$ -	$ -	6,793
U.S. Treasury and government obligations	18,261	16,173	-	34,434
Corporate bonds	-	45,849	-	45,849
Mutual funds	81,156	-	-	81,156
Marketable equity securities	39,134	-	-	39,134
Other	521	-	-	521
Total short-term investments and assets limited as to use	145,865	62,022	-	207,887
Beneficial interests in trust	-	10,384	-	10,384
Total assets at fair value	$ 145,865	$ 72,406	$ -	$ 218,271
2012 Liabilities				
Long term debt	$ -	$ 94,748	$ -	$ 94,748
Interest rate swap	-	3,717	-	3,717
Swap termination	-	2,825	-	2,825
Total liabilities at fair value	$ -	$ 101,290	$ -	$ 101,290

7. Assets Limited as to Use

The composition of assets limited as to use at December 31, 2013 and 2012, is set forth in the following table. All investments are stated at fair value.

	2013	2012
Board-designated investments and trustee held:		
Cash and cash equivalents	$ 4,924	$ 4,844
Corporate bonds	26,709	33,406
U.S. government securities	21,179	25,805
Mutual funds	104,991	77,456
Equity securities	44,754	37,375
Total board-designated and trustee held investments	202,557	178,886
Donor-restricted and endowment funds:		
Cash and cash equivalents	1,020	459
Corporate bonds	751	1,016
U.S. government securities	627	814
Mutual funds	3,291	2,663
Equity securities	1,451	1,255
Total donor-restricted and endowment funds	7,140	6,207
Total assets limited as to use	$ 209,697	$ 185,093
Total assets limited to use are classified as follows in the consolidated balance sheets:		
Current	$ 11,390	$ 10,605
Noncurrent	198,307	174,488
Total	$ 209,697	$ 185,093

Investment income (loss) for the years ended December 31, 2012 and 2011 consisted of the following:

	2013	2012
Interest and dividends	$ 3,490	$ 4,034
Gains on sale of investments, net	10,601	12,331
Gains on market appreciation, net	16,917	6,165
Total	$ 31,008	$ 22,530
Reported as:		
Other operating revenue	$ 15,070	$ 9,889
Nonoperating investment income	15,938	12,641
Total	$ 31,008	$ 22,530

8. Property, Plant and Equipment

The components of property, plant and equipment as of December 31 are as follows:

	2013	2012
Land and improvements	$ 15,774	$ 15,685
Buildings	118,357	118,167
Equipment	315,525	288,079
Construction in progress	3,867	18,166
	453,523	440,097
Less accumulated depreciation	(312,097)	(294,049)
Total property, plant and equipment, net	$ 141,426	$ 146,048

In 2013 and 2012, approximately $6,351 and $10,665 were spent on development of an electronic medical records (EMR) system. The first phase of the EMR went live in 2011 while the second phase was placed in use in April 2013. A total of $32,180 has been placed in use through 2013. Depreciation expense for the EMR totaled $4,105 and $2,324 in 2013 and 2012, respectively.

9. Investments in Joint Ventures

The System's investments in joint ventures are recorded on an equity basis. The related income or loss is included in the consolidated statements of operations as other revenue. The investments in joint ventures consist of the following: a 27% ownership interest in KSB/RMHSC Partnership (KSB), which owns and leases a medical office building; and a 50% ownership interest in VanMatre HealthSouth Rehabilitation Hospital (VanMatre), which provides inpatient and outpatient rehabilitation services. The recorded investment at December 31, 2013 and 2012, as well as the related income or loss reported for the years then ended is as follows:

	Joint Venture Investment as of December 31		Joint Venture Income (Loss) for the years ended December 31	
	2013	2012	2013	2012
KSB	$ 289	$ 301	$ 28	$ 28
VanMatre	8,969	8,585	3,316	2,872
Total	$ 9,258	$ 8,886	$ 3,344	$ 2,900

10. Long-Term Debt

Long-term debt as of December 31 consists of the following:

	2013	2012
Illinois Health Facilities Authority Bonds		
Revenue bonds, Series 2012 fixed rates, maturing at varying amounts through 2021, collateralized by certain receivables and other assets of the Obligated Group	$ 30,580	$ 33,625
Revenue bonds, Series 2008 variable rates, maturing at varying amounts through 2040, collateralized by certain receivables and other assets of the Obligated Group	60,800	60,800
Capitalized lease of DaVinci surgery robot, 36-month term through June 2013	-	323
Total long-term debt	91,380	94,748
Less current maturities	(3,200)	(3,368)
Less unamortized discount	(109)	(115)
Total long-term debt, net of current maturities	$ 88,071	$ 91,265

The fair value of debt is based on the pricing of fixed-rate bonds of market participants, including assumptions about the present value of current market interest rates, and bonds of comparable quality and maturity. The fair-value of long-term debt would be a level 2 hierarchy.

Under the terms of a Master Trust Indenture, the Obligated Group (consisting of RMH, RHPH and RMDF) has issued general obligation bonds through the Illinois Health Facilities Authority. All outstanding debt under the Indenture is the general, joint, and several obligations of the members of the Obligated Group.

On May 2, 2012, the Obligated Group issued $35,075 of fixed rate bonds to refund the Series 1997 revenue bonds. The bonds were issued through a direct purchase (private placement) with a fixed rate of 2.79%. Principal payments are due annually with final payment due in August 2021. An additional covenant calculation for days cash on hand is required with this agreement.

During 2008, the Obligated Group refunded (through a legal defeasance) the Series 1994 revenue bonds through the issuance of $60,800 Series 2008 variable rate demand revenue bonds. These bonds accrue interest at variable rates which reset weekly. The variable rates ranged from 0.767% to 0.957% in 2013 and 1.085% to 1.284% in 2012. The Series 2008 bonds are collateralized by a letter of credit with an expiration date of January 2, 2015. The Series 2008 bonds also have a put option that allows the holders to redeem the bonds prior to maturity. The Obligated Group has an agreement with a remarketing agent to remarket any bonds redeemed as a result of the exercise of the put options. If the bonds cannot be remarketed, a bank will purchase the bonds under the letter of credit. The Obligated Group has an obligation to make payments on the letter of credit for unremarketed bonds over a period of three years from the date of a draw on the letter of credit with no principal due in the first year.

In March 2009, the Obligated Group entered into an interest rate swap agreement to hedge, or offset, future fluctuations in interest rates relative to the variable rate debt relative to the Series 2008 bonds. The notional value of the swap is $36,500 and is scheduled to terminate in August 2019. Under the terms of the swap agreement, the Obligated Group makes fixed interest

payments of 2.435% to a counterparty and receives a variable rate based on a percentage of LIBOR. Under this agreement, the System may be exposed to loss in the event of nonperformance by the counterparty to the interest rate swap agreement.

At December 31, 2013 and 2012, the fair value of the interest rate swap agreement was a liability of $1,954 and $3,717, respectively, and is included in other liabilities in the accompanying consolidated balance sheets. Net interest paid under the terms of the swap agreement totaled $823 and $778 in 2013 and 2012, respectively, and is included in interest expense in the consolidated statement of operations.

In connection with previous Series 1994 bonds, the Obligated Group entered into an interest rate swap agreement to hedge, or offset, future fluctuations in interest rates relative to its variable rate debt. The notional value of the swap (the amount on which settlement calculations were based) was $33,650 until terminated in 2008. Under the terms of the swap agreement, the Obligated Group made fixed interest rate payments of 5.95% to a counterparty, and received a variable rate as determined consistent with the variable rate of interest on a portion of the 1994 Bonds. At December 11, 2008, the Obligated Group gave notice to the counterparty to terminate the swap and subsequently made a payment to the counterparty. At December 31, 2012, an accrued liability of $2,825 remained in the consolidated balance sheet pending final settlement of the swap termination. In February 2013, a final settlement was reached for $2,825 with payment made in March 2013.

In 2007, the System entered into a $2,385 loan agreement to finance the acquisition of MRI and CT medical equipment. The term of the agreement was 60 months with a fixed interest rate of 4.2% with monthly payments of $44 completed in March 2012.

In 2010, the System entered into a capitalized lease agreement for the DaVinci surgery robot. Under the terms of the agreement, an initial payment of $425 was made at the start of the lease with 35 additional payments of $23 per month required through June 2013.

Future maturities of long-term debt at December 31, 2013, are as follows:

2014	$	3,200
2015		3,360
2016		3,530
2017		3,710
2018		3,895
Thereafter		73,685
	$	91,380

Under the Indenture and related loan agreements, the Obligated Group is subject to certain covenants related to transfers of assets, mergers and consolidations, restrictions on additional indebtedness, and the maintenance of certain financial ratios. Management believes that the Obligated Group was in compliance with the debt covenants for the years ended December 31, 2013 and 2012.

Effective May 10, 2012, the System entered into a line of credit agreement for $20,000 with expiration on March 29, 2013. An extension of the $20,000 line of credit agreement was completed in March 2013 with an expiration date of March 31, 2014. No credit line was used in 2012 or 2013. An additional extension was completed in February 2014 with an expiration date of March 31, 2015.

The System has a letter of credit for $1,000 which matures on October 31, 2014. The letter of credit is a requirement by the State of Illinois Industrial Commission in order to be a self-insured employer under the Workers' Compensation program. At December 31, 2013 and 2012, no amounts were outstanding.

11. Pension and Postretirement Plans

Defined Benefit Pension Plan

The System sponsors a noncontributory defined benefit pension plan which covered substantially all full-time employees and regular part-time employees until frozen in 2003. At that time, employees elected to stay within the defined benefit pension plan or opt into the defined contribution plan. No new participants were allowed to join the plan after this time. Effective March 19, 2012, the plan's benefits were frozen and benefits ceased to accrue for plan participants resulting in a curtailment at December 31, 2011. Pension benefits are determined based upon employee earnings, social security benefits, covered compensation, and years of service. The funding policy is to contribute annually the amount required to be funded under provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as determined by an actuary. The System contributed $2,900 and $3,200 for the defined benefit pension plan during 2013 and 2012, respectively. As the expected return on investments is projected to generate a return greater than actuarial cost, the System expects income of $1,267 in 2014.

In 2013 and 2012, the change in the liability not yet recognized within pension expenses was $21,745 and $8,878. This is included as a component of the consolidated statement of changes in unrestricted net assets. The measurement date is December 31 of each fiscal year.

During 2013 lump-sum benefit payments from the plan were $6,055 and exceeded the interest cost for the fiscal year. As a result, settlement accounting was triggered resulting in a re-measurement of plan assets and pension obligation as well as accelerating the recognition of prior service costs. As such, the Plan recognized $610 as a settlement charge in 2013. For 2014, settlement accounting will be triggered if lump-sum payouts exceed the interest cost of $3,819.

Defined Contribution Plans

The System contributes 3.3% of compensation for the benefit of any participant in either the Rockford Health System Fixed Contribution Plan (the "Fixed Contribution Plan"), or the Rockford Clinic Retirement Plan (the "Clinic Retirement Plan"), that is employed as of December 31 each year. Employees are eligible to participate in one of the two defined contribution plans after service and age requirements are met, as long as they do not participate in the defined benefit pension plan. At December 31, 2013 and 2012, the System's liability to the Fixed Contribution Plan was $3,786 and $3,709, respectively. The cash contribution to the Fixed Contribution Plan for the prior-year liability in 2013 and 2012 was $3,527 and $1,987, respectively. At December 31, 2013 and 2012, the System's liability to the Clinic Retirement Plan was $561 and $567, respectively. Cash contributions made to the Clinic Retirement Plan for the prior-year liability in 2013 and 2012 were $547 and $557, respectively.

Voluntary Contribution Retirement Plan

The System also participates in a voluntary defined contribution pension plan. Participants can contribute gross compensation per the plan's agreement and federal guidelines and the System makes matching contributions that are limited to an amount specified in the plan and per federal guidelines. The System's pension expense for this plan for the years ended December 31, 2013 and 2012 amounted to $5,757 and $5,221, respectively.

Salary Deferral Retirement Plan
The System offers a 457(b) retirement plan for highly compensated individuals. This voluntary salary deferral is recorded as a long-term asset and liability to the System of $6,480 and $5,174 at December 31, 2013 and 2012, respectively. These amounts are included in other assets and other liabilities in the accompanying consolidated balance sheets.

Defined Benefit Postretirement Medical Plan
The System sponsors a postretirement medical plan with plan changes effective January 1, 2004. The defined benefit postretirement medical plan provides medical benefits for salaried and non-salaried employees hired before January 1, 2004. The retiree medical plan is noncontributory and is unfunded, other than amounts resulting from the timing of deposits to pay benefits. The System recognizes the expected cost of these postretirement benefits during the years the employees render service. Postretirement benefit expense is allocated among the participating entities as determined by an actuary. The expected expense for the System in 2014 is $603 for this plan. In 2013 and 2012, the change in the liability not yet recognized within postretirement expenses was $1,381 and ($605). This is included as a component within changes as unrestricted net assets apart from expenses, as the initially recognized amounts. The measurement date is December 31 of each fiscal year.

Information regarding the benefit obligations and assets of the pension and postretirement medical benefit plans for RHS as of and for the years ended December 31, 2013 and 2012 are as follows:

	Pension Benefits		Postretirement Medical Benefits	
	2013	2012	2013	2012
Change in benefit obligation:				
Benefit obligation — beginning of year	$ 92,177	$ 81,132	$ 8,275	$ 7,166
Service cost	-	690	800	722
Interest cost	3,754	3,902	284	318
Actuarial (gains) losses	(12,838)	10,730	(1,394)	501
Settlements	(6,055)	-	-	-
Participant Contributions	-	-	124	138
Benefits paid	(534)	(4,277)	(229)	(570)
Benefit obligation — end of year	$ 76,504	$ 92,177	$ 7,860	$ 8,275
Change in plan assets:				
Fair value of plan assets — beginning of year	$ 64,863	$ 59,625	$ -	$ -
Actual return on plan assets	12,486	6,315	-	-
Employer contributions	2,900	3,200	105	432
Settlements	(6,055)	-	-	-
Participant Contributions	-	-	124	138
Benefits paid	(534)	(4,277)	(229)	(570)
Fair value of plan assets — end of year	73,660	64,863	-	-
Funded status of the plan	$ (2,844)	$ (27,314)	$ (7,860)	$ (8,275)
Amounts recognized in the statement of financial position				
Group balance sheet:				
Current liabilities	-	-	(497)	(436)
Noncurrent liabilities	(2,844)	(27,314)	(7,363)	(7,839)
Net amount recognized	$ (2,844)	$ (27,314)	$ (7,860)	$ (8,275)

Pension and postretirement medical changes, other than periodic pension expense, that have been included within changes in unrestricted net assets consist of:

	Pension Benefits		Postretirement Medical Benefits	
	2013	2012	2013	2012
Prior service credit arising during the period	$ -	$ -	$ -	$ -
Actuarial loss (gain) arising during the period	(20,717)	9,180	(1,394)	501
Reclassification adjustment for recognition of prior service (cost) credit	-	-	13	15
Recognition due to settlements	(610)	-		
Reclassification adjustment for recognition of actuarial loss (gain)	(418)	(302)	-	90
Total recognized as a separate adjustment to net assets	$ (21,745)	$ 8,878	$ (1,381)	$ 606

The pension plan and postretirement medical plan items not yet recognized as a component of periodic pension and postretirement medical plan expense, but included within unrestricted net assets, are as follows:

	Pension Benefits		Postretirement Medical Benefits	
	2013	2012	2013	2012
Unrecognized actuarial loss (gain)	$ 5,239	$ 26,983	$ (2,151)	$ (757)
Unrecognized prior service cost (credit)	-	-	(16)	(29)
Net amount unrecognized	$ 5,239	$ 26,983	$ (2,167)	$ (786)

There is no actuarial loss will be included as a component of period pension expense in 2014. An estimated $152 in prior service credit will be included as components of period postretirement medical plan expense in 2014.

	Pension Benefits		Postretirement Medical Benefits	
	2013	2012	2013	2012
Assumptions:				
Discount rate-benefit obligation	5.12 %	4.10 %	4.08 %	3.21 %
Discount rate-benefit cost	4.1%/5.06%	4.91 %	3.21 %	4.15 %
Rate of compensation increase	N/A	N/A	N/A	N/A
Assumed rate of return on plan assets	7.00 %	7.00 %	N/A	N/A

For the pension plan, the discount rate was selected with consideration of the plan's characteristics and reference to a hypothetical bond portfolio. The discount rate on the postretirement plan was selected with consideration of the plan's characteristics and reference to the Citigroup Above Median Pension Discount Curve.

For postretirement medical benefit obligation measurement purposes, 7.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2013 and 2012. The rate was assumed to decrease gradually to 5.0% for 2018 and remain at that level thereafter. A 1% change in the assumed health care cost trend rates would have the following effects:

	1% increase	1% decrease
Effect on total of service and interest cost components for 2013	$ 56	$ (52)
Effect on December 31, 2013 postretirement benefit obligation	231	(218)

The components of accumulated postretirement medical benefit obligation as of December 31, 2013 and 2012, for the System are as follows:

	2013	2012
Accumulated postretirement benefit obligation:		
Retirees	$ 380	$ 368
Fully eligible plan participants	3,028	3,174
Other active plan participants	4,452	4,733
Total	$ 7,860	$ 8,275

The accumulated benefit obligation for the defined benefit pension plan was $76,504 and $92,177 as of December 31, 2013 and 2012. The System contributed $2,900 to the defined benefit plan in 2013 and expects to contribute $1,820 during the 2014 plan year.

The components of the RHS net periodic benefit cost for the years ended December 31, 2013 and 2012 are as follows:

	Pension Benefits		Postretirement Medical Benefits	
	2013	2012	2013	2012
Service cost	$ -	$ 689	$ 800	$ 722
Interest cost	3,754	3,902	284	319
Expected return on plan assets	(4,608)	(4,765)	-	-
Amortization of prior service cost (credit)	-	-	(13)	(15)
Amortization of unrecognized net loss (gain)	418	302	-	(90)
Net Periodic Pension Cost/(Income)	(436)	128		
Settlement Charges	610	-		
Benefit cost	$ 174	$ 128	$ 1,071	$ 936

Expected future benefit payments for the years ended December 31, are as follows:

	Pension	Postretirement Medical
2014	$ 3,814	$ 497
2015	3,473	640
2016	4,940	663
2017	5,642	677
2018	4,356	882
2019-2023	30,159	5,016

Plan Assets

The System's investment goals are to achieve returns in excess of the defined benefit plan's actuarial assumptions, commensurate with the plan's risk posture and long-term investment horizon; to invest in a prudent manner in accordance with fiduciary requirements of ERISA; and to ensure that plan assets will meet the obligations of the plan as they come due.

Investment management of the defined benefit pension plan is delegated to professional investment management firms that must adhere to policy guidelines and objectives, which are approved by the investment committee. The investment policy includes specific guidelines for quality, asset concentration, asset mix, asset allocations, and performance expectations. The pension fund investment allocations are periodically reviewed for compliance with the pension investment policy by the investment committee. An independent investment consultant is used to measure and report on investment performance; to perform asset/liability modeling studies and recommend changes to objectives, guidelines, manager, or asset class structure; and to keep the System informed of current investment trends and issues.

The expected long-term rate of return on plan assets assumptions is based on modeling studies completed with the assistance of the System's actuaries and investment consultants. The models take into account inflation, asset class returns, and bond yields for both domestic and foreign markets. They are also calibrated to take into consideration historical experience, including a random variable to reflect real-life uncertainty of the future and to project a large number of future economic scenarios. The consequences of adopting various investment policies on the future financial health of the defined benefit pension plan under each of the scenarios are then evaluated. These studies, along with the history of returns for the plan, indicated that expected future returns, weighted by asset allocation, support an expected long-term asset return assumption of 8.0% for 2013 and 2012.

The fair values of the System's pension plan assets at December 31, 2013 and 2012 by asset category are as follows:

		Fair Value Measurement at December 31, 2013		
Asset category	**Total**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash	$ 1,701	$ 1,701	$ -	$ -
Equity securities				
U.S. companies	19,722	19,722		
Mutual funds				
U.S. companies	20,191	20,191		
International companies	11,289	11,289		
Fixed Income securities				
U.S. Treasury and government obligations	5,302	2,870	2,432	
Corporate Bonds	7,218		7,218	
Mutual funds				
Unconstrained fixed income	5,329	5,329		
U.S. Mortgage backed securities	2,908	2,908		
Total	$ 73,660	$ 64,010	$ 9,650	$ -

		Fair Value Measurement at December 31, 2012		
Asset category	**Total**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash	$ 3,085	$ 3,085	$ -	$ -
Equity securities				
U.S. companies	15,805	15,805		
Mutual funds				
U.S. companies	16,933	16,933		
International companies	9,836	9,836		
Fixed Income securities				
U.S. Treasury and government obligations	6,709	4,580	2,129	
Corporate Bonds	8,835		8,835	
Mutual funds				
U.S. Mortgage backed securities	3,660	3,660		
Total	$ 64,863	$ 53,899	$ 10,964	$ -

The Company's target allocations for plan assets are 65% equity securities, 32% fixed income and 3% cash and equivalents. Equity securities primarily include investments in large-cap and small-cap companies primarily located in the United States. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities and U.S. Treasuries.

The target and actual allocations for plan assets as of December 31, 2013 and 2012 are as follows:

	Target Range		2013	2012
Equity securities	55-75	%	70 %	65 %
Fixed income	22-42		28	30
Cash and cash equivalents	0-6		2	5
			100 %	100 %

12. Restricted Net Assets and Endowment

Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Temporarily restricted net assets as of December 31, 2013 and 2012 are available for the following purposes:

	2013	2012
Care for the indigent	$ 1,079	$ 992
Capital purchases	9	9
Other purposes	12,457	11,122
Total	$ 13,545	$ 12,123

Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity. Permanently restricted net assets as of December 31, 2013 and 2012 are invested for the following purposes:

	2013	2012
Care for the indigent	$ 2,967	$ 2,655
Educational programs	882	841
General services	4,449	4,332
Total	$ 8,298	$ 7,828

Effective June 30, 2009, Illinois passed "Uniform Prudent Management of Institutional Funds Act" (UPMIFA). The Board of Directors of the System has interpreted UPMIFA as sustaining the preservation 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, the System classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Board of Directors has determined that donor-restricted endowment funds will be governed by specific policies, which assure that the original gift shall be protected to perpetuity as the endowed corpus and distribution shall not be made if it were to bring the value below that threshold; which explain the calculation used to determine funds available for expenditure, and which govern the process for expenditure of funds, in accordance with donor restrictions.

The System has the following donor-restricted and Board-designated endowment activities during the years ended December 31, 2013 and 2012 delineated by net asset class:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of 2013	$ 377	$ 3,374	$ 3,363	$ 7,114
Investment return				
Investment income	6	11	53	70
Net appreciation (realized and unrealized)	42	86	398	526
Total investment return	48	97	451	596
Contributions	-	149	-	149
Appropriation of endowment assets for expenditure	(34)	-		(34)
Reclassification for UPMIFA	-	312	-	312
Endowment net assets, end of 2013	$ 391	$ 3,932	$ 3,814	$ 8,137

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of 2012	$ 354	$ 2,899	$ 3,048	$ 6,301
Investment return				
Investment income	6	9	56	71
Net appreciation (realized and unrealized)	17	43	259	319
Total investment return	23	52	315	390
Contributions	-	70	-	70
Reclassification for UPMIFA	-	353	-	353
Endowment net assets, end of 2012	$ 377	$ 3,374	$ 3,363	$ 7,114

Endowment net asset composition by type of fund as of December 31, 2013 and 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
As of December 31, 2013				
Donor-restricted endowment funds	$ -	$ 3,932	$ 3,814	$ 7,746
Board-designated endowment funds	391	-	-	391
Total funds	$ 391	$ 3,932	$ 3,814	$ 8,137
As of December 31, 2012				
Donor-restricted endowment funds	$ -	$ 3,374	$ 3,363	$ 6,737
Board-designated endowment funds	377	-	-	377
Total funds	$ 377	$ 3,374	$ 3,363	$ 7,114

Investment and Spending Policies
The System has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. The System expects its endowment funds over time to exceed inflation by 2 to 3 basis points annually. To achieve its long-term rate of return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Actual returns in any given year may vary from this amount.

13. Functional Expenses

The System provides general health care services to residents within its service area. Expenses related to providing these services for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Health care services	$ 344,731	$ 328,638
General and administrative	83,519	83,947
Total	$ 428,250	$ 412,585

14. Commitments and Contingencies

Operating Leases
RHS has entered into leases for surgical equipment and office space. The operating leases contain a renewal option, non-cancellable terms, and escalation clauses. Future minimum rental commitments at December 31, 2013, for these operating leases are as follows:

2014	$ 400
2015	241
2016	201
2017	201
2018	34
Thereafter	-
	$ 1,077

Contingencies
The Hospital, RHPH, and VNA are defending various claims and lawsuits alleging malpractice and other related lawsuits through the normal course of business. Although the outcome of claims cannot be predicted with certainty, in management's opinion, their ultimate disposition will not have a material adverse effect on the financial position of the System.

15. Insurance

The Hospital, RHPH, and VNA have established a self-insurance program on an occurrence basis for professional liability, which provides for both self-insured limits and purchased coverage above such limits. Insurance coverage in excess of the self-insured limits is carried on a claims-made basis. Excess general liability coverage is provided by RHIL, who purchases reinsurance coverage from multiple third-party carriers. At December 31, 2013 and 2012, the receivables for claims paid in excess of self-insured limits were $0 and $3,208, respectively.

The Hospital, RHPH, and VNA had self-insurance reserves of $59,944 and $63,409 at December 31, 2013 and 2012, respectively, both discounted at 3.0%. The undiscounted reserves at December 31, 2013 and 2012 were $65,633 and $69,135, respectively. As of December 31, 2013 and 2012, investments trustee-held for RHS's professional liability program were $70,652 and $66,994, respectively.

SUPPLEMENTAL CONSOLIDATING INFORMATION

ATTACHMENT 6

pwc

Report of Independent Auditors
on Supplemental Consolidating Information

To the Board of Directors of
Rockford Health System:

We have audited the consolidated financial statements of Rockford Health System and Affiliated Corporations (the "System") as of December 31, 2013 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies.

PricewaterhouseCoopers LLP

March 31, 2014

PricewaterhouseCoopers LLP, One North Wacker, Chicago, IL 60606
T: (312) 298 2000, F: (312) 298 2001, www.pwc.com/us

ATTACHMENT 6

Rockford Health System and Affiliated Corporations
Supplemental Schedule -- Consolidating Balance Sheet
For the year ended December 31, 2013
(in thousands of dollars)

	Rockford Memorial Hospital	Rockford Health Physicians	Rockford Memorial Development Foundation	Eliminations	Obligated Group Subtotal	Rockford Health System	Visiting Nurses Association	Eliminations	2013 Consolidated	2012 Consolidated
Assets										
Current assets										
Cash and cash equivalents	$ 38,077	$ 112	$ 450	$ -	$ 38,639	$ 5,321	$ 2,284	$ -	$ 46,244	$ 53,387
Short term investments	5,160	-	18,121	-	23,281	-	-	-	23,281	22,794
Patient accounts receivable, less allowance for doubtful accounts for 2013 - $22,772 and 2012 - $18,412	55,527	8,622	-	(1,079)	63,070	-	3,042	(92)	66,020	70,525
Other receivables	3,478	2,111	187	(355)	5,421	448	766	-	6,636	11,707
Due from affiliates	370	2	10	(13)	369	284	41	(694)	-	-
Current portion of investments limited to use	8,000	-	3,390	-	11,390	-	-	-	11,390	10,605
Inventories	7,324	746	-	-	8,070	-	195	-	8,265	6,969
Prepaid expense and other current assets	1,498	492	11	-	2,001	1,610	126	-	3,737	3,899
Total current assets	119,434	12,085	22,169	(1,447)	152,241	7,664	6,454	(786)	165,573	179,886
Assets limited as to use										
Board-designated and trustee held investments	97,809	-	96,747	-	194,556	-	-	-	194,556	170,886
Donor-restricted and endowment funds	2,280	-	1,471	-	3,751	-	-	-	3,751	3,602
Total assets limited as to use	100,089	-	98,218	-	198,307	-	-	-	198,307	174,488
Property, plant and equipment, net	96,299	35,881	-	-	132,180	7,910	1,336	-	141,426	146,048
Investments in joint ventures	8,969	289	-	-	9,258	-	-	-	9,258	8,886
Other assets, net	13,687	6,342	11,615	(4,261)	27,383	739	2,650	(2,606)	28,166	26,388
Total assets	$ 338,478	$ 54,597	$ 132,002	$ (5,708)	$ 519,369	$ 16,313	$ 10,440	$ (3,392)	$ 542,730	$ 535,696
Liabilities and Net Assets										
Current liabilities										
Current portion of long-term debt	$ 3,200	$ -	$ -	$ -	$ 3,200	$ -	$ -	$ -	$ 3,200	$ 3,368
Accounts payable	6,977	2,393	550	(355)	9,565	5,208	599	(18)	15,354	15,410
Accrued expenses	25,388	17,372	37	(1,079)	41,718	3,042	909	(74)	45,595	50,555
Deferred revenues	12	-	-	-	12	200	108	-	320	446
Due to third-party payors	13,249	-	-	-	13,249	-	-	-	13,249	13,495
Due to affiliates	2	49	26	(13)	64	3	627	(694)	-	-
Total current liabilities	48,828	19,814	613	(1,447)	67,808	8,453	2,243	(786)	77,718	83,274
Other liabilities										
Long-term debt, net of current portion	60,107	27,964	-	-	88,071	-	-	-	88,071	91,265
Accrued liabilities under self-insurance program	33,347	18,396	-	-	51,743	-	201	-	51,944	55,409
Accrued pension	2,579	198	-	-	2,777	-	67	-	2,844	27,314
Accrued postretirement medical benefits	5,910	1,174	-	-	7,084	-	279	-	7,363	7,839
Other liabilities, net	5,250	4,810	83	-	10,143	725	145	-	11,013	11,021
Total liabilities	156,021	72,356	696	(1,447)	227,626	9,178	2,935	(786)	238,953	276,122
Net assets										
Unrestricted	172,792	(17,759)	114,867	-	269,900	7,135	6,635	(1,736)	281,934	239,623
Temporarily restricted	7,040	-	10,421	(3,916)	13,545	-	378	(378)	13,545	12,123
Permanently restricted	2,625	-	6,018	(345)	8,298	-	492	(492)	8,298	7,828
Total net assets	182,457	(17,759)	131,306	(4,261)	291,743	7,135	7,505	(2,606)	303,777	259,574
Total liabilities and net assets	$ 338,478	$ 54,597	$ 132,002	$ (5,708)	$ 519,369	$ 16,313	$ 10,440	$ (3,392)	$ 542,730	$ 535,696

ATTACHMENT 6

Rockford Health System and Affiliated Corporations
Supplemental Schedule -- Consolidating Statement of Operations and Changes in Unrestricted Net Assets
For the year ended December 31, 2013
(in thousands of dollars)

	Rockford Memorial Hospital	Rockford Health Physicians	Rockford Memorial Development Foundation	Eliminations	Obligated Group Subtotal	Rockford Health System	Visiting Nurses Association	Eliminations	2013 Consolidated	2012 Consolidated
Revenues										
Net patient service revenue	$ 301,248	$ 85,067	$ -	$ (14,460)	$ 371,855	$ -	$ 11,556	$ (236)	$ 383,175	$ 381,269
Provision for doubtful patient accounts	(18,972)	(5,658)	-	-	(24,630)	-	(452)	-	(25,082)	(22,450)
Total net patient service revenue	282,276	79,409	-	(14,460)	347,225	-	11,104	(236)	358,093	358,819
Provider tax revenue	25,160	-	-	-	25,160	-	-	-	25,160	23,560
Other operating revenues and net assets released from restrictions	28,256	3,999	16,261	(5,717)	42,799	7,282	2,402	(6,823)	45,660	33,352
Total revenue	335,692	83,408	16,261	(20,177)	415,184	7,282	13,506	(7,059)	428,913	415,731
Expenses										
Salaries and wages	107,917	76,657	270	3,388	188,232	3,588	6,798	-	198,618	196,606
Employee benefits	37,362	16,338	97	(14,765)	39,032	875	2,136	(244)	41,799	37,560
Supplies	55,185	6,199	46	-	61,430	37	1,827	(8)	63,286	60,941
Purchased services and professional fees	55,458	23,705	176	(8,805)	70,534	4,597	1,172	(6,718)	69,585	68,492
Depreciation and amortization	16,002	6,057	-	-	22,059	44	462	-	22,565	22,419
Provision for doubtful accounts	131	-	-	-	131	-	-	-	131	71
Insurance	7,141	2,507	-	-	9,648	71	115	-	9,834	5,175
Provider tax assessment	12,254	-	-	-	12,254	-	-	-	12,254	11,012
Interest	1,382	890	-	-	2,272	-	-	-	2,272	3,050
Other	3,989	2,067	743	5	6,804	445	746	(89)	7,906	7,259
Total expenses	296,821	134,420	1,332	(20,177)	412,396	9,657	13,256	(7,059)	428,250	412,585
Operating income (loss)	38,871	(51,012)	14,929	-	2,788	(2,375)	250	-	663	3,146
Nonoperating gains (losses)										
Investment income (loss)	15,910	28	-	-	15,938	-	-	-	15,938	12,642
Change in fair market value of swap	1,764	-	-	-	1,764	-	-	-	1,764	(535)
Other, net	810	(9)	-	-	801	(1)	-	-	800	1,284
Excess (deficit) of revenues over expenses	57,355	(50,993)	14,929	-	21,291	(2,376)	250	-	19,165	16,537
Unrealized gains (losses) on investments	-	-	-	-	-	-	-	-	-	(23)
Pension-related changes other than net periodic pension cost	19,751	1,479	-	-	21,230	-	515	-	21,745	(8,878)
Postretirement medical benefit-related changes other than net postretirement medical benefit cost	1,097	221	-	-	1,318	-	63	-	1,381	(605)
Net change in beneficial interest in trust	-	-	-	-	-	-	242	(242)	-	-
Net assets released from restrictions used for capital	20	-	-	-	20	-	-	-	20	432
Transfers (to) from affiliates	(50,255)	49,584	-	-	(671)	671	-	-	-	-
Increase (decrease) in unrestricted net assets	$ 27,968	$ 291	$ 14,929	$ -	$ 43,188	$ (1,705)	$ 1,070	$ (242)	$ 42,311	$ 7,463

ATTACHMENT 6