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Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

▶ The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2011

Open to Public Inspection

A For the 2011 calendar year, or tax year beginning 01-01-2011 and ending 12-31-2011

B Check if applicable
- ☐ Address change
- ☐ Name change
- ☐ Initial return
- ☐ Terminated
- ☐ Amended return
- ☐ Application pending

C Name of organization
Rockford Health Physicians

Doing Business As

Number and street (or P O box if mail is not delivered to street address) | Room/suite
2300 N Rockton Ave

City or town, state or country, and ZIP + 4
Rockford, IL 61103

D Employer identification number
36-3907436

E Telephone number
(815)971-5000

G Gross receipts $ 84,944,793

F Name and address of principal officer
Gary Kaatz
2400 N Rockton Ave
Rockford, IL 61103

H(a) Is this a group return for affiliates? ☐ Yes ☑ No

H(b) Are all affiliates included? ☐ Yes ☐ No
If "No," attach a list (see instructions)

H(c) Group exemption number ▶

I Tax-exempt status ☑ 501(c)(3) ☐ 501(c) ( ) ◀ (insert no) ☐ 4947(a)(1) or ☐ 527

J Website: ▶ WWW RHSNET ORG

K Form of organization ☑ Corporation ☐ Trust ☐ Association ☐ Other ▶ | **L** Year of formation 1993 | **M** State of legal domicile IL

Part I Summary

1 Briefly describe the organization's mission or most significant activities
To improve and protect the health and welfare of the community we have 175 providers skilled at 30 specialities Our physicians also provide staff for Rockford Memorial Hospital patients needs i e Level I Trauma Center Brain Spine Center Level III Regional Perinatal Center 44-bed Neonatal ICU, etc

2 Check this box ▶☐ if the organization discontinued its operations or disposed of more than 25% of its net assets

3	Number of voting members of the governing body (Part VI, line 1a)	**3**	15
4	Number of independent voting members of the governing body (Part VI, line 1b)	**4**	8
5	Total number of individuals employed in calendar year 2011 (Part V, line 2a)	**5**	764
6	Total number of volunteers (estimate if necessary)	**6**	8
7a	Total unrelated business revenue from Part VIII, column (C), line 12	**7a**	0
b	Net unrelated business taxable income from Form 990-T, line 34	**7b**	

		Prior Year	Current Year
Revenue			
8	Contributions and grants (Part VIII, line 1h)	35,954	26,723
9	Program service revenue (Part VIII, line 2g)	81,150,885	84,069,085
10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	22,667	-54,947
11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	622,692	508,101
12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	81,832,198	84,548,962
Expenses			
13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)		0
14	Benefits paid to or for members (Part IX, column (A), line 4)		0
15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	84,105,815	90,705,421
16a	Professional fundraising fees (Part IX, column (A), line 11e)		0
b	Total fundraising expenses (Part IX, column (D), line 25) ▶0		
17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	38,398,767	43,534,166
18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	122,504,582	134,239,587
19	Revenue less expenses Subtract line 18 from line 12	-40,672,384	-49,690,625

		Beginning of Current Year	End of Year
Net Assets or Fund Balances			
20	Total assets (Part X, line 16)	57,821,261	61,311,050
21	Total liabilities (Part X, line 26)	78,177,386	82,651,803
22	Net assets or fund balances Subtract line 21 from line 20	-20,356,125	-21,340,753

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

▶ Signature of officer — 2012-11-06 Date

▶ Henry M Seybold Sr Vice President of Finance CFO
Type or print name and title

Paid Preparer's Use Only

Preparer's signature ▶ Matthew Petroski	Date 2012-11-06	Check if self-employed ▶ ☐	Preparer's taxpayer identification number (see instructions)
Firm's name (or yours if self-employed), address, and ZIP + 4 ▶ PricewaterhouseCoopers, 2001 Market St Ste 1700, Philadelphia, PA 19103			EIN ▶
			Phone no ▶ (267) 330-3000

May the IRS discuss this return with the preparer shown above? (see instructions) ☑ Yes ☐ No

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III . . . . . ☐

1 Briefly describe the organization's mission

The goal of Rockford Health Physicians RHPH is to improve and protect the health and welfare of the community in accordance with our mission Superior Care Everyday For all our patients We will fulfill our committment through performance excellence, innovation, and lifelong learning

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? . . . . . ☐ Yes ☑ No

If "Yes," describe these new services on Schedule O

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? . . . . . ☐ Yes ☑ No

If "Yes," describe these changes on Schedule O

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a (Code) (Expenses $ 96,262,040 including grants of $) (Revenue $ 69,669,010)

Rockford Health Physicans RHPH is a 175 multi-specialty physician group that has 10 satellite ambulatory offices as well as 5 convenient care locations that provide for non-life threatening emergencies after regular office hours Our patients have access to board certified primary care physicians who coordinate care with board certified specialty physicians In addition to ambulatory practices, many of our physicians provide inpatient services at Rockford Memorial Hospital, a Level I trauma center, a psychiatric unit, adult and pediatric intensive care units, a designated childrens medical center, and a Level III neonatal intensive care unit Physicians are available on call 24-7 There were 402,006 office visits in 2011

4b (Code) (Expenses $ 10,046,201 including grants of $) (Revenue $ 13,526,279)

Ancillary Medical Services were performed to allow physicians to provide the proper care to achieve the best outcome for each patient There were 325,386 ancillary procedures performed during 2011 RHPH provided 277,598 tests and procedures in clincial areas such as laboratory and radiology including CT scans and mammography Other support services included cardiac testing, genetic services, pulmonary function testing, bone scans, pain management, and physical therapy

4c (Code) (Expenses $ 866,078 including grants of $) (Revenue $ 873,796)

The Clinical Research department participates in studies to provide additional benefits to our patients, i e tracking breast cancer survivors a pharmaceutical study to evaluate a drug that treats osteo/rheumatoid arthritis and another that studies gout RHPH participates in a Medicare Physician Quality Report Incentive program to measure data for quality evaluation RHPH is committed to providing services for Maternal and Child care through Illinois Health Connect, a means-tested program that helps kids and families get health care and stay healthy by choosing a medical home RHPH partners with neighboring schools to provide free physicals and community organizations to provide free screenings Staff and physicians participated in various health fairs and hosted educational forums in the communities to bring residents an awareness of health/wellness related topics - such as heart disease and prevention, healthy eating, childrens health concerns, and aging issues RHPH also partners with a local church in the Bridge Clinic to serve uninsured and/or homeless people

4d Other program services (Describe in Schedule O)

(Expenses $ including grants of $) (Revenue $)

4e **Total program service expenses** ▶ $ 107,174,319

Part IV Checklist of Required Schedules

			Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? *If "Yes," complete Schedule A*	1	Yes	
2	Is the organization required to complete *Schedule B, Schedule of Contributors* (see instructions)?	2		No
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? *If "Yes," complete Schedule C, Part I*	3		No
4	**Section 501(c)(3) organizations.** Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? *If "Yes," complete Schedule C, Part II*	4		No
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? *If "Yes," complete Schedule C, Part III*	5		
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? *If "Yes," complete Schedule D, Part I*	6		No
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? *If "Yes," complete Schedule D, Part II*	7		No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? *If "Yes," complete Schedule D, Part III*	8		No
9	Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? *If "Yes," complete Schedule D, Part IV*	9		No
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? *If "Yes," complete Schedule D, Part V*	10		No
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable			
a	Did the organization report an amount for land, buildings, and equipment in Part X, line10? *If "Yes," complete Schedule D, Part VI.*	11a	Yes	
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VII.*	11b		No
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VIII.*	11c		No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part IX.*	11d	Yes	
e	Did the organization report an amount for other liabilities in Part X, line 25? *If "Yes," complete Schedule D, Part X.*	11e		No
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? *If "Yes," complete Schedule D, Part X.*	11f		No
12a	Did the organization obtain separate, independent audited financial statements for the tax year? *If "Yes," complete Schedule D, Parts XI, XII, and XIII*	12a		No
b	Was the organization included in consolidated, independent audited financial statements for the tax year? *If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional*	12b	Yes	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? *If "Yes," complete Schedule E*	13		No
14a	Did the organization maintain an office, employees, or agents outside of the United States?	14a		No
b	Did the organization have aggregate revenues or expenses of more than $10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at $100,000 or more? *If "Yes," complete Schedule F, Part I*	14b		No
15	Did the organization report on Part IX, column (A), line 3, more than $5,000 of grants or assistance to any organization or entity located outside the U S ? *If "Yes," complete Schedule F, Part II and IV*	15		No
16	Did the organization report on Part IX, column (A), line 3, more than $5,000 of aggregate grants or assistance to individuals located outside the U S ? *If "Yes," complete Schedule F, Part III and IV*	16		No
17	Did the organization report a total of more than $15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? *If "Yes," complete Schedule G, Part I*	17		No
18	Did the organization report more than $15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? *If "Yes," complete Schedule G, Part II*	18		No
19	Did the organization report more than $15,000 of gross income from gaming activities on Part VIII, line 9a? *If "Yes," complete Schedule G, Part III*	19		No
20a	Did the organization operate one or more hospitals? *If "Yes," complete Schedule H*	20a		No
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? **Note.** All Form 990 filers that operated one or more hospitals must attach audited financial statements	20b		

Part IV Checklist of Required Schedules *(continued)*

21	Did the organization report more than $5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? *If "Yes," complete Schedule I, Parts I and II*	**21**		No
22	Did the organization report more than $5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? *If "Yes," complete Schedule I, Parts I and III*	**22**		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? *If "Yes," complete Schedule J*	**23**	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than $100,000 as of the last day of the year, that was issued after December 31, 2002? *If "Yes," answer questions 24b–24d and complete Schedule K. If "No," go to line 25*	**24a**	Yes	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	**24b**		No
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	**24c**		No
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	**24d**		No
25a	**Section 501(c)(3) and 501(c)(4) organizations.** Did the organization engage in an excess benefit transaction with a disqualified person during the year? *If "Yes," complete Schedule L, Part I*	**25a**		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? *If "Yes," complete Schedule L, Part I*	**25b**		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? *If "Yes," complete Schedule L, Part II*	**26**		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? *If "Yes," complete Schedule L, Part III*	**27**		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**28a**		No
b	A family member of a current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**28b**		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or owner? *If "Yes," complete Schedule L, Part IV*	**28c**		No
29	Did the organization receive more than $25,000 in non-cash contributions? *If "Yes," complete Schedule M*	**29**		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? *If "Yes," complete Schedule M*	**30**		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? *If "Yes," complete Schedule N, Part I*	**31**		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? *If "Yes," complete Schedule N, Part II*	**32**		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301 7701-2 and 301 7701-3? *If "Yes," complete Schedule R, Part I*	**33**		No
34	Was the organization related to any tax-exempt or taxable entity? *If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1*	**34**	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	**35a**		No
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? *If "Yes," complete Schedule R, Part V, line 2*	**35b**	Yes	
36	**Section 501(c)(3) organizations.** Did the organization make any transfers to an exempt non-charitable related organization? *If "Yes," complete Schedule R, Part V, line 2*	**36**		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? *If "Yes," complete Schedule R, Part VI*	**37**		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? **Note.** All Form 990 filers are required to complete Schedule O	**38**	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response to any question in this Part V . . . . . .

				Yes	No
1a	Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable	**1a**	57		
b	Enter the number of Forms W-2G included in line 1a *Enter -0-* if not applicable	**1b**	0		
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?			**1c**	Yes	
2a	Enter the number of employees reported on Form W-3, *Transmittal of Wage and Tax Statements* filed for the calendar year ending with or within the year covered by this return	**2a**	764			
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns?			**2b**	Yes	
	Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)					
3a	Did the organization have unrelated business gross income of $1,000 or more during the year?			**3a**		No
b	If "Yes," has it filed a Form 990-T for this year? *If "No," provide an explanation in Schedule O*			**3b**		
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account or securities account)?			**4a**		No
b	If "Yes," enter the name of the foreign country ▶ _____ See instructions for filing requirements for Form TD F 90-22 1, Report of Foreign Bank and Financial Accounts					
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? . .			**5a**		No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?			**5b**		No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?			**5c**		
6a	Does the organization have annual gross receipts that are normally greater than $100,000, and did the organization solicit any contributions that were not tax deductible?			**6a**		No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?			**6b**		
7	**Organizations that may receive deductible contributions under section 170(c).**					
a	Did the organization receive a payment in excess of $75 made partly as a contribution and partly for goods and services provided to the payor?			**7a**		No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?			**7b**		
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?			**7c**		No
d	If "Yes," indicate the number of Forms 8282 filed during the year	**7d**				
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?			**7e**		No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? . .			**7f**		No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?			**7g**		No
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?			**7h**		No
8	**Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.** Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?			**8**		
9	**Sponsoring organizations maintaining donor advised funds.**					
a	Did the organization make any taxable distributions under section 4966?			**9a**		
b	Did the organization make a distribution to a donor, donor advisor, or related person?			**9b**		
10	**Section 501(c)(7) organizations.** Enter					
a	Initiation fees and capital contributions included on Part VIII, line 12 . . .	**10a**				
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	**10b**				
11	**Section 501(c)(12) organizations.** Enter					
a	Gross income from members or shareholders	**11a**				
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	**11b**				
12a	**Section 4947(a)(1) non-exempt charitable trusts.** Is the organization filing Form 990 in lieu of Form 1041?			**12a**		
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	**12b**				
13	**Section 501(c)(29) qualified nonprofit health insurance issuers.**					
a	Is the organization licensed to issue qualified health plans in more than one state? **Note.** All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state			**13a**		
b	Enter the aggregate amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	**13b**				
c	Enter the aggregate amount of reserves on hand	**13c**				
14a	Did the organization receive any payments for indoor tanning services during the tax year?			**14a**		No
b	If "Yes," has it filed a Form 720 to report these payments? *If "No," provide an explanation in Schedule O* . .			**14b**		

Part VI **Governance, Management, and Disclosure** For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Check if Schedule O contains a response to any question in this Part VI . . . . . ☑

Section A. Governing Body and Management

				Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	1a	15		
b	Enter the number of voting members included in line 1a, above, who are independent	1b	8		
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?		2		No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person? .		3		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?		4		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets? .		5		No
6	Did the organization have members or stockholders?		6	Yes	
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?		7a	Yes	
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?		7b		No
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following				
a	The governing body?		8a	Yes	
b	Each committee with authority to act on behalf of the governing body?		8b	Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O		9		No

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

			Yes	No
10a	Did the organization have local chapters, branches, or affiliates?	10a		No
b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?	10b		
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a	Yes	
b	Describe in Schedule O the process, if any, used by the organization to review the Form 990			
12a	Did the organization have a written conflict of interest policy? *If "No," go to line 13*	12a	Yes	
b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes	
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	12c		No
13	Did the organization have a written whistleblower policy?	13	Yes	
14	Did the organization have a written document retention and destruction policy?	14	Yes	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	15a	Yes	
b	Other officers or key employees of the organization	15b	Yes	
	If "Yes," to line 15a or 15b, describe the process in Schedule O (see instructions)			
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a		No
b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?	16b		No

Section C. Disclosure

17 List the States with which a copy of this Form 990 is required to be filed ▶ IL

18 Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection Indicate how you made these available Check all that apply

☐ Own website ☑ Another's website ☑ Upon request

19 Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public See Additional Data Table

20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization ▶

David Vola Controller
2400 N Rockton Avenue
Rockford, IL 61103
(815) 971-5000

Part VII **Compensation of Officers, Directors,Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors**

Check if Schedule O contains a response to any question in this Part VII . . . . . ☑

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed Report compensation for the calendar year ending with or within the organization's tax year

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of "key employee "
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than $100,000 from the organization and any related organizations
- List all of the organization's **former** officers, key employees, or highest compensated employees who received more than $100,000 of reportable compensation from the organization and any related organizations
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than $10,000 of reportable compensation from the organization and any related organizations

List persons in the following order individual trustees or directors, institutional trustees, officers, key employees, highest compensated employees, and former such persons

☐ Check this box if neither the organization nor any related organizations compensated any current or former officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W- 2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) Duane RBach Treas	10	X						0	0	0
(2) Jack JBecherer Director	25	X						0	0	0
(3) James WBreckenridge Director	39 00	X						454,003	0	37,875
(4) Thomas DBudd Director	50	X						0	0	0
(5) John WChadwick Director	30	X						0	0	0
(6) Eleanor FDoar Vice Chair	10	X						0	0	0
(7) John TDorsey Director	60 50	X						326,375	0	51,104
(8) Pamela SFox Director	10	X						0	0	0
(9) Jos LGonzalez Director	52 20	X						397,162	0	54,899
(10) Curtis DWorden Director	10	X						0	0	0
(11) Paul AGreen Chairman	10	X						0	0	0
(12) Gary EKaatz President	1 00	X		X				0	1,065,011	210,097
(13) Dennis TUehara Director	30 00	X						469,530	0	71,890
(14) Connie MVitali Director	10	X						0	0	0
(15) Alphonso Goode Director	01	X						0	0	0
(16) Henry MSeybold Treasurer	1 00			X				0	494,320	104,980
(17) Julie APeterson Secretary	2 00			X				0	77,262	34,984

Part VII **Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees** (continued)

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(18) Kevin Ruggles Chief Phy Exec	10			X				656,756	0	138,910
(19) James Sturm Physician	40 00					X		773,729	0	49,673
(20) Bharati Roy Physician	40 00					X		700,877	0	54,816
(21) Greg Nowak Physician	40 00					X		694,729	0	49,792
(22) Arthur Rettig Physician	40 00					X		810,885	0	81,800
(23) Craig Rogers Physician	40 00					X		656,638	0	67,399
(24) Dennis Oltz VP Finance	40 00						X	221,594	0	65,818
(25) John Rhoades COO	40 00						X	158,705	0	13,872

1b	**Sub-Total** . . . . . ▶			
c	**Total from continuation sheets to Part VII, Section A** . . . . ▶			
d	**Total (add lines 1b and 1c)** . . . . . ▶	6,320,983	1,636,593	1,087,909

2 Total number of individuals (including but not limited to those listed above) who received more than $100,000 of reportable compensation from the organization ▶ 15

			Yes	No
3	Did the organization list any **former** officer, director or trustee, key employee, or highest compensated employee on line 1a? *If "Yes," complete Schedule J for such individual*	**3**	Yes	
4	For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than $150,000? *If "Yes," complete Schedule J for such individual*	**4**	Yes	
5	Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? *If "Yes," complete Schedule J for such person*	**5**		No

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than $100,000 of compensation from the organization Report compensation for the calendar year ending with or within the organization's tax year

(A) Name and business address	(B) Description of services	(C) Compensation
Bratislav Velimirovic 425 Dillingham Ln Kalamazoo, MI 49009	Healthcare Services	1,307,162
Athena Health PO Box 7247-6482 Philadelphia, PA 19170	Billing Services	4,060,311
Rock Valley Industries 5549 International Drive Rockford, IL 61109	Janitorial Services	628,561
NXC Imaging Inc 2118 Fourth Ave So Minneapolis, MN 55404	Healthcare Services	709,150
Schmeling Construction 5549 International Drive Rockford, IL 61109	General Contractor	1,712,423

2 Total number of independent contractors (including but not limited to those listed above) who received more than $100,000 of compensation from the organization ▶ 28

Part VIII Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns	1a				
	b	Membership dues	1b				
	c	Fundraising events	1c				
	d	Related organizations	1d	23,318			
	e	Government grants (contributions)	1e				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	3,405			
	g	Noncash contributions included in lines 1a-1f $					
	h	**Total.** Add lines 1a-1f		26,723			
Program Service Revenue			Business Code				
	2a	Physician Medical Services	621110	43,105,805	43,105,805		
	b	Ancillary Medical Services	621400	8,369,017	8,369,017		
	c	Medicare/Medicaid	900099	31,720,467	31,720,467		
	d	Clinical Research	900099	83,173	83,173		
	e	Health Connect, PQRI and MCH	621400	790,623	790,623		
	f	All other program service revenue					
	g	**Total.** Add lines 2a–2f		84,069,085			
	3	Investment income (including dividends, interest and other similar amounts)		21,732			21,732
	4	Income from investment of tax-exempt bond proceeds					
	5	Royalties					
			(i) Real	(ii) Personal			
	6a	Gross rents	507,654				
	b	Less rental expenses	315,516				
	c	Rental income or (loss)	192,138				
	d	Net rental income or (loss)		192,138			192,138
			(i) Securities	(ii) Other			
	7a	Gross amount from sales of assets other than inventory		3,636			
	b	Less cost or other basis and sales expenses		80,315			
	c	Gain or (loss)		-76,679			
	d	Net gain or (loss)		-76,679			-76,679
Other Revenue	8a	Gross income from fundraising events (not including $ _____ of contributions reported on line 1c) See Part IV, line 18	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from fundraising events					
	9a	Gross income from gaming activities See Part IV, line 19	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from gaming activities					
	10a	Gross sales of inventory, less returns and allowances	a				
	b	Less cost of goods sold	b				
	c	Net income or (loss) from sales of inventory					
		Miscellaneous Revenue	Business Code				
	11a	Partnership Income	621300	27,621			27,621
	b	Purchase Discounts	900099	9,743			9,743
	c	Support Services	561499	62,670			62,670
	d	All other revenue		215,929			215,929
	e	**Total.** Add lines 11a–11d		315,963			
	12	**Total revenue.** See Instructions		84,548,962	84,069,085		453,154

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns
All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D)
Check if Schedule O contains a response to any question in this Part IX . . . . . ☐

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States See Part IV, line 21	0			
2	Grants and other assistance to individuals in the United States See Part IV, line 22	0			
3	Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16	0			
4	Benefits paid to or for members	0			
5	Compensation of current officers, directors, trustees, and key employees	2,750,833	1,972,023	778,810	
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	0			
7	Other salaries and wages	73,346,503	66,484,806	6,861,697	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	3,429,564	3,059,142	370,422	
9	Other employee benefits	7,884,125	6,856,614	1,027,511	
10	Payroll taxes	3,294,396	2,989,699	304,697	
11	Fees for services (non-employees)				
a	Management	1,756,991		1,756,991	
b	Legal	149,723		149,723	
c	Accounting	89,246		89,246	
d	Lobbying	0			
e	Professional fundraising *See Part IV, line 17* . .				
f	Investment management fees	0			
g	Other	7,089,984	6,738,583	351,401	
12	Advertising and promotion	770,461	57,373	713,088	
13	Office expenses	2,764,856	1,468,582	1,296,274	
14	Information technology	2,090,793	1,718,941	371,852	
15	Royalties . .	0			
16	Occupancy	7,355,127	389,351	6,965,776	
17	Travel	59,964	34,850	25,114	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials	70,711	40,187	30,524	
19	Conferences, conventions, and meetings	0			
20	Interest	970,498		970,498	
21	Payments to affiliates	0			
22	Depreciation, depletion, and amortization	4,989,424	1,495,100	3,494,324	
23	Insurance	2,689,226	2,425,354	263,872	
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a	Bad Debt	4,652,884	4,652,884		
b	Drugs and Medical Supplies	4,608,850	4,607,882	968	
c	Other Purchased Services	2,479,036	1,531,656	947,380	
d					
e					
f	All other expenses	946,392	651,292	295,100	
25	**Total functional expenses.** Add lines 1 through 24f	134,239,587	107,174,319	27,065,268	0
26	**Joint costs.** Check here ▶ ☐ if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X Balance Sheet

				(A) Beginning of year		(B) End of year
Assets	1	Cash—non-interest-bearing		18,435	1	17,615
	2	Savings and temporary cash investments		3,628,746	2	2,725,571
	3	Pledges and grants receivable, net			3	
	4	Accounts receivable, net		7,134,367	4	7,660,257
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L			5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) Complete Part II of Schedule L			6	
	7	Notes and loans receivable, net			7	
	8	Inventories for sale or use		628,180	8	629,688
	9	Prepaid expenses and deferred charges		598,268	9	804,328
	10a	Land, buildings, and equipment cost or other basis *Complete Part VI of Schedule D*	10a 90,013,101			
	b	Less accumulated depreciation	10b 44,585,092	41,911,635	10c	45,428,009
	11	Investments—publicly traded securities			11	
	12	Investments—other securities See Part IV, line 11			12	
	13	Investments—program-related See Part IV, line 11		325,043	13	312,977
	14	Intangible assets			14	
	15	Other assets See Part IV, line 11		3,576,587	15	3,732,605
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		57,821,261	16	61,311,050
Liabilities	17	Accounts payable and accrued expenses		50,160,155	17	54,634,572
	18	Grants payable			18	
	19	Deferred revenue			19	
	20	Tax-exempt bond liabilities		28,017,231	20	28,017,231
	21	Escrow or custodial account liability *Complete Part IV of Schedule D*			21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons *Complete Part II of Schedule L*			22	
	23	Secured mortgages and notes payable to unrelated third parties			23	
	24	Unsecured notes and loans payable to unrelated third parties			24	
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24) Complete Part X of Schedule D			25	
	26	**Total liabilities.** Add lines 17 through 25		78,177,386	26	82,651,803
Net Assets or Fund Balances		**Organizations that follow SFAS 117, check here ▶ ☑ and complete lines 27 through 29, and lines 33 and 34.**				
	27	Unrestricted net assets		-20,356,125	27	-21,340,753
	28	Temporarily restricted net assets			28	
	29	Permanently restricted net assets			29	
		Organizations that do not follow SFAS 117, check here ▶ ☐ and complete lines 30 through 34.				
	30	Capital stock or trust principal, or current funds			30	
	31	Paid-in or capital surplus, or land, building or equipment fund			31	
	32	Retained earnings, endowment, accumulated income, or other funds			32	
	33	Total net assets or fund balances		-20,356,125	33	-21,340,753
	34	Total liabilities and net assets/fund balances		57,821,261	34	61,311,050

Part XI Reconcilliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI . . . . . ☑

1	Total revenue (must equal Part VIII, column (A), line 12) . . .	1	84,548,962
2	Total expenses (must equal Part IX, column (A), line 25)	2	134,239,587
3	Revenue less expenses Subtract line 2 from line 1	3	-49,690,625
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A)) . .	4	-20,356,125
5	Other changes in net assets or fund balances (explain in Schedule O)	5	48,705,997
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	-21,340,753

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII . . . . . ☑

			Yes	No
1	Accounting method used to prepare the Form 990 ☐ Cash ☑ Accrual ☐ Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O			
2a	Were the organization's financial statements compiled or reviewed by an independent accountant? . .	2a		No
b	Were the organization's financial statements audited by an independent accountant?	2b	Yes	
c	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	2c	Yes	
d	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both ☐ Separate basis ☑ Consolidated basis ☐ Both consolidated and separated basis			
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?	3a		No
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits . .	3b		

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SCHEDULE A (Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ **Attach to Form 990 or Form 990-EZ.** ▶ **See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Rockford Health Physicians

Employer identification number
36-3907436

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box)

1 ☐ A church, convention of churches, or association of churches **section 170(b)(1)(A)(i).**

2 ☐ A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E)

3 ☑ A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**

4 ☐ A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state

_____

5 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II)

6 ☐ A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**

7 ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II)

8 ☐ A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II)

9 ☐ An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)

10 ☐ An organization organized and operated exclusively to test for public safety See **section 509(a)(4).**

11 ☐ An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h

a ☐ Type I **b** ☐ Type II **c** ☐ Type III - Functionally integrated **d** ☐ Type III - Other

e ☐ By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)

f If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box ☐

g Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

	Yes	No
(i) a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization? **11g(i)**		
(ii) a family member of a person described in (i) above? **11g(ii)**		
(iii) a 35% controlled entity of a person described in (i) or (ii) above? **11g(iii)**		

h Provide the following information about the supported organization(s)

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document? Yes	(iv) No	(v) Did you notify the organization in col (i) of your support? Yes	(v) No	(vi) Is the organization in col (i) organized in the U S ? Yes	(vi) No	(vii) Amount of support?
Total									

Part II **Support Schedule for Organizations Described in IRC 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)**
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 **Total.** Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 **Public Support.** Subtract line 5 from line 4						

Section B. Total Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income (Explain in Part IV) Do not include gain or loss from the sale of capital assets						
11 **Total support** (Add lines 7 through 10)						

12 Gross receipts from related activities, etc (See instructions) **12**

13 **First Five Years** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and **stop here** ▶

Section C. Computation of Public Support Percentage

14 Public Support Percentage for 2011 (line 6 column (f) divided by line 11 column (f))	**14**	0 %
15 Public Support Percentage for 2010 Schedule A, Part II, line 14	**15**	

16a **33 1/3% support test—2011.** If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶

b **33 1/3% support test—2010.** If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶

17a **10%-facts-and-circumstances test—2011.** If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶

b **10%-facts-and-circumstances test—2010.** If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶

18 **Private Foundation** If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions ▶

Part III **Support Schedule for Organizations Described in IRC 509(a)(2)**
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 **Total.** Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of $5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 **Public Support** (Subtract line 7c from line 6)						

Section B. Total Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
13 **Total support** (Add lines 9, 10c, 11 and 12)						

14 **First Five Years** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and **stop here** ▶☐

Section C. Computation of Public Support Percentage

15	Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15	0 %
16	Public support percentage from 2010 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage

17	Investment income percentage for **2011** (line 10c column (f) divided by line 13 column (f))	17	0 %
18	Investment income percentage from **2010** Schedule A, Part III, line 17	18	

19a **33 1/3% support tests—2011.** If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

b **33 1/3% support tests—2010.** If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

20 **Private Foundation** If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions ▶☐

Part IV **Supplemental Information.** Supplemental Information. Complete this part to provide the explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

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SCHEDULE D (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Rockford Health Physicians

Employer identification number
36-3907436

Part I **Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts.** Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

		(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year		
2	Aggregate contributions to (during year)		
3	Aggregate grants from (during year)		
4	Aggregate value at end of year		

5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? ☐ Yes ☐ No

6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit ☐ Yes ☐ No

Part II **Conservation Easements.** Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1 Purpose(s) of conservation easements held by the organization (check all that apply)
☐ Preservation of land for public use (e g , recreation or pleasure) ☐ Preservation of an historically importantly land area
☐ Protection of natural habitat ☐ Preservation of a certified historic structure
☐ Preservation of open space

2 Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

		Held at the End of the Year
a	Total number of conservation easements	2a
b	Total acreage restricted by conservation easements	2b
c	Number of conservation easements on a certified historic structure included in (a)	2c
d	Number of conservation easements included in (c) acquired after 8/17/06	2d

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ▶ _____

4 Number of states where property subject to conservation easement is located ▶ _____

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? ☐ Yes ☐ No

6 Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ▶ _____

7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶ $ _____

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)? ☐ Yes ☐ No

9 In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III **Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets.** Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1 ▶ $ _____

(ii) Assets included in Form 990, Part X ▶ $ _____

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a Revenues included in Form 990, Part VIII, line 1 ▶ $ _____

b Assets included in Form 990, Part X ▶ $ _____

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets *(continued)*

3 Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

- a ☐ Public exhibition
- b ☐ Scholarly research
- c ☐ Preservation for future generations
- d ☐ Loan or exchange programs
- e ☐ Other

4 Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5 During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? ☐ Yes ☐ No

Part IV Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X? ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part XIV and complete the following table

		Amount
c Beginning balance	1c	
d Additions during the year	1d	
e Distributions during the year	1e	
f Ending balance	1f	

2a Did the organization include an amount on Form 990, Part X, line 21? ☐ Yes ☑ No

b If "Yes," explain the arrangement in Part XIV

Part V Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a) Current Year	(b) Prior Year	(c) Two Years Back	(d) Three Years Back	(e) Four Years Back
1a Beginning of year balance					
b Contributions					
c Investment earnings or losses					
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses					
g End of year balance					

2 Provide the estimated percentage of the year end balance held as

- a Board designated or quasi-endowment ▶
- b Permanent endowment ▶
- c Term endowment ▶

3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by

		Yes	No
(i) unrelated organizations	3a(i)		
(ii) related organizations	3a(ii)		
b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?	3b		

4 Describe in Part XIV the intended uses of the organization's endowment funds

Part VI Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of property	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land	1,539,430	5,739,135		5,561,301
b Buildings		62,289,689	30,980,904	31,308,785
c Leasehold improvements				
d Equipment		15,891,407	11,314,732	4,576,675
e Other		4,553,440	572,192	3,981,248
Total. Add lines 1a-1e *(Column (d) should equal Form 990, Part X, column (B), line 10(c).)* ▶				45,428,009

Part VII Investments—Other Securities. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
Other		
Total. *(Column (b) should equal Form 990, Part X, col (B) line 12)* ▶		

Part VIII Investments—Program Related. See Form 990, Part X, line 13.

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
Total. *(Column (b) should equal Form 990, Part X, col (B) line 13)* ▶		

Part IX Other Assets. See Form 990, Part X, line 15.

(a) Description	(b) Book value
(1) Bond Insurance Costs	330,581
(2) Deferred Comp Valuation	3,249,934
(3) Capital Accumulation Account	152,090
Total. *(Column (b) should equal Form 990, Part X, col.(B) line 15.)* . . . . . ▶	3,732,605

Part X Other Liabilities. See Form 990, Part X, line 25.

1 (a) Description of Liability	(b) Amount
Federal Income Taxes	
See Additional Data Table	
Total. *(Column (b) should equal Form 990, Part X, col (B) line 25)* ▶	

2. Fin 48 (ASC 740) Footnote In Part XIV, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC740)

Part XI Reconciliation of Change in Net Assets from Form 990 to Financial Statements

1	Total revenue (Form 990, Part VIII, column (A), line 12)	1	
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	
4	Net unrealized gains (losses) on investments	4	
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	
9	Total adjustments (net) Add lines 4 - 8	9	
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10	

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

1	Total revenue, gains, and other support per audited financial statements			1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12				
a	Net unrealized gains on investments	2a			
b	Donated services and use of facilities	2b			
c	Recoveries of prior year grants	2c			
d	Other (Describe in Part XIV)	2d			
e	Add lines **2a** through **2d**			2e	
3	Subtract line **2e** from line **1**			3	
4	Amounts included on Form 990, Part VIII, line 12, but not on line **1**				
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a			
b	Other (Describe in Part XIV)	4b			
c	Add lines **4a** and **4b**			4c	
5	Total Revenue Add lines **3** and **4c.** (This should equal Form 990, Part I, line 12)			5	

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1	Total expenses and losses per audited financial statements			1	
2	Amounts included on line 1 but not on Form 990, Part IX, line 25				
a	Donated services and use of facilities	2a			
b	Prior year adjustments	2b			
c	Other losses	2c			
d	Other (Describe in Part XIV)	2d			
e	Add lines **2a** through **2d**			2e	
3	Subtract line **2e** from line **1**			3	
4	Amounts included on Form 990, Part IX, line 25, but not on line **1:**				
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a			
b	Other (Describe in Part XIV)	4b			
c	Add lines **4a** and **4b**			4c	
5	Total expenses Add lines **3** and **4c.** (This should equal Form 990, Part I, line 18)			5	

Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b Also complete this part to provide any additional information

Identifier	Return Reference	Explanation
X	2	Rockford Health System RHS adopted FIN 48 in 2007 and the impact in 2011 was not material therefore there is no audit footnote

Additional Data

Software ID: 11000218
Software Version: 2011.0.0
EIN: 36-3907436
Name: Rockford Health Physicians

Form 990, Special Condition Description:

Special Condition Description

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Schedule J (Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees
▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Rockford Health Physicians

Employer identification number
36-3907436

Part I Questions Regarding Compensation

			Yes	No
1a	Check the appropiate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items			
	☐ First-class or charter travel	☐ Housing allowance or residence for personal use		
	☐ Travel for companions	☐ Payments for business use of personal residence		
	☐ Tax idemnification and gross-up payments	☑ Health or social club dues or initiation fees		
	☐ Discretionary spending account	☐ Personal services (e g , maid, chauffeur, chef)		
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement orprovision of all the expenses described above? If "No," complete Part III to explain	**1b**	Yes	
2	Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?	**2**	Yes	
3	Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply			
	☑ Compensation committee	☑ Written employment contract		
	☑ Independent compensation consultant	☑ Compensation survey or study		
	☐ Form 990 of other organizations	☑ Approval by the board or compensation committee		
4	During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization			
a	Receive a severance payment or change-of-control payment?	**4a**	Yes	
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	**4b**	Yes	
c	Participate in, or receive payment from, an equity-based compensation arrangement?	**4c**		No
	If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III			
	Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.			
5	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of			
a	The organization?	**5a**		No
b	Any related organization?	**5b**		No
	If "Yes," to line 5a or 5b, describe in Part III			
6	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of			
a	The organization?	**6a**		No
b	Any related organization?	**6b**		No
	If "Yes," to line 6a or 6b, describe in Part III			
7	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III	**7**	Yes	
8	Were any amounts reported in Form 990, Part VII, paid or accured pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III	**8**		No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?	**9**		

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use Schedule J-1 if additional space needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

Note. The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) James WBreckenridge	(i) (ii)	452,455		1,548	20,000	17,875	491,878	
(2) John TDorsey	(i) (ii)	325,191	50	1,134	42,000	9,104	377,479	
(3) Jos LGonzalez	(i) (ii)	396,028		1,134	36,500	18,399	452,061	
(4) Gary EKaatz	(i) (ii)	627,315	369,197	68,499	84,178	125,919	1,275,108	89,051
(5) Dennis TUehara	(i) (ii)	467,982		1,548	58,500	13,390	541,420	
(6) Henry MSeybold	(i) (ii)	357,107	128,327	8,886	41,536	63,444	599,300	24,857
(7) Kevin Ruggles	(i) (ii)	441,444	213,224	2,088	55,255	83,654	795,665	72,011
(8) James Sturm	(i) (ii)	773,361		368	36,500	13,173	823,402	
(9) Bharati Roy	(i) (ii)	700,247		630	36,500	18,316	755,693	
(10) Greg Nowak	(i) (ii)	694,099		630	31,500	18,292	744,521	
(11) Arthur Rettig	(i) (ii)	780,475		30,410	52,596	29,204	892,685	
(12) Craig Rogers	(i) (ii)	653,992		2,646	53,000	14,399	724,037	
(13) Dennis Oltz	(i) (ii)	175,617	38,245	7,731	32,354	33,465	287,412	4,704
(14) John Rhoades	(i) (ii)	70,318		88,387	2,160	11,712	172,577	

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8 Also complete this part for any additional information

Identifier	Return Reference	Explanation
I	1a	- By policy Membership to the YWCA is paid for the CEO Two social club memberships are paid for by the organization for the CEO and any personal use of these facilities is reimbursed in full The actual cost of these memberships is prorated for personal vs business use and that percentage is added to taxable wages
I	4a	- Chief Operating Officer left the organization in 2010 and was given a severance payment that began in 2011 The expense for 2011 was71,596
I	4b	- The executive team receives annual additions to a non-qualified retirement plan These amounts, accrued for 2010, are included in compensation and listed in detail in Part II for Gary Kaatz 97 196 John Rhoades 1,776 Kevin Ruggles 59,626 Dennis Oltz 4,757 and Henry Seybold 37,168
I	7	- Physician compensation for productivity-based providers is calculated using wRVU worked Relative Value Units as defined by CMS-Centers for Medicare/Medicaid Services Short term incentive opportunities, designating threshold, target and maximum annual awards are established for physicians and executives, driven by the strategic initiatives and priorities of RHS If incentive thresholds are not met, CEO may grant discretionary bonuses for outstanding performance within certain parameters
I	3	The board of directors has a compensation committee that reviews executive compensation They also authorize an independent firm to provide data for analysis of the industry and the market The committee reviews results and makes a recommendation to the board which acts upon this information to set compensation for the CEO The employment contract is drafted by the COO and VP of Administration but authored by the chairman of the compensation committee and presented to the CEO

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Schedule K (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Information on Tax Exempt Bonds

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990).**
▶ **Attach to Form 990.** ▶ **See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Rockford Health Physicians

Employer identification number
36-3907436

Part I Bond Issues

	(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
							Yes	No	Yes	No	Yes	No
A	Illinois Finance Authority	86-1091967	45000GFS5	12-11-2008	29,792,000	Refund 1994 Series Bonds, Issuance Costs, SWAP Payment		X		X		

Part II Proceeds

		A	B	C	D
1	Amount of bonds retired				
2	Amount of bonds defeased				
3	Total proceeds of issue	29,792,000			
4	Gross proceeds in reserve funds				
5	Capitalized interest from proceeds				
6	Proceeds in refunding escrow				
7	Issuance costs from proceeds	464,742			
8	Credit enhancement from proceeds	16,125			
9	Working capital expenditures from proceeds				
10	Capital expenditures from proceeds				
11	Other spent proceeds	29,311,133			
12	Other unspent proceeds				
13	Year of substantial completion	2008			

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
14	Were the bonds issued as part of a current refunding issue?	X							
15	Were the bonds issued as part of an advance refunding issue?		X						
16	Has the final allocation of proceeds been made?	X							
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X							

Part III Private Business Use

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?								
2	Are there any lease arrangements that may result in private business use of bond-financed property?								

Part III Private Business Use *(Continued)*

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use?								
b	If 'Yes' to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c	Are there any research agreements that may result in private business use of bond-financed property?								
d	If 'Yes' to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶								
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶								
6	Total of lines 4 and 5								
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?								

Part IV Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?		X						
2	Is the bond issue a variable rate issue?	X							
3a	Has the organization or the governmental issuer entered into a hedge with respect to the bond issue?	X							
b	Name of provider	JP Morgan Chase							
c	Term of hedge	0000000010 300000000000							
d	Was the hedge superintegrated?		X						
e	Was a hedge terminated?		X						
4a	Were gross proceeds invested in a GIC?		X						
b	Name of provider								
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5	Were any gross proceeds invested beyond an available temporary period?		X						
6	Did the bond issue qualify for an exception to rebate?		X						

Part V Procedures To Undertake Corrective Action

Check the box if the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations . . . . . ☑ Yes ☐ No

Part VI Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule K (see instructions)

Identifier	Return Reference	Explanation

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SCHEDULE O
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on Form 990 or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Rockford Health Physicians

Employer identification number
36-3907436

Identifier	Return Reference	Explanation
Form 990 Part VI	6,7a b	Rockford Health System RHS is the sole corporate member of Rockdford Health Physicians RHPH and has the authority to elect members to the board and ultimately has the authority to approve or deny all RHPH board actions

Identifier	Return Reference	Explanation
Form 990 Part VI	11	The date was gathered by the accounting staff with input from RHPH and RHS executive staffs The data was reviewed and the Form 990 prepared by the RHPH tax analyst Once the Form 990 was made available it was reviewed by an independent accounting firm A copy of the Form 990 was made available to all board members on a secure intercompany website A presentation of the return was made to the RHPH Finance Committee and at a meeting of the Board of Directors before filing

Identifier	Return Reference	Explanation
Form 990 Part VI	12b,c	RHS Compliance Department acting on behalf of RHPH is required to annually send out a copy of the policy with the Conflict of Interest form included Each member is to complete the Financial Interest Disclosure Statement which is part of the policy The RHS compliance Department reviews and retains these statements If a conflict is identified, all affected parties are informed, potential conflicts are reviewed and appropriate actions are taken as a result of the review Employees are given the policy and statement to complete at the beginning of the year or as a new party is hired or joins the RHPH board However the notices were delayed during 2011 anddid not go out until 2012

Identifier	Return Reference	Explanation
Form 990 Part VI	15 a,b	Compensation for executives is governed b the RHS Board of Directors The RHS Board has established a total compensation philosophy that directs the compensation practices for all executives from all related entities including RHPH This board has established a compensation committe to establish and review all executive compensation annually based on the established philosophy An independent external executive compensation firm provides consulting on RHS including RHPH salary ranges and compensation philosophy The appropriate peer group for compensation comparison purposes is other not-for- profit healthcare systems similar in size and complexity RHS generally conducts an analysis of total compensation every three years but may choose to vary from this schedule determined by the Compensation Committee The RHPH board of directors concedes the authority to set compensation to RHS

Identifier	Return Reference	Explanation
Form 990 Part VI	19	Financial statements are available through the Illinois Attorney Generals office Governing documents are available by request from Board Secretary

Identifier	Return Reference	Explanation
Form 990 Part VII		- These members of the board were compensated by related organizations for other duties as well as unpaid service as board members James Breckenridge 3 hrs Chair of Anesthesiology at Rockford Memorial Hospital RMH and service to RMH and RHS boards, John Dorsey 1 1 hrs Lead Physician for Quality Internal Medicine and RMH and RHS boards, Jose Gonzalez 3 5 hrs Medical Director-Neonatology, RMH and RHS boards, Dennis Uehara 27 hrs Chairperson - Emergency Department, RMH and RHS and Foundation RMDF boards Gary Kaatz had 43 additional hrs as President and CEO, Julie Peterson had 41 88 hrs as an executive secretary, and Henry Seybold had 43 5 hrs as CFO Sr VP of Finance these employees compensation includes duties within the RHPh organization and for supporting all of the related entities RHS/RMH/RMDF/VNA

Identifier	Return Reference	Explanation
Form 990 Part XI	5	- The additional change was a result of several changes in funds balances of Unrestricted Funds Cumulative Effective Chg in Pension funds of 129,874 the Post Retirement holdings of 56,723 and the transfer of funds to affiliates of 48,632,846 and rounding

Identifier	Return Reference	Explanation
Form 990 Part XII	2c	- RHPh is included as part of a consolidated audit performed for RHS by independent accountants The RHS audit committee selects and recommends the independent auditors to the RHS board and annually reviews the audit

Identifier	Return Reference	Explanation
		Form 990 Part VI Section a Line 6,7a b Rockford Health System RHS is the sole corporate member of Rockdford Health Physicians RHPH and has the authority to elect members to the board and ultimately has the authority to approve or deny all RHPH board actions Form 990 Part VI Section B Line 11 The date was gathered by the accounting staff with input from RHPH and RHS executive staffs The data was reviewed and the Form 990 prepared by the RHPH tax analyst Once the Form 990 was made available it was reviewed by an independent accounting firm A copy of the Form 990 was made available to all board members on a secure intercompany website A presentation of the return was made to the RHPH Finance Committee and at a meeting of the Board of Directors before filing Form 990 Part VI Section B Line 12b,c RHS Compliance Department acting on behalf of RHPH is required to annually send out a copy of the policy with the Conflict of Interest form included Each member is to complete the Financial Interest Disclosure Statement which is part of the policy The RHS compliance Department reviews and retains these statements If a conflict is identified, all affected parties are informed, potential conflicts are reviewed and appropriate actions are taken as a result of the review Employees are given the policy and statement to complete at the beginning of the year or as a new party is hired or joins the RHPH board However the notices were delayed during 2011 anddid not go out until 2012 Form 990 Part VI Section B Line 15 a,b Compensation for executives is governed b the RHS Board of Directors The RHS Board has established a total compensation philosophy that directs the compensation practices for all executives from all related entities including RHPH This board has established a compensation committe to establish and review all executive compensation annually based on the established philosophy An independent external executive compensation firm provides consulting on RHS including RHPH salary ranges and compensation philosophy The appropriate peer group for compensation comparison purposes is other not-for- profit healthcare systems similar in size and complexity RHS generally conducts an analysis of total compensation every three years but may choose to vary from this schedule determined by the Compensation Committee The RHPH board of directors concedes the authority to set compensation to RHS Form 990 Part VI Section C Line 19 Financial statements are available through the Illinois Attorney Generals office Governing documents are available by request from Board Secretary Form 990 Part VII Section A - These members of the board were compensated by related organizations for other duties as well as unpaid service as board members James Breckenridge 3 hrs Chair of Anesthesiology at Rockford Memorial Hospital RMH and service to RMH and RHS boards, John Dorsey 1 1 hrs Lead Physician for Quality Internal Medicine and RMH and RHS boards, Jose Gonzalez 3 5 hrs Medical Director-Neonatology, RMH and RHS boards, Dennis Uehara 27 hrs Chairperson - Emergency Department, RMH and RHS and Foundation RMDF boards Gary Kaatz had 43 additional hrs as President and CEO, Julie Peterson had 41 88 hrs as an executive secretary, and Henry Seybold had 43 5 hrs as CFO Sr VP of Finance these employees compensation includes duties within the RHPh organization and for supporting all of the related entities RHS/RMH/RMDF/VNA Form 990 Part XI Line 5 - The additional change was a result of several changes in funds balances of Unrestricted Funds Cumulative Effective Chg in Pension funds of 129,874 the Post Retirement holdings of 56,723 and the transfer of funds to affiliates of 48,632,846 and rounding Form 990 Part XII Line 2c - RHPh is included as part of a consolidated audit performed for RHS by independent accountants The RHS audit committee selects and recommends the independent auditors to the RHS board and annually reviews the audit

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SCHEDULE R (Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
Rockford Health Physicians

Employer identification number
36-3907436

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
(1) Rockford Memorial Hospital 2400 N Rockton Ave Rockford, IL 61103 36-2167847	Healthcare	IL	501c3	3	Rockford Health System	Yes	
(2) Rockford Memorial Development Foundation 2400 N Rockton Ave Rockford, IL 61103 36-3197918	Support of Healthcare	IL	501c3	11a	Rockford Health System	Yes	
(3) Visiting Nurses Assn of the Rockford Area 2400 N Rockton Ave Rockford, IL 61103 36-2167945	Healthcare	IL	501c3	9	Rockford Health System	Yes	
(4) Rockford Health System 2400 N Rockton Ave Rockford, IL 61103 36-3197915	Support of Healthcare	IL	501c3	11c	N/A		No

Part III **Identification of Related Organizations Taxable as a Partnership** (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations? Yes	(h) Disproportionate allocations? No	(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner? Yes	(j) General or managing partner? No	(k) Percentage ownership
(1) Van Matre Rehabilitation Center LLC 3660 Grandview Pkwy Birmingham, AL 35243 36-4397130	Healthcare	IL	N/A	NA				No			No	

Part IV **Identification of Related Organizations Taxable as a Corporation or Trust** (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) Rockford Health Insurance LTD Wellesley House So 2nd Flr 90 Pitts Pembrooke, HM 08 BD	Insurance	BD	N/A	C Corp			

Part V Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III or IV

		Yes	No
1	During the tax year, did the orgranization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?		
a	Receipt of **(i)** interest **(ii)** annuities **(iii)** royalties **(iv)** rent from a controlled entity	**1a**	No
b	Gift, grant, or capital contribution to related organization(s)	**1b**	No
c	Gift, grant, or capital contribution from related organization(s)	**1c**	No
d	Loans or loan guarantees to or for related organization(s)	**1d**	No
e	Loans or loan guarantees by related organization(s)	**1e**	No
f	Sale of assets to related organization(s)	**1f**	No
g	Purchase of assets from related organization(s)	**1g**	No
h	Exchange of assets with related organization(s)	**1h**	No
i	Lease of facilities, equipment, or other assets to related organization(s)	**1i**	No
j	Lease of facilities, equipment, or other assets from related organization(s)	**1j**	No
k	Performance of services or membership or fundraising solicitations for related organization(s)	**1k**	No
l	Performance of services or membership or fundraising solicitations by related organization(s)	**1l**	No
m	Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)	**1m**	No
n	Sharing of paid employees with related organization(s)	**1n**	No
o	Reimbursement paid to related organization(s) for expenses	**1o**	No
p	Reimbursement paid by related organization(s) for expenses	**1p**	No
q	Other transfer of cash or property to related organization(s)	**1q**	No
r	Other transfer of cash or property from related organization(s)	**1r**	No

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) Rockford Memorial Hospital	k	4,857,472	Financial analysis
(2) Rockford Memorial Hospital	l	298,526	Financial analysis
(3) Rockford Memorial Hospital	m	406,730	Financial analysis
(4) Rockford Memorial Hospital	n	7,651,030	Financial analysis
(5) Rockford Memorial Hospital	o	1,618,671	Financial analysis
(6) Rockford Memorial Hospital	h	57,071	Financial analysis

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 37.)

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization See instructions regarding exclusion for certain investment partnerships

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Predominant income(related, unrelated, excluded from tax under sections 512-514)	(e) Are all partners section 501(c)(3) organizations?		(f) Share of total income	(g) Share of end-of-year assets	(h) Disproprtionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
				Yes	No			Yes	No		Yes	No	

Schedule R (Form 990) 2011

Part VII Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation	

Additional Data

Return to Form

Software ID: 11000218
Software Version: 2011.0.0
EIN: 36-3907436
Name: Rockford Health Physicians

Form 990, Schedule R, Part V - Transactions With Related Organizations

	(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount Involved ($)	(d) Method of determining amount involved
(1)	Rockford Memorial Hospital	k	4,857,472	Financial analysis
(2)	Rockford Memorial Hospital	l	298,526	Financial analysis
(3)	Rockford Memorial Hospital	m	406,730	Financial analysis
(4)	Rockford Memorial Hospital	n	7,651,030	Financial analysis
(5)	Rockford Memorial Hospital	o	1,618,671	Financial analysis
(6)	Rockford Memorial Hospital	h	57,071	Financial analysis

Rockford Health System and Affiliated Corporations

Consolidated Financial Statements and Supplemental Consolidating Information

December 31, 2011 and 2010

Rockford Health System and Affiliated Corporations
Index
December 31, 2011 and 2010

Report of Independent Auditors

To the Board of Directors of
Rockford Health System

In our opinion, the accompanying consolidated balance sheets and the consolidated statements of operations, changes in net assets and of cash flows present fairly, in all material respects, the financial position of Rockford Health System and Affiliated Corporations (the "System") at December 31, 2011 and December 31, 2010, and the results of their operations and changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America These financial statements are the responsibility of the System's management Our responsibility is to express an opinion on these financial statements based on our audits We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation We believe that our audits provide a reasonable basis for our opinion

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole The consolidating information on pages 30 - 31 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 entities Accordingly, we do not express an opinion on the financial position and results of operations of the individual entities However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole

PricewaterhouseCoopers LLP

March 23, 2012

Rockford Health System and Affiliated Corporations
Consolidated Balance Sheets
December 31, 2011 and 2010
(in thousands of dollars)

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 33,626	$ 65,891
Short term investments	2,629	2,920
Patient accounts receivable, less allowance for doubtful accounts for 2011 - $15,129 and 2010 - $14,665	65,852	47,859
Other receivables	5,935	5,096
Current portion of assets limited as to use	11,905	12,013
Inventories	7,280	6,813
Prepaid expense and other current assets	9,721	9,952
Total current assets	136,948	150,544
Assets limited as to use		
Board-designated and trustee held investments	230,576	238,401
Donor-restricted and endowment funds	3,533	3,437
Total assets limited as to use	234,109	241,838
Property, plant and equipment, net	144,989	133,271
Investments in joint ventures	8,602	9,067
Other assets	24,685	24,768
Total assets	$ 549,333	$ 559,488
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 3,230	$ 3,408
Accounts payable	18,285	12,797
Accrued expenses	49,615	47,956
Deferred revenues	11,319	12,428
Due to third-party payors	14,328	14,042
Total current liabilities	96,777	90,631
Other liabilities		
Long-term debt, net of current portion	93,402	96,559
Accrued liabilities under self-insurance program	70,138	69,477
Accrued pension	21,507	25,146
Accrued postretirement medical benefits	6,754	5,834
Other liabilities	9,660	6,802
Total liabilities	298,238	294,449
Net assets		
Unrestricted	232,160	245,794
Temporarily restricted	11,397	11,599
Permanently restricted	7,538	7,646
Total net assets	251,095	265,039
Total liabilities and net assets	$ 549,333	$ 559,488

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

Rockford Health System and Affiliated Corporations
Consolidated Statements of Operations
Years Ended December 31, 2011 and 2010
(in thousands of dollars)

	2011	2010
Revenues		
Net patient service revenue	$ 379,737	$ 387,142
Provider tax revenue	22,166	24,650
Total net patient service revenue	401,903	411,792
Other operating revenues and net assets released from restrictions	21,387	29,240
Total revenue	423,290	441,032
Expenses		
Salaries and wages	197,760	185,820
Employee benefits	40,070	38,902
Supplies	60,760	60,001
Purchased services and professional fees	64,797	54,739
Depreciation and amortization	21,702	19,829
Provision for doubtful accounts	20,578	18,196
Insurance	8,247	7,371
Provider tax assessment	9,948	9,983
Interest	3,557	3,748
Other	7,034	7,133
Total expenses	434,453	405,722
Operating income (loss)	(11,163)	35,310
Nonoperating gains (losses)		
Investment income	(2,070)	13,601
Change in fair market value of swap	(2,612)	(1,553)
Other, net	(94)	(35)
Excess (deficit) of revenues over expenses	$ (15,939)	$ 47,323

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

Rockford Health System and Affiliated Corporations
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2011 and 2010
(in thousands of dollars)

	2011	2010
Unrestricted net assets		
Excess (deficit) of revenues over expenses	$ (15,939)	$ 47,323
Change in unrealized gains (losses) on investments	23	(41)
Pension adjustment	2,355	532
Postretirement medical benefit adjustment	(297)	(377)
Recovery of impaired endowment corpus	-	2
Net assets released from restriction for capital	224	61
Increase (decrease) in unrestricted net assets	(13,634)	47,500
Temporarily restricted net assets		
Contributions	717	697
Unrealized gains (losses) on investments, net	119	316
Net change in beneficial interest in trusts	(280)	407
Net assets released from restriction	(758)	(527)
Increase (decrease) in temporarily restricted net assets	(202)	893
Permanently restricted net assets		
Net change in beneficial interest in trusts	(108)	283
Receipt of contributions for donor-restricted purposes	-	272
Unrealized gains (losses) on investments, net	-	2
Transfer for impaired (recovered) endowment corpus	-	(2)
Increase (decrease) in temporarily restricted net assets	(108)	555
Increase (decrease) in net assets	(13,944)	48,948
Net assets at beginning of year	265,039	216,091
Net assets at end of year	$ 251,095	$ 265,039

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

Rockford Health System and Affiliated Corporations
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010
(in thousands of dollars)

	2011	2010
Cash flows from operating activities		
Increase (decrease) in net assets	$ (13,944)	$ 48,948
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Net realized and unrealized (gain) loss on investments	9,242	(16,515)
Equity gains in joint ventures	(2,521)	(2,158)
Unrealized loss on interest rate swap	2,612	1,553
Net pension and postretirement medical benefit adjustment	(2,058)	(155)
Depreciation and amortization	21,702	19,829
Provision for doubtful accounts	20,578	18,196
Loss on disposal of assets	285	319
Changes in assets and liabilities		
Increase in patient accounts receivable, net	(38,573)	(21,735)
Increase in accounts payable and accrued expenses	2,160	4,484
Increase (decrease) in deferred revenues	(1,109)	12,096
Increase in due to third-party payors	286	2,176
Increase (decrease) in accrued liabilities under self-insurance program	661	(5,217)
Net change in other assets and liabilities	1,297	(1,824)
Net cash provided by operating activities	618	59,997
Cash flows from investing activities		
Purchases of property and equipment	(28,622)	(20,956)
Purchases of investments	(30,842)	(45,557)
Proceeds from sales of investments	30,022	45,155
Net cash (used in) investing activities	(29,442)	(21,358)
Cash flows from financing activities		
Principal payments on long-term debt	(3,441)	(3,555)
Net cash (used in) financing activities	(3,441)	(3,555)
Net increase (decrease) in cash and cash equivalents	(32,265)	35,084
Cash and cash equivalents		
Beginning of year	65,891	30,807
End of year	$ 33,626	$ 65,891
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 3,466	$ 3,646
Property and equipment purchases accrued at year-end	$ 6,824	$ 1,837
Property and equipment purchases through capital lease	$ -	$ 1,287

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

In February 2011, RHS announced that it had entered into an affiliation agreement with OSF Healthcare System (OSF), a seven hospital, not-for-profit health system based in Peoria, Illinois Upon closing of the transaction, RHS will become an affiliate of OSF and will operate, along with OSF Saint Anthony Medical Center, OSF's hospital in Rockford, Illinois, as the OSF Northern Region Following the effective date of the transaction, RHS will be governed by a Board of Directors that will consist of a majority of local community members who will reside in Rockford and surrounding communities, subject to reserved powers held by OSF In addition, Rockford Memorial Development Foundation will become an independent entity following the closing and will retain 50% of its unrestricted cash and investments as well as certain land holdings currently owned by RHS and will continue to support healthcare in northern Illinois

While State regulatory approval was granted in 2011, the Federal Trade Commission (FTC) is challenging the proposed affiliation In February 2012, hearings were held in the local U S District Court (Rockford) where the FTC requested a preliminary injunction to prevent the parties from closing the transaction until the matter was adjudicated through the FTC's administrative review process A ruling on the injunction request has not been made as of the date of this statement The hearing before the FTC's Administrative Law Judge is scheduled for April 2012 with a ruling expected in the third quarter of 2012

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, 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, 2011 and 2010

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 the inputs are observable in the marketplace (Note 6) 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 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 Management evaluated the future cash flows expected to be generated by the System for the long-lived assets and concluded that the cash flows from operations are sufficient to fully recover the carrying value of the long-lived assets

Accrued Expenses
Accrued expense includes the liability for incurred items which are anticipated to be paid within a year This 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 Illinois Hospital Assessment Program (see note 3), the Hospital's Critical Hospital Adjustment Payment (CHAP grant) and the Visiting Nurses Association's Home Health 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 nonoperating 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

(in thousands of dollars)

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 These contractual adjustments 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 45% of the System's net patient service revenue in 2011 and 2010, respectively, while revenue from Medicare and Medicaid programs accounted for approximately 47% and 48% of net patient service revenue in 2011 and 2010, 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 increased net patient service revenue by $408 and $1,069 in 2011 and 2010, respectively

Presented below is the System's patient service revenue and contractual allowance activity for the years ended December 31, 2011 and 2010, not including the Illinois Provider Assessment Program revenues

	2011	2010
Gross patient service revenue		
Inpatient hospital services	$ 521,033	$ 520,715
Outpatient hospital services	297,329	276,940
Physician and other	174,032	175,435
	992,394	973,090
Less contractual allowances and charity care	(598,035)	(572,551)
Net patient service revenue--before eliminations	394,359	400,539
Consolidation eliminations	(14,622)	(13,397)
Net patient service revenue	$ 379,737	$ 387,142

(in thousands of dollars)

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, and other miscellaneous income Presented below is a table of other operating revenue for the years ended December 31, 2011 and 2010

	2011	2010
Investment income	$ (1,994)	$ 9,351
Grants	7,877	6,677
Medical lab	3,998	4,165
Joint ventures	2,521	2,158
Cafeteria	1,813	1,769
Daycare center	1,350	1,239
Lease and rental	738	772
Donations and contributions	647	552
Electronic medical record incentive	1,711	-
Other	2,726	2,557
Other operating revenues and net assets released from restrictions	$ 21,387	$ 29,240

New Accounting Pronouncements
In January 2010, the FASB issued amended fair value disclosure requirements Under this amended guidance, entities are to separately disclose the amounts of significant transfers into and out of its financial assets or liabilities having a fair value hierarchy valuation of Level 1 and Level 2 along with the reasons for those transfers The amended guidance also requires disclosure of the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair value of such items is required to be disclosed The System adopted this amended guidance as of December 31, 2010 (see note 6)

In August 2010, the FASB amended charity care disclosure requirements Under this amended guidance, cost is used as the measurement basis for charity care disclosure purposes and that cost includes both the direct and indirect costs of providing the charity care The method utilized to derive the cost must also be disclosed The System has adopted this guidance as of December 31, 2010 (see note 4)

In August 2010, the FASB amended the presentation of insurance liabilities for health care entities Under this amended guidance, health care entities will no longer net anticipated insurance recoveries against the related accrued liability, and instead will present the anticipated insurance recovery and related liability on a gross basis The System has adopted this guidance as of December 31, 2010 (see note 15)

Subsequent Events
The System has evaluated subsequent events through March 23, 2012, 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, 2006

- *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 In 2010, CMS renewed the program through June 30, 2014

  The Hospital's tax assessment for the years ended December 31, 2011 and 2010 was $9,948 and $9,983, respectively The amount distributed to the Hospital was $22,166 and $24,650 for 2011 and 2010, respectively No amounts were due to the Hospital under the program at December 31, 2011 and 2010

  The Hospital participated in an accelerated payment process for the Program in 2011 and 2010 At December 31, 2011, the Hospital had received advance payments of $11,083 and paid the corresponding provider tax of $4,956 for the period of January 1, 2012 to June 30, 2012 At December 31, 2010, the Hospital had received advance payments of $11,083 and paid the corresponding provider tax of $4,992 for the period of January 1, 2011 to June 30, 2011 In the accompanying financial statements, the advance receipts are included with Deferred Revenues and the prepaid provider tax is reported as a Prepaid Expense

- *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

(in thousands of dollars)

- *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, 2011 and 2010, 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) 2011	(unaudited) 2010
Estimated costs and expenses incurred for charity care	$ 10,185	$ 10,772
Estimated costs over reimbursement for Medicaid patient's care	9,388	4,299
Cost of other community service, research and education	5,812	6,597
Total Charity Care and Community Benefits	$ 25,385	$ 21,668
Estimated cost over reimbursement for Medicare patient's care	32,608	26,273
Estimated costs for bad debt	9,029	7,847
Total Cost of Charity, Uncompensated Care & Other Community Benefits	$ 67,022	$ 55,788

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 Due to financial issues with the State of Illinois, payments for Medicaid patients decreased significantly in the latter half of 2011 However, limited

(in thousands of dollars)

payments continue to be received from the State and the System anticipates collecting the Medicaid receivables The mix of receivables from patients and third-party payors as of and for the years ended December 31, 2011 and 2010 was as follows

	2011	2010
Medicare	12 %	17 %
Medicaid	35	23
Managed care	35	36
Commercial	8	10
Self-pay and other	10	14
	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

(in thousands of dollars)

The following table presents the financial instruments reported or disclosed at fair value as of December 31, 2011 and 2010, 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
2011 Assets				
Cash and equivalents	$ 10,010	$ -	$ -	$ 10,010
U S Treasury and government obligations	54,867	-	-	54,867
Corporate bonds	-	38,062	-	38,062
Mutual funds	66,294	-	-	66,294
Marketable equity securities	78,640	-	-	78,640
Other	770	-	-	770
Total short-term investments and assets limited as to use	210,581	38,062	-	248,643
Beneficial interests in trust	-	9,644	-	9,644
Total assets at fair value	$ 210,581	$ 47,706	$ -	$ 258,287
2011 Liabilities				
Long term debt	$ -	$ 96,043	$ -	$ 96,043
Interest rate swap	-	3,183	-	3,183
Swap termination	-	4,450	-	4,450
Total liabilities at fair value	$ -	$ 103,676	$ -	$ 103,676
2010 Assets				
Cash and equivalents	$ 10,871	$ -	$ -	10,871
U S Treasury and government obligations	52,587	-	-	52,587
Corporate bonds	11,441	24,910	-	36,351
Mutual funds	52,719	-	-	52,719
Marketable equity securities	103,412	-	-	103,412
Other	831	-	-	831
Total short-term investments and assets limited as to use	231,861	24,910	-	256,771
Beneficial interests in trust	-	10,033	-	10,033
Total assets at fair value	$ 231,861	$ 34,943	$ -	$ 266,804
2010 Liabilities				
Long term debt	$ -	$ 98,523	$ -	$ 98,523
Interest rate swap	-	571	-	571
Swap termination	-	4,450	-	4,450
Total liabilities at fair value	$ -	$ 103,544	$ -	$ 103,544

(in thousands of dollars)

7. Assets Limited as to Use

The composition of assets limited as to use at December 31, 2011 and 2010, is set forth in the following table All investments are stated at fair value

	2011	2010
Board-designated investments and trustee held		
U S government securities	$ 22,477	$ 21,885
Cash and cash equivalents	9,347	10,097
Corporate bonds	37,117	35,387
U S government securities	30,676	28,772
Equity securities	140,113	151,411
Total board-designated and trustee held investments	239,730	247,552
Donor-restricted and endowment funds		
Cash and cash equivalents	674	699
Corporate bonds	925	861
U S government securities	762	694
Equity securities	3,923	4,045
Total donor-restricted and endowment funds	6,284	6,299
Total assets limited as to use	$ 246,014	$ 253,851
Total assets limited to use are classified as follows in the consolidated balance sheets		
Current	$ 11,905	$ 12,013
Noncurrent	234,109	241,838
Total	$ 246,014	$ 253,851

Investment income (loss) for the years ended December 31, 2011 and 2010 consisted of the following

	2011	2010
Interest and dividends	$ 5,205	$ 4,742
Gains on sale of investments, net	1,672	7,109
(Losses) gains on market appreciation, net	(10,941)	11,101
Total	$ (4,064)	$ 22,952
Reported as		
Other operating revenue (loss)	$ (1,994)	$ 9,351
Nonoperating investment income (loss)	(2,070)	13,601
Total	$ (4,064)	$ 22,952

(in thousands of dollars)

8. Property, Plant and Equipment

The components of property, plant and equipment as of December 31 are as follows

	2011	2010
Land and improvements	$ 15,445	$ 14,917
Buildings	118,436	115,240
Equipment	277,042	256,661
Construction in progress	10,620	5,438
	421,543	392,256
Less accumulated depreciation	(276,554)	(258,985)
Total property, plant and equipment, net	$ 144,989	$ 133,271

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 19% ownership in Illinois Nephrology Alliance, LLC (INA) to enhance nephrology health services, 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 System previously held a 61% ownership interest in Northern Illinois Hospital Services (NIHS), a linen services cooperative which provided laundry and related functions for the System This entity was dissolved during 2009 with a final distribution of $299 received in 2009 The recorded investment at December 31, 2011 and 2010, 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	
	2011	2010	2011	2010
INA	$ -	$ -	$ -	$ 4
NIHS	-	-	-	4
KSB	313	325	28	28
VanMatre	8,289	8,742	2,493	2,122
Total	$ 8,602	$ 9,067	$ 2,521	$ 2,158

(in thousands of dollars)

10. Long-Term Debt

Long-term debt as of December 31 consists of the following

	2011	2010
Illinois Health Facilities Authority Bonds		
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
Revenue bonds, Series 1997, fixed rates ranging from 3 8% to 5 4%, maturing at varying amounts through August 2021, collateralized by certain receivables and other assets of the Obligated Group	35,530	38,205
Equipment financing loan, fixed rate of 4 2%, 60-month term through March 2012, collateralized by lien on MRI/CT equipment	175	685
Capitalized lease of DaVinci surgery robot, 36-month term through June 2013	563	785
Total long-term debt	97,068	100,475
Less current maturities	(3,230)	(3,408)
Less unamortized discount	(436)	(508)
Total long-term debt, net of current maturities	$ 93,402	$ 96,559

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

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 1 085% to 1 355% in 2011 and 1 125% to 1 375% in 2010 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

(in thousands of dollars)

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, 2011 and 2010, the fair value of the interest rate swap agreement was a liability of $3,183 and $571, respectively and is included in other liabilities in the accompanying consolidated balance sheets Net interest paid under the terms of the swap agreement totaled $801 and $802 in 2011 and 2010, 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, 2011 and 2010, an accrued liability of $4,450 remains in the consolidated balance sheet pending final settlement of the swap termination

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 is 60 months with a fixed interest rate of 4 2% and monthly payments of $44 due through 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 An optional buyout payment is due at the end of the lease for purchase of the equipment

Future maturities of long-term debt at December 31, 2011, are as follows

2012	$	3,230
2013		3,283
2014		3,110
2015		3,270
2016		3,435
Thereafter		80,740
	$	97,068

Certain borrowing agreements require sinking fund deposits with a trustee sufficient to pay principal and interest when due and the establishment and maintenance of certain special funds under control of a trustee Additionally, 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, 2011 and 2010

Effective March 10, 2010, the System entered into a line of credit agreement for $10,000 which expired on April 30, 2011 No credit lines were used in 2011 or 2010 The System has a letter of credit for $700, which matures on October 31, 2012 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, 2011 and 2010, no amounts were outstanding on either letters of credit

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, the defined benefit pension plan was frozen for all employees and, thereafter, no new participants were allowed to join the plan 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 $5,100 and $3,200 for the defined benefit pension plan during 2011 and 2010, respectively The expected expense for the System in 2012 is $128 for this plan and the System does not expect to have any assets returned from the defined benefit pension plan in 2012

In 2011 and 2010, the change in the liability not yet recognized within pension expenses was ($2,355) and ($532) 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

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, 2011 and 2010, the System's liability to the Fixed Contribution Plan was $2,385 and $2,122, respectively The cash contribution to the Fixed Contribution Plan for the prior-year liability in 2011 and 2010 was $1,825 and $1,683, respectively At December 31, 2011 and 2010, the System's liability to the Clinic Retirement Plan was $572 and $540, respectively Cash contributions made to the Clinic Retirement Plan for the prior-year liability in 2011 and 2010 were $525 and $510, 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, 2011 and 2010 amounted to $5,543 and $5,385, 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 $4,323 and $4,065 at December 31, 2011 and 2010, respectively

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

(in thousands of dollars)

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 2012 is $936 for this plan In 2011 and 2010, the change in the liability not yet recognized within postretirement expenses was $297 and $376 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, 2011 and 2010 are as follows

	Pension Benefits		Postretirement Medical Benefits	
	2011	2010	2011	2010
Change in benefit obligation				
Benefit obligation — beginning of year	$ 87,158	$ 80,753	$ 6,194	$ 5,325
Service cost	2,955	3,019	672	588
Interest cost	4,980	4,781	329	313
Curtailment gain	(19,991)	-	-	-
Plan changes	-	-	-	(60)
Actuarial losses	11,880	1,434	141	217
Participant Contributions	-	-	138	140
Benefits paid	(5,850)	(2,829)	(308)	(329)
Benefit obligation — end of year	$ 81,132	$ 87,158	$ 7,166	$ 6,194
Change in plan assets				
Fair value of plan assets — beginning of year	$ 62,012	$ 55,994	$ -	$ -
Actual return on plan assets	(1,637)	5,647	-	-
Employer contributions	5,100	3,200	170	189
Participant Contributions	-	-	138	140
Benefits paid	(5,850)	(2,829)	(308)	(329)
Fair value of plan assets — end of year	59,625	62,012	-	-
Funded status of the plan	$ (21,507)	$ (25,146)	$ (7,166)	$ (6,194)
Amounts recognized in the statement of financial position				
Group balance sheet				
Current liabilities	-	-	(412)	(360)
Noncurrent liabilities	(21,507)	(25,146)	(6,754)	(5,834)
Net amount recognized	$ (21,507)	$ (25,146)	$ (7,166)	$ (6,194)

(in thousands of dollars)

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	
	2011	2010	2011	2010
Prior service credit arising during the period	$ -	$ -	$ -	$ (60)
Actuarial loss (gain) arising during the period	(1,370)	454	141	217
Reclassification adjustment for recognition of prior service (cost) credit	-	(3)	15	14
Reclassification adjustment for recognition of actuarial loss (gain)	(985)	(983)	141	205
Total recognized as a separate adjustment to net assets	$ (2,355)	$ (532)	$ 297	$ 376

The pension plan and postretirement medical plan items not yet recognized as a component of periodic pension and post retirement medical plan expense, but included within unrestricted net assets, are as follows

	Pension Benefits		Postretirement Medical Benefits	
	2011	2010	2011	2010
Unrecognized actuarial loss (gain)	$ 38,096	$ 20,459	$ (1,349)	$ (1,631)
Curtailment gain	(19,991)	-	-	-
Unrecognized prior service cost (credit)	-	-	(44)	(59)
Net amount unrecognized	$ 18,105	$ 20,459	$ (1,393)	$ (1,690)

The recognition of the pension plan curtailment is as follows

	Prior to Curtailment	Effect of Curtailment	Following Curtailment
Projected benefit obligation	$ 101,123	$ (19,991)	$ 81,132
Plan assets	59,625	-	59,625
Funded status	$ (41,498)	$ 19,991	$ (21,507)
Unrecognized actuarial loss (gain)	$ 38,096	$ (19,991)	$ 18,105
Total recognized as a component of net assets	$ 38,096	$ (19,991)	$ 18,105

An estimated $302 in net actuarial loss will be included as components of period pension expense in 2012 An estimated $15 in prior service credit and $91 in net actuarial gain will be included as components of period postretirement medical plan expense in 2012

	Pension Benefits		Postretirement Medical Benefits	
	2011	2010	2011	2010
Assumptions				
Discount rate-benefit obligation	4 91 %	5 79 %	4 15 %	4 91 %
Discount rate-benefit cost	5 79 %	6 00 %	4 91 %	5 49 %
Rate of compensation increase	4 00 %	4 00 %	N/A	N/A
Assumed rate of return on plan assets	8 00 %	8 50 %	N/A	N/A

(in thousands of dollars)

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 2011 and 2010 The rate was assumed to decrease gradually to 5 0% for 2016 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 2011	$ 53	$ (48)
Effect on December 31, 2011 postretirement benefit obligation	209	(197)

The components of accumulated postretirement medical benefit obligation as of December 31, 2011 and 2010, for the System are as follows

	2011	2010
Accumulated postretirement benefit obligation		
Retirees	$ 332	$ 345
Fully eligible plan participants	2,518	1,885
Other active plan participants	4,316	3,964
Total	$ 7,166	$ 6,194

The accumulated benefit obligation for the defined benefit pension plan was $81,132 and $69,468 as of December 31, 2011 and 2010 The System contributed $5,100 to the defined benefit plan in 2011 and is expected to contribute $3,200 during the 2012 plan year

The components of the RHS net periodic benefit cost for the years ended December 31, 2011 and 2010 are as follows

	Pension Benefits		Postretirement Medical Benefits	
	2011	2010	2011	2010
Service cost	$ 2,955	$ 3,019	$ 672	$ 588
Interest cost	4,980	4,781	329	313
Expected return on plan assets	(5,103)	(4,668)	-	-
Amortization of prior service cost (credit)	-	3	(15)	(15)
Amortization of unrecognized net loss (gain)	985	983	(141)	(204)
Benefit cost	$ 3,817	$ 4,118	$ 845	$ 682

Expected future benefit payments for the years ended December 31, are as follows

	Pension	Postretirement Medical
2012	$ 3,315	$ 412
2013	3,805	419
2014	3,772	531
2015	3,881	668
2016	5,412	686
2017-2021	29,006	4,624

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 2011 and 8 5% for 2010

(in thousands of dollars)

The fair values of the System's pension plan assets at December 31, 2011 and 2010 by asset category are as follows

		Fair Value Measurement at December 31, 2011		
Asset category	**Total**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash	$ 2,399	$ 2,399	$ -	$ -
Equity securities				
U S companies	23,349	23,349		
Mutual funds				
U S companies	6,261	6,261		
International companies	8,133	8,133		
Fixed Income securities				
U S Treasury and government obligations	6,610	6,610		
Corporate Bonds	8,754		8,754	
Mutual funds				
U S Mortgage backed securities	3,759	3,759		
Total	$ 59,265	$ 50,511	$ 8,754	$ -

		Fair Value Measurement at December 31, 2010		
Asset category	**Total**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash	$ 4,759	$ 4,759	$ -	$ -
Equity securities				
U S companies	28,481	28,481		
International companies	5,627	5,627		
Mutual funds				
U S companies	4,596	4,596		
International companies	3,266	3,266		
Fixed Income securities				
U S Treasury and government obligations	6,838	6,838		
Corporate Bonds	8,445		8,445	
Total	$ 62,012	$ 53,567	$ 8,445	$ -

(in thousands of dollars)

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, 2011 and 2010 are as follows

	Target Range		2011	2010
Equity securities	55-75	%	64 %	68 %
Fixed income	22-42		32	24
Cash and cash equivalents	0-6		4	8
			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, 2011 and 2010 are available for the following purposes

	2011	2010
Care for the indigent	$ 899	$ 922
Capital purchases	11	19
Other purposes	10,487	10,658
Total	$ 11,397	$ 11,599

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, 2011 and 2010 are invested for the following purposes

	2011	2010
Care for the indigent	$ 2,494	$ 2,514
Educational programs	819	817
General services	4,225	4,315
Total	$ 7,538	$ 7,646

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

(in thousands of dollars)

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, 2011 and 2010 delineated by net asset class

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of 2011	$ 357	$ 2,649	$ 3,111	$ 6,117
Investment return				
Investment income	7	9	65	81
Net appreciation (realized and unrealized)	(10)	(18)	(128)	(156)
Total investment return	(3)	(9)	(63)	(75)
Contributions	-	96	-	96
Reclassification for UPMIFA	-	163	-	163
Endowment net assets, end of 2011	$ 354	$ 2,899	$ 3,048	$ 6,301

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of 2010	$ 324	$ 2,305	$ 2,521	$ 5,150
Investment return				
Investment income	7	8	70	85
Net appreciation (realized and unrealized)	26	28	250	304
Total investment return	33	36	320	389
Contributions	-	48	272	320
Recovery of underwater endowment returned to unrestricted	-	-	(2)	(2)
Reclassification for UPMIFA	-	260	-	260
Endowment net assets, end of 2010	$ 357	$ 2,649	$ 3,111	$ 6,117

(in thousands of dollars)

Endowment net asset composition by type of fund as of December 31, 2011 and 2010 is as follows

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
As of December 31, 2011				
Donor-restricted endowment funds	$ -	$ 2,899	$ 3,048	$ 5,947
Board-designated endowment funds	354	-	-	354
Total funds	$ 354	$ 2,899	$ 3,048	$ 6,301
As of December 31, 2010				
Donor-restricted endowment funds	$ -	$ 2,649	$ 3,111	$ 5,760
Board-designated endowment funds	357	-	-	357
Total funds	$ 357	$ 2,649	$ 3,111	$ 6,117

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, 2011 and 2010 are as follows

	2011	2010
Health care services	$ 350,047	$ 327,925
General and administrative	84,406	77,797
Total	$ 434,453	$ 405,722

14. Commitments and Contingencies

Operating Leases
RHS has entered into leases for surgical equipment and office space The operating leases contain a renewal option, noncancellable terms, and escalation clauses Future minimum rental commitments at December 31, 2011, for these operating leases are as follows

2012	$ 355
2013	348
2014	334
2015	232
2016	204
Thereafter	245
	$ 1,718

Special Local Assessment
In 2007, RHS entered into an agreement with the County of Winnebago, the City of Loves Park, and the City of Rockford to contribute to a special assessment to finance certain improvements to property adjoining RHS property Payments of $1,030 and $1,200 were made in 2011 and 2010, respectively, for this agreement RHS has recorded an accrued liability of $50 and $1,080 in 2011 and 2010, respectively, in the consolidated financial statements for the completion of the property improvements

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

The Hospital, RHPH, and VNA had self-insurance reserves of $78,138 and $77,477 at December 31, 2011and 2010, respectively, discounted at 2 0% and 5 0% at December 31, 2011 and 2010, respectively The undiscounted reserves at December 31, 2011 and 2010 were $83,404 and $87,999, respectively As of December 31, 2011 and 2010, investments trustee-held for RHS's professional liability program were $96,870 and $102,278, respectively

SUPPLEMENTAL CONSOLIDATING INFORMATION

Rockford Health System and Affiliated Corporations
Supplemental Schedule -- Consolidating Balance Sheet
For the year ended December 31, 2011
(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	2011 Consolidated	2010 Consolidated
Assets										
Current assets										
Cash and cash equivalents	$ 24,019	$ 2,743	$ 907	$ -	$ 27,669	$ 4,600	$ 1,357	$ -	$ 33,626	$ 65,891
Short term investments	-	-	2,629	-	2,629	-	-	-	2,629	2,920
Patient accounts receivable, less allowance for doubtful accounts for 2011 - $15,129 and 2010 - $14,665	58,697	7,547	-	(2,414)	63,830	-	2,189	(167)	65,852	47,859
Other receivables	5,314	113	201	(900)	4,728	191	1,016	-	5,935	5,096
Due from affiliates	129	-	1	(38)	92	14	501	(607)	-	-
Current portion of investments limited to use	9,152	-	2,753	-	11,905	-	-	-	11,905	12,013
Inventories	6,499	630	-	-	7,129	-	151	-	7,280	6,813
Prepaid expense and other current assets	6,474	804	15	-	7,293	2,326	102	-	9,721	9,952
Total current assets	110,284	11,837	6,506	(3,352)	125,275	7,131	5,316	(774)	136,948	150,544
Assets limited as to use										
Board-designated and trustee held investments	142,474	-	88,102	-	230,576	-	-	-	230,576	238,401
Donor-restricted and endowment funds	2,280	-	1,253	-	3,533	-	-	-	3,533	3,437
Total assets limited as to use	144,754	-	89,355	-	234,109	-	-	-	234,109	241,838
Property, plant and equipment, net	88,477	43,889	4	-	132,370	11,215	1,404	-	144,989	133,271
Investments in joint ventures	8,289	313	-	-	8,602	-	-	-	8,602	9,067
Other assets, net	11,989	5,272	10,210	(3,480)	23,991	666	2,226	(2,198)	24,685	24,768
Total assets	$ 363,793	$ 61,311	$ 106,075	$ (6,832)	$ 524,347	$ 19,012	$ 8,946	$ (2,972)	$ 549,333	$ 559,488
Liabilities and Net Assets										
Current liabilities										
Current portion of long-term debt	$ 3,230	$ -	$ -	$ -	$ 3,230	$ -	$ -	$ -	$ 3,230	$ 3,408
Accounts payable	12,052	2,076	972	(900)	14,200	3,871	253	(39)	18,285	12,797
Accrued expenses	27,760	19,114	50	(2,414)	44,510	4,484	749	(128)	49,615	47,956
Deferred revenues	11,083	-	-	-	11,083	-	236	-	11,319	12,428
Due to third-party payors	14,328	-	-	-	14,328	-	-	-	14,328	14,042
Due to affiliates	-	56	57	(38)	75	441	91	(607)	-	-
Total current liabilities	68,453	21,246	1,079	(3,352)	87,426	8,796	1,329	(774)	96,777	90,631
Other liabilities										
Long-term debt, net of current portion	65,444	27,958	-	-	93,402	-	-	-	93,402	96,559
Accrued liabilities under self-insurance program	42,372	27,583	-	-	69,955	-	183	-	70,138	69,477
Accrued pension	19,706	1,186	-	-	20,892	-	615	-	21,507	25,146
Accrued postretirement medical benefits	5,379	1,116	-	-	6,495	-	259	-	6,754	5,834
Other liabilities, net	5,265	3,563	67	-	8,895	638	127	-	9,660	6,802
Total liabilities	206,619	82,652	1,146	(3,352)	287,065	9,434	2,513	(774)	298,238	294,449
Net assets										
Unrestricted	148,928	(21,341)	90,760	-	218,347	9,578	5,646	(1,411)	232,160	245,794
Temporarily restricted	5,621	-	8,911	(3,135)	11,397	-	335	(335)	11,397	11,599
Permanently restricted	2,625	-	5,258	(345)	7,538	-	452	(452)	7,538	7,646
Total net assets	157,174	(21,341)	104,929	(3,480)	237,282	9,578	6,433	(2,198)	251,095	265,039
Total liabilities and net assets	$ 363,793	$ 61,311	$ 106,075	$ (6,832)	$ 524,347	$ 19,012	$ 8,946	$ (2,972)	$ 549,333	$ 559,488

Rockford Health System and Affiliated Corporations

Supplemental Schedule -- Consolidating Statement of Operations and Changes in Unrestricted Net Assets

For the year ended December 31, 2011

(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	2011 Consolidated	2010 Consolidated
Revenues										
Net patient service revenue	$ 301,436	$ 83,195	$ -	$ (13,714)	$ 370,917	$ -	$ 9,728	$ (908)	$ 379,737	$ 387,142
Provider tax revenue	22,166	-	-	-	22,166	-	-	-	22,166	24,650
Total net patient service revenue	323,602	83,195	-	(13,714)	393,083	-	9,728	(908)	401,903	411,792
Other operating revenues (loss) and net assets released from restrictions	23,476	1,727	(1,173)	(5,184)	18,846	6,078	2,482	(6,019)	21,387	29,240
Total revenue	347,078	84,922	(1,173)	(18,898)	411,929	6,078	12,210	(6,927)	423,290	441,032
Expenses										
Salaries and wages	107,841	75,799	421	3,464	187,525	4,025	6,210	-	197,760	185,820
Employee benefits	36,673	14,923	133	(13,889)	37,840	855	1,984	(609)	40,070	38,902
Supplies	54,020	5,255	51	-	59,326	17	1,635	(218)	60,760	60,001
Purchased services and professional fees	46,116	23,384	102	(8,322)	61,280	8,199	1,282	(5,964)	64,797	54,739
Depreciation and amortization	16,133	5,132	-	-	21,265	26	411	-	21,702	19,829
Provision for doubtful accounts	15,732	4,653	-	-	20,385	-	193	-	20,578	18,196
Insurance	5,609	2,689	-	(140)	8,158	46	43	-	8,247	7,371
Provider tax assessment	9,948	-	-	-	9,948	-	-	-	9,948	9,983
Interest	2,587	970	-	-	3,557	-	-	-	3,557	3,748
Other	3,406	1,750	853	(11)	5,998	412	760	(136)	7,034	7,133
Total expenses	298,065	134,555	1,560	(18,898)	415,282	13,580	12,518	(6,927)	434,453	405,722
Operating income (loss)	49,013	(49,633)	(2,733)	-	(3,353)	(7,502)	(308)	-	(11,163)	35,310
Nonoperating gains (losses)										
Investment income (loss)	(2,089)	19	-	-	(2,070)	-	-	-	(2,070)	13,601
Change in fair market value of swap	(2,612)	-	-	-	(2,612)	-	-	-	(2,612)	(1,553)
Other, net	(17)	(77)	-	-	(94)	-	-	-	(94)	(35)
Excess (deficit) of revenues over expenses	44,295	(49,691)	(2,733)	-	(8,129)	(7,502)	(308)	-	(15,939)	47,323
Unrealized gains (losses) on investments	23	-	-	-	23	-	-	-	23	(41)
Pension-related changes other than net periodic pension cost	2,157	130	-	-	2,287	-	68	-	2,355	532
Postretirement medical benefit-related changes other than net postretirement medical benefit cost	(283)	(57)	-	-	(340)	-	43	-	(297)	(377)
Net change in beneficial interest in trust	-	-	-	-	-	-	(157)	157	-	-
Net assets released from restrictions used for capital	224	-	-	-	224	-	-	-	224	61
Transfers (to) from permanently restricted net assets	-	-	-	-	-	-	-	-	-	2
Net asset reclassification based on change in law	-	-	-	-	-	-	-	-	-	-
Transfers (to) from affiliates	(53,820)	48,633	-	-	(5,187)	5,187	-	-	-	-
Increase (decrease) in unrestricted net assets	$ (7,404)	$ (985)	$ (2,733)	$ -	$ (11,122)	$ (2,315)	$ (354)	$ 157	$ (13,634)	$ 47,500