09-066

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

RECEIVED

NOV 1 3 2009

HEALTH FACILITIES & SERVICES REVIEW BOARD

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

Facility/Project Identification

Facility Name: Silver Cross Medical Services Building		
Street Address: 1890 Silver Cross Boulevard		
City and Zip Code: New Lenox, Illinois 60451		
County: Will	Health Service Area: 009	Health Planning Area: 009

Applicant Identification
[Provide for each co-applicant [refer to Part 1130.220].

Exact Legal Name: Silver Cross Hospital & Medical Centers
Address: 1200 Maple Road, Joliet, Illinois 60432
Name of Registered Agent: Paul Pawlak
Name of Chief Executive Officer: Paul Pawlak
CEO Address: 1200 Maple Road, Joliet, Illinois 60432
Telephone Number: (815) 740-7000

APPEND DOCUMENTATION AS ATTACHMENT-1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Type of Ownership

- [x] Non-profit Corporation
- [ ] For-profit Corporation
- [ ] Limited Liability Company
- [ ] Partnership
- [ ] Governmental
- [ ] Sole Proprietorship
- [ ] Other

- Corporations and limited liability companies must provide an Illinois certificate of good standing.
- Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.

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Facility/Project Identification

Facility Name: Silver Cross Medical Services Building		
Street Address: 1890 Silver Cross Boulevard		
City and Zip Code: New Lenox, Illinois 60451		
County: Will	Health Service Area: 009	Health Planning Area: 009

Applicant Identification
[Provide for each co-applicant [refer to Part 1130.220].

Exact Legal Name: Silver Cross Health System
Address: 1200 Maple Road, Joliet, Illinois 60432
Name of Registered Agent: Paul Pawlak
Name of Chief Executive Officer: Paul Pawlak
CEO Address: 1200 Maple Road, Joliet, Illinois 60432
Telephone Number: (815) 740-7000

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Type of Ownership

- ☒ Non-profit Corporation
- ☐ For-profit Corporation
- ☐ Limited Liability Company
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- ☐ Other

- o Corporations and limited liability companies must provide an Illinois certificate of good standing.
- o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.

Primary Contact
[Person to receive all correspondence or inquiries during the review period]

Name: Edward J. Green, Esq.
Title: Attorney
Company Name: Foley & Lardner, LLP
Address: 321 North Clark Street, Suite 2800, Chicago, Illinois 60654
Telephone Number: (312) 832-4375
E-mail Address: egreen@foley.com
Fax Number: (312) 832-4700

Additional Contact
[Person who is also authorized to discuss the application for permit]

Name: Ruth Colby
Title: Senior Vice President, Chief Strategy Officer
Company Name: Silver Cross Hospital & Medical Centers
Address: 1200 Maple Road, Joliet, Illinois 60432
Telephone Number: (815) 740-7002
E-mail Address: rcolby@silvercross.org
Fax Number: (815) 740-7047

Post Permit Contact

[Person to receive all correspondence subsequent to permit issuance]

Name: Sara Jackson
Title: Director, Business Intelligence
Company Name: Silver Cross Hospital & Medical Centers
Address: 1200 Maple Road, Joliet, Illinois 60432
Telephone Number: (815) 740-1234 Ext. 7544
E-mail Address: sjackson@silvercross.org
Fax Number: (815) 774-4882

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner: Silver Cross Hospital & Medical Centers
Address of Site Owner: 1200 Maple Road, Joliet, Illinois 60432
Street Address or Legal Description of Site: 1890 Silver Cross Boulevard, New Lenox, Illinois 60451

APPEND DOCUMENTATION AS ATTACHMENT-2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Operating Identity/Licensee

[Provide this information for each applicable facility, and insert after this page.]

Exact Legal Name: Silver Cross Hospital & Medical Centers. There is no license associated with this Project
Address: 1200 Maple Road, Joliet, Illinois 60432

- ☒ Non-profit Corporation
- ☐ For-profit Corporation
- ☐ Limited Liability Company
- ☐ Partnership
- ☐ Governmental
- ☐ Sole Proprietorship
- ☐ Other

- o Corporations and limited liability companies must provide an Illinois certificate of good standing.
- o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.

Organizational Relationships

Provide (for each co-applicant) an organizational chart containing the name and relationship of any person who is related (as defined in Part 1130.140). If the related person is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.

APPEND DOCUMENTATION AS ATTACHMENT-3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2005-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at www.FEMA.gov or www.illinoisfloodmaps.org. **This map must be in a readable format**. In addition please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2005-5 **(http://www.idph.state.il.us/about/hfpb.htm)**.

APPEND DOCUMENTATION AS ATTACHMENT 4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.

APPEND DOCUMENTATION AS ATTACHMENT-5, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

DESCRIPTION OF PROJECT

1. Project Classification

[Check those applicable - refer to Part 1110.40 and Part 1120.20(b)]

Part 1110 Classification:	Part 1120 Applicability or Classification: [Check one only.]
☐ Substantive	☐ Part 1120 Not Applicable
☒ Non-substantive	☐ Category A Project
	☒ Category B Project
	☐ DHS or DVA Project

2. Project Outline

In the chart below, indicate the proposed action(s) for each clinical service area involved by writing the number of beds, stations or key rooms involved:

Clinical Service Areas	Establish	Expand	Modernize	Discontinue	No. of Beds, Stations or Key Rooms
Medical/Surgical, Obstetric, Pediatric and Intensive Care					
Acute/Chronic Mental Illness					
Neonatal Intensive Care					
Open Heart Surgery					
Cardiac Catheterization					
In-Center Hemodialysis		X			0 in this Applicat-ion
Non-Hospital Based Ambulatory Surgery					
General Long Term Care					
Specialized Long Term Care					
Selected Organ Transplantation					
Kidney Transplantation					
Subacute Care Hospital Model					
Post Surgical Recovery Care Center					
Children's Community-Based Health Care Center					
Community-Based Residential Rehabilitation Center					
Long Term Acute Care Hospital Bed Projects					
Clinical Service Areas Other Than Categories of Service:					
• Surgery					
• Ambulatory Care Services (organized as a service)					
• Diagnostic & Interventional Radiology/Imaging		X			
• Therapeutic Radiology					
• Laboratory		X			
• Pharmacy					
• Occupational Therapy		X			
• Physical Therapy		X			
• Major Medical Equipment					
Freestanding Emergency Center Medical Services					
Master Design and Related Projects					
Mergers, Consolidations and Acquisitions					

APPEND DOCUMENTATION AS ATTACHMENT-6, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

3. Narrative Description

Provide in the space below, a brief narrative description of the project. Explain **WHAT** is to be done **in State Board defined terms, NOT WHY it** is being done. If the project site does NOT have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

Silver Cross Hospital & Medical Centers (the "Hospital") and Silver Cross Health System (the "System," collectively with the Hospital, the "Applicants") seek authority from the Illinois Health Facilities & Services Review Board (the "Board") to lease approximately 83,126 rentable square feet (the "Project") in a 198,025 rentable square foot, six floor, professional office building (the "Silver Cross Medical Services Building" or the "MSB") to be developed, constructed and owned by SCH MSB LLC (the "Owner" or the "Landlord") on the campus (the "Replacement Campus") of the replacement hospital (the "Replacement Hospital") being built on the corner of Route 6 and Silver Cross Boulevard in New Lenox, Illinois by the Applicants. The MSB's street address will be 1890 Silver Cross Boulevard, New Lenox, Illinois 60451.

Where helpful or relevant in this Application, the Applicants have provided information concerning the Owner.

In terms of the 83,126 rentable square feet being leased by the Hospital, the Hospital will lease space on the lower level, first floor, and third floor of the MSB. The following clinical and non-clinical functions will be housed on these floors: dialysis, cardiac rehabilitation, pathology, conference rooms, data center, business offices, outpatient testing, occupational therapy, physical therapy, diabetes and wound care center, educational center, and space for hospital employed physicians. Because dialysis is a separate licensure category, the Applicants will, in the very near future, be filing a separate certificate of need application addressing dialysis in more detail. In this Application, the Applicants have included the dialysis space (i.e., 8,685 rentable square feet), the rent associated with the dialysis space, the buildout costs associated with the dialysis space, and the tenant improvement allowance associated with the dialysis space because the Applicants have committed to lease this space whether or not the future certificate of need for the dialysis service line is approved by the Board. The Applicants have not included any equipment costs or licensing costs associated with the dialysis space in this Application.

The remaining 114,899 rentable square feet in the MSB will be leased by the Owner to independent physicians and medical groups. To date, the Owner has obtained 32 commitment letters from physicians and medical groups to lease 97,700 rentable square feet. Thus, between the Applicants and the physicians, the Owner has already secured commitments for 180,826 rentable square feet of space in the MSB -- or more than 91.3% of the total rentable square feet in the MSB.

There are no licenses associated with this Project.

Pursuant to Section 1110.40(b) of the Illinois Administrative Code, the Project is considered "Non-Substantive" because it involves the construction of a medical office building and other non-inpatient space. The Project is subject to review under Section 1110 and Section 1120 of the Illinois Administrative Code.

Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-clinical components that are not related to the provision of health care, complete the second column of the table below. See 20 ILCS 3960 for definition of non-clinical. Note, the use and sources of funds must equal.

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL**	**NON-CLINICAL**	**TOTAL**
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts	$6,106,733.02	$3,587,928.29	$9,694,661.31
Modernization Contracts			
Contingencies	$294,600.00	$205,400.00	$500,000.00
Architectural/Engineering Fees	$441,900.00	$308,100.00	$750,000.00
Consulting and Other Fees	$29,460.00	$20,540.00	$50,000.00
Movable or Other Equipment (not in construction contracts) (includes computers, furniture, fixtures, and equipment)	$5,303,814.48	$796,136.00	$6,099,950.48
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space (discounted value of 15 year space lease)	$14,355,549.34	$10,008,926.79	$24,364,476.13
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	**$26,532,056.84**	**$14,927,031.08**	**$41,459,087.92**
SOURCE OF FUNDS	**CLINICAL**	**NON-CLINICAL**	**TOTAL**
Cash and Securities	$22,651,754.01	$12,221,619.67	$34,873,373.68
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)(discounted value of 15 years of ground lease)	$1,746,185.08	$1,217,469.16	$2,963,654.24
Governmental Appropriations			
Grants			
Other Funds and Sources (Tenant Improvement Allowance from Owner)	$2,134,117.75	$1,487,942.25	$3,622,060.00
TOTAL SOURCES OF FUNDS	**$26,532,056.84**	**$14,927,031.08**	**$41,459,087.92**

NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Related Project Costs

Provide the following information, as applicable, with respect to any land related to the project that will be or has been acquired during the last two calendar years:

Land acquisition is related to project ☐ Yes ☒ No
Purchase Price: $__________
Fair Market Value: $__________

The project involves the establishment of a new facility or a new category of service
☐ Yes ☒ No

If yes, provide the dollar amount of all non-capitalized operating start-up costs (including operating deficits) through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100.

Estimated start-up costs and operating deficit cost is $ __________.

Project Status and Completion Schedules

Indicate the stage of the project's architectural drawings:

☐ None or not applicable ☐ Preliminary

☒ Schematics ☐ Final Working

Anticipated project completion date (refer to Part 1130.140): October 31, 2012

Indicate the following with respect to project expenditures or to obligation (refer to Part 1130.140):

☐ Purchase orders, leases or contracts pertaining to the project have been executed.
☐ Project obligation is contingent upon permit issuance. Provide a copy of the contingent "certification of obligation" document, highlighting any language related to CON contingencies.
☒ Project obligation will occur after permit issuance.

State Agency Submittals

Are the following submittals up to date as applicable: Yes. All reports have been submitted.
☐ Cancer Registry
☐ APORS
☐ All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted
☐ All reports regarding outstanding permits

Cost Space Requirements

Provide in the following format, the department/area GSF and cost. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

		Gross Rentable Square Feet		Amount of Proposed Total Gross Rentable Square Feet That Is:			
Dept. / Area	**Cost**	**Existing**	**Proposed**	**New Const.**	**Modernized**	**As Is**	**Vacated Space**
Clinical							
Express/Complex Testing	$3,858,282.67		8,707	8,707			
OT/PT	$4,124,039.15		8,802	8,802			
Diabetes/Wound Care	$1,150,000.02		2,651	2,651			
Lab	$7,722,130.10		9,921	9,921			
Cardiac Rehab	$3,643,057.79		4,927	4,927			
Circulation	$2,129,445.23		5,284	5,284			
Dialysis	$3,905,101.87		8,685	8,685			
Total Clinical	**$26,532,056.84**		**48,977**	**48,977**			
Non-Clinical							
Conference Center	$3,485,692.57		7,983	7,983			
IT	$3,488,993.57		4,322	4,322			
Marketing	$560,354.28		1,421	1,421			
Business Offices	$471,944.51		1,164	1,164			
Educational Center	$3,656,943.51		11,500	11,500			
Employed Physician Offices	$1,778,812.88		4,076	4,076			
Circulation	$1,484,289.77		3,683	3,683			
Total Non-Clinical	**$14,927,031.08**		**34,149**	**34,149**			
Total	**$41,459,087.92**		**83,126**	**83,126**			

APPEND DOCUMENTATION AS ATTACHMENT-8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Facility Bed Capacity and Utilization

Complete the following chart, as applicable. Complete a separate chart for each facility that is a part of the project and insert following this page. Provide the existing bed capacity and utilization data for the latest **Calendar Year for which the data are available**. Any bed capacity discrepancy from the Inventory will result in the application being deemed **incomplete**.

FACILITY NAME: Silver Cross Hospital ** | **CITY: 1200 Maple Road, Joliet, Illinois**

REPORTING PERIOD DATES: From: 1/1/2008 to: 12/31/2008

Category of Service	Authorized Beds	Admissions	Patient Days	Bed Changes	Proposed Beds
Medical/Surgical	184	11,774	45,806	0	184
Obstetrics	26	2,057	4,976	0	26
Pediatrics	39	388	717	0	39
Intensive Care	18	1,241	4,119	0	18
Comprehensive Physical Rehabilitation	17	323	4,010	0	17
Acute/Chronic Mental Illness	20	838	3,939	0	20
Neonatal Intensive Care	0	0	0	0	0
General Long Term Care	0	0	0	0	0
Specialized Long Term Care	0	0	0	0	0
Long Term Acute Care	0	0	0	0	0
Other	0	0	0	0	0
TOTALS:	304	16,621	63,567	0	304

** The authorized beds set forth in the above chart reflect the number of authorized beds at the Hospital's existing campus in Joliet, Illinois. On July 1, 2008, the Hospital received a permit to construct a replacement hospital (the "Replacement Hospital") in New Lenox, Illinois (Project No. 07-148). The above chart does not reflect the number of authorized beds at the Replacement Hospital, i.e., 289 total beds, which are allocated as follows: 194 medical/surgical beds, 30 obstetrics beds, 8 pediatrics beds, 22 intensive care beds, 15 comprehensive rehabilitation beds, and 20 acute mental illness beds.

CERTIFICATION

The application must be signed by the authorized representative(s) of the applicant entity. The authorized representative(s) are:

- in the case of a corporation, any two of its officers or members of its Board of Directors;
- in the case of a limited liability company, any two of its managers or members (or the sole manger or member when two or more managers or members do not exist);
- in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

This Application for Permit is filed on the behalf of Silver Cross Hospital & Medical Centers* in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this application for permit on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the permit application fee required for this application is sent herewith or will be paid upon request.

Paul Pawlak
SIGNATURE

Paul Pawlak
PRINTED NAME

President & CEO
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 5 day of November, 2009

Denise L Tatgenhorst
Signature of Notary

Seal
OFFICIAL SEAL
DENISE L TATGENHORST
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:08/15/10

William Brownlow
SIGNATURE

William Brownlow
PRINTED NAME

Senior VP Finance/CFO
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 5 day of November 2009

Denise L Tatgenhorst
Signature of Notary

Seal
OFFICIAL SEAL
DENISE L TATGENHORST
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:08/15/10

*Insert EXACT legal name of the applicant

CERTIFICATION

The application must be signed by the authorized representative(s) of the applicant entity. The authorized representative(s) are:

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- in the case of a limited liability company, any two of its managers or members (or the sole manger or member when two or more managers or members do not exist);
- in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

This Application for Permit is filed on the behalf of Silver Cross Health System* in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this application for permit on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the permit application fee required for this application is sent herewith or will be paid upon request.

Paul Pawlak	William Brownlow
SIGNATURE	SIGNATURE
Paul Pawlak	William Brownlow
PRINTED NAME	PRINTED NAME
President & CEO	Senior VP Finance/CFO
PRINTED TITLE	PRINTED TITLE

Notarization:	Notarization:
Subscribed and sworn to before me this 5 day of November, 2009	Subscribed and sworn to before me this 5 day of November, 2009
Denise L Tatgenhorst	Denise L Tatgenhorst
OFFICIAL SEAL DENISE L TATGENHORST NOTARY PUBLIC - STATE OF ILLINOIS MY COMMISSION EXPIRES:08/15/10	OFFICIAL SEAL DENISE L TATGENHORST NOTARY PUBLIC - STATE OF ILLINOIS MY COMMISSION EXPIRES:08/15/10

*Insert EXACT legal name of the applicant

SECTION III. - PROJECT PURPOSE, BACKGROUND AND ALTERNATIVES - INFORMATION REQUIREMENTS

This Section is applicable to all projects except those that are solely for discontinuation with no project costs.

Criterion 1110.230 - Project Purpose, Background and Alternatives

READ THE REVIEW CRITERION and provide the following required information:

BACKGROUND OF APPLICANT

1. A listing of all health care facilities owned or operated by the applicant, including licensing, certification and accreditation identification numbers, if applicable.
2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**
4. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest the information has been previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

APPEND DOCUMENTATION AS <u>ATTACHMENT-10</u>, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

PURPOSE OF PROJECT

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project. [See 1110.230(b) for examples of documentation.]
4. Cite the sources of the information provided as documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals.

For projects involving modernization, describe the conditions being upgraded. For facility projects, include statements of age and condition and regulatory citations. For equipment being replaced, include repair and maintenance records.

NOTE: The description of the "Purpose of the Project" should not exceed one page in length. Information regarding the "Purpose of the Project" will be included in the State Agency Report.

APPEND DOCUMENTATION AS ATTACHMENT-11, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

ALTERNATIVES

Document **ALL** of the alternatives to the proposed project:

Examples of alternative options include:

A) Proposing a project of greater or lesser scope and cost;

B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;

C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and

2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of cost, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation.

3) The applicant shall provide empirical evidence, including quantified outcome data, that verifies improved quality of care, as available.

APPEND DOCUMENTATION AS ATTACHMENT-12, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION IV - PROJECT SCOPE, UTILIZATION, AND UNFINISHED/SHELL SPACE

Criterion 1110.234 - Project Scope, Utilization, and Unfinished/Shell Space

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive.

2. If the gross square footage exceeds the GSF standards in Appendix B, justify the discrepancy by documenting one of the following::

   a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;

   b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;

   c. The project involves the conversion of existing bed space that results in excess square footage.

APPEND DOCUMENTATION AS ATTACHMENT-13, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

PROJECT SERVICES UTILIZATION:

This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which HFSRB has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100.

Document that in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in 1110.Appendix B.

APPEND DOCUMENTATION AS ATTACHMENT-14, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE. APPLICATION FORM.

UNFINISHED OR SHELL SPACE:

Provide the following information:

1. Total gross square footage of the proposed shell space;

2. The anticipated use of the shell space, specifying the proposed GSF tot be allocated to each department, area or function;

3. Evidence that the shell space is being constructed due to
   a. Requirements of governmental or certification agencies; or
   b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.

4. Provide:
   a. Historical utilization for the area for the latest five-year period for which data are available;

and

b. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

APPENDATION DOCUMENTATION AS ATTACHMENT-15, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

ASSURANCES:

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.

2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and

3. The anticipated date when the shell space will be completed and placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT-16, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

R. Criterion 1110.3030 - Clinical Service Areas Other than Categories of Service

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than Categories of Service must submit the following information: **See attached.**

2. Indicate changes by Service: Indicate # of key room changes by action(s):

Service	# Existing Key Rooms	# Proposed Key Rooms	# to Establish	# to Expand	# to Modernize
☐					
☐					
☐					

3. READ the applicable review criteria outlined below and SUBMIT all required information:

PROJECT TYPE	REQUIRED REVIEW CRITERIA	
New Services or Facility or Equipment	(b) –	Need Determination – Establishment
Service Modernization	(c)(1) –	Deteriorated Facilities
		and/or
	(c)(2) –	Necessary Expansion
		PLUS
	(c)(3)(A) –	Utilization – Major Medical Equipment
		Or
	(c)(3)(B) –	Utilization – Service or Facility

APPEND DOCUMENTATION AS INDICATED BELOW, IN NUMERIC SEQUENCIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM:

APPLICABLE REVIEW CRITERIA	Attachment Number
Need Determination - Establishment	62
Service Demand	63
Referrals from Inpatient Base	64
Physician Referrals	65
Historical Referrals to Other Providers	66
Population Incidence	67
Impact of Project on Other Area Providers	68
Utilization	69
Deteriorated Facilities	70
Necessary Expansion	71
Utilization -Major Medical Equipment	72
Utilization - Service or Facility	73

T. Financial Feasibility

This section is applicable to all projects subject to Part 1120.

REVIEW CRITERIA RELATING TO FINANCIAL FEASIBILITY (FIN)

Does the applicant (or the entity that is responsible for financing the project or is responsible for assumin applicant's debt obligations in case of default) have a bond rating of "A" or better?
Yes ☐ No ☒.

If yes is indicated, submit proof of the bond rating of "A" or better (that is less than two years old) from Fitch's, Moody's or Standard and Poor's rating agencies and go to Section XXVI. **If no is indicated, submit the most recent three years' audited financial statements including the following:**

1. **Balance sheet**
2. **Income statement**
3. **Change in fund balance**
4. **Change in financial position** (**See attached**).

A. Criterion 1120.210(a), Financial Viability

1. Viability Ratios

If proof of an "A" or better bond rating has not been provided, read the criterion and complete the following table providing the viability ratios for the most recent three years for which audited financial statements are available. Category B projects must also provide the viability ratios for the first full fiscal year after project completion or for the first full fiscal year when the project achieves or exceeds target utilization (per Part 1100), whichever is later. **See attached**.

Provide Data for Projects Classified as:	Category A or Category B (last three years)			Category B (Projected)
Enter Historical and/or Projected Years:				
Current Ratio				
Net Margin Percentage				
Percent Debt to Total Capitalization				
Projected Debt Service Coverage				
Days Cash on Hand				
Cushion Ratio				

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each. Insert the worksheets after this page.

2. Variance

Compare the viability ratios provided to the Part 1120 Appendix A review standards. If any of the standards for the applicant or for any co-applicant are not met, provide documentation that a person or organization will assume the legal responsibility to meet the debt obligations should the applicant default. The person or organization must demonstrate compliance with the ratios in Appendix A when proof of a bond rating of "A" or better has not been provided.

REVIEW CRITERIA RELATING TO FINANCIAL FEASIBILITY (FIN) (continued)

B. Criterion 1120.210(b), Availability of Funds

If proof of an "A" or better bond rating has not been provided, read the criterion and document that sufficient resources are available to fund the project and related costs including operating start-up costs and operating deficits. Indicate the dollar amount to be provided from the following sources:

$34,873,373.68 Cash & Securities

Provide statements as to the amount of cash/securities available for the project. Identify any security, its value and availability of such funds. Interest to be earned or depreciation account funds to be earned on any asset from the date of application submission through project completion are also considered cash.

________ Pledges

For anticipated pledges, provide a letter or report as to the dollar amount feasible showing the discounted value and any conditions or action the applicant would have to take to accomplish goal. The time period, historical fund raising experience and major contributors also must be specified.

________ Gifts and Bequests

Provide verification of the dollar amount and identify any conditions of the source and timing of its use.

$2,963,654.24 Debt Financing (indicate type(s) **Ground Lease Rent Stream) (See attached)**

For general obligation bonds, provide amount, terms and conditions, including any anticipated discounting or shrinkage) and proof of passage of the required referendum or evidence of governmental authority to issue such bonds;

For revenue bonds, provide amount, terms and conditions and proof of securing the specified amount;

For mortgages, provide a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated;

For leases, provide a copy of the lease including all terms and conditions of the lease including any purchase options.

________ Governmental Appropriations

Provide a copy of the appropriation act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, provide a resolution or other action of the governmental unit attesting to such future funding.

________ Grants

Provide a letter from the granting agency as to the availability of funds in terms of the amount, conditions, and time or receipt.

$3,622,060.00 Other Funds and Sources **(Tenant Improvement Allowance)(See attached)**

Provide verification of the amount, terms and conditions, and type of any other funds that will be used for the project.

$41,459,087.92 TOTAL FUNDS AVAILABLE

C. Criterion 1120.210(c), Operating Start-up Costs

If proof of an "A" or better bond rating has not been provided, indicate if the project is classified as a Category B project that involves establishing a new facility or a new category of service? Yes ☐ No ☒. If yes is indicated, read the criterion and provide in the space below the amount of operating start-up costs (the same as reported in Section I of this application) and provide a description of the items or components that comprise the costs. Indicate the source and amount of the financial resources available to fund the operating start-up costs (including any initial operating deficit) and reference the documentation that verifies sufficient resources are available.

APPEND DOCUMENTATION AS ATTACHMENT 75, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

U. Economic Feasibility

This section is applicable to all projects subject to Part 1120.

SECTION XXVI. REVIEW CRITERIA RELATING TO ECONOMIC FEASIBILITY (ECON)

A. Criterion 1120.310(a), Reasonableness of Financing Arrangements

Is the project classified as a Category B project? Yes ☒ No ☐. If no is indicated this criterion is not applicable. If yes is indicated, has proof of a bond rating of "A" or better been provided? Yes ☐ No ☒. If yes is indicated this criterion is not applicable, go to item B. If no is indicated, read the criterion and address the following:

Are all available cash and equivalents being used for project funding prior to borrowing? ☒ Yes ☐ No

If no is checked, provide a notarized statement signed by two authorized representatives of the applicant entity (in the case of a corporation, one must be a member of the board of directors) that attests to the following:

1. a portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order that the current ratio does not fall below 2.0 times; or
2. borrowing is less costly than the liquidation of existing investments and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

B. Criterion 1120.310(b), Conditions of Debt Financing (SEE ATTACHED)

Read the criterion and provide a notarized statement signed by two authorized representatives of the applicant entity (in the case of a corporation, one must be a member of the board of directors) that attests to the following as applicable:

1. The selected form of debt financing the project will be at the lowest net cost available or if a more costly form of financing is selected, that form is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional debt, term (years) financing costs, and other factors;
2. All or part of the project involves the leasing of equipment or facilities and the expenses incurred with such leasing are less costly than constructing a new facility or purchasing new equipment.

B. Criterion 1120.310(c), Reasonableness of Project and Related Costs (SEE ATTACHED)

Read the criterion and provide the following:

1. Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
	A	B	C	D	E	F	G	H	
Department (list below)	Cost/Square Foot New	Mod.	Gross Sq. Ft. New	Circ.*	Gross Sq. Ft. Mod.	Circ.*	Const. $ (A x C)	Mod. $ (B x E)	Total Cost (G + H)
Contingency									
TOTALS									
* Include the percentage (%) of space for circulation									

2. For each piece of major medical equipment included in the proposed project, the applicant must certify one of the following:

REVIEW CRITERIA RELATING TO ECONOMIC FEASIBILITY (ECON) (continued)

a. that the lowest net cost available has been selected; or

b. that the choice of higher cost equipment is justified due to such factors as, but not limited to, maintenance agreements, options to purchase, or greater diagnostic or therapeutic capabilities.

3. List the items and costs included in preplanning, site survey, site preparation, off-site work, consulting, and other costs to be capitalized. If any project line item component includes costs attributable to extraordinary or unusual circumstances, explain the circumstances and provide the associated dollar amount. When fair market value has been provided for any component of project costs, submit documentation of the value in accordance with the requirements of Part 1190.40.

D. Criterion 1120.310(d), Projected Operating Costs

Read the criterion and provide in the space below the facility's projected direct annual operating costs (in current dollars per equivalent patient day or unit of service, as applicable) for the first full fiscal year of operation after project completion or for the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later. If the project involves a new category of service, also provide the annual operating costs for the service. Direct costs are the fully allocated costs of salaries, benefits, and supplies. Indicate the year for which the projected operating costs are provided. **$13.17 per procedure**

E. Criterion 1120.310(e), Total Effect of the Project on Capital Costs

Is the project classified as a category B project? Yes ☒ No ☐. If no is indicated, go to item F. If yes is indicated, provide in the space below the facility's total projected annual capital costs as defined in Part 1120.130(f) (in current dollars per equivalent patient day) for the first full fiscal year of operation after project completion or for the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later. Indicate the year for which the projected capital costs are provided. **$0**

F. Criterion 1120.310(f), Non-patient Related Services

Is the project classified as a category B project and involve non-patient related services? Yes ☐ No ☒. If no is indicated, this criterion is not applicable. If yes is indicated, read the criterion and document that the project will be self-supporting and not result in increased charges to patients/residents or that increased charges are justified based upon such factors as, but not limited to, a cost benefit or other analysis that demonstrates the project will improve the applicant's financial viability.

APPEND DOCUMENTATION AS ATTACHMENT -76, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Section I
Attachment 1
Applicant Identification

The Certificates of Good Standing for Silver Cross Hospital & Medical Centers (the "Hospital") and Silver Cross Health System (the "System," collectively with the Hospital, the "Applicants") are attached at ATTACHMENT-1.

File Number 5257-283-5

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

SILVER CROSS HEALTH SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON NOVEMBER 19, 1981, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 19TH *day of* AUGUST *A.D.* 2009 .

Jesse White

SECRETARY OF STATE

Authentication #: 0923100548

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

ATTACHMENT - 1

File Number 0548-203-8

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

SILVER CROSS HOSPITAL AND MEDICAL CENTERS, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON APRIL 16, 1891, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 19TH *day of* AUGUST *A.D.* 2009 .

SEAL OF THE STATE OF ILLINOIS AUG. 26TH 1818

Jesse White

SECRETARY OF STATE

Authentication #: 0923100498

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

ATTACHMENT-1

Section I
Attachment 2
Site Ownership

The Hospital currently owns the site parcel covered by this Project. Upon approval of this Project by the Board, the Hospital will enter into a Ground Lease with SCH MSB LLC (the "Owner") for the site parcel covered by this Project. The Ground Lease has been negotiated by the Hospital and the Owner and the material terms of the Ground Lease are attached at ATTACHMENT-2.

The legal description of the site parcel covered by this Project is as follows:

PIN# 15-08-04-300-008-0000
THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4, TOWNSHIP 35 NORTH, RANGE 11 EAST OF THE THIRD PRINCIPAL MERIDIAN, EXCEPTING THEREFROM THE FOLLOWING THREE TRACTS OF LAND: (1) THE SOUTH 250 FEET OF THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4 WHICH WAS CONVEYED TO JOHN GULLICK BY DEED RECORDED JULY 31, 1930 IN BOOK 729, PAGE 613, AS DOCUMENT 443214. (2) THAT PART DEDICATED TO THE PEOPLE OF THE STATE OF ILLINOIS BY DEDICATION RECORDED APRIL 21, 1931 BOOK 776, PAGE 4 AS DOCUMENT 449749. (3) THE EAST 560.03 FEET OF THE NORTH 466.69 FEET OF THE FOLLOWING DESCRIBED TRACT OF LAND: THAT PART OF THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4, TOWNSHIP 35 NORTH, RANGE 11 EAST OF THE THIRD PRINCIPAL MERIDIAN, LYING NORTH OF THE PROPERTY CONVEYED TO JOHN GULLICK BY WARRANTY DEED RECORDED JULY 31, 1930 IN BOOK 729 PAGE 613 DOCUMENT 443214 AND SOUTH OF THE PROPERTY DEDICATED TO THE PEOPLE OF THE STATE OF ILLINOIS FOR HIGHWAY PURPOSES BY DOCUMENT 449749, IN WILL COUNTY, ILLINOIS.

Silver Cross Hospital

A Solucient 100 Top Hospitals* National Award Winner
2004, 2005, 2006

October 1, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Fair Market Value of Ground Lease for Medical Services Building

Dear Mr. Constantino:

SCH MSB LLC is the developer and landlord (the "Landlord") of the Silver Cross Medical Services Building (the "MSB"), which will be constructed and located at 1890 Clinton Street, New Lenox, Illinois 60451. I have reviewed the definitions of "fair market value" located at 77 Ill. Admin. Code §§ 1120.10(b)(4) and 1130.140. I am also familiar with the various rules and regulations concerning the submission of accurate materials to the Illinois Health Facilities & Services Review Board (the "Board"). Based on the foregoing, I hereby certify the following:

1. On or about September 14, 2009, Silver Cross Hospital (the "Hospital") and the Landlord negotiated the terms of a certain Ground Lease (the "Ground Lease").

2. The Ground Lease has a fifty (50) year term, with a fifteen (15) year renewal option and a subsequent ten (10) year renewal option.

3. The Ground Lease is contingent upon the Hospital receiving permission from the Board to enter into the Ground Lease.

4. Under the terms of the Ground Lease, the Hospital will lease the land upon which the MSB will sit to the Owner (the "Land").

5. The Land has the following legal description:

PIN# 15-08-04-300-008-0000. THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4, TOWNSHIP 35 NORTH, RANGE 11 EAST OF THE THIRD PRINCIPAL MERIDIAN, EXCEPTING THEREFROM THE FOLLOWING THREE TRACTS OF LAND: (1) THE SOUTH 250 FEET OF THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4 WHICH WAS CONVEYED TO JOHN GULLICK BY DEED RECORDED JULY 31, 1930 IN BOOK 729, PAGE 613, AS DOCUMENT 443214. (2) THAT PART DEDICATED TO THE PEOPLE OF THE STATE OF ILLINOIS BY DEDICATION RECORDED APRIL 21, 1931 BOOK 776, PAGE 4 AS DOCUMENT 449749. (3) THE EAST 560.03 FEET OF THE NORTH 466.69 FEET OF THE FOLLOWING DESCRIBED TRACT OF LAND: THAT PART OF THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4, TOWNSHIP 35 NORTH, RANGE 11 EAST OF THE THIRD PRINCIPAL

MERIDIAN. LYING NORTH OF THE PROPERTY CONVEYED TO JOHN GULLICK BY WARRANTY DEED RECORDED JULY 31, 1930 IN BOOK 729 PAGE 613 DOCUMENT 443214 AND SOUTH OF THE PROPERTY DEDICATED TO THE PEOPLE OF THE STATE OF ILLINOIS FOR HIGHWAY PURPOSES BY DOCUMENT 449749, IN WILL COUNTY, ILLINOIS.

6. Under the terms of the Ground Lease, the Landlord will pay $289,098.98 in annual rent to the Hospital (the "Rent").

7. Under the terms of the Ground Lease, the Rent will increase by three percent (3%) per year.

8. It is my belief that an eight (8%) discount rate is normal and customary.

9. Based on the foregoing, the fair market value for the first fifteen (15) years of the Ground Lease would be $2,963,654.24.

Sincerely,

By: William Brownlow
Silver Cross Hospital & Medical Centers
Senior VP Finance/CFO

Subscribed and Sworn to before me
this 1st day of October, 2009

Denise L Tatgenhorst
Notary Public

OFFICIAL SEAL
DENISE L TATGENHORST
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:08/15/10

Section I
Attachment 3
Operating Entity/Licensee

There are no licenses associated with this Project.

The Certificate of Good Standing for the Hospital is attached at ATTACHMENT-3.

Organizational Relationships

The organizational charts for the Hospital and the System are attached at ATTACHMENT-3.

File Number 0548-203-8

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

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

SILVER CROSS HOSPITAL AND MEDICAL CENTERS, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON APRIL 16, 1891, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 19TH *day of* AUGUST *A.D.* 2009 .

SEAL OF THE STATE OF ILLINOIS
AUG. 26TH 1818

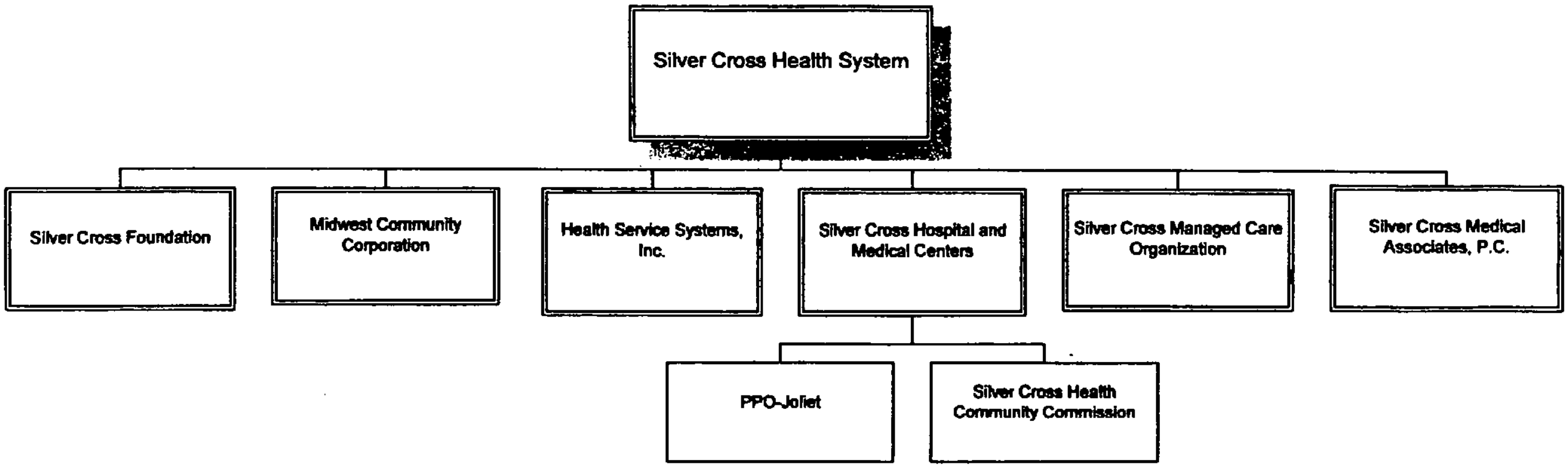
Authentication #: 0923100498

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

Jesse White

SECRETARY OF STATE

ATTACHMENT-3


Silver Cross Health System
Silver Cross Foundation
Midwest Community Corporation
Health Service Systems, Inc.
Silver Cross Hospital and Medical Centers
Silver Cross Managed Care Organization
Silver Cross Medical Associates, P.C.
PPO-Joliet
Silver Cross Health Community Commission

Section I
Attachment 4
Flood Plain Requirements

Attached at ATTACHMENT-4 is documentation from the Illinois Department of Natural Resources, Illinois State Water Survey, with respect to compliance with the Flood Plain requirements under Executive Order #5 (2006) (which superseded and replaced Executive Order #4 (1979)).

Illinois Department of
Natural Resources
One Natural Resources Way Springfield, Illinois 62702-1271
http://dnr.state.il.us

Pat Quinn, Governor
Marc Miller, Acting Director

Special Flood Hazard Area Determination

Pursuant to Governor's Executive Order 5 (2006)

(Supersedes Governor's Executive Order 4 (1979))

In brief, Executive Order 5 (2006) requires that State agencies which plan, promote, regulate, or permit activities, as well as those which administer grants or loans in the State's floodplain areas, must ensure that all projects meet the standards of the State floodplain regulations or the National Flood Insurance Program (NFIP), whichever is more stringent. These standards require that new or substantially improved buildings as well as other development activities be protected from damage by the 100-year flood. Critical facilities, as described in the Executive Order, must be protected to the 500-year flood elevation. In addition, no construction activities in the floodplain may cause increases in flood heights or damages to other properties.

Requester: Sara Jackson , Director Business Intelligence, Silver Cross Hospital

Address: 1200 Maple Road

City, state, zip code: Joliet, Illinois, 60432

Project Description: Replacement hospital campus, Lenox, Illinois

Site address or location: Southeast corner of Route 6 and Clinton Street

City, state, zip code: New Lenox, Illinois

County: Will Flood Map Panel: 190 Map Date: 09/06/1995

Floodplain Determination

- [x] The property described above is **NOT** located within a 100-year or 500-year floodplain.
- [ ] The property described above is located within a 100-year floodplain. Further plan review required.
- [ ] Critical facility site located within 500-year floodplain. Further plan review required.

Note: This determination is based on the effective Federal Emergency Management Agency (FEMA) flood hazard map for the community. This letter does not imply that the referenced property will or will not be free from flooding or flood damage. Questions concerning this determination may be directed to the Illinois DNR Office of Water Resources at (217) 782-3863.

Reviewed by: [signature] Date 5/25/2009

ATTACHMENT-4

Section I
Attachment 5
Historic Resources Preservation Act Requirements

Attached at ATTACHMENT-5 is documentation from the Illinois Historical Preservation Agency regarding compliance with the requirements of the Illinois Historic Resources Preservation Act.

Illinois Historic
Preservation Agency

FAX (217) 782-8161

1 Old State Capitol Plaza • Springfield, Illinois 62701-1512 • www.illinois-history.gov

Will County
Joliet
CON - New Construction, Freestanding Health Care Facility
1200 Maple Road
IHPA Log #009060309

June 15, 2009

Sara Jackson
Silver Cross Hospital
1200 Maple Rd.
Joliet, IL 60432

Dear Ms. Jackson:

This letter is to inform you that we have reviewed the information provided concerning the referenced project.

Our review of the records indicates that no historic, architectural or archaeological sites exist within the project area.

Please retain this letter in your files as evidence of compliance with Section 4 of the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420/1 et. seq.). This clearance remains in effect for two years from date of issuance. It does not pertain to any discovery during construction, nor is it a clearance for purposes of the Illinois Human Skeletal Remains Protection Act (20 ILCS 3440).

If you have any further questions, please contact me at 217/785-5027.

Sincerely,

Anne E. Haaker

Anne E. Haaker
Deputy State Historic
Preservation Officer

A teletypewriter for the speech/hearing impaired is available at 217-524-7128. It is not a voice or fax line.

ATTACHMENT-5

Section I
Attachment 6
Project Classification

Pursuant to Section 1110.40(b) of the Illinois Administrative Code, the Project is considered "Non-Substantive" because it involves the construction of a medical office building and other non-inpatient space. The Project is subject to review under Section 1110 and Section 1120 of the Illinois Administrative Code.

Section I
Attachment 7
Project Costs

The total cost of the Project will be $41,459,087.92. The clinical components of the Project will cost $26,532,056.84. The non-clinical components of the Project will total $14,927,031.08.

Section I
Attachment 8
<u>Cost/Space Requirements</u>

		Gross Rentable Square Feet		Amount of Proposed Total Gross Rentable Square Feet That Is:			
Dept. / Area	**Cost**	**Existing**	**Proposed**	**New Const.**	**Modernized**	**As Is**	**Vacated Space**
Clinical							
Express/Complex Testing	$3,858,282.67		8,707	8,707			
OT/PT	$4,124,039.15		8,802	8,802			
Diabetes/Wound Care	$1,150,000.02		2,651	2,651			
Lab	$7,722,130.10		9,921	9,921			
Cardiac Rehab	$3,643,057.79		4,927	4,927			
Circulation	$2,129,445.23		5,284	5,284			
Dialysis	$3,905,101.87		8,685	8,685			
Total Clinical	**$26,532,056.84**		**48,977**	**48,977**			
Non-Clinical							
Conference Center	$3,485,692.57		7,983	7,983			
IT	$3,488,993.57		4,322	4,322			
Marketing	$560,354.28		1,421	1,421			
Business Offices	$471,944.51		1,164	1,164			
Educational Center	$3,656,943.51		11,500	11,500			
Employed Physician Offices	$1,778,812.88		4,076	4,076			
Circulation	$1,484,289.77		3,683	3,683			
Total Non-Clinical	**$14,927,031.08**		**34,149**	**34,149**			
Total	**$41,459,087.92**		**83,126**	**83,126**			

Section III
Attachment 10
Background of Applicant

1. The Hospital is a fully licensed, Medicare-certified, Joint Commission accredited, Illinois not-for-profit general hospital. A copy of the current license and Joint Commission accreditation for the Hospital is attached at ATTACHMENT-10.

The Hospital owns and operates: (1) Silver Cross Renal Center – West, an end-stage renal dialysis center; (2) Silver Cross Renal Center – Morris, an end-stage renal dialysis center; and (3) Silver Cross Renal Center – Joliet, an end-stage renal dialysis center.

The Hospital is a joint venture partner in Silver Cross Hospital Cardiovascular Institute, LLC ("SCHCI LLC"), an ambulatory surgical treatment center providing cardiac catheterizations. A copy of the current license for SCHCI LLC is attached at ATTACHMENT-10. An application to discontinue SCHCI LLC was filed with the Board on August 24, 2009.

2. No adverse actions have been taken against any facility owned and/or operated by the Hospital or the System in the last three years. Letters certifying that information are attached at ATTACHMENT-10. The Applicants would note that SCHCI LLC received a statement of deficiencies (the "SOD") from the Illinois Department of Public Health ("IDPH") on or about August 3, 2009. Since receiving the SOD from IDPH, SCHCI LLC has submitted a plan of correction ("POC"). SCHCI LLC has been advised by IDPH that the POC was accepted by IDPH.

3. Authorization letters granting access to the Board and the Illinois Department of Public Health ("IDPH") to verify information about the Hospital and the System are attached at ATTACHMENT-10.

4. An application to discontinue SCHCI LLC was filed with the Board on August 24, 2009. That application is set to be heard in December of 2009. However, that application did not contain the information required by this Section.

State of Illinois 1899740

Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois Statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

DAMON T. ARNOLD, M.D.
DIRECTOR

Issued under the authority of The State of Illinois Department of Public Health

EXPIRATION DATE	CATEGORY	I.D. NUMBER
12/31/09	BGBD	0002170

FULL LICENSE

GENERAL HOSPITAL

EFFECTIVE: 01/01/09

BUSINESS ADDRESS

SILVER CROSS HOSPITAL

1200 MAPLE STREET

JOLIET IL 60432

The face of this license has a colored background. Printed by Authority of the State of Illinois • 4/97 •

← DISPLAY THIS PART IN A CONSPICUOUS PLACE

REMOVE THIS CARD TO CARRY AS AN IDENTIFICATION

State of Illinois 1899740

Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

SILVER CROSS HOSPITAL

EXPIRATION DATE	CATEGORY	I.D. NUMBER
12/31/09	BGBD	0002170

FULL LICENSE

GENERAL HOSPITAL

EFFECTIVE: 01/01/09

11/01/08

SILVER CROSS HOSPITAL
1200 MAPLE STREET

JOLIET IL 60432

FEE RECEIPT NO.

Silver Cross Hospital

Joliet, IL

has been Accredited by

The Joint Commission

Which has surveyed this organization and found it to meet the requirements for the

Hospital Accreditation Program

March 15, 2008

Accreditation is customarily valid for up to 39 months.

David L. Nahrwold
David L. Nahrwold, M.D.
Chairman of the Board

7365
Organization ID #

Mark Chassin
Mark Chassin, M.D.
President

The Joint Commission is an independent, not-for-profit, national body that oversees the safety and quality of health care and other services provided in accredited organizations. Information about accredited organizations may be provided directly to The Joint Commission at 1-800-994-6610. Information regarding accreditation and the accreditation performance of individual organizations can be obtained through The Joint Commission's web site at www.jointcommission.org.

ATTACHMENT-10

The Joint Commission

June 26, 2008

Paul Pawlak
President and CEO
Silver Cross Hospital
1200 Maple Road
Joliet, IL 60432

Joint Commission ID #: 7365
Accreditation Activity: Evidence of Standards Compliance
Accreditation Activity Completed: 6/26/2008

Dear Mr. Pawlak:

The Joint Commission would like to thank your organization for participating in the accreditation process. This process is designed to help your organization continuously provide safe, high-quality care, treatment, and services by identifying opportunities for improvement in your processes and helping you follow through on and implement these improvements. We encourage you to use the accreditation process as a continuous standards compliance and operational improvement tool.

The Joint Commission is granting your organization an accreditation decision of Accredited for all services surveyed under the applicable manual(s) noted below:

- Comprehensive Accreditation Manual for Home Care
- Comprehensive Accreditation Manual for Hospitals

This accreditation cycle is effective beginning March 15, 2008. The Joint Commission reserves the right to shorten or lengthen the duration of the cycle; however, the certificate and cycle are customarily valid for up to 39 months.

Please visit Quality Check® on the Joint Commission web site for updated information related to your accreditation decision.

We encourage you to share this accreditation decision with your organization's appropriate staff, leadership, and governing body. You may also want to inform the Centers for Medicare and Medicaid Services (CMS), state or regional regulatory services, and the public you serve of your organization's accreditation decision.

Please be assured that the Joint Commission will keep the report confidential, except as required by law. To ensure that the Joint Commission's information about your organization is always accurate and current, our policy requires that you inform us of any changes in the name or ownership of your organization or the health care services you provide.

Sincerely,

Linda S. Murphy-Knoll

Linda S. Murphy-Knoll
Interim Executive Vice President
Division of Accreditation and Certification Operations

ATTACHMENT-10

State of Illinois 1907341

Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois Statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

DAMON T. ARNOLD, M.D.
DIRECTOR

Issued under the authority of
The State of Illinois
Department of Public Health

EXPIRATION DATE	CATEGORY	I.D. NUMBER
11/23/09	BGBD	7002751

FULL LICENSE

AMBUL SURGICAL TREAT CNTR

EFFECTIVE: 11/24/08

BUSINESS ADDRESS

SILVER CROSS HOSPITAL CARDIOVASCULAR
INSTITUTE, LLC
1200 MAPLE AVENUE
JOLIET IL 60432

The face of this license has a colored background. Printed by Authority of the State of Illinois • 4/97 •

DISPLAY THIS PART IN A CONSPICUOUS PLACE

REMOVE THIS CARD TO CARRY AS AN IDENTIFICATION

State of Illinois 1907341

Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

SILVER CROSS HOSPITAL CARDIOVASCULAR

EXPIRATION DATE	CATEGORY	I.D. NUMBER
11/23/09	BGBD	7002751

FULL LICENSE

AMBUL SURGICAL TREAT CNTR

EFFECTIVE: 11/24/08

12/13/08

SILVER CROSS HOSP CARDIO VASCULAR
INSTITUTE
1200 MAPLE AVENUE
JOLIET IL 60432

FEE RECEIPT NO. 26999

ATTACHMENT-10

Silver Cross Hospital

A Solucient 100 Top Hospital®

September 21, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Dear Mr. Constantino:

Pursuant to 77 Ill. Admin. Code §§ 1110.230(a)(3)(A) and (B), I hereby certify that no adverse action has been taken against any facility owned or operated by Silver Cross Health System during the three (3) years prior to the filing of this application.

In addition, pursuant to 77 Ill. Admin. Code § 1110.230(a)(3)(C), I hereby authorize the Illinois Health Facilities & Services Review Board (the "Board") and the Illinois Department of Public Health ("IDPH") to access all information necessary to verify any documentation or information submitted by Silver Cross Health System with this application. I further authorize the Board and IDPH to obtain any additional documentation or information which the Board or IDPH finds pertinent and necessary to process this application.

Sincerely,

Paul Pawlak

Paul Pawlak
President & CEO
Silver Cross Health System

Subscribed and Sworn to before me
this 23rd day of September, 2009

Carol J. Zier

Notary Public

"OFFICIAL SEAL"
CAROL J. ZIER
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES JUNE 17, 2011

ATTACHMENT-10

1200 Maple Road • Joliet, Illinois 60432 • (815) 740-1100 • www.silvercross.org

Silver Cross Hospital
A Solucient 100 Top Hospital®

September 21, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Dear Mr. Constantino:

Pursuant to 77 Ill. Admin. Code §§ 1110.230(a)(3)(A) and (B), I hereby certify that no adverse action has been taken against any facility owned or operated by Silver Cross Hospital & Medical Centers during the three (3) years prior to the filing of this application.

In addition, pursuant to 77 Ill. Admin. Code § 1110.230(a)(3)(C), I hereby authorize the Illinois Health Facilities & Services Review Board (the "Board") and the Illinois Department of Public Health ("IDPH") to access all information necessary to verify any documentation or information submitted by Silver Cross Hospital & Medical Centers with this application. I further authorize the Board and IDPH to obtain any additional documentation or information which the Board or IDPH finds pertinent and necessary to process this application.

Sincerely,

Paul Pawlak

Paul Pawlak
President & CEO
Silver Cross Hospital & Medical Centers

Subscribed and Sworn to before me
this 23rd day of September, 2009

Carol J. Zier
Notary Public

"OFFICIAL SEAL"
CAROL J. ZIER
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES JUNE 17, 2011

1200 Maple Road • Joliet, Illinois 60432 • (815) 740-1100 • www.silvercross.org

Section III
Attachment 11
Purpose of Project

Purpose Statement

The primary purpose of the Project is to relocate certain outpatient services, administrative offices, and physician offices from the Applicants' Existing Hospital Campus in Joliet to the Applicants' Replacement Hospital Campus in New Lenox, Illinois. By co-locating these services and functions in the MSB on the Applicants' Replacement Hospital Campus, the Applicants will be able to: (a) improve access for the Applicants' patients; (b) recognize certain operational efficiencies; and (c) meet the health care needs of the growing population in the area.

Supporting Statements & Documentation

1. The MSB will have significantly better physical access to interstates (I-355 and I-80) and major roadways (U.S. Routes 6 and 7).

2. The MSB will also house services that are needed to continue meeting the health care needs of the growing population in the area. According to Nielsen Claritas data, the area is projected to grow from an estimated total population of 801,234 in 2009 to 908,407 by 2014 – a change of more than 100,000 people or a growth rate of 13.4% over the next five years.

3. Population in the area is aging. According to the same Nielsen Claritas data, the fastest growing segment of the population is projected to be among those over the age of 65 (+28% over the next five years) followed by those between the ages of 45 and 64 years of age (+18% over the next five years). These are the same segments of the population that tend to use the most health care services. The following chart summarizes the Nielson Claritas data.

Service Area	Age Group	2000 Census	%	2009 Estimate	%	2014 Projection	%	Change 2009 to 2014
Primary Service Area								
	Ages 0-14	65,466	23.8%	79,295	22.3%	86,858	21.7%	9.5%
	Ages 15-44	121,564	44.2%	152,932	42.9%	164,906	41.2%	7.8%
	Ages 45-64	59,251	21.6%	87,227	24.5%	102,667	25.6%	17.7%
	Ages 65+	28,460	10.4%	36,655	10.3%	45,971	11.5%	25.4%
Subtotal		274,741		356,109		400,402		12.4%
Secondary Service Area – East								
	Ages 0-14	27,019	21.0%	26,474	18.3%	28,018	18.3%	5.8%
	Ages 15-44	52,235	40.6%	55,674	38.4%	56,962	37.1%	2.3%
	Ages 45-64	32,765	25.5%	43,706	30.2%	45,660	29.7%	4.5%
	Ages 65+	16,629	12.9%	19,063	13.2%	22,851	14.9%	19.9%
Subtotal		128,648		144,917		153,491		5.9%
Secondary Service Area –North								
	Ages 0-14	31,757	27.0%	46,393	25.5%	53,514	24.9%	15.3%
	Ages 15-44	57,065	48.5%	84,450	46.5%	93,401	43.4%	10.6%
	Ages 45-64	21,763	18.5%	38,258	21.1%	50,385	23.4%	31.7%
	Ages 65+	7,094	6.0%	12,625	6.9%	17,972	8.3%	42.4%
Subtotal		117,679		181,726		215,272		18.5%
Secondary Service Area – South								
	Ages 0-14	5335	22.0%	6145	20.4%	6747	20.1%	9.8%
	Ages 15-44	10724	44.2%	13219	43.9%	14049	41.8%	6.3%
	Ages 45-64	5581	23.0%	7612	25.3%	8852	26.3%	16.3%
	Ages 65+	2605	10.7%	3162	10.5%	3955	11.8%	25.1%
Subtotal		24245		30138		33603		11.5%
Secondary Service Area – West								
	Ages 0-14	13181	23.7%	19482	22.1%	22818	21.6%	17.1%
	Ages 15-44	24789	44.5%	38592	43.7%	43857	41.5%	13.6%
	Ages 45-64	12462	22.4%	22159	25.1%	27744	26.3%	25.2%
	Ages 65+	5262	9.4%	8111	9.2%	11220	10.6%	38.3%
Subtotal		55694		88344		105639		19.6%
Total Service Area								
	Ages 0-14	142,758	23.8%	177,789	22.2%	197,955	21.8%	11.3%
	Ages 15-44	266,377	44.3%	344,867	43.0%	373,175	41.1%	8.2%
	Ages 45-64	131,822	21.9%	198,962	24.8%	235,308	25.9%	18.3%
	Ages 65+	60,050	10.0%	79,616	9.9%	101,969	11.2%	28.1%
Grand Total		601,007		801,234		908,407		13.4%

Source: Nielsen Claritas based on U.S. Census Bureau projections (April, 2009).

4. The primary and secondary service areas for the MSB are identical to that of the Applicants' Replacement Hospital.

ZIP CODE	SERVICE AREA
60403	Primary Service Area
60421	Primary Service Area
60423	Primary Service Area
60432	Primary Service Area
60433	Primary Service Area
60434	Primary Service Area
60435	Primary Service Area
60436	Primary Service Area
60439	Primary Service Area
60441	Primary Service Area
60442	Primary Service Area
60448	Primary Service Area
60451	Primary Service Area
60467	Primary Service Area
60491	Primary Service Area
60443	Secondary Service Area – East
60449	Secondary Service Area – East
60462	Secondary Service Area – East
60464	Secondary Service Area – East
60477	Secondary Service Area – East
60440	Secondary Service Area – North
60446	Secondary Service Area – North
60490	Secondary Service Area – North
60544	Secondary Service Area – North
60586	Secondary Service Area – North
60408	Secondary Service Area – South
60416	Secondary Service Area – South
60481	Secondary Service Area – South
60404	Secondary Service Area – West
60410	Secondary Service Area – West
60431	Secondary Service Area – West
60447	Secondary Service Area – West
60450	Secondary Service Area – West

5. Currently, the patient services proposed for the MSB are located on the Applicants' Existing Campus in Joliet. The Applicants' Existing Campus is roughly 3.5 miles away from the Applicants' Replacement Campus in New Lenox. While that distance is estimated to take less than 10 minutes, it would require physicians to expend more effort traveling between the two campuses. The increased travel would place an additional burden on patients – resulting in more time and effort to obtain needed health services. Physicians would also be inconvenienced – resulting in delays in their delivery of health care services to patients. In addition, the Applicants would sustain additional operating costs associated with maintaining services on two campuses rather than having them housed on the same campus.

6. Distance and travel times between the Applicants' Existing Campus and the Applicants' Replacement Campus were obtained from www.mapquest.com (07/07/09).

Section III
Attachment 12
Criterion 1110.230(c), Alternatives to Proposed Project

The Applicants reviewed no less than four other alternatives before electing to file this Certificate of Need. As discussed below, the primary options reviewed with respect to this Project included: (i) stay on the Applicants' Existing Campus in Joliet; (ii) construct the MSB without the assistance of the Developer; (iii) lease space in buildings other than the MSB; (iv) expand the Applicants' Replacement Hospital; and (v) obtain a Certificate of Need to lease space in the MSB. The last option is the only real viable option for the Applicants. Accordingly, it was chosen as the preferred option.

Alternative #1: Remain on Existing Campus in Joliet

Under this alternative, the Applicants would remain on the Applicants' Existing Campus in Joliet, Illinois. This alternative was unworkable for several reasons.

Currently, the patient services proposed for the MSB are located on the Applicants' Existing Campus in Joliet. The Applicants' Existing Campus is roughly 3.5 miles away from the Applicants' Replacement Campus in New Lenox. While that distance is estimated to take less than 10 minutes, it would require patients and physicians to expend more time and effort traveling between the two campuses. The presence of services on two campuses will also be confusing to patients as they will not know which campus is offering the service(s) they need. Physicians would also be inconvenienced – resulting in delays in their delivery of health care services to patients. In addition, the Applicants would sustain additional operating costs associated with maintaining services on two campuses rather than having them housed on the same campus.

Moreover, various future uses of the Existing Hospital Campus are still under discussion. Although the Applicants cannot say for certain, it is highly likely that the Existing Hospital is going to be redeveloped or "re-purposed." As a result, the services described in this Application will have to be eventually relocated. So, even if the services described in this current Application were to remain on the Existing Campus, a certificate of need would have to be filed to relocate those services at a later date. Moving those services now to the Replacement Campus makes far more sense.

On its face, this alternative may appear to be relatively inexpensive in the short term. However, in realty, the costs of maintaining two campuses are very high. The Applicants will have to employ managers on two campuses, offer duplicative services across two campuses, bifurcate their operations, and maintain aging facilities on its Existing Campus. Patient confusion and physician inconvenience would also have to be valued. And, in the long term, this alternative will be more expensive than any of the other alternatives.

Alternative #2: Construct MSB Without Developer

Under this alternative, the Applicants would not lease space in the MSB; rather the Applicants would build the MSB themselves. This alternative was rejected for several reasons. First, this was the most expensive alternative. According to the Developer, it will cost $60,571,777 to construct the MSB. In comparison, the fair market value of the Applicants' lease (for the entire length of the lease) and the Applicants' build-out expenses will total $34,059,137 for this Project – or less than 56% of the projected construction costs for the entire MSB.

Second, this alternative would require the Applicants to use their own capital to finance the construction of the MSB; which would, in turn, force the Applicants to redirect capital from the construction of the Applicants' Replacement Hospital. So, under this alternative, the Applicants would have to finance the cost of construction for the entire MSB of $60,571,777 before the project even begins, versus paying $2,376,709.50 in annual rent for the Applicants' space in the MSB. That is a significant first year savings. Third, the Applicants would have to devote their own personnel to the development and construction of the MSB. At this time, the Applicants' staff are focused on the construction of the Applicants' Replacement Hospital. In short, the capital and the human resources required to execute this alternative were considered too substantial. Accordingly, the Applicants rejected this alternative.

Alternative #3: Lease Space in a Building Other than the MSB

The Applicants also considered leasing space in a building other than the MSB. This alternative was rejected because it would force the Applicants to locate critical administrative and out-patient services some distance from the Applicants' Replacement Hospital. The Applicants also concluded that an off-campus placement of the services covered by this Certificate of Need would disrupt patient access, inconvenience physicians, and result in several operational inefficiencies.

Just as critically, there are no buildings within ten (10) miles of the Replacement Hospital Campus that have enough capacity currently to house the scope of services described in this Application. Prior to the filing of this Certificate of Need, the Applicants engaged a consultant to conduct a thorough real estate market survey. Available buildings were evaluated on the following:

- Current effective rental rate
- Escalation factors in effect
- Services included in the rent
- Costs of services not included in the rent
- The term of leases
- The buildings' gross, usable or rentable square feet
- Current occupancy in the building
- Tenant finish-out allowance
- The mix of tenants in the building and medical services provided
- Quality of construction

Based on the results of the real estate survey, which are attached at ATTACHMENT 12, the only option available to the Applicants was to construct a new building on the Replacement Hospital Campus. Accordingly, this alternative was rejected.

Alternative #4: Expand Replacement Hospital

The Applicants also considered an expansion to their Replacement Hospital. Like Alternative 2, this alternative was very expensive and would have forced the Applicant to redirect capital. As the Board is aware, the Applicants expect to spend nearly $550 per square foot to plan, design and build their Replacement Hospital – which has to be built up to hospital standards (vs. medical office building standards). In comparison, the Applicants will only have to spend $131 per square foot to plan, design and build-out the space identified in this Certificate of Need.

Of course, there would be additional costs beyond these planning, design and construction costs. The Replacement Hospital is well under way. If the Applicants elected to expand the Replacement Hospital to include the MSB space, the Applicants would arguably invalidate their Replacement Hospital certificate of need because the Applicants can only seek an alteration in the amount of $19,891,962 (or 5% of the Replacement Hospital approved permit amount of $397,839,241). The Applicants would also have to modify the construction schedule for the Replacement Hospital – leading to significant and costly time delays.

Finally, the MSB was designed to consolidate outpatient services into a facility separate from the inpatient services that are located in the Replacement Hospital. If the MSB services are added to the Replacement Hospital, outpatients would have to mix with the inpatient population and would have to navigate a much larger hospital complex. Thus, outpatients would not enjoy the many "outpatient design features" of the MSB, i.e., separate entrances, consolidated and co-located ambulatory services, convenient physician access, and adjacent parking. For these reasons, the Applicants rejected this alternative.

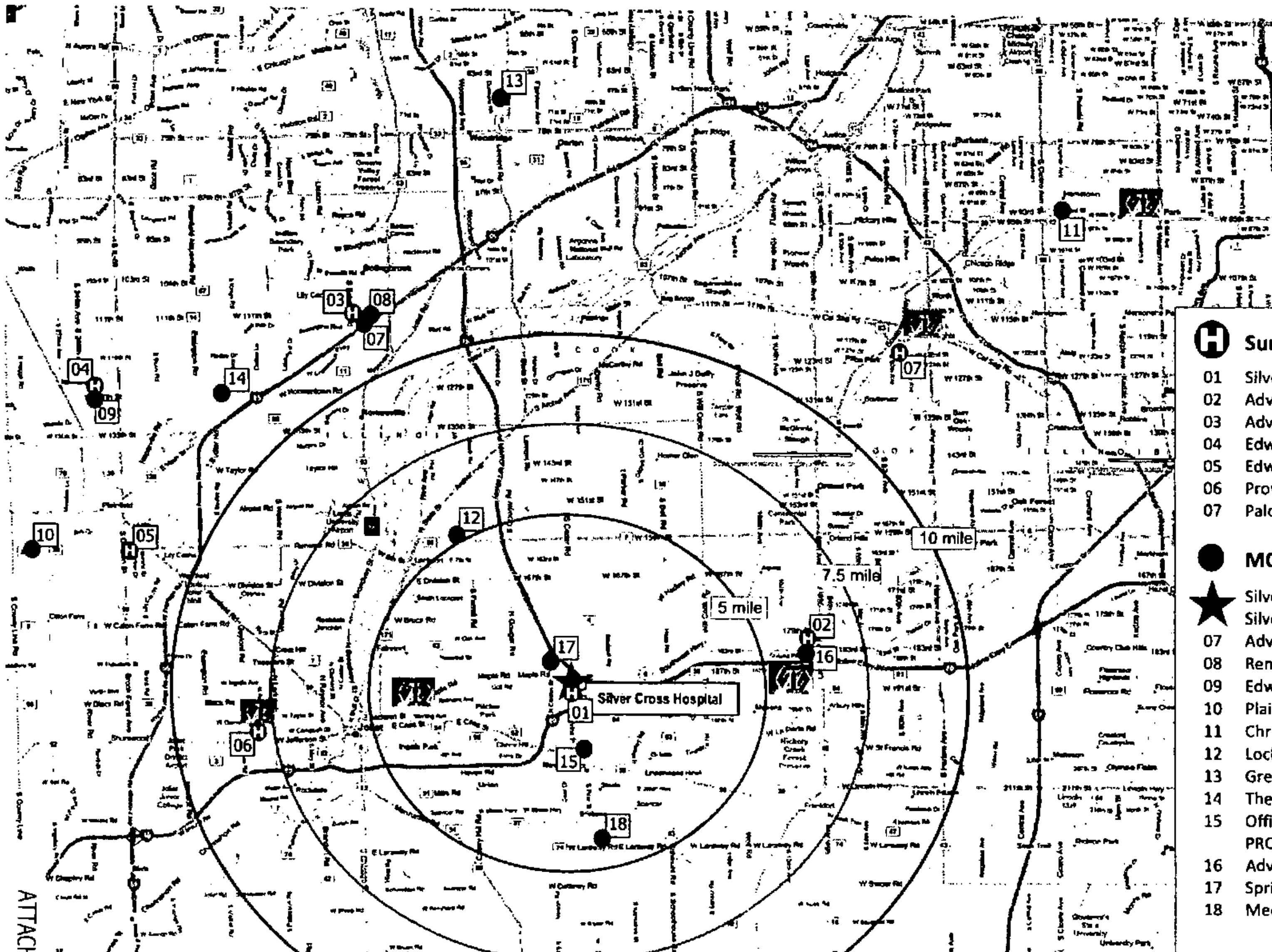
Alternative #5: Lease Space in the MSB (Best Option)

In the final analysis, and in light of the significant issues expressed in the other alternatives, the Applicants elected to file a Certificate of Need to lease space in the MSB. It is the least expensive alternative and it allows the Applicants to locate critical administrative and critical out-patient services on the Applicants' Replacement Hospital campus. Under this alternative, patients and physicians will enjoy maximum convenience, health care delivery costs will be minimized, and the Applicants can conserve operational resources. This alternative also allows the Applicants to continue to direct its capital to the Replacement Hospital and allows staff to maintain focus on the construction of the Replacement Hospital.

Alternative	Pros/Cons	Estimated Cost
Alternative 1: Stay on Existing Campus	High cost of operating two separate campuses. Increased travel times for physicians and confusing to patients. Does not eliminate need to file a separate certificate of need.	More expensive than other alternatives in the long term.
Alternative 2: Construct MSB without Developer	Very expensive. Redirects capital. Forces Applicants to redirect in-house personnel away from Replacement Hospital.	$60,571,577 (just construction related costs) needed before the project can even begin. As compared to just $2,376,709.50 in annual rent under Alternative 5.
Alternative 3: Lease Space in Building Other than MSB	Forces Applicants to locate critical administrative and out-patient services far from the Applicants' Replacement Hospital. No available buildings or space available within 10 miles of Replacement Hospital Campus.	Presumably the same as Alternative No. 5
Alternative 4: Expand Replacement Hospital	Very expensive. Causes significant and timely delays on Replacement Hospital project. May invalidate certificate of need for Replacement Hospital.	Four times as expensive as Alternative No. 5 on a cost per square foot basis ($550 vs $131 per square foot).
Alternative 5: Lease Space in MSB	Allows Applicants to locate critical administrative and out-patient services on Replacement Hospital Campus. Maximum convenience to physicians and patients. Allows patients to experience "outpatient-centric design" of MSB. Allows Applicants to conserve capital. Allows Applicants' staff to focus on the construction of Applicants' Replacement Hospital.	$34,059,137.44 (just fair market value of Space Lease and build out costs)

Silver Cross Hospital

(815)740-1383



Surrounding Hospitals

01 Silver Cross Hospital
02 Advocate Southwest Medical Campus
03 Adventist Bolingbrook Hospital
04 Edward Plainfield Outpatient Center & ER
05 Edward Plainfield Hospital
06 Provena St. Joseph Hospital
07 Palos Community Hospital

MOB

Silver Cross Medical Services Bldg.
Silver Cross MOB I (Now open)
07 Adventist Bolingbrook MOB
08 Remington Medical Commons
09 Edward Plainfield MOB I
10 Plainfield Medical Plaza II
11 Christ POB
12 Lockport Crossings Medical Center
13 Greenbriar MOB
14 The Lemont MOB
15 Offices at Batson Court
PROPOSED FUTURE
16 Advocate SW Medical Bldg II
17 Spring Creek Medical Campus
18 MedPavilion at Village Station

Medical Office Buildings
Southwest Chicago Suburbs
Oct-09 (Nexcore)

ON-CAMPUS (or immediately adjacent to campus)		
Building Name **Address**	**Year Built**	**Total SF**
Medical Services Bldg (MSB) SILVER CROSS HOSPITAL 1890 Silver Cross Blvd. New Lenox, IL 60451	2011	59,000
Medical Office Bldg I SILVER CROSS HOSPITAL 1870 Silver Cross Blvd. New Lenox, IL 60451	2009	59,000
Adventist Bolingbrook MOB ADVENTIST BOLINGBROOK HOSPITAL 369 Remington Blvd. Bolingbrook, IL	2008	70,000
Remington Medical Commons ADVENTIST BOLINGBROOK HOSPITAL 329 Remington Blvd. (1/4 mi) Bolingbrook, IL	2008	37,240
Edward Plainfield MOB I EDWARD PLAINFIELD HOSPITAL 24600 W. 127th Street, Bldg B Plainfield, IL 60585	2005	56,531
Edward Plainfield MOB II EDWARD PLAINFIELD HOSPITAL 23959 West Renwick Road Plainfield, IL 60586	2001	22,000
Christ POB ADVOCATE CHRIST MEDICAL CENTER 4400 W. 95th Street Oak Lawn, IL 60453	2007	57,531
OFF-CAMPUS		
Lockport Crossings Medical Center ADVOCATE HEALTH SYSTEMS 1298 Thornton/159th St. (@ I-355) Lockport, IL	2008	54,000
Greenbriar MOB ADVOCATE HEALTH SYSTEMS 6840 Main Street Downers Grove, IL	2008	35,000
ADVOCATE HEALTH SYSTEMS Professional Bldg (The Lemont MOB) 15900 W. 127th Street Lemont, IL 60439	2001	38,882
100 Batson Court New Lenox, IL 60451	2008	27,000

PROPOSED DEVELOPMENTS		
Advocate SW Medical Bldg II ADVOCATE HEALTH SYSTEMS 183rd LaGrange Road Tinley Park, IL 60487	2010	66,000
Spring Creek Medical Campus Route 6 (North of SCH Campus) New Lenox, IL	Fture	60,000
MedPavillion at Village Station NE Corner of Cedar Rd./Laraway Rd. New Lenox, IL	2010	50,00

Section IV
Project Scope, Utilization, and Unfinished/Shell Space
Criterion 1110.234(a), Size of Project

The Applicants will be leasing 83,126 rentable square feet of space in the MSB. The below sections address those parts of the clinical space that are governed by sizing standards under the State Norms. As set forth below, this Project satisfies the sizing standards under the State Norms.

Express/Complex Testing Center

The Applicants are proposing to have the following pieces of diagnostic equipment (subject to State Norm sizing standards) in the Express/Complex Testing Center in the MSB: 1 flat film x-ray machine, 2 ultrasound machines, and 1 eCam. The Express/Complex Testing Center will encompass 8,707 rentable square feet in total.

Department/Area	Rooms Proposed	Proposed GSF	State Standard	Meets State Standard?
Express/Complex Testing Center				
	1 Flat X-Ray Room	283	1,386 GSF per X-ray	Yes. Sized Below State Norm.
	2 Ultrasound Rooms	240	1,386 GSF per ultrasound	Yes. Sized Below State Norm.
	1 eCam (Nuc Med) Room	393	1,135 GSF per eCam (Nuc Med)	Yes. Sized Below State Norm.
	1 OB Testing Room	458	No Standard	N/A
	2 Stress Test Rooms	364	No Standard	N/A
	1 Holter Monitor Exam Room	103	No Standard	N/A
	1 Holter Scan Room	103	No Standard	N/A
	2 Echo Rooms	364	No Standard	N/A
	Support Space (i.e., Reading Room, Toilets, Work Rooms, Staff Lounge, Staff Lockers, Clean Room, Nurses Station, Sub-Waiting Area, Consult Rooms)	6,399	No Standard	N/A
Total		8,707		Yes. Sized Below State Norm

Therapy Center

The Applicants are proposing to provide physical, occupational and speech therapy services in their Therapy Center. The Therapy Center will occupy 8,802 rentable square feet of space in the MSB. It is also important to note that the Applicants have designed separate spaces for their pediatric patients (i.e., four private pediatric exam and treatment rooms, a pediatric gym, and a pediatric sub-waiting area occupying 880 rentable square feet) that will allow the Applicants to segregate their younger patients from their older patients. The Applicants have also designed separate spaces (approximately 300 rentable square feet) for their female patients.

Department/Area	Rooms Proposed	Proposed GSF	State Standard	Meets State Standard?
Therapy Center				
	Physical Therapy & Occupational Therapy (Clinical Portions)(e.g., Adult Gym, Adult Treatment Rooms, Adult Exam Rooms, Pediatric Gym, Pediatric Treatment Rooms, Pediatric Exam Rooms, Woman's Exam Rooms, Isolation Room, Lab, Work Stations)	3,528 RSF	23 GSF per # of Med/Surg, Peds & Rehab Beds for PT; and 4.3 GSF per # of Med/Surg, Peds, Rehab and AMI Beds for OT Existing Hospital Bed Count would equate to 6,638 GSF for PT and OT Replacement Hospital Bed Count would equate to 6,010.1 GSF for PT and OT	Yes. Sized Below State Norm.
	Physical Therapy & Occupational Therapy (Non-Clinical Portions)(e.g., Records Storage, Reception, Staff Conference Room, Staff Toilets, Staff Lockers, Patient Toilets, Corridors, Supply Rooms, Manager's Office, Water Treatment)	5,124 RSF	N/A	
	Speech Therapy Room	150 RSF	1.3 GSF per Bed for ST Existing Hospital Bed Count would equate to 547.2 GSF for ST Replacement Hospital Bed Count would equate to 520.2 GSF for ST	Yes. Sized Below State Norm.
Total		8,802 RSF		Yes. Sized Below State Norm.

Laboratory

The MSB will also house the laboratory for the Replacement Hospital. The laboratory will employ 65.80 full time equivalents and will encompass 9,921 rentable square feet. The size of the laboratory is well below the State Norms. (Currently, 61.30 FTEs work in the main laboratory at the Applicants' Existing Hospital. Last year, 60.30 FTEs worked in the main laboratory at the Applicants' Existing Hospital.)

Department/Area	Rooms Proposed	Proposed GSF	State Standard	Meets State Standard?
Laboratory	N/A	9,921	225 GSF per FTE = 225*65.80 = 14,805 GSF	Yes. Sized Below State Norm.

Criterion 1110.234(b), Project Services Utilization

The Applicants' strong historical demand for the services covered by this Application supports the establishment of the programs and equipment proposed in this Application. In other words, the Applicants' historical usage and projected usage exceed the utilization standards under the State Norms.

Express/Complex Testing Center

One General Radiological Room

The Applicants have always enjoyed a strong demand for radiological services and have always exceeded the State Norms. In its Replacement Hospital Application, the Applicants projected that 76,227 diagnostic procedures would be performed at the Replacement Hospital in 2014. (See Replacement Hospital Application at p. 845.) Those projections were based upon a study generated by the Hammes Company (the "Hammes Study"), a leading healthcare planning and strategy firm. The Applicants are confident that the Hammes Study is still valid and accurate. Based upon the State Norm of 6,500 diagnostic procedures per room, the Applicants can justify 11.73 radiological rooms (or rounded up to 12) at the Replacement Hospital (or on the Replacement Hospital Campus). In fact, the Replacement Hospital will only have 7 radiological rooms and 1 mobile unit, for a total of 8 "rooms." Thus, the Applicants are projected to have more than enough demand (specifically, 24,227 extra scans) to justify the 1 radiological room in the Express/Complex Testing Center. The below chart summarizes the historical usage at the Applicants' Existing Hospital, the general radiological projections for the Replacement Hospital, and the general radiological projections for the MSB.

General Radiology Equipment				
Year	Year Ended June 2008	Year Ended June 2009	2014 (Projected) Replacement Hospital	2014 Projections for MSB
Number of Radiological Rooms	8	8	7 Rooms 1 Mobile	1 Room
Number of Scans (Outpatient)	34,954	34,258		
Number of Scans (Inpatient)	7,452	7,117		
Number of Scans (Total)	42,406	41,375	76,227	6,900
Section 1110 Norm	6,500 Scans/Room	6,500 Scans/Room	6,500 Scans/Room	6,500
Rooms Justified	6.52	6.37	11.73	1.06
Capacity	Meets State Norm	Meets State Norm	Meets State Norm	Meets State Norm

Two Ultrasound Rooms

The Applicants have also experienced strong demand for ultrasound services and have always exceeded the State Norms. In its Replacement Hospital Application, the Applicants projected that 28,025 ultrasound procedures would be performed at the Replacement Hospital in 2014.

(See Replacement Hospital Application at p. 847 and based on the Hammes Study.) Based upon the State Norm of 2,000 ultrasound scans per room, the Applicants can justify 14.01 ultrasound rooms (or 15 rounded up) at the Replacement Hospital (or on the Replacement Hospital Campus). In fact, the Replacement Hospital will only have 7 ultrasound rooms and 3 mobile units, for a total of 10 "rooms." Thus, the Applicants are projected to have more than enough demand (specifically, 8,025 extra scans) to justify the 2 ultrasound rooms in the Express/Complex Testing Center. Indeed, it is important to note that the Applicants only requested 10 ultrasound rooms in their Replacement Hospital Application so 2 ultrasound machines could be placed in the MSB. The below chart summarizes the historical usage at the Applicants' Existing Hospital, the ultrasound projections for the Replacement Hospital, and the ultrasound projections at the MSB.

Ultrasound Equipment				
Year	Year Ended June 2008	Year Ended June 2009	2014 (Projected) Replacement Hospital	2014 Projections for MSB
Number of Ultrasound Rooms	6	6	7 Rooms 3 Mobile	2 Rooms
Number of Scans (Outpatient)	5,107	5,043		
Number of Scans (Inpatient)	17,954	19,315		
Number of Scans (Total)	23,067	24,364	28,025	6,435
Section 1110 Norm	2,000 Scans/Room	2,000 Scans/Room	2,000 Scans/Room	2,000 Scans/Room
Rooms Justified	11.53	12.18	14.01	3.22
Capacity	Meets State Norm	Meets State Norm	Meets State Norm	Meets State Norm

One eCam Room (Nuclear Medicine)

The Applicants have also had strong demand for nuclear medicine services and have always exceeded the State Norms. In its Replacement Hospital Application, the Applicants projected that 7,959 imaging visits at the Replacement Hospital in 2014. (See Replacement Hospital Application at p. 850 and based on the Hammes Study.) Utilizing the State Norm of 2,000 visits per piece of equipment, the Applicants can justify 3.98 imaging machines (or 4 rounded up) at the Replacement Hospital (or on the Replacement Hospital Campus). In fact, the Replacement Hospital will only have 3 imaging machines. Thus, the Applicants are projected to have enough demand (specifically, 1,959 extra visits) to justify the 1 imaging machine in the Express/Complex Testing Center. Indeed, it is important to note that the Applicants only requested 3 pieces of imaging equipment in their Replacement Hospital Application so 1 piece of imaging equipment can be justified in the MSB. The below chart summarizes the historical usage at the Applicants' Existing Hospital, the nuclear medicine projections for the Replacement Hospital, and the nuclear medicine projections at the MSB.

Nuclear Medicine Equipment				
Year	Year Ended June 2008	Year Ended June 2009	2014 (Projected) Replacement Hospital	2014 Projections for MSB
Number of Nuclear Medicine Machines	5	5	3	1
Number of Visits (Outpatient)	2,114	1,997		
Number of Visits (Inpatient)	6,086	6,889		
Number of Visits (Total)	8,205	8,891	7,959	1,500
Section 1110 Norm	2,000 Visits /Room	2,000 Visits/Room	2,000 Visits/Room	2,000 Visits/Room
Machines Justified	4.10	12.18	3.98	0.75 = 1.0 (with rounding)
Capacity	Meets State Norm	Meets State Norm	Meets State Norm	Meets State Norm

Therapy Center

The Applicants have exceeded the State Norms for therapy services for the past several years. Due to the growth in the service area population, the Applicants expect therapy services to grow even further in the future. The below chart summarizes the historical usage at the Applicants' Existing Hospital and the therapy projections at the MSB. It should be noted that the Applicants have traditionally provided physical therapy and occupational therapy services in the same space. That approach will continue at the MSB.

In terms of support for the Therapy Center projections set forth in this Application, the Applicants relied upon a study (the "RIC Study") conducted by the Rehabilitation Institute of Chicago (the "RIC"), a national leader in terms of rehabilitation therapies. The RIC Study was completed in January of 2009. The RIC Study: (a) analyzed the Applicants' historical volumes; (b) modeled volumes based on RIC's experiences in similar suburban markets; (c) considered service area population growth; and (d) projected volumes for the Therapy Center. The Applicants have incorporated the findings and recommendations from the RIC Study into this Project. Critically, the Applicants and RIC have also agreed (in principal) to move forward with a collaborative therapy effort at the MSB, which should enhance the visibility and strength of the Applicants' therapy programs and services.

Physical & Occupational Therapy Utilization			
Year	Year Ended June 2008	Year Ended June 2009	2014 Projections for MSB
Number of PT Treatments	30,693	31,145	47,791
Number of OT Treatments	10,735	11,559	12,003
Total Number of PT and OT Treatments	41,428	42,704	59,794
Section 1110 Norm	7.5 Treatments Per GSF	7.5 Treatments Per GSF	7.5 Treatments Per GSF
GSF Allowed Under State Norm	5,523.73	5,693.87	7,972.53
Current/Proposed GSF for PT & OT (Clinical)	3,871 (Current; Clinical)	3,871 (Current; Clinical)	4,380 (Proposed; Clinical)
Capacity	Satisfies State Norm	Satisfies State Norm	Satisfies State Norm

Speech Therapy Utilization			
Year	Year Ended June 2008	Year Ended June 2009	2014 Projections for MSB
Number of ST Treatments	2,310	2,721	3,066
Section 1110 Norm	No Utilization Standard for ST	No Utilization Standard for ST	No Utilization Standard for ST
Current/Proposed GSF for ST (Clinical)	150 (Current; Clinical)	150 (Current; Clinical)	150 (Proposed; Clinical)
Capacity	No Utilization Standard for ST	No Utilization Standard for ST	No Utilization Standard for ST

Laboratory

Like the other components of this Project, the proposed Laboratory is projected to easily satisfy the sizing and utilization standards set forth in the State Norms.

Laboratory Utilization			
Year	Year Ended June 2008	Year Ended June 2009	2014 Projections for MSB
Number of Lab Procedures/Tests	1,428,762	1,463,344	1,581,796
Full Time Equivalents	60.3	61.3	65.8
Section 1110 Norm	225 GSF Per FTE	225 GSF Per FTE	225 GSF Per FTE
GSF Allowed Under State Norm	13,567.50	13,792.50	14,805
Current/Proposed GSF for Lab	9,750 (Current)	9,750 (Current)	9,921 (Proposed)
Capacity	Satisfies State Norm	Satisfies State Norm	Satisfies State Norm

Attachment 15
Criterion 1110.234(c), Shelled Space

This Criterion is not applicable.

Section VIII
Attachment 71
Clinical Service Areas Other Than Categories of Service

Criterion 1110.3030(c)(2), Service Modernization: Necessary Expansion

As originally contemplated by the Applicants' Replacement Hospital CON Application, the Applicants are proposing (in this Project) to move certain clinical and non-clinical functions and services from the Applicants' Existing Hospital Campus to the MSB on the Applicants' Replacement Hospital Campus.

Because the components of this Project were discussed in the Applicants' Replacement Hospital CON, and because this Project is necessary to satisfy patient demand, the Applicants hereby submit that certain components of this Project (specifically, the express/complex testing center, the therapy center, and the laboratory functions and services) are reviewable under the Service Modernization/Necessary Expansion criterion set forth in Section 1110.3030(c)(2).

As set forth in the preceding Section IV of this Application, the Applicants' historical utilization (for the past two years) can easily satisfy the State Norms for the functions and services being proposed in this Project.

The Applicants specifically incorporate by reference the data set forth in Section IV under Criterion 1110.234(a)(Size of Project) and Criterion 1110.234(b)(Project Services Utilization) in support of this Criterion.

Section IX
Financial Feasibility
Criterion 1120.210(a), Financial Viability

1. Viability Ratios. On May 19, 2009, Fitch assigned a "BBB+" rating to approximately $250 million of Illinois Finance Authority revenue bonds issued by the Applicants to finance the construction of the Applicants' Replacement Hospital. Fitch also assigned a "Stable" ratings outlook. Prior to the issuance of the Replacement Hospital bonds in May of 2009, the Applicants had an "A" bond rating. According to Fitch, the rationale for the BBB+ rating reflects the anticipated weakening of the Applicants' financial position during the construction of the Replacement Hospital. Critically, Fitch ultimately concluded that the Applicants' "historical profitability has been solid over the past four years" and that a "return to historical levels is expected once operations stabilize upon opening the new facility" in 2012. The below viability ratios are consistent with Fitch's outlook for the Applicants and support the Applicants' decision to engage a developer to construct the MSB. Worksheets and supporting documentation are attached at ATTACHMENT 75.

Silver Cross Hospital Viability Ratios (FY 2006 - FY 2015)						
	Actual Results (9/30 fiscal year)			Projected Results (9/30 fiscal year)		
	FY 2006	FY 2007	FY 2008	FY 2013	FY 2014	FY 2015
Current Ratio	1.09	1.06	1.56	1.13	1.23	1.19
Net Margin Percentage	5.7%	13.9%	(0.4)%	(1.0)%	2.3%	4.1%
Percent Debt to Total Capitalization	45.0%	40.9%	41.6%	62.9%	61.6%	59.5%
Projected Debt Service Coverage	3.59	4.79	2.15	1.68	2.14	2.45
Days Cash on Hand	196	198	198	112	128	151
Cushion Ratio	12.94	10.75	11.64	3.70	4.44	5.61

In terms of the current fiscal year, as of July 31, 2009, the Applicants continue to show strong performance. In fact, operating margin was at $9.2 million versus a budget of $4.5 million. In effect, actual results have exceeded budget by more than 100% – even during a year of economic downturn. Careful expense management combined with ongoing revenue growth contributed to these very favorable results. It is also significant to note that expense management was not due to layoffs – the Applicants made a no-layoff pledge to its employees which continues through December 31, 2009.

2. <u>Variances</u>. The Applicants anticipate that this Project will be completed on or about October 31, 2012 (or fiscal year 2013). As the below chart indicates, and consistent with Fitch's outlook for the Applicants, the Applicants' financial position should begin to return to historical levels as soon as the Replacement Hospital is complete.

Financial Feasibility Variance Analysis (Actual Results)									
	FY 2006	State Norm	FY 2006 vs. Norm	FY 2007	State Norm	FY 2007 vs. Norm	FY 2008	State Norm	FY 2008 vs. Norm
Current Ratio	1.09	1.5	Fails	1.06	1.5	Fails	1.56	1.5	Satisfies
Net Margin Percentage	5.7%	3.5%	Satisfies	13.9%	3.5%	Satisfies	(0.4)%	3.5%	Fails
Percent Debt to Total Capitalization	45.0%	60%	Satisfies	40.9%	60%	Satisfies	41.6%	60%	Satisfies
Projected Debt Service Coverage	3.59	1.75	Satisfies	4.79	1.75	Satisfies	2.15	1.75	Satisfies
Days Cash on Hand	196	90	Satisfies	198	90	Satisfies	198	90	Satisfies
Cushion Ratio	12.94	5	Satisfies	10.75	5	Satisfies	11.64	5	Satisfies

Financial Feasibility Variance Analysis (Projected Results)									
	FY 2013	State Norm	FY 2013 vs. Norm	FY 2014	State Norm	FY 2014 vs. Norm	FY 2015	State Norm	FY 2015 vs. Norm
Current Ratio	1.13	1.5	Fails	1.23	1.5	Fails	1.19	1.5	Fails
Net Margin Percentage	(1.0)%	3.5%	Fails	2.3%	3.5%	Fails	4.1%	3.5%	Satisfies
Percent Debt to Total Capitalization	62.9%	60%	Fails	61.6%	60%	Fails	59.5%	60%	Satisfies
Projected Debt Service Coverage	1.68	1.75	Fails	2.14	1.75	Satisfies	2.45	1.75	Satisfies
Days Cash on Hand	112	90	Satisfies	128	90	Satisfies	151	90	Satisfies
Cushion Ratio	3.70	5	Fails	4.44	5	Fails	5.61	5	Satisfies

As is readily apparent in the above charts, the Applicants' financial ratios will dip as the Replacement Hospital nears completion and then return to a strong position once the Replacement Hospital is open. Indeed, all of the negative ratio variances on this Project are a direct result of the financing of the Replacement Hospital and the resultant timing issues associated with the Replacement Hospital project (i.e., capital being spent in the short term as the Replacement Hospital is built and those same dollars being returned in the long term as the Replacement Hospital starts generating revenues). However, as stated by Fitch, once the Replacement Hospital is complete and open, the Applicants' financial ratios will return to normal. And critically, the Applicants "days cash on hand," perhaps the most important measure of liquidity, never falls below the state norm. Indeed, even at its lowest point, the Applicants "days cash on hand" exceeds the state norm by more than 22 days.

That said, and as set forth in Section III, Alternatives, the Applicants chose the Developer to build the MSB to conserve capital and cash. Accordingly, the Developer is the party charged with the task of raising capital for the construction of the MSB and the Applicants' capital position will be protected. In effect, the Applicants shifted the financial risk for the MSB – which will be on the Replacement Campus – to the Developer. It also bears noting that the Applicants have traditionally enjoyed an "A" bond rating and that the Applicants' management team has displayed a high skill level in all matters of finance.

Moreover, the Applicants' Replacement Hospital CON Application specifically contemplated that the services and space covered by this CON Application would be eventually housed on the Replacement Hospital campus. Thus, the Applicants have expressly budgeted for this Project and Fitch, in issuing the Applicants' current bond rating of BBB+, discusses this Project (and its resultant financial impact). Because Fitch has already accounted for this Project, the Applicants' bond rating and the Applicants' financial viability should not suffer as a result of this Project.

Criterion 1120.210(b), Availability of Funds

The Applicants intend to use cash on hand to satisfy their lease payment obligations under the Space Lease and to fund the Project. And as set forth in the above charts (and the attached documentation), the Applicants will have sufficient cash on hand to make said lease payments and to fund the Project. In addition, the Applicants have attached at ATTACHMENT 75 the Affidavit of William Brownlow in support of this Criterion.

The Applicants will also be receiving $3,622,060.00 in tenant improvement allowances and $2,963,654.24 (discounted to present value) in ground lease payments during the term of the Space Lease from the Developer. Copies of Affidavits setting forth the amount of the tenant improvement allowances and the ground lease payments are attached at ATTACHMENT 75.

Criterion 1120.210(c), Operating Start-Up Costs

This criterion is not applicable because this Category B project does not involve the establishment of a new facility or a new category of service.

KPMG

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidated Financial Statements and Schedules

September 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Boards of Directors
Silver Cross Health System
and Affiliates:

We have audited the accompanying consolidated balance sheets of Silver Cross Health System and affiliates as of September 30, 2008 and 2007, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Silver Cross Health System and affiliates' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Silver Cross Health System and affiliates' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Silver Cross Health System and affiliates as of September 30, 2008 and 2007, and the consolidated results of their operations, changes in net assets, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included in schedules 1 through 3 is presented for purposes of additional analysis of the 2008 consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual organizations. The 2008 consolidating information has been subjected to the auditing procedures applied in the audit of the 2008 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2008 consolidated financial statements taken as a whole.

KPMG LLP

January 27, 2009

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Liabilities and Net Assets		2008	2007
Current liabilities:			
Current installments of long-term debt	$	3,405	2,760
Accounts payable		15,163	19,810
Accrued salaries and wages		12,115	9,775
Accrued expenses		3,740	2,430
Estimated payables under third-party reimbursement programs		14,883	12,314
Total current liabilities		49,306	47,089
Estimated self-insured professional and general liability claims		23,672	19,672
Long-term debt, excluding current installments and unamortized bond discounts and premiums		132,901	130,322
Other long-term liabilities		1,316	832
Total liabilities		207,195	197,915
Net assets:			
Unrestricted		192,922	193,168
Temporarily restricted		2,364	2,804
Permanently restricted		5,375	6,071
Total net assets		200,661	202,043
Commitments and contingent liabilities			
Total liabilities and net assets	$	407,856	399,958

SILVER CROSS HEALTH SYSTEM
AND AFFILIATES

Consolidated Statements of Operations

Years ended September 30, 2008 and 2007

(Amounts in thousands)

		2008	2007
Revenue:			
Net patient service revenue	$	225,345	211,247
Other revenue		27,266	24,888
Total revenue		252,611	236,135
Expenses:			
Salaries and wages		82,919	75,306
Payroll taxes and fringe benefits		24,571	21,238
General and administrative		66,130	61,416
Supplies		37,498	34,125
Provision for bad debts		13,749	17,732
Depreciation		15,050	13,758
Interest		9,266	5,442
Total expenses		249,183	229,017
Income from operations		3,428	7,118
Nonoperating gains (losses):			
Investment income (loss), net		(7,804)	24,451
Unrestricted contributions and other, net		452	1,332
Gain on sale of land held for sale		6,019	—
Loss on early extinguishment of long-term debt		(3,077)	—
Total nonoperating gains (losses), net		(4,410)	25,783
Revenue and gains in excess (deficient) of expenses and losses		(982)	32,901
Other changes in unrestricted net assets:			
Change in net unrealized gains and losses on other-than-trading securities		—	(174)
Change in fair value of derivative instruments		(519)	694
Designation of investments as trading		—	(10,128)
Net assets released from restriction for land, building, and equipment acquisitions financed by temporarily restricted net assets		1,255	1,787
Increase (decrease) in unrestricted net assets	$	(246)	25,080

See accompanying notes to consolidated financial statements.

ATTACHMENT-75

SILVER CROSS HEALTH SYSTEM
AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2008 and 2007

(Amounts in thousands)

	2008	2007
Increase (decrease) in unrestricted net assets	$ (246)	25,080
Temporarily restricted net assets:		
Contributions for specific purposes	1,082	369
Net realized and unrealized gains and losses on temporarily restricted investments	(182)	151
Net assets released from restriction for operating purposes	(85)	(71)
Net assets released from restriction for land, building, and equipment acquisitions	(1,255)	(1,787)
Decrease in temporarily restricted net assets	(440)	(1,338)
Permanently restricted net assets:		
Net realized and unrealized gains and losses on permanently restricted investments	(696)	399
Change in net assets	(1,382)	24,141
Net assets at beginning of year	202,043	177,902
Net assets at end of year	$ 200,661	202,043

See accompanying notes to consolidated financial statements.

SILVER CROSS HEALTH SYSTEM
AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended September 30, 2008 and 2007

(Amounts in thousands)

		2008	2007
Cash flows from operating activities:			
Change in net assets	$	(1,382)	24,141
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		15,210	13,965
Provision for bad debts		13,749	17,732
Loss on early extinguishment of long-term debt		3,077	—
Equity loss (gain) in joint ventures, net of cash distributions received		69	(22)
Effective portion of change in fair value of derivative instruments		519	(694)
Gain on disposal of land, buildings, and equipment, net		—	(1,100)
Gain on sale of land held for sale		(6,019)	—
Net realized and unrealized gains and losses on permanently and temporarily restricted investments		878	(550)
Change in net unrealized gains and losses on unrestricted investments		16,465	(10,072)
Changes in assets and liabilities:			
Patient accounts receivable		(20,097)	(16,512)
Other assets		(1,606)	(4,925)
Estimated payables under third-party reimbursement programs		2,569	(1,313)
Accounts payable, accrued expenses, and other liabilities		2,968	9,131
Net cash provided by operating activities		26,400	29,781
Cash flows from investing activities:			
Acquisition of land, buildings, and equipment		(18,373)	(28,696)
Acquisition and development of land held for sale		—	(1,722)
Proceeds on sale of land, buildings, and equipment		—	2,715
Proceeds on sale of land held for sale		10,578	—
Net change in assets whose use is limited or restricted		(1,308)	2,167
Net change in short-term investments		955	912
Net cash used in investing activities		(8,148)	(24,624)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		106,514	—
Repayments of long-term debt		(103,313)	(2,661)
Payments for deferred financing costs		(1,070)	—
Net cash provided by (used in) financing activities		2,131	(2,661)
Net increase in cash and cash equivalents		20,383	2,496
Cash and cash equivalents at beginning of year		15,512	13,016
Cash and cash equivalents at end of year	$	35,895	15,512
Supplemental disclosure of cash flow information:			
Cash paid for interest, exclusive of income or loss on interest rate swap agreements and net of amounts capitalized	$	5,989	5,358

See accompanying notes to consolidated financial statements.

SILVER CROSS HEALTH SYSTEM
AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(Amounts in thousands)

(1) Organization and Purposes

Silver Cross Health System (Health System) was incorporated during 1981 for charitable, educational, and scientific purposes to support health and human services by providing management assistance, and in all other relevant ways. The accompanying consolidated financial statements include the accounts of the Health System and the following affiliates, which it controls (collectively referred to as the Corporations):

- Silver Cross Hospital and Medical Centers (Hospital), a not-for-profit acute care hospital of which the Health System is the sole member.
- Silver Cross Foundation (Foundation), a not-for-profit corporation of which the Health System is the sole member, which is dedicated to the advancement of healthcare in Will, Grundy, South Cook, and DuPage counties in Illinois.
- Health Service Systems, Inc. (HSSI), a wholly owned subsidiary of the Health System, which was incorporated to provide administrative and management services to its affiliates and other businesses.
- Midwest Community Real Estate Corporation (MCREC), a not-for-profit corporation of which the Health System is the sole member, which was incorporated to establish and maintain healthcare centers and other facilities for the benefit of the Health System and its affiliates.
- Silver Cross Managed Care Organization (SCMCO), a not-for-profit corporation of which the Health System is the sole member, which was incorporated to provide alternative forms of healtbcare delivery services.
- Silver Cross Medical Associates, Inc. (SCMA), a not-for-profit corporation that operates medical practices in Joliet and surrounding areas. MCREC serves as the sole and exclusive manager and administrator for all matters relating to the operations of SCMA, including but not limited to the financial and management operations of SCMA.

On July 1, 2008, the Hospital received approval from the Illinois Health Facilities Planning Board to construct a replacement hospital facility on a parcel of land owned by the Hospital in New Lenox, IL. The replacement hospital facility is anticipated to have 289 licensed and staffed beds and is currently expected to be completed and ready for use in early 2012. The cost of the replacement hospital facility is expected to be approximately $400 million; funding for which will be from a debt financing anticipated in fiscal 2009; existing cash and investments; proceeds from the sale of land held for sale; and casb generated from operations. The consummation of a debt financing in fiscal 2009 cannot be assured given current economic and credit market conditions, and accordingly, management's plan of finance for the hospital replacement facility may be subject to modification. Contractual commitments outstanding for the new hospital replacement facility aggregated $11 million as of September 30, 2008.

Upon completion and relocation of Hospital operations to the replacement hospital facility, the Health System may continue to own some facilities and provide medically related services at its current hospital location. Such facilities and services could possibly include a primary care health center, urgent care services, and medical offices. The Health System's Board of Trustees and management, with input from constituents of the local community, are currently evaluating all possible alternative uses for the existing Hospital campus post-relocation.

The Corporations engage in transactions in the ordinary course of business with organizations with which members of management and the boards of directors are affiliated. Such transactions are conducted at arm's length and fully disclosed to the respective members of management and boards of directors.

All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

(2) Summary of Significant Accounting Policies

Significant accounting policies of the Corporations that conform to general practice within the healthcare industry are as follows:

- The preparation of financial statements in accordance with U.S. generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- The consolidated statements of operations include revenue and gains in excess (deficient) of expenses and losses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue and expenses. Transactions incidental to the provision of healthcare services are reported as gains and losses. Changes in unrestricted net assets, which are excluded from revenue and gains in excess (deficient) of expenses and losses, consistent with industry practice, include net changes in unrealized gains and losses on investments, other-than-trading securities, 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), changes in the effective portion of derivative instruments designated as cash flow hedges, and cumulative effects of changes in accounting principles.
- Assets whose use is limited or restricted include: assets set aside by the Corporations' boards of directors for future capital improvements, self-insurance funding, and for other purposes over which the boards retain control and may at their discretion use for other purposes; assets designated by the Foundation's board of directors for endowment development purposes; assets held by a trustee and limited as to use in accordance with the requirements of bond indenture agreements; pledges receivable; and temporarily and permanently restricted investments. Assets whose use is limited required for current liabilities are reported as current assets.
- Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenue and gains in excess (deficient) of expenses and losses unless the income or loss is restricted by donors, in which case the investment income is recorded directly to temporarily or permanently restricted net assets. Investment income of unrestricted investments is reported as nonoperating gains. Unrealized gains and losses on investments are excluded from

revenue and gains in excess (deficient) of expenses and losses unless the investments are classified by management as trading securities. Effective September 30, 2007, management redesignated all investments to be trading securities. As a result of such redesignation, the net unrealized gain on the investment portfolio of $10,128 at September 30, 2007 was reclassified from unrestricted net assets to investment income in the accompanying 2007 consolidated statement of operations. Unrealized gains and losses of permanently and temporarily restricted investments are recorded directly to permanently and temporarily restricted net assets.

- The Corporations consider demand deposits with banks, cash on hand, and all highly liquid debt instruments (including repurchase agreements) purchased with terms of three months or less to be cash and cash equivalents, excluding those instruments classified as assets whose use is limited or restricted.
- Except as otherwise noted, the carrying value of all financial instruments of the Corporations approximates fair value.
- Land, buildings, and equipment are stated at cost, or if donated, at fair value at date of donation. Depreciation is provided over the estimated useful lives of depreciable assets and is computed on the straight-line method.
- Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. Given the planned replacement hospital development project described in note 1, the Corporations evaluated existing Hospital campus land, buildings, and equipment for impairment as of September 30, 2008. The estimated undiscounted cash flows expected to be generated by the Hospital prior to the date of relocation to the replacement hospital facility, inclusive of a terminal fair value estimate of existing Hospital campus land, buildings, and equipment, which will not be utilized at the replacement hospital or in the ongoing delivery of medical services to the community, were estimated to be in excess of the carrying value of land, buildings, and equipment at September 30, 2008, which will not be utilized by the Hospital post-relocation. Accordingly, no impairment charge was recognized by the Hospital in 2008 related to the planned replacement hospital project. However, the planned replacement hospital project will result in the Hospital increasing its depreciation charges on land, buildings, and equipment by approximately $9.9 million on an annualized basis for fiscal 2009 and subsequent periods through date of relocation. Although the ultimate use and redeployment of existing campus land, buildings, and equipment post-relocation has not been determined, management anticipates that any remaining net book value of such land, buildings, and equipment at the date of hospital relocation will be recognized as a contribution

expense in the event that such land, buildings, and equipment are transferred to an unrelated not-for-profit or governmental entity for the betterment and use of the local community.

- All legal obligations, including those under the doctrine of promissory estoppel, associated with the retirement of tangible long-lived assets are recognized when incurred using management's best estimate of fair value. Management uses a discount rate of 3%, which approximates its credit adjusted risk-free rate, to estimate fair value of its asset retirement obligations at the measurement date.
- Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. All contributions are considered to be available for unrestricted use unless specifically restricted by donors. Contributions are reported as direct additions to permanently or temporarily restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restriction. Temporarily restricted net assets used for operating purposes are included with other operating revenue to the extent expended during the period. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Donor-restricted contributions whose restrictions are met within the same year as received are reported directly within the consolidated statements of operations.
- Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Temporarily restricted net assets include the Hospital's interest in a charitable remainder trust. Investment income of the charitable remainder trust is distributable within specified limits to an unrelated party. All other temporarily restricted net assets are restricted primarily for land, building, and equipment acquisitions at both September 30, 2008 and 2007.
- Permanently restricted net assets represent donor-restricted contributions, the principal amount of which may not be expended. Permanently restricted net assets include the Foundation's interest in a charitable remainder trust. Investment income of the charitable remainder trust is distributable within specified limits to an unrelated party. Investment income earned on permanently restricted net assets, to the extent it is restricted by a donor for a specific purpose, is recorded as a direct addition to temporarily restricted net assets. All other investment income on permanently restricted net assets is unrestricted and is recorded as nonoperating gains.
- Provisions for estimated self-insured professional, general liability, workers' compensation, and employee healthcare risks include estimates of the ultimate cost of both reported losses and losses incurred but not reported as of the respective consolidated balance sheet dates.
- The Corporations account for derivatives and hedging activities in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, which requires that all derivative instruments be recorded on the consolidated balance sheets at their respective fair values.

For all hedging relationships, the Corporations formally document the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as cash-flow hedges to specific assets and liabilities on the consolidated balance sheets. Derivatives not linked to specific assets and liabilities on the consolidated balance sheets are carried at fair value in the consolidated balance sheets and changes in fair value are recognized as a component of interest expense in the consolidated statements of operations.

The Corporations also formally assess, both at the hedge's inception and on a quarterly basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded as other changes in unrestricted net assets to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash-flow hedge is reported as a component of interest expense in the consolidated statements of operations.

The Corporations discontinue hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, or management determines that designation of the derivative as a hedging instrument is no longer appropriate. In situations in which hedge accounting is discontinued, the Corporations will continue to carry the derivative at its fair value in the consolidated balance sheets and recognize any subsequent changes in its fair value as an expense component in the consolidated statements of operations.

- Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Those adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.
- Deferred finance charges and unamortized bond discounts and premiums are amortized using the straight-line method over the periods the related obligations are outstanding.
- The Health System, the Hospital, MCREC, the Foundation, and SCMA are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. A provision for income taxes has not been recorded for HSSI as there are net operating losses of approximately $17,421 available for carryforward, which expire at various future dates through 2023. SCMCO is a not-for-profit corporation, which is subject to federal and state income taxes. A provision for income taxes has not been recorded for SCMCO as there are net operating losses of approximately $1,427 available for carryforward, which expire at various future dates through 2012. Deferred tax assets

arising primarily from net operating loss carryforwards have been offset in their entirety by a valuation allowance at both September 30, 2008 and 2007. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

- On October 1, 2007, the Corporations adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the accounting for uncertainty in tax positions recognized in accordance with FASB Statement No. 109, *Accounting for Uncertainty in Income Taxes*. This interpretation also provides guidance on when the tax positions are recognized in an entity's financial statements and how the values of these positions are determined. The adoption of FIN 48 had no impact on the consolidated financial statements.
- The Corporations incur expenses for the provision of healthcare services and related general and administrative activities.
- Certain prior year amounts have been reclassified to conform to the 2008 consolidated financial statement presentation.

Other significant accounting policies are set forth in the consolidated financial statements and in the following notes.

(3) Third-Party Reimbursement Programs

The Hospital, HSSI, SCMCO, and SCMA (collectively referred to as the Providers) have agreements with third-party payors that provide for reimbursement at amounts different from their established rates. Estimated contractual adjustments arising under third-party reimbursement programs principally represent the differences between the Providers' billings at list price and the amounts reimbursed by Medicare, Blue Cross, and certain other contracted third-party payors; the difference between the Providers' billings at list price and the allocated cost of services provided to Medicaid patients; and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement methodologies with major third-party payors follows:

Medicare

The Hospital is paid for inpatient acute care, outpatient, rehabilitative, and home health services rendered to Medicare program beneficiaries under prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the prospective payment systems and the appropriateness of patient admissions are subject to validation reviews.

For certain services rendered to Medicare beneficiaries, the Providers' reimbursement is based upon cost or other reimbursement methodologies. The Providers are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Medicare reimbursement reports through September 30, 2006 have been audited and final settled by the Medicare fiscal intermediary.

Medicaid

The Hospital is paid for inpatient acute care services rendered to Medicaid program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicaid outpatient services are reimbursed based on fee schedules. Medicaid reimbursement methodologies may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the State of Illinois Medicaid program, and any such changes could have a significant effect on the Hospital's revenues.

During 2004, the State of Illinois (the State) enacted an assessment program to assist in the financing of its Medicaid program through June 30, 2005. The program was renewed in December 2006 for the State fiscal years ended June 30, 2006, 2007, and 2008. Pursuant to this program, hospitals within the State are required to remit payment to the State of Illinois Medicaid program under an assessment formula approved by the Centers for Medicare & Medicaid Services (CMS). The assessment program also provides hospitals within the State with additional Medicaid reimbursement based on funding formulas also approved by CMS. For the period July 1, 2005 through September 30, 2007, the Hospital included its assessment of $13,046 and its related additional Medicaid reimbursement of $20,954 within net patient service revenue in the accompanying 2007 consolidated statement of operations. Included within 2008 net patient service revenue is the Hospital's assessment of $6,523 and its additional Medicaid reimbursement of $10,477. The State received CMS approval for extension of a new five-year Medicaid assessment program on December 4, 2008 for the State's fiscal years ending June 30, 2009 through June 30, 2013. The Hospital has not currently received notice of its net incremental Medicaid reimbursement under the new assessment program. Net incremental Medicaid revenue under the new assessment program for the Hospital's three-months ended September 30, 2008 will be recognized in fiscal year 2009, the year of enactment of the new assessment program.

Blue Cross

The Hospital also participates as a provider of healthcare services under a reimbursement agreement with Blue Cross. The provisions of this agreement stipulate that services will be reimbursed at a tentative reimbursement rate and that final reimbursement for these services is determined after the submission of an annual cost report by the Hospital and a review by Blue Cross. The Blue Cross reimbursement reports for September 30, 2007 and prior years have been reviewed by Blue Cross.

Other

The Providers have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements is negotiated by the Providers and includes prospectively determined rates-per-discharge, discounts from established charges, capitation, and prospectively determined per diem rates.

(Amounts in thousands)

SCMCO is involved in various risk-based contracts with managed care organizations. Under these arrangements, SCMCO receives capitation payments based on the demographic characteristics of covered members in exchange for providing all primary care physician services, as well as certain outpatient diagnostic and specialist physician services. Additionally, SCMCO is eligible for incentive payments based on favorable utilization experience. Capitation revenue related to risk-based contracts totaled approximately $18,091 and $16,536 for 2008 and 2007, respectively, and is included with other revenue in the accompanying consolidated statements of operations. Pursuant to risk-based contracts, SCMCO estimates its liability for covered medical claims, including claims incurred but not reported as of the consolidated balance sheet dates, based upon historical costs incurred and payment processing experience. This liability approximated $1,672 and $1,912 at September 30, 2008 and 2007, respectively, and is included with accounts payable in the accompanying consolidated balance sheets.

Net patient service revenue for the years ended September 30, 2008 and 2007 include approximately $2,232 and $1,968, respectively, of favorable retrospectively determined prior year settlements with third-party payors.

A summary of the Providers' utilization percentages based upon gross patient service revenue follows:

	2008	2007
Medicare	42.0%	42.7%
Medicaid	12.8	12.9
Managed care	36.7	35.8
Other	8.5	8.6
	100.0%	100.0%

(Amounts in thousands)

(4) Concentration of Credit Risk

The Providers grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of September 30, 2008 and 2007 follows:

	2008	2007
Medicare	28.5%	30.8%
Medicaid	18.9	16.8
Blue Cross	8.8	7.0
Managed care	19.9	19.2
Patients	19.3	21.5
Other	4.6	4.7
	100.0%	100.0%

(5) Charity Care

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition, reimbursement for services provided to Medicaid program beneficiaries is substantially less than the cost to the Hospital of providing these services.

The Hospital maintains records of the amount of charges forgone and related cost for services and supplies furnished under its charity care policy, as well as the estimated differences between the cost of services provided to Medicaid patients and the reimbursement under that program. The following information measures the level of charity care provided and unreimbursed cost under the Medicaid program during 2008 and 2007:

	2008	2007
Charity care costs for non-Medicaid patients	$ 6,290	2,743
Excess of cost over reimbursement for services provided to Medicaid patients (1)	8,229	4,202

(1) Net impact of Medicaid assessment program has been allocated to each year based upon the State's fiscal year

(Amounts in thousands)

(6) Investments

The Corporations report investments in equity securities with readily determinable fair values and all investments in debt securities at fair value. Fair value is determined primarily on the basis of quoted market prices. A summary of the composition of the Corporations' investment portfolio at September 30, 2008 and 2007 follows:

		2008	2007
Cash and cash equivalents	$	4,467	4,498
Certificates of deposit/repurchase agreements		14,459	21,780
Money market funds		5,782	5,543
Common stock		4,968	5,821
Mutual funds		47,126	57,358
U.S. Treasury securities		15,179	17,528
Corporate bonds and notes		41,626	37,640
	$	133,607	150,168

Investments are reported in the accompanying consolidated balance sheets at September 30 as follows:

		2008	2007
Short-term investments	$	6,841	7,796
Assets whose use is limited or restricted:			
Required for current liabilities		4	88
By board for capital improvements, self-insurance, and other		106,988	112,934
Under bond indenture agreements – held by trustee		12,180	21,049
Donor-restricted investments		7,594	8,301
	$	133,607	150,168

The composition of investment return on the Corporations' investment portfolio for 2008 and 2007 is as follows:

		2008	2007
Interest and dividend income, net of fees and expenses	$	7,845	4,034
Net realized gains (losses) on sale of investments		(202)	161
Net change in unrealized gains and losses during the holding period		(16,325)	10,504
	$	(8,682)	14,699

(Amounts in thousands)

Investment return is included in the accompanying consolidated financial statements for the years ended September 30, 2008 and 2007 as follows:

		2008	2007
Nonoperating gains – investment income (loss), net	$	(7,804)	24,451
Other changes in unrestricted net assets:			
Change in net unrealized gains and losses on other-than-trading securities		—	(174)
Designation of investments as trading		—	(10,128)
Net realized and unrealized gains and losses on temporarily restricted investments		(182)	151
Net realized and unrealized gains and losses on permanently restricted investments		(696)	399
	$	(8,682)	14,699

The Corporations invest in various investment securities. Investment securities are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets.

(7) Land, Buildings, and Equipment

A summary of land, buildings, and equipment at September 30, 2008 and 2007 follows:

		2008		2007	
		Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$	31,370	—	31,009	—
Land improvements		5,336	3,556	5,054	3,502
Buildings, building improvements, and fixed equipment		179,673	89,238	169,247	82,727
Major movable equipment		97,847	62,434	87,264	55,488
Construction in progress		14,187	—	18,489	—
	$	328,413	155,228	311,063	141,717

The Corporations are currently engaged in various construction and renovation projects, principally the construction of a new hospital replacement facility as discussed in note 1. Outstanding commitments related to these projects approximate $11,011 at September 30, 2008. Interest cost is capitalized as a component cost of significant capital projects, net of any interest income earned on unexpended project-specific borrowed funds. During the years ended September 30, 2008 and 2007, the Corporations did not capitalize any interest cost. The Corporations reclassified $8,424 of land held for sale during 2008 into land, buildings, and equipment resulting from the use of land previously held for sale as the site for construction of the new hospital replacement facility as discussed in note 1. During 2008, the Corporations also reclassified $7,908 of land from land, buildings, and equipment into land held for sale as such land was not used for the site of the new hospital replacement facility as originally anticipated.

(Amounts in thousands)

(8) Long-Term Debt

A summary of long-term debt at September 30, 2008 and 2007 follows:

		2008	2007
Illinois Finance Authority Revenue Refunding Bonds, Series 2008A, at fixed effective interest rates of 5.00% to to 5.82%, depending upon date of maturity through August 15, 2030	$	86,660	—
Illinois Finance Authority Revenue Bonds, Series 2005A, at fixed effective interest rates from 4.00% to 5.25%, depending upon date of maturity through August 15, 2020		21,125	21,395
Illinois Finance Authority Auction Rate Revenue Bonds, Series 2005B, effective interest rates of 4.45% and 3.61% in 2008 and 2007, respectively. Refunded in June 2008		—	69,350
Illinois Finance Authority Fixed Rate Revenue Bonds, Series 2005C, at fixed effective interest rates of 2.85% to 5.58%, depending on date of maturity through August 15, 2025. Prior to the fixed rate conversion date of August 14, 2008, the Series 2005C bonds were operating as periodic auction rate revenue bonds with effective interest rates of 5.02% and 3.61% in 2008 and 2007, respectively		20,525	21,450
Illinois Finance Authority Auction Rate Revenue Bonds, Series 2005D, effective interest rates of 4.07% and 3.60% in 2008 and 2007, respectively. Refunded in 2008		—	10,625
Illinois Finance Authority Revenue Refunding Bonds, Series 1999, at fixed effective interest rates of 5.43% to 5.65%, depending on date of maturity through 2019		7,480	7,990
Illinois Finance Authority Revenue Bonds, Series 1996, at fixed effective interest rates 5.88% to 6.22%, depending on date of maturity through 2009		280	1,335
Total long-term debt		136,070	132,145
Less:			
Current installments		3,405	2,760
Unamortized net bond discounts and premiums		(236)	(937)
Long-term debt, excluding current installments, and unamortized bond discounts and premiums	$	132,901	130,322

The Hospital and the Health System (collectively known as the Obligated Group) entered into an Amended and Restated Master Trust Indenture (Master Trust Indenture) dated as of June 1, 1996, as subsequently supplemented and amended. The purpose of the Master Trust Indenture is to provide a mechanism for the efficient and economical issuance of notes by individual members of the Obligated Group using the collective borrowing capacity and credit rating of the Obligated Group. The Master Trust Indenture requires members of the Obligated Group to make principal and interest payments on notes issued for their benefit as well as other Obligated Group members, if the other members are unable to make such payments. The Master Trust Indenture requires the Obligated Group comply with financial and other covenant requirements. The Obligated Group pledged a security interest in their gross revenues as collateral on borrowings under the Master Trust Indenture. The Obligated Group has also executed and delivered a mortgage on certain land, buildings, and equipment in favor of the Master Trustee. The mortgage will only be recorded and filed by the Master Trustee upon the occurrence of certain specified events in the Master Trust Indenture, as supplemented and amended.

On December 8, 2005, the Illinois Finance Authority issued fixed rate revenue bonds, Series 2005A, and auction rate revenue bonds, Series 2005B, Series 2005C, and Series 2005D (collectively referred to as the Series 2005 bonds) in the aggregate amount of $124,640 on behalf of the Hospital. A portion of the proceeds from the Series 2005 bond issuance was used to advance refund their outstanding revenue bonds Series 2002A and Series 2002B, and to advance refund portions of the revenue refunding bonds Series 1999 and the revenue bonds Series 1996. The remaining proceeds were used for the purposes of acquiring real property, constructing various healthcare facilities, providing debt service reserve funds, and paying issuance costs. On August 14, 2008, the Hospital converted the Series 2005C auction rate revenue bonds to fixed rate revenue bonds. Principal on the Series 2005A and 2005C bonds is payable on August 15th annually. Interest on the Series 2005A and Series 2005C bonds is payable semiannually.

On June 18, 2008, the Illinois Finance Authority issued fixed rate revenue refunding bonds, Series 2008A (referred to as the Series 2008 bonds) in the aggregate amount of $86,660 on behalf of the Hospital. A portion of the proceeds from the Series 2008 bond issuance was used to advance refund the Series 2005B and Series 2005D auction rate revenue bonds (Prior Bonds). The remaining proceeds were used for the purposes of establishing a debt service reserve fund and to pay certain expenses incurred in connection with the issuance of the Series 2008 bonds and refunding of the Prior Bonds. The Hospital recognized a loss on early extinguishment of debt on the refunding of the Prior Bonds, and fixed rate conversion of the Series 2005C bonds, in the aggregate amount of $3,077 in 2008, which is reported as a nonoperating loss in the accompanying 2008 consolidated statement of operations. Principal on the Series 2008A bonds is due annually, beginning August 15, 2009 through 2030. Interest on the Series 2008 bonds is payable semiannually.

The Series 2008 and 2005 bonds were issued pursuant to the Master Trust Indenture as well as individual Bond Trust Indentures. Under the terms of the related Bond Trust Indentures, the Hospital is required to maintain certain reserve funds and make additional deposits with a trustee for the payment of principal and interest on the Series 2008 and 2005 bonds. Payment of principal and interest when due on the Series 2005 bonds is guaranteed under a municipal bond insurance policy.

(Amounts in thousands)

On April 22, 1999, the Illinois Finance Authority issued revenue refunding bonds, Series 1999, in the amount of $29,105 on behalf of the Hospital. The Series 1999 bonds were issued pursuant to the Master Trust Indenture. Principal payments are due annually on August 15, and interest is payable semiannually. Under the terms of the related Bond Trust Indenture, the Hospital is required to maintain certain reserve funds and make additional deposits with a trustee for the payment of principal and interest on the Series 1999 bonds.

On June 25, 1996, the Illinois Finance Authority issued revenue bonds, Series 1996, in the amount of $29,875 on behalf of the Hospital. The Series 1996 bonds were issued pursuant to the Master Trust Indenture. Principal payments are due annually on August 15, and interest is payable semiannually. Under the terms of the related Bond Trust Indenture, the Hospital is required to maintain certain reserve funds and make additional deposits with a trustee for the payment of principal and interest on the Series 1996 bonds. Payment of principal and interest on the Series 1996 bonds when due is guaranteed under a municipal bond insurance policy.

At September 30, 2008 and 2007, the fair value of total long-term debt was approximately $131,713 and $133,887, respectively. Fair value was estimated using quoted market prices based upon the Obligated Group's current borrowing rates for similar types of long-term debt securities.

Scheduled annual principal payments on long-term debt for the ensuing five years are as follows:

Year:		
2009	$	3,405
2010		3,585
2011		3,770
2012		3,960
2013		4,165

(9) Derivative Instruments and Hedging Activities

The Hospital has interest rate related derivative instruments to manage its exposure on debt instruments. By using derivative financial instruments to hedge exposures to changes in interest rates, the Hospital exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the Hospital, which creates credit risk for the Hospital. When the fair value of a derivative contract is negative, the Hospital owes the counterparty, and therefore, it does not possess credit risk. The Hospital attempts to minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Hospital management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

2002 Interest Rate Swap Agreement

During 2002, the Hospital entered into an interest rate swap agreement to convert portions of its fixed rate debt portfolio from a fixed to variable rate. Under this agreement, the Hospital receives a variable rate of return, based upon 68.75% of the three-month USD-LIBOR-BBA rate on a notional amount of $15,000, and is obligated to pay the financial institution a variable rate of return, based upon the weekly SIFMA Municipal Swap Index rate, on the same notional amount. The 2002 interest rate swap agreement has a maturity date of February 6, 2014.

The 2002 interest rate swap does not meet the criteria to qualify for hedge accounting; accordingly, the fair value of the interest rate swap derivative instrument is recognized within the consolidated balance sheets with changes in the fair value of the derivative instrument reported within income from operations. Payments equal to the differential between the amounts due to and due from the financial institution are computed and exchanged quarterly. The differential to be paid or received under the interest rate swap agreement is recognized within interest expense on a current basis. The net interest rate differential (paid) received by the Hospital as a result of the 2002 interest rate swap agreement during 2008 and 2007 of approximately $(127) and $47, respectively, has been included as an (addition) reduction to interest expense in the accompanying consolidated statements of operations. Fair value of the interest rate swap agreement was a (liability) asset of $(180) and $84 at September 30, 2008 and 2007, respectively, and is included with accrued expenses and other receivables in the accompanying consolidated balance sheets, respectively. The change in fair value of the interest rate swap agreement of $(264) in 2008 and $28 in 2007 has been recorded as an (addition) reduction to interest expense. Fair value of the interest rate swap agreement was estimated using a discounted present value methodology and current projected interest rates.

2005 Interest Rate Swap Agreement

The Hospital entered into an interest rate swap agreement in November 2005 to manage fluctuations in cash flows resulting from interest rate risk on its auction rate Series 2005B debt, with an original notional amount of $69,350. The notional amounts and maturity dates of the 2005 interest rate swap agreement correlate with the outstanding principal schedule on the underlying Series 2005B debt. The swap agreement changed the variable-rate cash flow exposure on the Series 2005B debt to fixed cash flows. Under the terms of the interest rate swap agreement, the Hospital received, on a weekly basis, payments at 62% of one-month LIBOR plus 15 basis points. In exchange for this indexed payment received, the Hospital paid, on a weekly basis, an annualized fixed rate of 3.437%. With the issuance of the Series 2005 debt, the 2005 interest rate swap agreement was designated as a cash flow hedge instrument, and accordingly, changes in fair value of the 2005 interest rate swap agreement were recognized directly to unrestricted net assets for the effective portion of the hedge.

The Hospital terminated the 2005 interest rate swap agreement in conjunction with the extinguishment of the Series 2005B debt in June, 2008. The termination of the interest rate swap agreement required the Hospital make a settlement payment to the counterparty equal to the fair value of the interest rate swap at the termination date in amount of $1,390. The termination payment of $1,390 was recognized within 2008 interest expense through a reclassification from unrestricted net assets. The excess of the 2008 change in fair value of the 2005 interest rate swap agreement of $1,909 over amounts reclassified into interest expense has been reported as a reduction of 2008 unrestricted net assets.

The fair value of the 2005 interest rate swap agreement was an asset of $519 at September 30, 2007, which is included as a component of other long-term liabilities in the accompanying 2007 consolidated balance sheet. The change in fair value of the 2005 interest rate swap agreement of $694 in 2007 was recorded as a direct addition to unrestricted net assets. The net interest rate differential received by the Hospital as a result of the Series 2005 interest rate swap agreement during 2008 and 2007 of approximately $92 and $62, respectively, has been recorded as a reduction of interest expense in the accompanying consolidated statements of operations.

2005B Basis Swap Agreements

On June 2, 2006, the Hospital entered into interest rate swap agreements on the Series 2005B debt (Basis Swaps) with two commercial banks. The Basis Swaps have effective dates of February 15, 2007. The Basis Swaps each have a notional amount of $34,675 whereby the Hospital will receive, on a monthly basis, 60.2854% of USD-ISDA Swap Rate, and will make monthly payments at 62.5% of one-month LIBOR plus 15 basis points. During 2008, the Basis Swap agreements were amended to suspend monthly cash payments until February 15, 2014. The Basis Swaps have notional amounts and maturity dates that correlate with the outstanding principal schedule on the Series 2005B debt, which was refunded in 2008. The 2005B Basis Swaps have remained in force subsequent to the refunding of the Series 2005B debt. Fair value of the Basis Swaps were liabilities of $424 and $460 at September 30, 2008 and 2007, respectively, and are included with other long-term liabilities in the accompanying consolidated balance sheets. The net interest rate differential received (paid) by the Hospital as a result of the 2005B Basis Swap agreements during 2008 and 2007 of approximately $255 and $(114), respectively, has been recorded as a reduction (addition) to interest expense in the accompanying consolidated statements of operations. The change in fair value of the 2005B Basis Swaps of $36 in 2008 and $(376) in 2007 has been recorded as a reduction (addition) to interest expense as the Basis Swaps do not qualify for hedge accounting.

(10) Pension Plans

The Health System, HSSI, and the Hospital sponsor various voluntary, defined contribution, and money purchase pension plans for all qualified full-time employees. Benefits for individual employees are the amounts that can be provided by the sums contributed and accumulated for each individual employee. The Health System, HSSI, and the Hospital recognized expense under the terms of the plans in the amount of $3,149 and $2,824 for 2008 and 2007, respectively. The Health System, HSSI, and the Hospital fund the plans on a current basis.

The Health System also sponsors several supplemental retirement plans. Eligibility for these plans is limited to specified employees. The supplemental plans are defined benefit plans and are not qualified plans under Section 401 of the Code. The Health System has recognized expense under the terms of these supplemental retirement plans in the amount of $1,614 and $557 for 2008 and 2007, respectively. Amounts owed to specified employees under the supplemental retirement plans are included with accrued salaries and wages.

(11) Self-Insured Risks

Professional and General Liability

The Corporations maintain a self-insurance program for professional and general liability coverage. The self-insurance program includes varying levels of self-insured retention and excess malpractice insurance coverage purchased from commercial insurance carriers. In connection with the self-insurance program, the Corporations have engaged the services of a professional actuarial consultant to assist in the estimation of self-insurance provisions and claim liability reserves.

Provisions for estimated self-insured professional and general liability claims of $11,229 in 2008 and $6,529 in 2007 are included with general and administrative expenses in the accompanying consolidated statements of operations. It is the opinion of management that the estimated professional and general liabilities accrued at September 30, 2008 and 2007 are adequate to provide for the ultimate cost of potential losses resulting from pending or threatened litigation; however, such estimates may be more or less than the amounts ultimately paid when claims are resolved. The Corporations have also designated attorneys to handle legal matters relating to malpractice and general liability claims. No portion of the accrual for estimated self-insured professional and general liability claims has been reported as a current liability. The liability for estimated self-insured professional and general liability claims has been discounted at 4% and 5% as of September 30, 2008 and 2007, respectively.

Workers' Compensation

The Health System, HSSI, and the Hospital maintain a self-insurance program for workers' compensation coverage. This program limits the self-insured retention to $500 per occurrence. Coverage from commercial insurance carriers is maintained for claims in excess of the self-insured retention. Provisions for workers' compensation claims amounted to $1,071 and $553 for 2008 and 2007, respectively, and are included with payroll taxes and fringe benefits expense. Management believes the estimated self-insured workers' compensation claims liability at September 30, 2008 and 2007 is adequate to cover the ultimate liability; however, such estimates may be more or less than the amounts ultimately paid when claims are resolved.

Healthcare

The Health System, HSSI, and the Hospital also have a program of self-insurance for employee healthcare coverage. Stop-loss reinsurance coverage is maintained for claims in excess of stop-loss limits. Provisions for self-insured employee healthcare claims amounted to $11,338 and $10,632 for 2008 and 2007, respectively, and are included with payroll taxes and fringe benefits expense. It is the opinion of management that the estimated healthcare costs accrued at September 30, 2008 and 2007 are adequate to provide for the ultimate liability; however, final payouts as claims are paid may vary significantly from estimated claim liabilities.

(12) Investment in Joint Ventures

Orland Park Surgical Center, L.L.C.

On January 15, 2001, the Hospital became a founding member of Orland Park Surgical Center, L.L.C. (the Center) whose purpose is to develop and operate an ambulatory surgery center in Orland Park, Illinois. The Hospital provided the Center with an initial $660 equity contribution, which satisfied the capital contribution provisions of the operating agreement. Pursuant to the operating agreement, profits and losses are allocated to the members in accordance with the proportion of their membership units to the aggregate membership units of the Center, of which the Hospital holds a 33% interest. Distributions will be made to members in accordance with the proportion of their membership units to the aggregate membership units of the Center. Distributions are payable by the Center at the discretion of the Center's board of managers to the extent of the availability of net cash flows. The Center became operational during 2002.

The Hospital accounts for its investment in the Center on the equity method of accounting. The Hospital has included its proportional share of the Center's net income of $125 and $440 in 2008 and 2007, respectively, within other operating revenue in the accompanying consolidated statements of operations. The Hospital received cash distributions from the Center of $212 and $372 in 2008 and 2007, respectively. As of and for the years ended September 30, 2008 and 2007, respectively, the Center had total assets of $3,831 and $4,196, members' equity of $2,622 and $2,858, revenue of $5,023 and $5,419, and net income of $464 and $1,320. The carrying value of the Hospital's investment in the Center is included with investment in joint ventures in the accompanying consolidated balance sheets.

SCHCI, L.L.C.

On February 14, 2002, the Hospital became a founding member of SCHCI, L.L.C. (SCHCI) whose purpose is to provide cardiovascular services jointly with a physician group. The Hospital provided SCHCI with an initial $275 equity contribution during 2003, which satisfied the capital contribution provisions of the operating agreement. The Hospital provided SCHCI with an additional $275 equity contribution during 2004. Pursuant to the operating agreement, profits and losses are allocated to the members in accordance with the proportion of their membership units to the aggregate membership units of SCHCI, of which the Hospital holds a 49.5% interest. Distributions are payable by SCHCI at the discretion of the Center's management board to the extent of the availability of net cash flows as defined in the agreement. The Center became operational during 2004.

The Hospital accounts for its investment in SCHCI on the equity method of accounting. The Hospital has included its proportional share of SCHCI net income of $513 and $475 in 2008 and 2007, respectively, as other operating revenue in the accompanying consolidated statements of operations. The Hospital received cash distributions from SCHCI of $495 and $1,043 in 2008 and 2007, respectively. As of and for the years ended September 30, 2008 and 2007, respectively, SCHCI had total assets of $2,819 and $2,675, members' equity of $2,151 and $2,112, revenue of $3,947 and $4,174, and net income of $1,038 and $950. The carrying value of the Hospital's investment in SCHCI is included with investment in joint ventures in the accompanying consolidated balance sheets. Included in other receivables (liabilities) are $595 and $(259) of advances due from (to) SCHCI as of September 30, 2008 and 2007, respectively.

Wilmington Building Enterprises, L.L.C.

On June 1, 2007, MCREC sold property, including a parcel of land and a medical office building, located in Wilmington, Illinois to Harris N.A. Concurrently with the sale of property, MCREC became a founding member of Wilmington Building Enterprises, L.L.C. (Wilmington) whose purpose is to lease the medical office building. Harris N.A. serves as the trustee for Wilmington. MCREC provided Wilmington with an initial $500 equity contribution during 2007, which satisfied the capital contribution provisions of the operating agreement. Pursuant to the operating agreement, profits and losses are allocated to the members in accordance with the proportion of their membership units to the aggregate membership units of Wilmington, of which MCREC holds a 50% interest. Effective July 1, 2007, Harris N.A. entered into an agreement with a physician to lease the medical office building.

MCREC accounts for its investment in Wilmington on the equity method of accounting; however, MCREC has not recognized its proportional share of Wilmington income in the accompanying consolidated statements of operations in 2008. Wilmington net income was $103 in 2008. Wilmington made no cash distributions in 2008 or 2007. As of and for the years ended September 30, 2008 and 2007, respectively, Wilmington had total assets and members' equity of $1,103 and $1,000. The carrying value of MCREC's investment in Wilmington is included with investment in joint ventures in the accompanying consolidated balance sheets.

(13) Contingencies

Medicare Reimbursement

The Hospital recognized approximately $82,018 of net patient service revenue during 2008 from services provided to Medicare beneficiaries. Federal legislation routinely includes provisions to modify Medicare payments to healthcare providers. Changes in Medicare reimbursement as a result of the CMS implementation of the provisions of Medicare legislation may have an adverse effect on the Hospital's net patient service revenues.

Litigation

The Corporations are involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporations' financial position or results of operations.

Regulatory Investigations

The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Corporations are subject to these regulatory efforts. Management is currently unaware of any regulatory matters, which may have a material adverse effect on the Corporations' financial position or results of operations.

Schedule 1

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidating Schedule – Balance Sheet Information

September 30, 2008

(Amounts in thousands)

Assets	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross Managed Care Organization	Silver Cross Medical Associates, Inc.	Eliminations	Consolidated
Current assets:									
Cash and cash equivalents	$ 666	920	27,289	50	292	6,668	10	—	35,895
Short-term investments	—	—	6,841	—	—	—	—	—	6,841
Assets whose use is limited or restricted, required for current liabilities	1	—	3	—	—	—	—	—	4
Patient accounts receivable, net	—	1,356	26,552	—	—	—	—	—	27,908
Due from affiliates	196	—	16,564	2,377	9	—	488	(19,634)	—
Other receivables	403	601	1,209	—	234	462	2	—	2,911
Inventory of supplies	—	—	177	—	—	—	—	—	177
Prepaid expenses and other	103	10	2,772	3	22	26	66	—	3,002
Total current assets	1,369	2,887	81,407	2,430	557	7,156	566	(19,634)	76,738
Assets whose use is limited or restricted, excluding assets required for current liabilities									
By board for capital improvements, self-insurance and other	23,091	—	83,897	—	—	—	—	—	106,988
Under bond indenture agreements – held by trustee	—	—	12,180	—	—	—	—	—	12,180
Pledges receivable	—	—	145	—	—	—	—	—	145
Donor-restricted investments	—	—	7,342	252	—	—	—	—	7,594
	23,091	—	103,564	252	—	—	—	—	126,907
Land, buildings, and equipment, net	9,521	420	128,476	—	34,768	—	—	—	173,185
Other assets:									
Due from affiliates	3,601	—	26,069	—	—	—	—	(29,670)	—
Land held for sale	—	—	25,520	—	—	—	—	—	25,520
Investments	22,650	—	—	—	—	—	—	(22,650)	—
Investment in joint ventures	—	—	1,942	—	500	—	—	—	2,442
Deferred finance charges and other	—	—	3,064	—	—	—	—	—	3,064
Total assets	$ 60,232	3,307	370,042	2,682	35,825	7,156	566	(71,954)	407,856

(Continued)

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ATTACHMENT-75

Schedule 1

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidating Schedule – Balance Sheet Information

September 30, 2008

(Amounts in thousands)

Liabilities and Net Assets	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross Managed Care Organization	Silver Cross Medical Associates, Inc.	Eliminations	Consolidated
Current liabilities:									
Current installments of long-term deb	$ —	—	3,405	—	—	—	—	—	3,405
Accounts payable	465	269	10,026	—	—	4,303	100	—	15,163
Accrued salaries and wages	2,512	71	9,199	—	—	—	333	—	12,115
Accrued expenses	99	260	1,211	—	2,170	—	—	—	3,740
Estimated payables under third-party reimbursement program:	—	—	14,883	—	—	—	—	—	14,883
Due to affiliates	16,933	1,956	588	—	3	21	133	(19,634)	—
Total current liabilities	20,009	2,556	39,312	—	2,173	4,324	566	(19,634)	49,306
Estimated self-insured professional and general liability claim:	23,672	—	—	—	—	—	—	—	23,672
Long-term debt, excluding current installments an unamortized bond discounts and premium:	—	—	132,901	—	—	—	—	—	132,901
Due to affiliates	—	—	—	—	29,670	—	—	(29,670)	—
Other long-term liabilitie:	—	—	1,316	—	—	—	—	—	1,316
Total liabilities	43,681	2,556	173,529	—	31,843	4,324	566	(49,304)	207,195
Net assets:									
Unrestricted	16,551	751	189,026	2,430	3,982	2,832	—	(22,650)	192,922
Temporarily restricted	—	—	2,364	—	—	—	—	—	2,364
Permanently restricted	—	—	5,123	252	—	—	—	—	5,375
Total net assets	16,551	751	196,513	2,682	3,982	2,832	—	(22,650)	200,661
Total liabilities and net assets	$ 60,232	3,307	370,042	2,682	35,825	7,156	566	(71,954)	407,856

See accompanying independent auditors' report.

Schedule 2

SILYER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidating Schedule – Statement of Operations Information

Year ended September 30, 2008

(Amounts in thousands)

	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross Managed Care Organization	Silver Cross Medical Associates, Inc.	Eliminations	Consolidated
Revenue:									
Net patient service revenue	$ —	2,032	223,142	—	—	—	3,232	(3,061)	225,345
Other revenue	7,308	1,418	5,418	—	2,587	21,733	279	(11,477)	27,266
Total revenue	7,308	3,450	228,560	—	2,587	21,733	3,511	(14,538)	252,611
Expenses:									
Salaries and wages	3,883	1,378	76,280	—	—	—	1,694	(316)	82,919
Payroll taxes and fringe benefit	2,135	280	21,955	—	—	—	201	—	24,571
General and administrative	2,001	1,799	51,378	—	2,288	21,437	1,449	(14,222)	66,130
Supplies	—	307	37,191	—	—	—	—	—	37,498
Provision for bad debts	—	70	13,512	—	—	—	167	—	13,749
Depreciation	823	133	12,709	—	1,385	—	—	—	15,050
Interest	—	—	9,266	—	—	—	—	—	9,266
Total expenses	8,842	3,967	222,291	—	3,673	21,437	3,511	(14,538)	249,183
Income (loss) from operations	(1,534)	(517)	6,269	—	(1,086)	296	—	—	3,428
Nonoperating gains (losses):									
Investment income (loss), net	801	—	(8,605)	—	—	—	—	—	(7,804)
Unrestricted contributions and other, net	—	—	441	11	—	—	—	—	452
Gain on sale of land held for sale	—	—	6,019	—	—	—	—	—	6,019
Loss on early extinguishment of long-term deb	—	—	(3,077)		—	—	—	—	(3,077)
Total nonoperating gains (losses), net	801	—	(5,222)	11	—	—	—	—	(4,410)
Revenue and gains in excess (deficient) of expenses and losses	(733)	(517)	1,047	11	(1,086)	296	—	—	(982)
Other changes in unrestricted net assets:									
Change in fair value of derivative instrument	—	—	(519)	—	—	—	—	—	(519)
Net assets released from restriction for land, building, and equipment acquisitions financed by temporarily restricted net assets	—	—	1,255	—	—	—	—	—	1,255
Increase (decrease) in unrestricted net assets	$ (733)	(517)	1,783	11	(1,086)	296	—	—	(246)

See accompanying independent auditors' report.

Schedule 3

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidating Schedule – Changes in Net Assets Information

Year ended September 30, 2008

(Amounts in thousands)

	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross Managed Care Organization	Silver Cross Medical Associates, Inc.	Eliminations	Consolidated
Increase (decrease) in unrestricted net assets	$ (733)	(517)	1,783	11	(1,086)	296	—	—	(246)
Temporarily restricted net assets:									
Contributions for specific purposes	—	—	1,082	—	—	—	—	—	1,082
Net realized and unrealized gains and losses on temporarily restricted investments	—	—	(182)	—	—	—	—	—	(182)
Net assets released from restriction for operating purposes	—	—	(85)	—	—	—	—	—	(85)
Net assets released from restriction for land, building, and equipment acquisitions	—	—	(1,255)	—	—	—	—	—	(1,255)
Decrease in temporarily restricted net assets	—	—	(440)	—	—	—	—	—	(440)
Permanently restricted net assets:									
Net realized and unrealized gains and losses on permanently restricted investments	—	—	(624)	(72)	—	—	—	—	(696)
Change in net assets	(733)	(517)	719	(61)	(1,086)	296	—	—	(1,382)
Net assets at beginning of year	17,284	1,268	195,794	2,743	5,068	2,536	—	(22,650)	202,043
Net assets at end of year	$ 16,551	751	196,513	2,682	3,982	2,832	—	(22,650)	200,661

See accompanying independent auditors' report.

KPMG

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidated Financial Statements and Schedules

September 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

KPMG

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Boards of Directors
Silver Cross Health System
and Affiliates:

We have audited the accompanying consolidated balance sheets of Silver Cross Health System and affiliates as of September 30, 2007 and 2006, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Silver Cross Health System and affiliates' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Silver Cross Health System and affiliates' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Silver Cross Health System and affiliates as of September 30, 2007 and 2006, and the consolidated results of their operations, changes in net assets, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 14 to the consolidated financial statements, Silver Cross Health System and affiliates adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, for asbestos removal costs in 2006.

KPMG

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included in schedules 1 through 3 is presented for purposes of additional analysis of the 2007 consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual organizations. The 2007 consolidating information has been subjected to the auditing procedures applied in the audit of the 2007 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 consolidated financial statements taken as a whole.

KPMG LLP

January 23, 2008

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidated Balance Sheets

September 30, 2007 and 2006

(Amounts in thousands)

Assets		2007	2006
Current assets:			
Cash and cash equivalents	$	15,512	13,016
Short-term investments		7,796	8,708
Assets whose use is limited or restricted, required for current liabilities		88	99
Patient accounts receivable, net of estimated uncollectibles of $11,366 in 2007 and $11,310 in 2006		21,560	22,780
Other receivables		2,281	1,908
Inventory of supplies, at lower of cost (first-in, first-out) or market value		153	157
Prepaid expenses and other		2,503	1,660
Total current assets		49,893	48,328
Assets whose use is limited or restricted, excluding assets required for current liabilities:			
By board for capital improvements, self-insurance, and other		112,934	97,965
Under bond indenture agreements – held by trustee		21,049	26,613
Pledges receivable		574	726
Donor-restricted investments		8,301	9,088
		142,858	134,392
Land, buildings, and equipment, net		169,346	153,308
Other assets:			
Land held for sale		30,595	28,873
Investment in joint ventures		2,511	2,489
Deferred finance charges and other		4,755	3,964
Total assets	$	399,958	371,354

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets		2007	2006
Current liabilities:			
Current installments of long-term debt	$	2,760	2,620
Accounts payable		19,810	16,410
Accrued salaries and wages		9,775	9,524
Accrued expenses		2,430	2,192
Estimated payables under third-party reimbursement programs		12,314	13,627
Total current liabilities		47,089	44,373
Estimated self-insured professional and general liability claims		19,672	14,075
Long-term debt, excluding current installments and unamortized bond discounts and premiums		130,322	133,123
Other long-term liabilities		832	1,881
Total liabilities		197,915	193,452
Net assets:			
Unrestricted		193,168	168,088
Temporarily restricted		2,804	4,142
Permanently restricted		6,071	5,672
Total net assets		202,043	177,902
Commitments and contingent liabilities			
Total liabilities and net assets	$	399,958	371,354

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Operations

Years ended September 30, 2007 and 2006

Amounts in thousands)

		2007	2006
Revenue:			
Net patient service revenue	$	211,247	186,024
Other revenue		24,888	24,786
Total revenue		236,135	210,810
Expenses:			
Salaries and wages		75,306	68,225
Payroll taxes and fringe benefits		21,238	20,054
General and administrative		61,416	47,992
Supplies		34,125	31,257
Provision for bad debts		17,732	18,365
Depreciation		13,758	11,473
Interest		5,442	5,254
Total expenses		229,017	202,620
Income from operations		7,118	8,190
Nonoperating gains (losses):			
Investment income, net		24,451	6,822
Unrestricted contributions and other, net		1,332	709
Loss on early extinguishment of long-term debt		—	(3,775)
Total nonoperating gains, net		25,783	3,756
Revenue and gains in excess of expenses		32,901	11,946
Other changes in unrestricted net assets:			
Change in net unrealized gains and losses on other-than-trading securities		(174)	2,552
Change in fair value of derivative instruments		694	(175)
Cumulative effect of change in accounting principle		—	(870)
Designation of investments as trading		(10,128)	—
Net assets released from restriction for land, building, and equipment acquisitions financed by temporarily restricted net assets		1,787	131
Increase in unrestricted net assets	$	25,080	13,584

See accompanying notes to consolidated financial statements.

SILVER CROSS HEALTH SYSTEM
AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2007 and 2006

(Amounts in thousands)

	2007	2006
Increase in unrestricted net assets	$ 25,080	13,584
Temporarily restricted net assets:		
Contributions for specific purposes	369	930
Net realized and unrealized gains and losses on temporarily restricted investments	151	59
Net assets released from restriction for operating purposes	(71)	(109)
Net assets released from restriction for land, building, and equipment acquisitions	(1,787)	(131)
Increase (decrease) in temporarily restricted net assets	(1,338)	749
Permanently restricted net assets:		
Net realized and unrealized gains and losses on permanently restricted investments	399	235
Increase in permanently restricted net assets	399	235
Change in net assets	24,141	14,568
Net assets at beginning of year	177,902	163,334
Net assets at end of year	$ 202,043	177,902

See accompanying notes to consolidated financial statements.

SILVER CROSS HEALTH SYSTEM
AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended September 30, 2007 and 2006

(Amounts in thousands)

		2007	2006
Cash flows from operating activities:			
Change in net assets	$	24,141	14,568
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Cumulative effect of change in accounting principle		—	870
Depreciation and amortization		13,965	11,536
Provision for bad debts		17,732	18,365
Loss on early extinguishment of long-term debt		—	3,775
Equity loss (gain) in joint ventures, net of cash distributions received		500	(289)
Change in fair value of derivative instruments		(694)	175
Gain on disposal of land, buildings, and equipment, net		(1,100)	(633)
Designation of investments as trading		10,128	—
Net realized and unrealized gains and losses on permanently restricted net assets		(399)	(235)
Change in net unrealized gains and losses on other-than-trading securities		174	(2,552)
Changes in assets and liabilities:			
Patient accounts receivable		(16,512)	(21,073)
Other assets		(2,732)	463
Estimated payables under third-party reimbursement programs		(1,313)	2,213
Accounts payable, accrued expenses, and other liabilities		9,131	(6,527)
Net cash provided by operating activities		53,021	20,656
Cash flows from investing activities:			
Acquisition of land, buildings, and equipment		(28,696)	(32,360)
Acquisition and development of land held for sale		(1,722)	(5,256)
Net change in assets whose use is limited or restricted		(18,358)	(37,718)
Net change in short-term investments		912	4,381
Net cash used in investing activities		(47,864)	(70,953)
Cash flows from financing activities:			
Proceeds from the issuance of long-term debt		—	124,640
Repayments of long-term debt		(2,661)	(71,816)
Payments for deferred financing costs		—	(780)
Net cash provided by (used in) financing activities		(2,661)	52,044
Net increase in cash and cash equivalents		2,496	1,747
Cash and cash equivalents at beginning of year		13,016	11,269
Cash and cash equivalents at end of year	$	15,512	13,016
Supplemental disclosure of cash flow information:			
Cash paid for interest, exclusive of income or loss on interest rate swap agreements and net of amounts capitalized	$	5,358	5,269

See accompanying notes to consolidated financial statements.

(1) Organization and Purposes

Silver Cross Health System (Health System) was incorporated during 1981 for charitable, educational, and scientific purposes to support health and human services by providing management assistance, and in all other relevant ways. The accompanying consolidated financial statements include the accounts of the Health System and the following affiliates, which it controls (collectively referred to as the Corporations):

- Silver Cross Hospital and Medical Centers (Hospital), a not-for-profit acute care hospital of which the Health System is the sole member.
- Silver Cross Foundation (Foundation), a not-for-profit corporation of which the Health System is the sole member, which is dedicated to the advancement of healthcare in Will, Grundy, South Cook, and DuPage counties in Illinois.
- Health Service Systems, Inc. (HSSI), a wholly owned subsidiary of the Health System, which was incorporated to provide administrative and management services to its affiliates and other businesses.
- Midwest Community Real Estate Corporation (MCREC), a not-for-profit corporation of which the Health System is the sole member, which was incorporated to establish and maintain healthcare centers and other facilities for the benefit of the Health System and its affiliates.
- Silver Cross Managed Care Organization (SCMCO), a not-for-profit corporation of which the Health System is the sole member, which was incorporated to provide alternative forms of healthcare delivery services.
- Silver Cross Medical Associates, Inc. (SCMA), a not-for-profit corporation that operates medical practices in Joliet and surrounding areas. MCREC serves as the sole and exclusive manager and administrator for all matters relating to the operations of SCMA, including but not limited to the financial and management operations of SCMA.

The Corporations engage in transactions in the ordinary course of business with organizations with which members of management and the boards of directors are affiliated. Such transactions are conducted at arm's length and fully disclosed to the respective members of management and boards of directors.

All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

(2) Summary of Significant Accounting Policies

Significant accounting policies of the Corporations that conform to general practice within the healthcare industry are as follows:

- The preparation of financial statements in accordance with U.S. generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

- The consolidated statements of operations include revenue and gains in excess of expenses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue and expenses. Transactions incidental to the provision of healthcare services are reported as gains and losses. Changes in unrestricted net assets, which are excluded from revenue and gains in excess of expenses, consistent with industry practice, include net changes in unrealized gains and losses on investments other than trading securities, 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), changes in the effective portion of derivative instruments designated as cash flow hedges, and cumulative effects of changes in accounting principles.

- Assets whose use is limited or restricted include: assets set aside by the Corporations' boards of directors for future capital improvements, self-insurance funding, and for other purposes over which the boards retain control and may at their discretion use for other purposes; assets designated by the Foundation's board of directors for endowment development purposes; assets held by a trustee and limited as to use in accordance with the requirements of bond indenture agreements; pledges receivable; and temporarily and permanently restricted investments held in trust. Assets whose use is limited required for current liabilities are reported as current assets.

- Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenue and gains in excess of expenses unless the income or loss is restricted by donors, in which case the investment income is recorded directly to temporarily or permanently restricted net assets. Investment income of unrestricted investments is reported as nonoperating gains. Unrealized gains and losses on investments are excluded from revenue and gains in excess of expenses unless the investments are classified by management as trading securities. Effective September 30, 2007, management redesignated all investments to be trading securities. As a result of such redesignation, the net unrealized gain on the investment portfolio of $10,128 at September 30, 2007 was reclassified from unrestricted net assets to investment income in the accompanying 2007 consolidated statement of operations. Unrealized gains and losses of permanently and temporarily restricted investments are recorded directly to permanently and temporarily restricted net assets.

- The Corporations consider demand deposits with banks, cash on hand, and all highly liquid debt instruments (including repurchase agreements) purchased with terms of three months or less to be cash and cash equivalents, excluding those instruments classified as assets whose use is limited or restricted.

- Except as otherwise noted, the carrying value of all financial instruments of the Corporations approximates fair value.

- Land, buildings, and equipment are stated at cost, or if donated, at fair value at date of donation. Depreciation is provided over the estimated useful lives of depreciable assets and is computed on the straight-line method.

- Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The Corporations do not believe that there are any factors or circumstances indicating impairment of its property and equipment as of September 30, 2007.

- Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. All contributions are considered to be available for unrestricted use unless specifically restricted by donors. Contributions are reported as direct additions to permanently or temporarily restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restriction. Temporarily restricted net assets used for operating purposes are included with other operating revenue to the extent expended during the period. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Donor-restricted contributions whose restrictions are met within the same year as received are reported directly within the consolidated statements of operations.

- Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Temporarily restricted net assets include the Hospital's interest in a charitable remainder trust. Investment income of the charitable remainder trust is distributable within specified limits to an unrelated party. All other temporarily restricted net assets are restricted primarily for land, building, and equipment acquisitions at both September 30, 2007 and 2006.

- Permanently restricted net assets represent donor-restricted contributions, the principal amount of which may not be expended. Permanently restricted net assets include the Foundation's interest in a charitable remainder trust. Investment income of the charitable remainder trust is distributable within specified limits to an unrelated party. Investment income earned on permanently restricted net assets, to the extent it is restricted by a donor for a specific purpose, is recorded as a direct addition to temporarily restricted net assets. All other investment income on permanently restricted net assets is unrestricted and is recorded as nonoperating gains.

- Provisions for estimated self-insured professional, general liability, workers' compensation, and employee healthcare risks include estimates of the ultimate cost of both reported losses and losses incurred but not reported as of the respective consolidated balance sheet dates.

- The Corporations account for derivatives and hedging activities in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires that all derivative instruments be recorded on the consolidated balance sheets at their respective fair values.

For all hedging relationships, the Corporations formally document the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as cash-flow hedges to specific assets and liabilities on the consolidated balance sheets. Derivatives not linked to specific assets and liabilities on the consolidated balance sheets are carried at fair value in the consolidated balance sheets and changes in fair value are recognized as a component of interest expense in the consolidated statements of operations.

The Corporations also formally assess, both at the hedge's inception and on a quarterly basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded as other changes in unrestricted net assets to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash-flow hedge is reported as a component of interest expense in the consolidated statements of operations.

The Corporations discontinue hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, or management determines that designation of the derivative as a hedging instrument is no longer appropriate. In situations in which hedge accounting is discontinued, the Corporations will continue to carry the derivative at its fair value in the consolidated balance sheets and recognize any subsequent changes in its fair value as an expense component in the consolidated statements of operations.

- Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Those adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.
- Certain proceeds received by the Hospital from issuance of revenue bonds are included in assets whose use is limited by the board for capital improvements. Since all investment income earned on such assets is classified as nonoperating gains, all interest expense and amortization of bond issuance costs on a related portion of such revenue bonds ($0 and $97 for 2007 and 2006, respectively) are netted against investment income in the accompanying consolidated statements of operations.
- Deferred finance charges and unamortized bond discounts and premiums are amortized using the straight-line method over the periods the related obligations are outstanding.

- The Health System, the Hospital, MCREC, the Foundation, and SCMA are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. A provision for income taxes has not been recorded for HSSI as there are net operating losses of approximately $17,278 available for carryforward, which expire at various future dates through 2023. SCMCO is a not-for-profit corporation, which is subject to federal and state income taxes. A provision for income taxes has not been recorded for SCMCO as there are net operating losses of approximately $889 available for carryforward, which expire at various future dates through 2012. Deferred tax assets arising primarily from net operating loss carryforwards have been offset in their entirety by a valuation allowance at both September 30, 2007 and 2006. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.
- The Corporations incur expenses for the provision of healthcare services and related general and administrative activities.
- Certain prior year amounts have been reclassified to conform to the 2007 consolidated financial statement presentation.

Other significant accounting policies are set forth in the consolidated financial statements and in the following notes.

(3) Third-Party Reimbursement Programs

The Hospital, HSSI, SCMCO, and SCMA (collectively referred to as the Providers) have agreements with third-party payors that provide for reimbursement at amounts different from their established rates. Estimated contractual adjustments arising under third-party reimbursement programs principally represent the differences between the Providers' billings at list price and the amounts reimbursed by Medicare, Blue Cross, and certain other contracted third-party payors; the difference between the Providers' billings at list price and the allocated cost of services provided to Medicaid patients; and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement methodologies with major third-party payors follows:

Medicare

The Hospital is paid for inpatient acute care, outpatient, rehabilitative, and home health services rendered to Medicare program beneficiaries under prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the prospective payment systems and the appropriateness of patient admissions are subject to validation reviews.

For certain services rendered to Medicare beneficiaries, the Providers' reimbursement is based upon cost or other reimbursement methodologies. The Providers are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Medicare reimbursement reports through September 30, 2005 have been audited and final settled by the Medicare fiscal intermediary.

Medicaid

The Hospital is paid for inpatient acute care services rendered to Medicaid program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicaid outpatient services are reimbursed based on fee schedules. Medicaid reimbursement methodologies may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the State of Illinois Medicaid program and any such changes could have a significant effect on the Hospital's revenues.

During 2004, the State of Illinois (the State) enacted an assessment program to assist in the financing of its Medicaid program through June 30, 2005. The program was renewed in December 2006 for the State fiscal years ended June 30, 2006, 2007 and 2008. Pursuant to this program, hospitals within the State are required to remit payment to the State of Illinois Medicaid program under an assessment formula approved by the Centers for Medicare & Medicaid Services (CMS). No amounts have been recorded during 2006 as no assessment program had been approved by CMS as of September 30, 2006. As of September 30, 2007, the Hospital has included its 2006 and 2007 related assessment of \$13,046 and its additional related reimbursement of \$20,954 within net patient service revenue in the accompanying 2007 consolidated statement of operations. The Hospital paid \$6,523 of the assessment and received \$10,477 of its additional reimbursement in 2007. The Hospital has recorded the remaining balances within estimated payables under third-party reimbursement programs in the accompanying 2007 consolidated balance sheet.

Blue Cross

The Hospital also participates as a provider of healthcare services under a reimbursement agreement with Blue Cross. The provisions of this agreement stipulate that services will be reimbursed at a tentative reimbursement rate and that final reimbursement for these services is determined after the submission of an annual cost report by the Hospital and a review by Blue Cross. The Blue Cross reimbursement reports for 2006 and prior years have been reviewed by Blue Cross.

Other

The Providers have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements is negotiated by the Providers and includes prospectively determined rates-per-discharge, discounts from established charges, capitation, and prospectively determined per diem rates.

(Amounts in thousands)

SCMCO is involved in various risk-based contracts with managed care organizations. Under these arrangements, SCMCO receives capitation payments based on the demographic characteristics of covered members in exchange for providing all primary care physician services, as well as certain outpatient diagnostic and specialist physician services. Additionally, SCMCO is eligible for incentive payments based on favorable utilization experience. Capitation revenue related to risk-based contracts totaled approximately $16,536 and $14,439 for 2007 and 2006, respectively, and is included with other revenue in the accompanying consolidated statements of operations. Pursuant to risk-based contracts, SCMCO estimates its liability for covered medical claims, including claims incurred but not reported as of the consolidated balance sheet dates, based upon historical costs incurred and payment processing experience. This liability approximated $1,912 and $1,320 at September 30, 2007 and 2006, respectively, and is included with accounts payable in the accompanying consolidated balance sheets.

Net patient service revenue for the year ended September 30, 2007 includes approximately $1,968 of favorable retrospectively determined prior year settlements with third-party payors.

A summary of the Providers' utilization percentages based upon gross patient service revenue follows:

	2007	2006
Medicare	42.7%	43.6%
Medicaid	12.9	13.5
Managed care	35.8	34.7
Other	8.6	8.2
	100.0%	100.0%

(4) Concentration of Credit Risk

The Providers grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of September 30, 2007 and 2006 follows:

	2007	2006
Medicare	30.8%	33.8%
Medicaid	16.8	20.4
Blue Cross	1.6	5.3
Managed care	24.6	16.3
Patients	21.5	20.2
Other	4.7	4.0
	100.0%	100.0%

(Amounts in thousands)

(5) Charity Care

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition, reimbursement for services provided to Medicaid program beneficiaries is substantially less than the cost to the Hospital of providing these services.

The Hospital maintains records of the amount of charges forgone for services and supplies furnished under its charity care policy, as well as the estimated differences between the cost of services provided to Medicaid patients and the reimbursement under that program. The following information measures the level of charity care provided and unreimbursed cost under the Medicaid program during 2007 and 2006:

		2007	2006
Charity care costs for non-Medicaid patients	$	2,743	1,912
Excess of cost over reimbursement for services provided to Medicaid patients (1)		4,202	5,016

(1) Net impact of Medicaid assessment program has been allocated to each year based upon the State's tax year

(6) Investments

The Corporations report investments in equity securities with readily determinable fair values and all investments in debt securities at fair value. Fair value is determined primarily on the basis of quoted market prices. A summary of the composition of the Corporations' investment portfolio at September 30, 2007 and 2006 follows:

		2007	2006
Cash and cash equivalents	$	4,498	6,835
Certificates of deposit/repurchase agreements		21,780	26,380
Money market funds		5,543	5,552
Common stock		5,821	6,289
Mutual funds		57,358	47,564
U.S. Treasury securities		17,528	11,682
Corporate bonds and notes		37,640	38,171
	$	150,168	142,473

(Amounts in thousands)

Investments are reported in the accompanying consolidated balance sheets as follows:

	2007	2006
Short-term investments	$ 7,796	8,708
Assets whose use is limited or restricted:		
Required for current liabilities	88	99
By board for capital improvements, self-insurance, and other	112,934	97,965
Under bond indenture agreements – held by trustee	21,049	26,613
Donor restricted investments	8,301	9,088
	$ 150,168	142,473

The composition of investment return from the Corporations' investment portfolio for 2007 and 2006 is as follows:

	2007	2006
Interest and dividend income, net of fees and expenses	$ 4,034	7,120
Net realized gains (losses) on sale of investments	161	(3)
Net change in unrealized gains and losses during the holding period	376	2,846
Designation of investments as trading	10,128	—
	$ 14,699	9,963

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

(Amounts in thousands)

Prior to the September 30, 2007 designation of investments as trading, changes in unrealized gains during the holding period are attributable to other-than-trading securities and, accordingly, are excluded from the determination of revenue and gains in excess of expenses. Investment returns are included in the accompanying consolidated statements of operations and changes in net assets for 2007 and 2006 as follows:

		2007	2006
Nonoperating gains – investment income	$	24,451	6,919
Other changes in unrestricted net assets:			
Change in net unrealized gains and losses on other than trading securities		(174)	2,552
Designation of investments as trading		(10,128)	—
Net realized and unrealized gains and losses on temporarily restricted investments		151	59
Net realized and unrealized gains and losses on permanently restricted investments		399	235
Interest income offset against capitalized interest cost		—	198
	$	14,699	9,963

The composition of temporarily impaired investments and length of time such investments were in an unrealized loss position as of September 30, 2006 follows:

		Less than twelve months		Twelve months or longer		Total	
September 30, 2006		Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Common stock	$	69	3	9,390	155	9,459	158
U.S. Treasury securities		2,600	19	1,861	44	4,461	63
Corporate bonds and notes		1,748	26	28,236	775	29,984	801
	$	4,417	48	39,487	974	43,904	1,022

Temporarily impaired investments at September 30, 2006 consisted primarily of common stock, U.S. Treasury securities, and corporate bonds and notes, which were in temporarily impaired positions primarily due to market conditions over the past few years. Management of the Corporations believed the impairments were temporary in nature due to market conditions combined with their typical buy-and-hold strategy employed on such investments.

(Amounts in thousands)

(7) Land, Buildings, and Equipment

A summary of land, buildings, and equipment at September 30, 2007 and 2006 follows:

	2007		2006	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 31,009	—	31,341	—
Land improvements	5,054	3,502	5,118	3,525
Buildings, building improvements, and fixed equipment	169,247	82,727	160,164	75,969
Major movable equipment	87,264	55,488	72,018	50,024
Construction in progress	18,489	—	14,185	—
	$ 311,063	141,717	282,826	129,518

The Corporations are currently engaged in various construction and renovation projects to be financed through operations, bond proceeds, and donor contributions. Outstanding commitments related to these projects approximate $12,761 at September 30, 2007. Interest cost is capitalized as a component cost of significant capital projects to the extent that such interest expense exceeds interest income earned on any project-specific borrowed funds. During the year ended September 30, 2007, the Corporations did not capitalize any interest cost. During the year ended September 30, 2006, the Corporations capitalized net interest cost of $320, which is comprised of capitalized interest cost of $518, net of interest income of $198.

(Amounts in thousands)

(8) Long-Term Debt

A summary of long-term debt at September 30, 2007 and 2006 follows:

		2007	2006
Illinois Finance Authority Revenue Bonds, Series 2005A, at varying effective interest rates from 4.00% to 5.25%, depending upon date of maturity through 2020	$	21,395	21,665
Illinois Finance Authority Auction Rate Revenue Bonds, Series 2005B, effective interest rate of 3.61% and 2.64% in 2007 and 2006, respectively		69,350	69,350
Illinois Finance Authority Auction Rate Revenue Bonds, Series 2005C, effective interest rate of 3.81% and 2.66% in 2007 and 2006, respectively		21,450	22,325
Illinois Finance Authority Auction Rate Revenue Bonds, Series 2005D, effective interest rate of 3.60% and 2.62% in 2007 and 2006, respectively		10,625	10,625
Revenue refunding bonds, Series 1999, at varying effective interest rates from 5.43% to 5.65%, depending upon date of maturity through 2019		7,990	8,470
Revenue bonds, Series 1996, at varying effective interest rates from 4.60% to 6.22%, depending upon date of maturity through 2009		1,335	2,330
Total long-term debt		132,145	134,765
Less:			
Current installments		2,760	2,620
Unamortized bond discounts and premiums		(937)	(978)
Long-term debt, excluding current installments, and unamortized bond discounts and premiums	$	130,322	133,123

The Hospital and the Health System (collectively known as the Obligated Group) entered into an Amended and Restated Master Trust Indenture (Master Trust Indenture) dated as of June 1, 1996, as subsequently supplemented and amended. The purpose of the Master Trust Indenture is to provide a mechanism for the efficient and economical issuance of notes by individual members of the Obligated Group using the collective borrowing capacity and credit rating of the Obligated Group. The Master Trust Indenture requires members of the Obligated Group to make principal and interest payments on notes issued for their benefit as well as other Obligated Group members, if the other members are unable to make such payments. The Obligated Group pledged a security interest in their unrestricted receivables as collateral on borrowings under the Master Trust Indenture.

On December 8, 2005, the Illinois Finance Authority issued fixed rate revenue bonds, Series 2005A, and auction rate revenue bonds, Series 2005B, Series 2005C, and Series 2005D (collectively referred to as the Series 2005 bonds) in the aggregate amount of $124,640 on behalf of the Hospital. A portion of the proceeds from the Series 2005 bond issuance were used to advance refund the revenue bonds Series 2002A and Series 2002B, and to advance refund portions of the revenue refunding bonds Series 1999 and the revenue bonds Series 1996. The transactions to advance refund such debt resulted in a loss of $3,775, which is included with nonoperating losses in the 2006 consolidated statement of operations. The remaining proceeds were used for the purposes of acquiring real property, constructing various healthcare facilities, provide debt service reserve funds, and to pay issuance costs. Principal on the bonds is payable annually, commencing on August 15, 2006. Interest on the Series 2005A bonds is payable semiannually at effective fixed rates between 4.00% and 5.25%, and interest on the Series 2005B, Series 2005C, and Series 2005D bonds is payable weekly at auction rates. Holders of the Series 2005B, Series 2005C, and Series 2005D bonds may request repayment prior to maturity through the bond auction process, however, the auction rate bonds are not secured by a liquidity facility agreement. The Hospital may change auction frequency or convert such bonds to a fixed rate subject to the conditions in the Bond Trust Indentures. The Series 2005 bonds were issued pursuant to four separate Bond Trust Indentures, each dated as of November 1, 2005. Under the terms of the related Bond Trust Indentures, the Hospital is required to maintain certain reserve funds, and make additional deposits with a trustee for the payment of principal and interest on the Series 2005 bonds. Payment of principal and interest on the Series 2005 bonds when due is guaranteed under municipal bond insurance policies.

On October 28, 2002, the Illinois Finance Authority issued revenue bonds, Series 2002A&B, in the aggregate amount of $31,300 on behalf of the Health System. The Series 2002A&B bonds were issued pursuant to the Master Trust Indenture. Principal payments are due each August 15, and interest is payable monthly at a tax-exempt variable rate for the Series 2002A bonds and at a taxable variable rate for the Series 2002B bonds. Under the terms of the related bond indenture, the Health System was required to maintain certain reserve funds, and make additional deposits with a trustee for the payment of principal and interest on the Series 2002A&B bonds. The Series 2002A&B bonds were further secured by a letter of credit with a commercial bank. The Series 2002A&B bond proceeds were used to finance the construction of a cardiovascular institute and specialty care pavilion and to finance future acquisitions of equipment. The Series 2002A&B bonds were advance refunded in 2006.

On April 22, 1999, the Illinois Finance Authority issued revenue refunding bonds, Series 1999, in the amount of $29,105 on behalf of the Hospital. The Series 1999 bonds were issued pursuant to the Master Trust Indenture. Principal payments are due each August 15, and interest is payable semiannually on February 15 and August 15. Under the terms of the related bond indenture, the Hospital is required to maintain certain reserve funds, and make additional deposits with a trustee for the payment of principal and interest on the Series 1999 bonds. The Series 1999 bond proceeds were issued to advance refund certain outstanding debt and to finance various construction and renovation projects throughout the Hospital.

On June 25, 1996, the Illinois Finance Authority issued revenue bonds, Series 1996, in the amount of $29,875 on behalf of the Hospital. The Series 1996 bonds were issued pursuant to the Master Trust Indenture. Principal payments are due each August 15, and interest is payable semiannually on February 15 and August 15. Under the terms of the related bond indenture, the Hospital is required to maintain certain reserve funds and make additional deposits with a trustee for the payment of principal and interest on the Series 1996 bonds. Payment of principal and interest on the Series 1996 bonds when due is guaranteed under a municipal bond insurance policy.

(Amounts in thousands)

At September 30, 2007 and 2006, the fair value of total long-term debt was approximately $133,887 and $138,033, respectively. Fair value was estimated using quoted market prices based upon the Obligated Group's current borrowing rates for similar types of long-term debt securities.

Scheduled annual principal payments on long-term debt for the ensuing five years are as follows:

Year:		
2008	$	2,760
2009		2,840
2010		2,985
2011		3,165
2012		3,295

(9) Derivative Instruments and Hedging Activities

The Hospital has interest rate related derivative instruments to manage its exposure on debt instruments. By using derivative financial instruments to hedge exposures to changes in interest rates, the Hospital exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the Hospital, which creates credit risk for the Hospital. When the fair value of a derivative contract is negative, the Hospital owes the counterparty and, therefore, it does not possess credit risk. The Hospital minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Hospital management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

2002 Interest Rate Swap Agreement

During 2002, the Hospital entered into an agreement to convert portions of its fixed rate debt portfolio from a fixed to variable rate. Under this agreement, thc Hospital receives a variable rate of return, based upon 68.75% of the three-month USD-LIBOR-BBA rate on a notional amount of $15,000,000, and is obligated to pay the financial institution a variable rate of return, based upon the weekly BMA Municipal Swap Index rate, on the same notional amount. The 2002 interest rate swap agreement has a maturity date of February 6, 2014.

The 2002 interest rate swap does not meet the criteria to qualify for hedge accounting; accordingly, the fair value of the interest rate swap derivative instrument is recognized within the consolidated balance sheets with changes in the fair value of the derivative instrument reported within income from operations. Payments equal to the differential between the amounts due to and due from the financial institution are computed and exchanged quarterly. The differential to be paid or received under the interest rate swap agreement is recognized within interest expense on a current basis. The net interest rate differential received by the Hospital as a result of the 2002 interest rate swap agreement during 2007 and 2006 of approximately $47 and $19, respectively, has been included as a reduction to interest expense in the accompanying consolidated statements of operations. Fair value of the interest rate swap agreement was an asset of $84 and $56 at September 30, 2007 and 2006, respectively, and is included with other receivables in the accompanying consolidated balance sheets. The change in fair value of the interest rate swap agreement of $28 in 2007 and $288 in 2006 has been recorded as a reduction of interest expense. Fair value of the interest rate swap agreement was estimated using a discounted present value methodology and current projected interest rates.

2005 Interest Rate Swap Agreement

The Hospital entered into an interest rate swap agreement in November 2005 to manage fluctuations in cash flows resulting from interest rate risk on its auction rate Series 2005B debt, with a notional amount of $69,350. The notional amounts and maturity dates of the 2005 interest rate swap agreement correlate with principal repayments on the underlying Series 2005B debt. The swap agreement changes the variable-rate cash flow exposure on the Series 2005B debt to fixed cash flows. Under the terms of the interest rate swap agreement, the Hospital receives, on a weekly basis, payments at 62% of one-month LIBOR plus 15 basis points. In exchange for this indexed payment received, the Hospital pays, on a weekly basis, an annualized fixed rate of 3.437%. With the issuance of the Series 2005 debt, the 2005 interest rate swap agreement was designated as a cash flow hedge instrument and, accordingly, the change in fair value of the 2005 interest rate swap agreement is recognized directly to unrestricted net assets for the effective portion of the hedge.

The fair value of the Series 2005 interest rate swap agreement was an asset (liability) of $519 and $(175) at September 30, 2007 and 2006, respectively, and is included as a component of other long-term liabilities in the accompanying consolidated balance sheets. The net interest rate differential received (paid) by the Hospital as a result of the Series 2005 interest rate swap agreement during 2007 and 2006 of approximately $62 and $(92), respectively, has been recorded as a reduction (addition) of interest expense in the accompanying consolidated statements of operations. The change in fair value of the Series 2005 interest rate swap agreement of $694 in 2007 and $(175) in 2006 has been recorded as a direct addition (reduction) to unrestricted net assets.

2005B Basis Swap Agreement

On June 2, 2006, the Hospital entered into interest rate swap agreements on the Series 2005B debt (Basis Swaps) with two commercial banks. The Basis Swaps have effective dates of February 15, 2007. The Basis Swaps each have a notional amount of $34,675 whereby the Hospital will receive, on a monthly basis, 60.2854% of USD-ISDA Swap Rate, and will make weekly payments at 62.5% of one-month LIBOR plus 15 basis points. The Basis Swaps have notional amounts and maturity dates, which correlate with principal repayments on the underlying Series 2005B debt. Fair value of the Basis Swaps was a liability of $460 and $836 at September 30, 2007 and 2006, respectively, and included with other long-term liabilities in the accompanying consolidated balance sheets. The net interest rate differential paid by the Hospital as a result of the Series 2005B basis swap agreements during 2007 of approximately $114 has been recorded as an addition of interest expense in the accompanying consolidated statement of operations. The change in fair value of the Basis Swaps of $(376) in 2007 and $836 in 2006 has been recorded as an addition (reduction) to interest expense.

(10) Pension Plans

The Health System, HSSI, and the Hospital sponsor various voluntary, defined contribution, money purchase pension plans for all qualified full-time employees. Benefits for individual employees are the amounts, which can be provided by the sums contributed and accumulated for each individual employee. The Health System, HSSI, and the Hospital recognized expense under the terms of the plans in the amount of $2,824 and $2,532 for 2007 and 2006, respectively. The Health System, HSSI, and the Hospital fund the plans on a current basis.

The Health System also sponsors several supplemental retirement plans. Eligibility for these plans is limited to specified employees. The supplemental plans are defined benefit plans and are not qualified plans under Section 401 of the Code. The Health System has recognized expense under the terms of these supplemental retirement plans in the amount of $557 and $510 for 2007 and 2006, respectively. Amounts owed to specified employees under the supplemental retirement plans are included with accrued salaries and wages.

(11) Self-Insured Risks

Professional and General Liability

The Corporations maintain a self-insurance program for professional and general liability coverage. The self-insurance program includes varying levels of self-insured retention and excess malpractice insurance coverage purchased from commercial insurance carriers. In connection with the self-insurance program, the Corporations have engaged the services of a professional actuarial consultant to assist in the estimation of self-insurance provisions and claim liability reserves.

Provisions for estimated self-insured professional and general liability claims include estimates of the ultimate cost of both reported losses and losses incurred but not reported. It is the opinion of management that the estimated professional and general liabilities accrued at September 30, 2007 and 2006 are adequate to provide for the ultimate cost of potential losses resulting from pending or threatened litigation; however, such estimates may be more or less than the amounts ultimately paid when claims are resolved. The Corporations have also designated attorneys to handle legal matters relating to malpractice and general liability claims. The portion of the accrual for estimated self-insured professional and general liability claims expected to be paid within one year of the consolidated balance sheet dates is not readily determinable and, therefore, the entire accrual is classified as a noncurrent liability. The liability for estimated self-insured professional and general liability claims has been discounted at 5% as of September 30, 2007 and 2006.

Workers' Compensation

The Health System, HSSI, and the Hospital maintain a self-insurance program for workers' compensation coverage. This program limits the self-insured retention to $300 per occurrence. Coverage from commercial insurance carriers is maintained for claims in excess of the self-insured retention. Provisions for workers' compensation claims amounted to $553 and $1,220 for 2007 and 2006, respectively, and are included with payroll taxes and fringe benefits expense. Management believes the estimated self-insured workers' compensation claims liability at September 30, 2007 and 2006 is adequate to cover the ultimate liability; however, such estimates may be more or less than the amounts ultimately paid when claims are resolved.

Healthcare

The Health System, HSSI, and the Hospital also have a program of self-insurance for employee healthcare coverage. Stop-loss reinsurance coverage is maintained for claims in excess of stop-loss limits. Provisions for self-insured employee healthcare claims amounted to $10,632 and $9,597 for 2007 and 2006, respectively, and are included with payroll taxes and fringe benefits expense. It is the opinion of management that the estimated healthcare costs accrued at September 30, 2007 and 2006 are adequate to provide for the ultimate liability; however, final payouts as claims are paid may vary significantly from estimated claim liabilities.

(12) Investment in Joint Ventures

Orland Park Surgical Center, L.L.C.

On January 15, 2001, the Hospital became a founding member of Orland Park Surgical Center, L.L.C. (the Center) whose purpose is to develop and operate an ambulatory surgery center in Orland Park, Illinois. The Hospital provided the Center with an initial $660,000 equity contribution, which satisfied the capital contribution provisions of the operating agreement. Pursuant to the operating agreement, profits and losses are allocated to the members in accordance with the proportion of their membership units to the aggregate membership units of the Center, of which the Hospital holds a 33% interest. Distributions will be made to members in accordance with the proportion of their membership units to the aggregate membership units of the Center. Distributions are payable by the Center at the discretion of the Center's board of managers to the extent of the availability of net cash flows. The Center became operational during 2002.

The Hospital accounts for its investment in the Center on the equity method of accounting. The Hospital has included its proportional share of Center net income of $440 and $519 in 2007 and 2006, respectively, within other operating revenue in the accompanying consolidated statements of operations. The Hospital received cash distributions from the Center of $372 and $621 in 2007 and 2006, respectively. As of and for the years ended September 30, 2007 and 2006, respectively, the Center had total assets of $4,196 and $4,020, members' equity of $2,858 and $2,653, revenue of $5,419 and $5,254, and net income of $1,320 and $1,573. The carrying value of the Hospital's investment in the Center is included with investment in joint ventures in the accompanying consolidated balance sheets.

SCHCI, L.L.C.

On February 14, 2002, the Hospital became a founding member of SCHCI, L.L.C. (SCHCI) whose purpose is to provide cardiovascular services jointly with a physician group. The Hospital provided SCHCI with an initial $275 equity contribution during 2003, which satisfied the capital contribution provisions of the operating agreement. The Hospital provided SCHCI with an additional $275 equity contribution during 2004. Pursuant to the operating agreement, profits and losses are allocated to the members in accordance with the proportion of their membership units to the aggregate membership units of SCHCI, of which the Hospital holds a 50% interest. Distributions are payable by SCHCI at the discretion of the Center's management board to the extent of the availability of net cash flows as defined in the agreement. The Center became operational during 2004.

The Hospital accounts for its investment in SCHCI on the equity method of accounting. The Hospital has included its proportional share of SCHCI net income of $475 and $1,116 in 2007 and 2006, respectively, as other operating revenue in the accompanying consolidated statements of operations. The Hospital received cash distributions from SCHCI of $1,043 and $715 in 2007 and 2006, respectively. As of and for the years ended September 30, 2007 and 2006, respectively, SCHCI had total assets of $2,675 and $4,139, members' equity of $2,112 and $3,234, revenue of $4,174 and $5,326, and net income of $950 and $2,232. The carrying value of the Hospital's investment in SCHCI is included with investment in joint ventures in the accompanying 2007 and 2006 consolidated balance sheets. Included in other receivables (liabilities) are $(259) and $51 of advances due from (to) SCHCI as of September 30, 2007 and 2006, respectively.

Wilmington Building Enterprises, L.L.C.

On June 1, 2007, MCREC sold property, including a parcel of land and a medical office building, located in Wilmington, Illinois to Harris N.A. Concurrently with the sale of property, MCREC became a founding member of Wilmington Building Enterprises, L.L.C. (Wilmington) whose purpose is to lease the medical office building. Harris N.A. serves as the Trustee for Wilmington. MCREC provided Wilmington with an initial $500 equity contribution during 2007, which satisfied the capital contribution provisions of the operating agreement. Pursuant to the operating agreement, profits and losses are allocated to the members in accordance with the proportion of their membership units to the aggregate membership units of Wilmington, of which MCREC holds a 50% interest. Effective July 1, 2007, Harris N.A. entered into an agreement with a physician to lease the medical office building.

MCREC accounts for its investment in Wilmington on the equity method of accounting. As of and for the year ended September 30, 2007, Wilmington had total assets and members' equity of $1,000. The carrying value of MCREC's investment in Wilmington is included with investment in joint ventures in the accompanying 2007 consolidated balance sheet.

(13) Contingencies

Medicare Reimbursement

The Hospital recognized approximately $76,404 of net patient service revenue during 2007 from services provided to Medicare beneficiaries. Federal legislation has included provisions to modify Medicare payments to healthcare providers, as well as phase out cost-based reimbursement mechanisms to prospective payment methodologies. Changes in Medicare reimbursement as a result of the Centers for Medicare and Medicaid Services' implementation of the provisions of Medicare legislation may have an adverse effect on the Hospital's net patient service revenues.

Litigation

The Corporations are involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporations' financial position or results of operations.

Regulatory Investigations

The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Corporations are subject to these regulatory efforts. Management is currently unaware of any regulatory matters, which may have a material adverse effect on the Corporations' financial position or results of operations.

Insurance Coverage

The Corporations are commercially insured for excess professional liability coverage, excess workers' compensation coverage, and employee health reinsurance coverage. There are no assurances that the Corporations will be able to renew existing policies or procure coverage on similar terms in the future.

(14) Asbestos Removal Costs

In March 2005, the Financial Accounting Standards Board issued interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 requires the current recognition of a liability when a legal obligation exists to perform an asset retirement obligation in which the timing or method of settlement are conditional on a future event that may or may not be under the control of the entity. FIN 47 requires an asset retirement obligation (ARO) liability be recorded at its net present value with recognition of a related long-lived asset in a corresponding amount. The ARO liability is accreted through periodic charges to depreciation expense. The initially capitalized ARO long-lived asset is depreciated over the corresponding long-lived asset's remaining useful life. The Corporations adopted FIN 47 effective as of September 30, 2006.

The Corporations are legally liable to remove asbestos from existing buildings prior to future remodeling or demolishing of the existing buildings. The estimated asbestos removal cost at September 30, 2007 and 2006 were $891 and $870, respectively, and is included with other long-term liabilities. The net book value of the ARO long-lived asset at September 30, 2007 and 2006 is $0. The excess of the ARO liability over the net book value of the ARO long-lived asset at September 30, 2006 of $870 has been reported as a cumulative effect of a change in accounting principle.

Schedule 1

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidating Schedule – Balance Sheet Information

September 30, 2007

(Amounts in thousands)

Assets	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross Managed Care Organization	Silver Cross Medical Associates, Inc.	Eliminations	Consolidated
Current assets:									
Cash and cash equivalents	$ 697	251	7,199	47	215	7,093	10	—	15,512
Short-term investments	3,141	—	4,655	—	—	—	—	—	7,796
Assets whose use is limited or restricted, required for current liabilities	1	—	87	—	—	—	—	—	88
Patient accounts receivable, net	—	1,409	20,151	—	—	—	—	—	21,560
Due from affiliates	3,508	380	39,062	2,641	640	—	533	(46,764)	—
Other receivables	143	508	705	—	344	579	2	—	2,281
Inventory of supplies	—	—	153	—	—	—	—	—	153
Prepaid expenses and other	190	33	2,110	7	27	62	74	—	2,503
Total current assets	7,680	2,581	74,122	2,695	1,226	7,734	619	(46,764)	49,893
Assets whose use is limited or restricted, excluding assets required for current liabilities									
By board for capital improvements, self-insurance and other	19,256	—	93,678	—	—	—	—	—	112,934
Under bond indenture agreements – held by trustee	—	—	21,049	—	—	—	—	—	21,049
Pledges receivable	—	—	574	—	—	—	—	—	574
Donor-restricted investments	—	—	7,977	324	—	—	—	—	8,301
	19,256	—	123,278	324	—	—	—	—	142,858
Land, buildings, and equipment, net	10,291	405	128,964	—	29,686	—	—	—	169,346
Other assets:									
Land held for sale	—	—	30,595	—	—	—	—	—	30,595
Investments	22,650	—	—	—	—	—	—	(22,650)	—
Investment in joint ventures	—	—	2,011	—	500	—	—	—	2,511
Deferred finance charges and other	—	—	4,755	—	—	—	—	—	4,755
Total assets	$ 59,877	2,986	363,725	3,019	31,412	7,734	619	(69,414)	399,958

(Continued)

ATTACHMENT-75

Schedule 1

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidating Schedule – Balance Sheet Information

September 30, 2007

(Amounts in thousands)

Liabilities and Net Assets	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross Managed Care Organization	Silver Cross Medical Associates, Inc.	Eliminations	Consolidated
Current liabilities:									
Current installments of long-term deb	$ —	—	2,760	—	—	—	—	—	2,760
Accounts payable	552	566	13,412	—	—	5,180	100	—	19,810
Accrued salaries and wages	2,047	116	7,386	—	—	—	226	—	9,775
Accrued expenses	189	371	372	—	1,498	—	—	—	2,430
Estimated payables under third-party reimbursement programs	—	—	12,314	—	—	—	—	—	12,314
Due to affiliates	20,133	665	533	276	24,846	18	293	(46,764)	—
Total current liabilities	22,921	1,718	36,777	276	26,344	5,198	619	(46,764)	47,089
Estimated self-insured professional and general liability claims	19,672	—	—	—	—	—	—	—	19,672
Long-term debt, excluding current installments and unamortized bond discounts and premiums	—	—	130,322	—	—	—	—	—	130,322
Other long-term liabilities	—	—	832	—	—	—	—	—	832
Total liabilities	42,593	1,718	167,931	276	26,344	5,198	619	(46,764)	197,915
Net assets:									
Unrestricted	17,284	1,268	187,243	2,419	5,068	2,536	—	(22,650)	193,168
Temporarily restricted	—	—	2,804	—	—	—	—	—	2,804
Permanently restricted	—	—	5,747	324	—	—	—	—	6,071
Total net assets	17,284	1,268	195,794	2,743	5,068	2,536	—	(22,650)	202,043
Total liabilities and net assets	$ 59,877	2,986	363,725	3,019	31,412	7,734	619	(69,414)	399,958

See accompanying independent auditors' report.

Schedule 2

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidating Schedule – Statement of Operations Information

Year ended September 30, 2007

(Amounts in thousands)

	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross Managed Care Organization	Silver Cross Medical Associates, Inc.	Eliminations	Consolidated
Revenue:									
Net patient service revenue	$ —	1,913	208,041	—	—	—	4,094	(2,801)	211,247
Other revenue	6,376	1,904	2,464	—	2,144	19,714	86	(7,800)	24,888
Total revenue	6,376	3,817	210,505	—	2,144	19,714	4,180	(10,601)	236,135
Expenses:									
Salaries and wages	3,699	1,199	68,909	—	—	—	1,956	(457)	75,306
Payroll taxes and fringe benefits	1,128	256	19,643	—	—	—	211		21,238
General and administrative	1,996	1,947	44,488	—	1,871	19,561	1,697	(10,144)	61,416
Supplies	—	320	33,805	—	—	—	—		34,125
Provision for bad debts	—	25	17,391	—	—	—	316	—	17,732
Depreciation	813	91	11,120	—	1,734	—	—	—	13,758
Interest	—	—	5,442	—	—	—	—	—	5,442
Total expenses	7,636	3,838	200,798	—	3,605	19,561	4,180	(10,601)	229,017
Income (loss) from operations	(1,260)	(21)	9,707	—	(1,461)	153	—	—	7,118
Nonoperating gains:									
Investment income, net	768	—	23,682	1	—	—	—	—	24,451
Unrestricted contributions and other, net	—	—	219	13	1,100	—	—	—	1,332
Total nonoperating gains, net	768	—	23,901	14	1,100	—	—	—	25,783
Revenue and gains in excess (deficient) of expenses	(492)	(21)	33,608	14	(361)	153	—	—	32,901
Other changes in unrestricted net assets:									
Change in net unrealized gains and losses on other-than-trading securities	165	—	(339)	—	—	—	—	—	(174)
Change in fair value of derivative instrument	—	—	694	—	—	—	—	—	694
Designation of investments as trading	97	—	(10,225)	—	—	—	—	—	(10,128)
Net assets released from restriction for land, building, and equipment acquisitions financed by temporarily restricted net assets	—	—	1,787	—	—	—	—	—	1,787
Increase (decrease) in unrestricted net assets	$ (230)	(21)	25,525	14	(361)	153	—	—	25,080

See accompanying independent auditors' report.

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ATTACHMENT-75

Schedule 3

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidating Schedule – Changes in Net Assets Information

Year ended September 30, 2007

(Amounts in thousands)

	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross Managed Care Organization	Silver Cross Medical Associates, Inc.	Eliminations	Consolidated
Increase (decrease) in unrestricted net assets	$ (230)	(21)	25,525	14	(361)	153	—	—	25,080
Temporarily restricted net assets:									
Contributions for specific purposes	—	—	369	—	—	—	—	—	369
Net realized and unrealized gains and losses on temporarily restricted investments	—	—	151	—	—	—	—	—	151
Net assets released from restriction for operating purposes	—	—	(71)	—	—	—	—	—	(71)
Net assets released from restriction for land, building, and equipment acquisitions	—	—	(1,787)	—	—	—	—	—	(1,787)
Decrease in temporarily restricted net assets	—	—	(1,338)	—	—	—	—	—	(1,338)
Permanently restricted net assets:									
Net realized and unrealized gains and losses on permanently restricted investments	—	—	385	14	—	—	—	—	399
Increase in permanently restricted net assets	—	—	385	14	—	—	—	—	399
Change in net assets	(230)	(21)	24,572	28	(361)	153	—	—	24,141
Net assets at beginning of year	17,514	1,289	171,222	2,715	5,429	2,383	—	(22,650)	177,902
Net assets at end of year	$ 17,284	1,268	195,794	2,743	5,068	2,536	—	(22,650)	202,043

See accompanying independent auditors' report.

KPMG

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidated Financial Statements and Schedules

September 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

KPMG

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Boards of Directors
Silver Cross Health System
and Affiliates:

We have audited the accompanying consolidated balance sheets of Silver Cross Health System and affiliates as of September 30, 2006 and 2005, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Silver Cross Health System and affiliates' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Silver Cross Health System and affiliates' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Silver Cross Health System and affiliates as of September 30, 2006 and 2005, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 14 to the consolidated financial statements, Silver Cross Health System and affiliates adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, for asbestos removal costs in 2006.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included in Schedules 1 through 3 is presented for purposes of additional analysis of the 2006 consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual organizations. The 2006 consolidating information has been subjected to the auditing procedures applied in the audit of the 2006 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 consolidated financial statements taken as a whole.

KPMG LLP

December 8, 2006

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Liabilities and Net Assets		2006	2005
Current liabilities:			
Current installments of long-term debt	$	2,620	2,340
Accounts payable		16,410	20,398
Accrued salaries and wages		9,524	8,857
Accrued expenses		2,192	2,461
Estimated payables under third-party reimbursement programs		13,627	11,414
Total current liabilities		44,373	45,470
Estimated self-insured professional and general liability claims		14,075	17,848
Long-term debt, excluding current installments and unamortized bond discounts and premiums		133,123	75,286
Other long-term liabilities		1,881	—
Total liabilities		193,452	138,604
Net assets:			
Unrestricted		168,088	154,504
Temporarily restricted		4,142	3,393
Permanently restricted		5,672	5,437
Total net assets		177,902	163,334
Commitments and contingent liabilities			
Total liabilities and net assets	$	371,354	301,938

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Operations

Years ended September 30, 2006 and 2005

(In thousands)

		2006	2005
Revenue:			
Net patient service revenue	$	186,024	176,060
Other revenue		24,786	23,136
Total revenue		210,810	199,196
Expenses:			
Salaries and wages		68,225	62,016
Payroll taxes and fringe benefits		20,054	18,350
General and administrative		47,992	49,783
Supplies		31,257	28,819
Provision for bad debts		18,365	18,258
Depreciation		11,473	10,465
Interest		5,254	3,533
Total expenses		202,620	191,224
Income from operations		8,190	7,972
Nonoperating gains (losses):			
Investment income, net		6,822	2,800
Unrestricted contributions and other, net		709	1,088
Loss on early extinguishment of long-term debt		(3,775)	—
Total nonoperating gains, net		3,756	3,888
Revenue and gains in excess of expenses		11,946	11,860
Other changes in unrestricted net assets:			
Change in net unrealized gains and losses on other-than-trading securities		2,552	3,079
Change in fair value of derivative instruments		(175)	—
Cumulative effect of change in accounting principle		(870)	—
Net assets released from restriction for land, building, and equipment acquisitions financed by temporarily restricted net assets		131	374
Increase in unrestricted net assets	$	13,584	15,313

See accompanying notes to consolidated financial statements.

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2006 and 2005

(In thousands)

		2006	2005
Increase in unrestricted net assets	$	13,584	15,313
Temporarily restricted net assets:			
Contributions for specific purposes		930	1,148
Net realized and unrealized gains and losses on temporarily restricted investments		59	83
Net assets released from restriction for operating purposes		(109)	(414)
Net assets released from restriction for land, building, and equipment acquisitions		(131)	(374)
Increase in temporarily restricted net assets		749	443
Permanently restricted net assets:			
Net realized and unrealized gains and losses on permanently restricted investments		235	287
Increase in permanently restricted net assets		235	287
Change in net assets		14,568	16,043
Net assets at beginning of year		163,334	147,291
Net assets at end of year	$	177,902	163,334

See accompanying notes to consolidated financial statements.

SILVER CROSS HEALTH SYSTEM
AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended September 30, 2006 and 2005

(In thousands)

		2006	2005
Cash flows from operating activities:			
Change in net assets	$	14,568	16,043
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Cumulative effect of change in accounting principle		870	—
Depreciation and amortization		11,536	10,564
Provision for bad debts		18,365	18,258
Loss on extinguishment of long-term debt		3,775	—
Equity gain in joint ventures, net of cash distributions received		(289)	(367)
Change in fair value of derivative instruments		175	—
Gain on disposal of land, buildings, and equipment, net		(633)	—
Contributions for and investment return earned on permanently restricted net assets		(235)	(287)
Change in net unrealized gains and losses on other-than-trading securities		(2,552)	(3,079)
Changes in assets and liabilities:			
Patient accounts receivable		(21,073)	(17,610)
Other assets		463	938
Estimated payables under third-party reimbursement programs		2,213	2,722
Accounts payable, accrued expenses, and other liabilities		(6,527)	11,264
Net cash provided by operating activities		20,656	38,446
Cash flows from investing activities:			
Acquisition of land, buildings, and equipment		(32,360)	(32,827)
Acquisition of land held for sale		(5,256)	(348)
Net change in assets whose use is limited or restricted		(37,718)	(2,229)
Net change in short-term investments		4,381	1,604
Net cash used in investing activities		(70,953)	(33,800)
Cash flows from financing activities:			
Proceeds from the issuance of long-term debt		124,640	—
Repayments of long-term debt		(71,816)	(2,219)
Payments for deferred financing costs		(780)	—
Net cash provided by (used in) financing activities		52,044	(2,219)
Net increase in cash and cash equivalents		1,747	2,427
Cash and cash equivalents at beginning of year		11,269	8,842
Cash and cash equivalents at end of year	$	13,016	11,269
Supplemental disclosure of eash flow information:			
Cash paid for interest, exclusive of income or loss on interest rate swap agreements and net of amounts capitalized	$	5,269	3,390

See accompanying notes to consolidated financial statements.

(1) Organization and Purposes

Silver Cross Health System (Health System) was incorporated during 1981 for charitable, educational, and scientific purposes to support health and human services by providing management assistance, and in all other relevant ways. The accompanying consolidated financial statements include the accounts of the Health System and the following affiliates, which it controls (collectively referred to as the Corporations):

- Silver Cross Hospital and Medical Centers (Hospital), a not-for-profit acute care hospital of which the Health System is the sole member.
- Silver Cross Foundation (Foundation), a not-for-profit corporation of which the Health System is the sole member, which is dedicated to the advancement of healthcare in Will, Grundy, South Cook, and DuPage counties in Illinois.
- Health Service Systems, Inc. (HSSI), a wholly owned subsidiary of the Health System, which was incorporated to provide administrative and management services to its affiliates and other businesses.
- Midwest Community Real Estate Corporation (MCREC), a not-for-profit corporation of which the Health System is the sole member, which was incorporated to establish and maintain healthcare centers and other facilities for the benefit of the Health System and its affiliates.
- Silver Cross Managed Care Organization (SCMCO), a not-for-profit corporation of which the Health System is the sole member, which was incorporated to provide alternative forms of healthcare delivery services.
- Silver Cross Medical Associates, Inc. (SCMA), a not-for-profit corporation that operates medical practices in Joliet and surrounding areas. MCREC serves as the sole and exclusive manager and administrator for all matters relating to the operations of SCMA, including but not limited to the financial and management operations of SCMA.

The Corporations engage in transactions in the ordinary course of business with organizations with which members of management and the boards of directors are affiliated. Such transactions are conducted at arm's length and fully disclosed to the respective members of management and boards of directors.

All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

(2) Summary of Significant Accounting Policies

Significant accounting policies of the Corporations, which conform to general practice within the healthcare industry are as follows:

- The preparation of financial statements in accordance with U.S. generally accepted accounting principles 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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

- The consolidated statements of operations include revenue and gains in excess of expenses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue and expenses. Transactions incidental to the provision of healthcare services are reported as gains and losses. Changes in unrestricted net assets, which are excluded from revenue and gains in excess of expenses, consistent with industry practice, include net changes in unrealized gains and losses on investments other than trading securities, 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), changes in the effective portion of derivative instruments designated as cash flow hedges, and cumulative effects of changes in accounting principles.
- Assets whose use is limited or restricted include: assets set aside by the Corporations' boards of directors for future capital improvements, self-insurance funding, and for other purposes over which the boards retain control and may at their discretion use for other purposes; assets designated by the Foundation's board of directors for endowment development purposes; assets held by a trustee and limited as to use in accordance with the requirements of bond indenture agreements; pledges receivable; and temporarily and permanently restricted investments held in trust. Assets whose use is limited required for current liabilities are reported as current assets.
- Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenue and gains in excess of expenses unless the income or loss is restricted by donors, in which case the investment income is recorded directly to temporarily or permanently restricted net assets. Investment income of unrestricted investments is reported as nonoperating gains. Unrealized gains and losses on investments are excluded from revenue and gains in excess of expenses unless the investments are classified by management as trading securities. Unrealized gains and losses of permanently and temporarily restricted investments are recorded directly to permanently and temporarily restricted net assets.
- The Corporations consider demand deposits with banks, cash on hand, and all highly liquid debt instruments (including repurchase agreements) purchased with terms of three months or less to be cash and cash equivalents, excluding those instruments classified as assets whose use is limited or restricted.
- Except as otherwise noted, the carrying value of all financial instruments of the Corporations approximates their fair value.
- Land, buildings, and equipment are stated at cost, or if donated, at fair value at date of donation. Depreciation is provided over the estimated useful lives of depreciable assets and is computed on the straight-line method.
- Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. All contributions are considered to be available for unrestricted use unless specifically restricted by donors. Contributions are reported as direct additions to permanently or temporarily restricted net assets if they are received with donor stipulations that limit the use of the donated

(Continued)

assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restriction. Temporarily restricted net assets used for operating purposes are included with other operating revenue to the extent expended during the period. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Donor-restricted contributions whose restrictions are met within the same year as received are reported directly within the consolidated statements of operations.

- Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Temporarily restricted net assets include the Hospital's interest in a charitable remainder trust. Investment income of the charitable remainder trust is distributable within specified limits to an unrelated party. All other temporarily restricted net assets are restricted primarily for land, building, and equipment acquisitions at both September 30, 2006 and 2005.

- Permanently restricted net assets represent donor-restricted contributions, the principal amount of which may not be expended. Permanently restricted net assets include the Foundation's interest in a charitable remainder trust. Investment income of the charitable remainder trust is distributable within specified limits to an unrelated party. Investment income earned on permanently restricted net assets, to the extent it is restricted by a donor for a specific purpose, is recorded as a direct addition to temporarily restricted net assets. All other investment income on permanently restricted net assets is unrestricted and is recorded as nonoperating gains.

- Provisions for estimated self-insured professional, general liability, workers' compensation, and employee healthcare risks include estimates of the ultimate cost of both reported losses and losses incurred but not reported as of the respective consolidated balance sheet dates.

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

- Certain proceeds received by the Hospital from issuance of revenue bonds are included in assets whose use is limited by the board for capital improvements. Since all investment income earned on such assets is classified as nonoperating gains, all interest expense and amortization of bond issuance costs on a related portion of such revenue bonds ($97 and $551 for 2006 and 2005, respectively) are netted against investment income in the accompanying consolidated statements of operations.

- Deferred finance charges and unamortized bond discounts and premiums are amortized using the straight-line method over the periods the related obligations are outstanding.

- The Health System, the Hospital, MCREC, the Foundation, and SCMA are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. A provision for income taxes has not been recorded for HSSI as there are net operating losses of approximately

$17,278 available for carryforward, which expire at various future dates through 2023. SCMCO is a not-for-profit corporation, which is subject to federal and state income taxes. A provision for income taxes has not been recorded for SCMCO as there are net operating losses of approximately $889 available for carryforward, which expire at various future dates through 2012. Deferred tax assets arising primarily from net operating loss carryforwards have been offset in their entirety by a valuation allowance at both September 30, 2006 and 2005. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

- The Corporations incur expenses for the provision of healthcare services and related general and administrative activities.
- Certain prior year amounts have been reclassified to conform with the 2006 consolidated financial statement presentation.

Other significant accounting policies are set forth in the consolidated financial statements and in the following notes.

(3) Third-Party Reimbursement Programs

The Hospital, HSSI, SCMCO, and SCMA (collectively referred to as the Providers) have agreements with third-party payors that provide for reimbursement at amounts different from their established rates. Estimated contractual adjustments arising under third-party reimbursement programs principally represent the differences between the Providers' billings at list price and the amounts reimbursed by Medicare, Blue Cross, and certain other contracted third-party payors; the difference between the Providers' billings at list price and the allocated cost of services provided to Medicaid patients; and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. A summary of the reimbursement methodologies with major third-party payors follows:

Medicare

The Hospital is paid for inpatient acute care, outpatient, rehabilitative, and home health services rendered to Medicare program beneficiaries under prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The prospectively determined rates are not subject to retroactive adjustment. The Hospital's classification of patients under the prospective payment systems and the appropriateness of patient admissions are subject to validation reviews.

For certain services rendered to Medicare beneficiaries, the Providers' reimbursement is based upon cost or other reimbursement methodologies. The Providers are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Medicare reimbursement reports through September 30, 2004 have been audited and final settled by the Medicare fiscal intermediary.

Medicaid

The Hospital is paid for inpatient acute care services rendered to Medicaid program beneficiaries under prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicaid outpatient services are reimbursed based on fee schedules. Medicaid reimbursement methodologies may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the State of Illinois Medicaid program and any such changes could have a significant effect on the Hospital's revenues. During 2004, the State of Illinois (the State) enacted an assessment program to assist in the financing of its Medicaid program through June 30, 2005. Pursuant to this program, hospitals within the State are required to remit payment to the State of Illinois Medicaid program under an assessment formula approved by the Centers for Medicare & Medicaid Services (CMS). The assessment program also provides hospitals within the State with additional Medicaid reimbursement based on funding formula also approved by CMS. The Hospital has included its 2005 related assessment of $4,611 and its additional related reimbursement of $8,845 within net patient service revenue in the accompanying 2005 consolidated statement of operations. No assessment amounts have been recorded subsequent to June 30, 2005 as no assessment program subsequent to June 30, 2005 has been approved by CMS as of September 30, 2006.

Blue Cross

The Hospital also participates as a provider of healthcare services under a reimbursement agreement with Blue Cross. The provisions of this agreement stipulate that services will be reimbursed at a tentative reimbursement rate and that final reimbursement for these services is determined after the submission of an annual cost report by the Hospital and a review by Blue Cross. The Blue Cross reimbursement reports for 2005 and prior years have been reviewed by Blue Cross.

Other

The Providers have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements is negotiated by the Providers and includes prospectively determined rates-per-discharge, discounts from established charges, capitation, and prospectively determined per diem rates.

SCMCO is involved in various risk-based contracts with managed care organizations. Under these arrangements, SCMCO receives capitation payments based on the demographic characteristics of covered members in exchange for providing all primary care physician services, as well as certain outpatient diagnostic and specialist physician services. Additionally, SCMCO is eligible for incentive payments based on favorable utilization experience. Capitation revenue related to risk-based contracts totaled approximately $14,439 and $13,482 for 2006 and 2005, respectively, and is included with other revenue in the accompanying consolidated statements of operations. Pursuant to risk-based contracts, SCMCO estimates its liability for covered medical claims, including claims incurred but not reported as of the consolidated balance sheet dates, based upon historical costs incurred and payment processing experience. This liability approximated $1,320 and $1,502 at September 30, 2006 and 2005, respectively, and is included with accounts payable in the accompanying consolidated balance sheets.

(Amounts in thousands)

Net patient service revenue for the year ended September 30, 2006 includes approximately $900 of favorable retrospectively determined prior year settlements with third-party payors.

A summary of the Providers' utilization percentages based upon gross patient service revenue follows:

	2006	**2005**
Medicare	43.6%	42.7%
Medicaid	13.5	13.2
Managed care	34.7	35.8
Other	8.2	8.3
	100.0%	100.0%

(Amounts in thousands)

Changes in unrealized gains during the holding period are attributable to other-than-trading securities, and, accordingly, are excluded from the determination of revenue and gains in excess of expenses. Investment returns are included in the accompanying consolidated statements of operations and changes in net assets for 2006 and 2005 as follows:

		2006	2005
Nonoperating gains – investment income	$	6,919	3,351
Other changes in unrestricted net assets:			
Change in net unrealized gains and losses on other than trading securities		2,552	3,079
Net realized and unrealized gains and losses on temporarily restricted investments		59	83
Net realized and unrealized gains and losses on permanently restricted investments		235	287
Interest income offset against capitalized interest cost		198	—
	$	9,963	6,800

The composition of temporarily impaired investments and length of time such investments were in an unrealized loss position as of September 30, 2006 and 2005 follows:

		Less than twelve months		Twelve months or longer		Total	
September 30, 2006		Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Common stock	$	69	3	9,390	155	9,459	158
U.S. Treasury securities		2,600	19	1,861	44	4,461	63
Corporate bonds and notes		1,748	26	28,236	775	29,984	801
	$	4,417	48	39,487	974	43,904	1,022

		Less than twelve months		Twelve months or longer		Total	
September 30, 2005		Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Common stock	$	80	3	7,832	133	7,912	136
U.S. Treasury securities		1,952	15	1,234	31	3,186	46
Corporate bonds and notes		27,226	479	7,277	257	34,503	736
	$	29,258	497	16,343	421	45,601	918

(Amounts in thousands)

Temporarily impaired investments at September 30, 2006 and 2005 consist primarily of common stock, U.S. Treasury securities, and corporate bonds and notes, which are in temporarily impaired positions primarily due to market conditions over the past few years. Management of the Corporations believes the impairments are temporary in nature due to market conditions combined with their typical buy and hold strategy employed on such investments.

(7) Land, Buildings, and Equipment

A summary of land, buildings, and equipment at September 30, 2006 and 2005 follows:

	2006		2005	
	Cost	**Accumulated depreciation**	**Cost**	**Accumulated depreciation**
Land	$ 31,341	—	21,750	—
Land improvements	5,118	3,525	5,081	3,312
Buildings, building improvements, and fixed equipment	160,164	75,969	140,231	70,496
Major movable equipment	72,018	50,024	62,961	44,366
Construction in progress	14,185	—	20,635	—
	$ 282,826	129,518	250,658	118,174

The Corporations are currently engaged in various construction and renovation projects to be financed through operations, bond proceeds, and donor contributions. Outstanding commitments related to these projects approximate $16,743 at September 30, 2006. Interest cost is capitalized as a component cost of significant capital projects to the extent that such interest expense exceeds interest income earned on any project-specific borrowed funds. During the years ended September 30, 2006 and 2005, the Corporations capitalized net interest cost of $320 and $0, respectively, which is comprised of capitalized interest cost of $518 and $0, respectively, net of interest income of $198 and $0, respectively.

(Amounts in thousands)

(8) Long-Term Debt

A summary of long-term debt at September 30, 2006 and 2005 follows:

		2006	2005
Illinois Finance Authority Revenue Bonds, Series 2005A, at varying effective interest rates from 4.00% to 5.25%, depending upon date of maturity through 2020	$	21,665	—
Illinois Finance Authority Auction Rate Revenue Bonds, Series 2005B, effective interest rate of 2.64% in 2006		69,350	—
Illinois Finance Authority Auction Rate Revenue Bonds, Series 2005C, effective interest rate of 2.66% in 2006		22,325	—
Illinois Finance Authority Auction Rate Revenue Bonds, Series 2005D, effective interest rate of 2.62% in 2006		10,625	—
Revenue bonds, Series 2002A, interest at a tax-exempt variable rate determined weekly, effective interest rate of 2.70% in 2006 and 2.17% in 2005, retired in 2006		—	18,900
Revenue bonds, Series 2002B, interest at a taxable variable rate determined weekly, effective interest rate of 3.87% in 2006 and 3.20% in 2005, retired in 2006		—	11,300
Revenue refunding bonds, Series 1999, at varying effective interest rates from 5.43% to 5.65%, depending upon date of maturity through 2019		8,470	25,390
Revenue bonds, Series 1996, at varying effective interest rates from 4.60% to 6.22%, depending upon date of maturity through 2009		2,330	22,895
Total long-term debt		134,765	78,485
Less:			
Current installments		2,620	2,340
Unamortized bond discounts and premiums		(978)	859
Long-term debt, excluding current installments, and unamortized bond discounts and premiums	$	133,123	75,286

The Hospital and the Health System (collectively known as the Obligated Group) entered into an Amended and Restated Master Trust Indenture (Master Trust Indenture) dated as of June 1, 1996, as subsequently supplemented and amended. The purpose of the Master Trust Indenture is to provide a mechanism for the efficient and economical issuance of notes by individual members of the Obligated Group using the collective borrowing capacity and credit rating of the Obligated Group. The Master Trust Indenture requires members of the Obligated Group to make principal and interest payments on notes issued for their benefit as well as other Obligated Group members, if the other members are unable to make such payments. The Obligated Group pledged a security interest in their unrestricted receivables as collateral on borrowings under the Master Trust Indenture.

On December 8, 2005, the Illinois Finance Authority issued fixed rate revenue bonds, Series 2005A, and auction rate revenue bonds, Series 2005B, Series 2005C, and Series 2005D (collectively referred to as the Series 2005 bonds) in the aggregate amount of $124,640 on behalf of the Hospital. A portion of the proceeds from the Series 2005 bond issuance were used to advance refund the revenue bonds Series 2002A and Series 2002B, and to advance refund portions of the revenue refunding bonds Series 1999 and the revenue bonds Series 1996. The transactions to advance refund such debt resulted in a loss of $3,775, which is included with nonoperating losses in the 2006 consolidated statement of operations. The remaining proceeds were used for the purposes of acquiring real property, constructing various healthcare facilities, provide debt service reserve funds, and to pay issuance costs. Principal on the bonds is payable annually, commencing on August 15, 2006. Interest on the Series 2005A bonds is payable semi annually at effective fixed rates between 4.00% and 5.25%, and interest on the Series 2005B, Series 2005C, and Series 2005D bonds is payable weekly at auction rates. Holders of the Series 2005B, Series 2005C, and Series 2005D bonds may request repayment prior to maturity through the bond auction process, however, the auction rate bonds are not secured by a liquidity facility agreement. The Hospital may change auction frequency or convert such bonds to a fixed rate subject to the conditions in the Bond Trust Indentures. The Series 2005 bonds were issued pursuant to four separate Bond Trust Indentures, each dated as of November 1, 2005. Under the terms of the related Bond Trust Indentures, the Hospital is required to maintain certain reserve funds, and make additional deposits with a trustee for the payment of principal and interest on the Series 2005 bonds. Payment of principal and interest on the Series 2005 bonds when due is guaranteed under municipal bond insurance policies.

On October 28, 2002, the Illinois Finance Authority issued revenue bonds, Series 2002A&B, in the aggregate amount of $31,300 on behalf of the Health System. The Series 2002A&B bonds were issued pursuant to the Master Trust Indenture. Principal payments are due each August 15, and interest is payable monthly at a tax-exempt variable rate for the Series 2002A bonds and at a taxable variable rate for the Series 2002B bonds. Under the terms of the related Bond Indenture, the Health System was required to maintain certain reserve funds, and make additional deposits with a trustee for the payment of principal and interest on the Series 2002A&B bonds. The Series 2002A&B bonds were further secured by a letter of credit with a commercial bank. The Series 2002A&B bond proceeds were used to finance the construction of a cardiovascular institute and specialty care pavilion and to finance future acquisitions of equipment. The Series 2002A&B bonds were advance refunded in 2006.

On April 22, 1999, the Illinois Finance Authority issued revenue refunding bonds, Series 1999, in the amount of $29,105 on behalf of the Hospital. The Series 1999 bonds were issued pursuant to the Master Trust Indenture. Principal payments are due each August 15, and interest is payable semiannually on February 15 and August 15. Under the terms of the related Bond Indenture, the Hospital is required to maintain certain reserve funds, and make additional deposits with a trustee for the payment of principal and interest on the Series 1999 bonds. The Series 1999 bond proceeds were issued to advance refund certain outstanding debt and to finance various construction and renovation projects throughout the Hospital.

On June 25, 1996, the Illinois Finance Authority issued revenue bonds, Series 1996, in the amount of $29,875 on behalf of the Hospital. The Series 1996 bonds were issued pursuant to the Master Trust Indenture. Principal payments are due each August 15, and interest is payable semiannually on February 15 and August 15. Under the terms of the related Bond Indenture, the Hospital is required to maintain certain reserve funds and make additional deposits with a trustee for the payment of principal and interest on the Series 1996 bonds. Payment of principal and interest on the Series 1996 bonds when due is guaranteed under a municipal bond insurance policy.

(Amounts in thousands)

At September 30, 2006 and 2005, the fair value of total long-term debt was approximately $138,033 and $80,273, respectively. Fair value was estimated using quoted market prices based upon the Obligated Group's current borrowing rates for similar types of long-term debt securities.

Scheduled annual principal payments on long-term debt for the ensuing five years are as follows:

		Amount
Year:		
2007	$	2,620
2008		2,760
2009		2,840
2010		2,985
2011		3,165

(9) Derivative Instruments and Hedging Activities

The Hospital has interest rate related derivative instruments to manage its exposure on debt instruments. By using derivative financial instruments to hedge exposures to changes in interest rates, the Hospital exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the Hospital, which creates credit risk for the Hospital. When the fair value of a derivative contract is negative, the Hospital owes the counterparty and, therefore, it does not possess credit risk. The Hospital minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Hospital management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

2002 Interest Rate Swap Agreement

During 2002, the Hospital entered into an agreement to convert portions of its fixed rate debt portfolio from a fixed to variable rate. Under this agreement, the Hospital receives a variable rate of return, based upon 68.75% of the three-month USD-LIBOR-BBA rate on a notional amount of $15,000,000, and is obligated to pay the financial institution a variable rate of return, based upon the weekly BMA Municipal Swap Index rate, on the same notional amount. The 2002 interest rate swap agreement has a maturity date of February 6, 2014.

The 2002 interest rate swap does not meet the criteria to qualify for hedge accounting; accordingly, the fair value of the interest rate swap derivative instrument is recognized within the consolidated balance sheets with changes in the fair value of the derivative instrument reported within income from operations. Payments equal to the differential between the amounts due to and due from the financial institution are computed and exchanged quarterly. The differential to be paid or received under the interest rate swap agreement is recognized within interest expense on a current basis. The net interest rate differential received (paid) by the Hospital as a result of the 2002 interest rate swap agreement during 2006 and 2005 of approximately $19 and $(24), respectively, has been included as a reduction (addition) to interest expense in the accompanying consolidated statements of operations. Fair value of the interest rate swap agreement was an asset (liability) of $56 and $(232) at September 30, 2006 and 2005, respectively, and is included with other receivables in the accompanying consolidated balance sheets. The change in fair value of the interest rate swap agreement of $288 in 2006 and $22 in 2005 has been recorded as a reduction of interest expense. Fair value of the interest rate swap agreement was estimated using a discounted present value methodology and current projected interest rates.

2005 Interest Rate Swap Agreement

The Hospital entered into an interest rate swap agreement in November 2005 to manage fluctuations in cash flows resulting from interest rate risk on its auction rate Series 2005B debt, with a notional amount of $69,350. The notional amounts and maturity dates of the 2005 interest rate swap agreement correlate with principal repayments on the underlying Series 2005B debt. The swap agreement changes the variable-rate cash flow exposure on the Series 2005B debt to fixed cash flows. Under the terms of the interest rate swap agreement, the Hospital receives, on a weekly basis, payments at 62% of one-month LIBOR plus 15 basis points. In exchange for this indexed payment received, the Hospital pays, on a weekly basis, an annualized fixed rate of 3.437%. With the issuance of the Series 2005 debt, the 2005 interest rate swap agreement was designated as a cash flow hedge instrument and, accordingly, the change in fair value of the 2005 interest rate swap agreement is recognized directly to unrestricted net assets for the effective portion of the hedge.

The fair value of the Series 2005 interest rate swap agreement of $(175) at September 30, 2006 is included as a component of other long-term liabilities in the accompanying 2006 consolidated balance sheet. The net interest rate differential paid by the Hospital as a result of the Series 2005 interest rate swap agreement of approximately $92 has been included within interest expense in the accompanying 2006 consolidated statement of operations. The change in fair value of the Series 2005 interest rate swap agreement of $175 has been recorded as a direct reduction to unrestricted net assets in the accompanying 2006 consolidated statement of operations.

2005B Basis Swap Agreement

On June 2, 2006, the Hospital entered into interest rate swap agreements on the Series 2005B debt (Basis Swaps) with two commercial banks. The Basis Swaps have effective dates of February 15, 2007. The Basis Swaps each have a notional amount of $34,675 whereby the Hospital will receive, on a monthly basis, 60.2854% of USD-ISDA Swap Rate, and will make weekly payments at 62.5% of one-month LIBOR plus 15 basis points. The Basis Swaps have notional amounts and maturity dates, which correlate with principal repayments on the underlying Series 2005B debt. Fair value of the Basis Swaps was a liability of $836 at

September 30, 2006 and in included with other long-term liabilities in the accompanying 2006 consolidated balance sheet. The change in fair value of the Basis Swaps of $836 has been recorded as an addition to interest expense in the accompanying 2006 consolidated statement of operations.

(10) Pension Plans

The Health System, HSSI, and the Hospital sponsor various voluntary, defined contribution, money purchase pension plans for all qualified full-time employees. Benefits for individual employees are the amounts, which can be provided by the sums contributed and accumulated for each individual employee. The Health System, HSSI, and the Hospital recognized expense under the terms of the plans in the amount of $2,532 and $2,358 for 2006 and 2005, respectively. The Health System, HSSI, and the Hospital fund the plans on a current basis.

The Health System also sponsors several supplemental retirement plans. Eligibility for these plans is limited to specified employees. The supplemental plans are defined benefit plans and are not qualified plans under Section 401 of the Code. The Health System has recognized expense under the terms of these supplemental retirement plans in the amount of $510 and $527 for 2006 and 2005, respectively. Amounts owed to specified employees under the supplemental retirement plans are included with accrued salaries and wages.

(11) Self-Insured Risks

Professional and General Liability

The Corporations maintain a self-insurance program for professional and general liability coverage. The self-insurance program includes varying levels of self-insured retention and excess malpractice insurance coverage purchased from commercial insurance carriers. In connection with the self-insurance program, the Corporations have engaged the services of a professional actuarial consultant to assist in the estimation of self-insurance provisions and claim liability reserves.

Provisions for estimated self-insured professional and general liability claims include estimates of the ultimate cost of both reported losses and losses incurred but not reported. It is the opinion of management that the estimated professional and general liabilities accrued at September 30, 2006 and 2005 are adequate to provide for the ultimate cost of potential losses resulting from pending or threatened litigation; however, such estimates may be more or less than the amounts ultimately paid when claims are resolved. The Corporations have also designated attorneys to handle legal matters relating to malpractice and general liability claims. The portion of the accrual for estimated self-insured professional and general liability claims expected to be paid within one year of the consolidated balance sheet dates is not readily determinable and, therefore, the entire accrual is classified as a noncurrent liability. The liability for estimated self-insured professional and general liability claims has been discounted at 5% and 6% as of September 30, 2006 and 2005, respectively.

Workers' Compensation

The Health System, HSSI, and the Hospital maintain a self-insurance program for workers' compensation coverage. This program limits the self-insured retention to $300 per occurrence. Coverage from commercial insurance carriers is maintained for claims in excess of the self-insured retention. Provisions for workers' compensation claims amounted to $1,220 and $1,691 for 2006 and 2005, respectively, and are included with payroll taxes and fringe benefits expense. Management believes the estimated self-insured workers' compensation claims liability at September 30, 2006 and 2005 is adequate to cover the ultimate liability; however, such estimates may be more or less than the amounts ultimately paid when claims are resolved.

HealthCare

The Health System, HSSI, and the Hospital also have a program of self-insurance for employee healthcare coverage. Stop-loss reinsurance coverage is maintained for claims in excess of stop-loss limits. Provisions for self-insured employee healthcare claims amounted to $9,597 and $8,307 for 2006 and 2005, respectively, and are included with payroll taxes and fringe benefits expense. It is the opinion of management that the estimated healthcare costs accrued at September 30, 2006 and 2005 are adequate to provide for the ultimate liability; however, final payouts as claims are paid may vary significantly from estimated claim liabilities.

(12) Investment in Joint Ventures

Orland Park Surgical Center, L.L.C.

On January 15, 2001, the Hospital became a founding member of Orland Park Surgical Center, L.L.C. (the Center) whose purpose is to develop and operate an ambulatory surgery center in Orland Park, Illinois. The Hospital provided the Center with an initial $660,000 equity contribution, which satisfied the capital contribution provisions of the operating agreement. Pursuant to the operating agreement, profits and losses are allocated to the members in accordance with the proportion of their membership units to the aggregate membership units of the Center, of which the Hospital holds a 33% interest. Distributions will be made to members in accordance with the proportion of their membership units to the aggregate membership units of the Center. Distributions are payable by the Center at the discretion of the Center's board of managers to the extent of the availability of net cash flows. The Center became operational during 2002.

The Hospital accounts for its investment in the Center on the equity method of accounting. The Hospital has included its proportional share of Center net income of $519 and $595 in 2006 and 2005, respectively, within other operating revenue in the accompanying consolidated statements of operations. The Hospital received cash distributions from the Center of $621 and $438 in 2006 and 2005, respectively. As of and for the years ended September 30, 2006 and 2005, respectively, the Center had total assets of $4,020 and $4,255, members' equity of $2,653 and $2,984, revenue of $5,254 and $5,680, and net income of $1,573 and $1,803. The carrying value of the Hospital's investment in the Center is included with investment in joint ventures in the accompanying consolidated balance sheets.

SCHCI, L.L.C.

On February 14, 2002, the Hospital became a founding member of SCHCI, L.L.C. (SCHCI) whose purpose is to provide cardiovascular services jointly with a physician group. The Hospital provided SCHCI with an initial $275 equity contribution during 2003, which satisfied the capital contribution provisions of the operating agreement. The Hospital provided SCHCI with an additional $275 equity contribution during 2004. Pursuant to the operating agreement, profits and losses are allocated to the members in accordance with the proportion of their membership units to the aggregate membership units of SCHCI, of which the Hospital holds a 50% interest. Distributions are payable by SCHCI at the discretion of the Center's management board to the extent of the availability of net cash flows as defined in the agreement. The Center became operational during 2004.

The Hospital accounts for its investment in SCHCI on the equity method of accounting. The Hospital has included its proportional share of SCHCI net income of $1,116 and $710 in 2006 and 2005, respectively, as other operating revenue in the accompanying consolidated statements of operations. The Hospital received cash distributions from SCHCI of $715 and $500 in 2006 and 2005, respectively. As of and for the years ended September 30, 2006 and 2005, respectively, SCHCI had total assets of $4,139 and $4,508, members' equity of $3,234 and $2,431, revenue of $5,326 and $3,566, and net income of $2,232 and $1,420. The carrying value of the Hospital's investment in SCHCI is included with investment in joint ventures in the accompanying 2006 and 2005 consolidated balance sheets. Included in other receivables are $51 and $127 of advances due from SCHCI as of September 30, 2006 and 2005, respectively.

(13) Contingencies

Medicare Reimbursement

The Hospital recognized approximately $69,210 of net patient service revenue during 2006 from services provided to Medicare beneficiaries. Federal legislation has included provisions to modify Medicare payments to healthcare providers, as well as phase out cost-based reimbursement mechanisms to prospective payment methodologies. Changes in Medicare reimbursement as a result of the Centers for Medicare and Medicaid Services' implementation of the provisions of Medicare legislation may have an adverse effect on the Hospital's net patient service revenues.

Litigation

The Corporations are involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporations' financial position or results of operations.

Regulatory Investigations

The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and compliance audits of healthcare providers. The Corporations are subject to these regulatory efforts. Management is currently unaware of any regulatory matters, which may have a material adverse effect on the Corporations' financial position or results of operations.

Insurance Coverage

The Corporations are commercially insured for excess professional liability coverage, excess workers' compensation coverage, and employee health reinsurance coverage. There are no assurances that the Corporations will be able to renew existing policies or procure coverage on similar terms in the future.

(14) Asbestos Removal Costs

In March 2005, the Financial Accounting Standards Board issued interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 requires the current recognition of a liability when a legal obligation exists to perform an asset retirement obligation in which the timing or method of settlement are conditional on a future event that may or may not be under the control of the entity. FIN 47 requires an asset retirement obligation (ARO) liability be recorded at its net present value with recognition of a related long-lived asset in a corresponding amount. The ARO liability is accreted at a rate of 4% through periodic charges to depreciation expense. The initially capitalized ARO long-lived asset is depreciated over the corresponding long-lived asset's remaining useful life. The Corporations adopted FIN 47 effective as of September 30, 2006.

The Corporations are legally liable to remove asbestos from existing buildings prior to future remodeling or demolishing of the existing buildings. The estimated asbestos removal cost at September 30, 2006 is $870 and is included with other long-term liabilities. The net book value of the ARO long-lived asset at September 30, 2006 is $0. The excess of the ARO liability over the net book value of the ARO long-lived asset at September 30, 2006 of $870 has been reported as a cumulative effect of a change in accounting principle.

Schedule 1

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidating Schedule – Balance Sheet Information

September 30, 2006

(In thousands)

Assets	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross Managed Care Organization	Silver Cross Medical Associates, Inc.	Eliminations	Consolidated
Current assets:									
Cash and cash equivalents	$ 513	669	5,485	87	213	6,039	10		13,016
Short-term investments	3,125	—	5,580	3	—	—	—		8,708
Assets whose use is limited or restricted, required for current liabilities	1	—	98	—	—	—	—		99
Patient accounts receivable, net	—	975	21,805	—	—	—	—		22,780
Due from affiliates	4,700	1,392	42,895	2,491	1,207	—	688	(53,373)	—
Other receivables	310	436	811	—	229	120	2		1,908
Inventory of supplies	—	—	157	—	—	—	—		157
Prepaid expenses and other	124	29	1,127	—	39	216	125		1,660
Total current assets	8,773	3,501	77,958	2,581	1,688	6,375	825	(53,373)	48,328
Assets whose use is limited or restricted, excluding assets required for current liabilities:									
By board for capital improvements, self-insurance, and other	17,198	—	80,767	—	—	—	—		97,965
Under bond indenture agreements – held by trustee	—	—	26,613	—	—	—	—		26,613
Pledges receivable	—	—	726	—	—	—	—		726
Donor-restricted investments	—	—	8,777	311	—	—	—		9,088
	17,198	—	116,883	311	—	—	—	—	134,392
Land, buildings, and equipment, net	10,876	36	112,876	—	29,520	—	—		153,308
Other assets:									
Land held for sale	—	—	28,873	—	—	—	—		28,873
Investments	22,650	—	—	—	—	—	—	(22,650)	—
Investment in joint ventures	—	—	2,489	—	—	—	—		2,489
Deferred finance charges	—	—	3,964	—	—	—	—		3,964
Total assets	$ 59,497	3,537	343,043	2,892	31,208	6,375	825	(76,023)	371,354

(Continued)

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidating Schedule – Balance Sheet Information

September 30, 2006

(In thousands)

Liabilities and Net Assets		Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross Managed Care Organization	Silver Cross Medical Associates, Inc.	Eliminations	Consolidated
Current liabilities:										
Current installments of long-term debt	$	—	—	2,620	—	—	—	—		2,620
Accounts payable		508	636	11,191	—	—	3,975	100		16,410
Accrued salaries and wages		1,425	161	7,433	—	—	—	505		9,524
Accrued expenses		282	244	370	—	1,296	—	—		2,192
Estimated payables under third-party reimbursement programs		—	—	13,627	—	—	—	—		13,627
Due to affiliates		25,693	1,207	1,576	177	24,483	17	220	(53,373)	—
Total current liabilities		27,908	2,248	36,817	177	25,779	3,992	825	(53,373)	44,373
Estimated self-insured professional and general liability claims		14,075	—	—	—	—	—	—		14,075
Long-term debt, excluding current installments and unamortized bond discounts and premiums		—	—	133,123	—	—	—	—		133,123
Other long-term liabilities		—	—	1,881	—	—	—	—		1,881
Total liabilities		41,983	2,248	171,821	177	25,779	3,992	825	(53,373)	193,452
Net assets:										
Unrestricted		17,514	1,289	161,718	2,405	5,429	2,383	—	(22,650)	168,088
Temporarily restricted		—	—	4,142	—	—	—	—		4,142
Permanently restricted		—	—	5,362	310	—	—	—		5,672
Total net assets		17,514	1,289	171,222	2,715	5,429	2,383	—	(22,650)	177,902
Total liabilities and net assets	$	59,497	3,537	343,043	2,892	31,208	6,375	825	(76,023)	371,354

See accompanying independent auditors' report.

Schedule 2

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidating Schedule – Statement of Operations Information

Year ended September 30, 2006

(In thousands)

	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross Managed Care Organization	Silver Cross Medical Associates, Inc.	Eliminations	Consolidated
Revenue:									
Net patient service revenue	$ —	1,177	184,095	—	—	—	3,388	(2,636)	186,024
Other revenue	6,025	2,074	3,224	—	2,495	17,326	298	(6,656)	24,786
Total revenue	6,025	3,251	187,319	—	2,495	17,326	3,686	(9,292)	210,810
Expenses:									
Salaries and wages	3,240	951	63,116	—	—	—	1,412	(494)	68,225
Payroll taxes and fringe benefits	984	215	18,717	—	—	—	138		20,054
General and administrative	1,958	1,673	32,134	—	1,894	17,240	1,891	(8,798)	47,992
Supplies	—	217	31,040	—	—	—	—		31,257
Provision for bad debts	—	8	18,112	—	—	—	245		18,365
Depreciation	723	14	9,298	—	1,438	—	—		11,473
Interest	255	—	4,999	—	—	—	—		5,254
Total expenses	7,160	3,078	177,416	—	3,332	17,240	3,686	(9,292)	202,620
Income (loss) from operations	(1,135)	173	9,903	—	(837)	86	—	—	8,190
Nonoperating gains (losses):									
Investment income, net	446	—	6,359	16	1	—	—		6,822
Unrestricted contributions and other, net	—	—	706	3	—	—	—		709
Loss on early extinguishment of long-term debt	(519)	—	(3,256)	—	—	—	—		(3,775)
Total nonoperating gains (losses), net	(73)	—	3,809	19	1	—	—	—	3,756
Revenue and gains in excess (deficient) of expenses	(1,208)	173	13,712	19	(836)	86	—	—	11,946
Other changes in unrestricted net assets:									
Change in net unrealized gains and losses on other than trading securities	(28)	—	2,580	—	—	—	—		2,552
Change in fair value of derivative instruments	—	—	(175)	—	—	—	—		(175)
Cumulative effect of change in accounting principle	—	—	(870)	—	—	—	—		(870)
Net assets released from restriction for land, building, and equipment acquisitions financed by temporarily restricted net assets	—	—	131	—	—	—	—		131
Increase (decrease) in unrestricted net assets	$ (1,236)	173	15,378	19	(836)	86	—	—	13,584

See accompanying independent auditors' report.

Schedule 3

SILVER CROSS HEALTH SYSTEM AND AFFILIATES

Consolidating Schedule – Changes in Net Assets Information

Year ended September 30, 2006

(In thousands)

	Silver Cross Health System	Health Service Systems, Inc.	Silver Cross Hospital and Medical Centers	Silver Cross Foundation	Midwest Community Real Estate Corporation	Silver Cross Managed Care Organization	Silver Cross Medical Associates, Inc.	Eliminations	Consolidated
Increase (decrease) in unrestricted net assets	$ (1,236)	173	15,378	19	(836)	86	—		13,584
Temporarily restricted net assets:									
Contributions for specific purposes	—	—	930	—	—	—	—		930
Net realized and unrealized gains and losses on temporarily restricted investments	—	—	59	—	—	—	—		59
Net assets released from restriction for operating purposes	—	—	(109)	—	—	—	—		(109)
Net assets released from restriction for land, building, and equipment acquisitions	—	—	(131)	—	—	—	—		(131)
Increase in temporarily restricted net assets	—	—	749	—	—	—	—	—	749
Permanently restricted net assets:									
Net realized and unrealized gains and losses on permanently restricted investments	—	—	243	(8)	—	—	—		235
Increase (decrease) in permanently restricted net assets	—	—	243	(8)	—	—	—	—	235
Change in net assets	(1,236)	173	16,370	11	(836)	86	—	—	14,568
Net assets at beginning of year	18,750	1,116	154,852	2,704	6,265	2,297	—	(22,650)	163,334
Net assets at end of year	$ 17,514	1,289	171,222	2,715	5,429	2,383	—	(22,650)	177,902

See accompanying independent auditors' report.

KPMG

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

The Boards of Directors
Silver Cross Health System and
Silver Cross Hospital and Medical Centers:

We have examined the accompanying calculations of the Historical Debt Service Coverage Ratio and Historical Maximum Annual Debt Service Coverage Ratio (collectively referred to as the Ratios) of Silver Cross Health System and Silver Cross Hospital and Medical Centers (collectively referred to as the Obligated Group) for the year ended September 30, 2008.

Management is responsible for the Obligated Group's compliance with the calculation requirements for the Ratios. Our responsibility is to express an opinion on the Obligated Group's compliance with the calculation of the Ratios based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Obligated Group's compliance with the calculation requirements for the Ratios and performing such procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Obligated Group's compliance with the specified requirements for the calculation of the Ratios.

The basis for calculating the Historical Debt Service Coverage Ratio and the Historical Maximum Annual Debt Service Coverage Ratio are contained in Article IV and Sections 414(b) and 416 of the Amended and Restated Master Trust Indenture dated as of June 1, 1996, as amended or supplemented by various supplemental indentures, among the Obligated Group and Wells Fargo Bank, N.A., as Successor Master Trustee.

In our opinion, the calculations of the Historical Debt Service Coverage Ratio and the Historical Maximum Annual Debt Service Coverage Ratio referred to above present, in all material respects, such calculations for the year ended September 30, 2008 in conformity with Article IV and Sections 414(b) and 416 of the Amended and Restated Master Trust Indenture.

This report is intended solely for the information and use of the Boards of Directors and managements of Silver Cross Health System, Silver Cross Hospital and Medical Centers, Wells Fargo Bank, N.A., and the Illinois Finance Authority and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 27, 2009

SILVER CROSS HEALTH SYSTEM AND
SILVER CROSS HOSPITAL AND MEDICAL CENTERS

Calculation of Historical Debt Service Coverage Ratio
(dollar amounts in thousands)

Year Ended September 30, 2008

Income available for debt service	$ 34,719
Debt service requirements	$ 10,468
Historical Debt Service Coverage Ratio	3.32:1

SILVER CROSS HEALTH SYSTEM AND
SILVER CROSS HOSPITAL AND MEDICAL CENTERS

Calculation of Historical Maximum Annual Debt Service Coverage Ratio
(dollar amounts in thousands)

Year Ended September 30, 2008

Income available for debt service	$ 34,719
Maximum annual debt service requirements	$ 10,833
Historical Maximum Annual Debt Service Coverage Ratio	3.19:1

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

The Boards of Directors
Silver Cross Health System and
Silver Cross Hospital and Medical Centers:

We have examined the accompanying calculations of the Historical Debt Service Coverage Ratio and Historical Maximum Annual Debt Service Coverage Ratio of Silver Cross Health System and Silver Cross Hospital and Medical Centers (collectively referred to as the Obligated Group) for the year ended September 30, 2007. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary in the circumstances.

The basis for calculating the Historical Debt Service Coverage Ratio and the Historical Maximum Annual Debt Service Coverage Ratio are contained in Article IV and Sections 414(b) and 416 of the Amended and Restated Master Trust Indenture dated as of June 1, 1996, as amended or supplemented by various supplemental indentures, among the Obligated Group and Wells Fargo Bank, N.A., as successor Master Trustee.

In our opinion, the calculations of the Historical Debt Service Coverage Ratio and the Historical Maximum Annual Debt Service Coverage Ratio referred to above present, in all material respects, such calculations for the year ended September 30, 2007 in conformity with Article IV and Sections 414(b) and 416 of the Amended and Restated Master Trust Indenture.

This report is intended solely for the information and use of the Boards of Directors and managements of Silver Cross Health System, Silver Cross Hospital and Medical Centers, Wells Fargo Bank, N.A., and the Illinois Finance Authority and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 23, 2008

SILVER CROSS HEALTH SYSTEM AND
SILVER CROSS HOSPITAL AND MEDICAL CENTERS

Calculation of Historical Debt Service Coverage Ratio
(Dollar Amounts in Thousands)

Year Ended September 30, 2007

Income available for debt service	$	40,834
Debt service requirements	$	7,534
Historical Debt Service Coverage Ratio		5.42:1

SILVER CROSS HEALTH SYSTEM AND
SILVER CROSS HOSPITAL AND MEDICAL CENTERS

Calculation of Historical Maximum Annual Debt Service Coverage Ratio
(Dollar Amounts in Thousands)

Year Ended September 30, 2007

Income available for debt service	$	40,834
Maximum annual debt service requirements	$	11,689
Historical Maximum Annual Debt Service Coverage Ratio		3.49:1

KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

The Boards of Directors
Silver Cross Health System and
Silver Cross Hospital and Medical Centers:

We have examined the accompanying calculations of the Historical Debt Service Coverage Ratio and Historical Maximum Annual Debt Service Coverage Ratio of Silver Cross Health System and Silver Cross Hospital and Medical Centers (collectively referred to as the Obligated Group) for the year ended September 30, 2006. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary in the circumstances.

The basis for calculating the Historical Debt Service Coverage Ratio and the Historical Maximum Annual Debt Service Coverage Ratio are contained in Article IV and Sections 414(b) and 416 of the Amended and Restated Master Trust Indenture dated as of June 1, 1996, as amended or supplemented by various supplemental indentures, among the Obligated Group and Wells Fargo Bank, N.A., as successor Master Trustee.

In our opinion, the calculations of the Historical Debt Service Coverage Ratio and the Historical Maximum Annual Debt Service Coverage Ratio referred to above present, in all material respects, such calculations for the year ended September 30, 2006 in conformity with Article IV and Sections 414(b) and 416 of the Amended and Restated Master Trust Indenture.

This report is intended solely for the information and use of the Boards of Directors and managements of Silver Cross Health System, Silver Cross Hospital and Medical Centers, Wells Fargo Bank, N.A., and the Illinois Finance Authority and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 8, 2006

SILVER CROSS HEALTH SYSTEM AND
SILVER CROSS HOSPITAL AND MEDICAL CENTERS

Calculation of Historical Debt Service Coverage Ratio
(Dollar Amounts in Thousands)

Year Ended September 30, 2006

Income available for debt service	$	31,629
Debt service requirements	$	6,836
Historical Debt Service Coverage Ratio		4.63:1

ATTACHMENT-75

SILVER CROSS HEALTH SYSTEM AND SILVER CROSS HOSPITAL AND MEDICAL CENTERS

Calculation of Historical Maximum Annual Debt Service Coverage Ratio
(Dollar Amounts in Thousands)

Year Ended September 30, 2006

Income available for debt service	$	31,629
Maximum annual debt service requirements	$	12,680
Historical Maximum Annual Debt Service Coverage Ratio		2.49:1

Healthcare
New Issue

Silver Cross Hospital and Medical Centers

Illinois Finance Authority

Ratings

New Issue
$250,000,000 Illinois Finance Authority Revenue Bonds (Silver Cross Hospital and Medical Centers), Series 2009 BBB+

See Page 2 for Outstanding Debt.

Rating Outlook

Stable

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New Issue Details

Sale Information: Hospital Revenue Bonds, Series 2009, the week of May 18 or May 25 via negotiation.
Security: Pledge of gross revenues, a mortgage, and a debt service reserve fund.
Purpose: Partially fund a replacement facility, fund a debt service reserve, and pay associated costs of issuance.
Final Maturity: 2044.

Related Research

- *Fitch Rates Silver Cross Hospital, IL Series 2009 Revs 'BBB+'; Dwngrs Outstanding; Outlook Stable, May 8, 2009*
- *2009 Nonprofit Hospitals and Healthcare Systems Outlook, Jan. 29, 2009*
- *Silver Cross Hospital and Medical Centers, June 9, 2008*
- *Fitch Rates Silver Cross Hospital, IL Series 2008 Revs 'A'; On Rating Watch Negative, May 30, 2008*

Rating Rationale

- Silver Cross Hospital and Medical Centers' (Silver Cross) financial profile will weaken more in line with Fitch's 'BBB' rating category medians upon issuance of the $250 million in new debt, which will be used to construct a replacement hospital in New Lenox, IL, approximately 3.5 miles from its current campus in Joliet, IL.
- Over the past three years, Silver Cross has been successful in taking market share away from its primary competitor, Provena St. Joseph's Hospital. From 2004–2008, Silver Cross's market share in its primary service area (PSA) increased to 31.4% from 28.8% while Provena St. Joseph's market share slipped to 29.8% in 2008 from 33.4% in 2004.
- Silver Cross's historical profitability has been solid over the past four years, although weaker profitability is projected through the construction period; a return to historical levels is expected once operations stabilize upon the opening of the new facility.
- Silver Cross reports strong support for the project from its medical staff and its community stakeholders.

Key Rating Drivers

- The credit quality for Silver Cross has inherent downside pressures given the increased debt and the relocation of its entire acute care operations to a greenfield site.
- Further risks to Silver Cross include its payor mix; approximately 13.0% of its revenue was from Medicaid payors in fiscal 2008, which makes the hospital vulnerable to slow reimbursement from the state, while 6.0% of gross revenues in fiscal 2008 reflected self-pay payors.
- Any increased competitive activity from formidable providers in Silver Cross's secondary service area (including Advocate Health Care Network, revenue bonds rated 'AA' by Fitch Ratings, and Adventist Health System-Sunbelt, revenue bonds rated 'AA–' by Fitch) could pressure the timing and scale of the benefits expected to accrue to Silver Cross upon opening of the new facility.
- A growing and highly satisfied medical staff bodes well for the future success of the organization and could serve to mitigate many of the risks present in the market and those associated with the replacement project.

Credit Summary

Silver Cross is an acute care facility with 304 licensed beds (246 operated) located in Joliet, IL, 37 miles southwest of downtown Chicago. Silver Cross had total operating revenues of $252.6 million in fiscal 2008.

The 'BBB+' rating reflects the anticipated weakening of Silver Cross's capital-related and liquidity ratios to levels more consistent with Fitch's 'BBB' hospital rating category medians. Capitalizing on a marked improvement in its competitive position within its primary service area, Silver Cross has continued to produce solid profitability over the

Rating History

Rating	Action	Outlook/ Watch	Date
BBB+	Downgraded	Stable	5/08/09
A	Affirmed	Negative[a]	5/30/08
A	Upgraded	Stable	9/20/05
A–	Affirmed	Positive	8/20/03
A–	Assigned	—	3/24/99

[a]Rating Watch.

past four years; although weaker profitability is projected through the construction period, a return to historical levels is expected once operations stabilize upon opening the new facility.

The decision to construct a replacement facility on the New Lenox property stems from Silver Cross's recent strong utilization growth in a service area that is experiencing significant population growth, leading to market share gains that have contributed to solid profitability measures. Located in Will County, IL (GO bonds rated 'AA' by Fitch), Silver Cross has been challenged to meet the needs of one of the fastest-growing counties in the nation. Over the past three years, Silver Cross has been successful in taking market share away from its primary competitor, Provena St. Joseph's Hospital.

Outstanding Debt[a]

$86,600,000 Illinois Finance Authority, Fixed-Rate Revenue Bonds, Series 2008A	BBB+
$21,125,000 Illinois Finance Authority, Fixed-Rate Revenue Bonds, Series 2005A[b]	BBB+
$20,525,000 Illinois Finance Authority, Fixed-Rate Revenue Bonds, Series 2005C[b]	BBB+
$7,480,000 Illinois Finance Authority, Fixed-Rate Revenue Bonds, Series 1999	BBB+
$296,450 Illinois Finance Authority Revenue Refunding Revenue Bonds, Series 1996[c]	BBB+

[a]As of March 31, 2009. [b]The 'BBB+' is the unenhanced rating. The bonds are insured by Assured Guaranty Assurance, whose insurer financial strength is rated 'AA' by Fitch Ratings. [c]The outstanding obligations on the bonds are scheduled to be met by Aug. 15, 2009.

The Stable Rating Outlook reflects Fitch's belief that management will meet or exceed its projections through construction and opening of the new hospital. The heavy debt burden allows only marginal negative variation to budget. However, management has demonstrated its ability to successfully manage operations through sizable construction projects at its Joliet campus as well as changing utilization and admission patterns. In addition, the high level of interest from the physician community increases the likelihood of successful development.

New Issue Details

Silver Cross expects to issue $250 million of series 2009 revenue bonds through the Illinois Finance Authority (the authority). The bonds will be structured as uninsured fixed-rate bonds, which will amortize from 2030 through and including 2044.

Proceeds from the series 2009 bonds will be used to partially fund the construction of a 289-bed replacement hospital in New Lennox, IL, establish a debt service reserve fund, and pay associated costs of issuance. The bonds are expected to be sold through negotiation the week of May 18th or May 25th.

The series 2009 bonds will be issued under an amended and restated master trust indenture dated June 1, 1996, and will be on parity with Silver Cross's outstanding debt. Bondholders have security interest in the obligated group's (OG) gross revenues and an executed mortgage — on the current property and the replacement hospital campus to include improvements thereafter — has been delivered to the trustee. Operating covenants are typical (see the Major Legal Covenants table below).

Major Legal Covenants

Historical Debt Service Coverage	1.10x historical debt service coverage covenant with consultant call in
Additional Debt Test	1.25x historical pro forma for two prior years or 1.25x historical for two prior years and officer's certification projecting 1.50x for two years after stabilization
Transfers of Assets	Limited to no more than 20% of unrestricted cash and investments
Liquidity Covenant	Minimum of 80 days, tested semiannually

Following the issuance of the series 2009 bonds, Silver Cross will have approximately $386 million in long-term debt outstanding. Pro forma MADS is estimated at $29.3, up from the historical $10.8 million, which was provided by Silver Cross and its agents and is used to calculate various financial ratios referenced in this report.

Credit and Market Overview

For analytical purposes, Fitch has used the consolidated financial statements for all affiliated entitles of Silver Cross Health System (parent). Currently, the parent and the hospital are the only members of the obligated group and the only Silver Cross entities that have any liability on the series 2009 bonds. The obligated group accounted for 91.3% of total revenues and 96.4% of total assets of the consolidated Silver Cross Health System in fiscal 2008.

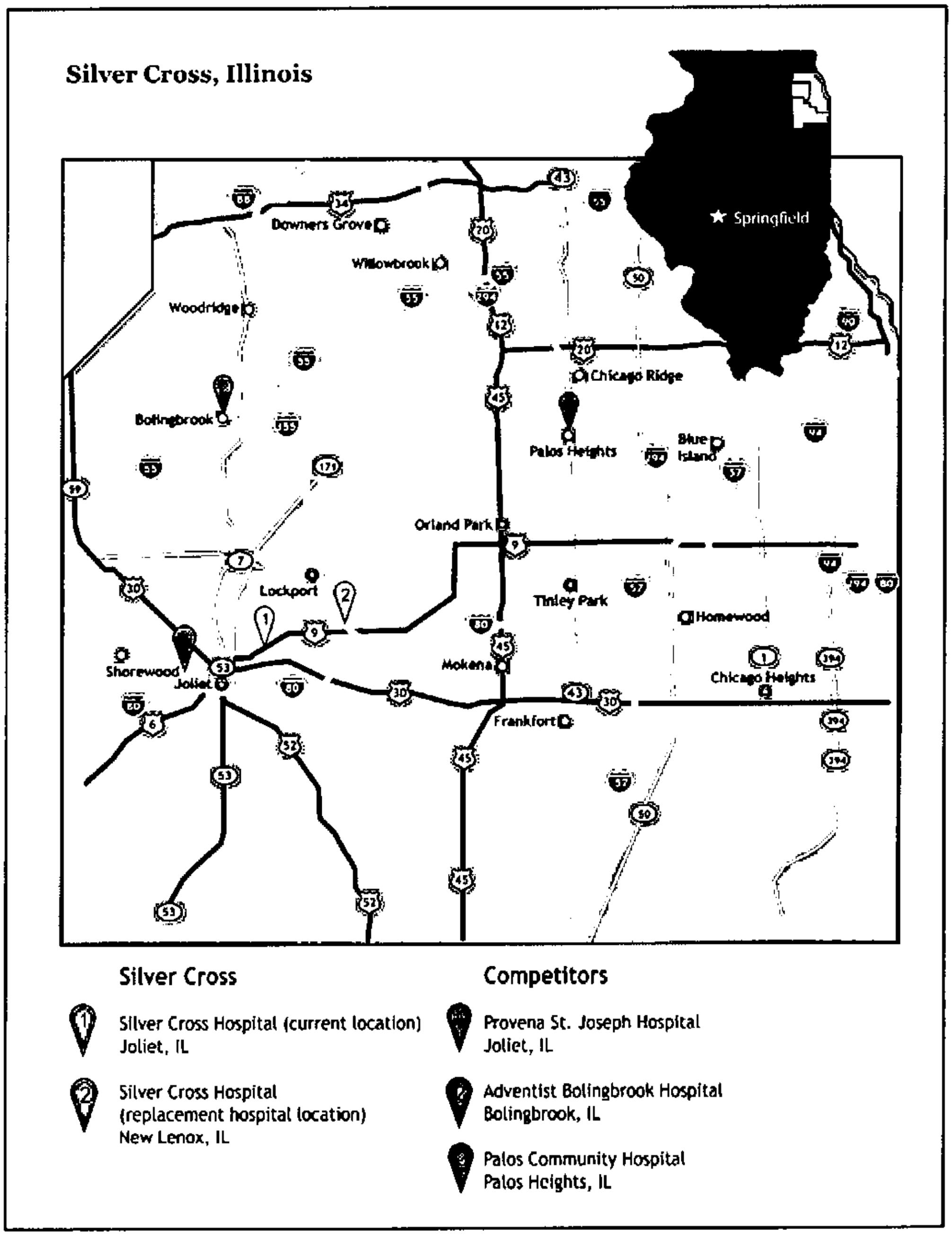
Silver Cross Hospital (246 operated beds) is located on a 40-acre parcel in Joliet, IL, roughly 37 miles southwest of Chicago. A portion of the hospital's main building was built in 1919, and the existing seven-floor patient tower was placed in operation in 1970. The hospital completed various expansion and renovation projects in 1998, 2000, and 2006. In 2007, a two-year, $18 million expansion of its emergency department was completed, which nearly doubled its square footage to accommodate increased volumes due to population growth in the service area. Silver Cross recently received approval to open a free-standing emergency center (FEC) on its Homer Glen campus (scheduled to open in June 2009). No other local competitors will have a FEC, which should serve to broaden Silver Cross's brand into a market nearer its new campus, improve access to appropriate care, and enhance its ancillary capabilities at the Homer Glen campus, all of which are compelling credit factors in advance of the replacement project.

Silver Cross is located in Will County (GO bonds rated 'AA' by Fitch), which is one of the fastest-growing counties in the U.S. Since 2000, Will County is estimated to have gained more than 160,000 residents — the largest absolute increase among the 102 counties in Illinois and the 10th highest in the nation. Much of the historic growth has taken place in the northeast quadrant of Will County, which includes much of Silver Cross's primary service area (PSA), and a greater portion of the projected population growth is expected to occur there as well. The hospital's PSA includes the communities of Joliet, Elwood, Frankfort, Homer Glen, Lemont, Lockport, Manhattan, Mokena, New Lenox, and Orland Park. These demographic factors have contributed to Silver Cross's utilization volumes and have shown robust year-over-year increases. From 2004–2008, inpatient admissions at Silver Cross Hospital increased an aggregate 13.6% (to 17,054 from 15,009), emergency room visits increased 35.0% (to 58,464 from 43,317), and surgical volumes increased 24.8%% (to 13,625 from 10,919).

Planned Replacement Campus

Replacement Hospital

Silver Cross received approval from the Illinois Health Facilities Planning Board for its certificate of need (CON) application to construct a replacement hospital located approximately 3.5 miles from the current facility in New Lenox, IL. According to management, the replacement hospital facility will occupy approximately 553,867 square feet (sf) and will have 289 licensed and staffed beds; an increase of 44 staffed beds compared with the current facility. Silver Cross's current site is landlocked, and the site's topography makes renovation/expansion difficult. Fitch believes the new site is ideally situated (on Route 6 in New Lenox, IL, adjacent to an interchange of the recently completed I-355 expansion) and will provide improved access for patients in the service area.



The total cost of financing, constructing, and preparing the replacement facility for opening is estimated to be approximately $429 million, of which: $250 million would be funded from debt; $6.0 million in interest earnings on the project fund; $137 million from operating cash flow; $26 million from land sales (of which, $11 million has been sold and closed); and $10 million from fundraising. Upon completion of the new hospital, it is expected that the existing hospital campus will house a health center with primary and urgent care services. Management is in the process of hiring a real estate consultant and has actively engaged community leaders for input to determine the best use of the existing campus in Joliet.

Project Development, Management, and Risk Mitigation

Management reports that the guiding principles in developing the concept and operating platform for the replacement facility are centered on evidence-based design principles. Fitch considers these concepts to be best management practice, and by implementing the principles of evidence-based design along with operational improvement plans, Silver Cross should further enhance its quality, safety, satisfaction, and retention scores, which in the near-to-medium term should have a positive effect on its financial position (*see Fitch Research on "Modern Facility Design and Its Impact on Operational and Capital Strategies," dated May 22, 2007, available on Fitch's web site at www.fitchratings.com*).

Silver Cross has retained RTKL, an international design firm that specializes in hospital and healthcare facility design, to serve as architect for the project. RTKL is providing comprehensive design services including architecture, all engineering disciplines, interior design, medical equipment planning, technology planning, and furniture planning. Mortenson Construction is serving as the construction manager at risk on the project. In order to mitigate cost-escalation risk, Silver cross anticipates entering into a guaranteed maximum price (GMP) contract with Mortenson by June 2009 for the sum of the estimated cost of the work plus Mortenson's fee. Management has retained the services of Walker & Associates, which serves as project manager or owners' representative. Fitch views the GMP and the engagement of these large national firms as a credit positive. Further, Fitch notes that Silver Cross has employed a team of internal experts to include: a lead project executive with significant industry experience leading hospital replacement projects at other organizations; a full-time project accountant; and Silver Cross has retained the services of a construction auditing firm that is scheduled to conduct at least four audits throughout the project. Complementing the experience of its hired project advisors with its own experienced employees should provide adequate oversight to ensure the project is completed on-time and on budget.

Ancillary Campus Buildings

In addition to the new hospital, the campus will contain two medical office buildings principally housing physician offices, outpatient clinics, and other ancillary services. Silver Cross will lease the land for the first buildings (MOB-1, approximately 53,000 sf) to a private developer who is bearing all construction costs associated with the building. Construction is scheduled to be completed in August 2009, with occupancy currently expected in September 2009. To date, the MOB-1 has lease commitments equaling approximately 93% of the square footage, including a commitment by Children's Memorial Hospital (CMH, revenue bonds rated 'AA–' by Fitch) for 13,000 square feet. CMH plans to use the space to house physician offices and clinics. Hinsdale Orthopedics, a large subspecialty orthopedic group, has also committed to approximately 13,000 sf in MOB-1 and will use the space to house 10 orthopedic physicians. In total, MOB-1 is expected to house approximately 35–45 physicians, encompassing five–seven practice specialties. The second MOB (MOB-2, approximately 200,000 sf) is expected to be primarily occupied by physicians' offices. Silver Cross is currently in negotiations with third-party developers and expects to begin construction during late 2009. Similar to MOB-1, Silver Cross intends to lease the land to a third-party developer who will bear all construction costs associated with MOB-2. It is anticipated that Silver Cross will utilize approximately 25% of the available space in MOB-2.

Governance and Management

Fitch toured the current facility and visited the greenfield site where the new hospital will be located. Fitch met Silver Cross directors and has met with representatives of the management team frequently over the past year. Fitch found the leaders to be keenly aware of the challenges confronting them during the replacement hospital construction and subsequent move along with the extant recessionary challenges present in the industry. Furthermore, their collective tenure at Silver Cross (the CEO has held the position since 1990 and the CFO since 1996) and recent track record of sound operating performance driven by demonstrated competitive gains within the market bodes well for continued solid operating performance upon completion of the project.

Silver Cross has a governing board composed of 14 members with two ex officio members (CEO of Silver Cross and the chief of the medical staff). In the early part of this decade, Silver Cross downsized the board with the intent of making the governing process more streamlined. Currently, board members serve three-year terms without limit. Five standing committees of the board include: strategy; quality; finance; audit and legal; and governance and management. Committees meet at least quarterly.

Medical and Nursing Staff

Medical Staff

Silver Cross had 439 members on its medical staff as of Dec. 31, 2008, of which 259 physicians had active status and 128 had associate status. The active staff consists of physicians, dentists, and podiatrists who provide professional services within the hospital on a regular basis and who have completed a minimum of two years of service with the hospital. As of Dec. 31, 2008, 89.3% of the members of the medical staff were board-certified in their specialty. In addition, the average age of the medical staff at the end of the hospital's most recent fiscal year was 46.6 years. The top 10 physicians, by activity, accounted for 30.5% of total cases in fiscal 2008 and had an average age of 44.0 years. The top-ranked physician in fiscal 2008 was an internist who acts in a hospitalist role, providing inpatient rounding on hospitalized patients for several other area physicians.

Management historically provides updates to Fitch on its efforts to recruit and retain the appropriate complement of physicians to best serve its community and stakeholders. Although direct employment of physicians is not a preferred strategy utilized by management, it does deploy other means of alignment, such as joint ventures, and has not ruled out direct employment if necessary to maintain a viable service line in the community. Currently, the economic climate for physicians practicing in Silver Cross's market has been somewhat favorable as compared to other parts of the country, limiting the necessity for physicians to actively seek the benefits of scale often afforded by hospital employment. Further, the presence of large multispecialty and subspecialty physician practices provides similar benefits of scale. Management has been actively involved in recruiting physicians to the medical staff, which has expanded by 75 over the past three years.

Since gaining approval for the replacement project, Silver Cross has seen an increase in the number of applications for medical staff privileges, which Fitch views as a significant positive credit factor. As of April 30, 2009, there were 79 physicians in the credentialing queue. Of further note, management reports its comprehensive physician satisfaction scores are at 98% or above. Staff physicians reported the following major drivers of their high level of satisfaction: high quality of the nursing staff; communication reports detailing patients' condition(s); information sharing regarding strategic planning; efficient scheduling of tests; and support in using clinical information systems. This level of satisfaction portends future success of the organization and is viewed as a key credit driver by Fitch.

Nursing

When visiting the campus, Fitch met with the chief nursing executive and with frontline nursing leaders. Silver Cross's communicated strategy of directly engaging its nursing staff in the development of organizational goals is a key satisfier for its nursing staff. Silver Cross places specific focus on taking the time to properly vet potential candidates via peer interviews and, when candidates are hired, attention is given to ensure that proper orientation and mentoring is in place. This is another driver of the high level of satisfaction. No agency use was reported in 2008. Silver Cross's vacancy rate has been less than 5% over the past few years, and its turnover rates have been: 10.7% (2008) and 13.9% (2007). These nursing labor metrics are viewed as an important indicator of management's ability to properly ensure adequate nursing resources in a tight labor market. Collectively, Silver Cross's nursing statistics are viewed as positive credit factors.

Treasury Review

Upon issuance of the series 2009 bonds, Silver Cross's outstanding debt will be essentially 100% fixed-rate debt. Its investment allocation is targeted at 65% fixed-income and cash holdings and 35% equities. It has three basis swaps for a combined notional amount of approximately $84.4 million. Finally, Silver Cross has a defined-contribution pension plan and very small defined-benefit plans that currently appear to pose little risk to the overall financial profile of the organization.

Disclosure

Silver Cross currently is obligated to provide annual audited financial statements and utilization statistics within 120 days of each fiscal year end (FYE) and, for the first three fiscal quarters, within 60 days of each quarter end. Upon closing of the series 2009 bond issuance, Silver Cross plans to provide quarterly unaudited financial statements including a balance sheet, income and cash flow statements, and utilization statistics for all four fiscal quarters within 60 days of each quarter end and will have 135 days after the fiscal-year end to submit its audited financial statements and utilization statistics. Fitch views Silver Cross's proposed disclosure practices neutrally. Although its commitment to providing financial and utilization data quarterly is viewed positively, given the complexity and scale of their replacement project, Fitch believes management should include a management discussion and analysis section in its quarterly and annual disclosure, including information on quality and stakeholder satisfaction scores and detailed project updates. For more information on Fitch's views on best practice disclosure, see Fitch Research on *"Transparency: Relevant, Reliable, and Timely Disclosure Essential for Assessment of Creditworthiness,"* dated May 7, 2009, available at Fitch's web site at www.fitchratings.com.

Investments

As of March 31, 2009, Silver Cross's operating investments were diversified via allocation targets of approximately 65% fixed-income and cash holdings and 35% equities. Driven by the downturn in the market and cash used to fund the initial costs of the project, Silver Cross's cash and investment position decreased to $91.2 million at March 31, 2009, from $126 million at Sept. 30, 2008. At March 31, 2009, Silver Cross reported unrealized losses of $10.4 million and investment income of $0.3 million (exclusive of the unrealized loss). Given its weakened liquidity position and the risks associated with the project, an investment portfolio weighted towards fixed-income securities does mitigate some of these risks.

Debt

Upon the closing of the series 2009 bond sale, Silver Cross will have approximately $369 million of fixed-rate debt outstanding. See the outstanding debt table on page 2 for more detail.

Swaps

As of the date of this report, Silver Cross had three swaps outstanding. The table below details the International Swaps and Derivatives Association (ISDA) agreements governing the swap and information provided by Silver Cross and its agents.

Swap Summary

Maturity	Swap Type	Notional Amount ($000)	Counterparty/ Insurance	Index	MTM as of 5/01/09 ($000)	Collateral Threshold ($000)	Collateral Posting as of 5/01/09 ($000)
2/6/14	Basis	15,000	Merrill Lynch/None	Silver Cross (SC) receives 72% USD three-month LIBOR/pays weekly SIFMA swap index	(151.5)	Unlimited — no collateral posting requirements	N.A.
8/15/35	Basis	34,675	UBS/None	SC receives 60% USD ISDA swap rate/pays 62.5% USD one-month LIBOR plus 15 bps	(431.8)	($5,000) if SC is rated 'BBB+'; $0 if 'BBB' or below[a]	None — likely to post going forward given rating
8/15/35	Basis	34,675	Morgan Keegan/None	SC receives 60% USD ISDA swap rate/pays 62.5% USD one-month LIBOR plus 15 bps	(431.8)	Unlimited — no collateral posting requirements	N.A.

MTM – Mark to market. bps – Basis points. ISDA – International Swaps and Derivatives Association. N.A. – Not available. [a]As of the date of this report, Silver Cross's long-term rating was 'BBB' by Standard & Poor's, therefore causing the collateral posting to move to $0.

The Swap Agreements are secured by obligations issued under the master indenture. As of May 1, 2009 the FAS 157 adjusted fair market value of the swap agreements to the obligated group was ($1,014,995).

The UBS swap agreement requires each party to post collateral (in the form of cash or eligible securities) to secure the other party's credit exposure in excess of the collateral threshold based on the relevant party's long-term rating. Based on the current rating of Silver Cross by Standard & Poor's ('BBB'), Silver Cross is obligated to post collateral to secure any prospective termination payments, and given current market conditions, Silver Cross would be currently obligated to make termination payments on the UBS swap agreement, if such agreement is terminated. Because the rating of 'BBB' by Standard & Poor's was recently released, it appears Silver Cross will be obligated to post collateral going forward. At the current market value of the swap, this collateral posting is not viewed as a material issue by Fitch at this time.

The Merrill Lynch and Morgan Keegan swap agreements have no posting requirements at any level. Of further note, in 2008, both the UBS and Morgan Keegan Basis swaps were amended to suspend monthly cash payments until Feb. 15, 2014 (during the construction and ramp-up period of the new hospital).

Pension

Silver Cross has a defined contribution plan and contributed $3.15 million in fiscal 2008 and $2.82 million in fiscal 2007. All matching contributions are funded biweekly, along with payroll to employee-controlled accounts. Additionally, Silver Cross has several other supplemental defined benefit plans (limited to specified employees) that are not subject to the Employee Retirement Income Security Act. Silver Cross recognized expenses of $1.61 million in fiscal 2008 and $0.56 million in fiscal 2007.

Utilization Data

(Fiscal Years Ended Sept. 30)

	2004	2005	2006	2007	2008	Six Mos. Ended 3/31/09
Operated Beds	226	229	229	229	246	246
Acute Discharges/Admissions Excluding Newborn Births	15,009	15,686	16,176	17,010	17,054	8,188
Acute Patient Days Excluding Newborn Days	57,524	60,266	61,660	63,391	65,197	31,270
Average Length of Stay (Days)	3.8	3.8	3.8	3.7	3.8	3.8
Average Daily Census	158	165	169	174	179	171
Occupancy (%)	70	72	74	76	73	70
Normal Newborn Births	1,874	1,897	1,985	2,108	1,919	934
Outpatient Surgeries	7,537	7,739	8,165	8,781	8,407	7,034
Net Emergency Room Visits[a]	43,317	46,757	50,122	54,192	58,464	28,207
Clinic Visits	111,842	110,654	115,338	123,189	130,991	N.A.

[a]Excluding emergency room admissions. N.A. – Not available.

Utilization Data Projections

(Fiscal Years Ending Sept. 30)

	2009	2010	2011	2012	2013	2014	2015
Licensed Beds	289	289	289	289	289	289	289
Operated Beds	289	289	289	289	289	289	289
Acute Discharges/Admissions Excluding Newborn Births	16,200	17,010	17,861	18,932	20,447	21,469	22,328
Acute Patient Days Excluding Newborn Days	61,722	64,638	67,870	71,942	77,697	81,582	84,846
Average Length of Stay (Days)	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Average Daily Census	169	177	186	197	213	224	232
Occupancy (%)	59	61	64	68	74	77	80
Net Emergency Room Visits[a]	56,000	58,800	61,740	64,827	68,068	71,472	75,045
Clinic Visits	133,000	139,650	146,633	156,897	171,017	179,568	188,547

[a]Excluding emergency room admissions.

Financial Performance

When analyzing both historical and pro forma data, Silver Cross's financial profile and performance can be characterized by mixed liquidity, solid profitability, a high debt burden, and weak capital-related ratios. Silver Cross's unrestricted cash and investments at March 31, 2009 totaled $97.7 million, which translated to 163 days cash on hand (DCOH) and 73.5% of long-term debt (including reimbursement of $32 million from proceeds of the series 2009 bond issue, DCOH and cash to debt at March 31, 2009 increased to 216 and 97%, respectively). However, Silver Cross's liquidity indicators are expected to weaken significantly prior to the projected replacement hospital opening in early 2012. Management is projecting DCOH, cushion ratio, and cash to debt to decline to a very light 108 days, 3.0 times (x), and 24.3%, respectively, at fiscal-year-end 2012, all materially weaker than Fitch's 2008 'BBB' rating category medians. Similarly, Silver Cross's capital ratios are projected to weaken below the 'BBB' rating category median, with debt service coverage, debt-to-EBIDA, and maximum annual debt service (MADS) as a percentage of revenue in fiscal 2012 of 1.4x, 9.1x, and 8.9%, respectively. In addition, Silver Cross derived approximately 13% of its revenue from Medicaid payors, which makes the hospital vulnerable to slow reimbursement from the state. while 6% of gross revenues reflected self-pay payors. However, Fitch notes that bad debt expense as a percentage of revenues continue to decrease, falling to 5.4% of 2008 revenues from 7.5% of 2007 revenues.

Payor Mix

(As % of Gross Revenues, Fiscal Years Ended Sept. 30)

	2003	2004	2005	2006	2007	2008
Medicare	41.8	42.4	42.7	43.6	42.7	42.0
Medicaid	11.5	12.1	13.2	13.5	12.9	13.0
Blue Cross	20.7	0.0	0.0	0.0	0.0	0.0
Commercial	3.4	3.2	2.7	2.5	2.3	39.0
Managed Care	17.1	37.2	35.8	34.7	35.8	0.0
Self-Pay	5.5	5.1	5.6	5.7	6.3	6.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note: Numbers may not add to 100% due to rounding.

Silver Cross' profitability over the past four fiscal years (2005–2008) has resulted in average operating EBIDA (earnings before interest, depreciation and amortization) margins of 11.2%, operating margins of 2.8%, and EBIDA margins of 13.1%, respectively, which exceed Fitch's 2008 'BBB' rating category medians of 8.3%, 1.1%, and 12.7%, respectively. Increasing volumes, successful physician recruitment, good reimbursement from managed care payors, and sound cost control measures have been the primary drivers in Silver Cross's continued profitability. From 2004–2008, Silver Cross's market share in its PSA increased to 31.4% from 28.8% while Provena St. Joseph's market share slipped to 29.8% in 2008 from 33.4% in 2004. Moreover, Illinois' restrictive certificate of need (CON) environment provides a degree of comfort that encroachment from other providers should be minimal during the construction. Management anticipates that operating performance will continue to be at or above Fitch's 'BBB' rating category medians through fiscal 2012, then it is expected to decline below the medians upon completion of the project and through the first year to year-and-a-half after opening the replacement hospital before returning to historical levels. Fitch notes that from fiscal years 2009–2012, per FAS 144, Silver Cross must accelerate the depreciation on its current campus (see Finacial Projections table on page 12 — adjustments to income from operations and operating margin are shown).

Financial Summary

($000, Audited Fiscal Years Ended Sept. 30)

	2003	2004	2005	2006	2007	2008	Six Mos. Ended 3/31/09*
Balance Sheet Data							
Unrestricted Cash	91,850	91,816	98,203	102,491	116,570	127,131	97,700
Restricted Cash	7,106	7,795	8,308	9,187	8,389	30,832	29,671
Trustee-Held Cash	16,528	2,299	0	26,613	21,049	12,180	12,460
Net Patient Accounts Receivable	21,026	20,720	20,072	22,780	21,560	27,902	33,342
Gross Property, Plant, and Equipment (PP&E)	197,543	217,964	250,658	282,826	311,063	328,306	192,593
Accumulated Depreciation	97,948	107,841	118,174	129,518	141,717	155,071	N.A.
Net PP&E	99,595	110,123	132,484	153,308	169,346	173,235	192,593
Total Assets	261,854	274,066	301,938	371,354	399,958	407,833	403,290
Current Liabilities	30,518	33,175	45,470	44,373	47,089	49,289	54,353
Due to Third-Party Payors	8,014	8,692	11,414	13,627	12,314	14,881	19,994
Long-Term Debt	79,740	77,583	75,286	133,123	130,322	132,965	132,895
Unrestricted Net Assets	129,866	139,191	154,504	168,088	193,168	192,922	183,872

*Unaudited. N.A. – Not available. Note: Fitch Ratings may have reclassified certain financial statement items for analytical purposes.

Financial Summary (continued)

($000, Audited Fiscal Years Ended Sept. 30)

	2003	2004	2005	2006	2007	2008	Six Mos. Ended 3/31/09*
Income and Cash Flow Data							
Net Patient Revenue	153,921	159,011	176,060	186,024	211,247	223,074	113,117
Other Revenue	19,256	22,639	23,136	24,786	24,888	29,535	15,398
Total Revenue	173,177	181,650	199,196	210,810	236,135	252,609	128,515
Salaries, Wages, Fees, and Benefits	54,734	74,128	80,366	88,279	96,544	109,676	54,806
Depreciation and Amortization	10,561	10,039	10,465	11,473	13,758	15,154	7,908
Interest Expense	3,261	3,071	3,533	5,254	5,442	9,317	3,638
Provision for Bad Debts	14,533	16,897	18,258	18,365	17,732	13,530	5,772
Total Expenses	168,868	178,007	191,224	202,620	229,017	249,182	123,010
Income from Operations	4,309	3,643	7,972	8,190	7,118	3,427	5,505
Operating EBITDA	18,131	16,753	21,970	24,917	26,318	27,898	17,051
FAS 144 Accelerated Depreciation —Current Campus	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	(4,962)
Adjusted Income from Operations	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	543
Non-Operating Gains/(Losses)	6,171	2,758	3,888	7,531	25,783	(4,410)	293
Excess Income/(Loss)	10,480	6,401	11,860	15,721	32,901	(983)	836
Total Investment Income/(Loss)	4,725	2,404	2,800	6,822	24,451	(7,633)	(10,058)
Net Unrealized Gains/(Losses)	2,624	2,870	3,079	2,552	(174)	16,400	(10,400)
Net Change in Fair Market Value of Derivative Instruments	N.A.	N.A.	N.A.	(175)	694	(529)	N.A.
Cash Flow from Operations	22,932	22,492	38,446	20,656	53,021	14,170	(231)
Net PP&E Acquisitions	14,306	20,567	32,827	32,360	28,696	7,243	(27,323)
EBITDA	24,302	19,511	25,858	32,448	52,101	23,488	17,344
CFFOBI	26,193	25,563	41,979	25,910	58,463	23,487	3,407
Free Cash Flow	8,626	1,925	5,619	(11,704)	24,325	6,927	27,092
Maximum Annual Debt Service (MADS)	29,304	29,304	29,304	29,304	29,304	29,304	29,304
Liquidity Ratios							
Days Cash on Hand	233.2	223.9	220.7	252.8	251.8	210.4	163.1
Days in Accounts Receivable	49.9	47.6	41.6	44.7	37.3	45.7	53.8
Days in Current Liabilities	77.5	80.2	102.1	93.7	87.0	81.6	90.7
Cushion Ratio (x)	3.1	3.2	3.4	4.1	4.6	4.3	3.3
Cash to Debt (%)	115.2	119.5	130.5	89.9	104.5	95.6	73.5
Profitability and Operational Ratios (%)							
Operating Margin	2.5	2.0	4.0	3.9	3.0	1.4	4.3
Adjusted Operating Margin	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.4
Operating EBITDA Margin	10.5	9.2	11.0	11.8	11.1	11.0	13.3
Excess Margin	5.8	3.5	5.8	7.2	12.6	(0.4)	4.5
EBITDA Margin	13.6	10.6	12.7	14.9	19.9	9.5	13.5
Cash Flow Margin	12.8	12.2	18.9	9.5	20.2	5.7	(0.2)
Investment Income as % of Excess Income	45.1	37.6	23.6	43.4	74.3	776.5	(173.5)
Personnel Cost as % of Revenues	31.6	40.8	40.3	41.9	40.9	43.4	42.6
Bad Debt Expense as % of Revenues	8.4	9.3	9.2	8.7	7.5	5.4	4.5
Capital-Related Ratios							
MADS Coverage by EBITDA (x)	0.8	0.7	0.9	1.1	1.8	0.8	1.2
MADS Coverage by CFFOBI (x)	0.9	0.9	1.4	0.9	2.0	0.8	0.2
MADS Coverage by CFFOBI less Capital Expenditures (x)	0.4	0.2	0.3	(0.2)	1.0	0.6	2.1
MADS as % of Revenue	16.9	16.1	14.7	13.9	12.4	11.6	11.4
Debt to EBITDA (x)	3.3	4.0	2.9	4.1	2.5	5.7	3.8
Debt to Free Cash Flow (x)	9.2	40.3	13.4	(11.4)	5.4	19.2	4.9
Debt to Capitalization (%)	38.0	35.8	32.8	44.2	40.3	40.8	42.0
Average Age of Plant (Years)	9.3	10.7	11.3	11.3	10.3	10.2	0.0
Capital Expenditures as % of Depreciation Expense	135.5	204.9	313.7	282.1	208.6	47.8	(345.5)
Capital Expenditures as % of EBITDA	58.9	105.4	127.0	99.7	55.1	30.8	(157.5)
Capital Expenditures as % of Total Revenue	8.3	11.3	16.5	15.4	12.2	2.9	(21.3)

*Unaudited. N.A. – Not available. Note: Fitch Ratings may have reclassified certain financial statement items for analytical purposes.

Financial Summary Projections

($000, Fiscal Years Ending Sept. 30)

	2009	2010	2011	2012	2013	2014	2015
Balance Sheet Data							
Unrestricted Cash	121,542	133,867	117,231	89,365	101,343	123,628	158,507
Restricted Cash	36,679	42,674	46,829	39,156	41,670	44,384	39,577
Trustee-Held Cash	203,687	83,687	33,687	33,687	33,687	33,687	33,687
Net Patient Accounts Receivable	27,801	30,078	33,010	36,505	40,854	44,704	48,823
Gross Property, Plant, and Equipment (PP&E)	422,801	565,120	688,602	625,427	632,427	639,427	649,427
Accumulated Depreciation	180,769	206,553	230,504	134,134	162,119	190,617	219,763
Net PP&E	242,032	358,567	458,098	491,293	470,308	448,810	429,664
Total Assets	666,214	683,855	709,514	711,146	709,047	716,396	739,409
Current Liabilities	54,505	58,664	60,670	71,908	74,419	73,344	79,116
Due to Third-Party Payors	16,913	18,298	17,350	19,187	21,473	23,497	25,661
Long-Term Debt	379,380	375,610	371,650	367,485	363,110	358,510	353,670
Unrestricted Net Assets	193,678	205,046	228,643	231,046	228,503	239,058	258,497
Income and Cash Flow Data							
Net Patient Revenue	225,500	243,969	267,747	296,095	331,372	362,601	396,005
Other Revenue	31,985	32,694	33,421	34,165	34,928	35,711	36,513
Total Revenue	257,485	276,663	301,168	330,260	366,300	398,312	432,518
Salaries, Wages, Fees, and Benefits	112,067	122,175	134,631	155,452	169,303	183,831	200,123
Depreciation and Amortization	15,774	15,860	14,027	20,162	27,984	28,498	29,146
Interest Expense	7,677	7,297	7,113	18,353	25,139	24,926	24,701
Provision for Bad Debts	11,071	12,207	13,589	15,157	17,047	18,808	20,710
Total Expenses	247,475	265,053	282,775	337,433	376,739	396,462	423,195
Income/(Loss) from Operations	10,010	11,610	18,393	(7,173)	(10,439)	1,850	9,323
Operating EBITDA	33,461	34,767	39,533	31,342	42,684	55,274	63,170
FAS 144 — Accelerated Depreciation	9,924	9,924	9,924	4,962	0	0	0
Adjusted Income from Operations	86	1,686	8,469	(12,135)	—	—	—
Non-Operating Gains/(Losses)	2,700	8,519	9,415	8,869	7,169	7,869	9,091
Excess Income/(Loss)	86	10,205	18,902	(3,266)	(3,270)	9,719	18,414
Total Investment Income	0	8,519	9,415	8,869	7,169	7,869	9,091
Cash Flow from Operations	33,002	37,178	40,041	28,914	22,623	33,069	48,744
Net PP&E Acquisitions	94,495	142,319	123,482	58,319	7,000	7,000	10,000
EBITDA	36,161	43,286	48,948	40,211	49,853	63,143	72,261
CFFOBI	40,679	44,475	47,154	47,267	47,762	57,995	73,445
Free Cash Flow	(61,493)	(105,141)	(83,441)	(29,405)	15,623	26,069	38,744
Maximum Annual Debt Service (MADS)	29,304	29,304	29,304	29,304	29,304	29,304	29,304
Liquidity Ratios							
Days Cash on Hand	201.1	206.2	167.7	108.0	111.5	129.2	155.0
Days in Accounts Receivable	45.0	45.0	45.0	45.0	45.0	45.0	45.0
Days in Current Liabilities	90.2	90.4	86.8	86.9	81.9	76.7	77.3
Cushion Ratio (x)	4.1	4.6	4.0	3.0	3.5	4.2	5.4
Cash to Debt (%)	32.0	35.6	31.5	24.3	27.9	34.5	44.8
Profitability and Operational Ratios (%)							
Operating Margin	3.9	4.2	6.1	(2.2)	(2.8)	0.5	2.2
Adjusted Operating Margin	0.0	0.6	2.8	(3.7)	N.A.	N.A.	N.A.
Operating EBITDA Margin	13.0	12.6	13.1	9.5	11.7	13.9	14.6
Excess Margin	4.9	7.1	9.0	0.5	(0.9)	2.4	4.2
EBITDA Margin	13.9	15.2	15.8	11.9	13.3	15.5	16.4
Cash Flow Margin	12.7	13.0	12.9	8.5	6.1	8.1	11.0
Investment Income as % of Excess Income	21.2	42.3	33.9	522.9	(219.2)	81.0	49.4
Personnel Cost as % of Revenues	43.5	44.2	44.7	47.1	46.2	46.2	46.3
Bad Debt Expense as % of Revenues	4.3	4.4	4.5	4.6	4.7	4.7	4.8
Capital-Related Ratios							
MADS Coverage by EBITDA (x)	1.2	1.5	1.7	1.4	1.7	2.2	2.5
MADS Coverage by CFFOBI (x)	1.4	1.5	1.6	1.6	1.6	2.0	2.5
MADS Coverage by CFFOBI less Capital Expenditures (x)	(1.8)	(3.3)	(2.6)	(0.4)	1.4	1.7	2.2
MADS as % of Revenue	11.4	10.6	9.7	8.9	8.0	7.4	6.8
Debt to EBITDA (x)	10.5	8.7	7.6	9.1	7.3	5.7	4.9
Debt to Free Cash Flow (x)	(6.2)	(3.6)	(4.5)	(12.5)	23.2	13.8	9.1
Debt to Capitalization (%)	66.2	64.7	61.9	61.4	61.4	60.0	57.8
Average Age of Plant (Years)	11.5	13.0	16.4	6.7	5.8	6.7	7.5
Capital Expenditures as % of Depreciation Expense	599.1	897.3	880.3	289.3	25.0	24.6	34.3

N.A. – Not available. Note: Fitch Ratings may have reclassified certain financial statement items for analytical purposes.

Silver Cross Health System & Affiliates
Financial Statements

(000'S)	ACTUAL 2006	ACTUAL 2007	ACTUAL 2008	full year after opening PROJECTED 2013	2014	2015
Statement of Revenues over Expenses						
Total Operating Revenue	210,810	236,136	252,609	366,301	398,312	432,518
Expenses:						
Interest	4,999	5,444	9,317	24,908	24,701	24,476
Depreciation	11,473	13,758	15,050	27,922	28,436	29,084
Total Expenses	202,620	229,017	249,182	377,642	397,412	424,187
Income (Loss) from Operations-	**8,190**	**7,119**	**3,426**	**(11,342)**	**900**	**8,331**
Non-Operating Gains	3,756	25,783	(4,410)	7,501	8,173	9,359
Revenue and Gains in Excess (Deficient) of Expenses	**11,946**	**32,901**	**(982)**	**(3,841)**	**9,073**	**17,690**
Balance Sheet						
Total Current Assets	48,328	49,893	76,738	84,155	90,328	94,129
Assets Whose Use is Limited						
By Board for Capital Expenditures	80,767	93,678	83,897	69,813	89,022	123,668
Self-Insurance Fund	17,198	19,256	23,091	33,931	36,645	39,577
New Bond Issue less new hospital CIP			-	-	-	-
Under Bond Agreements (Debt Service Fund)	26,613	21,049	12,180	33,687	33,687	33,658
Pledges Receivable	726	574	145	145	145	145
Donor Restricted Investments	9,088	8,301	7,594	7,594	7,594	7,594
Total Assets Whose Use is Limited	134,392	142,858	126,907	145,170	167,093	204,642
Total Fixed Assets	153,308	169,346	173,185	468,595	447,159	428,075
Total Other Assets	35,326	37,861	31,026	15,574	15,574	15,574
Total Assets	**371,354**	**399,958**	**407,856**	**713,494**	**720,154**	**742,420**
Liabilities and Net Assets						
Current Installments of L-T Debt	2,620	2,760	3,405	4,375	4,600	4,840
Total Current Liabilities	44,373	47,089	49,306	74,659	73,541	79,320
Long-Term Liabilities						
Estimated Self-Insured Prof & Genl Liability and Other	14,075	19,672	23,672	35,276	37,745	40,387
Long-Term debt, excluding current portion and unamortized l	135,004	131,154	134,217	373,110	368,510	363,670
Total Long-Term Liabilities	149,079	150,826	157,889	408,386	406,255	404,057
Total Liabilities	193,452	197,915	207,195	483,044	479,796	483,377
Unrestricted	168,088	193,168	192,922	222,710	232,619	251,333
Temporarily Restricted	4,142	2,804	2,364	2,364	2,364	2,364
Permanently Restricted	5,672	6,071	5,375	5,375	5,375	5,375
Total Net Assets	177,902	202,043	200,661	230,449	240,358	259,072
Total Liabilities and Net Assets	**371,354**	**399,958**	**407,856**	**713,494**	**720,154**	**742,449**
Current Ratio	**1.09**	**1.06**	**1.56**	**1.13**	**1.23**	**1.19**
excess Margin	**5.7%**	**13.9%**	**-0.4%**	**-1.0%**	**2.3%**	**4.1%**
Debt to Capitalization	**45.0%**	**40.9%**	**41.6%**	**62.9%**	**61.6%**	**59.5%**
Maximum Debt Service Coverage Ratio	**3.59**	**4.79**	**2.15**	**1.68**	**2.14**	**2.45**
Maximum Debt Service	$ 7,919	$ 10,883	$ 10,883	$ 29,076	$ 29,076	$ 29,076
Days Cash on Hand	**196**	**198**	**198**	**112**	**128**	**151**
cushion ratio	**12.94**	**10.75**	**11.64**	**3.70**	**4.44**	**5.61**

ATTACHMENT-75

Silver Cross Hospital

A Solucient 100 Top Hospital®

October 1, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Certification of Reasonableness of Financing Arrangements

Dear Mr. Constantino:

I hereby certify, under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1120.310(a)(1), that Silver Cross Health System and Silver Cross Hospital and Medical Centers (collectively, the "Applicants") have sufficient and readily accessible cash and cash equivalents to pay rent on 83,126 rentable square feet of space in the Medical Services Building and to fund and complete all aspects of the Project described in the Applicants' Certificate of Need Application.

Sincerely,

William Brownlow
Senior Vice President/Finance
Chief Financial Officer

SUBSCRIBED AND SWORN
to before me this 1st day
of October, 2009

Denise L. Tatgenhorst
Notary Public

OFFICIAL SEAL
DENISE L TATGENHORST
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:08/15/10

1200 Maple Road • Joliet, Illinois 60432 • (815) 740-1100 • www.silvercross.org

October 1, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Fair Market Value of Space Lease in Silver Cross Medical Services Building for Silver Cross Hospital

Dear Mr. Constantino:

SCH MSB LLC is the developer and landlord (the "Landlord") of the Silver Cross Medical Services Building (the "MSB"), which will be constructed and located at 1890 Clinton Street, New Lenox, Illinois 60451. I have reviewed the definitions of "fair market value" located at 77 Ill. Admin. Code §§ 1120.10(b)(4) and 1130.140. I am also familiar with the various rules and regulations concerning the submission of accurate materials to the Illinois Health Facilities & Services Review Board (the "Board"). Based on the foregoing, I hereby certify the following:

1. On or about September 14, 2009, Silver Cross Hospital (the "Hospital") and the Landlord negotiated the terms of a certain Medical Building Lease (the "Space Lease").

2. The Space Lease has a fifteen (15) year term.

3. The Space Lease is contingent upon the Hospital receiving permission from the Board to enter into the Space Lease.

4. Under the terms of the Space Lease, the Hospital will lease 83,126 rentable square feet at an annual, blended rate of $28.59 per rentable square foot (the "Rent").

5. Under the terms of the Space Lease, the Rent will increase by three percent (3%) per year.

6. It is my belief that an eight (8%) discount rate is normal and customary.

7. Based on the foregoing, the fair market value of the Space Lease would be $24,364,476.13.

8. Under the terms of the Space Lease, the Hospital will also receive a tenant improvement allowance of $3,622,060.

Sincerely,

William Brownlow

By: William Brownlow
Silver Cross Hospital & Medical Centers
Senior VP Finance/CFO

Subscribed and Sworn to before me
this 1st day of October, 2009

Denise L. Tatgenhorst

Notary Public

OFFICIAL SEAL
DENISE L TATGENHORST
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:08/15/10

Silver Cross Hospital

A Solucient 100 Top Hospitals® National Award Winner
2004, 2005, 2006

October 1, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Fair Market Value of Ground Lease for Medical Services Building

Dear Mr. Constantino:

SCH MSB LLC is the developer and landlord (the "Landlord") of the Silver Cross Medical Services Building (the "MSB"), which will be constructed and located at 1890 Clinton Street, New Lenox, Illinois 60451. I have reviewed the definitions of "fair market value" located at 77 Ill. Admin. Code §§ 1120.10(b)(4) and 1130.140. I am also familiar with the various rules and regulations concerning the submission of accurate materials to the Illinois Health Facilities & Services Review Board (the "Board"). Based on the foregoing, I hereby certify the following:

1. On or about September 14, 2009, Silver Cross Hospital (the "Hospital") and the Landlord negotiated the terms of a certain Ground Lease (the "Ground Lease").

2. The Ground Lease has a fifty (50) year term, with a fifteen (15) year renewal option and a subsequent ten (10) year renewal option.

3. The Ground Lease is contingent upon the Hospital receiving permission from the Board to enter into the Ground Lease.

4. Under the terms of the Ground Lease, the Hospital will lease the land upon which the MSB will sit to the Owner (the "Land").

5. The Land has the following legal description:

PIN# 15-08-04-300-008-0000. THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4, TOWNSHIP 35 NORTH, RANGE 11 EAST OF THE THIRD PRINCIPAL MERIDIAN, EXCEPTING THEREFROM THE FOLLOWING THREE TRACTS OF LAND: (1) THE SOUTH 250 FEET OF THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4 WHICH WAS CONVEYED TO JOHN GULLICK BY DEED RECORDED JULY 31, 1930 IN BOOK 729, PAGE 613, AS DOCUMENT 443214. (2) THAT PART DEDICATED TO THE PEOPLE OF THE STATE OF ILLINOIS BY DEDICATION RECORDED APRIL 21, 1931 BOOK 776, PAGE 4 AS DOCUMENT 449749. (3) THE EAST 560.03 FEET OF THE NORTH 466.69 FEET OF THE FOLLOWING DESCRIBED TRACT OF LAND: THAT PART OF THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4, TOWNSHIP 35 NORTH, RANGE 11 EAST OF THE THIRD PRINCIPAL

MERIDIAN. LYING NORTH OF THE PROPERTY CONVEYED TO JOHN GULLICK BY WARRANTY DEED RECORDED JULY 31, 1930 IN BOOK 729 PAGE 613 DOCUMENT 443214 AND SOUTH OF THE PROPERTY DEDICATED TO THE PEOPLE OF THE STATE OF ILLINOIS FOR HIGHWAY PURPOSES BY DOCUMENT 449749, IN WILL COUNTY, ILLINOIS.

6. Under the terms of the Ground Lease, the Landlord will pay $289,098.98 in annual rent to the Hospital (the "Rent").

7. Under the terms of the Ground Lease, the Rent will increase by three percent (3%) per year.

8. It is my belief that an eight (8%) discount rate is normal and customary.

9. Based on the foregoing, the fair market value for the first fifteen (15) years of the Ground Lease would be $2,963,654.24.

Sincerely,

William Brownlow

By: William Brownlow
Silver Cross Hospital & Medical Centers
Senior VP Finance/CFO

Subscribed and Sworn to before me
this 1st day of October, 2009

Denise L Tatgenhorst

Notary Public

OFFICIAL SEAL
DENISE L TATGENHORST
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:08/15/10

SCH MSB LLC
1621 18th Street, Suite 250
Denver, Colorado 80202

October 1, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Fair Market Value of Space Lease in Silver Cross Medical Services Building for Silver Cross Hospital

Dear Mr. Constantino:

SCH MSB LLC is the developer and landlord (the "Landlord") of the Silver Cross Medical Services Building (the "MSB"), which will be constructed and located at 1890 Clinton Street, New Lenox, Illinois 60451. I have reviewed the definitions of "fair market value" located at 77 Ill. Admin. Code §§ 1120.10(b)(4) and 1130.140. I am also familiar with the various rules and regulations concerning the submission of accurate materials to the Illinois Health Facilities & Services Review Board (the "Board"). Based on the foregoing, I hereby certify the following:

1. On or about September 14, 2009, Silver Cross Hospital (the "Hospital") and the Landlord negotiated the terms of a certain Medical Building Lease (the "Space Lease").

2. The Space Lease has a fifteen (15) year term.

3. The Space Lease is contingent upon the Hospital receiving permission from the Board to enter into the Space Lease.

4. Under the terms of the Space Lease, the Hospital will lease 83,126 rentable square feet at an annual, blended rate of $28.59 per rentable square foot (the "Rent").

5. Under the terms of the Space Lease, the Rent will increase by three percent (3%) per year.

6. It is my belief that an eight (8%) discount rate is normal and customary.

7. Based on the foregoing, the fair market value of the Space Lease would be $24,364,476.13.

CHI2_2160774.3

8. Under the terms of the Space Lease, the Hospital will also receive a tenant improvement allowance of $3,622,060.

Sincerely,

By: Gregory C. Venn, President of
NMI-SCH Inc., Manager of
SCH MSB LLC

Subscribed and Sworn to before me
this 15th day of October, 2009

Notary Public

GAYE E. BASS
NOTARY
PUBLIC
STATE OF COLORADO

My Commission Expires Oct. 15, 2010

SCH MSB LLC
1621 18th Street, Suite 250
Denver, Colorado 80202

October 1, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Fair Market Value of Ground Lease for Medical Services Building

Dear Mr. Constantino:

SCH MSB LLC is the developer and landlord (the "Landlord") of the Silver Cross Medical Services Building (the "MSB"), which will be constructed and located at 1890 Clinton Street, New Lenox, Illinois 60451. I have reviewed the definitions of "fair market value" located at 77 Ill. Admin. Code §§ 1120.10(b)(4) and 1130.140. I am also familiar with the various rules and regulations concerning the submission of accurate materials to the Illinois Health Facilities & Services Review Board (the "Board"). Based on the foregoing, I hereby certify the following:

1. On or about September 14, 2009, Silver Cross Hospital (the "Hospital") and the Landlord negotiated the terms of a certain Ground Lease (the "Ground Lease").

2. The Ground Lease has a fifty (50) year term, with a fifteen (15) year renewal option and a subsequent ten (10) year renewal option.

3. The Ground Lease is contingent upon the Hospital receiving permission from the Board to enter into the Ground Lease.

4. Under the terms of the Ground Lease, the Hospital will lease the land upon which the MSB will sit to the Owner (the "Land").

5. The Land has the following legal description:

PIN# 15-08-04-300-008-0000. THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4, TOWNSHIP 35 NORTH, RANGE 11 EAST OF THE THIRD PRINCIPAL MERIDIAN, EXCEPTING THEREFROM THE FOLLOWING THREE TRACTS OF LAND: (1) THE SOUTH 250 FEET OF THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4 WHICH WAS CONVEYED TO JOHN GULLICK BY DEED RECORDED JULY 31, 1930 IN BOOK 729, PAGE 613, AS DOCUMENT 443214. (2) THAT PART DEDICATED TO THE PEOPLE OF THE STATE OF ILLINOIS BY DEDICATION RECORDED APRIL 21, 1931 BOOK 776, PAGE 4 AS DOCUMENT

449749. (3) THE EAST 560.03 FEET OF THE NORTH 466.69 FEET OF THE FOLLOWING DESCRIBED TRACT OF LAND: THAT PART OF THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4, TOWNSHIP 35 NORTH, RANGE 11 EAST OF THE THIRD PRINCIPAL MERIDIAN, LYING NORTH OF THE PROPERTY CONVEYED TO JOHN GULLICK BY WARRANTY DEED RECORDED JULY 31, 1930 IN BOOK 729 PAGE 613 DOCUMENT 443214 AND SOUTH OF THE PROPERTY DEDICATED TO THE PEOPLE OF THE STATE OF ILLINOIS FOR HIGHWAY PURPOSES BY DOCUMENT 449749, IN WILL COUNTY, ILLINOIS.

6. Under the terms of the Ground Lease, the Landlord will pay $289,098.98 in annual rent to the Hospital (the "Rent").

7. Under the terms of the Ground Lease, the Rent will increase by three percent (3%) per year.

8. It is my belief that an eight (8%) discount rate is normal and customary.

9. Based on the foregoing, the fair market value for the first fifteen (15) years of the Ground Lease would be $2,963,654.24.

Sincerely,

By: Gregory C. Venn, President of
NMI-SCH Inc., Manager of
SCH MSB LLC

Subscribed and Sworn to before me
this 15th day of October, 2009

Gaye E. Bass
Notary Public

GAYE E. BASS
NOTARY PUBLIC
STATE OF COLORADO

My Commission Expires Oct. 15, 2010

Section X
Economic Feasibility
Criterion 1120.310(a), Reasonableness of Financing Arrangements

This Criterion is not applicable because the Project will be funded with cash and cash equivalents. William Brownlow's Affidavit in support of this Criterion is attached as ATTACHMENT 76.

Criterion 1120.310(b), Conditions of Lease Financing

On or about September 14, 2009, the Hospital and the Landlord negotiated the terms of a certain Medical Building Lease (the "Space Lease"). Under the terms of the Space Lease, the Hospital will lease 83,126 rentable square feet at an annual, blended rate of $28.59 per rentable square foot in the Medical Services Building (the "MSB"). As set forth in this Application, the fair market value of the Space Lease is $24,364,476.13. The Landlord has submitted documentation to the Applicants that demonstrates that the Landlord will spend approximately $60,571,577 to construct the MSB. Based on the foregoing, it is less costly for the Hospital to enter into the Space Lease than to construct the MSB. A Certification from the Applicants in support of the foregoing statements and this Criterion are attached as ATTACHMENT 76.

Criterion 1120.310(c), Reasonableness of Project and Related Costs

1. The construction and contingency cost per gross square foot for the clinical portions of the Project is $130.70. The clinical portions of the Project encompass 48,977 rentable square feet. The construction and contingency costs for the clinical portions of the Project total $6,401,333.02.

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE (CLINICAL PORTIONS OF PROJECT)

Department	A	B	C	D	E	F	G	H	Total
(list below)	Cost/Square Foot		Gross Sq. Ft.		Gross Sq. Ft.		Const. $	Mod. $	Cost
	NEW	MOD	NEW	CIRC	MOD	CIRC	(A x C)	(B x E)	(G + H)
Express/Complex Testing	$126.32	---	8,707		---	---	$1,099,841.12	---	$1,099,841.12
OT/PT	$96.61	---	8,802		---	---	$850,365.42	---	$850,365.42
Diabetes/Wound Care	$109.36	---	2,651		---	---	$289,914.75	---	$289,914.75
Lab	$172.28	---	9,921		---	---	$1,709,176.43	---	$1,709,176.43
Cardiac Rehab	$111.30	---	4,927		---	---	$548,370.00	---	$548,370.00
Dialysis	$132.83	---	8,685		---	---	$1,153,630.08	---	$1,153,630.08
Circulation	$86.19	---	5,284		---	---	$455,535.22	---	$455,535.22
Construction Total	$124.69	---	48,977		---	---	$6,106,733.02	---	$6,106,733.02
Contingencies	$6.02	---	48,977		---	---	$294,600.00	---	$294,600.00
Construction & Contingencies Total	**$130.70**	---	**48,977**		---	---	**$6,401,333.02**	---	**$6,401,333.02**

2. This Project contains no major medical equipment.

3. The Applicants will incur the following costs in completing this Project.

Project Costs			
USE OF FUNDS	**CLINICAL**	**NON-CLINICAL**	**TOTAL**
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts	$6,106,733.02	$3,587,928.29	$9,694,661.31
Modernization Contracts			
Contingencies	$294,600.00	$205,400.00	$500,000.00
Architectural/Engineering Fees	$441,900.00	$308,100.00	$750,000.00
Consulting and Other Fees	$29,460.00	$20,540.00	$50,000.00
Movable or Other Equipment (not in construction contracts) (includes computers, furniture, fixtures, and equipment)	$5,303,814.48	$796,136.00	$6,099,950.48
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space	$14,355,549.34	$10,008,926.79	$24,364,476.13
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	**$26,532,056.84**	**$14,927,031.08**	**$41,459,087.92**

As set forth below, all cost components attributable to the clinical portions of this Project are well within the Section 1120 norms.

Project Item	Project Cost (Clinical)	Section 1120 Norm	Project Cost Compared to Section 1120 Norm
Preplanning Costs	$0	1.8% * (Construction Costs + Contingencies + Equipment) = 1.8% * ($6,106,733.02 + $294,600.00 + 5,303,814.48) = 1.8% * 11,705,147.50 = $210,692.66	Below Section 1120 Norm.
Site Survey, Soil Investigation and Site Preparation	$0	5% * (Construction Costs + Contingencies) = 5% * ($6,106,733.02 + $294,600.00) = 5% * $6,401,333.02 = $320,066.65	Below Section 1120 Norm.
Construction Contracts and Contingencies	$6,106,733.02 + $294,600.00 = $6,401,333.02 $6,401,333.02/48,977 = $130.70 per RSF	$160 per gross square foot (inflated at 3% per year until project target utilization in 2013) = $160 * $(1.03)^4$ = $160 * 1.1255 = $180.08 per gross square foot	Below Section 1120 Norm. Construction Contracts and Contingencies are only $130.70 per gross square foot
Contingencies	$294,600.00	10% * (Construction Costs) = 10% * $6,106,733.02 = $610,673.30	Below Section 1120 Norm. Contingencies are only 4.82% of Construction Costs.
Architectural and Engineering Fees	$441,900.00	3.5% to 7.7% * (Construction Costs + Contingencies) = 3.5% to 7.7% * ($6,106,733.02 + $294,600.00) = 3.5% to 7.7% * 6,401,333.02 = $224,046.66 to $492,902.64	Below Section 1120 Norm. Architectural and Engineering Fees are only 6.90% of Construction Costs + Contingencies
Consulting and Other Fees	$29,460.00	No Section 1120 Norm	Reasonable as compared to other approved projects.

Equipment	$5,303,814.48	No Section 1120 Norm	Reasonable as compared to other approved projects.
Fair Market Value of Leased Space	$14,355,549.34	No Section 1120 Norm	Reasonable as compared to other approved projects.

A Certification from the Applicants and the Landlord in support of the fair market value of the space lease is attached at ATTACHMENT 76.

Criterion 1120.310(d), Projected Operating Costs

The projected operating costs for the first full fiscal year when the Project achieves target utilization (2014) are as follows:

Total Operating Expenses:	$24,206,462
Depreciation Expense:	$1,421,154
Bad Debt Expense:	$933,596

Estimated Number of Procedures/Tests: 1,659,491

$$\text{Proj. Operating Costs} = \frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Bad Debt Expense}}{\text{Estimated Number of Procedures}}$$

$$\text{Proj. Operating Costs} = \frac{\$24,206,462 - \$1,421,154 - \$933,596}{1,659,491}$$

$$\text{Proj. Operating Costs} = \frac{\$21,851,711}{1,659,491}$$

Proj. Operating Costs Per Procedure = $13.17

Criterion 1120.310(e), Total Effect of the Project On Capital Costs

Total Projected Annual Capital Costs in Target Utilization Year (2014) = $0

Total Projected Annual Capital Costs Per Procedure = $0

Criterion 1120.310(f), Non-Patient Related Services

The Applicants will only be leasing space in the Medical Services Building. Thus, this criterion is not applicable. Nevertheless, the Landlord has provided the Applicants with copies of physician commitment letters for 97,700 rentable square feet in the Medical Services Building. Those physician commitment letters are attached at ATTACHMENT 76. Between the Applicants and the physicians, the Landlord has secured commitments for 180,826 rentable square feet. That represents more than 91.3% of the total rentable space available in the Medical Services Building. Thus, the Landlord has surpassed the customary, lease commitment "feasibility" mark of 80%. The chart on the next page details the commitments received to date.

Critically, the physician offices in the Medical Services Building will be leased to the physicians at fair market value, and will not be subsidized by the Applicants. Moreover, as set forth in this Application, the Landlord will bear all of the financial risk on the Medical Services Building; thus, the Applicants will not have to increase its charges in any fashion should any terms of the physician commitments change in the future.

Silver Cross Hospital

A Solucient 100 Top Hospital®

October 1, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Certification Regarding Conditions of Lease Financing

Dear Mr. Constantino:

We hereby certify and attest, as authorized representatives of Silver Cross Health System (the "System") and Silver Cross Hospital and Medical Centers (the "Hospital," collectively with the System, the "Applicants"), under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109, and pursuant to 77 Ill. Admin. Code § 1120.310(b), to the following:

1. On or about September 14, 2009, the Hospital and the Landlord negotiated the terms of a certain Medical Building Lease (the "Space Lease").

2. The Space Lease has a fifteen (15) year term.

3. The Space Lease is contingent upon the Hospital receiving permission from the Board to enter into the Space Lease.

4. Under the terms of the Space Lease, the Hospital will lease 83,126 rentable square feet at an annual, blended rate of $28.59 per rentable square foot (the "Base Rent") in the Medical Services Building (the "MSB").

5. Under the terms of the Space Lease, the Base Rent will increase by three percent (3%) per year.

6. It is our belief that an eight (8%) discount rate is normal and customary.

7. Based on the foregoing, the fair market value of the Space Lease would be $24,364,476.13.

8. The Landlord has submitted documentation to the Applicants that demonstrates that the Landlord will spend approximately $60,571,577 to construct the MSB.

9. Based on the foregoing, it is our belief that it is less costly for the Hospital to enter into the Space Lease than to construct the MSB.

John Krepps
Vice President/Finance

Sincerely,

William Brownlow
Senior Vice President/Finance
Chief Financial Officer

SUBSCRIBED AND SWORN
to before me this 1st day
of October, 2009.
Denise L. Tatgenhorst
Notary Public

OFFICIAL SEAL
DENISE L TATGENHORST
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:08/15/10

ATTACHMENT-76

1200 Maple Road • Joliet, Illi 0 • www.silvercross.org

Silver Cross Hospital

A Solucient 100 Top Hospitals* National Award Winner
2004, 2005, 2006

October 1, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Fair Market Value of Space Lease in Silver Cross Medical Services Building for Silver Cross Hospital

Dear Mr. Constantino:

SCH MSB LLC is the developer and landlord (the "Landlord") of the Silver Cross Medical Services Building (the "MSB"), which will be constructed and located at 1890 Clinton Street, New Lenox, Illinois 60451. I have reviewed the definitions of "fair market value" located at 77 Ill. Admin. Code §§ 1120.10(b)(4) and 1130.140. I am also familiar with the various rules and regulations concerning the submission of accurate materials to the Illinois Health Facilities & Services Review Board (the "Board"). Based on the foregoing, I hereby certify the following:

1. On or about September 14, 2009, Silver Cross Hospital (the "Hospital") and the Landlord negotiated the terms of a certain Medical Building Lease (the "Space Lease").

2. The Space Lease has a fifteen (15) year term.

3. The Space Lease is contingent upon the Hospital receiving permission from the Board to enter into the Space Lease.

4. Under the terms of the Space Lease, the Hospital will lease 83,126 rentable square feet at an annual, blended rate of $28.59 per rentable square foot (the "Rent").

5. Under the terms of the Space Lease, the Rent will increase by three percent (3%) per year.

6. It is my belief that an eight (8%) discount rate is normal and customary.

7. Based on the foregoing, the fair market value of the Space Lease would be $24,364,476.13.

1200 Maple Road • Joliet, Illinois 60432 • (815) 740-1100 • www.silvercross.org

8. Under the terms of the Space Lease, the Hospital will also receive a tenant improvement allowance of $3,622,060.

Sincerely,

William Brownlow

By: William Brownlow
Silver Cross Hospital & Medical Centers
Senior VP Finance/CFO

Subscribed and Sworn to before me
this 1st day of October, 2009

Denise L. Tatgenhorst

Notary Public

OFFICIAL SEAL
DENISE L TATGENHORST
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:08/15/10

Silver Cross Hospital

A Solucient 100 Top Hospitals® National Award Winner
2004, 2005, 2006

October 1, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Fair Market Value of Ground Lease for Medical Services Building

Dear Mr. Constantino:

SCH MSB LLC is the developer and landlord (the "Landlord") of the Silver Cross Medical Services Building (the "MSB"), which will be constructed and located at 1890 Clinton Street, New Lenox, Illinois 60451. I have reviewed the definitions of "fair market value" located at 77 Ill. Admin. Code §§ 1120.10(b)(4) and 1130.140. I am also familiar with the various rules and regulations concerning the submission of accurate materials to the Illinois Health Facilities & Services Review Board (the "Board"). Based on the foregoing, I hereby certify the following:

1. On or about September 14, 2009, Silver Cross Hospital (the "Hospital") and the Landlord negotiated the terms of a certain Ground Lease (the "Ground Lease").

2. The Ground Lease has a fifty (50) year term, with a fifteen (15) year renewal option and a subsequent ten (10) year renewal option.

3. The Ground Lease is contingent upon the Hospital receiving permission from the Board to enter into the Ground Lease.

4. Under the terms of the Ground Lease, the Hospital will lease the land upon which the MSB will sit to the Owner (the "Land").

5. The Land has the following legal description:

PIN# 15-08-04-300-008-0000. THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4, TOWNSHIP 35 NORTH, RANGE 11 EAST OF THE THIRD PRINCIPAL MERIDIAN, EXCEPTING THEREFROM THE FOLLOWING THREE TRACTS OF LAND: (1) THE SOUTH 250 FEET OF THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4 WHICH WAS CONVEYED TO JOHN GULLICK BY DEED RECORDED JULY 31, 1930 IN BOOK 729, PAGE 613, AS DOCUMENT 443214. (2) THAT PART DEDICATED TO THE PEOPLE OF THE STATE OF ILLINOIS BY DEDICATION RECORDED APRIL 21, 1931 BOOK 776, PAGE 4 AS DOCUMENT 449749. (3) THE EAST 560.03 FEET OF THE NORTH 466.69 FEET OF THE FOLLOWING DESCRIBED TRACT OF LAND: THAT PART OF THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4, TOWNSHIP 35 NORTH, RANGE 11 EAST OF THE THIRD PRINCIPAL

MERIDIAN, LYING NORTH OF THE PROPERTY CONVEYED TO JOHN GULLICK BY WARRANTY DEED RECORDED JULY 31, 1930 IN BOOK 729 PAGE 613 DOCUMENT 443214 AND SOUTH OF THE PROPERTY DEDICATED TO THE PEOPLE OF THE STATE OF ILLINOIS FOR HIGHWAY PURPOSES BY DOCUMENT 449749, IN WILL COUNTY, ILLINOIS.

6. Under the terms of the Ground Lease, the Landlord will pay $289,098.98 in annual rent to the Hospital (the "Rent").

7. Under the terms of the Ground Lease, the Rent will increase by three percent (3%) per year.

8. It is my belief that an eight (8%) discount rate is normal and customary.

9. Based on the foregoing, the fair market value for the first fifteen (15) years of the Ground Lease would be $2,963,654.24.

Sincerely,

By: William Brownlow
Silver Cross Hospital & Medical Centers
Senior VP Finance/CFO

Subscribed and Sworn to before me
this 1st day of October, 2009

Denise L Tatgenhorst
Notary Public

OFFICIAL SEAL
DENISE L TATGENHORST
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:08/15/10

SCH MSB LLC
1621 18th Street, Suite 250
Denver, Colorado 80202

October 1, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Fair Market Value of Space Lease in Silver Cross Medical Services Building for Silver Cross Hospital

Dear Mr. Constantino:

SCH MSB LLC is the developer and landlord (the "Landlord") of the Silver Cross Medical Services Building (the "MSB"), which will be constructed and located at 1890 Clinton Street, New Lenox, Illinois 60451. I have reviewed the definitions of "fair market value" located at 77 Ill. Admin. Code §§ 1120.10(b)(4) and 1130.140. I am also familiar with the various rules and regulations concerning the submission of accurate materials to the Illinois Health Facilities & Services Review Board (the "Board"). Based on the foregoing, I hereby certify the following:

1. On or about September 14, 2009, Silver Cross Hospital (the "Hospital") and the Landlord negotiated the terms of a certain Medical Building Lease (the "Space Lease").

2. The Space Lease has a fifteen (15) year term.

3. The Space Lease is contingent upon the Hospital receiving permission from the Board to enter into the Space Lease.

4. Under the terms of the Space Lease, the Hospital will lease 83,126 rentable square feet at an annual, blended rate of $28.59 per rentable square foot (the "Rent").

5. Under the terms of the Space Lease, the Rent will increase by three percent (3%) per year.

6. It is my belief that an eight (8%) discount rate is normal and customary.

7. Based on the foregoing, the fair market value of the Space Lease would be $24,364,476.13.

CHI2_2160774.3

8. Under the terms of the Space Lease, the Hospital will also receive a tenant improvement allowance of $3,622,060.

Sincerely,

By: Gregory C. Venn, President of
NMI-SCH Inc., Manager of
SCH MSB LLC

Subscribed and Sworn to before me
this 15th day of October, 2009

Notary Public

GAYE E. BASS
NOTARY
PUBLIC
STATE OF COLORADO

My Commission Expires Oct. 15, 2010

SCH MSB LLC
1621 18th Street, Suite 250
Denver, Colorado 80202

October 1, 2009

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Fair Market Value of Ground Lease for Medical Services Building

Dear Mr. Constantino:

SCH MSB LLC is the developer and landlord (the "Landlord") of the Silver Cross Medical Services Building (the "MSB"), which will be constructed and located at 1890 Clinton Street, New Lenox, Illinois 60451. I have reviewed the definitions of "fair market value" located at 77 Ill. Admin. Code §§ 1120.10(b)(4) and 1130.140. I am also familiar with the various rules and regulations concerning the submission of accurate materials to the Illinois Health Facilities & Services Review Board (the "Board"). Based on the foregoing, I hereby certify the following:

1. On or about September 14, 2009, Silver Cross Hospital (the "Hospital") and the Landlord negotiated the terms of a certain Ground Lease (the "Ground Lease").

2. The Ground Lease has a fifty (50) year term, with a fifteen (15) year renewal option and a subsequent ten (10) year renewal option.

3. The Ground Lease is contingent upon the Hospital receiving permission from the Board to enter into the Ground Lease.

4. Under the terms of the Ground Lease, the Hospital will lease the land upon which the MSB will sit to the Owner (the "Land").

5. The Land has the following legal description:

PIN# 15-08-04-300-008-0000. THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4, TOWNSHIP 35 NORTH, RANGE 11 EAST OF THE THIRD PRINCIPAL MERIDIAN, EXCEPTING THEREFROM THE FOLLOWING THREE TRACTS OF LAND: (1) THE SOUTH 250 FEET OF THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4 WHICH WAS CONVEYED TO JOHN GULLICK BY DEED RECORDED JULY 31, 1930 IN BOOK 729, PAGE 613, AS DOCUMENT 443214. (2) THAT PART DEDICATED TO THE PEOPLE OF THE STATE OF ILLINOIS BY DEDICATION RECORDED APRIL 21, 1931 BOOK 776, PAGE 4 AS DOCUMENT

449749. (3) THE EAST 560.03 FEET OF THE NORTH 466.69 FEET OF THE FOLLOWING DESCRIBED TRACT OF LAND: THAT PART OF THE WEST HALF OF THE SOUTHWEST QUARTER OF SECTION 4, TOWNSHIP 35 NORTH, RANGE 11 EAST OF THE THIRD PRINCIPAL MERIDIAN, LYING NORTH OF THE PROPERTY CONVEYED TO JOHN GULLICK BY WARRANTY DEED RECORDED JULY 31, 1930 IN BOOK 729 PAGE 613 DOCUMENT 443214 AND SOUTH OF THE PROPERTY DEDICATED TO THE PEOPLE OF THE STATE OF ILLINOIS FOR HIGHWAY PURPOSES BY DOCUMENT 449749, IN WILL COUNTY, ILLINOIS.

6. Under the terms of the Ground Lease, the Landlord will pay $289,098.98 in annual rent to the Hospital (the "Rent").

7. Under the terms of the Ground Lease, the Rent will increase by three percent (3%) per year.

8. It is my belief that an eight (8%) discount rate is normal and customary.

9. Based on the foregoing, the fair market value for the first fifteen (15) years of the Ground Lease would be $2,963,654.24.

Sincerely,

By: Gregory C. Venn, President of
NMI-SCH Inc., Manager of
SCH MSB LLC

Subscribed and Sworn to before me
this 15th day of October, 2009

Gaye E. Bass
Notary Public

GAYE E. BASS
NOTARY
PUBLIC
STATE OF COLORADO

My Commission Expires Oct. 15, 2010

CHI2_2166120.2

Letters of Interest/Space Commitments for Medical Services Building		
Tenant	**Rentable Square Feet Committed**	**Rentable Square Feet Available**
Parkview Musculoskeletal Institute	10,000	
Reza Gamagami, MD, FACS	8,200	
BMI Surgery, S.C.	8,000	
Heartland Cardiovascular Center, LLC	8,000	
MK Orthopedics	4,500	
Advanced Urology Associates	2,000	
Midwest Respiratory Ltd.	2,500	
Northeast Nephrology Consultants	1,654	
ENT Surgical Consultants	2,000	
Southwest Center for Gastroenterology	2,600	
Associated Radiologists of Joliet, S.C.	400	
Health Care Delivery System	1,500	
C&R Medical	3,000	
Mohammed Al-Khudari, MD and Husam Marshed, MD	2,000	
Jafer Jawich, MD	2,000	
Pronger Smith Medical Care	5,000	
Doc's Drugs Ltd.	1,546	
Michel Borders, MD	1,000	
Primary Care Partners LLC	2,500	
Advanced Allergy & Asthma Care	900	
A Step Ahead Footcare, P.C.	2,000	
21st Century Urology, S.C.	2,000	
Will County Medical Associates, S.C.	5,000	
Southwest Women's Healthcare Associates	2,000	
Nahla Merhi, MD	1,500	
Anthony Rinella, MD	3,500	
Southland Bone & Joint Institute	1,500	
George Verghese, MD	1,200	
Augustine Roland, MD	1,200	
Primary Care Physicians of Essington	5,000	
Jose Rios, MD	2,000	
Heart Care Centers of Illinois	1,500	
Total Physician Commitments	**97,700**	
Total Silver Cross Commitments	**83,126**	
Total Commitments	**180,826**	**198,025**
Percent Committed	**91.31%**	**91.31%**

NexCore GROUP

NexCore Properties, LLC

February 24, 2009

William J. Farrell, MD
Parkview Musculoskeletal Institute
1300 Copperfield Ave., Suite 4040
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 10,000 rentable square feet ("RSF").
2. The base rent is $ 22.60 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $50.00/RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 24th day of February, 2009.

Signature: William J Farrell MD

Printed Name: W. FARRELL MD

Tenant/Entity: PARKVIEW ORTHOPEDIC GROUP dr. gamagami

NexCore GROUP

NexCore Properties, LLC

May 21, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 8,200 rentable square feet ("RSF").
2. The base rent is in the range of $21.00 to $22.50 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $50.00 to $60.00/RSF.

The undersigned understands that this letter is non-binding and serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 27th day of May, 2009.

Reza Gamagami, MD, FACS
1300 Copperfield Ave., Suite 1080
Joliet, IL 60432

Signature: ____________________

Tenant/Entity: ____________________

NexCore
GROUP

NexCore Properties, LLC

June, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

To Whom it May Concern:

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 8,000 rentable square feet ("RSF").
2. The base rent is $21.10 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 50 /RSF +.

The undersigned understands that this letter is non-binding and serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 15 day of [illegible], 2009.

Signature: [signature]

Printed Name: Christopher Joyce

Practice: BMI Surgery

NexCore GROUP

NexCore Properties, LLC

February, 2009

Heartland Cardiovascular Center, LLC
1300 Copperfield Avenue, Suite 3030
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 8,000 rentable square feet ("RSF").
2. The base rent is $21.60 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 55 /RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 28 day of February, 2009.

Signature: Carla S Dyer, CEO

Printed Name: Carla S Dyer

Tenant/Entity: Heartland Cardiovascular Center, LLC

NexCore GROUP

NexCore Properties, LLC

March, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 4500 rentable square feet ("RSF").
2. The base rent is $ 23.60 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 50.00/RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 19th day of ~~March,~~ 2009.

Signature: [signature]

Printed Name: KOMANDURZ, MUKUND

Practice: MK ORTHOPEDICS

NexCore
GROUP

NexCore Properties, LLC

February, 2009

Advanced Urology
1300 Copperfield Ave., Suite 3020
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 2000 rentable square feet ("RSF").
2. The base rent is $23.60 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 50.00 /RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 20 day of February, 2009.

Signature: [illegible]

Printed Name: [illegible]

Tenant/Entity: Advanced Urology Associates

NexCore GROUP

NexCore Properties, LLC

February, 2009

Midwest Respiratory Ltd.
1300 Copperfield Avenue, Suite 4060
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 2500 rentable square feet ("RSF").
2. The base rent is $22.10 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $50.00 /RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this ___ day of February, 2009.

Signature: [signature]

Printed Name: AMAR GARAPATI

Tenant/Entity: Midwest Respiratory, LTD

NexCore GROUP

NexCore Properties, LLC

February, 2009

Northeast Nephrology Consultants
1300 Copperfield Avenue, Suite 1030
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately ~1654 rentable square feet ("RSF").
2. The base rent is $~21.10 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 50 /RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this ___ day of February, 2009.

Signature: [signature] / PNagarhatte

Printed Name: Z. T. M-ICRAVETS MD, / Preeti Nagarkatte

Tenant/Entity: NorthEast Nephrology

ENT Surgical Consultants

Thomas Kron, MD
Scott DiVenere, MD

2201 Glenwood Ave.
Joliet, IL 60435
815-725-1191

Michael Gartlan, MD
Sung Chung, MD

1300 Copperfield Ave
Joliet, IL 60432
815-727-6031

Rajeev Mehta, MD
Ankit Patel, MD

119 E. Jefferson
Morris, IL 60450
815-941-1972

2/26/2009

Michelle Gayeski
NexCore Group
303-244-0720 fax

Dear Ms. Gayeski:

This letter is to inform you of our intent to rent space in the new Medical Services Building, to be located on the future campus of Silver Cross Hospital in New Lenox, IL. It is our intent to rent approximately 2,000 square feet.

Sincerely,

Ankit Patel

Ankit Patel MD

NexCore GROUP

NexCore Properties, LLC

February, 2009

Southwest Center for Gastroenterology
1300 Copperfield Avenue, Suite 4050
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 2600 rentable square feet ("RSF").
2. The base rent is $22.40 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 65 /RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 26 day of February, 2009.

Signature: Douglas A Lee

Printed Name: DOUGLAS A. LEE

Tenant/Entity: SOUTHWEST GASTROENTEROLOGY

ATTACHMENT-76

NexCore GROUP

NexCore Properties, LLC

April, 2009

Salvador Rinella, MD
Associated Radiologists of Joliet
1200 Maple Road, Room 3309
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 400 rentable square feet ("RSF").
2. The base rent is $22.00+ per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $50.00/RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 15 day of ~~April~~ May 2009.

Signature: Salvador A. Rinella, MD

Printed Name: SALVADOR RINELLA

Tenant/Entity: Associated Radiologists of Joliet,S.C.

NexCore GROUP

NexCore Properties, LLC

February, 2009

Mohammad Toor, MD
1301 Copperfield Ave., Suite 202
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 1500 rentable square feet ("RSF").
2. The base rent is $22.50 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $60.00/RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this ___ day of February, 2009.

Signature: [signature]

Printed Name: MOHAMMAD A. TOOR M.D

Tenant/Entity: HEALTH CARE Delivery System

NexCore GROUP

NexCore Properties, LLC

February, 2009

Rick Singh, DO
Corinne Nawrocki, DO
C&R Medical
1301 Copperfield Ave., Suite 210
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 3000 rentable square feet ("RSF").
2. The base rent is $16.60 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $________/RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this ___ day of February, 2009.

Signature: [signature] [signature]

Printed Name: Rick Singh / CORINNE NAWROCKI

Tenant/Entity: ________________

ATTACHMENT-76

NexCore GROUP

NexCore Properties, LLC

February, 2009

Mohammed Al-Khudari, MD
Husam Marsheh, MD
1301 Copperfield Ave., Suite 214
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 2000 rentable square feet ("RSF").

2. The base rent is $______ per RSF NNN.

3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $_________/RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this ___ day of February, 2009.

Signature: ______________________

Printed Name: Mohammed Al-Khudari, MD. Dr MARSHEH

Tenant/Entity: ______________________

ATTACHMENT-76

NexCore GROUP

NexCore Properties, LLC

February, 2009

Zafer Jawich, MD
1301 Copperfield Ave., Suite 206
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 2000 rentable square feet ("RSF").
2. The base rent is $16.60 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 60 /RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 25 day of February, 2009.

Signature: [signature]

Printed Name: ZAFER JAWICH

Tenant/Entity: ____________________

ATTACHMENT-76

NexCore GROUP

NexCore Properties, LLC

June, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

To Whom it May Concern:

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 5000 rentable square feet ("RSF").
2. The base rent is $22.10 23.40 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $50-65 /RSF +.

The undersigned understands that this letter is non-binding and serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 16 day of Sept, 2009.

Signature: [signature]

Printed Name: David G. Seeman, CEO

Practice: Pronger Smith Medical Care

NexCore GROUP

NexCore Properties, LLC

July, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

To Whom it May Concern:

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 1546 rentable square feet ("RSF").
2. The base rent is $ 29 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 40 /RSF +.

The undersigned understands that this letter is non-binding and serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 30 st day of July, 2009.

Signature: ____________________

Printed Name: Anthony Sartoris

Practice: Pharmacy — Doc's Drugs LTD

ATTACHMENT-76

NexCore GROUP

NexCore Properties, LLC

February, 2009

Michel Borders , MD
1301 Copperfield Ave., Suite 110
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 1000 rentable square feet ("RSF").
2. The base rent is $ 18 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 60 /RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 26 day of February, 2009.

Signature: MCBorders MD

Printed Name: M.K. Borders, M.D.

Tenant/Entity: ____________________

NexCore GROUP

NexCore Properties, LLC

April, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 2,500 rentable square feet ("RSF").
2. The base rent is $ 18 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 60 /RSF +.

The undersigned understands that this non-binding letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 03 day of April, 2009.

Signature: [signature]

Printed Name: Vivek Kaitha, MD

Practice: Primary Care Partners, LLC.

NexCore GROUP

NexCore Properties, LLC

August, 2009

Amee Majmundar, M.D.
Advanced Allergy & Asthma Care
15300 West Ave.
Suite 204 E
Orland Park, IL 60462

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

To Whom it May Concern:

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 900 rentable square feet ("RSF").
2. The base rent is in the range of $22.00 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $50.00/RSF +.

The undersigned understands that this letter is non-binding and serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 13 day of August, 2009.

Signature: [signature]

Printed Name: Amee Majmundar

Practice: Advanced Allergy & Asthma Care SC.

NexCore
GROUP

NexCore Properties, LLC

May, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 2000 rentable square feet ("RSF").
2. The base rent is $22.60 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $50.00/RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 26 day of May, 2009.

Signature: [signature]

Printed Name: Michael A. Bucay DPM

Practice: A Step Ahead Footcare, P.C.

NexCore GROUP

NexCore Properties, LLC

July, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

To Whom it May Concern:

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 2000 rentable square feet ("RSF").
2. The base rent is $ 23.50 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 60 /RSF +.

The undersigned understands that this letter is non-binding and serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 27th day of ~~July~~ August, 2009.

Signature: Robert A. Bonzan MD

Printed Name: Robert A. Bonzan. MD

Practice: 21st Century Urology S.C.

NexCore GROUP

NexCore Properties, LLC

June, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

To Whom it May Concern:

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 5,000 rentable square feet ("RSF").
2. The base rent is $ 20 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 60 /RSF +.

The undersigned understands that this letter is non-binding and serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 16th day of June, 2009.

Signature: ____________

Printed Name: Ramesh Viswanathan, M.D. President

Practice: Will County Medical Associates,SC

ATTACHMENT-76

NexCore
GROUP

NexCore Properties, LLC

June, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

To Whom it May Concern:

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 2,000 rentable square feet ("RSF").
2. The base rent is $19.00 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $50.00/RSF +.

The undersigned understands that this letter is non-binding and serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this ___ day of ______, 2009.

Signature: [signature]

Printed Name: Dexter E. Arrington, MD

Practice: (OB/GYN) Southwest Women's Healthcare Associates

ATTACHMENT-76

NexCore GROUP

NexCore Properties, LLC

March, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 1,500 rentable square feet ("RSF").
2. The base rent is $20 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 50 /RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 3rd day of March, 2009.

Signature: ____________

Printed Name: Nahla Merhi, MD

Practice: OBGyN

NexCore
GROUP

NexCore Properties, LLC

April, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 3500 rentable square feet ("RSF").
2. The base rent is $ 23.40 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 65 /RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 30 day of April, 2009.

Signature: Anthony Ruelle

Printed Name: Anthony Ruella

Practice: Spine Surgery

NexCore GROUP

NexCore Properties, LLC

May, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 1,500 rentable square feet ("RSF").

2. The base rent is $23.50 per RSF NNN.

3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $55.00/RSF +.

The undersigned understands that this non-binding letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 5th day of May, 2009.

Signature: ______________________
Southland Bone & Joint Institute
Neal Labana, MD
20060 Govenors Dr Ste 300
Olympia Fields IL 60461

NexCore GROUP

NexCore Properties, LLC

July, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

To Whom it May Concern:

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 1200 rentable square feet ("RSF").
2. The base rent is \$ 22.10 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of \$ 50.00 /RSF +.

The undersigned understands that this letter is non-binding and serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 31st day of July, 2009.

Signature: [signature]

Printed Name: G. Verghese

Practice: Orthopedic Surgery

NexCore GROUP

NexCore Properties, LLC

February, 2009

Augustine Roland , MD
1301 Copperfield Ave., Suite 201
Joliet, IL 60432

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 1,200 rentable square feet ("RSF").
2. The base rent is $ 18.10 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 60.00/RSF +.

The undersigned understands that this letter serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this ___ day of February, 2009.

Signature: A Roland

Printed Name: A. ROLAND MD

Tenant/Entity: ____________________

ATTACHMENT-76

NexCore GROUP

NexCore Properties, LLC

June, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

To Whom it May Concern:

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 5,000 rentable square feet ("RSF").
2. The base rent is $ 20 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 50 /RSF +.

The undersigned understands that this letter is non-binding and serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 16 day of Sept., 2009.

Signature: [signature]

Printed Name: JOSEPH A. HINDO M.D. F.A.C.P.

Practice: PCP OF ESSINGTON
1051 ESSINGTON RD.
SUITE 100
JOLIET, IL 60431
(815) 744-4440
(815) 744-9360 (FAX)

ATTACHMENT-76

NexCore
GROUP

NexCore Properties, LLC

June, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

To Whom it May Concern:

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 2000 rentable square feet ("RSF").
2. The base rent is $ 21.00 per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $ 50 /RSF +.

The undersigned understands that this letter is non-binding and serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 16 day of Sept., 2009.

Signature: ______________

Printed Name: Jose L. Rios

Practice: Dermatology & Plastic Surgery Associates

ATTACHMENT-76

NexCore GROUP

NexCore Properties, LLC

June, 2009

RE: Letter of Interest for the proposed Medical Services Building at Silver Cross Hospital for purposes of CON Application

To Whom it May Concern:

This Letter will confirm our understanding regarding the possible lease by the undersigned for space in the proposed medical services building (the "MSB"), being developed on the campus of Silver Cross Hospital in New Lenox, IL at Maple Road and Cedar by NexCore Group ("Developer").

We are interested in pursuing a lease agreement for space in the Building based upon the following terms and conditions:

1. We will lease a practitioner suite in the Building consisting of approximately 1500 rentable square feet ("RSF").
2. The base rent is $______ per RSF NNN.
3. We understand that a Tenant Improvement/Design Allowance will be provided in the range of $__________/RSF +.

The undersigned understands that this letter is non-binding and serves to document our intent and interest in leasing and occupying space in the Building, but is expressly subject to the negotiation and execution of a lease agreement.

The next step in the process is suite design. We will work together with the architect on space planning and obtain preliminary cost estimates for approval.

This Agreement is executed this 16 day of Sept, 2009.

Signature: John Arrotti, MD

Printed Name: JOHN ARROTTI, MD

Practice: Heart Care Centers of Illinois

After paginating the entire, completed application, indicate in the chart below, the page numbers for the attachments included as part of the project's application for permit:

INDEX OF ATTACHMENTS

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