CHARLES H. FOLEY & ASSOCIATES INC.

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MAY 13 2011

HEALTH FACILITIES &
SERVICES REVIEW BOARD

May 13, 2011

Mr. Michael Constantino,
Chief Project Reviewer
ILLINOIS DEPARTMENT OF PUBLIC HEALTH
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761

Re: IDPH Project Number **10-089**, Mercy Crystal Lake Hospital and Medical Center.

Dear Mike:

Please accept this correspondence as the Applicant's response to your emailed data request dated, April 29th, May 3rd, and May 5th. The information provided is as follows:

Appended as **EXHIBIT I**, is a "breakdown of the following items: Site Survey and Soil Investigations, Site Preparation, Offsite Work, Movable and Other Equipment, Bond Issuance Expense, Net Interest Expense, Other Costs to be Capitalized".

Appended as **EXHIBIT II**, is the projected payor mix and charity care information for the proposed project.

Appended as **EXHIBIT III**, is Criterion 77 Illinois Administrative Code Section 1110.3030 (b) Establishment. It should be noted that the documentation of this criterion indicates that the physicians who made referrals to this proposed project are Mercy-employed physician's. Also within this section is the resultant utilization for the proposed project.

Appended as **EXHITIT IV**, is the listing of projected physician referrals for the proposed project by physician, specialty, and listing of where those historical referrals were made. This data is the basis for the project's projected utilization.

Appended as **EXHITIB V**, is the consolidated financial statements for Mercy Alliance, Inc. and its Affiliates.

Appended as **EXHIBIT VI**, is the breakout of clinical and nonclinical costs in the CON application form's Project Costs and Sources of Funds page. Additionally, it should be noted that the break out of the physician clinic is provided on page seven (corrected page) as previously submitted.

Thank you for your consideration on these items. Should you have any questions or concerns on these or any other issues relating to the above referenced application please do not hesitate to contact me.

Sincerely,

Charles H. Foley, MHSA
Health Care Consultant

ENCLOSURES

C: Richard H. Gruber, VP
Dan Colby,VP
Linas Grikis, Attorney at Law
McDermott Will & Emery

Project Costs and Sources of Funds

1. Site Survey and Soil Investigation	
Site Survey	$ 22,500
Geotechnical	$ 22,500
Total	$ 45,000
2. Site Preparation	
Site Demolition And Clearing	$ 62,000
Grading	$ 681,000
Erosion and Sediment Control	$ 12,000
Flexible Pavement	$ 727,000
Rigid Pavement	$ 194,000
Paving Specialties	$ 17,000
Walks Curbs & Gutters	$ 285,000
Landscaping and Irrigation	$ 400,000
Cast in place Concrete (Retaining walls, ramps, etc.)	$ 152,000
Utility Services	
Water Distribution	$ 236,000
Sanitary Sewerage System	$ 82,000
Storm Drainage Systems	$ 652,000
Electrical	$ 800,000
Total	$ 4,300,000
3. Off Site Work	
Traffic Signals (Route 31 & Three Oaks)	$ 300,000
4. Moveable and Other Equipment	
(Attached Sheet)	$36,549,872
5. Bond Issuance Expense	
Bond Counsel	$ 180,000
Borrower's Counsel	$ 120,000
Underwriter's Counsel	$ 140,000
Letter of Credit Provider's Counsel	$ 80,000
Official Statement Printing	$ 50,000
Auditor	$ 40,000
Rating Agency Fee	$ 120,000
Miscellaneous	$ 20,000
Underwriter's Discount	$ 1,190,000
Letter of Credit Costs	$ 560,000
Debt Service Reserve Fund	$ 8,500,000
	$11,000,000

Project Costs and Sources of Funds

6. Net Interest Expense During Construction

Interest Expense	$ 1,550,000
Project Fund Interest Earnings	$ (550,000)
Bond Service Reserve Fund Interest Earnings	$ (30,000)
	$ 970,000

7. Other Costs to be Capitalized

Outlot Development (Sands Road Extension)	
Demolition and Clearing	$ 29,187
Earthwork and erosion control	$ 497,000
Utilities	
Sanitary	$ 190,000
Water	$ 155,000
Storm	$ 462,000
Utility Layout	$ 30,000
Concrete Work	$ 32,000
Paving	$ 160,000
Streetlights	$ 25,000
Landscaping	$ 35,000
Site Development (Raymond Drive Realignment)	$ 750,000
Land Balancing and Landscaping back 16 acres	$ 250,000
Relocate Overhead Power Lines Underground	$ 250,000
Construction Development Services	$ 1,145,000
Builders Risk Insurance	$ 200,000
Green Roof	$ 250,000
Commissioning	$ 225,000
Construction Testing	$ 225,000
Total	$ 4,910,187

Project Costs and Sources of Funds
Moveable or Other Equipment

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Description	Quantity	Unit Price	Total Cost	
Medical/Surgical Nursing Units				
Beds	100	$9,500	$950,000	
Overbed Tables	100	$500	$50,000	
Patient Recliner	100	$3,000	$300,000	
Patient Lift	10	$3,000	$30,000	
Pyxis/Med Prep	5	$47,000	$235,000	
Patient Equip/Storage	6	$20,000	$120,000	
Other Dept-Spec Furniture Alloc	61,799	$18.00	$1,112,382	
Computers/Telecomm Equip Alloc	61,799	$20.00	$1,235,980	
Misc	100	$4,000	$400,000	
				$4,433,362
Intensive Care Unit				
Beds	8	$26,000	$208,000	
Overbed Tables	8	$500	$4,000	
Patient Recliner and MD Stool	8	$3,000	$24,000	
Patient Lift	8	$8,000	$64,000	
Pyxis/Med Prep	2	$47,000	$94,000	
Refrigerators/Storage/Major Equip	1	$20,000	$20,000	
Telemetry	32	$7,800	$249,600	
Other Dept-Spec Furniture Alloc	3,894	$19.65	$76,517	
Computers/Telecomm Equip Alloc	3,894	$20.00	$77,880	
Misc	8	$17,500	$140,000	
				$957,997
Labor/Delivery/Recovery Unit				
Beds	2	$20,000	$40,000	
Overbed Tables	2	$1,200	$2,400	
Patient Recliner and MD Stool	2	$3,000	$6,000	
Patient Lift	1	$8,000	$8,000	
Pyxis/Med Prep	1	$47,000	$47,000	
Refrigerators/Storage/Major Equip	2	$20,000	$40,000	
Other Dept-Spec Furniture Alloc	2,501	$19.65	$49,145	
Computers/Telecomm Equip Alloc	2,501	$20.00	$50,020	
Misc	2	$25,000	$50,000	
				$292,565
Obstetrics				
Beds	20	$11,000	$220,000	
Overbed Tables	20	$500	$10,000	
Patient Recliner and MD Stool	29	$3,000	$87,000	
Patient Lift	2	$8,000	$16,000	
Pyxis/Med Prep	2	$47,000	$94,000	
Refrigerators/Storage/Major Equip	2	$20,000	$40,000	
Other Dept-Spec Furniture Alloc	15,685	$19.65	$308,210	
Computers/Telecomm Equip Alloc	15,685	$20.0	$313,700	
Misc	20	$10,000	$200,000	
				$1,288,910

Project Costs and Sources of Funds
Moveable or Other Equipment

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Description	Quantity	Unit Price	Total Cost	
Newborn Nursery				
Cribs	20	$1,200	$24,000	
Family Recliners	10	$2,000	$20,000	
Refrigerators/Storage/Major Equip	2	$20,000	$40,000	
Pyxis/Med Prep	1	$47,000	$47,000	
Other Dept-Spec Furniture Alloc	3,635	$17.69	$64,303	
Computers/Telecomm Equip Alloc	3,635	$20.00	$72,700	
Misc	12	$15,000	$180,000	
				$448,003
Emergency				
Carts	11	$7,000	$77,000	
Exam Lights	11	$1,500	$16,500	
Exam Lights - Trauma	2	$12,000	$24,000	
Refrigerators/Storage/Major Equip	10	$5,000	$50,000	
Patient Monitoring	12	$20,000	$240,000	
Trauma Equipment	2	$5,000	$10,000	
Pyxis/Med Prep	2	$47,000	$94,000	
Mobile Equip	10	$15,000	$150,000	
Other Dept-Spec Furniture Alloc	9,368	$15.72	$147,265	
Computers/Telecomm Equip Alloc	9,368	$20.00	$187,360	
				$996,125
Surgical Suite				
Table	8	$60,000	$480,000	
Light	8	$30,000	$240,000	
Technology Boom	16	$53,000	$848,000	
Anesthesia Machine	8	$60,000	$480,000	
Video Integration	8	$100,000	$800,000	
Carts, Tables, Storage	8	$75,000	$600,000	
Instruments	8	$125,000	$1,000,000	
Scrub Sinks	8	$16,000	$128,000	
Staff Furniture/Workstations Alloc	19,550	$4.00	$78,200	
Computers/Telecomm Equip Alloc	19,550	$20.00	$391,000	
Misc	8	$100,000	$800,000	
				$5,845,200
Endoscopy				
Carts, Tables, Storage	2	$7,000	$14,000	
Procedure Equipment	2	$75,000	$150,000	
Decontamination	1	$35,000	$35,000	
Clean Processing	2	$45,000	$90,000	
Scopes	8	$25,000	$200,000	
Pyxis/Med Prep	2	$47,000	$94,000	
Misc	1	$75,000	$75,000	
				$658,000

Project Costs and Sources of Funds
Moveable or Other Equipment

Inserted Page

Description	Quantity	Unit Price	Total Cost	
Outpatient Surgery				
Carts	12	$7,000	$84,000	
Patient Recliner	32	$3,000	$96,000	
Patient Monitoring	44	$11,000	$484,000	
Pyxis/Med Prep	3	$47,000	$141,000	
Nutrition	3	$15,000	$45,000	
Clean Supply	3	$30,000	$90,000	
Other Dept-Spec Furniture Alloc	13,663	$12.00	$163,956	
Computers/Telecomm Equip Alloc	13,663	$20.00	$273,260	
Misc	32	$5,000	$160,000	
				$1,537,216
Recovery				
Carts	14	$7,000	$98,000	
Patient Monitoring	14	$11,000	$154,000	
Pyxis/Med Prep	1	$47,000	$47,000	
Nutrition	1	$20,000	$20,000	
Clean Supply	1	$15,000	$15,000	
Staff Furniture/Workstations Alloc	5,224	$4.00	$20,896	
Computers/Telecomm Equip Alloc	5,224	$20.00	$104,480	
Misc	6	$5,000	$30,000	
				$489,376
Diagnostic Imaging				
Gen Radiography	2	$300,000	$600,000	
Radiography/Fluoroscopy	1	$650,000	$650,000	
Ultrasound	2	$240,000	$480,000	
Nuclear Med	1	$650,000	$650,000	
Portable Rad	2	$210,000	$420,000	
Pacs	1	$100,000	$100,000	
Clean Supply	3	$15,000	$45,000	
Patient Monitoring	6	$12,000	$72,000	
Pyxis/Med Prep	1	$47,000	$47,000	
Misc	9	$25,000	$225,000	
MRI & Injector	1	$1,500,000	$1,500,000	
CT	2	$1,200,000	$2,400,000	
Other Dept-Spec Furniture Alloc	13,157	$8.00	$105,256	
Computers/Telecomm Equip Alloc	13,157	$20.00	$263,140	
				$7,557,396
Cath Labs				
Cath Labs	2	$1,200,000	$2,400,000	
Echo/Ultrasound	2	$250,000	$500,000	
Vascular Lab	1	$240,000	$240,000	
EKG	4	$12,000	$48,000	
PFT	1	$60,000	$60,000	
EEG/EMG	1	$75,000	$75,000	
Holter/Tilt	1	$50,000	$50,000	
Patient Monitoring	6	$19,000	$114,000	
Pyxis/Med Prep	1	$47,000	$47,000	
Other Dept-Spec Furniture Alloc	6,729	$4.00	$26,916	
Computers/Telecomm Equip Alloc	6,729	$20.00	$134,580	
Misc	9	$20,000	$180,000	
				$3,875,496

Project Costs and Sources of Funds
Moveable or Other Equipment

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Description	Quantity	Unit Price	Total Cost	
Inpatient Dialysis				
Stations	2	$13,200	$26,400	
Water Filtration	2	$26,770	$53,540	
Carts	2	$5,000	$10,000	
Misc	1	$2,000	$2,000	
				$91,940
PT/OT				
Treatment Table	2	$5,000	$10,000	
Parallel Bars	1	$6,000	$6,000	
Treadmill	1	$10,000	$10,000	
Misc	1	$75,000	$75,000	
Staff Furniture/Workstations Alloc	2,805	$8.00	$22,440	
Computers/Telecomm Equip Alloc	2,805	$20.00	$56,100	
				$179,540
Laboratory				
Chemistry	1	$130,000	$130,000	
Hemotology	1	$115,000	$115,000	
Urinalysis	1	$26,000	$26,000	
Coagulation	1	$43,000	$43,000	
Blood Bank	1	$28,000	$28,000	
Microbiology	1	$10,000	$10,000	
Refrigerators/Freezers	3	$45,000	$135,000	
Interface/Printers	1	$84,000	$84,000	
Misc	1	$100,000	$100,000	
Body Cooler/Hold	1	$30,000	$30,000	
Other Dept-Spec Furniture Alloc	4,878	$12.00	$58,536	
Computers/Telecomm Equip Alloc	4,878	$20.00	$97,560	
				$857,096
Pharmacy				
Dispensers	1	$100,000	$100,000	
Hoods/IV Prep	3	$40,000	$120,000	
Refrigerators/Freezers	2	$35,000	$70,000	
Other Dept-Spec Furniture Alloc	1,698	$12.00	$20,376	
Computers/Telecomm Equip Alloc	1,698	$20.00	$33,960	
Misc	1	$90,000	$90,000	
				$434,336
Respiratory Therapy				
Ventilators	10	$26,000	$260,000	
Supply Storage	1	$30,000	$30,000	
Other Dept-Spec Furniture Alloc	1,290	$4.00	$5,160	
Computers/Telecomm Equip Alloc	1,290	$20.00	$25,800	
Misc	1	$30,000	$30,000	
				$350,960

Project Costs and Sources of Funds
Moveable or Other Equipment

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Description	Quantity	Unit Price	Total Cost	
Dietary				
Prep	1	$240,000	$240,000	
Cooking (oven & grills)	1	$345,000	$345,000	
Refrigerators/Freezers	1	$210,000	$210,000	
Dishwashing	2	$125,000	$250,000	
Other Dept-Spec Furniture Alloc	8,724	$8.00	$69,792	
Computers/Telecomm Equip Alloc	8,724	$20.00	$174,480	
Misc	1	$250,000	$250,000	
				$1,539,272
Central Sterile Processing				
Sterilizer	2	$100,000	$200,000	
Wash/Decontamination	2	$30,000	$60,000	
Case Carts	24	$4,000	$96,000	
Assembly	1	$50,000	$50,000	
Instrumentation	1	$125,000	$125,000	
Staff Furniture/Workstations Alloc	4,250	$4.00	$17,000	
Computers/Telecomm Equip Alloc	4,250	$20.00	$85,000	
Misc	1	$75,000	$75,000	
				$708,000
Administration				
AV & Screens	1	$7,800	$7,800	
Refrigerators & Misc	1	$5,000	$5,000	
Staff Offices Alloc	6,829	$10.20	$69,656	
Computers/Telecomm Equip Alloc	6,829	$20.00	$136,580	
				$219,036
Building Support				
Staff Task Chairs/Workstations	6,251	$4.00	$25,004	
Computers/Telecomm Equip Alloc	6,251	$20.00	$125,020	
				$150,024
Sleep Studies				
Staff Funiture/Workstations Alloc	1,313	$4	$5,160	
Computers/Telecomm Equip Alloc	1,313	$20.00	$26,260	
				$31,420
Medical Library				
Tables & Chairs	1	$12,000	$12,000	
Staff Furniture/Workstations Alloc	1,150	$8.00	$9,200	
Computers/Telecomm Equip Alloc	1,150	$20.00	$23,000	
				$44,200
Meeting Rooms				
AV & Screens	1	$30,000	$30,000	
Conference Tables/Chairs	2,525	$16.00	$40,400	
Computers/Telecomm Equip Alloc	2,525	$20.00	$50,500	
				$120,900
Family Support				
Refrigerators & Misc	1	$25,000	$25,000	
Lounge Furniture Alloc	18,482	$8.00	$147,856	
Computers/Telecomm Equip Alloc	18,482	$20.00	$369,640	
				$542,496

Project Costs and Sources of Funds
Moveable or Other Equipment

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Description	Quantity	Unit Price	Total Cost	
Housekeeping				
Cleaning Equipment	1	$45,000	$45,000	
Computers/Telecomm Equip Alloc	3,531	$20.00	$70,620	
				$115,620
Information Systems				
Data Center		$934,189.00	$934,189	
				$934,189
Gift Shop				
Equipment	1	$15,000	$15,000	
Computers/Telecomm Equip Alloc	751	$23.93	$17,971	
				$32,971
Chapel				
Area Allocation	469	$15.00	$7,035	
Computers/Telecomm Equip Alloc	469	$20.00	$9,380	
				$16,415
Materials Management/Dock				
Equipment	1	$45,000	$45,000	
Staff Furniture/Workstations Alloc	2,840	$4.00	$11,360	
Computers/Telecomm Equip Alloc	2,840	$20.00	$56,800	
				$113,160
Building Systems				
Staff Furniture/Workstations Alloc	11,748	$1.00	$11,748	
Computers/Telecomm Equip Alloc	11,748	$20.00	$234,960	
				$246,708
Medical Records				
Equipment	1	$15,000	$15,000	
Staff Furniture/Workstations Alloc	5,500	$10.00	$55,000	
Computers/Telecomm Equip Alloc	5,500	$20.00	$110,000	
				$180,000
Yard Storage				
Staff Furniture/Workstations Alloc	500	$4.00	$2,000	
Computers/Telecomm Equip Alloc	500	$20.00	$10,000	
Misc	1	$25,000	$25,000	
				$37,000
Human Resources				
Staff Furniture/Workstations Alloc	836	$8.00	$6,688	
Computers/Telecomm Equip Alloc	836	$20.00	$16,720	
				$23,408
Marketing				
Staff Furniture/Workstations Alloc	2,310	$8.00	$18,480	
Computers/Telecomm Equip Alloc	2,310	$20.00	$46,200	
				$64,680

Project Costs and Sources of Funds
Moveable or Other Equipment

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Description	Quantity	Unit Price	Total Cost	
Laundry Holding				
Staff Furniture/Workstations Alloc	1,661	$4.00	$6,644	
Computers/Telecomm Equip Alloc	1,661	$20.00	$33,220	
				$39,864
Dining				
Dining Chairs/Tables	1	$250,000	$250,000	
Computers/Telecomm Equip Alloc	5,460	$20.00	$109,200	
				$359,200
Public Circulation				
Seating	23,755	$1.97	$46,797	
Computers/Telecomm Equip Alloc	23,755	$20.00	$475,100	
				$521,897
Employee Facilities				
Lounge and Conference	5,110	$7.86	$40,165	
Computers/Telecomm Equip Alloc	5110	$20.00	$102,200	
				$142,365
Canopies				
Computers/Telecomm Equip Alloc	2,250	$20.00	$45,000	
				$45,000
Ambulance Garage				
Staff Furniture/Workstations Alloc	1,024	$7.86	$8,049	
Computers/Telecomm Equip Alloc	1,024	$20.00	$20,480	
				$28,529
TOTAL			$36,549,872	$36,549,872

Corrected Page

Charity Care Information

Indicate amount of charity care for the last three **audited** fiscal years, cost of charity care and ratio of charity care to net patient revenue. If applicant owns/operations one of more facilities, reporting should be for each individual facility located in Illinois.

	FY08	FY09	FY10
Net Patient Revenue	$226,125,062	$249,217,025	$250,655,233
Amount of Charity Care (Charges)	$8,073,963	$9,806,503	$12,932,018
Cost of Charity Care	$4,675,472	$4,711,427	$6,025,123
Ratio of Charity Care Costs to Net Patient Revenue	2.1%	1.9%	2.4%

Projected Patient Mix by Payor Source (Percent of Gross Revenue)

Payor Source	FY 2015
Medicare	29.2%
Medicaid	14.1%
Commercial	51.8%
Self-Pay	3.5%
Charity	1.4%
TOTAL	100.0%

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Section 1110.3030 (b), Clinical Service Areas Other Than Categories of Service, Need Determination – Establishment

1) Service to Planning Area Residents

A. Primary Purpose of Project

The primary purpose of this project is to serve residents of Planning Area A-10 (McHenry County), the planning area in which Mercy Crystal Lake Hospital and Medical Center will be physically located, and, in particular, to the geographic service area (identified as the market area) for Mercy Crystal Lake Hospital and Medical Center.

Mercy Crystal Lake Hospital and Medical Center will be located in McHenry County, and a majority of the population that the hospital is proposing to service when the hospital becomes operational will be residents of McHenry County.

Currently, all hospital beds are located in the north and central areas of McHenry County. However, the greatest population density in the County is in the southeast corner of the County, specifically Crystal Lake. That is the primary reason the applicant proposes to build in Crystal Lake. By doing so, patients in that area are provided easier and quicker access. EMS services are provided faster route times, patients and families have less travel for services and visiting, and patients and providers finally have a choice of hospital services.

While Mercy Crystal Lake Hospital and Medical Center will provide residents with a more localized means of receiving healthcare, focusing on the expanding population base of the area who are disadvantaged, the essential services to be provided at the proposed hospital compliment and do not directly compete with core capabilities at other area hospital providers. For example, while the proposed hospital will provide much needed emergency services, it will not be a designated Level 1 trauma center. Similarly, while the proposed hospital will provide cardiology services and have cardiologists on staff, it will not have open heart surgery or heart transplant capabilities. In short, if approved, Mercy Crystal Lake Hospital and Medical Center's operations will not significantly impact the core capabilities of other are providers, yet will still provide the residents of McHenry County with essential and much needed 24 hour emergency services, inpatient and outpatient hospital services, and a myriad of other health care services.

The market area for Mercy Crystal Lake Hospital and Medical Center includes the zip codes located within 30 minutes of the proposed facility, which are listed below. A map of the market area is included as part of the original application.

Market Area Zip Codes

Zip Code	Zip Name
60004	Arlington Heights
60005	Arlington Heights
60008	Rolling Meadows
60010	Barrington
60012	Crystal Lake
60013	Cary
60014	Crystal Lake
60020	Fox Lake
60021	Fox River Grove
60030	Grayslake

Zip Code	Zip Name
60041	Ingleside
60042	Island Lake
60047	Lake Zurich
60050	McHenry
60051	McHenry
60060	Mundelein
60061	Vernon Hills
60067	Palatine
60072	Ringwood
60073	Round Lake
60074	Palatine
60081	Spring Grove
60084	Wauconda
60089	Buffalo Grove
60097	Wonder Lake
60098	Woodstock
60102	Algonquin
60103	Bartlett
60107	Streamwood
60110	Carpentersville
60118	Dundee
60120	Elgin
60123	Elgin
60133	Hanover Park
60136	Gilberts
60140	Hampshire
60142	Huntley
60152	Marengo
60156	Lake in the Hills
60173	Schaumburg
60177	South Elgin
60180	Union
60192	Schaumburg
60193	Schaumburg
60194	Schaumburg
60195	Schaumburg

It is anticipated that patient origin for patients utilizing services considered not to be categories of service will likely be similar to that which is anticipated for exclusively inpatient services. To determine likely patient origin for the new facility, historical inpatient data for the physicians who will admit to the new facility was used. The table below shows patient origin for those physicians for the period of 7/1/09–6/30/10.

Mercy Crystal Lake Hospital and Medical Center Service Area

Zip	Zip Name	Cases	Pct of Total	Accum Pct of Total
60098	Woodstock	730	18.6%	18.6%
60014	Crystal Lake	469	11.9%	30.5%
60050	McHenry	417	10.6%	41.2%

Mercy Crystal Lake Hospital and Medical Center Service Area

Zip	Zip Name	Cases	Pct of Total	Accum Pct of Total
60033	Harvard	320	8.1%	49.3%
60051	McHenry	216	5.5%	54.8%
60013	Cary	206	5.2%	60.0%
60152	Marengo	176	4.5%	64.5%
60097	Wonder Lake	139	3.5%	68.1%
60156	Lake in the Hills	135	3.4%	71.5%
60102	Algonquin	102	2.6%	74.1%
60142	Huntley	102	2.6%	76.7%
60071	Richmond	83	2.1%	78.8%
60081	Spring Grove	79	2.0%	80.8%
60012	Crystal Lake	60	1.5%	82.4%
60073	Round Lake	49	1.2%	83.6%
60010	Barrington	42	1.1%	84.7%
60020	Fox Lake	40	1.0%	85.7%
61012	Capron	39	1.0%	86.7%
60084	Wauconda	34	0.9%	87.5%
60042	Island Lake	33	0.8%	88.4%
60041	Ingleside	30	0.8%	89.2%
53128	Genoa City	29	0.7%	89.9%
60034	Hebron	27	0.7%	90.6%
53181	Twin Lakes	23	0.6%	91.2%
60047	Lake Zurich	23	0.6%	91.7%
60110	Carpentersville	22	0.6%	92.3%
60021	Fox River Grove	20	0.5%	92.8%
60060	Mundelein	15	0.4%	93.2%
60002	Antioch	14	0.4%	93.6%
60180	Union	14	0.4%	93.9%
60118	Dundee	11	0.3%	94.2%
60140	Hampshire	11	0.3%	94.5%
61008	Belvidere	10	0.3%	94.7%
53147	Lake Geneva	8	0.2%	94.9%
60072	Ringwood	8	0.2%	95.1%
60177	South Elgin	6	0.2%	95.3%
60030	Grayslake	5	0.1%	95.4%
60061	Vernon Hills	4	0.1%	95.5%
60120	Elgin	4	0.1%	95.6%
60123	Elgin	4	0.1%	95.7%
60192	Schaumburg	4	0.1%	95.8%
60103	Bartlett	3	0.1%	95.9%
60067	Palatine	2	0.1%	96.0%
60089	Buffalo Grove	2	0.1%	96.0%
60136	Gilberts	2	0.1%	96.1%
60194	Schaumburg	1	0.0%	96.1%
All Other		154	3.9%	100.0%
TOTAL		3,927	100.0%	

Source: IHA COMPdata

B) Strategic Plans or Market Studies Documentation

As set forth previously in the application, McHenry County's population continues to grow at a significant rate. Moreover, current estimates demonstrate that McHenry County has a deficit of 49.9 physicians as of March 2010, according to Thomson Healthcare demand models. This is an estimated 29.4 FTE shortage in the area of primary care physicians and the balance in specialty care. This is consistent with the national experience. Both the Council on Graduate Medical Education and the American Medical Association recognize a current physician shortage in the U.S. that will worsen over the next several years. This is further demonstrated through data compiled by the American Association of Medical Colleges (AAMC) in their 2009 State Physician Data Book. Based on AAMC calculations, the State of Illinois had 214.4 Total Active Patient Care Physicians Per 100,000 Population in 2008. (See Appendix A) Planning Area A-10, however, is far below the Illinois average – even as recently as May of 2010. On Page 183 of the 2010 McHenry County Healthy Community Study, a total of 476 physicians were practicing actively in McHenry County according to the American Medical Association. (See Appendix B). Therefore, McHenry County had 148.3 Active Patient Care Physicians Per 100,000 Population, or a deficit of 209 Patient Care Physicians compared to the Illinois State Average.

The operational model utilized by the applicant has been implemented effectively to recruit and retain needed physicians. Accordingly, the population and service use factors indicate that the County can support the Project, particularly because of the applicant's meeting the need for physicians.

The information discussed above demonstrates the need for physicians in McHenry County. If this need is addressed, the need for the facility will exist as the physicians will also reduce the out-migration of services from McHenry County.

Another recent study by the Henry J. Kaiser Family Foundation highlights the extreme shortage of hospital beds in Planning Area A-10 based on a data reported for 2009. During this year, the State of Illinois had 2.6 Hospital Beds per 1,000 Population. (See Appendix C). The U.S. average was also 2.6 Hospital Beds per 1,000 Population. McHenry County, with 333 total hospital beds in 2011 and a population over 321,000, has only 1.0 Hospital Beds per 1,000 Population. If McHenry County were simply at the Illinois State Average, it would have 835 beds.

2) Service Demand

B) Physician Referrals

Physician referrals detailing each Mercy-employed physician's historical referrals by hospital and patients' zip code of residence, as well as their anticipated referrals to Mercy Crystal Lake Hospital and Medical Center, are included under Appendix 1 in the original application.

3) Impact of the Proposed Project on Other Area Providers

With respect to service restrictions, the information discussed above demonstrates the need for physicians in McHenry County. If this need is addressed, the need for the facility will exist as the physicians will reduce the out-migration of services from McHenry County.

According to reputable studies, McHenry County had a deficit of 49.9 physicians as of March 2010.[1] This includes an estimate of a 29.4 FTE shortage in the area of primary care physicians and

[1] Thomson Healthcare (demand) – MarketPlanner Plus ratios (50% productivity model); Market Expert rations 2009 (national, population-based model)

the balance in specialty care. This is consistent with the national experience. Both the Council on Graduate Medical Education and the American Medical Association recognize a current physician shortage in the U.S. that will worsen over the next several years. The operational model utilized by the applicant has been implemented effectively to recruit and retain needed physicians.

With respect to Service Accessibility, the information discussed above demonstrates the need for physicians in McHenry County. If this need is addressed, the need for the facility will exist as the further reason that the physicians will reduce the out-migration of services from McHenry County. This reduction in out-migration will also positively impact the numbers of admissions at the existing two facilities in the north and central part of McHenry County.

According to the same report, the 2005 Census estimate found that the population of McHenry County stood at 303,990, an increase of 16.9% from the decennial Census in 2000 and a 65.9% increase since the 1990 Census.[2] Nielsen Claritas, Inc. has estimated that the 2010 estimated population in McHenry County stood at 341,297 and is expected to grow to 371,106 by 2015.[3] This projected 8.7% growth further exacerbates the findings from the McHenry County Health Communities study findings.

According to Nielsen Claritas, Inc., using U.S. Census 2000 data adjusted for annual estimates, the population of residents in McHenry County age 65 and above stands at 36,605. Nielsen Claritas projects that that population will total an estimated 45,435 by 2015, or a 24.0% increase. Additionally, the service area identified for this application shows a population growth of 14.3% in the decade between 2000 and 2010 and projects a further growth of 4.7% in the next five years.[4] This is clearly the fastest growing demographic in McHenry County and speaks to the need for additional geriatric care and geriatric specialists.[5] Overall population for the entire planning/ marketing area is projected to increase by 9.1% in the next five years.

The rollout of the Patient Protection and Affordable Care Act will also impact regional hospital admissions. The applicant has projected that, notwithstanding the increased admissions currently occurring as a result of changes in the law, in years one and two of operations of the project, admissions will be further impacted at a rate of 5% the first year, and 3% the second year, over current rates. We project that other planning/market area facilities will see a similar impact. In combination of these factors, the applicant is confident that its project will not lower the utilization of other area providers below the occupancy standards specified in 77 I. Adm. Code 1100. Further, the data and projections of the Applicant indicate that its project will not lower, to a further extent, the utilization of other area hospitals that are currently (during the latest 12-month period) operating below the occupancy standards.

While Mercy Crystal Lake Hospital and Medical Center will provide residents with a more localized means of receiving healthcare, focusing on the expanding population base of the area who are disadvantaged, the essential services to be provided at the proposed hospital compliment and do not directly compete with core capabilities at other area hospital providers. For example, while the proposed hospital will provide much needed emergency services, it will not be a designated Level 1 trauma center. Similarly, while the proposed hospital will provide cardiology services and have cardiologists on staff, it will not have open heart surgery or heart transplant capabilities. In short, if approved, Mercy Crystal Lake Hospital and Medical Center's operations will not significantly impact the core capabilities of other are providers, yet will still provide the residents of McHenry County with essential and much needed 24 hour emergency services, inpatient and outpatient hospital services, and a myriad of other health care services.

[2] McHenry county Healthy Community Study: Community "Analysis Report, November 6, 2006, p. 17
[3] Nielsen Claritas, Inc. New York, NY; U.S. 2000 Census reports.
[4] Nielsen Claritas, Inc. New York, N.Y.; U.S. 2000 Census reports
[5] Nielsen Claritas, Inc. New York, N.Y.; U.S. 2000 Census reports

4) Utilization

The table below shows that the projected utilization for those services considered not to be categories of service will meet or exceed the utilization standards specified in 1110, Appendix B.

Service	**Projected Utilization**	**State Standard**	**Met Standard?**
Newborn Nursery (20 bassinets)	1,003 births	Not applicable	--
Labor Delivery Recovery (LDR) (2 rooms)	1,003 births 502 births/room	400 births/LDR room	Yes
* Diagnostic/Interventional Radiology (Excludes portables & mobile equipment/Utilization)	See below	See below	See below
• General Radiology (2)	17,518 procedures	8,000 procedures	Yes
• Fluoroscopy/Tomography /Other X-ray procedures (includes Echo, Vascular, and Stress) (6)	6,538 procedures	6,500 procedures	Yes
• Mammography (2)	8,691 visits	5,000 visits	Yes
• Ultra-Sound (1)	3,924 visits	3,100 visits	Yes
• Angiography (Special Procedures) (1)	5,567 visits	1,800 visits	Yes
• CT Scan (1)	8,207 visits	7,000 visits	Yes
• MRI (1)	3,101 procedures	2,500 procedures	Yes
• Nuclear Medicine (1)	2,905 visits	2,000 visits	Yes
Emergency Department (12 stations)	26,511 visits; 2,209/station	2,000 visits/station/ year	Yes
Surgical Operating Suites (Class C) (8 ORs)	12,118 hours; 1,515 hours/OR	1,500 hours/ operating room	Yes
Surgical Procedure Suite (Class B) (2 rooms)	3,664 hours 1,832 hours/room	1,500 hours/ procedure room	Yes
Ambulatory Care Services (organized as a service)	61,433 visits/year	2,000 visits/year	Yes

APPENDIX A
AMERICAN ASSOCIATION OF MEDICAL COLLEGES DATA

Illinois Physician Workforce Profile

AAMC

2008				
	State Population:	12,901,563	Total Female Physicians:	10,517
	Total Active Physicians:	32,484	Total Medical Students:	5,580
	Primary Care Physicians:	11,965	Total Residents:	5,832

For additional data, including maps and tables, please see the AAMC 2009 State Physician Data Book online at http://www.aamc.org/workforce/statedatabook/statedata2009.pdf

		IL	IL Rank	State Median
Physician Supply	Active Physicians per 100,000 Population, 2008	251.8	20	239.6
	Total Active Patient Care Physicians per 100,000 Population, 2008	214.4	25	213.5
	Active Primary Care Physicians per 100,000 Population, 2008	92.7	20	89.9
	Active Patient Care Primary Care Physicians per 100,000 Population, 2008	81.2	22	80.1
	Percent Active Female Physicians, 2008	32.4%	6	28.0%
	Percent of Active Physicians who are International Medical Graduates, 2008	32.5%	4	17.6%
	Percentage of Active Physicians Who Are Age 60 or Older, 2008	24.0%	20	23.4%
Undergraduate Medical Education (UME)	Students Enrolled in Medical or Osteopathic School per 100,000 Population, AY 2008-2009	43.3	9	25.4
	Students Enrolled in *Public* Medical or Osteopathic Schools per 100,000 Population, AY 2008-2009	13.3	29	15.5
	Percent Change in Students Enrolled in Medical or Osteopathic Schools (1999-2008)	6.9%	33	11.2%
	Percent of Medical School Matriculants from In-State, AY 2008-2009	68.9%	19	64.4%
Graduate Medical Education (GME)	Total Residents/Fellows in ACGME Programs per 100,000 Population as of August 1, 2008	45.2	8	26.8
	Total Residents/Fellows in Primary Care ACGME Programs per 100,000 Population as of August 1, 2008	19.7	6	10.5
	Percentage of International Medical Graduates in ACGME Programs as of August 1, 2008	28.2%	16	22.9%
	Ratio of Residents and Fellows (GME) to Medical and Osteopathic Students (UME), AY 2007-2008	1.1	28	1.1
	Percent Change in Residents and Fellows in ACGME-Accredited Programs, 1999-2008	4.0%	42	12.4%
Retention	Percent of Physicians Retained in State from Undergraduate Medical Education, 2008	31.7%	34	37.2%
	Percent of Physicians Retained in State from Undergraduate Medical Education (*Public*), 2008	41.4%	27	42.4%
	Percent of Physicians Retained in State from Graduate Medical Education, 2008	49.1%	14	45.4%
	Percent of Physicians Retained in State from UME and GME Combined, 2008	62.1%	33	66.5%

State Rank: How a particular state ranks compared to the other 49. Rank of 1 goes to the state with the highest value for the particular category.
State Median: The value directly in the middle of the 50 states, so 25 are above the median and 25 are below and excludes the District of Columbia.

Source: 2009 State Physician Data Book

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APPENDIX B
2010 MCHENRY COUNTY HEALTH COMMUNITY STUDY

• The majority (84.9%) of LTCF residents were in nursing homes compared to intermediate care facilities for individuals with developmental disabilities (ICF/DD) or sheltered care. Among nursing home residents, 77.6% are 75 years or older, 72.6% are women, 99.0% are White, and 98.4% are non-Hispanic. Among nursing care residents, 55.0% pay with Medicaid, 24.6% pay with private funds, and 17.1% pay with Medicare. Almost all residents of ICF/DD pay with Medicaid (89.9%), while 90.0% of those in sheltered care pay with private funds.	Table 12.14
• As of December 2010 in McHenry County, there were seven licensed assisted living and shared housing facilities, which totaled 506 units and 120 Alzheimer's disease units.	Table 12.15
• According to the American Medical Association in 2008, there were 348 physicians practicing in McHenry County. Of those physicians, 12.6% were family medicine/general practice, 36.8% were medical specialties and 21.3% were surgical specialties. The population per physician for all patient care and for each of its divisions was substantially higher than the U.S. rate. The population per physician in McHenry County (914.1) was more than double that of the U.S. (410.9) during 2008.	Table 12.16
• As of May 2010, a total of 476 physicians were practicing in McHenry County according to the American Medical Association. Of those, 19.5% specialized in internal medicine, 13.7% in family medicine and 9.5% in pediatrics.	Table 12.17

Table 12.17: McHenry County
Number of Physicians by Specialty: May 2010

Specialty	Number	Percent
Total	476	100.0%
Internal medicine	93	19.5%
Family medicine	65	13.7%
Pediatrics	45	9.5%
Obstetrics & gynecology	33	6.9%
Anesthesiology	23	4.8%
Emergency medicine	21	4.4%
General surgery	21	4.4%
Unspecified	16	3.4%
Orthopedic surgery	15	3.2%
Psychiatry	15	3.2%
Diagnostic radiology	10	2.1%
General practice	10	2.1%
Anatomic/Clinical pathology	8	1.7%
Ophthalmology	7	1.5%
Otolaryngology	7	1.5%
Cardiovascular disease	6	1.3%
Child & adolescent psychiatry	6	1.3%
Internal medicine/Pediatrics	6	1.3%
Neurology	6	1.3%
Radiology	5	1.1%
Plastic surgery	4	0.8%
Radiation oncology	4	0.8%
Urology	4	0.8%
Dermatology	3	0.6%
Gastroenterology	3	0.6%
Hand surgery	3	0.6%
Neurological surgery	3	0.6%
Occupational medicine	3	0.6%
Allergy	2	0.4%
Endocrinology, diabetes & metabolism	2	0.4%
Gynecology	2	0.4%
Hematology/Oncology	2	0.4%

Specialty	Number	Percent
Nephrology	2	0.4%
Adult reconstructive orthopedics	1	0.2%
Allergy and immunology	1	0.2%
Child neurology	1	0.2%
Clinical laboratory immunology (allergy & immunology)	1	0.2%
Clinical neurophysiology	1	0.2%
Clinical pathology	1	0.2%
Critical care medicine (anesthesiology)	1	0.2%
Dermatologic surgery	1	0.2%
Foot and ankle orthopedics	1	0.2%
Hand surgery (orthopedics)	1	0.2%
Infectious disease	1	0.2%
Nueroradiology	1	0.2%
Obstetrics	1	0.2%
Other specialty	1	0.2%
Pain management	1	0.2%
Physical medicine and rehabilitation	1	0.2%
Pulmonary & critical care medicine	1	0.2%
Rheumatology	1	0.2%
Sleep medicine	1	0.2%
Sports medicine (orthopedic surgery)	1	0.2%
Urgent care medicine	1	0.2%

Source: American Medical Association, Physicians by specialty within county

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APPENDIX C
HENRY J. KAISER FAMILY FOUNDATION STUDY

Illinois: Hospitals

Compare Illinois to: United States

Hospitals

Total Hospitals, 2009 Compare

	IL #	IL % of US Total	US #	US % of US Total
	189	3.8%	5,008	100.0%

(show/hide notes)

Hospitals by Ownership Type, 2009 Compare

	IL #	IL %	US #	US %
State/Local Government	26	13.8%	1,092	21.8%
Non-Profit	147	77.8%	2,918	58.3%
For-Profit	16	8.5%	998	19.9%
Total	189	100.0%	5,008	100.0%

(show/hide notes)

Hospital Beds per 1,000 Population, 2009 Compare

	IL #	US #
	2.6	2.6

(show/hide notes)

Hospital Beds per 1,000 Population by Ownership Type, 2009 Compare

	IL #	US #
State/Local Government	0.2	0.4
Non-Profit	2.3	1.8
For-Profit	0.2	0.4
Total	2.6	2.6

(show/hide notes)

Hospital Admissions per 1,000 Population, 2009 Compare

	IL #	US #
	121	116

(show/hide notes)

Hospital Admissions per 1,000 Population by Ownership Type, 2009 Compare

	IL #	US #
State/Local Government	6	16
Non-Profit	109	84
For-Profit	6	16
Total	121	116

(show/hide notes)

Hospital Emergency Room Visits per 1,000 Population, 2009 Compare

	IL #	US #
	412	415

(show/hide notes)

Hospital Emergency Room Visits per 1,000 Population by Ownership Type, 2009 Compare

	IL #	US #
State/Local Government	33	66
Non-Profit	356	293
For-Profit	23	55
Total	412	415

(show/hide notes)

Hospital Inpatient Days per 1,000 Population, 2009 Compare

	IL #	US #
	602	628

(show/hide notes)

Hospital Inpatient Days per 1,000 Population by Ownership Type, 2009 Compare

	IL #	US #
State/Local Government	35	98
Non-Profit	532	446
For-Profit	34	84
Total	602	628

(show/hide notes)

Hospital Outpatient Visits per 1,000 Population, 2009 Compare

	IL #	US #
	2,486	2,091

(show/hide notes)

Hospital Outpatient Visits per 1,000 Population by Ownership Type, 2009 Compare

	IL #	US #
State/Local Government	181	354
Non-Profit	2,227	1,583
For-Profit	77	154
Total	2,486	2,091

(show/hide notes)

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Projected Physician Referrals for Mercy Crystal Lake Hospital and Medical Center

LastName	FirstName	Crede	Specialty	Clinic	Condell	Good Shepherd	Centegra-McHenry	Centegra-Woodstk	Total
Albright	Kim	M.D.	Family Medicine	Mercy Richmond Medical Center	0	0	51	0	51
Asbury	Jeffrey	M.D.	Urology	Mercy Woodstock Medical Center	0	0	0	16	16
Bistriceanu	Grazlella	M.D.	Family Medicine	Mercy Woodstock Medical Center	0	0	1	54	55
Campau	Steven	M.D.	Internal Medicine	Mercy Algonquin Medical Center	0	63	0	0	63
Chatterji	Manju	M.D.	Pediatrics	Mercy Crystal Lake West Medical C	0	0	51	16	67
Chitwood	Rick	M.D.	Pediatrics	Mercy McHenry Medical Cente	0	0	64	8	72
Cook	Richard	M.D.	Obstetrics/Gynecology	Mercy Woodstock Medical Center	0	0	0	259	259
Crawley	Terri	M.D.	Pediatrics	Mercy Woodstock Medical Center	0	0	0	141	141
Cundiff	Jason	M.D.	Otolaryngology	Mercy Crystal Lake East Medical C	0	30	25	13	68
DeHaan	Paul	M.D.	Orthopedic Surgery	Mercy McHenry Medical Cente	0	0	65	37	102
Dillon	Paul	M.D.	Plastic Surgery	Mercy Woodstock Medical Center	32	0	12	6	50
Favia	Julie	M.D.	Obstetrics/Gynecology	Mercy Woodstock Medical Center	0	0	0	116	116
Fojtik	Joseph	M.D.	Internal Medicine	Mercy Crystal Lake South Medical	0	188	0	0	188
Gavran	Monica	M.D.	Internal Medicine	Mercy Woodstock Medical Center	0	0	0	85	85
Goodman	David	M.D.	Otolaryngology	Mercy Crystal Lake East Medical C	0	27	20	11	58
Gulati	Roshi	M.D.	Family Medicine	Mercy Woodstock Medical Center	0	0	0	33	33
Gupta	Lata	M.D.	Obstetrics/Gynecology	Mercy Woodstock Medical Center	0	0	0	75	75
Henning	Douglas	M.D.	Pediatrics	Mercy Crystal Lake East Medical C	0	0	0	17	17
Howey	Susan	M.D.	Obstetrics/Gynecology	Mercy Northwest Women's Group	0	0	120	0	120
Hussain	Yasmin	M.D.	Gastroenterology	Mercy Woodstock Medical Center	0	0	0	23	23
Kakish	Nathan	M.D.	Internal Medicine/Pediatr	Mercy Woodstock Medical Center	0	0	0	171	171
Kang	Hiejin	M.D.	Family Medicine	Mercy McHenry Medical Cente	0	0	26	0	26
Karna	Sandhya	M.D.	Pediatrics	Mercy McHenry Medical Cente	0	0	56	0	56
Karney	Michelle	M.D.	Obstetrics/Gynecology	Mercy Woodstock Medical Center	0	0	0	105	105
Krpan	Marko	D.O.	Orthopedic Surgery	Mercy Crystal Lake South Medical	0	0	42	12	54
Livingston	Gary	M.D.	Otolaryngology	Mercy Crystal Lake East Medical C	0	24	26	17	67
Loqman	Mabria	M.D.	Family Medicine	Mercy Crystal Lake East Medical C	0	0	95	63	158
MacDonald	Robert	D.O.	Family Medicine	Mercy Richmond Medical Center	0	0	89	0	89
Marian	Camelia	M.D.	Internal Medicine	Mercy Algonquin Medical Center	0	77	0	0	77
Mirza	Aisha	M.D.	Pediatrics	Mercy Woodstock Medical Center	0	0	0	132	132
Mitra	Deepak	M.D.	Internal Medicine	Mercy McHenry Medical Cente	0	0	104	30	134
Nath	Ranjana	M.D.	Pediatrics	Mercy Crystal Lake West Medical C	0	0	49	21	70
Persino	Richard	M.D.	Obstetrics/Gynecology	Mercy Crystal Lake OB/GYN	0	0	148	0	148
Phelan	Patrick	M.D.	Pediatrics	Mercy Woodstock Medical Center	0	0	0	156	156
Riggs	Mary	M.D.	Obstetrics/Gynecology	Mercy McHenry Medical Cente	0	0	163	0	163
Ronquillo	Bibiano	M.D.	Internal Medicine	Mercy Woodstock Medical Center	0	0	0	108	108
Shen	Emily	M.D.	Family Medicine	Mercy Crystal Lake South Medical	0	0	32	0	32
Soorya	Ranjana	M.D.	Internal Medicine	Mercy Crystal Lake South Medical	0	0	15	0	15
Srinivas	Ratna	M.D.	Obstetrics/Gynecology	Mercy McHenry Medical Cente	0	0	10	0	10
Tarandy	Dana	M.D.	Orthopedic Surgery	Mercy Woodstock Medical Center	0	0	10	76	86
Wittman	Randy	M.D.	Obstetrics/Gynecology	Mercy Crystal Lake OB/GYN	0	0	172	0	172
Zaino	Ricca	M.D.	Obstetrics/Gynecology	Mercy Woodstock Medical Center	0	0	0	239	239
				TOTAL	32	409	1,446	2,040	3,927

Mercy Alliance, Inc. and Affiliates

Janesville, Wisconsin

Consolidated Financial Statements

Years Ended June 30, 2010 and 2009

EXHIBIT V

Mercy Alliance, Inc. and Affiliates

Consolidated Financial Statements

Years Ended June 30, 2010 and 2009

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WIPFLi LLP

Independent Auditor's Report

Board of Directors
Mercy Alliance, Inc.
Janesville, Wisconsin

We have audited the accompanying consolidated balance sheets of Mercy Alliance, Inc. and Affiliates ("Alliance") as of June 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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 Mercy Alliance, Inc. and Affiliates as of June 30, 2010 and 2009, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

October 26, 2010
Milwaukee, Wisconsin

Mercy Alliance, Inc. and Affiliates

Consolidated Balance Sheets

June 30, 2010 and 2009

		(In Thousands)		
Assets		2010		2009
Current assets:				
Cash and cash equivalents	$	20,052	$	25,746
Patient accounts receivable - Net		73,086		83,360
Supplies		10,738		8,983
Prepaid expenses		3,705		4,035
Due from third party payors		384		-
Other receivables		7,608		7,899
Total current assets		115,573		130,023
Assets limited as to use		235,789		129,515
Property and equipment - Net		187,157		186,558
Other assets:				
Unamortized debt issue costs - Net		2,933		2,233
Other		1,456		2,991
Total other assets		4,389		5,224
TOTAL ASSETS	$	542,908	$	451,320

Liabilities and Net Assets		(In Thousands) 2010		2009
Current liabilities:				
Current maturities of long-term debt	$	5,694	$	5,866
Accounts payable		9,676		11,564
Accrued salaries, wages, and payroll taxes		27,093		26,585
Due to third-party payors		1,320		1,673
Other accrued expenses		45,131		38,442
Total current liabilities		88,914		84,130
Long-term liabilities:				
Long-term debt, less current maturities		176,480		111,582
Interest rate swap		2,633		2,151
Deferred compensation		13,004		10,371
Pension liability		35,515		33,148
Total long-term liabilities		227,632		157,252
Total liabilities		316,546		241,382
Total net assets - Unrestricted		226,362		209,938
TOTAL LIABILITIES AND NET ASSETS	$	542,908	$	451,320

See accompanying notes to consolidated financial statements.

Mercy Alliance, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

Years Ended June 30, 2010 and 2009

	(In Thousands)	
	2010	2009
Revenue:		
Net patient service revenue	$ 381,318	$ 383,702
Premium revenue	84,371	89,565
Other revenue	1,566	846
Total revenue	467,255	474,113
Expenses:		
Salaries and wages	220,674	215,728
Employee benefits	37,898	35,570
Professional fees and purchased services	25,010	24,329
Medical claims and capitation payments	24,071	27,816
Medical, other supplies, and drugs	70,083	67,015
Utilities	5,309	5,804
Insurance	6,612	11,097
Other	23,762	22,997
Provision for bad debts	13,942	22,274
Depreciation and amortization	19,940	18,887
Interest	5,188	5,558
Total expenses	452,489	457,075
Income from operations	14,766	17,038
Nonoperating income (expense) - Net	6,050	(13,435)
Excess of revenue over expenses	20,816	3,603
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on investments other than trading securities	2,391	(13,262)
Changes in pension obligation other than pension expense	(6,950)	(15,572)
Amortization of cumulative loss on swap due to dedesignation of cash flow hedge	167	-
Change in fair value of effective portion of interest rate swap	-	(1,201)
Change in unrestricted net assets	16,424	(26,432)
Unrestricted net assets at beginning	209,938	236,370
Unrestricted net assets at end	$ 226,362	$ 209,938

See accompanying notes to consolidated financial statements.

Mercy Alliance, Inc. and Affiliates

Consolidated Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	(In Thousands)	
	2010	2009
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Change in net assets	$ 16,424	$ (26,432)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in pension obligation other than pension expense	6,950	15,572
Change in net unrealized gains and losses on investments other than trading securities	(2,391)	13,262
Provision for bad debts	13,942	22,274
Net realized (gains) losses on sales of investments	(4,629)	16,211
Change in fair value of interest rate swap	482	1,201
Depreciation and amortization	19,940	18,867
Loss on sale of property and equipment	136	1,028
Loss on early retirement of debt	760	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(3,668)	(17,837)
Supplies and other current assets	(1,134)	(1,576)
Accounts payable	1,145	2,015
Accrued liabilities and other	5,247	6,603
Due from/to third-party payors	(737)	1,360
Net cash provided by operating activities	52,467	52,548
Cash flows from investing activities:		
Increase in assets limited as to use	(99,254)	(11,176)
Capital expenditures	(23,425)	(30,636)
Proceeds from sale of property and equipment	-	238
Change in other assets	1,509	77
Net cash used in investing activities	(121,170)	(41,497)

Mercy Alliance, Inc. and Affiliates

Consolidated Statements of Cash Flows (Continued)

Years Ended June 30, 2010 and 2009

	(In Thousands) 2010	2009
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$ 114,199	$ -
Principal payments on long-term debt	(5,864)	(7,321)
Early retirement of refinanced long-term debt	(43,650)	-
Payments for financing costs	(1,676)	-
Net cash used in financing activities	63,009	(7,321)
Net increase in cash and cash equivalents	(5,694)	3,730
Cash and cash equivalents at beginning	25,746	22,016
Cash and cash equivalents at end	$ 20,052	$ 25,746

Supplemental cash flow information:

	2010	2009
Cash paid for interest, net of capitalized interest of $49,999 in 2010	$ 4,600	$ 4,918
Capital expenditures in accounts payable	$ -	$ 3,033

See accompanying notes to consolidated financial statements.

Mercy Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

The Entity and Principles of Consolidation

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

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

- <u>Mercy Health System Corporation (MHSC)</u>
  Operates a 240-bed hospital (licensed beds) in Janesville, Wisconsin; approximately 39 physician clinics in southern Wisconsin and northern Illinois; a skilled nursing facility (SNF) that operates as a subacute care unit of the hospital building; and Mercy Walworth Hospital and Medical Center (MWH), a 6-bed hospital facility in Walworth County, Wisconsin. MWH is reimbursed by Medicare as a critical access hospital (CAH).

- <u>Mercy Assisted Care, Inc. (MAC)</u>
  MAC operates Mercy Homecare, a supplier of durable medical equipment, the Cooperative Childcare Institute, a residential care center for children and youth, and coordinates home care through nurses, physical therapists, and speech therapists. MAC operated a 40-bed community-based residential facility (CBRF) during a portion of 2009. The CBRF was closed during 2009.

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

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

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

Financial Statement Presentation

The Alliance follows accounting standards set by the Financial Accounting Standards Board (FASB). FASB issued the Accounting Standards Codification (ASC) effective for financial statements for annual periods ending after September 15, 2009. The ASC is an aggregation of previously issued authoritative accounting principles generally accepted in the United States (GAAP) in one comprehensive set of guidance organized by subject area. In accordance with the ASC, references to previously issued accounting standards have been replaced by ASC references.

Use of Estimates in Preparation of Financial Statements

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

Cash Equivalents

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

Note 1 Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy

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

The carrying amounts of accounts receivable are reduced by allowances that reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probable uncollectible amounts, primarily uninsured patients and amounts patients are personally responsible for, through a charge to operations and a credit to a valuation allowance based on its assessment of historical collection likelihood and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient accounts receivable.

Patient accounts receivable are recorded in the accompanying consolidated balance sheets net of contractual adjustments and allowances for doubtful accounts.

Supplies

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

Note 1 Summary of Significant Accounting Policies (Continued)

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in nonoperating income (expense) unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenue over expenses unless the investments are trading securities. Realized gains and losses are determined by specific identification.

Alliance monitors the difference between the cost and fair value of its investments. If investments experience a decline in value that Alliance determines is other than temporary, Alliance records a realized loss in investment income.

Assets Limited as to Use

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

Property and Equipment

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

Note 1 Summary of Significant Accounting Policies (Continued)

Unamortized Debt Issue Costs and Bond Premiums and Discounts

Bond issue costs and original issue premiums and discounts related to issuance of long-term debt are amortized over the life of the related debt using the straight-line method.

Interest Rate Swap

Alliance uses an interest rate swap to manage its risk related to interest rate movements. Alliance's risk management strategy is to stabilize cash flow variability on its variable rate debt with interest rate swaps. At the inception of a swap agreement, Alliance documents its risk management strategy and assesses the interest rate swap's effectiveness at producing offsetting cash flows. The interest rate swap is reported at fair value on the consolidated balance sheets with the change in fair value of the effective portion of the hedge included in other changes in net assets and the change in fair value for any ineffective portion is included in non-operating income (expense). Cumulative changes in fair value included in net assets at the time a cash flow hedge is dedesignated are amortized and reclassified from net assets to other income or expense over the remaining life of the hedged transaction.

Asset Retirement Obligation

ASC Topic 410-20, *Accounting for Conditional Asset Retirement Obligation,* clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered ASC Topic 410-20, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Management believes there is an indeterminate settlement date for the asset retirement obligations because the range of time over which Alliance may settle the obligation is unknown and cannot reasonably estimate the liability related to these asset retirement activities as of June 30, 2010.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an impairment has occurred, a loss will be recognized. No impairment was recognized in 2010 or 2009.

Note 1 Summary of Significant Accounting Policies (Continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. When a temporary donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

There were no temporarily or permanently restricted net assets at June 30, 2010 and 2009.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. Management believes that adequate provision has been made in the accompanying consolidated financial statements for any adjustments that may result from final settlements.

Premium Revenue and Claims Payable

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

Note 1 Summary of Significant Accounting Policies (Continued)

Hospital Assessments

During the year ended June 30, 2009, the Wisconsin state legislature enacted legislation under which eligible hospitals, including Alliance, are required to pay the state an annual assessment. The assessment period is the state's fiscal year which runs from July 1 to June 30. The assessment is based on each hospital's gross revenues, as defined. The revenue generated from the assessment is to be used, in part, to increase overall reimbursement under the Wisconsin Medicaid program, including increases retroactive to July 1, 2008. Alliance's assessment expense was approximately $6,271,000 and $5,417,000 for the years ended June 30, 2010 and 2009, respectively, and is included in other expense in the accompanying statements of operations and changes in net assets. Any increases in the reimbursement from Medicaid are included in net patient service revenue.

Excess of Revenue Over Expenses

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

Charity Care

Alliance provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because collection is not pursued on amounts determined to qualify as charity care, these amounts are not included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets. Alliance also gives discounts from established charges to patients who are uninsured and considers these discounts a part of their community benefit.

Note 1 Summary of Significant Accounting Policies (Continued)

Charity Care (Continued)

Charges forgone under Alliance's charity care, based on established rates, approximated $18,769,000 and $15,621,000 for the years ended June 30, 2010 and 2009, respectively.

Contributions and Unconditional Promises to Give

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

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

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

MCIC and MercyCare HMO are taxable entities for both federal and Wisconsin income tax purposes and file a consolidated return. Deferred income taxes have been provided under the asset and liability method. Deferred tax assets and liabilities are determined based upon the difference between the financial statement and tax bases of assets and liabilities, as measured by the enacted tax rates expected to apply to taxable income in the years when these differences are expected to reverse.

In order to account for any uncertain tax positions, Alliance determines whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. Alliance recorded no assets or liabilities related to uncertain tax positions in 2010 and 2009. Tax returns for the years ended June 30, 2009, 2008, and 2007 remain subject to examination by the applicable taxing authorities.

Fair Value Measurements

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

The three levels of fair value hierarchy are described below:

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

Note 1 Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Level 2 Inputs to the valuation methodology include:

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

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

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

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

Subsequent Events

Subsequent events have been evaluated through October 26, 2010, which is the date the financial statements were issued.

Note 2 Reimbursement Arrangements With Third-Party Payors

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

Government Payors

MHSC and MAC:

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

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

MHH and MWH:

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

Other Payors

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

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

Accounting for Contractual Arrangements

Certain Medicare and Medicaid charges are cost-based reimbursable items and are reimbursed at tentative rates, with final settlements determined after audit of the related annual cost reports. The cost reports have been audited by the Medicare and Medicaid fiscal intermediaries through June 30, 2007.

Compliance

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

The Centers for Medicare and Medicaid Services (CMS) has implemented a new project using Recovery Audit Contractors (RACs) as part of CMS's further efforts to ensure accurate payments under the Medicare program. CMS is using RACs to search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The provider will then have the opportunity to appeal the adjustment before final settlement of the claim is made. As of June 30, 2010, Alliance had not been notified by the RAC of any potential significant reimbursement adjustments.

Note 3 Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30:

	(In Thousands)	
	2010	2009
Patient accounts receivable	$ 151,100	$ 156,681
Less:		
Allowance for contractual adjustments	64,287	52,091
Allowance for doubtful accounts	13,727	21,230
Patient accounts receivable - Net	$ 73,086	$ 83,360

Note 4 Assets Limited as to Use

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

	(In Thousands)	
	2010	2009
Certificates of deposit	$ 1,278	$ 1,183
Money market funds	28,482	11,768
Government and agency obligations	41,549	19,695
Municipal obligations	767	98
Corporate obligations	29,561	12,944
Fixed income funds	7,989	11,245
Foreign obligations	6,684	-
Equity mutual funds	73,721	33,952
Common stock	45,758	38,630
Total assets limited as to use	$ 235,789	$ 129,515

Note 4 Assets Limited as to Use (Continued)

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

	(In Thousands)	
	2010	2009
Held by trustee under bond indenture agreements:		
Debt service reserve and sinking funds	$ 9,647	$ 4,818
Project funds	50,640	-
Held by Treasurer of State of Wisconsin for regulatory requirements	4,024	3,868
Internally designated:		
Deferred compensation	13,004	10,371
Expansion and capital improvements	138,414	92,964
Regulatory compliance	20,060	17,494
Total assets limited as to use	$ 235,789	$ 129,515

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

	(In Thousands)	
	2010	2009
Interest and dividend income	$ 2,719	$ 3,158
Net realized gains and losses on sales of investments	4,629	(16,211)
Total investment income (loss)	7,348	(13,053)
Change in net unrealized gains and losses on investments other than trading securities	2,391	(13,262)
Totals	$ 9,739	$ (26,315)

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

Note 4 Assets Limited as to Use (Continued)

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

Because Alliance has the intent and the ability to hold investment securities until a market price recovery or maturity, investment securities at June 30, 2010 are not temporarily impaired and no impairment losses were recognized by Alliance during 2010. Alliance recognized a realized loss of $724,000 during 2009 for an other than temporary impairment.

The following table shows unrealized losses and fair values of investments at June 30, 2010, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	(In Thousands) 2010					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government and agency obligations	$ 10,197	$ (144)	$ 199	$ (1)	$ 10,396	$ (145)
Municipal obligations	15	-	80	(3)	95	(3)
Corporate obligations	20,154	(454)	681	(124)	20,835	(578)
Fixed income funds	123	(2)	-	-	123	(2)
Foreign bonds	57	-	-	-	57	-
Equity mutual funds	11,260	(1,117)	52,210	(8,880)	63,470	(9,997)
Common stock	24,659	(3,375)	1,441	(141)	26,100	(3,516)
Total	$ 66,465	$ (5,092)	$ 54,611	$ (9,149)	$ 121,076	$ (14,241)

Note 5 Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value.

Money market funds and certificates of deposit are valued based at historical cost, which approximates fair value. Mutual funds are valued at quoted market prices which represent the net asset value (NAV) of shares held by Alliance at year-end. Corporate and foreign debt obligations, municipal obligations, and government and agency obligations are valued using quotes from pricing vendors based on recent trading activity and other observable market data. Common stocks are valued using quoted market prices. Common collective trusts are valued at the unit value as reported by the investment manager. The interest rate swap is valued using discounted cash flows based on observable interest yield curves and other factors.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Alliance believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Mercy Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 5 Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, Alliance's assets at fair value as of June 30, 2010 and 2009:

	(In Thousands)			
	2010			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 1,278	$ -	$ 1,278
Money market funds	22,835	5,647	-	28,482
Government and agency obligations	-	41,549	-	41,549
Municipal obligations	-	767	-	767
Corporate obligations	-	29,561	-	29,561
Fixed income funds	7,989	-	-	7,989
Foreign obligations	-	6,684	-	6,684
Equity mutual funds	62,764	-	10,957	73,721
Common stock	45,758	-	-	45,758
Total assets at fair value	$ 139,346	$ 85,486	$ 10,957	$ 235,789
Liability - Interest rate swap agreement	$ -	$ 2,633	$ -	$ 2,633

Note 5 Fair Value Measurements (Continued)

	(In Thousands) 2009			
	Level 1	Level 2	Level 3	Total
Certificate of deposit	$ -	$ 1,183	$ -	$ 1,183
Money market funds	4,946	6,822	-	11,768
Government and agency obligations	-	19,695	-	19,695
Municipal obligations	-	98	-	98
Corporate obligations	-	12,944	-	12,944
Fixed income funds	11,245	-	-	11,245
Equity mutual funds	33,952	-	-	33,952
Common stock	38,630	-	-	38,630
Total assets at fair value	$ 88,773	$ 40,742	$ -	$ 129,515
Liability - Interest rate swap agreement	$ -	$ 2,151	$ -	$ 2,151

The table below sets forth a summary of the changes in the fair value of level 3 assets:

	(In Thousands) Equity Mutual Funds
	2010
Balance at beginning of year	$ -
Purchases, sales	12,030
Earnings, expenses and change in fair value	(1,073)
Balance at end of year	$ 10,957

Note 6 Property and Equipment

Property and equipment consisted of the following at June 30, 2010 and 2009:

	(In Thousands)	
	2010	2009
Land	$ 26,674	$ 26,005
Land improvements	6,040	6,022
Leasehold improvements	5,605	5,596
Buildings and improvements	183,558	173,841
Fixed equipment	1,358	1,229
Major movable equipment	129,525	130,880
Total property and equipment	352,760	343,573
Less - Accumulated depreciation	180,037	168,541
Net depreciated value	172,723	175,032
Construction in progress	14,434	11,526
Property and equipment - Net	$ 187,157	$ 186,558

Alliance is in the process of a construction project to expand and renovate MWH. The total project is estimated to be approximately $42,000,000. Alliance has a commitment of approximately $31,500,000 million for a fixed price construction contract as of June 30, 2010. Construction in progress at June 30, 2010 includes approximately $5,000,000 related to the construction project. The project is estimated to be completed in fiscal year 2013.

Alliance is also in the process of implementing an electronic medical record (EMR) system. The total project is estimated to be approximately $6,900,000. Construction in progress at June 30, 2010 includes approximately $1,800,000 related to the EMR project. The project is estimated to be completed in fiscal year 2012.

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

Note 7 Long-Term Debt

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

	(In Thousands) 2010	2009
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2010A, dated June 9, 2010; interest payable semi-annually at varying rates (3.00% to 5.50%), principal due in annual installments through June 2026	$ 48,445	$ -
Wisconsin Health and Educational Facilities Authority Adjustable Rate Revenue Bonds, Series 2009, dated December 31, 2009; interest payable monthly at a variable rate set weekly (.26% at June 30, 2010), principal due in annual installments through June 2039	65,000	-
Illinois Finance Authority Revenue Bonds, Series 2005, dated March 15, 2005; interest payable monthly at a variable rate set weekly (1.00% at June 30, 2010), principal due in annual installments through February 2035	30,700	31,610
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 1999, dated August 1, 1999; payable in annual installments including principal and varying interest (5.00% to 5.50%) through August 2025	37,810	38,000
Wisconsin Health and Educational Facilities Authority Adjustable Rate Refunding Revenue Bonds, Series 2007, dated May 18, 2007; refinanced with the Series 2010A Revenue Bonds	-	29,525

Note 7 Long-Term Debt (Continued)

	(In Thousands)	
	2010	2009
Wisconsin Health and Educational Facilities Authority Revenue Bonds, Series 2003C, dated October 9, 2003; refinanced with the Series 2010A Revenue Bonds	-	17,835
Letter of credit draw to repurchase City of Harvard Health Care Facility Revenue Bonds, Series 1998	-	1,005
Other	50	99
Totals	182,005	118,074
Less:		
Unamortized bond discounts (premiums) - Net	(169)	626
Current maturities	5,694	5,866
Long-term portion	$ 176,480	$ 111,582

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

Note 7 Long-Term Debt (Continued)

In June 2010, Alliance issued its Series 2010A Revenue Bonds with a total principal value of $48,445,000, and a net premium of $758,000. The proceeds from the 2010A Revenue Bonds were used to refund the Series 2007 and Series 2003C bonds, establish a reserve fund, and finance costs of acquiring, constructing, renovating, and equipping its facilities. The Series 2010A Bonds were issued pursuant to a Bond Trust Indenture by and between Wisconsin Health and Educational Facilities Authorities ("WHEFA") and U.S. Bank National Association ("U.S. Bank"), as bond trustee, with the proceeds loaned to Alliance pursuant to a Loan Agreement by and between Alliance and WHEFA. The Series 2010A Bonds were also issued pursuant to a Master Trust Indenture between Alliance and U.S. Bank as Master Trustee. Alliance is liable for all obligations under the Loan Agreement.

In conjunction with the refinancing of the Series 2007 and 2003C Revenue Bonds, Alliance expensed $760,000 of the remaining unamortized debt issue costs, which are included in non-operating income (expense) in the accompanying consolidated statements of operations and changes in net assets.

In December 2009, Alliance issued its Series 2009 Adjustable Rate Revenue Bonds with a total principal value of $65,000,000. The proceeds from the Series 2009 Revenue Bonds were used to finance and/or reimburse Alliance for costs of acquiring, constructing, renovating, and equipping its facilities. The Series 2009 Bonds were issued pursuant to a Bond Trust Indenture by and between WHEFA and U.S. Bank, as bond trustee, with the proceeds loaned to Alliance pursuant to a Loan Agreement by and between Alliance and WHEFA. The Series 2009 Bonds were also issued pursuant to a Restated Master Trust Indenture between Alliance and U.S. Bank as Master Trustee. Alliance is liable for all obligations under the Loan Agreement.

The Illinois Finance Authority Revenue Bonds, Series 2005, and the WHEFA Series 2009 Revenue Bonds, can be tendered on a weekly basis by the bondholders. Alliance has remarketing agreements with underwriters that provide for a "best efforts" remarketing of the bonds. The bonds are secured by letters of credit. The letters of credit are secured by mortgages on Alliance's property and equipment. The letters of credit securing the Series 2005 and Series 2009 Revenue Bonds expire August 13, 2013 and December 31, 2012, respectively. Amounts drawn on the letter of credit to repurchase bonds that could not be remarketed can be converted into term loans if certain conditions are not met.

Note 7 Long-Term Debt (Continued)

Principal amounts on such term loans would be due in 8 quarterly installments beginning on the first quarterly date, as defined, approximately one year after the drawing date.

The City of Harvard Health Care Facility Revenue Bonds were also subject to a remarketing agreement. During the year ended June 30, 2009, the underwriter was unable to remarket the bonds and accordingly the letter of credit was drawn upon to purchase the bonds. The letter of credit draw was reimbursed by Alliance subsequent to the year ended June 30, 2009, effectively retiring the Series 1998 Revenue Bonds.

During the year ended June 30, 2009, Alliance called $2,500,000 of the Series 2005 bonds for early redemption which approximated the amount of unexpended bond proceeds. The redemption price was equal to the principal amount and there was no prepayment penalty on the early redemption.

Scheduled payments of principal on long-term debt at June 30, 2010, including current maturities, are summarized as follows:

	(In Thousands)
2011	$ 5,694
2012	5,746
2013	5,965
2014	6,220
2015	6,495
Thereafter	151,885
Total	$ 182,005

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

Note 8 Interest Rate Swap

In conjunction with the issuance of the Series 2007 Revenue Bonds (Note 7), Alliance entered into an agreement with a financial institution for an interest rate swap for the purpose of hedging the variable interest rate on the bonds. The interest rate swap has a notional amount of $29,525,000 which amortizes over the term of the agreement. The interest rate swap agreement terminates June 1, 2022. The fair value of the interest rate swap was a liability of $2,633,000 and $2,151,000 as of June 30, 2010 and 2009, respectively.

This interest rate swap effectively changed Alliance's interest rate exposure on the bonds to a fixed rate of 3.463% and during 2009 was deemed to be effective as a cash flow hedge. However, with the refinancing of the Series 2007 Revenue Bonds during 2010, the interest swap was deemed to be no longer effective as a cash flow hedge and was dedesignated. Alliance recognized $482,000 of expense, included in nonoperating income (expense) in the accompanying consolidated statements of operations and change in net assets during 2010 for the change in fair value of the swap. During 2009, the change in fair value of the swap is included in other changes in net assets and decreased net assets by $1,201,000. At the time of the dedesignation of the cash flow hedge, the accumulated loss on the swap agreement included in net assets was $2,151,000. This cumulative loss will be amortized to expense over the remaining term of the swap agreement. Amortization expense of $167,000 has been recognized in nonoperating income (expense) during 2010.

Alliance is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap. However, Alliance does not anticipate nonperformance by the counterparty.

Note 9 Net Patient Service Revenue

The following table sets forth the detail of net patient service revenue for the years ended June 30:

	(In Thousands)	
	2010	2009
Gross patient service revenue	$ 807,098	$ 761,842
Revenue deductions:		
Medicare contractual allowances	(168,886)	(153,024)
Medicaid contractual allowances	(79,601)	(57,109)
Managed care allowances	(45,285)	(46,516)
Commercial and other	(132,008)	(121,491)
Net patient service revenue	$ 381,318	$ 383,702

During the years ended June 30, 2010 and 2009, approximately 35.2% and 31.4% of Alliance's net patient service revenue related to patients participants in the Medicare and Medicaid programs.

Note 10 Retirement Plans

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

Mercy Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 10 **Retirement Plans** (Continued)

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

	(In Thousands)	
	2010	2009
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 80,711	$ 73,828
Service cost	6,563	7,867
Interest cost	5,065	5,774
Benefits paid	(5,102)	(5,678)
Actuarial gain	8,043	(1,080)
Benefit obligation at end of year	95,280	80,711
Change in Plan assets:		
Fair value of Plan assets at beginning of year	47,563	49,066
Actual return on Plan assets	5,970	(9,508)
Employer contributions	5,624	13,683
Benefits paid	(5,102)	(5,678)
Fair value of Plan assets at end of year	54,055	47,563
Funded status	$ (41,225)	$ (33,148)
Accumulated benefit obligation	$ 88,001	$ 70,422

Mercy Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 10 **Retirement Plans** (Continued)

Amounts recognized in the accompanying consolidated balance sheets at June 30, 2010 and 2009, consisted of:

	(In Thousands) 2010	2009
Current liability - Other accrued expenses	$ 5,710	$ 5,667
Noncurrent liability	35,515	27,481
Total	$ 41,225	$ 33,148
Total net assets - Unrestricted:		
Prior service cost	$ 835	$ 942
Net actuarial loss	29,979	22,922
Total amount recognized in net assets	$ 30,814	$ 23,864

Pension expense for the years ended June 30, 2010 and 2009, was comprised of the following:

	(In Thousands) 2010	2009
Pension expense:		
Service cost	$ 6,563	$ 6,294
Interest cost	5,065	4,619
Expected return on assets	(5,019)	(4,522)
Amortization of prior service cost	107	107
Amortization of unrecognized actuarial loss	35	-
Total pension expense	6,751	6,498
Other changes in Plan assets and benefit obligations recognized in other changes in net assets:		
Net actuarial loss	7,057	14,081
Prior service cost	(107)	(134)
Adjustment for measurement date change	-	1,625
Total recognized in other changes in net assets	6,950	15,572
Total recognized as pension expense and other changes in net assets	$ 13,701	$ 22,070

Note 10 Retirement Plans (Continued)

The estimated prior service cost and actuarial loss that will be amortized from net assets into pension expense over the next fiscal year is $987,000.

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

	2010	2009
Discount rate for obligation	5.30%	6.50%
Discount rate for net periodic cost	6.50%	6.50%
Expected long-term return on plan assets	8.00%	8.00%
Rate of compensation increase for obligation	4.50%	4.75%
Rate of compensation increase for net periodic cost	3.00%	4.50%

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

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

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

	2010	2009
Asset category:		
Cash and cash equivalents	1.0%	10.8%
Government and agency obligations	7.2%	10.7%
Municipal obligations	0.6%	0.0%
Corporate obligations	3.3%	7.9%
Fixed income funds	21.0%	20.0%
Equity funds	37.0%	0.0%
Common stock	29.9%	50.6%
Totals	100.0%	100.0%

Note 10 Retirement Plans (Continued)

The following table sets forth by level, within the fair value hierarchy, the Corporation's Plan assets at fair value as of June 30, 2010:

	(In Thousands)			
	Level 1	Level 2	Level 3	Total
Cash equivalents	$ -	$ 573	$ -	$ 573
Government and agency obligations	-	3,447	-	3,447
Municipal obligations	-	326	-	326
Corporate obligations	-	1,799	-	1,799
Fixed income funds	11,328	-	-	11,328
Foreign bonds	-	644	-	644
Equity mutual funds	17,466	-	-	17,466
Common stock	16,167	-	-	16,167
Common collective trust	-	-	2,305	2,305
Total assets at fair value	$ 44,961	$ 6,789	$ 2,305	$ 54,055

The table below sets forth a summary of changes in the fair value of the Plan's level 3 assets for the year ended June 30, 2010:

	(In Thousands)
Balance, beginning of year	$ -
Purchases and sales - Net	2,305
Balance, end of year	$ 2,305

Alliance expects to contribute $6,695,000 to the plan in fiscal 2011.

Note 10 Retirement Plans (Continued)

Benefit payments are expected to be paid as follows:

		(In Thousands)
2010	$	5,710
2011	$	5,883
2012	$	6,764
2013	$	7,076
2014	$	8,005
Years 2015 through 2017	$	51,811

MHSC, MAC, and MHH also participate in a contributory tax-deferred annuity plan which covers all employees at least 18 years of age with one year of service. Employees may contribute up to 4% of compensation to the annuity plan on a tax-deferred basis, plus additional amounts subject to a regulatory limit. Effective January 1, 2010, MHSC, MAC, and MHH may contribute a discretionary amount up to 50% of employees' tax-deferred contribution, up to 4% of compensation. Prior to January 1, 2010, MHSC, MAC, and MHH were required to contribute 25% of employees' tax-deferred contributions and could contribute discretionary amounts up to an additional 25% of employees' contributions. MHSC, MAC, and MHH recognized expense of $1,242,000 and $1,251,000 related to this plan for the years ended June 30, 2010 and 2009, respectively.

MHSC also contributes to a multi-employer defined benefit plan which cover employees pursuant to the terms of collective bargaining agreements. MHSC recognized expense of $228,000 and $212,000 related to this plan for the years ended June 30, 2010 and 2009, respectively. MHSC also contributes to a 401(k) plan for this same group of employees an amount, based on a matching percentage of participant contributions, set by the terms of collective bargaining agreements. MHSC recognized expense of $71,000 and $48,000 related to the 401(k) plan for the years ended June 30, 2010 and 2009, respectively.

MHSC also sponsors deferred compensation programs covering certain physicians and officers. Investments designated for deferred compensation and corresponding liabilities totaling $13,004,000 and $10,371,000 at June 30, 2010 and 2009, respectively, are included in the accompanying consolidated balance sheets. Total deferred compensation expense was $2,200,000 and $2,429,000 in 2010 and 2009, respectively.

Note 11 Operating Leases

Alliance leases office space, office equipment, and certain medical equipment from unrelated organizations. Total rental expense was approximately $3,189,000 and $3,300,000 in 2010 and 2009, respectively.

Future minimum lease payments at June 30, 2010, by year and in the aggregate, under these operating lease agreements are summarized as follows:

	(In Thousands)
2011	$ 1,857
2012	1,249
2013	953
2014	683
2015	136
Total minimum lease payments	$ 4,878

Note 12 Malpractice Insurance

During 2005, Alliance began a self-insurance program for its professional liability on a claims-made basis. Alliance retains the first $1,000,000 per occurrence and $3,000,000 per year for Wisconsin claims. Coverage against losses in excess of these amounts is maintained through mandatory participation in the Patients' Compensation Fund of the State of Wisconsin. For Illinois claims, Alliance retains the first $2,100,000 of loss per claim and has purchased an umbrella policy that provides excess coverage. Alliance has provided a reserve of $22,300,000 and $20,203,000 for potential claims for services provided to patients through June 30, 2010 and 2009, respectively, which have not yet been asserted. These amounts are included in other accrued expenses in the accompanying consolidated balance sheets.

Note 13 Concentration of Credit Risk

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

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

	2010	2009
Medicare	22%	17%
Medicaid	12%	11%
Other third-party payors	41%	42%
Patients	25%	30%
	100%	100%

Alliance maintains depository relationships with area financial institutions, including banks participating in the Federal Deposit Insurance Corporation's (FDIC's) Transaction Account Guarantee Program. Under this Program, non-interest-bearing transaction accounts are fully guaranteed by the FDIC through December 31, 2010. Cash, investments, and assets limited as to use held by financial institutions in excess of the FDIC limit of $250,000 are uninsured. At June 30, 2010, Alliance's deposits exceeded the insured limits by approximately $14,981,000.

Note 14 Functional Expenses

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

	(In Thousands)	
	2010	2009
Health care services	$ 338,761	$ 342,588
General and administrative	113,728	114,487
Total expenses	$ 452,489	$ 457,075

Note 15 Reclassifications

Certain reclassifications have been made to the 2009 consolidated financial statements to conform to the 2010 classifications.

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-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

Project Costs and Sources of Funds

USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs			
Site Survey and Soil Investigation	$34,560	$10,440	$45,000
Site Preparation	$3,302,400	$997,600	$4,300,000
Off Site Work	$230,400	$69,600	$300,000
New Construction Contracts	$93,567,673	$28,265,235	$121,832,908
Modernization Contracts			
Contingencies	$7,909,630	$2,389,368	$10,298,998
Architectural/Engineering Fees	$7,017,575	$2,119,893	$9,137,468
Consulting and Other Fees			
Movable or Other Equipment (not in construction contracts)	$28,070,302	$8,479,570	$36,549,872
Bond Issuance Expense (project related)	$8,448,000	$2,552,000	$11,000,000
Net Interest Expense During Construction (project related)	$744,960	$225,040	$970,000
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized	$3,771,024	$1,139,163	$4,910,645
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	**$153,096,525**	**$46,247,908**	**$199,344,433**
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities			$29,344,433
Pledges			
Gifts and Bequests			
Bond Issues (project related)			$170,000,000
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS			**$199,344,433**

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

EXHIBIT VI