

UNGARETTI & HARRIS

Three First National Plaza
70 West Madison – Suite 3500
Chicago, Illinois 60602.4224
Telephone: 312.977.4400
Fax: 312.977.4405
www.uhlaw.com

UNGARETTI & HARRIS LLP
CHICAGO, ILLINOIS
SPRINGFIELD, ILLINOIS
WASHINGTON, D.C.

LYNN GORDON
312.977.4134
lgordon@uhlau.com

RECEIVED

JUL 05 2

HEALTH FACILITIES &
SERVICES REVIEW BOARD

July 3, 2012

VIA FEDERAL EXPRESS

RECEIVED

JUL 05 2012

HEALTH FACILITIES &
SERVICES REVIEW BOARD

Juan Morado Jr.
Assistant General Counsel
Health Facilities and Services Review Board
122 South Michigan Avenue
7th Floor
Chicago, Illinois 60603

Re: Certificate of Exemption Application, Mercer County Hospital, Project E-003-12
Certificate of Exemption Application, Mercer County Nursing Home, Project E-
004-12
Certificate of Need Application, Mercer County Hospital, Project 12-044

Dear Mr. Morado:

This letter is in response to your letter of June 21, 2012, a copy of which is attached for your reference, requesting additional information regarding the proposed change of ownership of Mercer County Hospital (the "Hospital") and Mercer County Nursing Home ("Nursing Home"). We sincerely hope that this information provides the Health Facilities and Services Review Board ("HFSRB") with the information it needs to move forward expeditiously on these applications, as this is a very time-sensitive matter for Mercer County and the patient populations that it serves. The impetus to the proposed change of ownership of these facilities is the critical need to provide financial stability for the Hospital, a critical access hospital, and the Nursing Home in order to ensure continued operations and also to facilitate certain long-delayed and necessary facility improvements that Mercer County simply cannot capitalize. Moreover, please understand that, these critical facility-related financial matters aside, each month this project is delayed, Mercer County residents continue to fund pension obligations at a rate of approximately \$100,000 per month from a property tax levy. The change of ownership will eliminate this additional tax burden on the residents of this rural community.

Juan Morado Jr.

July 3, 2012

Page 2

As you know, GMCM, along with its parent, Genesis Health System ("GHS"), as co-applicant, submitted a certificate of exemption ("COE") application for the proposed change of ownership of the Hospital. GSLM, along with its parent, GHS, as co-applicant, submitted a COE application for the proposed change of ownership of the Nursing Home. The Hospital and the Mercer County Board submitted a certificate of need ("CON") application per the direction of Alexis Kendrick in order to re-apply for the discontinuation of two categories of service discontinued pursuant to a 2009 CON permit, which was subsequently abandoned in part following failure to secure funding for a modernization project.

Following receipt of the COE applications, Mike Constantino sent us the email referenced in your letter, and we responded in two parts, the first of which is our letter of May 9, 2012, attached as Attachment A to your letter. Our second response to Mr. Constantino's information request was a memorandum dated June 6, 2012, a copy of which is enclosed hereto. In order to provide the full scope of our correspondence to the HFSRB on these applications, I also enclose our letter of June 6, 2012, responding to an incompleteness determination for the CON application.

In response to your particular questions, in the order presented:

1. The Nursing Home and GHS did not enter into an option agreement; GHS only entered into the Option Agreement with the Hospital, a copy of which was provided as part of the Hospital's COE application. The enclosed June 6, 2012 memorandum provides an in depth analysis as to why GHS did not seek HFSRB approval prior to entering into the Option Agreement. In short, we respectfully submit that there was no requirement to obtain HFSRB approval in November, 2010 when the Option Agreement was executed, since there was no change of control as further explained in the enclosed memorandum.
2. While we agree that any modernization project at the Hospital must be analyzed to determine whether a CON or COE application is necessary, we do not agree that GHS' and GMCM's intent to proceed with a capital improvement project post-Hospital change of ownership requires the submittal of the Certificate of Need or Exemption to Permit Assessment of Applicability form. Again, our rationale is further outlined in the enclosed memorandum of June 6, 2012.
3. You ask us to explain the role of GMCM, GSLM, and GHS in relation to the Nursing Home, including their roles prior to and after execution of the Option Agreement. As we explain above, the Nursing Home is not impacted by the 2012 Option Agreement executed between GHS, the Hospital and the Mercer County Board. The proposed change of ownership of the Nursing Home is not subject to any option; Mercer County and GSLM entered into an Asset Purchase Agreement on April 26, 2012, a copy of which is enclosed herein for your reference.

Juan Morado Jr.

July 3, 2012

Page 3

GSLM is an Illinois not-for-profit corporation applying for tax exemption under Internal Revenue Code ("Code") Section 501(c)(3) that was formed on February 3, 2012. GHS serves as its sole corporate member—its "parent" corporation. GSLM does not currently provide services, as it was formed to own and operate the Nursing Home following the proposed change of ownership.

GMCM does not have a direct connection to, or role with, the Nursing Home. GMCM is an Illinois not-for-profit corporation applying for tax exemption under Code Section 501(c)(3) formed on February 3, 2012. GHS also serves as the corporate member/"parent" of GMCM, making GMCM the "sister" entity to GSLM. GMCM was formed to own and operate the Hospital following the proposed change of ownership.

Neither GSLM nor GMCM was in existence at the time the Option Agreement was executed between GHS, the Hospital and the Mercer County Board. While GHS signed the Option Agreement, as the enclosed documents further describe, GHS assigned its rights to purchase the Hospital to the newly-formed GMCM in the Addendum to Option Agreement, executed March 6, 2012. GMCM exercised the option in the Exercise of Option, executed April 26, 2012.

4. The Mercer County Board is in control of operations at the Nursing Home.

5. As discussed above, there was never an option agreement executed between GHS and the Nursing Home. The proposed change of ownership of the Nursing Home is governed by the enclosed Asset Purchase Agreement, executed on April 26, 2012.

The documentation related to the option to acquire the Hospital was provided in the Hospital's COE application and includes the Option Agreement, the Addendum to Option Agreement and the Exercise of Option, as further explained in our May 9, 2012 letter, a copy of which is enclosed herein.

Juan Morado Jr.

July 3, 2012

Page 4

Please do not hesitate to contact me at (312) 977-4134, or my colleague Sam Vinson at (312) 977-4388, to discuss. Again, we appreciate the HFSRB's consideration in moving these applications forward expeditiously in order to allow the parties to proceed with a plan to bring financial stability to these two important rural health care providers, to provide the necessary capital to fund long-overdue and important facility upgrades and, to relieve overburdened Mercer County tax payers of the ongoing burden of funding the pension obligations for the Hospital and Nursing Home.

Sincerely,

A handwritten signature in black ink, appearing to read "Lynn Gordon".

Lynn Gordon

cc: Frank Urso
Judy Mondello
Sam Vinson
Claudette P. Miller

Enclosures



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

122 South Michigan Avenue • Chicago, IL 60641 • (312) 814-5418 FAX: (312) 814-1503

June 21, 2012

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Lynn Gordon and Sam Vinson
Ungaretti & Harris LLP
70 West Madison Suite 3500
Chicago, IL 60602

Re: Certificate of Exemption Application for Change of Ownership of Mercer County Hospital, Project E-003-12, Mercer County Nursing Home, Project E-004-12, and Certificate of Need Application for the Mercer County Nursing Home, Project 12-044.

Dear Mr. Gordon and Mr. Vinson:

The Illinois Health Facilities and Services Review Board ("Board") staff received a letter "Attachment A" on May 9, 2012 regarding the Certificate of Exemption ("COE") and Change of Ownership for the Mercer County Nursing Home. First and foremost, thank you for your detailed and thoughtful response. Your May 9, 2012 letter to the Board was in response to an email "Attachment B" from Senior Project Reviewer Michael Constantino. Mr. Constantino requested that you answer five questions, and after reviewing your letter, Board staff has several follow-up questions regarding the COE and the proposed change of ownership.

Also at the June 5, 2012 Board Meeting, the Board referred the investigation of potential compliance matters to Board Legal Counsel. In order to complete our review of the matter please provide the following information:

1. Why did the Mercer County Nursing Home and Genesis Health System ("GHS") enter into an option agreement for a change of ownership without applying for a COE?
2. Please submit an assessment of applicability in regards to the commitment to



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

122 South Michigan Avenue • Chicago, IL 60641 • (312) 814-5418 FAX: (312) 814-1503

- spend \$11,500,00 in capital improvements.
3. Please provide detailed information regarding the role of GMCM, GSLM, and GHS in relation to the Mercer County Nursing Home? This information should include their roles both prior to and after the execution of the option agreement for a change of ownership.
 4. Please provide information regarding who is in control of operations at the Mercer County Nursing Home.
 5. Please provide any and all documentation regarding the option agreement executed by GHS and the Mercer County Nursing Home.

The Board staff requests that you provide this information, so Board staff can complete its review of the potential compliance matters regarding the proposed COE and change of ownership. Please provide this information within 10 days of receipt of this letter. If you should have any questions, please contact our office at (312) 814-6226.

Sincerely,

A handwritten signature in black ink, appearing to read "Juan Morado Jr.".

Juan Morado Jr.
Assistant General Counsel
Health Facilities and Services Review Board

cc: Michael Constantino
Frank Urso
Alexis Kendrick

Attachment

A

UNGARETTI
& HARRIS

Three First National Plaza
70 West Madison - Suite 3500
Chicago, Illinois 60602-4224
Telephone: 312.977.4400
Fax: 312.977.4405
www.uhlaw.com

UNGARETTI & HARRIS LLP
CHICAGO, ILLINOIS
SPRINGFIELD, ILLINOIS
WASHINGTON, D.C.

LYNN GORDON
312.977.4134
lgordon@uhlaw.com

May 9, 2012

VIA EMAIL AND FEDERAL EXPRESS

Michael Constantino
Illinois Department of Public Health
525 West Jefferson
Springfield, Illinois 62761

RECEIVED

MAY 10 2012

HEALTH FACILITIES &
SERVICES REVIEW BOARD

Re: Certificate of Exemption Applications for Change of Ownership of Mercer County Hospital, Project E-003-12, and Mercer County Nursing Home, Project E-004-12

Dear Mr. Constantino:

As you know, our firm represents Genesis Health System ("GHS") and its subsidiaries GMCM and GSLM in connection with their Certificate of Exemption ("COE") applications for the change of ownership of Mercer County Hospital (the "Hospital") and Mercer County Nursing Home (the "Nursing Home"). In response to your email of May 3, 2012, a copy of which is attached for your reference, I am writing to address three of your inquiries (items two, three and five in your email). As I noted in my email to you on May 3rd, we will follow up separately on items one and four.

In item two of your email request, you ask for copies of all schedules and exhibits to the definitive agreements for the change of ownership transaction. All such documents were submitted with our application. With respect to the change of ownership of the Hospital, the three agreements that collectively total the "definitive agreement" for the transaction are the Option Agreement, the Addendum to Option Agreement and finally, the document that then established the agreement to move forward with the change of control, the Exercise of Option. Neither the Addendum to Option Agreement nor the Exercise of Option has any exhibits or schedules. The Option Agreement has four exhibits, each of which was included in the COE application. As is typical, the Option Agreement also provides for a number of schedules to be delivered at closing, none of which could or would have been provided by the parties upon execution of the Option Agreement in 2010 and none of which are or could be available at this time.

UNGARETTI
& HARRIS

Michael Constantino, Illinois Department of Public Health

May 9, 2012

Page 2

Per Section 3.3(b) of the Option Agreement, and as explained on page 13 of the COE application (in the Narrative Section/Attachment 3), the schedules referenced in the Option Agreement are under development and do not become part of the Agreement until the closing of the change of ownership transaction.

With respect to the change of ownership of the Nursing Home, the Asset Purchase Agreement is the definitive agreement between the parties. It has two exhibits, both of which were provided as part of the COE application. The only schedule to the Asset Purchase Agreement is a Schedule of Patient Trust Accounts which, as is typical, pursuant to Section 23 of the Asset Purchase Agreement cannot be dated more than seven days prior to the closing of the change of ownership transaction, and therefore is not available to provide for your review.

Your May 3, 2012 email also asked for the meaning of the term "significant control," as referenced on page 11 of the COE applications for each of the Hospital and the Nursing Home. GMCM and GSLM, the proposed new owners of the Hospital and the Nursing Home, respectively, have the same corporate structure, in that each is an Illinois not-for-profit corporation applying for federal tax exemption under Section 501(c)(3) of the Internal Revenue Code of 1986, and each has GHS as its sole corporate member. As we detail in the narratives to the COE applications on page 11, GHS "has retained certain significant control over" GMCM and GSLM. The term "significant control" was used indicate the fact that GHS has certain exclusive authority over the actions of GMCM and GSLM and certain approval authority over actions taken by the Boards of Directors of GMCM and GSLM; these types of reserved powers are standard for not-for-profit entities with corporate members, particularly within health systems, and establish control over board appointments, finance, capital, budget, strategic planning matters, etc. To expand on the summary of the reserved powers provided on pages 11 and 12 of the COE applications, GHS has the following exclusive reserved powers over GMCM and GSLM:

- [a] The power to determine the number of directors serving on the GMCM/GSLM Board and to elect, appoint, remove or fill the vacancies of such directors.
- [b] The power to present at any regular or special meeting of the GMCM/GSLM Board (i) one or more amendments to the Articles of Incorporation or bylaws; (ii) a plan of merger or consolidation by GMCM/GSLM into or with any other corporation, organization, or association; (iii) a proposal for any sale, lease, exchange, mortgage, pledge, or other disposition of all, or substantially all, of GMCM/GSLM's assets; or (iv) a proposal for dissolution of GMCM/GSLM and plan of distribution.

Michael Constantino, Illinois Department of Public Health

May 9, 2012

Page 3

- [c] The power to establish system-wide policies and procedures to be followed by GMCM/GSLM and any affiliates regarding: (i) quality of care; (ii) finance, (iii) utilization of resources; (iv) managed care contracting; (v) strategic planning; and (vi) employee benefits;
- [d] The power to assess GMCM/GSLM expenses of the Member attributable to GMCM/GSLM and any affiliates and to assess to GMCM/GSLM its share of the general overhead of GHS established in accordance with policies and procedures adopted by GHS; and
- [e] The power to direct GMCM/GSLM to transfer funds to GHS for the development of system-wide projects in accordance with policies established by GHS.

In addition, GHS also has approval powers over decisions of the GMCM/GSLM Board of Directors with respect to the following:

- [a] the interpretation of or any change in a statement of mission, philosophy, role, or purpose of GMCM/GSLM or any affiliate;
- [b] the adoption of amendments to the Articles of Incorporation, bylaws or other governing documents of GMCM/GSLM or any affiliate;
- [c] the merger, dissolution, consolidation or reorganization of GMCM/GSLM or any affiliate;
- [d] the formation or restructuring of affiliates;
- [e] the acquisition, sale, lease, transfer, encumbrance, or other alienation of property of GMCM/GSLM or any affiliate, other than in the usual and regular course, when such acquisition, sale lease, transfer, encumbrance, or other alienation is above specified financial levels set in accordance with policies established by GHS;
- [f] the adoption or authorization of annual capital and operating budgets of GMCM/GSLM or any affiliate as developed by its Board or management or the making of non-budgeted expenditures in excess of financial levels set in accordance with policies established by GHS;

UNGARETTI
& HARRIS

Michael Constantino, Illinois Department of Public Health

May 9, 2012

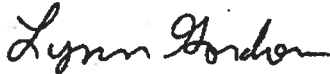
Page 4

- [g] the incurrence of debt or the guarantee of the debt of another by GMCM/GSLM or an affiliate which is in excess of such limits as are established by GHS;
- [h] the adoption of a plan of distribution or disposition of the assets of GMCM/GSLM or any affiliate at the time of its dissolution;
- [i] the adoption or approval of strategic and long-range financial plans for GMCM/GSLM or any affiliate;
- [j] the adoption of an internal auditing program for GMCM/GSLM or any affiliate which is consistent with the internal auditing program established by GHS;
- [k] the amendment, modification or exercise of any right or power hereunder granted; and
- [l] any action which is reserved as the right and power of GHS in the Articles of Incorporation or the bylaws.

Finally, per your request, attached please find the most recent GHS audited financial statements for the fiscal year ending June 30, 2011. As you know, GHS has an "A-1" bond rating, proof of which was submitted with the COE applications.

Please do not hesitate to contact me directly should you need any further information on these three follow-up inquiries.

Sincerely,



Lynn Gordon

Attachments

cc: Judy Mondello
Ted Rogalski
Claudette P. Miller

Montague, Valerie Breslin

From: Constantino, Mike [Mike.Constantino@Illinois.gov]
Sent: Thursday, May 03, 2012 10:53 AM
To: Gordon, Lynn; Montague, Valerie Breslin
Cc: Roate, George; Avery, Courtney
Subject: Exemption E-003-12, E-004-12

Mr. Gordon:

1. I am reviewing the exemption applications and I see the option agreement was approved in November 2010. We have always considered the change of ownership occurring upon the option approval. It appears to me that you have initiated this change of ownership in November 2010 without State Board approval. This could result in fines and penalties and could delay these exemption applications. We need to know why this transaction occurred without State Board approval.
2. All transaction agreements for change of ownerships must include ALL schedules and exhibits. Please provide all of the schedules and exhibits that have been identified in the agreement.
3. I need to know the meaning of "significant control" as referenced on page 11 of the exemption application.
4. The commitment to spend \$11,500,000 in capital improvements will require the submittal of an assessment of applicability to the State Board Staff.
5. We need Genesis Health System most recent audited financial statements.

Mike Constantino
Illinois Department of Public Health
525 West Jefferson
Springfield, Illinois 62761
Fax:(217) 785-4111
Phone:(217) 785-1557

Genesis Health System and Related Organizations

**Consolidated Financial Report
June 30, 2011**

Contents

Independent Auditor's Report on the Financial Statements	1
Financial Statements	
Consolidated balance sheets	2 – 3
Consolidated statements of operations	4
Consolidated statements of changes in net assets	5
Consolidated statements of cash flows	6 – 7
Notes to consolidated financial statements	8 – 42
Independent Auditor's Report on the Supplementary Information	43
Supplementary Information	
Schedule of community benefit	44 – 47
Consolidating balance sheet information	48 – 55
Consolidating statements of operations and changes in net assets information	56 – 59



Independent Auditor's Report

To the Audit and Compliance Committee
Genesis Health System
Davenport, Iowa

We have audited the accompanying consolidated balance sheets of Genesis Health System and related organizations (System) as of June 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Misericordia Assurance Company, Ltd., a consolidated subsidiary, which statements reflect total assets and revenue constituting approximately 4% and 1%, respectively, of the related consolidated totals in 2011 and 2010. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Misericordia Assurance Company, Ltd., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Genesis Health System and related organizations as of June 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, effective July 1, 2010 the System adopted the new accounting provisions relating to consolidation of noncontrolling interests in the consolidated financial statements. The adoption of this guidance resulted in a retroactive restatement on the consolidated financial statements.

McGladrey & Pullen, LLP

Davenport, Iowa
October 25, 2011

**Genesis Health System
and Related Organizations**

**Consolidated Balance Sheets
June 30, 2011 and 2010**

Assets	2011	2010
Current Assets:		
Cash and cash equivalents	\$ 76,241,207	\$ 58,099,247
Short-term investments	1,323,897	1,355,211
Receivables:		
Patients, net	79,121,728	81,302,404
Other, including assets limited as to use	14,414,865	12,575,013
Inventories, supplies and materials	13,709,309	12,553,702
Prepaid expenses and deposits	5,766,598	4,551,157
Total current assets	190,577,604	170,436,734
 Investments	 54,388,983	 52,821,697
 Assets Limited as to Use:		
Internally designated	157,778,420	136,440,158
Under bond indenture, funds held by trustee	5,899,175	13,855,860
Interest in net assets of Foundation	737,849	654,132
Donor restricted	17,278,889	17,204,300
	181,694,333	168,154,450
 Property and Equipment, net	 248,326,560	 255,657,359
 Other Assets:		
Bond issuance costs, net	775,920	750,334
Goodwill	30,730,877	820,444
Other	1,456,314	1,536,851
	32,963,111	3,107,629
	\$ 707,950,591	\$ 650,177,869

See Notes to Consolidated Financial Statements.

Liabilities and Net Assets	2011	2010
Current Liabilities:		
Current maturities of long-term debt	\$ 8,245,803	\$ 7,688,885
Accounts payable	17,530,976	18,512,293
Accrued salaries and wages	14,943,124	13,643,144
Accrued paid leave	16,646,147	15,907,419
Due to third-party payors	5,471,502	2,782,867
Unpaid losses and loss adjustment expenses	15,364,020	13,902,001
Other accrued expenses	5,646,273	5,970,263
Total current liabilities	83,847,845	78,406,872
 Long-Term Debt, less current maturities	 96,477,661	 104,482,761
 Unpaid Losses and Loss Adjustment Expenses, Retirement Benefits and Other Long-Term Liabilities	 32,837,656	 54,837,630
 Commitments and Contingent Liabilities (Notes 8 and 11)		
Total liabilities	213,163,162	237,727,263
 Net Assets:		
Unrestricted	465,923,057	394,143,518
Noncontrolling interests - unrestricted	10,847,634	448,656
Temporarily restricted	16,112,867	16,206,874
Permanently restricted	1,903,871	1,651,558
	494,787,429	412,450,606
	\$ 707,950,591	\$ 650,177,869

UNGARETTI & HARRIS

Three First National Plaza
70 West Madison – Suite 3500
Chicago, Illinois 60602.4224
Telephone: 312.977.4400
Fax: 312.977.4405
www.uhlaw.com

UNGARETTI & HARRIS LLP
CHICAGO, ILLINOIS
SPRINGFIELD, ILLINOIS
WASHINGTON, D.C.

SAM VINSON
312.977.4388
svinson@uhlaw.com

June 6, 2012

VIA FEDERAL EXPRESS

Courtney Avery
Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson Street
Springfield, Illinois 62761

Re: Incompleteness Determination, Mercer County Hospital, Project 12-044

Dear Ms. Avery:

This letter is in response to your letter of May 14, 2012, a copy of which is attached for your reference, indicating that the Certificate of Need ("CON") application for the discontinuation of the long term care and intensive care categories of services submitted by Mercer County Hospital (the "Hospital") and the Mercer County Board is incomplete.

Your letter explains that the CON application was deemed incomplete by the Health Facilities and Services Review Board ("HFSRB") staff because the "applicant failed to provide information regarding previous transactions not presented to the [HFSRB] for prior approval." The letter, however, references Project Number E-003-12, the change of ownership Certificate of Exemption ("COE") application for the Hospital submitted by Genesis Health System ("GHS") and GMCM, and Project Number E-004-12, the COE application for Mercer County Nursing Home submitted by GHS and GSLM. Your letter adds that the "applicant did not furnish a Certificate of Need Assessment Form upon request from [HFSRB] Staff." The letter also states that the "applicant's 10-business day window for submittal of additional information expired on May 14, 2012."

By way of authority for this incompleteness determination, your letter cites Section 1130.620(D)(1)(I) of the Health Facilities Planning Procedural Rules (the "Rules"). This section governs CON applications and states that:

Upon receipt of an application for permit, [the HFSRB staff] shall determine whether the application is complete or incomplete. An application for any project shall be deemed complete within 10 business days after receipt if all of the

UNGARETTI
& HARRIS

Courtney Avery

June 6, 2012

Page 2

following have been met: ... verification that the applicant has fulfilled all compliance requirements with all existing permits that have been approved by [HFSRB]...."

Based on email correspondence received from Mike Constantino on May 3, 2012, it appears your primary concern with the CON application is that, in 2010 when GHS, Mercer County, Illinois and the Hospital executed an Option Agreement providing GHS with the option to acquire certain of the Hospital's assets and liabilities, GHS did not apply to the HFSRB for a COE for a change of ownership. Mr. Constantino's email explained that the HFSRB staff has considered a health facility's change of ownership to occur upon execution of an option agreement. As addressed in great detail in the enclosed memorandum to you and Mr. Constantino, GHS was not required to submit a COE application in November, 2010 because, although an option agreement could be structured such that the execution of the option triggers the acquisition, the GHS/Mercer County Option Agreement did not, and therefore did not trigger a change of ownership under the Illinois Health Facilities Planning Act (the "Act") or the Rules. We are not aware of any other outstanding compliance requirements of the Hospital.

We further understand that a second reason that the HFSRB staff declared the CON application to be incomplete is the fact that GHS and GMCM did not furnish HFSRB staff with a Certificate of Need or Exemption to Permit Assessment of Applicability (the "Assessment") form. As also explained in further detail in the enclosed memorandum to you and Mr. Constantino, if their COE application is approved and GMCM becomes the owner, operator and licensee of the Hospital, GHS and GMCM intend to pursue the referenced modernization project. GHS and GMCM are not able to provide an Assessment form at this time: the proposed project currently is not a GHS/GMCM project, as neither owns the Hospital. Further, while we respectfully acknowledge Mr. Constantino's statement that the modernization commitment "will require the submittal" of the Assessment form, even if the form is required, which we do not believe it is under the Act or the Rules, neither GHS nor GMCM have the ability to submit this form at this time, as neither owns the Hospital. Mercer County cannot submit the Assessment form, either, as it is not the entity that made the modernization commitment.

Some clarification may be helpful. The applicants to Project Number E-004-12, GSLM and GHS, believe that they have provided the HFSRB staff with all requested items with respect to the COE application for the Nursing Home. The Option Agreement **does not relate** to the proposed change of ownership of the Mercer County Nursing Home; the asset purchase contemplated therein does not include assets of the Nursing Home. **Also unrelated** to the proposed change of ownership of the Nursing Home is GHS' and GMCM's intent to pursue a modernization project **of the Hospital** at an approximate cost of \$11,500,000.

UNGARETTI
& HARRIS

Courtney Avery

June 6, 2012

Page 3

In conclusion, on behalf of Mercer County Hospital and the Mercer County Board, the applicants for Project 12-044, we respectfully request the HFSRB staff to deem the application complete, as we believe the applicants provided all necessary information to the HFSRB and its staff.

Please do not hesitate to contact me to discuss or if you require anything further.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Vinson', with a stylized, flowing script.

Sam Vinson

cc: Judith Mondello
Ted Rogalski
Claudette P. Miller
Lynn Gordon

Enclosures



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3616

May 14, 2012

CERTIFIED MAIL

RETURN RECEIPT REQUESTED

Sam Vinson, Attorney
Ungaretti & Harris, LLP
70 West Madison Street, Suite 3500
Chicago, IL 60602

RE: **Incompleteness**
Health Facilities Planning Act
PROJECT: 12-044 Mercer County Hospital, Aledo
APPLICANT(S): Mercer County Hospital

Dear Mr. Vinson:

This is to acknowledge receipt of your application for permit under the Illinois Health Facilities Planning Act. Your application, received on May 1, 2012, was deemed incomplete as of May 14, 2012. The State Agency notes the following:

Section 1130.620(D)(1)(i) Technical Assistance, Letter of Intent, Classification, Completeness Review, and Review Procedures

D) Completeness Review

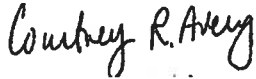
- 1) Upon receipt of an application for permit, IDPH shall determine whether the application is complete or incomplete. An application for any project shall be deemed complete within 10 business days after receipt if all of the following have been met:
 - i. verification that the applicant has fulfilled all compliance requirements with all existing permits that have been approved by HFSRB;

The applicant failed to provide information regarding previous transactions not presented to the Illinois Health Facilities Planning Board for prior approval (E-003-12, Mercer County Hospital, and E-004-12 Mercer County Nursing Home). The applicant did not furnish a Certificate of Need Assessment Form upon request from Board Staff. The applicant's 10-business day window for submittal of additional information expired on May 14, 2012.

Per 77IAC 1130.620(d)(5): If the application is deemed complete, the date of completion shall initiate the review period. If the application is deemed incomplete, the applicant shall be allowed 45 days from the date of receipt of the notification to provide all necessary information to complete the application. Upon receipt of all additional information requested, IDPH shall again review the application for completeness and shall notify the applicant of its decision. If IDPH finds that the application remains incomplete at the end of the allotted response period, the application shall be declared null and void, and all fees paid forfeited.

Should you have any questions regarding your application, please contact our office at (217) 782-3516 or TTY (800) 547-0466 for hearing impaired only.

Sincerely,

A handwritten signature in cursive script that reads "Courtney R. Avery".

Courtney Avery, Administrator
Illinois Health Facilities and Services Review Board



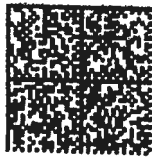
STATE OF ILLINOIS
HEALTH FACILITIES
525 WEST JEFFERSON
SPRINGFIELD, ILLINOIS

CERTIFIED MAIL



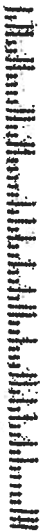
7010 1060 0002 1909 5243

Sam Vinson, Attorney
Ungaretti & Harris, LLP
70 West Madison Street, Suite 3500
Chicago IL 60602



UNITED STATES POSTAGE
FIRST CLASS
\$ 05.75
02 1M
0004286125 MAY 15 2012
MAILED FROM ZIP CODE 62702

8060234283 0029



MEMORANDUM

TO: Courtney Avery, Illinois Department of Public Health
Michael Constantino, Illinois Department of Public Health

FROM: Sam Vinson
Valerie Breslin Montague

CC: Judith Mondello, Vice President, Legal Affairs, Genesis Health System
Claudette P. Miller, Ungaretti & Harris
Lynn Gordon, Ungaretti & Harris
George Roate, Illinois Department of Public Health

DATE: June 6, 2012

RE: Certificate of Exemption Application for Change of Ownership of Mercer County Hospital, Project E-003-12

This Memorandum is the additional follow up referenced in our letter of May 9, 2012 and responds to the issues raised in items 1 and 4 of your email of May 3, 2012, and request made in the May 30, 2012 correspondence from Courtney Avery. (Copies of the May 9, 2012 letter, May 3, 2012 email and May 30, 2012 letter are attached for your reference.) In particular, this Memorandum responds to (i) the question of why the approval of the Illinois Health Facilities and Services Review Board ("HFSRB") was not sought before execution of the Option Agreement between Genesis Health System ("GHS"), Mercer County, Illinois and Mercer County Hospital (the "Hospital"), and (ii) the statement that the "commitment to spend \$11,500,000 in capital improvements will require the submittal of an assessment of applicability" to the HFSRB staff. Regarding Ms. Avery's May 30th request for the complete Option Agreement with all schedules and exhibits, we addressed this in our May 9, 2012 correspondence, a copy of which is attached hereto. In short, our original application submission included the complete Option Agreement with all schedules and exhibits.

Please direct any follow up inquiries in this matter to Sam Vinson, at (312) 977-4388 or svinson@uhlawn.com, or Valerie Breslin Montague, at (312) 977-4485 or vbmontague@uhlawn.com.

I. Executive Summary

We are hopeful that the following additional facts and analyses will allow the parties to move forward expeditiously on this very time-sensitive transfer of the Hospital. The impetus to this transaction is the critical need to immediately improve the financial status of this important critical access hospital in Mercer County in order to ensure continued operations and to facilitate

UNGARETTI
& HARRIS

Courtney Avery
Michael Constantino
June 6, 2012
Page 2

long-delayed and necessary facility improvements. Moreover, each month that this project is delayed, Mercer County residents continue to fund pension obligations at a rate of approximately \$100,000 per month from a property tax levy. The change of ownership eliminates this additional tax burden on the residents of this community.

As further discussed below and with respect to the approval question, we respectfully submit that there was no requirement to obtain HFSRB approval in November, 2010 when the Option Agreement was executed. First, under the Illinois Health Facilities Planning Act (the "Act"), the Health Facilities Planning Procedural Rules (the "Rules"), Illinois case law, and the express language of the Option Agreement itself, HFSRB approval was not required until the Exercise of the Option (each as defined below) in April, 2012, for which GMCM did timely file a Certificate of Exemption ("COE") application. Next, Illinois law clearly distinguishes between option agreements and agreements to purchase but, even if it did not, the Option Agreement itself was not a binding agreement on Mercer County and the Hospital until March 2012 when the County Board-required contingency concerning future disposition of the facility was added, as further discussed herein. And, as noted in our application, the relevant documents contained the requisite HFSRB approvals as a precondition to close. In any event, the parties would not have been able to file a "complete" COE application at the time the Option Agreement was executed, because much of the information required as part of the COE application was not generated until the Option was exercised in April, 2012.

Further, with respect to the statement concerning capital improvements, while we agree that any modernization project at the Hospital needs to be analyzed to determine whether a Certificate of Need ("CON") or COE application is necessary, we do not agree that GHS' and GMCM's intent to proceed with a capital improvement project post-Hospital change of ownership requires the submittal of the Certificate of Need or Exemption to Permit Assessment of Applicability ("Assessment") form. That being said, the Assessment form and process is helpful and at the time the relevant parties are moving forward with the projects we will avail ourselves of it, as necessary. Therefore, we respectfully request that the HFSRB staff continue to process GMCM's COE application (and that of GSLM) in the normal course, in accordance with applicable laws and rules.

II. Facts

As a further supplement to our initial application, we submit the following additional facts to facilitate HFSRB review and understanding of this matter.

UNGARETTI
& HARRIS

Courtney Avery
Michael Constantino
June 6, 2012
Page 3

On April 27, 2012, GMCM and GHS filed a COE application for the change of ownership of the Hospital, a 22-bed critical access hospital located in Aledo, Illinois. The "definitive agreement" for the change of ownership transaction consists of three documents:

- the Option Agreement, executed in November, 2010,
- the Addendum to Option Agreement, executed March 6, 2012 (the "Addendum"), and
- the Exercise of Option, executed April 26, 2012 (the "Exercise").

The Option Agreement gives GHS "the option to assume certain assets and liabilities" of Mercer County, Illinois and the Hospital (the "Option").¹ One such liability is anticipated to be certain renovation debt. The Addendum clarifies certain terms of the Option Agreement, including but not limited to GMCM's assumption of GHS' rights and obligations under the Option Agreement and certain included assets in the proposed transaction, and it adds certain requirements necessary to meet Mercer County Board approval of the Option Agreement. It also adds conditions that must be satisfied after the execution of the Option and prior to closing, including approval by the HFSRB. In the Exercise, GMCM exercises the Option, subject to the terms and conditions set forth in the Option Agreement and the Addendum, including HFSRB approval.

III. The Option Agreement Did Not Trigger A Change Of Ownership

In your May 3, 2012 email, you state that the HFSRB staff "have always considered" the change of ownership of a health care facility to occur at the approval of an agreement providing for an option to purchase the health care facility, that it appears that GHS initiated the change of ownership of the Hospital in November, 2010 and ask "why the transaction occurred" without HFSRB approval.

The answer to your question lies in the distinction between a true option to purchase (such as the Option Agreement here) and an agreement to purchase, which may sometimes also be mistakenly referred to as an "option." This distinction is recognized both in the statutes and rules specific to health facility planning in Illinois and in Illinois case law. As outlined below, only an actual agreement to purchase triggers the need to seek HFSRB approval. Accordingly, the execution of the Option Agreement in November, 2010 did not trigger a change of ownership under either the Act or the Rules. When the Option was exercised on April 26, 2012, making a conditional agreement to purchase, GHS timely applied to the HFSRB for a COE for the

¹ Option Agreement, Recital C.

UNGARETTI
& HARRIS

Courtney Avery
Michael Constantino
June 6, 2012
Page 4

proposed change of ownership of the Hospital, anticipated to occur on or about September 1, 2012.

A. Statutory and Regulatory Analysis

The Option Agreement alone, without the Exercise executed April 26, 2012, does not meet the definition of a "change of ownership" under the Act or the Rules. The Act states that "[n]o person shall construct...a health care facility...without first obtaining a permit or exemption from the State Board."² "Construction or modification" includes the "change of ownership, of or by a health care facility."³ Under the Act, a change of ownership of a health care facility is "a change in the person who has ownership or control of a health care facility's physical plant and capital assets. A change in ownership is indicated by the following transactions: sale, transfer, acquisition, lease, change of sponsorship, or other means of transferring control."⁴

The Rules state that a change of ownership is:

a change in the person who has operational control of an existing health care facility or a change in the person who has ownership or control of a health care facility's physical plant and capital assets. A change of ownership is indicated by, but not limited to, the following transactions: sale, transfer, acquisition, leases, change of sponsorship or other means of transferring control. Examples of change of ownership include:

a transfer of stock or assets resulting in a person obtaining a majority interest (i.e., over 50%) in the person who is licensed or certified (if the facility is not subject to licensure), or in the person who owns or controls the health care facility's physical plant and capital assets; or

the issuance of a license by [the Illinois Department of Public Health ("IDPH")] to a person different from the current licensee; or...

any other transaction that results in a person obtaining control of a health care facility's operations or physical plant and capital assets, including leases.⁵

² 20 ILCS 3960/5.

³ 20 ILCS 3960/3.

⁴ 20 ILCS 3960/3.

⁵ 77 Ill. Admin. Code § 1130.140.

UNGARETTI
& HARRIS

Courtney Avery
Michael Constantino
June 6, 2012
Page 5

The events in November of 2010, when the Option Agreement was executed, do not constitute a change of ownership under the definitions provided in the Act and the Rules. The Option Agreement merely provided GHS with the Option to acquire certain assets and liabilities of the Hospital. It did not change the Hospital's operator. It did not change the entity owning and controlling the Hospital's physical plant and capital assets. Nothing was sold, transferred or leased. There was no acquisition or other transfer of control. As the Hospital was and remains a County-owned facility, a change in sponsorship is not applicable. IDPH did not issue GHS a license for the Hospital, nor did the Option Agreement give IDPH the authority to do so.

The Rules, in the section addressing the requirements for change of ownership COE applications, state that: "Prior to any person acquiring or entering into a contract to acquire an existing health care facility, the person must submit an application for exemption to [the HFSRB]...and receive approval from [the HFSRB]."⁶ This provision arguably expands upon the statutory basis for a change of ownership in the Act. Regardless, it has no application here. In November, 2010, GHS neither acquired, nor entered into a contract to acquire, the Hospital. Instead, GHS, Mercer County, Illinois and the Hospital entered into a contract to give GHS the Option, at a later date, upon exercise of the Option, to acquire certain assets and liabilities of the County and the Hospital. The terms of the Option Agreement are clear: GHS needed to exercise the Option before any obligation or agreement to purchase arose.⁷ The Option Agreement states that the parties "agree to complete the transfer of the Included Assets and the assumption of the Included Liabilities (the "Closing"), under the terms and subject to the conditions, [sic] set forth herein within ninety (90) days of the Option Exercise Date (the "Closing Date")."⁸ The transfer of the assets and liabilities of the Hospital will not, and simply cannot, occur prior to the exercise of the Option. However, as to the Exercise of the Option to acquire certain assets and liabilities of the Hospital and the issuance of a license for the hospital facility in GMCM's name, we agree that this is a change of ownership subject to the review of the HFSRB –which is why GMCM timely filed a COE application.

B. Case Law Analysis

Illinois case law makes clear that, until accepted through an exercise of the option, an offer to sell in an option contract does not itself become a contract. In *Morris v. Goldthorp*, the Supreme Court of Illinois reviewed a written option agreement which by its terms gave to a prospective purchaser the exclusive right of sale and the right to purchase certain real property within a

⁶ 77 Ill. Admin. Code § 1130.520(a).

⁷ See, e.g., Option Agreement, Section 3.1.

⁸ Option Agreement, Section 3.2.

UNGARETTI
& HARRIS

Courtney Avery
Michael Constantino
June 6, 2012
Page 6

period of 60 days.⁹ The prospective purchaser claimed that, because he signed his name at the foot of the option agreement under the word "Accepted," the option became a valid and binding contract on the part of the seller to convey the property.¹⁰ The court held that, by signing the contract, the prospective purchaser merely accepted the option for what it was, a unilateral offer that could not and did not become a bilateral agreement by his endorsement.¹¹ The court emphasized that, in an option contract, two elements exist: (i) the offer to sell, which does not become a contract until accepted, and (ii) a contract to leave the offer open for a specified period of time.¹² The court concluded, "The principle is well settled that an option contract is not a contract of sale within any recognized definition of the term. At best, it only gives the option holder the right to purchase upon the terms and conditions specified in the option agreement."¹³

More recently, in *Terraces of Sunset Park, LLC v. Chamberlin*, the appellate court reviewed an agreement between vendors and a prospective purchaser that specified the parties, the property, the purchase price, the down payment, the closing date, and the acceptable methods of paying the balance of the purchase price for certain real property but that allowed the prospective purchaser to walk away from the deal prior to closing by forfeiting only part or all of the down payment.¹⁴ Although the word "option" was not written anywhere in the agreement, the court held that, where the prospective purchaser had the right, but not the obligation, to purchase the real property, the contract was an option contract.¹⁵ The court affirmed that option contracts sell only the right or privilege to buy certain property at the option of the other party.¹⁶ The other party does not receive the property or an interest therein; rather, it receives the right to call for and receive the property at its choosing.¹⁷

It is possible to understand how some true asset purchase agreements might be confused with options—and hence the HFSRB's concern that such arrangements not be permissible absent its approval. Here, however, the Option Agreement is unequivocally an option agreement by its terms and not an asset purchase agreement. It contains an offer for GHS to assume certain assets and liabilities of the County and the Hospital upon exercise of the Option and it is a contract to

⁹ *Morris v. Goldthorp*, 390 Ill. 186, 190, 60 N.E.2d 857, 859 (1945); *Whitelaw v. Brady*, 3 Ill. 2d 583, 589, 121 N.E.2d 785, 789 (1954); see also *Mitzlaff v. Midland Lumber Company*, 338 Ill. 575 (1930) (holding that when an option agreement is executed, a landowner does not then sell the land or any interest in it, or agree to sell, but rather sells the right or privilege to buy it at the option of the other party).

¹⁰ *Morris*, 390 Ill. at 190, 60 N.E.2d at 859.

¹¹ *Id.* at 191, 60 N.E.2d at 859; *Whitelaw*, 3 Ill.2d at 589, 121 N.E.2d at 789.

¹² *Morris*, 390 Ill. at 191, 60 N.E.2d at 859.

¹³ *Id.* at 192, 60 N.E.2d at 860.

¹⁴ *Terraces of Sunset Park, LLC v. Chamberlin*, 399 Ill. App. 3d 1090, 1093, 929 N.E.2d 1161, 1164 (2010).

¹⁵ *Id.* at 1094, 929 N.E.2d at 1165.

¹⁶ *Id.*, 929 N.E.2d at 1165.

¹⁷ *Id.*, 929 N.E.2d at 1165.

UNGARETTI & HARRIS

Courtney Avery
Michael Constantino
June 6, 2012
Page 7

leave the offer open for the specified Option term. GHS did not receive the assets or liabilities of the County/Hospital or an interest therein by executing the Option Agreement. Rather, it received the right to assume certain assets and liabilities during the Option term upon exercise of the Option. As in *Morris*, GHS' execution of the Option Agreement did not constitute acceptance or approval of the right to assume certain assets and liabilities. GHS did not, and could not, make the Option Agreement a bilateral contract for the change of ownership of the Hospital simply by signing and accepting the agreement. Further, as provided by *Terraces of Sunset Park*, the Option Agreement gave GHS the right, but not the obligation, to acquire certain assets and liabilities of the Hospital. Not until GMCM exercised the option on April 26, 2012 did it approve Mercer County's and the Hospital's "offer to sell" to create a bilateral contract for the change of ownership of the Hospital. Therefore, execution of the Option Agreement did not trigger a change of ownership for HFSRB purposes.

C. Terms of Option Agreement and Approval By County Board

The Option Agreement does not effectuate a change of ownership transaction because, by its own terms, it simply offers GHS only an Option to acquire certain assets and liabilities of the Hospital at some time in the future, rather than constituting an agreement for the acquisition. Further, in its resolution approving the Option Agreement, the Mercer County Board approved the Option Agreement with the caveat that the arrangement be subject to a requirement that, in the event the Option is exercised and GHS assumes ownership and control of same, GHS return the Hospital property to the County if GHS no longer wishes to operate the Hospital.

The Mercer County Board resolution states that the Board approved the Option Agreement "with the addition of returning the [H]ospital property to the County if [GHS] chooses to leave." This requirement was not part of the Option Agreement. Hence, the Option itself was neither fully approved nor effective until the relevant March 6, 2012 Addendum reflecting the requisite caveat and clarifying the intent of the parties on this term. Moreover, as stated herein, the Exercise occurred on April 26, 2012; prior to that time, the proposed transaction did not fall within the definition of a "change of ownership" under the Act or the Rules.

D. Conveyances Act Requirements Evidence

Because real property was included among the proposed assets to be purchased by GMCM, Mercer County also is required to comply with the Illinois Conveyances Act (the "Conveyances Act") in connection with any change of ownership. The Conveyances Act provides that the Mercer County Board may authorize any officer or member of its Board to execute and deliver all deeds, grants, conveyances and other instruments necessary to sell, transfer or convey County real estate. Such documents, if made without fraud or collusion, will be obligatory upon the

Courtney Avery
Michael Constantino
June 6, 2012
Page 8

County.¹⁸ In keeping with its permitted authority under the Conveyances Act, the Mercer County Board ultimately authorized the change of ownership of the Hospital, pursuant to the terms and conditions of the Option Agreement and the Addendum, on April 16, 2012. On this date, the Board authorized its Chairman to execute a deed and any documents necessary to complete the transaction. Because the proposed change of ownership of the Hospital did not even have the final approval of the Mercer County Board until April 16, 2012, seeking the HFSRB approval in November, 2010 would have been premature and impermissible.

E. Regulations and Application Do Not Correspond to Option Agreement

Even if a change of ownership could occur simply upon the execution of an option agreement, and not the exercise of the option itself, in November of 2010 GHS would not have been able to provide the HFSRB with the requisite information necessary for a "complete" COE application,¹⁹ because such information did not and could not exist and could not have been provided. The change of ownership of the Hospital was a potential future occurrence. Executing the Option Agreement did not result in the information necessary for a COE application, as it provided for the Option for a change of ownership upon exercise of the Option in the future as opposed to an asset purchase or other change of ownership transaction at the time.

The Rules require a COE application for the change of ownership of a health care facility to include "documents, such as letters of intent, options to purchase, or lease or sale agreements, that have been signed by both the applicant and the existing owner that contain a provision that execution is subject to [HFSRB] issuance of an exemption and that contain the conditions and terms of the change of ownership."²⁰ The COE application also requests documents detailing "the terms and conditions of the proposed transaction." Because the parties understood that additional documentation would be required prior to effectuating the Option, the Option Agreement was not and is not subject to the approval of HFSRB. The Addendum and the Exercise both provide that the proposed change of ownership transaction is subject to the approval of the HFSRB. The parties, aware that additional documentation was necessary to trigger the acquisition of certain of the Hospital's assets and liabilities, waited to include the term stipulated by the Mercer County Board in its approval of the Option Agreement: that the County would have the right to reacquire the Hospital if GHS no longer wishes to operate it. They inserted this provision into the Addendum only recently and thereby secured requisite board approval not only of the overall proposed transaction but also of the Option Agreement itself.

¹⁸ 765 ILCS 5/16.

¹⁹ Similarly, GHS would not have been able to provide the requisite information for a CON application in November 2010. We limit our analysis to the COE application, as the COE application requests less information than the CON application and GHS still could not have provided all necessary information for the COE application in 2010.

²⁰ 77 Ill. Admin. Code § 1130.520(b)(2).

UNGARETTI
& HARRIS

Courtney Avery
Michael Constantino
June 6, 2012
Page 9

Both the Addendum and the Exercise are essential and integral parts of the full transaction documents. For these reasons, GHS would not have been able to provide all of the necessary transaction documents in 2010.

Further, as the COE application is intended to request information regarding pending changes of ownership as opposed to option transactions that may or may not ever be exercised, completing other aspects of the COE application in November, 2010 would have presented a number of challenges. For example, in 2010, GHS would not have been able to verify that it will maintain ownership of the Hospital for three years, as it had not yet exercised its option to acquire certain of the Hospital's assets and liabilities and had not entered into a contract to "own" the Hospital in the first place.²¹ Similarly, in 2010, GHS could not have certified that the Hospital's charity care policy would remain in effect for two years, as at that time it had no control over the Hospital's policies, nor had it entered into any agreement to assume such control at that time.²²

Moreover, applying for a COE in 2010 for a transaction that may occur several years down the line, if at all, would require the HFSRB staff to provide an opportunity for a public hearing on a project that may never come to fruition and, if and when it does, issues discussed at a public hearing may be moot at the true time (or be replaced by other concerns).²³ Finally, the Rules require that the change of ownership must be completed within 12 months from the date of approval (unless the Board approves an extension).²⁴ In 2010, GHS could not have asserted that it would comply with the one-year requirement. Therefore, the Option Agreement should not be considered a change of ownership. If it were, the information required to submit a "complete" COE (or CON) application would have been unavailable, as the Option Agreement simply did not place GHS in a position to acquire ownership of the Hospital absent exercise of the Option.

IV. Capital Improvement Commitment

In your May 3, 2012 email, you also state that "the commitment to spend \$11,500,000 in capital improvements *will require* the submittal of an assessment of applicability" to the HFSRB staff (emphasis added). This statement presumably references the narrative in Attachment 3 to the COE application, which states GHS and GMCM, following the proposed change of ownership transaction, "intend to facilitate" a modernization of the Hospital at an anticipated cost of \$11,500,000, "subject to all necessary regulatory approvals."

We are happy to submit the Assessment form. However, to our knowledge, there is no statute or

²¹ See 77 Ill. Admin. Code §§ 1130.520(b)(5).

²² See 77 Ill. Admin. Code §§ 1130.520(b)(7).

²³ See 77 Ill. Admin. Code § 1130.520(c).

²⁴ 77 Ill. Admin. Code § 1130.520(b)(8).

UNGARETTI
& HARRIS

Courtney Avery
Michael Constantino
June 6, 2012
Page 10

rule requiring us to do so.²⁵ Moreover, we have reviewed the modernization proposal and it falls below the current capital expenditure minimum, and no component otherwise triggers a CON or COE. If the amount changes or there are other changes that would impact our CON analysis, we certainly will follow up with you accordingly. Along these lines, as referenced by the language in the narrative, the proposed project is "subject to," and thus conditioned on, "all necessary regulatory approvals," which would include any necessary approval from the HFSRB.

If the Hospital's COE application is approved, and GMCM becomes the owner, operator and licensee of the Hospital, then GHS and GMCM intend to pursue the referenced modernization project. Again, at that time, GHS and GMCM, with the assistance of legal counsel and consultants as necessary, will reassess whether the project requires a CON or COE permit. If it is unclear, or they otherwise need HFSRB assistance in such determination at the time, they will follow up using the preferred form.

In any event, neither GHS nor GMCM owns the Hospital at this point, and, depending on a number of factors, the most important of which is the HFSRB approval of the transaction, the proposed modernization project may never happen. Therefore, submitting the Assessment form at this time would be premature.

Attachments

²⁵ The Act does not require health facilities, or other potential applicants, to complete the Assessment form, nor is there any such requirement in the Rules. The Assessment form itself indicates that its submission is voluntary. The front page reads: "This form is neither mandatory nor a substitute for complying with any [HFSRB] requirements under the Act and the rules [emphasis in original]." The form clarifies that it is designed to help potential applicants "understand the parameters as to whether or not" a CON or COE is required.

UNGARETTI & HARRIS

LYNN GORDON
312.977.4134
lgordon@uhl.law.com

Three First National Plaza
70 West Madison - Suite 3500
Chicago, Illinois 60602.4224
Telephone: 312.977.4400
Fax: 312.977.4405
www.uhl.law.com

UNGARETTI & HARRIS LLP
CHICAGO, ILLINOIS
SPRINGFIELD, ILLINOIS
WASHINGTON, D.C.

May 9, 2012

VIA EMAIL AND FEDERAL EXPRESS

Michael Constantino
Illinois Department of Public Health
525 West Jefferson
Springfield, Illinois 62761

Re: Certificate of Exemption Applications for Change of Ownership of Mercer County Hospital, Project E-003-12, and Mercer County Nursing Home, Project E-004-12

Dear Mr. Constantino:

As you know, our firm represents Genesis Health System ("GHS") and its subsidiaries GMCM and GSLM in connection with their Certificate of Exemption ("COE") applications for the change of ownership of Mercer County Hospital (the "Hospital") and Mercer County Nursing Home (the "Nursing Home"). In response to your email of May 3, 2012, a copy of which is attached for your reference, I am writing to address three of your inquiries (items two, three and five in your email). As I noted in my email to you on May 3rd, we will follow up separately on items one and four.

In item two of your email request, you ask for copies of all schedules and exhibits to the definitive agreements for the change of ownership transaction. All such documents were submitted with our application. With respect to the change of ownership of the Hospital, the three agreements that collectively total the "definitive agreement" for the transaction are the Option Agreement, the Addendum to Option Agreement and finally, the document that then established the agreement to move forward with the change of control, the Exercise of Option. Neither the Addendum to Option Agreement nor the Exercise of Option has any exhibits or schedules. The Option Agreement has four exhibits, each of which was included in the COE application. As is typical, the Option Agreement also provides for a number of schedules to be delivered at closing, none of which could or would have been provided by the parties upon execution of the Option Agreement in 2010 and none of which are or could be available at this time.

UNGARETTI
& HARRIS

Michael Constantino, Illinois Department of Public Health

May 9, 2012

Page 2

Per Section 3.3(b) of the Option Agreement, and as explained on page 13 of the COE application (in the Narrative Section/Attachment 3), the schedules referenced in the Option Agreement are under development and do not become part of the Agreement until the closing of the change of ownership transaction.

With respect to the change of ownership of the Nursing Home, the Asset Purchase Agreement is the definitive agreement between the parties. It has two exhibits, both of which were provided as part of the COE application. The only schedule to the Asset Purchase Agreement is a Schedule of Patient Trust Accounts which, as is typical, pursuant to Section 23 of the Asset Purchase Agreement cannot be dated more than seven days prior to the closing of the change of ownership transaction, and therefore is not available to provide for your review.

Your May 3, 2012 email also asked for the meaning of the term "significant control," as referenced on page 11 of the COE applications for each of the Hospital and the Nursing Home. GMCM and GSLM, the proposed new owners of the Hospital and the Nursing Home, respectively, have the same corporate structure, in that each is an Illinois not-for-profit corporation applying for federal tax exemption under Section 501(c)(3) of the Internal Revenue Code of 1986, and each has GHS as its sole corporate member. As we detail in the narratives to the COE applications on page 11, GHS "has retained certain significant control over" GMCM and GSLM. The term "significant control" was used indicate the fact that GHS has certain exclusive authority over the actions of GMCM and GSLM and certain approval authority over actions taken by the Boards of Directors of GMCM and GSLM; these types of reserved powers are standard for not-for-profit entities with corporate members, particularly within health systems, and establish control over board appointments, finance, capital, budget, strategic planning matters, etc. To expand on the summary of the reserved powers provided on pages 11 and 12 of the COE applications, GHS has the following exclusive reserved powers over GMCM and GSLM:

- [a] The power to determine the number of directors serving on the GMCM/GSLM Board and to elect, appoint, remove or fill the vacancies of such directors.
- [b] The power to present at any regular or special meeting of the GMCM/GSLM Board (i) one or more amendments to the Articles of Incorporation or bylaws; (ii) a plan of merger or consolidation by GMCM/GSLM into or with any other corporation, organization, or association; (iii) a proposal for any sale, lease, exchange, mortgage, pledge, or other disposition of all, or substantially all, of GMCM/GSLM's assets; or (iv) a proposal for dissolution of GMCM/GSLM and plan of distribution.

UNGARETTI
& HARRIS

Michael Constantino, Illinois Department of Public Health

May 9, 2012

Page 3

- [c] The power to establish system-wide policies and procedures to be followed by GMCM/GSLM and any affiliates regarding: (i) quality of care; (ii) finance, (iii) utilization of resources; (iv) managed care contracting; (v) strategic planning; and (vi) employee benefits;
- [d] The power to assess GMCM/GSLM expenses of the Member attributable to GMCM/GSLM and any affiliates and to assess to GMCM/GSLM its share of the general overhead of GHS established in accordance with policies and procedures adopted by GHS; and
- [e] The power to direct GMCM/GSLM to transfer funds to GHS for the development of system-wide projects in accordance with policies established by GHS.

In addition, GHS also has approval powers over decisions of the GMCM/GSLM Board of Directors with respect to the following:

- [a] the interpretation of or any change in a statement of mission, philosophy, role, or purpose of GMCM/GSLM or any affiliate;
- [b] the adoption of amendments to the Articles of Incorporation, bylaws or other governing documents of GMCM/GSLM or any affiliate;
- [c] the merger, dissolution, consolidation or reorganization of GMCM/GSLM or any affiliate;
- [d] the formation or restructuring of affiliates;
- [e] the acquisition, sale, lease, transfer, encumbrance, or other alienation of property of GMCM/GSLM or any affiliate, other than in the usual and regular course, when such acquisition, sale lease, transfer, encumbrance, or other alienation is above specified financial levels set in accordance with policies established by GHS;
- [f] the adoption or authorization of annual capital and operating budgets of GMCM/GSLM or any affiliate as developed by its Board or management or the making of non-budgeted expenditures in excess of financial levels set in accordance with policies established by GHS;

UNGARETTI
& HARRIS

Michael Constantino, Illinois Department of Public Health

May 9, 2012

Page 4

- [g] the incurrence of debt or the guarantee of the debt of another by GMCM/GSLM or an affiliate which is in excess of such limits as are established by GHS;
- [h] the adoption of a plan of distribution or disposition of the assets of GMCM/GSLM or any affiliate at the time of its dissolution;
- [i] the adoption or approval of strategic and long-range financial plans for GMCM/GSLM or any affiliate;
- [j] the adoption of an internal auditing program for GMCM/GSLM or any affiliate which is consistent with the internal auditing program established by GHS;
- [k] the amendment, modification or exercise of any right or power hereunder granted; and
- [l] any action which is reserved as the right and power of GHS in the Articles of Incorporation or the bylaws.

Finally, per your request, attached please find the most recent GHS audited financial statements for the fiscal year ending June 30, 2011. As you know, GHS has an "A-1" bond rating, proof of which was submitted with the COE applications.

Please do not hesitate to contact me directly should you need any further information on these three follow-up inquiries.

Sincerely,



Lynn Gordon

Attachments

cc: Judy Mondello
Ted Rogalski
Claudette P. Miller

Montague, Valerie Breslin

From: Constantino, Mike [Mike.Constantino@Illinois.gov]
Sent: Thursday, May 03, 2012 10:53 AM
To: Gordon, Lynn; Montague, Valerie Breslin
Cc: Roate, George; Avery, Courtney
Subject: Exemption E-003-12, E-004-12

Mr. Gordon:

1. I am reviewing the exemption applications and I see the option agreement was approved in November 2010. We have always considered the change of ownership occurring upon the option approval. It appears to me that you have initiated this change of ownership in November 2010 without State Board approval. This could result in fines and penalties and could delay these exemption applications. We need to know why this transaction occurred without State Board approval.
2. All transaction agreements for change of ownerships must include ALL schedules and exhibits. Please provide all of the schedules and exhibits that have been identified in the agreement.
3. I need to know the meaning of "significant control" as referenced on page 11 of the exemption application.
4. The commitment to spend \$11,500,000 in capital improvements will require the submittal of an assessment of applicability to the State Board Staff.
5. We need Genesis Health System most recent audited financial statements.

Mike Constantino
Illinois Department of Public Health
525 West Jefferson
Springfield, Illinois 62761
Fax:(217) 785-4111
Phone:(217) 785-1557

Genesis Health System and Related Organizations

**Consolidated Financial Report
June 30, 2011**

Contents

Independent Auditor's Report on the Financial Statements	1
---	----------

Financial Statements

Consolidated balance sheets	2 – 3
Consolidated statements of operations	4
Consolidated statements of changes in net assets	5
Consolidated statements of cash flows	6 – 7
Notes to consolidated financial statements	8 – 42

Independent Auditor's Report on the Supplementary Information	43
--	-----------

Supplementary Information

Schedule of community benefit	44 – 47
Consolidating balance sheet information	48 – 55
Consolidating statements of operations and changes in net assets information	56 – 59



Independent Auditor's Report

To the Audit and Compliance Committee
Genesis Health System
Davenport, Iowa

We have audited the accompanying consolidated balance sheets of Genesis Health System and related organizations (System) as of June 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Misericordia Assurance Company, Ltd., a consolidated subsidiary, which statements reflect total assets and revenue constituting approximately 4% and 1%, respectively, of the related consolidated totals in 2011 and 2010. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Misericordia Assurance Company, Ltd., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Genesis Health System and related organizations as of June 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, effective July 1, 2010 the System adopted the new accounting provisions relating to consolidation of noncontrolling interests in the consolidated financial statements. The adoption of this guidance resulted in a retroactive restatement on the consolidated financial statements.

McGladrey & Pullen, LLP

Davenport, Iowa
October 25, 2011

**Genesis Health System
and Related Organizations**

**Consolidated Balance Sheets
June 30, 2011 and 2010**

Assets	2011	2010
Current Assets:		
Cash and cash equivalents	\$ 76,241,207	\$ 58,099,247
Short-term investments	1,323,897	1,355,211
Receivables:		
Patients, net	79,121,728	81,302,404
Other, including assets limited as to use	14,414,865	12,575,013
Inventories, supplies and materials	13,709,309	12,553,702
Prepaid expenses and deposits	5,766,598	4,551,157
Total current assets	190,577,604	170,436,734
 Investments	 54,388,983	 52,821,697
 Assets Limited as to Use:		
Internally designated	157,778,420	136,440,158
Under bond indenture, funds held by trustee	5,899,175	13,855,860
Interest in net assets of Foundation	737,849	654,132
Donor restricted	17,278,889	17,204,300
	181,694,333	168,154,450
 Property and Equipment, net	 248,326,560	 255,657,359
 Other Assets:		
Bond issuance costs, net	775,920	750,334
Goodwill	30,730,877	820,444
Other	1,456,314	1,536,851
	32,963,111	3,107,629
	\$ 707,950,591	\$ 650,177,869

See Notes to Consolidated Financial Statements.

Liabilities and Net Assets			2011	2010
Current Liabilities:				
Current maturities of long-term debt	\$	8,245,803	\$	7,688,885
Accounts payable		17,530,976		18,512,293
Accrued salaries and wages		14,943,124		13,643,144
Accrued paid leave		16,646,147		15,907,419
Due to third-party payors		5,471,502		2,782,867
Unpaid losses and loss adjustment expenses		15,364,020		13,902,001
Other accrued expenses		5,646,273		5,970,263
Total current liabilities		83,847,845		78,406,872
 Long-Term Debt, less current maturities			 96,477,661	 104,482,761
 Unpaid Losses and Loss Adjustment Expenses, Retirement Benefits and Other Long-Term Liabilities			 32,837,656	 54,837,630
 Commitments and Contingent Liabilities (Notes 8 and 11)				
Total liabilities		213,163,162		237,727,263
 Net Assets:				
Unrestricted		465,923,057		394,143,518
Noncontrolling interests - unrestricted		10,847,634		448,656
Temporarily restricted		16,112,867		16,206,874
Permanently restricted		1,903,871		1,651,558
		494,787,429		412,450,606
	\$	707,950,591	\$	650,177,869

**Genesis Health System
and Related Organizations**

**Consolidated Statements of Operations
Years Ended June 30, 2011 and 2010**

	2011	2010
Change in unrestricted net assets:		
Unrestricted revenue:		
Net patient service revenue	\$ 515,041,430	\$ 524,122,709
Other service revenue, net of cost of revenue		
2011 \$12,031,987; 2010 \$11,150,387	11,583,867	13,027,106
Medical office building rental revenue	1,471,455	1,400,144
Other revenue	14,050,197	19,490,378
Total revenue	542,146,949	558,040,337
Expenses:		
Salaries and wages	223,166,468	214,759,377
Employee benefits	54,366,072	52,546,749
Contracted professionals and services	40,843,532	43,521,383
Supplies	86,171,666	88,407,998
Other expenses	61,469,867	64,798,613
Provision for bad debts	27,792,024	35,782,769
Interest	5,303,384	7,176,171
Depreciation and amortization	36,178,677	36,861,277
Total expenses	535,291,690	543,854,337
Operating income	6,855,259	14,186,000
Nonoperating gains and losses:		
Interest and dividend income and realized gains on sales of investments	7,780,802	11,208,910
Current year change in unrealized gains on trading securities	19,008,724	13,658,929
Other nonoperating income	588,871	306,405
Loss on extinguishment of debt	-	(1,514,471)
Excess of fair value over equity acquired for GenGastro, LLC	24,765,464	-
Nonoperating gains	52,143,861	23,659,773
Excess of revenue over expenses	58,999,120	37,845,773
Less excess of revenue (over) under expenses attributable to noncontrolling interests	(10,649,020)	12,530
Excess of revenue over expenses attributable to Genesis Health System	48,350,100	37,858,303
Net assets released from restrictions, for capital expenditures	2,511,419	-
Change in unrecognized funded status of retirement plan	20,918,020	(13,457,401)
Increase in unrestricted net assets	\$ 71,779,539	\$ 24,400,902

See Notes to Consolidated Financial Statements.

**Genesis Health System
and Related Organizations**

**Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2011 and 2010**

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Noncontrolling Interests - Unrestricted Net Assets	Total Net Assets
Net assets, June 30, 2009	\$ 369,742,616	\$ 14,663,847	\$ 1,854,555	\$ 1,200,484	\$ 387,461,502
Excess of revenue over (under) expenses	37,858,303	-	-	(12,530)	37,845,773
Change in unrecognized funded status of retirement plan	(13,457,401)	-	-	-	(13,457,401)
Contributions, Investment Income (losses) and other	-	2,440,407	(202,997)	-	2,237,410
Net assets released from restrictions, for operating activities	-	(958,547)	-	-	(958,547)
Change in Interest in net assets of Foundation	-	61,167	-	-	61,167
Distributions to noncontrolling interests	-	-	-	(739,298)	(739,298)
Change in net assets	24,400,902	1,543,027	(202,997)	(751,828)	24,989,104
Net assets, June 30, 2010	394,143,518	16,206,874	1,651,558	448,656	412,450,606
Excess of revenue over expenses	48,350,100	-	-	10,849,020	58,999,120
Change in unrecognized funded status of retirement plan	20,918,020	-	-	-	20,918,020
Contributions, Investment Income and other	-	3,816,401	252,313	-	4,068,714
Net assets released from restrictions, for operating activities	-	(1,482,706)	-	-	(1,482,706)
Net assets released from restrictions, for capital expenditures	2,511,419	(2,511,419)	-	-	-
Change in interest in net assets of Foundation	-	83,717	-	-	83,717
Consolidate GenGastro, LLC	-	-	-	493,268	493,268
Distributions to noncontrolling interests	-	-	-	(743,310)	(743,310)
Change in net assets	71,779,539	(94,007)	252,313	10,398,978	82,336,823
Net assets, June 30, 2011	\$ 465,923,057	\$ 16,112,867	\$ 1,903,871	\$ 10,847,634	\$ 494,787,429

See Notes to Consolidated Financial Statements.

**Genesis Health System
and Related Organizations**

**Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010**

	2011	2010
Cash Flows from Operating Activities:		
Change in net assets	\$ 82,336,823	\$ 24,989,104
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	35,991,783	36,501,853
Amortization	186,894	359,424
Excess of fair value over equity in GenGastro, LLC	(24,765,464)	-
Change in interest in net assets of Foundation	(83,717)	(61,167)
Loss on disposal of equipment	339,240	232,684
Earnings in (excess) deficit of distributions of associated companies	(73,162)	367,558
Loss on extinguishment of debt	-	1,514,471
Restricted contributions	(1,067,663)	(1,233,772)
Realized and unrealized (gains) on investments	(24,769,135)	(20,612,772)
Net changes in assets and liabilities:		
(Increase) decrease in patient and other receivables	1,020,188	(5,442,060)
(Increase) in inventories, supplies and materials	(1,155,607)	(1,151,448)
(Increase) in prepaid expenses and deposits	(1,215,441)	(239,493)
(Increase) in funded status of retirement plan	(23,018,130)	(27,723)
Increase (decrease) in accounts payable	(1,079,268)	5,417,949
Increase in accrued expenses, due to third-party payors, retirement benefits and other	6,883,528	4,373,034
Net cash provided by operating activities	49,530,869	44,987,642
Cash Flows from Investing Activities:		
Purchase of property and equipment	(28,684,459)	(31,850,931)
Proceeds from sale of equipment	92,389	1,055,726
Purchase of investments	(44,568,055)	(56,008,829)
Purchase of additional investment from noncontrolling interests	(5,855,614)	-
Proceeds from sale of investments	54,632,560	46,958,567
Consolidate noncontrolling interests in GenGastro, LLC	(493,268)	-
(Increase) in other assets	(148,784)	(256,064)
Net cash (used in) investing activities	(25,025,231)	(40,101,531)
Cash Flows from Financing Activities:		
Principal payments on long-term debt, including capital lease obligations	(7,431,341)	(107,294,012)
Proceeds from long-term borrowings	-	94,794,486
Restricted contributions	1,067,663	1,233,772
Payments of bond issuance costs	-	(641,318)
Net cash (used in) financing activities	\$ (6,363,678)	\$ (11,907,072)

(Continued)

**Genesis Health System
and Related Organizations**

**Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2011 and 2010**

	2011	2010
Net Increase (decrease) in cash and cash equivalents	\$ 18,141,960	\$ (7,020,961)
Cash and cash equivalents:		
Beginning	<u>58,099,247</u>	<u>65,120,208</u>
Ending	<u>\$ 76,241,207</u>	<u>\$ 58,099,247</u>
Supplemental Disclosure of Cash Flow Information, cash payments for interest	\$ 5,305,504	\$ 7,180,392
Supplemental Disclosures of Noncash Investing Activities, Acquisition of GenGastro, LLC:		
Patient receivables acquired	\$ 679,364	
Property and equipment acquired	408,154	
Accounts payable acquired	(97,951)	
Consolidate GenGastro, LLC	(493,268)	
Goodwill	(29,910,433)	
Noncontrolling interests	9,796,670	
Excess of fair value over equity acquired	24,765,464	
Cash payment	<u>\$ 5,148,000</u>	

See Notes to Consolidated Financial Statements.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

Genesis Health System – Iowa (GHS Iowa), an Iowa nonprofit corporation, and Genesis Health System – Illinois (GHS Illinois), an Illinois not-for-profit corporation, have identical governing boards, management and bylaws and can act jointly. GHS Iowa and GHS Illinois collectively represent the Obligated Group on certain of the System's long-term debt.

GHS Iowa is also the sole member of Genesis Health Services Foundation and Genesis Health System Workers' Compensation Plan and Trust, the sole stockholder of GenVentures, Inc., a member of Misericordia Assurance Company, Ltd. and a partner in GenGastro, LLC and Davenport SRS Leasing, LLC. GHS Illinois is the sole member of Illini Hospital Foundation and a partner in The Larson Center Partnership.

GHS Iowa and GHS Illinois (collectively GHS) operate the following business units:

Genesis Health System provides administrative, management, information technology and other support services to its affiliates.

Genesis Clinical Services: GHS owns and operates physician medical practices, convenient care practices, operates an occupational medicine clinic and provides behavioral health services to the residents of eastern Iowa and western Illinois.

Genesis Medical Center – Davenport (GMC – Davenport) is licensed as a 502-bed acute care hospital which provides services from two hospital facilities located in Davenport, Iowa.

Genesis Family Medical Center (GFMC) is a family practice residency training program that operates clinics in Davenport and Blue Grass, Iowa to provide a clinical setting for the residents to treat patients.

Genesis Medical Center – DeWitt (GMC – DeWitt) is certified as a critical access hospital, which has 13-acute care and swing beds, and has a 77-bed long-term care facility, which provides services from its facility in DeWitt, Iowa.

Genesis Illinois Properties (GIP) owns land located in Moline, Illinois.

Genesis Visiting Nurse Association and Hospice (VNA) provides home health care, community nursing services and hospice services to patients in eastern Iowa and western Illinois.

Genesis Medical Center – Illini (GMC – Illini) is licensed as a 149-bed acute care hospital which provides services from its facility in Silvis, Illinois.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Illini Hospital Nursing Home (INH) operates Illini Restorative Care Center and Crosstown Square. Illini Restorative Care Center operates a 75-bed licensed nursing facility which provides skilled and intermediate health care and related services to patients. Twenty-two of Illini Restorative Care Center's beds are designated as hospital-based Medicare certified beds. Illini Restorative Care's Sheltered Care unit is a 45-bed facility which provides rehabilitative and personal care in a family-oriented setting. Crosstown Square is an independent living facility containing 76 rentable apartments and two guest rooms that offers services designed to meet the needs of senior adults.

GHS Iowa and GHS Illinois have a controlling ownership interest or membership in the following organizations:

Genesis Health Services Foundation (Genesis Foundation) is an organization whose mission is to develop, manage and grant charitable support to meet the health-related needs of the communities served by Genesis Health System

Illini Hospital Foundation (Illini Foundation) supports GMC – Illini by providing financial and fundraising assistance. The mission of the Illini Foundation is to assist GMC – Illini in providing quality, compassionate care for all those in need by raising, managing and granting charitable funds.

The Genesis Foundation and Illini Foundation are collectively referred to as the Foundations.

The Larson Center Partnership (LCP) is a for-profit real estate partnership which owns a medical office building adjacent to GMC – Illini and leases space for clinics, laboratory, pharmacy and offices to GMC – Illini and other third-party organizations. GHS Illinois is a general partner and owns approximately 75.6% of LCP.

GenVentures, Inc. (GenVentures) is a wholly-owned for-profit corporation which operates the following divisions, primarily in the Quad Cities:

Genesis at Home, Continuing Care sells and leases home medical equipment; provides intravenous therapy services, including sales of related solutions and supplies to patients; and provides retail pharmaceutical and over the counter products to patients and employees of the System.

GenProperties owns, leases and/or manages office space in thirteen medical office buildings located in Davenport, Eldridge, LeClaire, Muscatine and Bettendorf, Iowa.

Crescent Laundry provides commercial laundry services to health care facilities in eastern Iowa and in north-central Illinois.

Genesis Health System Workers' Compensation Plan and Trust (Workers' Compensation Trust) provides a fund which can be used to pay workers' compensation claims and costs for the benefit of Genesis Health System.

Misericordia Assurance Company, Ltd. (Misericordia) is a wholly-owned Cayman based captive insurance company which underwrites the general and professional liability risks of Genesis Health System and affiliates.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

GenGastro, LLC (d/b/a the Center for Digestive Health) is a limited liability company, which was formed in 2003, a single-specialty gastroenterology ambulatory surgery center located in Bettendorf, Iowa. Genesis Health System is a general partner and owned 50% of GenGastro as of June 30, 2010. In December 2010, Genesis Health System acquired an additional 16.67% interest in GenGastro and maintains a 66.67% ownership interest as of June 30, 2011. Upon obtaining a controlling interest, the System consolidated the accounts of GenGastro, LLC in its consolidated financial statements in January 2011.

Davenport SRS Leasing, LLC (SRS) is a limited liability company, which was formed in 2008, which leases medical equipment. Genesis Health System is a general partner and owned 55% of SRS as of June 30, 2009. On September 30, 2009, Genesis Health System acquired an additional 38.75% interest in SRS to obtain a 93.75% ownership interest as of June 30, 2011 and 2010.

GHS and its related organizations are collectively referred to as the System.

Significant accounting policies:

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Genesis Health System and related organizations. All significant intercompany balances and transactions have been eliminated upon consolidation.

Accounting estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in the estimates and assumptions in the near term would be material to the financial statements.

Cash and cash equivalents: Cash and cash equivalents include unrestricted cash and temporary cash investments not limited as to use. The cash equivalents have a maturity of three months or less at date of issuance. Certain temporary cash investments internally designated as long-term investments are excluded from cash and cash equivalents.

Patient receivables: The collection of receivables from third-party payors and patients is the System's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts for deductibles and copayments remain outstanding. Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Patient receivables due directly from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Receivables due from medical office building tenants and from commercial laundry customers are carried at the original invoice amount less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts, by historical experience applied to an aging of accounts, and by considering the patient's financial history, credit history and current economic conditions. The System does not charge interest on receivables. Receivables are written off as bad debts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Receivables or payables related to estimated settlements on various payor contracts, primarily Medicare, are reported as amounts due from or to third-party payors. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental health care coverage could affect the System's collection of accounts receivable, cash flows and results of operations.

Inventories, supplies and materials: Inventories, supplies and materials are valued at the lower of cost (first-in, first-out method) or market.

Assets limited as to use: Assets limited as to use include assets internally designated by the System's Board of Directors for future capital improvements and other purposes, over which the Board retains control and may at their discretion subsequently use for other purposes, assets held by trustees under bond Indenture agreements, Interest in the net assets of the DeWitt Community Hospital Foundation and donor restricted assets.

Donor restricted assets limited as to use as of June 30, 2011 and 2010 include approximately \$100,000 and \$134,000, respectively, of pledges receivable for unconditional promises which are restricted by the donors to be used for capital projects. All of the pledges receivable are expected to be collected within the next year and are included in other receivables as a current asset on the accompanying consolidated balance sheets. The pledges are recorded net of an estimated allowance for uncollectible receivables of approximately \$8,000 and \$13,000 as of June 30, 2011 and 2010, respectively.

Investments: Short-term investments consist of certificates of deposit which are stated at cost which approximates fair value. Investments in equity securities, including assets limited as to use, with readily determinable fair values and all investments in debt securities are measured at fair value on the consolidated balance sheets based on quoted market prices. Investments also include alternative investments which are carried at fair value, which is estimated at the most recent valuations provided by external investment managers. Management has reviewed and evaluated the values provided by the managers and agrees with the valuation methods and assumptions used to determine their values.

Investment income includes dividends, interest and other investment income and realized gains and losses on investments. Changes in unrealized gains and losses on investments classified as trading securities are included in excess of revenue over expenses.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Investment income earned on Misericordia's investments, which are restricted for the payment of general and professional liabilities, is included in other operating revenue. Investment income included as other operating revenue was \$1,424,505 and \$2,664,678 for the years ended June 30, 2011 and 2010, respectively.

The System classifies substantially all of its investments in debt and equity securities as trading. This classification as trading requires the System to recognize unrealized gains and losses on substantially all of its unrestricted and internally designated investments in debt and equity securities as a component of nonoperating income and expense in the consolidated statements of operations and changes in net assets.

Investments in associated companies are accounted for by the equity method of accounting under which the System's share of the net income (loss) of the associated companies that provide patient related services are recognized as operating income (loss) and the share of net income (loss) of the associated companies that do not provide patient related services are recognized as nonoperating income (loss) in the consolidated statements of operations and changes in net assets and added to (deducted from) the investment account. Dividends and distributions received from the associated companies are treated as a reduction of the investment account. The System has investments in companies that provide: lithotripsy, ultrasound services, endoscopy procedures, specialized and orthopedic care, ambulatory surgery procedures, occupational and physical therapy rehabilitation services, a medical office building partnership, an equipment leasing company, mobile clinical and medical services, health insurance plans and in the Genesis Heart Institute. Subsequent to year-end, the System entered into a transaction to increase its ownership interest in the company that provides ambulatory surgery procedures.

As of June 30, 2009, the System held a 5% interest in Wellmark Health Plan of Iowa, which was recorded at its cost. The System sold its 5% interest to Wellmark Health Plan of Iowa during the year ended June 30, 2010 and recognized a gain of approximately \$5,400,000 which is included in investment income on the accompanying statement of operations for the year ended June 30, 2010.

Property and equipment: Property and equipment is carried at cost or, if donated, at fair market value at date of donation. Depreciation is computed by the straight-line method over the assets' estimated useful lives. 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. Amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are included in the income or loss from operations unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Bond issuance costs: Bond issuance costs are being amortized over the term the bonds are outstanding.

Goodwill: Goodwill is being tested for impairment annually. Management performed assessments for impairment as of June 30, 2011 and 2010 and determined no goodwill impairment exists.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Unpaid losses and loss adjustment expenses: Misericordia Assurance Company Ltd. and the Workers' Compensation Trust have liabilities for unpaid losses and loss adjustment expenses which are determined using case basis evaluations and statistical analyses and represent estimates of the ultimate net cost of all reported and unreported losses which are unpaid at year-end. Management concurs with the independent actuary on the determination of the estimated ultimate net costs for losses and loss adjustment expenses.

All estimates of unpaid losses and loss adjustment expenses are reviewed at least annually, and any adjustments determined to be necessary are reflected in current operations. Since these liabilities are based on estimates, the ultimate settlement of losses and related expense may vary from the amounts included in the consolidated financial statements. Misericordia records its estimated liability for unpaid losses and loss adjustment expenses at an undiscounted actuarially determined amount. The Workers' Compensation Trust records its estimated liability for unpaid losses and loss adjustment expenses at a discounted actuarially determined amount, discounted using a 3% yield for the years ended June 30, 2011 and 2010.

Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate. No representation is made, however, that the ultimate liabilities may not be in excess of the amounts provided. Also, the Trust's participants are obligated by the terms of the Trust agreement to contribute retrospective payments to the Trust, if deemed necessary, in order to support claims and costs in excess of the amounts provided.

Misericordia and the Workers' Compensation Trust record their estimated liabilities gross of any amounts recoverable under their own reinsurance, which amounts, if any, are recorded separately in the balance sheet. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, they would be liable to pay all losses under the reinsurance assumed but would only receive reimbursement to the extent that the reinsurers can meet their obligations.

Premiums written and ceded: Premiums written and ceded are recognized in income pro-rata over the term of the policies and the unearned and unexpensed portions at the consolidated balance sheet dates are transferred to unearned premiums or deferred reinsurance premiums ceded, respectively.

Reinsurance premiums ceded are similarly recognized on a pro-rata basis over the terms of the policy issued and the unearned portion, if any, deferred and transferred to deferred reinsurance premiums ceded in the consolidated balance sheet.

The policies insured by Misericordia are subject to a retrospective rating plan, under which retrospective premiums are recomputed annually based on incurred loss. Retrospective premium adjustments are included in income in the period in which they are determined.

Consistent with this policy, all available income of Misericordia is transferred to the provision for outstanding losses and retrospective premium adjustments. Accordingly, Misericordia's statements of income reflect a break-even position in income.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Temporarily and permanently restricted net assets: The System is required to report information regarding its financial position and operations according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The three classes are based on the presence or absence of donor-imposed restrictions. Temporarily restricted net assets include net assets restricted by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Noncontrolling interests: The Hospital has a 66.67% interest in GenGastro, LLC, a 75.60% interest in The Larson Center Partnership and a 93.75% interest in Davenport SRS Leasing, LLC, while other members own a noncontrolling interest of the companies. A pro rata share of the income or losses and net assets, in the form of members' equity, applicable to this interest has been recognized in the System's consolidated financial statements.

Fair value of financial instruments: Financial instruments are described as cash or contractual obligations or rights to pay or to receive cash. The fair value for certain financial instruments approximates the carrying value because of the short-term maturity of these instruments which include cash and cash equivalents, short-term investments, receivables, accounts payable, accrued liabilities, due to third-party payors and other current liabilities. The System's investments and assets limited as to use are carried at fair value on the consolidated balance sheets. Based on borrowing rates currently available to the System with similar terms and maturities, the fair value of the long-term debt excluding capital leases and unamortized bond premium approximates \$99,136,000 and \$97,351,000 as of June 30, 2011 and 2010, respectively.

Fair value measurements: The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements, which applies to all assets and liabilities that are measured and reported on a fair value basis. See Note 6 for additional information.

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, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments with third-party payors are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Other service revenue, net of cost of revenue: The consolidated statements of operations include other service revenue, net of cost of revenue which primarily consists of the leasing of medical equipment, home medical equipment and office buildings through GenVentures, Inc. and Davenport SRS Leasing, LLC.

Operating income: The consolidated statements of operations include operating income. Changes in unrestricted net assets, which are excluded from operating income include investment income, contribution income and other income which management views as outside of normal activity.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Excess of revenue over expenses: The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include the change in unrealized gains and losses on investments classified as other-than-trading, permanent transfers of assets for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets), and change in unrecognized funded status of the retirement plan.

New accounting guidance: The System adopted certain provisions of FASB Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures* (Topic 820): *Improving Disclosures about Fair Value Measurements*, effective for the System for the year ended June 30, 2011. The remaining provisions are effective for the year ending June 30, 2012. The adoption improves the disclosures and increases the transparency in financial reporting of fair values in the footnotes of the System's financial statements.

The System adopted accounting standards on *Not-for-Profit Entities: Mergers and Acquisitions* (formerly SFAS No. 164). This standard determines whether a combination is a merger or an acquisition; applies the carryover method in accounting for a merger; applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer; and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. This standard also amends an accounting standard on *Goodwill and Other Intangible Assets* (formerly SFAS No. 142), to make it fully applicable to not-for-profit entities. This amendment requires that goodwill of the System, if any, cease to be amortized, but must be tested for impairment at the "reporting unit" level, a new concept for not-for-profit entities. The standard also established accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity and may be reported as net assets in the consolidated financial statements, rather than as a liability in the mezzanine section between liabilities and net assets. The adoption of this guidance resulted in a retroactive restatement which increased net assets and decreased liabilities on the consolidated balance sheets as of June 30, 2010 and 2009 by \$448,656 and \$1,200,484, respectively, and modified the presentation of the consolidated statements of operations to include amounts attributable to Genesis Health System and the noncontrolling interests.

Charity care: The System provides care to patients who meet certain criteria under charity care policies without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Also see Note 3.

Reclassifications: Certain items on the consolidated financial statements as of and for the year ended June 30, 2010 have been reclassified to be consistent with classifications adopted during the year. The reclassifications had no impact on total assets or total net assets with the exception of the adoption of the accounting standards on *Not-for-Profit Entities: Mergers and Acquisitions* as discussed above.

Subsequent events: The System has evaluated subsequent events through October 25, 2011, the date on which the consolidated financial statements were issued.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 2. Net Patient Service Revenue

Health care providers within the System have agreements with third-party payors that provide for payments at amounts different from its established rates. These third-party payors include: the Medicare and Medicaid programs, Wellmark/Blue Cross, other health maintenance organizations, and various commercial insurance and preferred provider organizations.

Third-party payor rates differ by payor and include: established charges, contracted rates less than established charges, retroactively determined cost-based rates and prospectively determined rates per discharge, per procedure, or per diem.

A summary of net patient service revenue for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Gross patient service revenue	\$ 1,177,273,400	\$ 1,185,229,388
Less discounts, allowances and estimated contractual adjustments under third-party reimbursement programs	662,202,982	661,106,679
	<u>\$ 515,070,418</u>	<u>\$ 524,122,709</u>

Estimated contractual adjustments for the years ended June 30, 2011 and 2010 includes the effect of a change in the estimate of the amount due to third-party payors. The effect of this change in estimate is a decrease in estimated contractual adjustments of approximately \$4,071,000 and \$3,526,000 for the years ended June 30, 2011 and 2010, respectively, and is related to the recognition of disproportionate share reimbursement and retroactive adjustments based on final settlements of cost reports.

In December 2008, the Federal Centers for Medicare and Medicaid Services (CMS) approved the State of Illinois Medicaid Hospital Assessment Program. Under the Program, which is retroactive to July 1, 2008, a hospital receives additional Medicaid reimbursement from the State and pays a related assessment. Total reimbursement revenue recognized by the System related to this Program for each of the years ended June 30, 2011 and 2010 amounted to approximately \$5,814,000 which is recorded as a reduction of estimated contractual adjustments. Total assessments incurred by the System related to this Program for each of the years ended June 30, 2011 and 2010 amounted to approximately \$1,846,000 which is included in other operating expenses. The Program is effective through June 2014.

In 2011, CMS approved the State of Iowa's Hospital Provider Tax Program. Under the Program, which is retroactive to July 1, 2010, a hospital is required to pay a quarterly provider tax assessment. The tax assessments collected by the State are used to fund a health care access improvement fund and are used to obtain federal matching funds, all of which must be distributed to Iowa hospitals to help bring Medicaid reimbursement closer to the cost of providing care. The allocation of these funds to specific health care providers is based primarily on the amount of care provided to Medicaid recipients. The Plan increases inpatient DRG reimbursement rates and also implements several supplemental inpatient and outpatient methodologies. The Program is effective through June 2013.

The System's additional reimbursement for the year ended June 30, 2011 has been recorded in the accompanying consolidated financial statements. Total reimbursement revenue recognized by the System related to this Program amounted to approximately \$3,465,000 for the year ended June 30, 2011, which is recorded as a reduction of contractual adjustments. Total assessments incurred by the System related to this Program amounted to approximately \$2,491,000 for the year ended June 30, 2011, which is included in other operating expenses.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 3. Charity Care and Community Service

The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and the estimated cost of those services and supplies. The amount of charges foregone, based on established rates during the years ended June 30, 2011 and 2010 was approximately \$31,816,000 and \$21,198,000, respectively. These charges foregone represent approximately 79% and 65% of the System's operating income before charity care adjustments for the years ended June 30, 2011 and 2010, respectively.

Although not accounted for as charity care, the System considers the contractual adjustment expense related to the Medicaid services as additional charity care. Contractual adjustments related to Medicaid services performed were approximately \$89,317,000 and \$93,605,000 for the years ended June 30, 2011 and 2010, respectively.

In addition to its charity policy, the System provided community benefits, including, but not limited to, the following:

- Operation of full-time emergency rooms providing emergency medical services to all patients accessing the System, regardless of race, creed, sex, national origin, handicap, age or ability to pay.
- Operation of a community based hospice program along with the only residential hospice house in the Quad Cities.
- Maintenance of provider agreements with the Medicare and Medicaid programs.
- Health screenings, promotions, education and prevention programs offered free or at low cost to its communities.
- A medical education program which provides for the education of Family Practice residents at GFMC, as well as support to nursing programs.
- Volunteer services provided by the System's staff to the communities, including major community events and fund raising activities.
- Not-for-profit community funding, including those community groups' activities that are consistent with Genesis' mission.
- Subsidized services to other charitable organizations providing health related services.

Genesis Health System and the Foundations, as part of their missions, grant charitable support to meet the health related needs of the communities served by the System.

Note 4. Receivables

Patient receivables as of June 30, 2011 and 2010 consist of the following:

	2011	2010
Patient receivables before allowances	\$ 150,843,416	\$ 157,464,354
Less:		
Estimated third-party contractual allowances	57,347,065	59,283,446
Allowance for doubtful accounts and charity care	14,374,623	16,878,504
	<u>\$ 79,121,728</u>	<u>\$ 81,302,404</u>

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 5. Composition of Long-Term Investments and Assets Limited as to Use

Long-term investments and assets limited as to use that are internally designated and donor restricted consist of the following as of June 30, 2011 and 2010:

	2011	2010
Cash, primarily money market funds	\$ 1,879,842	\$ 614,035
Certificates of deposit	8,500,254	12,343,444
Common stocks	67,975,262	20,818,396
Fixed income mutual funds	57,348,154	56,174,212
Equity mutual funds	40,474,950	65,151,028
Equity collective investment funds	43,199,585	41,760,355
Investment in associated companies	9,527,473	9,059,217
Pledges receivable	100,238	133,975
Other	540,772	545,468
Total	\$ 229,546,530	\$ 206,600,130

Long-term investments and assets limited as to use that are internally designated and donor restricted are included in the accompanying consolidated balance sheets under the following captions as of June 30, 2011 and 2010:

	2011	2010
Other receivables, current portion	\$ 100,238	\$ 133,975
Investments	54,388,983	52,821,697
Assets limited as to use:		
Internally designated	157,778,420	136,440,158
Donor restricted	17,278,889	17,204,300
	\$ 229,546,530	\$ 206,600,130

Assets limited as to use under bond indenture, funds held by trustee, consist of money market funds of \$5,899,175 and \$13,855,860 as of June 30, 2011 and 2010, respectively. These assets, including related investment income, are restricted to be maintained as debt service reserve funds and for capital projects and, therefore, are unavailable for the System's general use.

The investments of the System are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 5. Composition of Long-Term Investments and Assets Limited as to Use (Continued)

The return on investments, including assets limited as to use, is reported in the consolidated statements of operations and changes in net assets as follows:

	2011	2010
Unrestricted:		
Interest and dividend income	\$ 3,847,388	\$ 6,045,598
Equity in net income of associated companies	3,070,992	4,576,865
Net realized gains on investments	3,022,169	299,168
Other operating revenue	1,424,505	2,664,678
Realized gain on sale of Wellmark Health Plan of Iowa investment	-	5,445,600
Change in net unrealized gains and losses on investments	19,008,724	13,658,929
	<u>30,373,778</u>	<u>32,690,838</u>
Temporarily restricted:		
Interest and dividend income	219,612	197,823
Net realized gains (losses) on investments	836,944	(639,820)
Change in net unrealized gains and losses on investments	1,755,964	1,782,091
	<u>2,812,520</u>	<u>1,340,094</u>
Permanently restricted:		
Interest and dividend income	3,412	3,781
Net realized gains (losses) on investments	11,796	(12,034)
Change in net unrealized gains and losses on investments	133,538	78,838
	<u>148,746</u>	<u>70,585</u>
	<u>\$ 33,335,044</u>	<u>\$ 34,101,517</u>

Note 6. Investments and Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, this guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 6. Investments and Fair Value Measurements (Continued)

The fair value hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

Investments in common stocks and mutual funds traded on a national securities exchange are valued at the last reported sales price on the day of valuation. These financial instruments are classified as level 1 in the fair value hierarchy.

The System invests in alternative investments consisting of equity mutual funds and collective investment funds for which fair value is determined using the net asset value per share of each fund. The NAV for level 2 mutual funds and collective investment funds is primarily determined based on the underlying assets and liabilities held in the fund. The estimated fair values of certain investments of the underlying investment funds, which may include securities for which prices are not readily available, are determined by the managers of the respective other investment fund and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the System's investments in funds generally represents the amount the System would expect to receive if it were to liquidate its investments in funds excluding any redemption charges that may apply.

There have been no changes in valuation techniques used for any assets measured at fair value during the year ended June 30, 2011.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 6. Investments and Fair Value Measurements (Continued)

Assets recorded at fair value on a recurring basis:

The following table summarizes assets measured at fair value on a recurring basis as of June 30, 2011 and 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Investments at Fair Value as of June 30, 2011			
	Fair Value	Level 1	Level 2	Level 3
Common Stocks:				
Healthcare	\$ 9,900,971	\$ 9,900,971	\$ -	\$ -
Financial	8,801,278	8,801,278	-	-
Consumer Discretionary	11,073,908	11,073,908	-	-
Energy	6,716,894	6,716,894	-	-
Information Technology	14,774,970	14,774,970	-	-
Industrials	5,663,132	5,663,132	-	-
ADR's (American Depositary Receipts)	4,332,997	4,332,997	-	-
Materials	2,543,524	2,543,524	-	-
Consumer Staples	2,512,983	2,512,983	-	-
Utilities	878,506	878,506	-	-
Telecommunication Services	776,099	776,099	-	-
Equity Mutual Funds:				
Thornburg International Value Fund	17,000,179	17,000,179	-	-
PIMCO Cayman U.S. Total Return Fund	11,818,129	-	11,818,129	-
Other	11,656,642	11,656,642	-	-
Equity Collective Investment Funds:				
JP Morgan Core Bond Trust	32,945,337	-	32,945,337	-
JP Morgan U.S. Aggregate Bond Fund	10,254,248	-	10,254,248	-
Fixed Income Mutual Funds:				
PIMCO Total Return Fund	45,378,123	45,378,123	-	-
Other	11,970,031	11,970,031	-	-
	\$ 208,997,951	\$ 153,980,237	\$ 55,017,714	\$ -

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 6. Investments and Fair Value Measurements (Continued)

	Investments at Fair Value as of June 30, 2010			
	Fair Value	Level 1	Level 2	Level 3
Common Stocks:				
Healthcare	\$ 4,228,250	\$ 4,228,250	\$ -	\$ -
Financial	1,807,175	1,807,175	-	-
Consumer Discretionary	4,061,483	4,061,483	-	-
Energy	1,546,359	1,546,359	-	-
Information Technology	7,588,280	7,588,280	-	-
Industrials	795,487	795,487	-	-
ADR's (American Depositary Receipts)	791,362	791,362	-	-
Equity Mutual Funds:				
Lord Abbett Small Cap Blend Fund	11,151,680	11,151,680	-	-
Quantitative Equity Large Cap Value AP Trust	18,440,666	-	18,440,666	-
Thornburg International Value Fund	13,047,096	13,047,096	-	-
PIMCO Cayman U.S. Total Return Fund	11,917,933	-	11,917,933	-
Other	10,593,653	10,593,653	-	-
Equity Collective Investment Funds:				
JP Morgan Core Bond Trust	31,082,853	-	31,082,853	-
JP Morgan U.S. Aggregate Bond Fund	10,677,502	-	10,677,502	-
Fixed Income Mutual Funds:				
PIMCO Total Return Fund	44,259,177	44,259,177	-	-
Other	11,915,035	11,915,035	-	-
	<u>\$ 183,903,991</u>	<u>\$ 111,785,037</u>	<u>\$ 72,118,954</u>	<u>\$ -</u>

There were no transfers of assets or liabilities between levels 1, 2 or 3 of the fair value hierarchy during the year ended June 30, 2011.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 6. Investments and Fair Value Measurements (Continued)

The following table sets forth additional disclosure of the System's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2011 and 2010:

	Fair Value		Unfunded Commitment	Redemption Frequency	Redemption Notice Period
	2011	2010			
Investments:					
Equity Mutual Funds:					
Quantitative Equity Large Cap Value AP Trust (A)	\$ -	\$ 18,440,666	\$ -	Monthly	None
PIMCO Cayman U.S. Total Return Fund (B)	11,818,129	11,917,933	-	Daily	Daily
Equity Collective Investment Funds:					
JP Morgan Core Bond Trust (C)	32,945,337	31,082,853	-	Daily	Daily
JP Morgan U.S. Aggregate Bond Fund (D)	10,254,248	10,677,502	-	Daily	Trade date, minus 3 days
	<u>\$ 55,017,714</u>	<u>\$ 72,118,954</u>	<u>\$ -</u>		

- (A) The fund seeks to provide long-term growth of capital through a diversified portfolio comprised primarily of common stocks of high quality, medium to large sized U.S. based companies with leading competitive positions. This fund was redeemed during the year ended June 30, 2011.
- (B) PIMCO Cayman U.S. Total Return Fund is an open-end investment fund incorporated in the Cayman Islands. The Fund's objective is maximum total return, consistent with preservation of capital and prudent investment management. The System has used the net asset value per share (NAV) as the practical expedient to measure fair value.
- (C) The fund seeks to maximize total return by investing primarily in a diversified portfolio of intermediate and long-term debt securities. The System has used the NAV as the practical expedient to measure fair value.
- (D) JP Morgan U.S. Aggregate Bond Fund is an open-end investment fund incorporated in Luxembourg. The Fund's objective is to achieve return in excess of U.S. bond markets by investing primarily in U.S. fixed and floating rate debt securities. The System has used the NAV as the practical expedient to measure fair value.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 7. Property and Equipment

Property and equipment as of June 30, 2011 and 2010 consists of the following:

	2011	2010
Land and land improvements (A)	\$ 29,963,006	\$ 29,553,864
Buildings (B)	325,215,888	318,376,247
Leasehold improvements	20,132,450	19,257,949
Equipment (C)	301,872,301	282,218,908
Construction in process	11,662,995	10,760,876
	<u>688,846,640</u>	<u>660,167,844</u>
Less accumulated depreciation, including accumulated depreciation 2011 \$20,981,989; 2010 \$19,424,206 on capital lease assets	440,520,080	404,510,485
	<u>\$ 248,326,560</u>	<u>\$ 255,657,359</u>

- (A) Land and land improvements include assets under capital lease as of June 30, 2011 and 2010 of \$1,153,678.
- (B) Buildings include assets under capital lease as of June 30, 2011 and 2010 of \$22,272,145.
- (C) Equipment includes assets under capital lease as of June 30, 2011 and 2010 of \$9,436,085.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 8. Long-Term Debt and Pledged Assets

Long-term debt and pledged assets as of June 30, 2011 and 2010 consist of the following:

	2011	2010
GHS Iowa:		
Revenue bonds, Series 2010 (A)	\$ 85,390,000	\$ 90,995,000
Unamortized bond premium, Series 2010 (A)	3,782,645	3,799,486
Notes payable and annuity payable	-	2,506
GHS Iowa subtotal	89,172,645	94,796,992
GHS Illinois:		
Capital lease obligations (B)	8,450,000	8,740,000
Capital lease obligation (C)	27,977	81,879
GHS Illinois subtotal	8,477,977	8,821,879
Obligated Group subtotal	97,650,622	103,618,871
GenVentures, note payable, bank (D)	532,626	615,012
LCP, line of credit (E)	675,473	1,105,470
SRS, capital lease obligation (F)	5,817,783	6,795,455
Illini Foundation, annuities payable	46,960	36,838
	104,723,464	112,171,646
Less current maturities	8,245,803	7,688,885
	\$ 96,477,661	\$ 104,482,761

- (A) During fiscal year 2010, GHS Iowa issued Iowa Finance Authority Healthcare Revenue Bonds, Series 2010. The Series 2010 bonds, which had an original principal balance of \$90,995,000 and were issued at a premium of \$3,799,486, have payments due July 1, annually, and mature in varying amounts through July 1, 2026 and bear interest at rates ranging from 3.0% to 5.0%. The Series 2010 bonds are secured by a pledge of the Obligated Group's unrestricted receivables. The proceeds of the bonds were used to extinguish the 1997 and 2000 Series bonds. The loss on extinguishment of the 1997 and 2000 Series bonds was \$1,514,471 for the year ended June 30, 2010.

There are a number of limitations and restrictions contained in the Master Trust Indenture, the most significant of which is for the Obligated Group to maintain a minimum debt service coverage ratio of 1.10 to 1.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 8. Long-Term Debt and Pledged Assets (Continued)

- (B) GMC – Illini leases its land, land improvements and buildings from Illini Hospital District, a related party, under a capital lease agreement which requires payment in an amount sufficient to pay all principal and interest on outstanding general obligation bonds (alternative revenue source).

The Series 2010 general obligation bonds (alternative revenue source) have an outstanding principal balance of \$8,477,977. These bonds were issued to advance refund \$8,740,000 of the outstanding 2001 general obligation bonds (alternative revenue source). The Series 2010 bonds bear interest at rates varying from 1.27% to 4.53%, which is payable on January 1 and July 1. The bonds mature in varying amounts from \$680,000 to \$905,000 through January 2022.

The depreciated cost of land, land improvements and buildings under this capital lease is approximately \$7,056,000 as of June 30, 2011.

- (C) During fiscal year 2007, GMC – Illini entered into a capital lease agreement, due in monthly installments of approximately \$5,000, including interest at 5% with final payment due in December 2011.
- (D) GenVentures' bank note is due in monthly payments of \$10,200, including interest at a variable rate, 6.95% as of June 30, 2011, through August 2016, secured by building and land. Under this agreement, GenVentures is required to maintain certain restrictive covenants including a minimum tangible net worth and a minimum debt service coverage ratio.
- (E) LCP has a \$1,500,000 line of credit with a bank which matures March 29, 2014. The current balance of the line of credit is due in monthly installments of \$44,304, including interest at 3.96%, through December 15, 2012. The note is collateralized by all property and equipment of LCP.
- (F) During fiscal year 2009, SRS entered into a capital lease agreement, due in monthly installments of \$122,135, including interest at 7.68% with final payment due in March 2016. The lease is secured by equipment. The depreciated cost of the equipment under this capital lease is approximately \$4,824,000 as of June 30, 2011.

Obligated Group:

Genesis Health System – Iowa and Genesis Health System – Illinois, collectively, represent the Obligated Group on the revenue bond obligations.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 8. Long-Term Debt and Pledged Assets (Continued)

The following is a schedule of future minimum lease payments due under capital leases together with the present value of future minimum lease payments as of June 30, 2011:

Year ending June 30:	
2012	\$ 2,436,000
2013	2,412,000
2014	2,416,000
2015	2,416,000
2016	2,045,000
Thereafter	5,693,000
	<u>17,418,000</u>
Less the amount representing interest	3,122,000
Present value of future minimum lease payments	<u>\$ 14,296,000</u>

The aggregate principal maturities of the long-term debt, excluding unamortized bond premium, as of June 30, 2011 over the next five years and thereafter are approximately as follows:

Year ending June 30:	
2012	\$ 8,246,000
2013	8,170,000
2014	8,421,000
2015	8,861,000
2016	8,961,000
Thereafter	58,281,000
	<u>\$100,940,000</u>

Note 9. Employee Retirement Plans

All employees of the System and affiliates participate in the Genesis Health System Pension Plans. The plans consist of both a defined benefit pension plan and an employer paid match on employee contributions to a defined contribution plan. Pension expense for the employer paid match to the defined contribution plan was approximately \$1,343,000 and \$1,255,000 for the years ended June 30, 2011 and 2010, respectively.

Effective July 1, 2005, current participants in the defined benefit pension plan were given the option to remain in the defined benefit pension plan or to elect to move to the Genesis Retirement Account program, at which time their benefits in the defined benefit pension plan were frozen at current levels. All new full and part-time employees that have worked more than 1,000 hours during a prior calendar year will participate in the new defined contribution plan, with contributions made by the System as specified in the program based on years of service.

Effective December 31, 2006, the Board of Directors of the System adopted a resolution to freeze the defined benefit pension plan. Under terms of the freeze, employees with at least five years of service and a combination of age and years of service of 70 were grandfathered.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 9. Employee Retirement Plans (Continued)

The Compensation – Retirement Benefits Topic of the FASB Accounting Standards Codification requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Actuarial gains and losses, prior service costs or credits and any remaining transition assets or obligations that have not been recognized under previous accounting standards, must be recognized in the changes in unrestricted net assets. As a result, the System has recognized the underfunded status of the defined benefit pension plan in the accompanying consolidated balance sheets as of June 30, 2011 and 2010. The accrual for the defined benefit pension plan asset or liability is based on a comparison of the fair value of Plan assets to the Plan's projected benefit obligation.

The defined benefit pension plan is measured annually at June 30. Information about the Plan follows:

	2011	2010
Projected benefit obligation at beginning of year	\$ (160,096,789)	\$ (131,862,015)
Service cost	(2,087,076)	(1,846,051)
Interest cost	(8,797,842)	(8,713,253)
Actuarial gain (loss):		
Impact of change in assumptions	2,238,861	(23,015,283)
Other	(591,500)	(287,324)
Benefits paid	6,360,849	5,627,137
Projected benefit obligation at end of year	(162,973,497)	(160,096,789)
Fair value of plan assets	157,073,497	131,178,659
Funded status, plan assets (less than) benefit obligation	\$ (5,900,000)	\$ (28,918,130)
Roliforward of accrued benefit (liability):		
Accrued benefit (liability) on balance sheet, beginning of year	\$ (28,918,130)	\$ (28,945,853)
Return on plan assets	26,255,687	18,889,634
System contributions	6,000,000	15,000,000
Change in plan liability	(9,237,557)	(33,861,911)
Accrued (liability) on balance sheet, end of year	\$ (5,900,000)	\$ (28,918,130)
Components of net periodic pension cost, which is included as a component of employee benefits expense on the accompanying consolidated statements of operations and changes in net assets, consist of:		
Service cost	\$ 2,087,076	\$ 1,846,051
Interest cost	8,797,842	8,713,253
Expected return on plan assets	(10,793,756)	(10,526,920)
Amortization of unrecognized net loss	3,871,916	1,545,610
Amortization of unrecognized prior service cost (credit)	(63,118)	(63,118)
	\$ 3,899,960	\$ 1,514,876

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 9. Employee Retirement Plans (Continued)

	2011	2010
Amounts not yet recognized as components of net periodic pension cost:		
Net actuarial loss	\$ 58,601,688	\$ 79,582,826
Prior service cost (credit)	(330,241)	(393,359)
Unrecognized amounts, end of year	58,271,447	79,189,467
Unrecognized amounts, beginning of year	79,189,467	65,732,066
Current year change	<u>\$ (20,918,020)</u>	<u>\$ 13,457,401</u>
Assumptions used in computations:		
In computing ending obligations:		
Discount rate	5.75%	5.60%
Rate of compensation increase	4.00%	4.00%
In computing net periodic benefit cost:		
Discount rate	5.60%	6.75%
Expected return on assets	7.45%	7.45%
Rate of compensation increase	4.00%	4.00%

The expected return on plan assets is based upon a blend of historical returns and the System's estimate of a long-term rate of return.

Management's objective is to maximize long-term returns while reducing losses in order to meet future benefit obligations. Management follows the policy of using historical evidence in computing expected return on assets.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 9. Employee Retirement Plans (Continued)

The fair values of the System's defined benefit pension plan assets as of June 30, 2011 and 2010 by asset category, segregated by the level of the valuation inputs within the fair value hierarchy as described in Note 6, are as follows:

	Investments at Fair Value as of June 30, 2011			
	Fair Value	Level 1	Level 2	Level 3
Common Stocks:				
Healthcare	\$ 9,133,965	\$ 9,133,965	\$ -	\$ -
Financial	9,165,394	9,165,394	-	-
Consumer Discretionary	13,600,739	13,600,739	-	-
Energy	5,624,998	5,624,998	-	-
Information Technology	14,262,079	14,262,079	-	-
Industrials	7,172,770	7,172,770	-	-
ADR's (American Depository Receipts)	4,110,831	4,110,831	-	-
Materials	2,002,638	2,002,638	-	-
Consumer Staples	2,898,170	2,898,170	-	-
Utilities	830,658	830,658	-	-
Telecommunication Services	734,333	734,333	-	-
Fixed Income Mutual Fund, PIMCO Total Return Fund	32,019,921	32,019,921	-	-
Equity Mutual Funds,				
Thornburg International Value Fund	18,451,798	18,451,798	-	-
Equity Collective Investment Fund, J.P. Morgan				
Extended Duration Fund	34,582,632	-	34,582,632	-
	154,590,926	\$ 120,008,294	\$ 34,582,632	\$ -
Other plan assets, cash and cash equivalents	2,482,571			
Total plan assets	\$ 157,073,497			

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 9. Employee Retirement Plans (Continued)

	Investments at Fair Value as of June 30, 2010			
	Fair Value	Level 1	Level 2	Level 3
Common Stocks:				
Healthcare	\$ 3,928,334	\$ 3,928,334	\$ -	\$ -
Financial	1,681,434	1,681,434	-	-
Consumer Discretionary	3,247,746	3,247,746	-	-
Energy	1,430,866	1,430,866	-	-
Information Technology	7,037,260	7,037,260	-	-
Industrials	740,466	740,466	-	-
ADR's (American Depository Receipts)	736,022	736,022	-	-
Fixed Income Mutual Fund, PIMCO Total Return Fund	32,185,955	32,185,955	-	-
Equity Mutual Funds:				
Lord Abbett Small Cap Blend Fund	14,740,729	14,740,729	-	-
Quantitative Equity Large Cap Value AP Trust	18,048,432	-	18,048,432	-
Thornburg International Value Fund	14,178,098	14,178,098	-	-
Equity Collective Investment Fund, J.P. Morgan Extended Duration Fund	32,460,424	-	32,460,424	-
	<u>\$ 130,415,766</u>	<u>\$ 79,906,910</u>	<u>\$ 50,508,856</u>	<u>\$ -</u>
Other plan assets, cash and cash equivalents	762,893			
Total plan assets	<u>\$ 131,178,659</u>			

The following table sets forth additional disclosure of the System's defined benefit pension plan assets whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2011 and 2010:

	Fair Value		Unfunded Commitment	Redemption Frequency	Redemption Notice Period
	2011	2010			
Investments:					
Equity Mutual Fund, Quantitative Equity Large Cap Value AP Trust (A)	\$ -	\$ 18,048,432	\$ -	Monthly	None
Equity Collective Investment Fund, J.P. Morgan Extended Duration Fund (B)	34,582,632	32,460,424	-	Daily	1 Day
	<u>\$ 34,582,632</u>	<u>\$ 50,508,856</u>	<u>\$ -</u>		

- (A) The fund seeks to provide long-term growth of capital through a diversified portfolio comprised primarily of common stocks of high quality, medium to large sized U.S. based companies with leading competitive positions. This fund was redeemed during the year ended June 30, 2011.
- (B) The fund primarily invests in collateralized mortgage obligations, corporate bonds and U.S. treasury securities. This fund can be redeemed daily at the current net asset value per share based on the fair value of the underlying assets. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 9. Employee Retirement Plans (Continued)

The following summarizes target asset allocation as of June 30, 2011 and major asset categories as of June 30, 2011 and 2010:

	Target Allocation	2011	2010
Domestic equity securities:			
Large cap	28.0%	32.9%	28.3%
Small cap	11.0	12.6	11.2
International equity securities	11.0	11.8	10.8
Fixed income	50.0	42.7	49.7
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Management's objective is to maintain adequate levels of diversification among plan assets. Management monitors the allocation on an ongoing basis and will allocate plan assets accordingly in the subsequent quarter.

The System expects to contribute approximately \$6,000,000 to its defined benefit pension plan during the year ending June 30, 2012.

Benefit payments from the defined benefit pension plan are expected to be paid as follows:

Year ending June 30:	
2012	\$ 6,600,000
2013	6,800,000
2014	7,100,000
2015	7,600,000
2016	8,000,000
Thereafter	<u>50,700,000</u>
	<u>\$ 86,800,000</u>

Physician employees of the System are eligible to participate in non-qualified deferred compensation plans. The plans allow participants to defer a portion of their salary into the plans. The plan assets are held for the benefit of participating employees. The liability to these participants is recorded at the same amount as the plan assets' value. The assets which are included in investments and corresponding noncurrent liability of the non-qualified deferred compensation plans recorded on the accompanying consolidated balance sheets are approximately \$6,717,000 and \$5,022,000 as of June 30, 2011 and 2010, respectively.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 10. Income Tax Matters

GHS Iowa, GHS Illinois, the Genesis Foundation, the Illini Foundation and the Workers' Compensation Trust are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. GenVentures is subject to income taxes. Misericordia Assurance Company, Ltd. is a foreign corporation not subject to income taxes.

In lieu of corporate income taxes, the partners of The Larson Center Partnership and members of Davenport SRS Leasing, LLC and GenGastro, LLC are taxed on their proportionate share of the respective organization's income, deductions, losses and credits. Therefore, the accompanying consolidated financial statements do not include any provision for income taxes for these entities.

Deferred taxes for GenVentures are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in the tax laws and rates on the date of enactment. The deferred taxes for GenVentures relate primarily to net operating loss carryforwards, property and equipment, allowance for doubtful accounts and accrued compensation.

Net deferred taxes consist of the following components as of June 30, 2011 and 2010:

	2011	2010
Deferred tax assets	\$ 1,901,000	\$ 2,319,000
Less valuation allowance	(1,901,000)	(2,319,000)
	<u>\$ -</u>	<u>\$ -</u>

For the years ended June 30, 2011 and 2010, there are no current income tax provisions due to the utilization of the net operating loss carryforward.

As of June 30, 2011, GenVentures, for federal income tax purposes, has net operating loss carryforwards which are available to offset future federal taxable income and federal tax liabilities. These carryforwards expire from 2012 through 2027. The carryforwards expiring in future years are as follows:

Year ending June 30:

2012	\$ 928,000
2013	1,000
2014	-
2015	-
2016	-
Thereafter	3,449,000
	<u>\$ 4,378,000</u>

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 10. Income Tax Matters (Continued)

Uncertainty in Income taxes:

GHS Iowa, GHS Illinois, the Genesis Foundation, the Illini Foundation and the Workers' Compensation Trust all file a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the following: the tax exempt status of each entity, the nature, characterization and taxability of joint venture income and various positions relative to potential sources of unrelated business taxable income. Unrelated business taxable income is reported on Form 990T, as appropriate. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Forms 990 and 990T filed by GHS Iowa, GHS Illinois, the Genesis Foundation, the Illini Foundation and the Workers' Compensation Trust are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990T filed by GHS Iowa, GHS Illinois, the Genesis Foundation, the Illini Foundation and the Workers' Compensation Trust are no longer subject to examination for the fiscal years ended June 30, 2006 and prior. GenVentures is a taxable organization and currently files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. GenVentures is no longer subject to income tax examinations for years June 30, 2006 and prior.

A reconciliation of the uncertain tax positions as of June 30, 2011 and 2010 is as follows:

	2011	2010
Balance, beginning of year	\$ 45,000	\$ 350,000
Reductions for tax positions of prior years as a result of lapse of the applicable statute of limitations	(45,000)	(40,000)
Settlements	-	(265,000)
Balance, end of year	\$ -	\$ 45,000

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 10. Income Tax Matters (Continued)

As of June 30, 2011 and 2010, the total amount of uncertain tax positions have reduced income tax expense and have increased excess of revenue over expenses by \$45,000 and \$40,000, respectively.

Interest expense associated with uncertain tax positions from the years ended June 30, 2011 and 2010 is approximately none and \$7,000, respectively. No amount has been accrued for penalties.

During the years ended June 30, 2011 and 2010, none and \$265,000, respectively, in federal and state income taxes were paid for uncertain tax positions existing as of June 30, 2009 and 2008, as amended or past due income tax returns were filed.

Note 11. Self-Insurance, Contingent Liabilities and Commitments

Self-Insured claims:

The System is primarily self-insured, up to certain limits, for general and professional liability, workers' compensation and employee group health and dental claims. The System has purchased stop-loss insurance for general and professional liability claims, which will reimburse the System for individual claims in excess of \$2,000,000 annually or aggregate claims exceeding \$6,000,000 annually. The System has purchased stop-loss insurance for workers' compensation claims in excess of \$400,000 annually for the years ended June 30, 2011 and 2010, or aggregate claims in excess of \$5,000,000. Insurance coverage is also maintained for health and dental claims in excess of \$150,000.

Operations are charged with the costs of claims reported and an estimate of claims incurred but not reported. Total expense under the self-insured programs was approximately \$26,275,000 and \$31,560,000 for the years ended June 30, 2011 and 2010, respectively. An independent actuarial firm is utilized to assist in determining the provision for general, professional and workers' compensation losses, including incurred but not reported losses. The liabilities for estimated self-insured claims, including unpaid losses and loss adjustment expenses, recorded on the accompanying consolidated balance sheets are \$37,465,000 and \$36,779,000 as of June 30, 2011 and 2010, respectively, which include approximately \$18,303,000 and \$19,063,000, respectively, that are included in other long-term liabilities. The amount of reinsurance recoverable on unpaid losses as of June 30, 2011 and 2010 was approximately \$5,840,000 and \$5,934,000, respectively, that is included in other receivables.

The determination of such claims and expenses and the appropriateness of the related liability is continually reviewed and updated. It is reasonably possible that the accrued estimated liability for self-insured claims may need to be revised in the short term. In addition, participants of self-insurance programs may be required to make retrospective contributions as deemed necessary if loss experience is worse than anticipated.

GFMC participates in a cooperative of University of Iowa-affiliated medical education foundations for the purpose of professional liability insurance to cover claims on a claims-made basis with a loss limit of \$2,000,000 per occurrence and an annual limit of \$4,000,000 and no deductible.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 11. Self-Insurance, Contingent Liabilities and Commitments (Continued)

Accounting for conditional asset retirement obligations:

The Conditional Asset Retirement Obligation Topic of the FASB Accounting Standards Codification clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation, specifically as it related to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Over the past ten years, management has systematically renovated, replaced or newly constructed the majority of the physical plant facilities, resulting in a relatively small portion of the facility with any remaining hazardous material. Management of the System believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the System may settle the obligation is unknown and does not believe that the estimate of the liability related to these asset retirement activities is a material amount as of June 30, 2011 and 2010.

Laws and regulations:

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

CMS RAC Program:

Congress passed the Medicare Modernization Act In 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. The RAC's identified and corrected a significant amount of improper overpayments and/or underpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. The System has been subject to such an audit and may continue to be subject to additional audits at some time in the future. The System has accrued an estimated liability, which is included in due to third-party payors as of June 30, 2011, as a reserve for such audits based on the number of RAC audit requests, the System's historical defense rate and the analysis and reviews of a consulting firm. It is reasonably possible that the recorded estimates will change materially in the near term.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 11. Self-Insurance, Contingent Liabilities and Commitments (Continued)

Current economic conditions:

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the System.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the System's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payors may significantly impact net patient service revenue, which could have an adverse impact on the System's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts and contributions receivable that could negatively impact the System's ability to meet debt covenants or maintain sufficient liquidity.

Health care reform:

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

Commitments:

Approximate minimum payments required under a service contract as of June 30, 2011 are summarized below. The term of this service contract is for a period of ten years (until fiscal year 2019), unless the System terminates the contract for cause:

Year ending June 30:

2012	\$ 1,845,000
2013	1,845,000
2014	1,845,000
2015	1,845,000
2016	1,845,000
Thereafter	3,537,000
	<u>\$ 12,762,000</u>

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 12. Net Asset Restrictions

Temporarily restricted net assets held by the System are restricted by donors for the following purposes as of June 30, 2011 and 2010:

	2011	2010
Cardiac research	\$ 403,595	\$ 509,798
Visiting nurse programs	3,351,713	2,688,583
Hospice house	2,004,442	3,474,943
Heart of Mercy financial assistance	560,531	224,814
Inventory and equipment for GMC - Davenport	2,996,714	2,996,714
Cancer research	1,000,535	903,845
Adler Fund	1,276,072	944,514
Employee assistance fund	525,016	378,296
Other	3,994,249	4,085,367
	<u>\$ 16,112,867</u>	<u>\$ 16,206,874</u>

During the years ended June 30, 2011 and 2010, temporarily restricted net asset were released from donor restrictions by incurring expenditures satisfying their restricted purposes for property and equipment and reimbursement of operating expenses, in the amount of \$3,994,125 and \$958,547, respectively.

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable primarily to support the Heart of Mercy financial assistance program. The permanently restricted net assets held by the System are for the following purposes as of June 30, 2011 and 2010:

	2011	2010
Heart of Mercy financial assistance	\$ 1,483,267	\$ 1,375,974
Other	420,604	275,584
	<u>\$ 1,903,871</u>	<u>\$ 1,651,558</u>

Note 13. Minimum Future Rentals

The following is a schedule by year of approximate future minimum rentals, net of rentals from affiliates, to be received under GenVentures' noncancelable operating leases as of June 30, 2011:

Year ending June 30:	
2012	\$ 1,714,000
2013	1,630,000
2014	1,580,000
2015	1,149,000
2016	1,085,000
Thereafter	6,664,000
Total approximate future minimum rentals	<u><u>\$ 13,822,000</u></u>

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 14. Interest in Net Assets of Foundation

The DeWitt Community Hospital Foundation (DCH Foundation), whose financial statements are not included in the accompanying consolidated financial statements since it is not under the control of GHS, was established to establish, promote and support facilities and services providing health care for sick, injured, disabled, indigent or aged persons. The support is to be provided to, or in cooperation with, other organizations including, without limitation, hospitals, ambulatory care services, nursing care facilities, and agencies or facilities providing care for persons in their homes. As of June 30, 2011 and 2010 the DCH Foundation had unaudited assets of approximately \$738,000 and \$654,000, respectively. DCH Foundation's assets consist primarily of cash and pledges receivable. A portion of the DCH Foundation's net assets have been specified by their original donor to be used specifically for the benefit of Genesis Medical Center – DeWitt.

Note 15. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of the System's gross receivables from patients and third-party payors as of June 30, 2011 and 2010 was as follows:

	2011	2010
Medicare	29%	25%
Medicaid	8	12
Blue Cross	13	9
Other third-party payers	16	19
Patients	34	35
	100%	100%

As of June 30, 2011, the System had deposits exceeding the federal depository insurance limits in various major financial institutions. Management believes the credit risk related to these deposits is minimal.

The System routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations and various investment grade corporate obligations. Investments in money market funds are not insured or guaranteed by the U.S. government or by the underlying corporation; however, management believes that credit risk related to these investments is minimal.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 16. Acquisition

On December 31, 2010, the System acquired an additional 16.67% interest in GenGastro, LLC (a single-specialty gastroenterology ambulatory surgery center) for \$5,148,000, increasing the System's ownership in GenGastro, LLC to 66.67%. In accordance with the accounting guidance on *Not-for-Profit Entities: Mergers and Acquisitions*, the System remeasured its previously held 50% interest of GenGastro, LLC (which had a recorded value of approximately \$493,000 at the date of acquisition) at fair value and recognized a gain of approximately \$14,959,000. This gain is included in nonoperating gains and (losses) on the June 30, 2011 consolidated statement of operations.

The System previously accounted for its 50% membership interest of GenGastro, LLC under the equity method of accounting and reported its 50% share of GenGastro, LLC's net income (loss). From December 31, 2010 (date of acquisition), the results of GenGastro, LLC's operations have been included in the consolidated financial statements.

The following table summarizes the consideration paid for GenGastro, LLC, estimated fair value of the assets acquired and liabilities assumed and fair value at the acquisition date of the noncontrolling interests in GenGastro, LLC.

Consideration:

Cash	\$ 5,148,000
Fair value of the System's interest in GenGastro, LLC at acquisition date	<u>15,452,000</u>
	<u>\$ 20,600,000</u>

Recognized amounts of assets acquired and liabilities assumed:

Current assets	\$ 679,364
Property and equipment	408,154
Current liabilities	(97,951)
Noncontrolling interests in GenGastro, LLC	(10,300,000)
Goodwill	<u>29,910,433</u>
	<u>\$ 20,600,000</u>

Excess of fair value over equity acquired for GenGastro, LLC:

Attributable to the System	\$ 14,958,732
Attributable to noncontrolling interests	<u>9,806,732</u>
	<u>\$ 24,765,464</u>

Fair values of the assets, liabilities and noncontrolling interests at the acquisition date were estimated by a third-party applying the market approach and income approach. The fair value measurement is based on significant inputs that are not observable in the market and, therefore represents a Level 3 measurement as defined in the Fair Value Measurement and Disclosures Topic of the FASB Accounting Standards Codification. Key assumptions include a discount rate of 15%, a terminal growth rate based on long-term sustainable growth of 3% and financial multiples of companies deemed to be similar to GenGastro, LLC.

The goodwill of approximately \$29,910,000 arising from the acquisition consists primarily of current and future expected earnings and profitability.

The amount of GenGastro, LLC's revenue included in the System's consolidated statement of operations for the year ended June 30, 2011 was \$3,151,000. Excess of revenue over expenses and changes in net assets included in the System's consolidated statement of operations for the year ended June 30, 2011 are approximately \$2,156,000.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 17. Pending Accounting Pronouncements

In August 2010, Accounting Standards Update (ASU) 2010-23, *Health Care Entities (Topic 954) Measuring Charity Care for Disclosure*, was issued. ASU 2010-23 is effective for fiscal years beginning after December 15, 2010. ASU 2010-23 addresses the diversity in the accounting for charity care disclosures, which some entities determine on the basis of a cost measurement, while others use a revenue measurement. ASU 2010-23 requires that the measurement of charity care for disclosure purposes be based on the direct and indirect costs of providing the charity care. Management is evaluating the impact this ASU may have on the System's consolidated financial statements.

In August 2010, ASU 2010-24, *Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries*, was issued. ASU 2010-24 is effective for fiscal years beginning after December 15, 2010. ASU 2010-24 addresses the diversity in the accounting for medical malpractice and similar liabilities and their related anticipated insurance recoveries by health care entities that mostly have netted insurance recoveries against the accrued liability, although some have presented the anticipated insurance recovery and the liability on a gross basis. The ASU clarifies that a health care entity should not net insurance recoveries against a related claim liability; the amount of the claim liability should be determined without consideration of insurance recoveries. Management is evaluating the impact this ASU may have on the System's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU was issued to clarify FASB's intent on application of certain aspects of existing fair value measurement requirements and to change certain requirements for measuring fair value and for disclosing information about fair value measurements. These changes (mostly applicable to financial instruments in levels 2 and 3) include guidance on measuring the fair value of financial instruments that are managed within a portfolio, application of premiums and discounts, and additional disclosures about fair value measurements. FASB has concluded that this ASU will achieve the objective of developing common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. This ASU is effective for the System for annual reporting periods beginning after December 15, 2011. Management is in the process of evaluating the potential impact this ASU will have on the System's consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954) – Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay, to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, ASU 2011-07 requires those health care entities to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts, disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts.

The provisions are effective for the first annual period ending after December 15, 2012, and interim and annual periods thereafter, with early adoption permitted. The changes to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The disclosures required by ASU 2011-07 should be provided for the period of adoption and subsequent reporting periods. Management is assessing the impact of the implementation of this ASU on the System's consolidated financial statements.

**Genesis Health System
and Related Organizations**

Notes to Consolidated Financial Statements

Note 17. Pending Accounting Pronouncements (Continued)

The FASB issued ASU 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. The existing guidance under Accounting Standards Codification Topic 350 requires an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, the second step of the test must be performed to measure the amount of the impairment loss, if any. This ASU gives an entity the option in its annual goodwill impairment test to first assess revised qualitative factors to determine whether it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount (qualitative assessment). If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity must still perform the existing two-step impairment test. Otherwise, an entity would not be required to perform the existing two-step impairment test. This ASU is effective for the System for the first annual reporting period beginning after December 15, 2011.

Note 18. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses for the System's 501(c)(3) entities related to providing these services for the years ended June 30, 2011 and 2010 are as follows:

	2011	2010
Health care services	\$ 423,174,910	\$ 431,681,650
General, administrative and support services	89,012,051	90,089,732
Fund raising, net of intercompany contributions	1,081,481	790,880
	<u>\$ 513,268,442</u>	<u>\$ 522,562,262</u>

Included within general, administrative and support services are significant expenditures for information systems which support the delivery of health care services.



**Independent Auditor's Report
on the Supplementary Information**

To the Audit and Compliance Committee
Genesis Health System
Davenport, Iowa

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information on pages 48 – 59 is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and changes in net assets of the individual organizations. The consolidating information on pages 48 – 59 has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, based upon our audits and the reports of other auditors as explained in our report on the basic financial statements on page 1, is fairly presented in all material respects in relation to the basic consolidated financial statements taken as a whole.

The accompanying community benefit information on pages 44 through 47 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. This information has not been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements, and accordingly, we express no opinion on it.

McGladrey & Pullen, LLP

Davenport, Iowa
October 25, 2011

**Genesis Health System
and Related Organizations**

**Schedule of Community Benefit
Year Ended June 30, 2011
(Unaudited)**

Genesis Health System contributed \$38,132,600 in community benefit to the Quad City area in fiscal year (FY) 2011. This represents an increase of 51% when compared to FY 2010. Charity Care, reported as charges foregone, in the amount of \$31,815,963 was provided by the Health System compared to \$21,197,913 in FY 2010. Charity Care is uncompensated care provided without expectation of reimbursement. Charity Care is distinct and separate from bad debt, which is care provided with an expectation of compensation but which we were unable to collect. We do not count bad debt in our community benefit reporting; however, bad debt for Genesis Health System totaled \$27,792,024 for FY 2011, down 22% from \$35,782,769 for FY 2010.

Unreimbursed Medicaid and other means-tested program costs are also not included in our community benefit reporting; however, the unreimbursed Medicaid and other means-tested program costs for FY 2011 were estimated at \$11,627,808. The level of unreimbursed Medicaid costs increased 11% compared to FY 2010's level of \$10,480,537.

Table 1 shows a 34% increase in community benefit for Genesis Medical Center (GMC) – Davenport compared to FY 2010. GMC – Illini increased its community benefit by 75%, and GMC – DeWitt increased by 22%. Other GHS community benefit increased by 1159% as we started to report subsidized losses in FY 2011 for the community-based hospice and hospice house programs.

Table 1: Community Benefit by GHS Entity

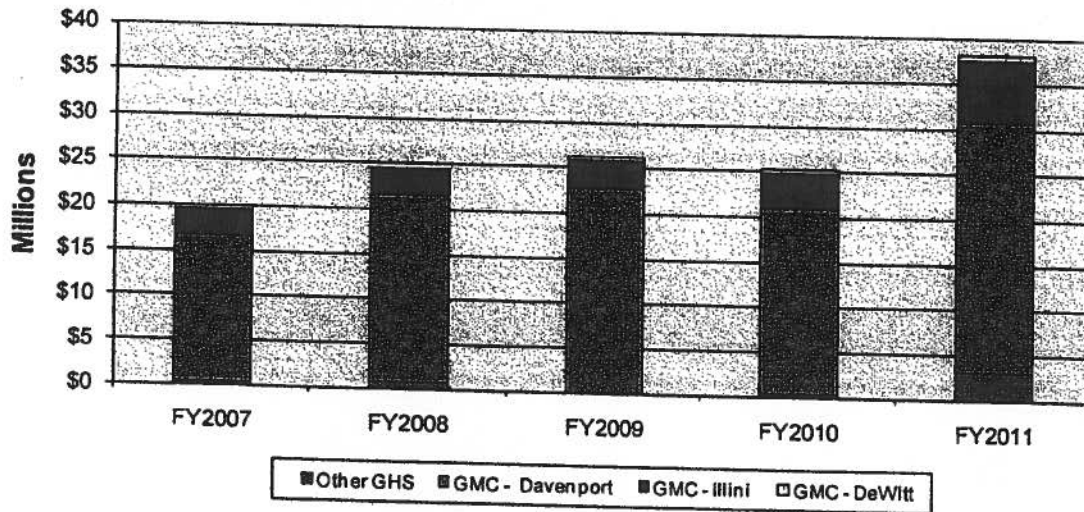
	Other GHS	GMC - Davenport	GMC - Illini	GMC - DeWitt	Total
FY2007	\$ 330,874	\$ 16,266,486	\$ 2,754,361	\$ 145,117	\$ 19,496,838
FY2008	592,354	20,933,460	2,747,135	243,976	24,516,925
FY2009	164,537	22,495,002	3,221,208	337,443	26,218,190
FY2010	234,749	20,715,176	3,968,714	404,892	25,323,531
FY2011	2,955,378	27,718,979	6,964,127	494,116	38,132,600

This information is shown graphically in Graph 1.

Genesis Health System
and Related Organizations

Schedule of Community Benefit
Year Ended June 30, 2011
(Unaudited)

Community Benefit by GHS Entity



**Genesis Health System
and Related Organizations**

**Schedule of Community Benefit
Year Ended June 30, 2011
(Unaudited)**

Graph 2 represents the community benefit funding by category for each of the past five fiscal years. Overall, community benefit funding increased 51% compared to FY 2010. Community Health Improvement increased 131%, Community Building Activities increased 98% and Charity Care increased 50% compared to the prior year, while Health Professions Education decreased 54%, and Financial and In-Kind Contributions decreased 38%.

GHS Community Benefit Totals

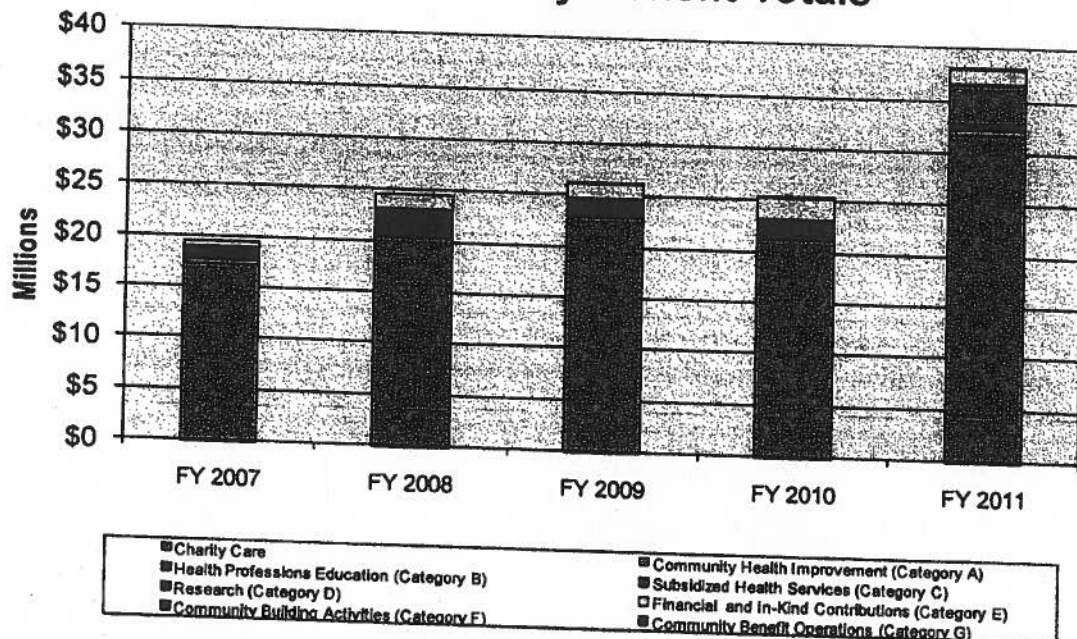


Table 2: 2011 Category Comparisons by GHS Entity

	Charity Care	Community Health Improvement (Category A)	Health Professions Education (Category B)	Subsidized Health Services (Category C)	Research (Category D)	Financial and In-Kind Contributions (Category E)	Community Building Activities (Category F)	Community Benefit Operations (Category G)	Total
GHS - Other	\$ 1,375,991	\$ 6,344	\$ -	\$ 1,135,742	\$ -	\$ 430,006	\$ 7,285	\$ -	\$ 2,955,378
GMC - Davenport	23,244,368	356,988	785,152	2,289,455	190,374	720,283	103,951	28,406	27,718,979
GMC - Illini	6,797,475	14,188	2,756	72,984	-	62,701	13,994	49	6,964,127
GMC - DeWitt	398,129	315	-	20,019	-	74,820	833	-	494,116
Totals	\$ 31,815,963	\$ 377,815	\$ 787,908	\$ 3,518,200	\$ 190,374	\$ 1,267,810	\$ 126,073	\$ 28,457	\$ 38,132,800

**Genesis Health System
and Related Organizations**

**Schedule of Community Benefit
Year Ended June 30, 2011
(Unaudited)**

Table 3: Category Comparisons for the Past Five Fiscal Years

	Charity Care	Community Health Improvement (Category A)	Health Professions Education (Category B)	Subsidized Health Services (Category C)	Research (Category D)	Financial and In-Kind Contributions (Category E)	Community Building Activities (Category F)	Community Benefit Operations (Category G)	Total
FY 2007	\$ 17,268,018	\$ 289,885	\$ 1,434,874	\$ -	\$ 627	\$ 503,434	\$ -	\$ -	\$ 19,496,838
FY 2008	20,289,556	287,935	2,685,992	-	-	1,253,442	-	-	24,516,925
FY 2009	22,903,259	148,861	1,449,671	57,123	195,493	1,337,504	66,346	60,133	26,218,190
FY 2010	21,197,913	183,450	1,712,897	-	97,744	2,069,189	63,587	18,751	25,323,531
FY 2011	31,815,963	377,815	787,908	3,518,200	190,374	1,287,810	128,073	28,457	38,132,600

**Genesis Health System
and Related Organizations**

**Consolidating Balance Sheet Information
June 30, 2011**

Assets	GHS Iowa	GHS Illinois	Eliminations	Obligated Group *
Current Assets:				
Cash and cash equivalents	\$ 53,124,950	\$ 18,664,240	\$ -	\$ 71,789,190
Short-term investments	704,456	-	-	704,456
Receivables:				
Patients, net	60,717,960	14,961,229	-	75,679,189
Affiliates	5,149,212	-	(2,759,455)	2,389,757
Notes, affiliate	1,101,947	-	-	1,101,947
Other, including assets limited as to use	6,903,948	936,367	-	7,842,315
Inventories, supplies and materials	10,437,231	2,261,478	-	12,698,709
Prepaid expenses and deposits	5,121,663	388,788	-	5,510,451
Total current assets	143,261,367	37,214,102	(2,759,455)	177,716,014
Long-Term Receivables and Investments:				
Affiliate notes	13,512,181	-	-	13,512,181
Investment in subsidiaries	47,364,817	1,313,072	-	48,677,889
Investments	16,209,642	245,719	-	16,455,361
	77,086,640	1,558,791	-	78,645,431
Assets Limited as to Use:				
Internally designated	157,778,420	-	-	157,778,420
Under bond indenture, funds held by trustee	5,235,343	663,832	-	5,899,175
Interest in net assets of Foundation	9,991,929	403,322	-	10,395,251
Donor restricted	4,133,745	-	-	4,133,745
	177,139,437	1,067,154	-	178,206,591
Property and Equipment, net	166,193,212	35,809,581	-	202,002,793
Other Assets:				
Bond issuance costs, net	579,508	196,412	-	775,920
Goodwill	820,444	-	-	820,444
Other	968,907	-	-	968,907
	2,368,859	196,412	-	2,565,271
	\$ 566,049,515	\$ 75,848,040	\$ (2,759,455)	\$ 639,136,100

* The Obligated Group includes Genesis Health System – Iowa (an Iowa nonprofit corporation) and Genesis Health System – Illinois (an Illinois not-for-profit corporation).

Genesis Health Services Foundation	Illini Hospital Foundation	GenGastro, LLC	The Larson Center Partnership	GenVentures, Inc.	Genesis Health System Workers' Compensation Plan and Trust	Misericordia Assurance Company, Ltd.	Davenport SRS Leasing, LLC	Eliminations	Total
\$ 864,157	\$ 13,755	\$ 226,568	\$ 386,977	\$ 243,624	\$ 939,981	\$ 633,070	\$ 1,143,885	\$ -	\$ 76,241,207
-	-	-	-	618,441	-	-	-	-	1,323,897
-	-	670,984	-	2,771,555	-	-	-	-	79,121,728
-	-	-	-	-	-	93,680	148,125	(2,631,562)	-
-	-	-	-	-	-	-	-	(1,101,947)	-
148,497	451	9,075	1,577	419,166	2,015,452	3,978,332	-	-	14,414,865
-	-	28,417	-	982,183	-	-	-	-	13,709,309
-	-	7,975	-	131,774	-	6,390	110,008	-	5,766,598
1,012,654	14,206	943,019	388,554	5,167,743	2,955,433	4,711,472	1,402,018	(3,733,509)	180,577,604
-	-	-	-	-	-	-	-	(13,512,181)	-
-	-	-	-	-	-	-	-	(48,677,889)	-
2,618,517	226,693	-	-	1,046,000	11,970,035	22,072,377	-	-	54,388,983
2,618,517	226,693	-	-	1,046,000	11,970,035	22,072,377	-	(62,190,070)	54,388,983
-	-	-	-	-	-	-	-	-	157,778,420
-	-	-	-	-	-	-	-	-	5,899,175
12,741,822	403,322	-	-	-	-	-	-	(9,657,402)	737,849
12,741,822	403,322	-	-	-	-	-	-	-	17,278,889
-	-	-	-	-	-	-	-	(9,657,402)	181,694,333
9,975	-	330,655	2,289,745	38,317,347	-	-	5,376,045	-	248,326,580
-	-	-	-	-	-	-	-	-	775,920
-	-	-	-	-	-	-	-	29,910,433	30,730,877
-	82,194	-	3,722	401,491	-	-	-	-	1,458,314
-	82,194	-	3,722	401,491	-	-	-	29,910,433	32,963,111
\$ 16,382,968	\$ 726,415	\$ 1,273,674	\$ 2,682,021	\$ 44,932,581	\$ 14,925,468	\$ 26,783,849	\$ 6,778,063	\$ (45,670,548)	\$ 707,950,591

**Genesis Health System
and Related Organizations**

**Consolidating Balance Sheet Information
June 30, 2011**

Liabilities and Net Assets and Equity	GHS Iowa	GHS Illinois	Eliminations	Obligated Group *
Current Liabilities:				
Current maturities of long-term debt	\$ 5,860,000	\$ 727,977	\$ -	\$ 6,587,977
Accounts payable:				
Trade	14,693,285	1,975,491	-	16,668,776
Affiliates	-	2,759,455	(2,759,455)	-
Accrued salaries and wages	13,925,530	525,388	-	14,450,918
Accrued paid leave	14,073,483	2,165,375	-	16,238,858
Due to third-party payors	3,525,309	1,946,193	-	5,471,502
Unpaid losses and loss adjustment expenses	-	-	-	-
Other accrued expenses	3,303,977	631,180	-	3,935,157
Total current liabilities	55,381,584	10,731,059	(2,759,455)	83,353,188
 Long-Term Debt, less current maturities	 83,312,645	 7,750,000	 -	 91,062,645
 Unpaid Losses and Loss Adjustment Expenses, Retirement Benefits and Other Long-Term Liabilities	 15,594,348	 673,208	 -	 16,267,556
Total liabilities	154,288,577	19,154,267	(2,759,455)	170,683,389
 Net Assets and Equity:				
Common stock	-	-	-	-
Additional paid-in capital	-	-	-	-
Retained earnings (deficit)	-	-	-	-
Members and partners' equity	-	-	-	-
Unrestricted	397,635,264	56,288,451	-	453,923,715
Noncontrolling interests - unrestricted	-	-	-	-
Temporarily restricted	14,125,674	359,030	-	14,484,704
Permanently restricted	-	44,292	-	44,292
	411,760,938	56,691,773	-	468,452,711
	\$ 566,049,515	\$ 75,846,040	\$ (2,759,455)	\$ 639,136,100

* The Obligated Group includes Genesis Health System – Iowa (an Iowa nonprofit corporation) and Genesis Health System – Illinois (an Illinois not-for-profit corporation).

Genesis Health Services Foundation	Illini Hospital Foundation	GenGastro, LLC	The Larson Center Partnership	GenVentures, Inc.	Genesis Health System Workers' Compensation Plan and Trust	Misericordia Assurance Company, Ltd.	Davenport SRS Leasing, LLC	Eliminations	Total
\$ -	\$ -	\$ -	\$ 514,166	\$ 1,216,752	\$ -	\$ -	\$ 1,055,457	\$ (1,128,549)	\$ 8,245,803
36,480	-	72,993	5,483	658,930	21,005	61,224	575	4,500	17,530,976
519,388	48,923	-	4,500	1,984,881	77,570	-	-	(2,636,062)	-
-	-	16,659	-	475,547	-	-	-	-	14,943,124
-	-	20,725	-	388,564	-	-	-	-	16,646,147
-	-	-	-	-	-	-	-	-	5,471,502
-	-	-	-	-	6,052,467	9,311,553	-	-	16,364,020
833,265	8,698	-	239,432	629,721	-	-	-	-	5,648,273
1,389,143	58,621	110,377	763,581	5,353,195	6,151,042	9,372,777	1,056,032	(3,780,111)	83,847,845
-	46,960	-	161,307	13,930,002	-	-	4,762,326	(13,485,579)	96,477,661
-	-	-	-	34,429	-	16,535,671	-	-	32,837,656
1,389,143	105,581	110,377	924,888	19,317,626	6,151,042	25,908,448	5,818,358	(17,245,680)	213,163,162
-	-	-	-	1,000	-	120,000	-	(121,000)	-
-	-	-	-	28,821,772	-	-	-	(28,821,772)	-
-	-	-	-	(3,207,817)	-	755,401	-	2,452,418	-
-	-	1,163,297	1,757,133	-	-	-	959,705	(3,880,135)	-
2,252,003	217,512	-	-	-	8,774,426	-	-	755,401	465,923,057
-	-	-	-	-	-	-	-	10,847,634	10,847,634
10,882,243	359,030	-	-	-	-	-	-	(9,613,110)	16,112,867
1,859,579	44,292	-	-	-	-	-	-	(44,292)	1,903,871
14,983,825	620,834	1,163,297	1,757,133	25,614,955	8,774,426	875,401	959,705	(28,424,858)	494,787,429
\$ 16,382,968	\$ 726,415	\$ 1,273,674	\$ 2,682,021	\$ 44,932,581	\$ 14,925,468	\$ 26,783,849	\$ 6,778,063	\$ (45,670,548)	\$707,950,591

**Genesis Health System
and Related Organizations**

**Consolidating Balance Sheet Information
June 30, 2010**

Assets	GHS Iowa	GHS Illinois	Eliminations	Obligated Group *
Current Assets:				
Cash and cash equivalents	\$ 42,722,820	\$ 10,853,672	\$ -	\$ 53,576,492
Short-term investments	743,809	-	-	743,809
Receivables:				
Patients, net	62,527,236	16,657,990	-	79,185,226
Affiliates	5,867,968	-	(2,568,184)	3,299,784
Notes, affiliate	1,037,930	-	-	1,037,930
Other	4,968,116	574,291	-	5,542,407
Inventories, supplies and materials	9,392,564	2,089,969	-	11,482,533
Prepaid expenses and deposits	3,768,127	673,203	-	4,441,330
Total current assets	131,028,570	30,849,125	(2,568,184)	159,309,511
Long-Term Receivables and Investments:				
Affiliate notes	14,639,185	-	-	14,639,185
Investment in subsidiaries	27,476,286	1,115,840	-	28,594,126
Investments	14,099,552	275,845	-	14,375,397
	56,217,023	1,391,685	-	57,608,708
Assets Limited as to Use:				
Internally designated	136,440,158	-	-	136,440,158
Under bond indenture, funds held by trustee	13,192,694	663,166	-	13,855,860
Interest in net assets of Foundation	6,855,025	744,305	-	7,599,330
Donor restricted	4,088,817	-	-	4,088,817
	160,576,694	1,407,471	-	161,984,165
Property and Equipment, net	170,252,383	36,461,493	-	206,713,876
Other Assets:				
Bond issuance costs, net	641,318	109,016	-	750,334
Goodwill	820,444	-	-	820,444
Other	951,264	9,729	-	960,993
	2,413,026	118,745	-	2,531,771
	\$ 520,487,696	\$ 70,228,519	\$ (2,568,184)	\$ 588,148,031

* The Obligated Group includes Genesis Health System – Iowa (an Iowa nonprofit corporation) and Genesis Health System – Illinois (an Illinois not-for-profit corporation).

Genesis Health Services Foundation	Illini Hospital Foundation	The Larson Center Partnership	GenVentures, Inc.	Genesis Health System Workers' Compensation Plan and Trust	Misericordia Assurance Company, Ltd.	Davenport SRS Leasing, LLC	Eliminations	Total
\$ 585,593	\$ 97,502	\$ 436,335	\$ 949,373	\$ 932,075	\$ 68,530	\$ 1,453,347	\$ -	\$ 58,099,247
-	-	-	611,402	-	-	-	-	1,355,211
-	-	-	2,117,178	-	-	-	-	81,302,404
-	-	-	-	-	-	132,778	(3,432,562)	-
-	-	-	-	-	-	-	(1,037,930)	-
162,755	451	-	806,663	2,047,043	4,015,694	-	-	12,575,013
-	-	-	1,071,169	-	-	-	-	12,553,702
-	-	-	103,678	-	6,149	-	-	4,551,157
748,348	97,953	436,335	5,659,463	2,979,118	4,090,373	1,586,125	(4,470,492)	170,436,734
-	-	-	-	-	-	-	(14,639,185)	-
-	-	-	-	-	-	-	(28,594,126)	-
2,985,972	215,661	-	1,046,000	11,603,232	22,595,435	-	-	52,821,697
2,985,972	215,661	-	1,046,000	11,603,232	22,595,435	-	(43,233,311)	52,821,697
-	-	-	-	-	-	-	-	136,440,158
-	-	-	-	-	-	-	-	13,855,860
-	-	-	-	-	-	-	(6,945,198)	654,132
12,371,178	744,305	-	-	-	-	-	-	17,204,300
12,371,178	744,305	-	-	-	-	-	(6,945,198)	168,154,460
9,975	-	2,423,347	40,042,077	-	-	6,468,084	-	255,657,359
-	-	-	-	-	-	-	-	750,334
-	-	-	-	-	-	-	-	820,444
-	81,670	-	494,188	-	-	-	-	1,536,851
-	81,670	-	494,188	-	-	-	-	3,107,629
\$ 16,115,473	\$ 1,139,589	\$ 2,859,682	\$ 47,241,728	\$ 14,582,350	\$ 26,685,808	\$ 8,054,209	\$ (54,649,001)	\$ 650,177,869

**Genesis Health System
and Related Organizations**

**Consolidating Balance Sheet Information
June 30, 2010**

Liabilities and Net Assets and Equity	GHS Iowa	GHS Illinois	Eliminations	Obligated Group *
Current Liabilities:				
Current maturities of long-term debt	\$ 5,607,506	\$ 603,902	\$ -	\$ 6,211,408
Accounts payable:				
Trade	15,449,669	2,221,990	-	17,671,659
Affiliates	-	2,568,184	(2,568,184)	-
Accrued salaries and wages	12,613,689	405,933	-	13,019,622
Accrued paid leave	13,528,706	2,050,875	-	15,579,581
Due to third-party payors	679,427	2,103,440	-	2,782,867
Unpaid losses and loss adjustment expenses	-	-	-	-
Other accrued expenses	3,733,984	701,329	-	4,435,313
Total current liabilities	51,812,981	10,655,453	(2,568,184)	59,700,250
 Long-Term Debt, less current maturities	 89,189,486	 8,217,977	 -	 97,407,463
 Unpaid Losses and Loss Adjustment Expenses, Retirement Benefits and Other Long-Term Liabilities	 36,963,405	 590,785	 -	 37,554,190
Total liabilities	177,765,872	19,464,215	(2,568,184)	194,661,903
 Net Assets and Equity:				
Common stock	-	-	-	-
Additional paid-in capital	-	-	-	-
Retained earnings (deficit)	-	-	-	-
Members and partners' equity	-	-	-	-
Unrestricted	331,777,982	50,019,999	-	381,797,981
Noncontrolling interest - unrestricted	-	-	-	-
Temporarily restricted	10,943,842	711,000	-	11,654,842
Permanently restricted	-	33,305	-	33,305
	342,721,824	50,764,304	-	393,486,128
	\$ 520,487,696	\$ 70,228,519	\$ (2,568,184)	\$ 588,148,031

* The Obligated Group includes Genesis Health System – Iowa (an Iowa nonprofit corporation) and Genesis Health System – Illinois (an Illinois not-for-profit corporation).

Genesis Health Services Foundation	Illini Hospital Foundation	The Larson Center Partnership	GenVentures, Inc.	Genesis Health System Workers' Compensation Plan and Trust	Misericordia Assurance Company, Ltd.	Davenport SRS Leasing, LLC	Eliminations	Total
\$ -	\$ -	\$ 418,905	\$ 1,143,515	\$ -	\$ -	\$ 977,672	\$ (1,062,615)	\$ 7,688,885
47,201	-	11,429	705,746	13,328	59,824	3,106	-	18,512,293
765,936	180,554	16,846	2,461,635	7,591	-	-	(3,432,562)	-
-	-	-	623,522	-	-	-	-	13,643,144
-	-	-	328,038	-	-	-	-	15,907,419
-	-	-	-	-	-	-	-	2,782,867
-	-	-	-	5,413,418	8,488,583	-	-	13,902,001
665,178	1,749	239,924	628,099	-	-	-	-	5,970,263
1,478,315	182,303	687,104	5,890,555	5,434,337	8,548,407	980,778	(4,495,177)	78,406,872
-	36,838	686,565	15,148,612	-	-	5,817,783	(14,614,500)	104,482,781
-	-	-	21,440	-	17,262,000	-	-	54,837,630
1,478,315	219,141	1,373,669	21,060,607	5,434,337	25,810,407	6,798,561	(19,109,677)	237,727,263
-	-	-	1,000	-	120,000	-	(121,000)	-
-	-	-	28,821,772	-	-	-	(28,821,772)	-
-	-	-	(2,641,651)	-	755,401	-	1,886,250	-
-	-	1,486,013	-	-	-	1,255,648	(2,741,661)	-
2,265,980	176,143	-	-	9,148,013	-	-	755,401	394,143,518
-	-	-	-	-	-	-	448,656	448,656
10,752,925	711,000	-	-	-	-	-	(6,911,893)	16,208,874
1,618,253	33,305	-	-	-	-	-	(33,305)	1,651,558
14,637,158	920,448	1,486,013	26,181,121	9,148,013	875,401	1,255,648	(35,539,324)	412,450,606
\$ 16,115,473	\$ 1,139,589	\$ 2,859,682	\$ 47,241,728	\$ 14,582,350	\$ 26,685,808	\$ 8,054,209	\$ (54,649,001)	\$ 650,177,869

**Genesis Health System
and Related Organizations**

**Consolidating Statement of Operations and Changes in Net Assets Information
Year Ended June 30, 2011**

	GHS Iowa	GHS Illinois	Eliminations	Obligated Group *
Change in unrestricted net assets:				
Unrestricted revenue:				
Net patient service revenue	\$ 426,304,354	\$ 90,335,398	\$ (501,483)	\$ 516,138,269
Other service revenue, net	-	989,704	-	989,704
Medical office building rental revenue	-	-	-	-
Other revenue	15,172,870	2,920,434	(665,367)	17,427,937
Total revenue	441,477,224	94,245,536	(1,166,850)	534,555,910
Expenses:				
Salaries and wages	189,098,027	28,197,227	-	217,295,254
Employee benefits	46,577,460	6,505,022	(32,782)	53,049,720
Contracted professionals and services	33,914,573	6,579,662	(624,382)	39,869,853
Supplies	76,034,429	14,001,709	(157,973)	89,878,165
Other expenses	41,209,292	23,481,509	(351,733)	64,339,068
Provision for bad debts	21,627,108	5,984,974	-	27,612,082
Interest	4,262,725	445,255	-	4,707,980
Depreciation and amortization	27,881,858	3,850,479	-	31,732,337
Total expenses	440,805,472	89,045,837	(1,166,850)	528,484,459
Operating Income (loss)	871,752	5,199,699	-	6,071,451
Nonoperating gains and (losses):				
Interest and dividend income and realized gains (losses) on sales of investments	6,863,058	359,948	-	7,223,004
Current year change in unrealized gains on trading securities	18,563,225	-	-	18,563,225
Other nonoperating income (expense)	573,724	322,515	-	896,239
Excess of fair value over equity acquired for GenGastro, LLC	14,958,732	-	-	14,958,732
Nonoperating gains and (losses)	40,958,737	682,463	-	41,641,200
Excess of revenue over (under) expenses before equity in net income of subsidiaries	41,830,489	5,882,162	-	47,712,651
Equity in net income of subsidiaries	597,354	386,290	-	983,644
Excess of revenue over (under) expenses	42,427,843	6,268,452	-	48,696,295
Less excess of fair value over equity acquired for GenGastro, LLC attributable to noncontrolling interests	-	-	-	-
Less excess of revenue over expenses attributable to noncontrolling interests	-	-	-	-
Excess of revenue over expenses attributable to Genesis Health System	42,427,843	6,268,452	-	48,696,295
Consolidate GenGastro, LLC	-	-	-	-
Excess of fair value over equity acquired for GenGastro, LLC attributable to noncontrolling interests	-	-	-	-
Income associated with noncontrolling interests	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-
Contributions to (from) affiliates for capital expenditures	2,511,419	-	-	2,511,419
Net assets released from restrictions, for capital expenditures	-	-	-	-
Change in unrecognized funded status of retirement plan	20,918,020	-	-	20,918,020
Increase (decrease) in unrestricted net assets	65,857,282	6,268,452	-	72,125,734
Change in temporarily restricted net assets:				
Contributions, investment income and other	44,928	-	-	44,928
Net assets released from restrictions, used for operations	-	-	-	-
Net assets released from restrictions, for capital expenditure	-	-	-	-
Change in interest in net assets of Foundation	3,136,904	(351,970)	-	2,784,934
Increase (decrease) in temporarily restricted net assets	3,181,832	(351,970)	-	2,829,862
Change in permanently restricted net assets, contributions, investment income and other	-	10,987	-	10,987
Increase (decrease) in net assets	\$ 69,039,114	\$ 5,927,469	\$ -	\$ 74,966,583

* The Obligated Group Includes Genesis Health System – Iowa (an Iowa nonprofit corporation) and Genesis Health System – Illinois (an Illinois not-for-profit corporation).

Genesis Health Services Foundation	Illini Hospital Foundation	GenGastro, LLC	The Larson Center Partnership	GenVentures, Inc.	Genesis Health System Workers' Compensation Plan and Trust	Misericordia Assurance Company, Ltd.	Davenport SRS Leasing, LLC	Eliminations	Total
\$ -	\$ -	\$ 3,150,642	\$ -	\$ 237,200	\$ -	\$ -	\$ -	\$ (4,484,681)	\$ 515,041,430
-	-	-	-	8,937,090	-	-	1,657,073	-	11,583,867
-	-	-	1,224,462	8,087,520	-	-	-	(7,840,527)	1,471,455
1,028,721	459,746	-	303	173,005	2,042,500	3,482,136	-	(10,564,151)	14,050,197
1,028,721	459,746	3,150,642	1,224,765	17,434,815	2,042,500	3,482,136	1,857,073	(22,889,359)	542,146,949
312,840	104,809	208,187	-	5,245,378	-	-	-	-	223,168,468
43,629	7,485	117,329	-	1,150,340	-	-	-	(2,431)	54,366,072
101,925	-	96,010	109,595	427,755	227,678	-	10,716	-	40,843,532
64,503	2,856	113,584	1,747	311,247	-	-	-	(4,200,436)	86,171,666
1,384,312	496,898	382,247	362,518	6,618,993	1,814,822	3,482,136	363,769	(17,774,896)	81,469,867
37,592	-	-	-	142,350	-	-	-	-	27,792,024
10,252	2,847	25	54,623	951,300	-	-	487,953	(911,596)	5,303,384
-	-	76,827	164,674	3,112,800	-	-	1,092,039	-	36,178,677
1,955,053	614,895	994,209	693,157	17,960,163	2,042,500	3,482,136	1,954,477	(22,889,359)	535,291,690
(926,332)	(155,149)	2,156,433	531,608	(525,348)	-	-	(297,404)	-	6,855,259
243,614	-	-	-	40,332	273,852	-	-	-	7,780,802
231,094	121,113	-	-	-	93,292	-	-	-	19,008,724
437,647	75,405	-	-	(81,150)	(740,731)	-	1,461	-	588,871
-	-	-	-	-	-	-	-	9,806,732	24,765,484
912,355	196,518	-	-	(40,818)	(373,587)	-	1,461	9,806,732	52,143,861
(13,977)	41,369	2,156,433	531,608	(566,166)	(373,587)	-	(295,943)	9,806,732	58,999,120
-	-	-	-	-	-	-	-	(983,644)	-
(13,977)	41,369	2,156,433	531,608	(566,166)	(373,587)	-	(295,943)	8,823,088	58,999,120
-	-	-	-	-	-	-	-	(9,806,732)	(9,806,732)
-	-	-	-	-	-	-	-	(842,288)	(842,288)
(13,977)	41,369	2,156,433	531,608	(566,166)	(373,587)	-	(295,943)	(1,825,932)	48,350,100
-	-	-	-	-	-	-	-	493,268	493,268
-	-	-	-	-	-	-	-	9,806,732	9,806,732
-	-	-	-	-	-	-	-	842,288	842,288
-	-	-	-	-	-	-	-	(743,310)	(743,310)
(2,511,419)	-	-	-	-	-	-	-	-	-
2,511,419	-	-	-	-	-	-	-	-	2,511,419
-	-	-	-	-	-	-	-	-	20,918,020
(13,977)	41,369	2,156,433	531,608	(566,166)	(373,587)	-	(295,943)	8,573,046	82,178,517
3,665,316	106,157	-	-	-	-	-	-	-	3,816,401
(1,024,579)	(458,127)	-	-	-	-	-	-	-	(1,482,708)
(2,511,419)	-	-	-	-	-	-	-	-	(2,511,419)
-	-	-	-	-	-	-	-	(2,701,217)	83,717
129,318	(351,970)	-	-	-	-	-	-	(2,701,217)	(94,007)
241,326	10,987	-	-	-	-	-	-	(10,987)	252,313
\$ 356,667	\$ (299,614)	\$ 2,156,433	\$ 531,608	\$ (566,166)	\$ (373,587)	\$ -	\$ (295,943)	\$ 5,860,842	\$ 82,336,823

**Genesis Health System
and Related Organizations**

**Consolidating Statement of Operations and Changes in Net Assets Information
Year Ended June 30, 2010**

	GHS Iowa	GHS Illinois	Eliminations	Obligated Group *
Change in unrestricted net assets:				
Unrestricted revenue:				
Net patient service revenue	\$ 438,040,480	\$ 92,948,135	\$ (467,309)	\$ 528,521,316
Other service revenue, net	-	1,203,532	-	1,203,532
Medical office building rental revenue	-	-	-	-
Other revenue	16,191,478	3,122,969	(1,817,320)	17,497,127
Total revenue	452,231,968	97,274,636	(2,284,629)	547,221,975
Expenses:				
Salaries and wages	181,201,160	27,997,968	-	209,199,128
Employee benefits	44,938,904	6,426,016	(32,756)	51,332,164
Contracted professionals and services	36,800,610	6,432,764	(634,477)	42,598,897
Supplies	79,243,121	13,139,024	(158,015)	92,224,130
Other expenses	41,927,364	22,597,513	(1,459,381)	63,065,496
Provision for bad debts	27,401,892	7,990,850	-	35,392,742
Interest	4,418,926	1,171,670	-	5,590,596
Depreciation and amortization	28,953,192	3,647,576	-	32,600,767
Total expenses	444,885,169	89,403,380	(2,284,629)	532,003,920
Operating income (loss)	7,346,799	7,871,256	-	15,218,055
Nonoperating gains and (losses):				
Interest and dividend income and realized gains (losses) on sales of investments	11,127,240	118,667	-	11,245,927
Current year change in unrealized gains (losses) on trading securities	12,491,900	-	-	12,491,900
Other nonoperating income (expense)	(237,087)	(75,663)	-	(312,750)
Loss on extinguishment of debt	(1,514,471)	-	-	(1,514,471)
Nonoperating gains and (losses)	21,867,582	43,024	-	21,910,606
Excess of revenue over (under) expenses before equity in net income (loss) of subsidiaries	29,214,381	7,914,280	-	37,128,661
Equity in net income (loss) of subsidiaries	(358,454)	325,997	-	(32,457)
Excess of revenue over (under) expenses	28,855,927	8,240,277	-	37,096,204
Less excess of revenue over expenses attributable to noncontrolling interests	-	-	-	-
Excess of revenue over (under) expenses attributable to Genesis Health System	28,855,927	8,240,277	-	37,096,204
Income associated with noncontrolling interests	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-
Transfers (to) from related organizations	146,142	(146,142)	-	-
Change in unrecognized funded status of retirement plan	(13,457,401)	-	-	(13,457,401)
Increase (decrease) in unrestricted net assets	15,544,668	8,094,135	-	23,638,803
Change in temporarily restricted net assets:				
Contributions, investment income and other	(97,344)	-	-	(97,344)
Net assets released from restrictions, used for operations	-	-	-	-
Change in interest in net assets of Foundation	765,932	38,614	-	804,546
Increase in temporarily restricted net assets	668,588	38,614	-	707,202
Change in permanently restricted net assets, contributions, investment income and other	-	11,305	-	11,305
Increase (decrease) in net assets	\$ 16,213,256	\$ 8,144,054	\$ -	\$ 24,357,310

* The Obligated Group includes Genesis Health System – Iowa (an Iowa nonprofit corporation) and Genesis Health System – Illinois (an Illinois not-for-profit corporation).

Genesis Health Services Foundation	Illini Hospital Foundation	The Larson Center Partnership	GenVentures, Inc.	Genesis Health System Workers' Compensation Plan and Trust	Misericordia Assurance Company, Ltd.	Davenport SRS Leasing, LLC	Eliminations	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,398,607)	\$ 524,122,709
-	-	-	9,969,149	-	-	1,854,425	-	13,027,106
-	-	1,144,495	7,730,618	-	-	-	(7,474,969)	1,400,144
1,207,699	41,106	-	154,098	1,974,849	6,662,546	-	(8,047,047)	18,490,378
1,207,699	41,106	1,144,495	17,853,665	1,974,849	6,662,546	1,854,425	(19,920,623)	558,040,337
319,340	96,521	-	5,144,388	-	-	-	-	214,759,377
43,015	7,074	-	1,167,070	-	-	-	(2,574)	52,546,749
64,071	-	103,690	521,860	170,798	-	62,067	-	43,521,383
87,430	1,362	4,247	343,662	-	-	-	(4,252,833)	88,407,998
1,334,633	73,470	345,533	6,731,701	1,804,051	6,662,546	342,371	(15,561,188)	64,798,613
(1,577)	-	-	391,604	-	-	-	-	35,782,769
11,201	3,145	86,928	1,151,406	-	-	580,005	(227,110)	7,176,171
-	-	159,765	3,010,299	-	-	1,090,446	-	38,861,277
1,858,113	181,572	700,183	18,461,990	1,974,849	6,662,546	2,054,889	(20,043,705)	543,854,337
(650,414)	(140,466)	444,332	(608,125)	-	-	(200,464)	123,082	14,186,000
(172,299)	1,437	609	16,323	344,023	-	-	(227,110)	11,208,910
860,445	106,403	-	-	400,181	-	-	-	13,658,929
174,942	37,847	-	298,431	-	-	3,907	104,028	308,405
-	-	-	-	-	-	-	-	(1,514,471)
663,088	145,687	609	314,754	744,204	-	3,907	(123,082)	23,659,773
12,674	5,221	444,941	(293,371)	744,204	-	(196,557)	-	37,845,773
-	-	-	-	-	-	-	32,457	-
12,674	5,221	444,941	(293,371)	744,204	-	(196,557)	32,457	37,845,773
-	-	-	-	-	-	-	12,530	12,530
12,674	5,221	444,941	(293,371)	744,204	-	(196,557)	44,987	37,858,303
-	-	-	-	-	-	-	(12,530)	(12,530)
-	-	-	-	-	-	-	(739,298)	(739,298)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	(13,457,401)
12,674	5,221	444,941	(293,371)	744,204	-	(196,557)	(706,841)	23,649,074
2,457,502	80,249	-	-	-	-	-	-	2,440,407
(916,912)	(41,635)	-	-	-	-	-	-	(958,547)
-	-	-	-	-	-	-	(743,379)	81,167
1,540,590	38,614	-	-	-	-	-	(743,379)	1,543,027
(214,302)	11,305	-	-	-	-	-	(11,305)	(202,997)
\$ 1,338,962	\$ 55,140	\$ 444,941	\$ (293,371)	\$ 744,204	\$ -	\$ (196,557)	\$ (1,461,525)	\$ 24,989,104



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

May 30, 2012

CERTIFIED MAIL

RETURN RECEIPT REQUESTED

Lynn Gordon
Ungaretti & Harris
Three First National Plaza
70 West Madison- Suite 3500
Chicago, Illinois 60602-4224

RE: Certificate of Exemption Applications for Change of Ownership - E-003-Q12,
E-004-12

Dear Mr. Gordon:

Thank you for your correspondence dated May 9, 2012. We are unable to deem exemption applications # E-003-12 and #E-004-12 complete at this time. Please provide the following:

- A complete explanation of why an option agreement to purchase Mercer County Hospital and Mercer County Nursing Home by Genesis Health System was signed without the approval of the Illinois Health Facilities and Services Review Board ("State Board").
- The complete option agreement with all schedules and exhibits. The State Board requires that the complete transaction documents be submitted and available for review for all change of ownership applications.
- Please complete the CON assessment form that is attached for the modernization project that has been identified in your May 9, 2012 submittal.

Should you have any questions, please contact me at (217) 782-3516.

Sincerely,

Courtney R. Avery, Administrator
Illinois Health Facilities and Services Review Board

ASSET PURCHASE AGREEMENT

by and between

**Mercer County, Illinois,
as Seller**

and

**GSLM,
as Purchaser**

April 26, 2012

**Mercer County Nursing Home
309 Northwest Ninth Avenue
Aledo, Illinois 61231**

TABLE OF CONTENTS

	PAGE
1. PURCHASE AND SALE.....	1
2. CLOSING	6
3. PURCHASE PRICE	6
4. COSTS AND CREDITS.....	6
5. PRORATIONS	7
6. DUE DILIGENCE AND INSPECTION	7
7. TITLE AND SURVEY	9
8. PRE-CLOSING COVENANTS	10
9. CONVEYANCES.....	12
10. CLOSING DOCUMENTS	13
11. SELLER'S REPRESENTATIONS AND WARRANTIES	15
12. PURCHASER'S REPRESENTATIONS AND WARRANTIES	23
13. CONDITIONS TO PURCHASER'S OBLIGATIONS.....	24
14. CONDITIONS TO SELLER'S OBLIGATIONS.....	26
15. CONSENTED ASSIGNMENT	27
16. CASUALTY/CONDEMNATION	27
17. TERMINATION.....	28
18. INDEMNIFICATION.....	29
19. SURVIVAL OF REPRESENTATIONS AND WARRANTIES	31
20. CONTINUATION OF SERVICES.....	31
21. CAPITAL IMPROVEMENT	31
22. INFORMATION TECHNOLOGY INVESTMENT.....	31
23. PATIENT TRUST FUND	31
24. EMPLOYEES	32
25. RIGHT OF SELLER TO REACQUIRE FACILITY	33
26. NOTICES.....	34
27. BROKER	35
28. POST CLOSING ACCESS TO INFORMATION; PRESERVATION OF RECORDS.....	35
29. CONFIDENTIALITY.....	36
30. ASSIGNMENT.....	37
31. CONSENT	37
32. KNOWLEDGE.....	37
33. RECITALS AND EXHIBITS.....	37
34. AMENDMENTS/SOLE AGREEMENT.....	37
35. SUCCESSORS	38
36. CAPTIONS	38
37. GOVERNING LAW.....	38
38. SEVERABILITY	38
39. USAGE	38
40. RISK OF LOSS.....	38
41. ATTORNEYS FEES	38
42. NON-SOLICITATION.....	38
43. COUNTERPARTS	38

EXHIBIT A REAL PROPERTY LEGAL DESCRIPTION – FACILITY LAND
EXHIBIT B REAL PROPERTY DESCRIPTION – “SCHMIDT PROPERTY”

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "*Agreement*") is made and entered into as of this 26th day of April, 2012 (the "*Effective Date*") by and between Mercer County, Illinois, an Illinois municipality ("*Seller*"), and GSLM, an Illinois not for profit corporation ("*Purchaser*").

RECITALS

A. Seller owns and operates the 92-bed skilled nursing facility commonly known as Mercer County Nursing Home located at 309 Northwest Ninth Avenue, Aledo, Illinois 61231 (the "*Facility*"). The real property upon which the Facility is located (the "*Facility Land*") is more particularly described in the legal description attached hereto as Exhibit A and made a part hereof by this reference.

B. Seller owns certain land adjacent to the Facility Land known as the "*Schmidt Property*" as more particularly described in the legal description attached hereto as Exhibit B and made a part hereof by this reference. The Schmidt Property, together with the Facility Land is referred to herein as the "*Land*".

C. Seller and Genesis Health System ("*Genesis*") entered into a Management Services Agreement the 2nd day of August 2011 (the "*Management Services Agreement*") pursuant to which Genesis agreed to provide interim management services of the day to day operations of the Facility which agreement remains in effect on the Effective Date.

D. Seller and Genesis are also parties to a Letter of Intent dated the 7th day of February 2012 (the "*Letter of Intent*") which set forth the terms and conditions upon which Genesis offered to acquire substantially all of the assets of the Facility, including the Land, from Seller.

E. The Letter of Intent provides that as additional consideration offered by Genesis to Seller, Genesis would agree to exercise its option to acquire Mercer County Hospital from Seller pursuant to the terms of an Option Agreement between Seller and Genesis effective the 1st day of December, 2011 as supplemented (the "*Option Agreement*").

F. Genesis has caused the formation of Purchaser with the intent that Purchaser would the acquire the assets from Seller in accordance with the Letter of Intent and Genesis has caused the formation of GMCM, an Illinois not for profit corporation ("*GMCM*"), with the intent that GMCM would exercise the option of Genesis under the Option Agreement.

G. Pursuant to the Letter of Intent as revised by further agreement of the parties, Purchaser desires to purchase from Seller the Acquired Assets (as defined below) including, without limitation, the Land, on the terms and conditions set forth herein.

H. Pursuant to the Letter of Intent as revised by further agreement of the parties, Seller desires to sell and transfer to Purchaser the Acquired Assets including, without limitation, the Land, on the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing Recitals, which are by this reference incorporated, herein and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound hereby, agree as follows:

1. **PURCHASE AND SALE.** On the terms and conditions set forth herein, Seller shall sell, assign, transfer, convey and deliver to Purchaser and Purchaser shall purchase from Seller the following assets related to the Facility or Land:

a. **Real Property.** Those certain parcels of real property owned by Seller legally described on Exhibit A and Exhibit B attached hereto and made a part hereof, including, without limitation, Seller's right, title and interest in and to: (i) the Land, (ii) all structures and improvements on the Land including the Facility ("*Improvements*"), (iii) all easements, hereditaments, privileges and appurtenances appurtenant to the Land and belonging to Seller; and (iv) all other structures, patios, courtyards, fences, parking areas, storage structures and improvements on the Land (all of which Land and Improvements above described are hereinafter collectively referred to as the "*Real Property*").

b. **Personal Property.** All personal property, beds, equipment, supplies, inventories, systems (including, without limitation, all of the electrical, heating, plumbing, air conditioning, air compression and all other systems, if any), fixed and moveable furniture, fixtures and equipment, rehabilitation equipment, machinery, appliances, tools, medical apparatuses, ventilator units, computer hardware and software, marketing and promotional materials relating to the Facility, non-proprietary stationery, kitchen equipment, food, bed linens, patient or resident room furnishings, inventory and supplies on hand or ordered by Seller and other tangible property and assets that are located on the Real Property and utilized in the ordinary course of operating the Facility, but specifically excluding all personal property owned by residents or employees of the Facility (collectively, the "*Personal Property*").

c. **Assumed Contracts.** To the extent assignable, the rights of Seller in all written and oral contracts, agreements, commitments, leases and other arrangements to which Seller is a party or that affect the Facility including, without limitation (i) all resident contracts and other agreements with residents of the Facility, including, without limitation, all guarantees thereof of such contracts and agreements; (ii) the rights of Seller under any provider agreements with Medicaid, Medicare or any private third-party payor programs, all as disclosed in writing between the parties at least thirty (30) days prior to Closing, which Purchaser has agreed in writing prior to Closing to assume and expressly excluding any Non-Assumed Contracts (as defined below) (the "*Assumed Contracts*").

d. **Assumed Leases.** To the extent assignable, the rights of Seller in all leases or other rental agreements of equipment or appliances used in connection with the operation of the Facility, as disclosed in writing between the parties prior to Closing, which Purchaser has agreed in writing prior to Closing to assume and expressly excluding any Non-Assumed Leases (as defined below) (the "*Assumed Leases*").

e. **Assumed Licenses.** All licenses, permits, authorizations, accreditations, Medicaid, Medicare contracts and certificates of occupancy issued by any federal, state, municipal or local governmental authority relating to the use, maintenance or operation of the Facility, running to, or in favor of, Seller, to the extent assignable by Seller ("*Assumed Licenses*").

f. **Intangible Property.** All intangible property used in connection with the operation of the Real Property and the Facility, including, but not limited to: (i) all resident and/or patient lists, data bases, marketing information, goodwill, trademarks, trade names, service marks, and telephone numbers presently in use at the Facility and all telephone listings; (ii) all books, files and records of the operation of the Facility (e.g., charts, records and lists of the Facility, business records, patient records, employee records (to the extent permitted by law), payroll records, financial records, accounting and billing records, and all files, invoices, forms, accounts, correspondence, technical, employment records, and other books and records relating solely to the operation of the Facility and any other tangible medium relating solely to the Facility, including without limitation any medical records, whether stored at the Facility or off-site) but expressly excluding Seller's organizational documents, financial accounting records and tax records, but solely to the extent that such charts, records and lists can legally be transferred to Purchaser (collectively, the "*Records*"); (iii) all computer programs and software located in and used in connection with the operation of the Facility; (iv) the name of the Facility and all the goodwill symbolized and associated with such name; (v) any third party warranties, to the extent assignable; (vi) all claims, causes of action and judgments in favor of Seller relating to the physical condition or repair of the Personal Property or Real Property; (vii) any assignable approvals from governmental entities and other parties relating to the business and operation of the Facility; (viii) Seller's Medicare account number, to the extent assignable by Seller; (ix) operating and procedure manuals, training manuals and other books, forms, and records used in connection with the Facility, including all reports and records created for compliance with any licensing, certification or accreditation entity; (x) architect renderings, blue prints, floor plans and other documents relating to the construction of the Facility and/or the improvements to the Facility and (xi) all rights of Seller in intellectual property (patents, trademarks, trade names, service marks, copyrights and any applications therefor, schematics, technology, know-how, trade secrets, ideas, processes and tangible or intangible proprietary information or material) owned, held or used by Seller in connection with the Facility and all goodwill associated therewith (this subsection (f) collectively, along with the Assumed Contracts, Assumed Leases and Assumed Licenses, the "*Intangible Property*").

g. **Cash, Funds, Prepaids and Accounts Receivable.** All cash, marketable securities and other readily available funds (other than cash for uncashed checks issued by Seller) in accounts or otherwise designated to support the operation or provide capital support of the Facility and all accounts, funds, prepaid expenses and accounts receivable including, but not limited to (i) any electronic fund transfer accounts (the "*EFT Accounts*") of the Facility and all information necessary to access the EFT Accounts; (ii) funds designated or restricted for Facility improvements or operations and use including designated funds for capital improvements and donor-restricted assets, provided that such funds are transferable and are used by Purchaser in accordance with their restricted

purposes; (iii) all assumable deposits, prepaid expenses and claims for refunds in connection with the Facility; (iv) all accounts receivable generated in connection with the business or the operation of the Facility through the Closing including any such accounts receivable that have been charged off as bad debts (this subsection (g) collectively "*Cash and Accounts*").

h. All Other Property. All other property, other than the Excluded Assets, of every kind, character or description owned by Seller and used or held for use in the business of the Facility or the Property, whether or not reflected on the financial statements, wherever located and whether or not similar to the items specifically set forth above. All such property being acquired by Purchaser including the Real Property, Personal Property, Intangible Property and Cash and Accounts are collectively referred to herein as the "*Acquired Assets*."

i. Excluded Assets. Notwithstanding anything to the contrary set forth in this Section 1, the following assets of Seller (the "*Excluded Assets*") shall not be conveyed to Purchaser:

- i. Seller's rights under this Agreement and the agreements to be executed in connection therewith;
- ii. Seller's organizational documents, including minute books, financial accounting records and tax records;
- iii. any confidential or proprietary information of Seller or any of its affiliates that is not used or held in connection with the Facility;
- iv. all qualified retirement plans maintained by Seller and any prepaid pension costs, assets held in trust and other assets associated with or held for the benefit of Seller's employee benefits plans or employee benefit plans in which Seller's employees participate;
- v. the consideration to be delivered to Seller pursuant to this Agreement;
- vi. certain rural property known as the "Plunkett Farm" which is listed as an asset of the Facility on Seller's balance sheet;
- vii. Seller's rights under any Non-Assumed Contracts of Seller and the Facility; and
- viii. all other assets listed or described in writing between the parties at least thirty (30) days prior to Closing.

Purchaser and Seller further acknowledge that personal property owned by residents or employees of the Facility is not included among the assets being transferred hereunder.

j. Assumed Liabilities. As of Closing, Purchaser agrees to assume the future payment and performance of the following (collectively, the "*Assumed Liabilities*"):

- i. the Assumed Contracts;

- ii. all trade accounts payable (the "*Trade Payables*"); and
- iii. unused, accrued vacation, holiday, sick time and personal time off for the period prior to the closing ("*PTO*") payable to Seller's employees who accept employment with Purchaser.

Purchaser shall not be liable for (i) any claims asserting that Seller's assignment and Purchaser's assumption of the Assumed Liabilities was impermissible; (ii) uncured defaults in performance of the Assumed Liabilities for periods prior to Closing; (iii) unpaid amounts in respect of the Assumed Liabilities that are past due as of Closing; or (iv) rights or remedies claimed by third parties under any of the Assumed Liabilities which broaden or vary the rights and remedies such third parties would have had against Seller if the sale and purchase of the Acquired Assets were not to occur.

k. Excluded Liabilities. Except for the Assumed Liabilities, Purchaser shall not assume and under no circumstances shall Purchaser be obligated to pay or assume, and none of the Acquired Assets shall be or become liable for or subject to, any liability of Seller, including, but not limited to, the following, whether fixed or contingent, recorded or unrecorded, known or unknown and whether or not set forth on any written documents under this Agreement (collectively, the "*Excluded Liabilities*"):

- i. any obligation or liability accruing, arising out of, or relating to acts or omissions prior to Closing, including any acts or omissions in connection with (i) the Assumed Contracts; (ii) the business or operations of the Facility; (iii) the Acquired Assets; or (iv) any Medicare, Medicaid or other third-party payor programs;
- ii. any obligations or liability, claims or potential claims for professional negligence or general liability accruing, arising out of, or relating to acts or omissions prior to Closing, or asserted to have occurred prior to Closing;
- iii. any debt, obligation, expense or liability that is not an Assumed Liability;
- iv. any capital lease obligations;
- v. all accrued obligations of Seller relating to pension and retirement benefits for Seller's employees including, but not limited to, obligations related to the Illinois Municipal Retirement Fund;
- vi. except for PTO expressly assumed above, any liabilities with respect to Seller's employees, including, without limitation: (A) liability for any compensation, benefits, pension profit sharing, deferred compensation, or any employee health and welfare benefit plans; (B) extended sick bank, liability for any EEOC claim, wage and hour claim, unemployment compensation claim or workers' compensation claim or personnel policy, including those relating to any termination of employment; (C) any liabilities or obligations to former employees of

Seller under the continuation coverage provisions of the Public Health Service Act, as amended, or applicable state continuation coverage laws; and (D) all employee wages and benefits, including, without limitation, accrued severance pay, and any payroll tax;

vii. any liabilities or obligations associated with or arising out of any of the Excluded Assets;

viii. any liabilities pursuant to severance or retention contracts between Seller and any employee of Seller;

ix. federal, state or local tax liabilities or obligations of Seller in respect of periods prior to the Closing (including any portion of any period that includes the Closing Date) or resulting from the consummation of the transactions contemplated herein including, without limitation, any property tax, any income tax, any franchise tax, any tax recapture, any sales and/or use tax, any state and local recording fees and taxes which may arise upon the consummation of the transactions contemplated herein, and any FICA, FUTA, workers' compensation, and any and all other taxes or amounts due and payable as a result of the exercise by the employees at the Facility of such employee's right to vacation, sick leave, and holiday benefits accrued while in the employ of Seller;

x. liabilities or obligations arising as a result of any breach by Seller at any time of any contract or commitment that is not assumed by Purchaser, including Non-Assumed Contracts and Non-Assumed Leases;

xi. any debt, obligation, expense, or liability of Seller arising out of or incurred solely as a result of any transaction of Seller occurring after the Closing or for any violation by Seller of any laws at any time;

xii. any obligations or liability accruing, arising out of, or relating to any act or omission by Seller after Closing; and

xiii. Any costs or expenses, including but not limited to legal fees and consulting and financing costs incurred in negotiating this Agreement or in consummating the transactions contemplated thereby.

2. **CLOSING.** The closing of the purchase and sale pursuant to this Agreement (the "*Closing*") shall take place at 10:00 a.m. at such place and on such date (the "*Closing Date*") that is mutually agreed upon by the parties not more than forty five (45) days after all closing conditions set forth in Sections 13 and 14 have been met or waived (to the extent waiver is permissible under Section 13). The parties desire that the Closing shall be simultaneous with the closing of the transfer of Mercer County Hospital Assets for the Seller to GMCM under the terms of the Option Agreement. Purchaser shall be entitled to possession of the Acquired Assets, subject to the possessory rights of the Facility residents immediately following 11:59 p.m. on the Closing Date.

3. PURCHASE PRICE.

a. **Purchase Price.** The purchase price (the "*Purchase Price*") payable by Purchaser to Seller for the Acquired Assets is Two Million Two Hundred Fifty Thousand Dollars (\$2,250,000), plus or minus normal and customary prorations and other adjustments as provided for herein. Purchaser shall pay to Seller the Purchase Price by federal wire transfer of immediately available U.S. funds at the Closing plus or minus the prorations as specified in this Agreement.

b. **Allocation.** The parties to this Agreement expressly agree that the Purchase Price shall be allocated among the Acquired Assets in the manner set forth in writing between the parties prior to Closing.

4. COSTS AND CREDITS.

a. **Transfer Taxes.** Seller shall pay on the Closing Date any state, county or local transfer taxes, required as a result of the transfer of the Acquired Assets hereunder to Purchaser or the placing of a mortgage on the Real Property.

b. **Seller's Title and Survey Charges.** Seller shall pay on the Closing Date the cost of: (i) the title search, basic title premium for an Owner's Title Policy with endorsements as provided in Section 7(a) hereof; and (ii) recording fees with respect to clearing public records of items that are Unpermitted Exceptions per Section 7(c) hereof.

c. **Purchaser's Title and Survey Charges.** Purchaser shall be responsible for the cost of: (i) recording fees of the Warranty Deed; (ii) the cost of any simultaneously issued Lender's Title Policy, and (iii) the cost of recording fees for any Purchaser financing documents.

d. **Attorney's Fees.** Purchaser and Seller shall each pay their own attorney's fees, regardless of whether or not the Closing occurs.

5. PRORATIONS. The following shall be prorated as of the Closing Date and shall be settled by a credit or addition to the Purchase Price at the Closing:

a. **Taxes.** Unpaid general real and other ad valorem and special taxes, if any, relating to the Real Property and any other real and personal property taxes, if any, for all years up to and including the Closing Date. Upon receipt of the final real estate tax bills for those years subject to the proration, Purchaser shall pay all such taxes when or before they become due and payable and the parties shall re-prorate taxes for the applicable year with, if any amount is due, an appropriate payment from one party to the other within thirty (30) days after payment on the basis of the final real estate tax bills; provided, however, that in the event Purchaser incurs any cost or expenses in connection with a protest of any taxes, such costs shall be allocated pro rata between the parties based upon the period covered by the tax protest.

b. **Advance Payments and Over-Deposits.** On the Closing Date, Seller will deliver or credit to Purchaser all security and other deposits made pursuant to resident leases and

any private pay payments for services to be rendered subsequent to the Closing Date, if any.

c. **Patient Trust Accounts.** On the Closing Date, Seller will deliver or credit to Purchaser all resident deposits and other deposits in the possession of Seller made by or on behalf of residents of the Facility, if any (the "*Patient Trust Accounts*"), in accordance with Section 23 hereof.

6. DUE DILIGENCE AND INSPECTION.

a. **Due Diligence.** Seller shall promptly deliver to Purchaser complete copies of each of the due diligence materials items requested by Purchaser, but not already received by Purchaser. Purchaser shall have a period beginning on the date of its receipt of all the due diligence materials requested by Purchaser of Seller and ending ten (10) days prior to the Closing Date (the "*Due Diligence Period*") in which to perform a due diligence review of the Acquired Assets and the transaction contemplated hereby.

b. **Right to Inspect.** Purchaser shall have the right during the Due Diligence Period, at its own expense, to conduct such inspections and investigations as Purchaser shall reasonably determine (through its agents, employees, architects, contractors or engineers) with respect to the Facility, the Personal Property Real Property and equipment, at reasonable times upon prior notice to Seller, with minimal business interruption and subject to coordination with Seller, including, but not limited to, environmental assessments, inspections and/or surveys. If any inspection conducted by Purchaser requires removal of any soil or sampling of any building material at the Facility, Seller hereby consents to same and agrees to cooperate with Purchaser. Purchaser further agrees to indemnify, defend and hold Seller and the Acquired Assets harmless from and against any and all loss, liabilities, liens, claims, costs, damages or expenses (including reasonable attorneys' fees) incurred or arising in connection with Purchaser's entry onto the Acquired Assets and the Facility in connection with any inspections or investigations conducted hereunder, except to the extent any such loss, liability, lien, claim, cost, damage or expense is attributable to Seller's acts or omissions or otherwise related to the mere discovery of a pre-existing condition at the Acquired Assets. The indemnity, defense and hold harmless agreement contained in the preceding sentence shall survive the Closing or any termination of this Agreement, as applicable, and such indemnity, defense and hold harmless agreement shall not apply to the discovery or release of adverse information about the Acquired Assets. Purchaser's due diligence activities may be conducted by agents and may include but are not limited to the following: (i) inspection of available books and records of the Facility; (ii) performance by an environmental engineering firm satisfactory to Purchaser of a Phase I Environmental Audit Report and, if Purchaser deems necessary, a Phase II Environmental Audit Report of the Real Property; (iii) inspection of the physical structure of the Facility; (iv) review of contracts and leases to which either Seller is a party; (v) review of any appraisals of the Acquired Assets in Seller's possession; (vi) investigation of issues pertaining to existing and future licensing, Medicare certification, and Medicaid provider agreements, including discussions with applicable governmental agencies; and (vii) such other inspections or investigations as Purchaser may determine in Purchaser's sole discretion.

c. **Non-Assumed Contract and Leases.** Prior to the Closing, Purchaser shall provide Seller with a written notice identifying any contracts ("*Non-Assumed Contracts*") and leases ("*Non-Assumed Leases*") which Purchaser will not assume.

d. **Termination.** If Purchaser is dissatisfied with its review as described in this Section 6 for any reason in Purchaser's sole and absolute discretion, Purchaser may terminate this Agreement by written notice sent to Seller within five (5) days after the end of the Due Diligence Period.

7. TITLE AND SURVEY.

a. **Title Policy.** At least thirty (30) days before the Closing, Seller shall deliver to Purchaser a commitment to issue ALTA Form B 1992 Owner's Title Insurance Policy ("*Title Commitment*") issued by the mutually acceptable title company ("*Title Company*") in the aggregate amount of the Purchase Price, showing title to the Real Property in Seller, together with legible copies of all exceptions and documents of record (but not mortgages or other security agreements to be paid at Closing) affecting title to the Property. The Title Commitment shall contain pro forma endorsements, in standard form, for contiguity, access, permanent tax index numbers (PIN), 8.1 environmental, survey, no violation of covenants or restrictions of record and 3.1 zoning with parking. To the extent the endorsements require extra materials, other than the Survey, prior to issuance (e.g. zoning letter), Seller covenants to supply these to the Title Company prior to the Closing. All costs of the Title Commitment and issuance of the title policy, including all endorsements, shall be at Seller's expense.

b. **Survey.** At least thirty (30) days before the Closing, Seller shall deliver to Purchaser two (2) copies of a plat of survey for the Real Property ("*Survey*"), to be dated no earlier than the date of this Agreement, made by a registered Illinois land surveyor in accordance with the latest ALTA/ACSM standards meeting Table A requirements numbers 1, 2, 3, 4, 7(a), 7(c), 8, 9, 10, 11 (based on observation only) and 13, and certified to the Purchaser (or its permitted nominee), Purchaser's lender, and the Title Company, in form fully sufficient to cause the Title Company: (i) to delete the standard printed survey exception; (ii) to issue the Title Policy free from any survey related objections or exceptions, whatsoever; and (iii) to issue its 3.1 zoning endorsement with parking. The cost of the Survey shall be allocated at one-half Seller's expense and one-half Purchaser's expense.

c. **Correction of Title and Survey Defects.** If the Title Commitment discloses exceptions to title other than Permitted Exceptions and Removable Exceptions ("*Unpermitted Exceptions*") or the Survey discloses matters that, in the reasonable judgment of Purchaser, render the title uninsurable or unmarketable ("*Survey Defects*"), Purchaser shall notify Seller thereof. Purchaser shall be deemed to have accepted the condition of title and any such Unpermitted Exceptions and Survey Defects unless it has given Seller timely notice at least ten (10) days following its receipt of the Survey and Title Commitment, as applicable, after which time any such Unpermitted Exceptions and Survey Defects shall be Permitted Exceptions. Seller shall have seven (7) days after receipt of Purchaser's objection to notify Purchaser as to whether it intends to have such

Unpermitted Exceptions removed from the Title Commitment, or to correct such Survey Defects or, with Purchaser's prior written approval at Closing, have the Title Company commit to insure over the Unpermitted Exception or Survey Defect. If Seller determines not to remove or correct such Unpermitted Exceptions or Survey Defects, then Purchaser may elect upon written notice to Seller made within ten (10) days after the expiration of the permitted time: (a) to terminate this Agreement by written notice to Seller, in which event neither party shall have any further liability to any other party under this Agreement, except as otherwise provided in this Agreement; or (b) to take the Acquired Assets as it then is and deduct from the Purchase Price an amount not greater than \$[25,000] in the aggregate necessary to discharge any Unpermitted Exceptions or correct any Survey Defects.

8. **PRE-CLOSING COVENANTS.** Seller hereby agrees and covenants that between the date hereof and the Closing Date, except as otherwise contemplated by this Agreement or with the prior written consent of Purchaser:

a. **Third-Party Consents.** Seller shall timely obtain all necessary third party consents for the valid conveyance, transfer, assignment or delivery of the Acquired Assets to Purchaser per the terms of this Agreement.

b. **No Changes in Operation.** Seller will continue to retain Genesis to manage the Facility under the terms of the Management Services Agreement and will execute such extensions as may be necessary for Genesis to continue such services through the Closing Date. With respect to the Facility and the Acquired Assets, Seller shall, and shall direct Genesis to carry on the business related to the Facility and the Acquired Assets in substantially the same manner as it has heretofore and will make no changes in the normal and ordinary operation of the Facility including changes in personnel, operations, finance, accounting policies or the Acquired Assets, other than in the ordinary course of business, from the date hereof through the Closing Date. Seller shall not cause any of the Acquired Assets, including Cash and Accounts, to be transferred to other accounts or purposes of Seller or any other third party. Seller will ensure Seller and its agents will operate the Facility in the ordinary course of business in the current manner, shall maintain and cause to be maintained the Facility and continue to make ordinary repairs, replacements and maintenance with respect to the Facility, the Real Property, the Personal Property, as well as the Improvements and all machinery, air conditioners, equipment, partitions and fixtures shall continue to employ the same or substantially the same number and quality of employees at the Facility, shall deliver the Acquired Assets on the Closing Date in substantially the same condition and repair as in existence on the date hereof, subject to ordinary wear and tear and damage by casualty (as set forth herein), and shall cure any defaults under any Contracts or Leases which are made known to Seller prior to Closing and which could be cured by Seller prior to the Closing Date. Seller will continue to collect any accounts receivable that are Acquired Assets and pay accounts payable with respect to the facility in the ordinary course of business.

c. **Skilled Nursing Facility License.** Seller shall provide cooperation to Purchaser in connection with the efforts of Purchaser to obtain a skilled nursing facility license from Illinois Department of Public Health ("IDPH") permitting Purchaser to operate the

Facility as a 92-bed skilled nursing facility and participation with Medicaid, Medicare, CMS or any agency related to the same. Seller agrees to promptly provide or make available to Purchaser upon request any and all existing documentation requested by IDPH or otherwise necessary for the making of applications to such agencies.

d. **Census.** Seller will not take any actions or permit Genesis to take any actions to adversely affect the present residency occupancy levels of the Facility and the goodwill with all of the suppliers, clientele, residents and others having business relations with Seller or the Facility.

e. **No Material Changes.** Seller will not make or permit Genesis to make any material change in the operation of the Acquired Assets nor sell or agree to sell any items of machinery, equipment or other assets of the Acquired Assets nor otherwise enter into an agreement or make any transfers, including transfers to other accounts of Seller, affecting the Acquired Assets. There will be no change in ownership or control of any of the Acquired Assets prior to Closing and Seller will not take any other action inconsistent with its obligations under this Agreement. Nothing in this Section shall prohibit Seller or Genesis as its agent from disposing of obsolete or broken and unrepairable Personal Property.

f. **Hazard and Liability Insurance.** Seller will maintain in force the existing hazard and liability insurance policies as is now in effect for all of the Acquired Assets.

g. **Inventories.** Seller will maintain, and cause Genesis to maintain the inventories of perishable food, non-perishable food, central supplies, linen, housekeeping and other supplies at the Facility at substantially the same condition and quantity as maintained during the last year.

h. **Employees.** Seller will use commercially reasonable efforts and direct Genesis to retain the services and goodwill of the employees of Seller, but will not increase any wages or benefits of any Facility employees without the prior written consent of Purchaser. Seller shall, following the Closing, offer health continuation coverage as required under the continuation coverage provisions of the Public Health Service Act and applicable state continuation coverage laws to all of Seller's employees at the Facility and their eligible dependents who are not hired by Purchaser, and shall continue continuation coverage under the Public Health Services Act and applicable state continuation coverage laws to former employees of Seller at the Facility and their eligible dependents who are currently receiving such continuation coverage or who are eligible to elect such continuation coverage at Closing to the extent required by law.

i. **New Contracts.** Seller will not other than in the ordinary course of business, consistent with past practices, enter into any new contract or commitment materially affecting any part of the Acquired Assets, *provided, however*, that Seller shall have the right to accept new patients, so long as any contract governing the patients shall be in the same form and subject to the same material terms as have been previously executed by Seller with its patients in the ordinary course of Seller's operation of the business of the Facility. Seller will not decrease any rates of private pay patients of the Facility. Seller

will not make or permit any capital expenditure commitment in excess of \$3,000 for additions to property, plant, equipment, intangible or capital assets or for any other purpose, other than for emergency repairs or replacement.

j. Lien and Encumbrances. Seller will satisfy and discharge or contest in good faith all claims, liens, security interests, tenancies, liabilities or other financial obligations which constitute a lien or encumbrance on any of the Acquired Assets, except as set forth in Sections 5 and 7 hereof.

k. Access to Facility. During normal business hours and at mutually agreeable times, upon not less than 24 hours' prior notice, Seller will provide Purchaser and Purchaser's Representatives with access to the Facility and the Acquired Assets in such manner as to cause a minimum of disturbance to the patients and staff.

l. Filings and Taxes. Seller will file all returns, reports and filings of any kind or nature, required to be filed by Seller on a timely basis and will timely pay all taxes or other obligations and liabilities which are due and payable with respect to the Acquired Assets in the ordinary course of business.

m. Cost Reports. Seller shall timely prepare or cause to be prepared all third party payor cost reports required to be filed under Title XVIII and Title XIX ("*Cost Reports*"), for periods up to the Closing Date, file the same with the appropriate governmental agency not later than the deadline for any such third party payor report to be filed, and will provide the appropriate Medicaid and Medicare agencies with any information needed to support claims for reimbursement made by Seller either in said final Cost Report or in any Cost Reports filed for prior cost reporting periods. Within three (3) days after the request of Purchaser, Seller shall tender to Purchaser copies of all third party payor Cost Reports filed after the date hereof for the Facility. Seller shall pay or cause to be paid all adjustments or recaptures which are or which become due pursuant to any Cost Report for the period prior to the Closing Date, and Seller indemnify, defend and hold Purchaser harmless from and against any liability for failure to pay any third party payor claims, adjustments or recaptures attributable to all matters that occurred on or prior to the Closing Date. Seller shall be entitled to retain all Cost Report settlements or refunds in connection with either a full or partial cost reporting period prior to the Closing Date.

n. Compliance with Applicable Laws. Seller will, in the ordinary course of business, consistent with its past practices: (A) cause all of the Acquired Assets to be operated in substantial compliance with all applicable laws, regulations and ordinances, as are now in effect; and (B) take all actions and cause Genesis to take all actions reasonably necessary to achieve compliance with any laws, regulations and ordinances which are entered after execution of this Agreement and prior to Closing.

o. Notice of Adverse Changes. Seller will promptly notify Purchaser in writing of any material adverse change of which Seller becomes aware in the condition of the Acquired Assets, including, without limitation, sending to Purchaser within three (3) business days: (A) copies of all surveys and inspection reports from any governmental

agencies received after the date hereof; and (B) notices received of any action pending, threatened or recommended by the appropriate state or federal agency having jurisdiction thereof to revoke, withdraw or suspend any right of Seller to operate the Facility, to terminate the participation of the Facility in the Title XVIII or Title XIX of the Social Security Act programs, to terminate or fail to renew any provider agreement related to the Facility, or to take any action that would have a material adverse effect on Purchaser's ability to purchase and operate the Facility as a skilled nursing facility and conduct their other business.

p. **Insurability Notices.** Seller will promptly deliver to Purchaser a copy of any notice received pursuant to Section 11(s).

9. **CONVEYANCES.** Conveyance of the Real Property to Purchaser shall be by Warranty Deed(s), subject only to the Permitted Exceptions. Conveyance of the Personal Property shall be by Bill of Sale from Seller to Purchaser. Conveyance of the Intangible Property shall be by an Assignment from Seller to Purchaser. The term "*Permitted Exceptions*" shall mean: (a) the lien of real estate taxes, water, rent and sewer charges that are not yet due and payable on the Closing Date; (b) matters disclosed by the Survey or the Title Commitment and accepted by Purchaser pursuant to the terms of this Agreement; (c) the rights of residents in possession and (d) any restrictions imposed by donors of assets as it related to those particular assets.

10. CLOSING DOCUMENTS.

a. **Purchaser's Closing Documents.** On or before the Closing Date, Purchaser agrees that it will:

i. Deliver by wire transfer the Purchase Price due at Closing in accordance with the requirements of Section 3 hereof.

ii. Deliver State, County and Local Real Estate Transfer Tax Declarations.

iii. Deliver a Closing Statement signed by Purchaser approving each and every of the payments and disbursements to be made at Closing.

iv. Deliver to Seller certified copies of the resolutions of Purchaser authorizing the execution, delivery and consummation of this Agreement and the execution, delivery and consummation of all other agreements and documents executed in connection herewith by it, including all instruments required hereunder, sufficient in form and content to meet the requirements of the law of the state of Purchaser's organization relevant to such transactions and certified by an authorized representative of Purchaser as adopted and in full force and effect and unamended as of Closing.

v. Deliver a certificate of an authorized officer of Purchaser certifying that (A) each covenant and agreement of Purchaser to be performed prior to or as of the Closing pursuant to this Agreement has

been performed; and (B) each representation and warranty of Purchaser is true and correct on the Closing Date, as if made on and as of the Closing.

vi. Deliver such documents, certifications and statements as may be required by the Title Company to issue the owner's title insurance policy and loan title policy to Purchaser's lender, if any.

b. **Seller's Closing Documents.** On or before the Closing Date, Seller will deliver signed originals of the following documents in form and substance reasonably satisfactory to counsel for the Seller and Purchaser (the "*Closing Documents*");

i. Warranty Deed(s) from Seller conveying the Real Property from Seller to Purchaser or a separate nominee of Purchaser for the Real Property, subject only to the Permitted Exceptions, along with such other documents reasonably requested by Purchaser or title Company to effect transfer of tile and issue the Title Insurance.

ii. Bill of Sale from Seller to Purchaser.

iii. Assignment from Seller to Purchaser.

iv. Certified copies of the resolutions of Seller authorizing the execution, delivery and consummation of this Agreement and the execution, delivery and consummation of all other agreements and documents executed in connection herewith by it, including all instruments required hereunder, sufficient in form and content to meet the requirements of the law of the State of Illinois relevant to such transactions and certified by an authorized representative of Seller as adopted and in full force and effect and unamended as of Closing

v. A certificate of the County Chair certifying that (A) each covenant and agreement of Seller to be performed prior to or as of the Closing pursuant to this Agreement has been performed; and (B) each representation and warranty of Seller is true and correct on the Closing Date, as if made on and as of the Closing.

vi. A Closing Statement signed by Seller approving each and every of the payments and disbursements made by the Title Company.

vii. Statement Required for the Issuance of ALTA Owners and Loan Policies, subject only to the Permitted Exceptions, and GAP Undertaking, as may be required by the Title Company.

viii. Certificates of Good Standing (or the equivalent thereof, if available) from the Secretary of State for the State of Illinois or other State official for Seller, certified copies of the resolutions of Seller authorizing the execution, delivery and consummation of this Agreement and the execution, delivery and consummation of all other agreements and

documents executed in connection herewith by them, including all deeds, bills of sale and other instruments required hereunder, sufficient in form and content to meet the requirements of the law of the State of Illinois relevant to such transactions and certified by authorized representatives of Seller, as adopted and in full force and effect and unamended as of Closing.

ix. Seller shall use commercially reasonable efforts to provide evidence to Purchaser that the sale of the Acquired Assets to Purchaser hereunder does not subject Purchaser to liability under 35 ILCS 5/902(d), 35 ILCS 120/5j (the "*Bulk Sales Act*"), and not later than twenty-one (21) calendar days prior to the Closing Date, Seller shall if required to do so, notify the Illinois Department of Revenue (the "*Illinois DOR*") and the Illinois Department of Employment Security (the "*IDES*" and together with the Illinois DOR, the "*Illinois Agencies*"), as applicable, of the intended sale contemplated hereby and provide the Illinois Agencies with all information required under the Bulk Sales Act and any other applicable laws and as may be requested by the Illinois Agencies to make a determination of how much Seller owes through the Closing Date. Seller shall promptly provide Purchaser with a copy of such notices to the Illinois Agencies and with copies of all additional correspondence to and from the Illinois Agencies related thereto.

x. A certificate of non-foreign status signed by Seller and sufficient in form and substance to relieve Purchaser of all withholding obligations under Section 1445(f)(3) of the Code, Form 1099 identifying Seller's gross proceeds and Seller's tax identification number(s), as required by the Title Company.

xi. Originals or copies of all licenses, permits, authorizations, and approvals required by law and issued by all governmental authorities having jurisdiction, if not otherwise available at the Facility.

xii. Such documentation as may be reasonably requested by Purchaser and as is necessary to transfer the telephone numbers, telephone listings and utilities, accounts, to the extent such numbers, listings and accounts are transferable.

xiii. Not less than three (3) days prior to the Closing Date, a Schedule of Patient Trust Accounts as described in Section 23 hereof.

xiv. Such further instruments and documents as are reasonably necessary to complete the transfer of the Acquired Assets to Purchaser.

11. SELLER'S REPRESENTATIONS AND WARRANTIES. Seller hereby warrants and represents to Purchaser that:

a. **Status of Seller.** Seller is an Illinois municipality validly existing under the laws of the State of Illinois, and is duly qualified to own its property and conduct its business in the State of Illinois.

b. **Authority.** Seller has the full right, power and authority to enter into and perform its obligations under this Agreement and each of the other agreements, assignments, certificates, instruments and documents executed, furnished or to be furnished in connection herewith or in any Exhibit hereto or thereto, including, without limitation, the Closing Documents listed in Section 10(b) (collectively, the "*Transaction Documents*") to which Seller is a party. This Agreement and the Transaction Documents to which Seller is a party have been duly authorized by all necessary company action, executed and delivered by Seller. This Agreement and the Transaction Documents are the legal, valid and binding obligations of Seller, enforceable against Seller in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer and similar laws affecting creditors' rights generally.

c. **Compliance with Agreements.** The execution, delivery and performance of this Agreement and all related documents and the consummation of the transaction contemplated herein will not: (i) result in a breach of the terms and conditions of nor constitute a default under or violation of the organizational documents of Seller or any law, regulation, court order, mortgage, note, bond, indenture, agreement, license, charter, by-laws or other instrument or obligation to which Seller is now a party or by which Seller or any of the Acquired Assets of Seller may be bound or affected; or (ii) result in the creation of any mortgage, pledge, lien, claim, charge, encumbrance or other adverse interest upon the Acquired Assets.

d. **Title.** Seller shall on the Closing Date be the owner of good title to the Real Property, free and clear of all liens, encumbrances, covenants, conditions, restrictions, leases, tenancies, licenses, claims and options, except for the Permitted Exceptions and except for any liens or encumbrances in favor of Seller's lender that Seller covenants will be removed after the payment of a portion of the sales proceeds to such lender on the Closing Date. All of the Acquired Assets is owned by the Seller free and clear of all liens, encumbrances, covenants, conditions, and restrictions or subject to liens and encumbrances that will be released upon payment of a portion of the sales proceeds on the Closing Date. There shall be no change in the ownership, operation or control of the Acquired Assets between the date hereof and the Closing.

e. **Condition of the Acquired Assets.** To Seller's Knowledge, the Acquired Assets, including, without limitation, all structural, electrical and mechanical systems and elements, are sound and in good, safe, operational and functional working order and there is no construction or other material renovations currently ongoing or planned to commence within the next six (6) months on the Acquired Assets.

f. **Contracts and Leases.** Set forth in writing between the parties at least thirty (30) days prior to Closing is an accurate list, including the title, date, termination date, terms of termination and contact person with telephone number for each written or oral contract, agreement, commitment, lease and other arrangement to which Seller is a party or that affects the Facility. Other than as set forth in writing between the parties at least thirty (30) days prior to Closing, there are no other written or oral contracts, agreements, commitments, leases and other arrangements to which Seller is a party or that affect the Facility. The Seller has previously delivered or made available to Purchaser a true and complete copy of each such written agreement. Each such written agreement is in full force and effect and is legal, valid, binding and enforceable against Seller, subject to applicable bankruptcy, insolvency, reorganization and other similar laws. Except as set forth in writing between the parties at least thirty (30) days prior to Closing, there does not exist under any Assumed Contract or Assumed Lease any default or condition or event that, after notice or lapse of time or both, would constitute a default on the part of Seller which could reasonably be expected to have a material adverse effect on the part of Purchaser or, to the Knowledge of Seller, on the part of any other party thereto. Seller's representation assumes that Genesis, in the performance of its obligations under the Management Services Agreement, has advised Seller of any of the foregoing brought to the attention of Genesis as agent of Seller during the term of the Management Services Agreement.

g. **No Default.** Seller has not received any written notice of any material default under any monetary or other material obligation on its part to be observed or performed under any mortgage, contract, lease or other agreement affecting or relating to any of the Acquired Assets. There is no monetary or other default by Seller of any of the obligations of Seller under any mortgage, contract, lease or other agreement affecting or relating to any of the Acquired Assets. Seller's representation assumes that Genesis, in the performance of its obligations under the Management Services Agreement, has advised Seller of any of the foregoing brought to the attention of Genesis as agent of Seller during the term of the Management Services Agreement.

h. **Licensure and Certifications.** The Facility is licensed for 92 skilled nursing beds. The Personal Property at the Facility includes equipment, supplies, inventory and other property sufficient in quality and quantity to operate the Facility as a 92-bed skilled nursing facility in accordance with all applicable laws. The Facility is certified for participation in the Medicaid and Medicare Reimbursement Program. Except as set forth in writing between the parties prior to Closing, there are no claims, demands or other notices of or action alleging the overpayment of Medicaid, Medicare or other governmental or quasi-governmental reimbursements or demands for the return of such alleged overpayments by any third party payor with respect to the Facility. There are no outstanding Life Safety Code deficiencies cited by IDPH that have not been corrected as of the Closing Date. At least thirty (30) days prior to Closing, Seller shall provide in writing to Purchaser a true and complete listing of all Assumed Licenses owned or held by or issued to Seller or Facility in connection with the Acquired Assets, including license number and effective and expirations dates (as applicable). Seller is the authorized holder of such Assumed Licenses, all of which are in force and unimpaired.

- i. **Resident Records and Agreements.** All patient records at the Facility, including, without limitation, those relating to patient trust fund accounts or deposits, if any, are the records kept by Seller in the ordinary course of business and the amount of patient trust funds to be transferred to Purchaser at Closing, if any, shall be the true, accurate and complete amount of all patient trust funds held by Seller, if any, as required by all applicable laws.
- j. **Employee Contracts.** Seller: (i) is not a party to any employment contracts, collective bargaining agreements, union contracts, severance pay, or pension or retirement plans with respect to the employees at the Facility, (ii) is not aware of any labor dispute or grievance with respect to the Facility, and (iii) is not party to any collective bargaining agreements, contracts of employment, profit sharing, bonus, deferred compensation, stock option, severance pay, or pension or retirement plans with respect to any of its employees at the Facility, including, without limitation, Employee Welfare Benefit Plans or Employee Pension Benefit Plans (as each is defined in Sections 3(1) and 3(2), respectively, of the Employee Retirement Income Security Act of 1974, as amended), regardless of whether such plans are exempt from ERISA as governmental plans. At least thirty (30) days prior to Closing Seller shall provide an accurate and complete list of all current employees of the Facility, listing each employee's pay rates and hire dates and all accrued PTO accrued by such employee.
- k. **Employee Litigation.** Except as disclosed in writing between the parties at least thirty (30) days prior to Closing, no person or party, including, without limitation, any governmental agency, has asserted, or to the best Knowledge of Seller, has threatened to assert, any claim for any action or proceeding, against Seller (or any officer, director, employee, agent or shareholder of either Seller) arising out of any statute, ordinance or regulation relating to wages, collective bargaining, discrimination in employment or employment practices or occupational safety and health standards, including, without limitation, the Fair Labor Standards Act, Title VII of the Civil Rights Act of 1964, as amended, the Occupational Safety and Health Act, the Age Discrimination in Employment Act of 1967, the Americans With Disabilities Act or the Family and Medical Leave Act. The claims disclosed in writing between the parties at least thirty (30) days prior to Closing will not result in any liability to or obligation of Purchaser, and will not cause or lead to any lien or encumbrance being placed, created or filed against or upon any of the Acquired Assets.
- l. **Personal Property and Improvements.** All rights, properties and assets used in the operation of the Facility are either owned by Seller or licensed or leased to Seller and are included in the Acquired Assets to be transferred hereunder. Except as set forth in writing between the parties at least thirty (30) days prior to Closing, to the best of Seller's Knowledge, there are no defects in the Personal Property or Improvements on the Real Property.
- m. **Tax Returns.** All sales, franchise and payroll tax returns and informational reports required by law to be filed by Seller prior to the date of this Agreement (collectively, "*Tax Returns*") have been properly and timely filed (subject to the right to extend or delay the filing thereof) and correctly reflect the tax position of Seller, and all

taxes respectively due under such Tax Returns have been paid thereby or will be paid in the ordinary course. All Tax Returns filed by Seller after the date hereof, covering periods prior to and including the Closing Date, will be properly and timely filed and all taxes respectively due under such Tax Returns will be timely paid thereby. Purchaser is not assuming under this Agreement any tax liabilities owed by Seller as a result of the operation thereby of the Facility prior to the Closing Date.

n. Filings. All returns, reports and filings of any kind or nature, including, without limitation Cost Reports, if any, required to be filed by Seller prior to Closing which relate to the Facility have been or will be completed and timely filed in material compliance with all applicable requirements and all taxes or other obligations which are due and payable have been or will be timely paid in the ordinary course of business.

o. Litigation. Except as set forth in writing between the parties at least thirty (30) days prior to Closing, there are no written notices of any lawsuits, investigations or other proceedings pending against the Facility or the operation thereof, or Seller's right to carry on and conduct its business, or to enter into this Agreement. Seller shall promptly deliver to Purchaser a copy of any notice of any such matter received after the date hereof that will not be insured over by the Title Company.

p. Liens. As of the Closing, there will be no mechanics', materialmen's or similar claims or liens claimed or which may be claimed against any of the Acquired Assets for work performed or commenced prior to the Closing Date that will not be insured over by the Title Company.

q. Financial Statements. Seller has furnished or will make available to Purchaser copies of the audited income and expense statements, operating statements and balance sheet which relate to the operations of the Acquired Assets for the fiscal years ended February 28, 2011 and February 29, 2012 and unaudited interim financial statements through the one month period prior to the Closing Date (collectively the "*Financial Statements*"). The Financial Statements are true, complete and accurate in all material respects and fairly present the financial condition and results of operations of the Facility at the respective dates thereof and for the periods therein, in accordance with GAAP, consistently applied. As to interim financial statements, Seller's representation assumes that Genesis, in the performance of its obligations under the Management Services Agreement, has provided accurate information requested of the preparers of the interim financial statements.

r. IDPH Surveys. Complete copies of survey reports, any waivers of deficiencies, plans of correction, and any other governmental investigation reports issued with respect to the Facility during the past twenty-four (24) months have been provided to Purchaser.

s. Medicare Participation / Accreditation.

i. With respect to the Facility Seller has historically received reimbursement and has provider agreements (the "*Provider Agreements*") and is eligible to receive payment under Title XVIII of the Social Security

Act ("*Medicare*") and is a "provider" with one or more provider numbers with the Medicare program Seller has a provider agreement and is eligible for payment under the Illinois Medicaid program under Title XIX of the Social Security Act (the "*Government Programs*"). With respect to the Facility, Seller is in compliance with the conditions of participation for the Government Programs and the Provider Agreements. There is not pending, nor, to Seller's Knowledge, threatened, any proceeding or investigation under the Government Programs involving Seller or any of the Acquired Assets. No validation review or program integrity review related to Seller with respect to the Facility, or the consummation of the transactions contemplated by this Agreement, or related to any of the Acquired Assets has been conducted by any commission, board, agency or Government Entity in connection with the Government Programs, and no such reviews are scheduled, pending or, to Seller's Knowledge, threatened against or affecting Seller, the Facility or any of the Acquired Assets, or the consummation of the transactions contemplated by this Agreement.

ii. All billing practices of Seller with respect to the Facility to all third-party payors, including the Government Programs and private insurance companies, have been in compliance with all applicable laws, policies of such third-party payors, regulations and Governmental Programs, and no payment in excess of that allowed by law has been received except to the extent liabilities and contractual adjustments of Seller under the Government Programs have been properly reflected and adequately reserved in the Financial Statements.

iii. Except as permitted by law, with respect to the Facility neither Seller nor any of its affiliates nor any partner, member, director, officer or other employee of Seller nor any of its affiliates, nor any agent acting on behalf of or for the benefit of any of the foregoing has: (i) offered or paid any remuneration, in cash or in kind, to, or made any financial arrangements with, any past, present or potential customers, past or present suppliers, patients, medical staff members, contractors or third party payors of Seller or the Facility in order to obtain business or payments from such persons; (ii) given or agreed to give, or is aware that there has been made or that there is any agreement to make, any gift or gratuitous payment of any kind, nature or description (whether in money, property or services) to any customer or potential customer, supplier or potential supplier, contractor, third party payor or any other person; (iii) made or agreed to make, or is aware that there has been made or that there is any agreement to make, any contribution, payment or gift of funds or property to, or for the private use of, any governmental official, employee or agent directly or indirectly in connection with the Facility; or (iv) made, or agreed to make, or is aware that there has been made or that there is any agreement to make, any payment to any person with the intention or understanding that any part of such payment would be used for any

purpose other than that described in the documents supporting such payment.

iv. Neither Seller nor any of its affiliates, nor any partner, member, director, officer or other employee of Seller nor any of its affiliates, is a party to any contract, lease agreement or other arrangement (including any joint venture or consulting agreement) related to Seller with respect to the Facility or the Acquired Assets with any physician, health care facility, hospital, nursing facility, home health agency or other person who is in a position to make or influence referrals to or otherwise generate business for Seller with respect to the Facility or the Acquired Assets, to provide services, lease space, lease equipment or engage in any other venture or activity, to the extent that any of the foregoing is prohibited by law.

v. Neither Seller nor any of its affiliates, nor any director or officer of Seller nor any of its affiliates has directly or indirectly in connection with the Facility, established or maintained any unrecorded fund for any purpose or made any intentionally misleading or false entries on any of its books or records for any reason.

t. **Insurability.** Seller has not received any written notice or request from any insurance company or board of fire underwriters setting forth any defects in the Acquired Assets which might affect the insurability thereof, requesting the performance of any work or alteration of the Acquired Assets or setting forth any defect or inadequacy in Seller's operation of the Acquired Assets which would materially and adversely affect the ability of Purchaser to operate the Facility as a 92-bed skilled nursing facility following Closing.

u. **Legal and Regulatory Compliance.** Seller is in compliance in all material respects with all applicable statutes, rules, regulations and requirements of government entities having jurisdiction over the Facility and the Acquired Assets and the business operation of the Facility and the Acquired Assets. Seller has timely filed all forms, applications, reports, statements, data and other information required to be filed with government entities, except where a failure to file any such form, application, report, statement, data or other information timely would not materially and adversely affect the Facility, the Acquired Assets or Purchaser. Neither Seller nor the Facility is in violation under any law relating to the operation of the Facility, or under any order of any court or other governmental entity.

v. **Compliance with Law.** Seller has not received any written notices from any federal, state, county, city or other governmental authority of any building, fire or health code, condemnation, environmental, zoning or land use violation, investigation, proceeding or action, either instituted or threatened, relating to the Acquired Assets or any portion thereof. Seller shall deliver to Purchaser copies of any written notices which either Seller receives after the date hereof. The Acquired Assets complies in all material respects with all laws, rules or regulations of all federal, state, county, city or other governmental authorities applicable thereto.

w. **Compliance Program.** Seller has provided to Purchaser a copy of its current compliance program materials. Seller (a) is not a party to a Corporate Integrity Agreement with the Office of Inspector General of the Department of Health and Human Services, (b) has no reporting obligations pursuant to any settlement agreement entered into with any governmental entity, (c) has not been the subject of any government payor program investigation conducted by any federal or state enforcement agency, (d) has not been a defendant in any qui tam/False Claims Act or similar litigation, and (e) has not been served with or received any search warrant, subpoena, civil investigative demand or contact letter, from any federal or state enforcement agency (except in connection with medical services provided to third-parties who may be defendants or the subject of investigation into conduct unrelated to the operation of the Facility or any other health care businesses conducted by Seller). For purposes of this Agreement, the term "compliance program" refers to provider programs of the type described in the Compliance Program Guidance published by the Office of Inspector General of the Department of Health and Human Services.

x. **Payment of Liabilities.** Subject to Seller's right, upon prior notice to Purchaser, to contest by appropriate administrative or legal proceedings, diligently conducted in good faith, the amount, validity or application of any debt, liability or obligation, and except for Assumed Liabilities, Seller has paid, will pay or will provide for the payment of, all of its debts, liabilities and obligations arising from the ownership and operation of the Acquired Assets including, without limitation, salaries, state and federal taxes and accounts payable incurred by Seller for the period prior to the Closing Date, and such liabilities have been paid, will be paid, or provisions will be made for the payment of the same, by Seller in the ordinary course of business.

y. **Environmental.** Seller has complied in all material respects with all Environmental and Safety Requirements. Without limiting the generality of the foregoing, (a) Seller has obtained and complied with, and is in compliance in all material respects with, all permits, licenses and other authorizations that may be required pursuant to Environmental and Safety Requirements for the operation of the Facility; (b) Seller has not received any written or oral notice, report or other information regarding any actual or alleged violation of Environmental and Safety Requirements or any liabilities or potential liabilities (whether accrued, absolute, contingent, unliquidated or otherwise), including any investigatory, remedial or corrective obligations, relating to the Facility arising under Environmental and Safety Requirements; (c) none of the following exists or has occurred at any property owned, leased or operated by Seller: (i) underground storage tanks; (ii) asbestos-containing material in any form or conditions; (iii) materials or equipment containing polychlorinated biphenyls; (iv) landfills, surface impoundments or disposal areas; or (v) a release of any hazardous waste or substance (including but not limited to medical waste); (e) Seller has not treated, stored, disposed of, arranged for or permitted the disposal of, transportation, handling, or release of any hazardous waste or hazardous substance, or owned or leased any property or facility (and no such property or facility is contaminated by such substance) in a manner that has given or would give rise to liabilities, including any liability for response costs, corrective action costs, personal injury, property damage, natural resources damages or attorney's fees, or any investigative, corrective or remedial obligations, pursuant to the Comprehensive

Environmental Response Compensation and Liability Act of 1980, as amended ("CERCLA") or the Solid Waste Disposal Act, as amended ("SWDA") or any other Environmental and Safety Requirement; and (f) neither this Agreement nor the consummation of the transaction that is the subject to this Agreement will result in any obligations for site investigation or cleanup, or notification to or consent of government agencies or third parties, pursuant to any of the so-called "transaction triggered" or "responsible property transfer" Environmental and Safety Requirements. Seller has handled and disposed of all medical wastes in accordance with applicable law.

"Environmental and Safety Requirements" means all federal, state and local statutes, regulations, ordinances and similar provisions having the force or effect of law to which Seller or its assets are subject, all judicial and administrative orders and determinations to which Seller, or its assets are subject, all contractual obligations and all common law concerning public health and safety, worker health and safety, and pollution or protection of the environment, including without limitation all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, release, threatened release, control, or cleanup of any hazardous materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, polychlorinated biphenyls, noise, radiation or medical waste, as enacted or in effect prior to the Closing Date.

z. Composition of Assets. The Acquired Assets to be sold, assignment, transferred and conveyed by Seller to Purchaser hereunder constitutes all of the assets necessary to operate the Facility in the manner conducted as of the Closing Date.

aa. Accounts Payable. At least thirty (30) days prior to Closing, Seller shall provide in writing to Purchaser a written list of the outstanding accounts payable related to goods or services purchased by Seller or Facility with respect to periods prior to the date hereof, the face amount thereof, and the amount of time such accounts payable have been outstanding. Not later than two (2) business days prior to the Closing Date, Seller shall deliver to Purchaser an updated list.

bb. Accounts Receivable. At least thirty (30) days prior to Closing, Seller shall provide in writing to Purchaser a written list of all of the outstanding accounts receivable related to goods or services provided at the Facility with respect to periods prior to the date hereof, the face amount thereof, and the amount of time such accounts receivable have been outstanding. Not later than two (2) business days prior to the Closing Date, Seller shall deliver to Purchaser an updated list. The accounts receivable of Seller with respect to the Facility reflected in the Financial Statements represent monies due for goods sold and delivered and services performed. There are no refunds, discounts or setoffs not reflected in the reserves in the Financial Statements.

cc. Not a Foreign Person. Seller is not a "foreign person" within the meaning of Section 1445 of the Internal Revenue Code of 1986.

dd. **ERISA Matters.** Neither Seller nor any affiliate has, within the five year period ending with the Closing Date, maintained or been obligated to contribute to a plan subject to Section 412 of the Internal Revenue Code, or if there has been such a plan, no such plan has a funding shortfall (as defined in Section 303 of ERISA and Section 430 of the Code), as of the last day of the most recently completed fiscal year of such plan. Neither Seller nor any affiliate is or ever has been a party to any multiemployer plan, within the meaning of Section 4001(a)(3) of ERISA, or has ever been obligated to make contributions to any such plan.

ee. **Continuation Coverage.** Seller represents that, as of the date hereof, (i) the individuals listed in writing between the parties at least thirty (30) days prior to Closing are (a) all of the former employees of Seller who have elected continuation coverage under Seller's group health plan and the date such coverage commenced, and (b) all of the former employees of Seller who are entitled to, but have not yet elected, continuation coverage under Seller's group health plan.

12. PURCHASER'S REPRESENTATIONS AND WARRANTIES. Purchaser hereby warrants and represents to Seller that:

a. **Status of Purchase.** Purchaser is a not for profit corporation duly incorporated and validly existing under the laws of the State of Illinois and is duly qualified to own property and conduct its business in the State of Illinois.

b. **Authority.** Purchaser has full power and authority to execute and to deliver this Agreement and all related documents, and to carry out the transaction contemplated herein. This Agreement is, and all instruments and documents delivered pursuant hereto at the Closing will be, valid and binding documents enforceable against Purchaser in accordance with its terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer and similar laws affecting creditors' rights generally. The execution, delivery and performance of this Agreement and all related documents and the consummation of the transaction contemplated herein will not: (i) result in a breach of the terms and conditions of nor constitute a default under or violation of Purchaser's organizational documents, or any law, regulation, court order, mortgage, note, bond, indenture, agreement, license or other instrument or obligation to which Purchaser is now a party or by which Purchaser or any of the Acquired Assets of Purchaser may be bound or affected; or (ii) terminate, accelerate or modify, or give any party the right to terminate, accelerate or modify any notes or other financing arrangements or agreements to which any of the members of Purchaser is a party or by which any of them may be bound or affected.

c. **Necessary Action.** Purchaser has taken all action required under its organizational documents necessary to enter into this Agreement and to carry out the terms of this Agreement. This Agreement has been, and the other documents to be executed by Purchaser when delivered at Closing will have been, duly executed and delivered by Purchaser.

13. **CONDITIONS TO PURCHASER'S OBLIGATIONS.** All obligations of Purchaser under this Agreement, including, without limitation, the obligation to make payment of the Purchase Price and to close this transaction are contingent and subject to fulfillment, prior to or at Closing, of each of the following conditions, any one or all of which (other than those set forth in (g) below) may be waived in writing by Purchaser:

a. **Seller's Representations, Warranties and Covenants.** Seller's representations, warranties and covenants contained in this Agreement or in any certificate or document delivered in connection with this Agreement or the transactions contemplated herein shall be true at the date hereof and as of the Closing Date in all material respects as though such representations, warranties and covenants were then again made.

b. **Seller's Performance.** Seller shall have substantially performed in all material respects all of their obligations and covenants under this Agreement that are to be performed prior to or at Closing.

c. **Seller's Deliveries.** Seller shall have made the deliveries required to be made by it under Section 10(b).

d. **Title Insurance.** On the Closing Date, Seller shall deliver good and marketable fee simple title to the Real Property which the Title Company will insure under its extended coverage Owner's policy of title insurance ("*Title Policy*"), in accordance with the requirements of Section 7 hereof. The Title Commitment shall show title to the Real Property as being subject only to (i) Permitted Exceptions (as hereinafter defined); and (ii) title exceptions ("*Removable Exceptions*") pertaining to liens or encumbrances of a definite or ascertainable amount that will be removed by the payment of money on the Closing Date, to the extent provided herein.

e. **No Defaults.** Seller shall not be in material default under any mortgage, contract, lease or other agreement affecting or relating to any of the Acquired Assets that materially and adversely affects Purchaser's ability to operate the Facility as a 92-bed skilled nursing facility.

f. **Absence of Litigation.** No action or proceeding has been instituted, threatened or, in the reasonable opinion of Purchaser, is likely to be instituted before any court or governmental body or authority the result of which is reasonably likely to prevent or make illegal the acquisition by Purchaser of the Acquired Assets, or the consummation of the transaction contemplated hereby, or which could materially and adversely affect Purchaser's ability to operate the Facility as a skilled nursing facility.

g. **Licenses, Certifications and Consents.** To the extent required by law, as of the Closing Date:

i. Except for plans of corrections to IDPH surveys, Seller has an unrestricted nursing home license that permits the operation of the Facility as a nursing home facility.

- ii. There are no outstanding Life Safety Code deficiencies cited by IDPH that have not been corrected as of the Closing Date.
- iii. The Facility is licensed by IDPH for 92 skilled nursing beds, which license shall on the Closing Date be in good standing and full force and effect, subject to no waivers or limitations.
- iv. The Purchaser has received notice that IDPH is prepared to issue a probationary nursing home license permitting Purchaser, or its nominee, assignee or lessee, as the case may be, to operate the Facility as a 92-bed skilled nursing facility.
- v. The Illinois Health Facilities and Services Review Board shall have approved an exemption from the Certificate of Need requirement for the transaction set forth herein.
- vi. Purchaser has reasonable assurance that Medicare and Medicaid certification of the Facility for its operation by Purchase will be effective as of the Closing and that Purchaser may participate in and receive reimbursement from such programs effective as of the Closing.
- vii. Purchaser has received approval from all governmental entities whose approval is required to complete the transactions contemplated herein.
- viii. Purchaser, or Seller, as the case may be, has obtained such other consents and approvals as may be legally or contractually required for the consummation of the transactions contemplated herein.
- h. No Material Adverse Change.** Since the date of this Agreement, no material adverse change shall have occurred in the physical condition or business of the Acquired Assets, whether financial or otherwise.
- i. Removal of Personal Property Liens.** The Acquired Assets shall be free and clear of all liens, claims and encumbrances other than those permitted herein or that will be paid by Seller on the Closing Date.
- j. Mercer County Hospital Transaction.** All the conditions precedent to close the transfer of substantially all the assets of Mercer County Hospital to GMCM pursuant to the terms of the Option Agreement, shall have been satisfied, other than those conditions that have been permissibly waived and those conditions to be satisfied at the closing.
- k. Due Diligence.** Purchaser, in its sole discretion, shall be satisfied with the results of its due diligence review and inspection related to Seller, the Acquired Assets and the operations of the Facility and the condition of the Acquired Assets and operations of the Facility shall be acceptable to Purchaser in all material respects, in its sole discretion.

l. Closing of Facility. There are no orders which are entered after execution of this Agreement and prior to Closing and which shall result in the immediate forced closing of the Facility prior to the Closing Date.

In the event any of the conditions set forth in this Section 13 have not been satisfied or permissibly waived prior to or on the Closing Date, Purchaser may terminate this Agreement with no liability to Seller hereunder.

14. CONDITIONS TO SELLER'S OBLIGATIONS. All obligations of Seller under this Agreement are subject to the fulfillment, prior to or at Closing, of each of the following conditions, any one or all of which may be waived by Seller in writing:

a. Purchaser's Representations, Warranties and Covenants. Purchaser's representations, warranties and covenants contained in this Agreement or in any certificate or document delivered in connection with this Agreement or the transactions contemplated herein shall be true at the date hereof and as of the date of Closing as though such representations, warranties and covenants were then again made.

b. Purchaser's Performance. Purchaser shall have substantially performed its obligations and covenants under this Agreement that are to be performed prior to or at Closing.

c. Purchaser's Deliveries. Purchaser shall have made the deliveries required to be made by it under Section 10(a).

d. Absence of Litigation. No action or proceeding shall have been instituted, nor any judgment, order or decree entered by any court or governmental body or authority preventing the acquisition by Purchaser of the Real Property or the consummation of the transaction contemplated hereby.

e. Mercer County Hospital Transaction. All the conditions precedent to close the transfer of substantially all the assets of Mercer County Hospital to GMCM pursuant to the terms of the Option Agreement, shall have been satisfied, other than those conditions that have been permissibly waived and those conditions to be satisfied at the closing.

f. Genesis Guarantee. Seller shall have received from Genesis Health System in a form reasonably satisfactory to Seller its guarantee of the performance of the obligations of Purchaser under the terms of this Agreement or Seller shall have received, in a form satisfactory to Seller in its discretion, other information and assurances that Purchaser shall have the ability to perform its obligations under this Agreement.

In the event any of the conditions set forth in this Section 14 have not been satisfied or permissibly waived prior to or on the Closing Date, Seller may terminate this Agreement with no liability to Purchaser hereunder.

15. CONSENTED ASSIGNMENT. Anything contained herein to the contrary notwithstanding, this Agreement shall not constitute an agreement to assign any claim, right, contract, license, lease, commitment, sales order, or purchase order, if an attempted assignment

thereof without the consent of the other party thereto would constitute a breach thereof or in any material way affect the rights of Seller thereunder, unless such consent is obtained. Seller shall use reasonable commercial efforts to obtain any third party consents to the transactions contemplated in this Agreement and Purchaser agrees to cooperate and provide information regarding Purchaser, if and to the extent reasonably requested by Seller. If such consent is not obtained, or if an attempted assignment would be ineffective or would materially affect the parties' rights thereunder so that Purchaser would not in fact receive all such rights (or would be in violation of a term of the contract), Seller shall upon the request of Purchaser cooperate in any reasonable arrangement designed to provide for Purchaser the benefits under any such claim, right, contract, license, lease, commitment, sales order, or purchase order, including, without limitation, enforcement of any and all rights of Seller against the other party or parties thereto arising out of the breach or cancellation by such other party or otherwise

16. CASUALTY/CONDEMNATION.

a. **Damages or Condemnation.** Seller shall promptly notify Purchaser of any casualty damage it becomes aware of or notice of condemnation which Seller receives prior to the Closing Date. Seller shall, if appropriate, timely notify any insurance companies with respect to any damage and, if appropriate, promptly submit claims for such damage.

b. **Damages Less Than or Equal to \$100,000.** If (A) any portion of the Acquired Assets is damaged by fire or casualty after the date hereof and is not repaired and restored substantially to its original condition prior to Closing, and (B) at the time of Closing the estimated cost of repairs is One Hundred Thousand Dollars (\$100,000) or less, as determined by an independent adjuster, Purchaser shall be required to purchase the Acquired Assets in accordance with the terms of this Agreement and at Seller's option, Purchaser shall either: (x) receive a credit at Closing of the estimated cost or repairs as determined by the aforesaid independent adjuster; or (y) at Closing Seller shall: (1) assign to Purchaser, without recourse, all insurance claims and proceeds with respect thereto (less sums theretofore expended, if any, by Seller for temporary repairs or barricades) (in which event Purchaser shall have the right to participate in the adjustment and settlement of any insurance claim relating to said damage), and (2) credit Purchaser at Closing with an amount equal to Seller's insurance deductible. Seller shall have no liability or obligation with respect to the condition of the Acquired Assets as a result of such fire or casualty.

c. **Damages Greater Than \$100,000.** If, at the time of Closing, the estimated cost of repairing such damage is more than One Hundred Thousand Dollars (\$100,000), as determined by such independent adjuster, Purchaser may, at its sole option: (A) terminate this Agreement by notice to Seller within fifteen (15) days after such casualty; or (B) proceed to Closing for fires or casualties of One Hundred Thousand Dollars (\$100,000) or less.

d. **Eminent Domain.** If, prior to Closing, any portion of the Real Property is taken by eminent domain, then Purchaser shall have the right within fifteen (15) days after receipt of notice of such material taking, to terminate this Agreement in which case

Purchaser shall return all of Seller's materials and this Agreement shall become null and void, and neither party shall have any further obligations hereunder except for those items which specifically survive such a termination. If Purchaser elects to proceed and to consummate the purchase despite said taking (such election being deemed to have been made unless Purchaser notifies Seller to the contrary within fifteen (15) days after notice from Seller to Purchaser of any taking), there shall be no reduction in or abatement of the Purchase Price and Purchaser shall be required to purchase the Acquired Assets in accordance with the terms of this Agreement, and Seller shall assign to Purchaser, without recourse, all of Seller's right, title and interest in and to any award made or to be made in the condemnation proceeding (in which event Purchaser shall have the right to participate in the adjustment and settlement of such eminent domain proceeding).

17. TERMINATION.

a. **By Purchaser for Seller Breach.** If Seller is in material breach of its obligation to consummate the transaction contemplated by this Agreement pursuant to the terms hereof, then Purchaser may at its option elect: (i) to seek specific performance of this Agreement, or (ii) to terminate this Agreement.

b. **By Purchaser for Unsatisfied Closing Condition.** Purchaser may terminate this Agreement by written notice to Seller if any event occurs or fails to occur, or condition exists, which causes not to be satisfied any condition precedent to the obligation of Purchaser to consummate the transactions contemplated hereunder as set forth in Section 13, including as provided in Section 6(d).

c. **By Purchaser for Property Casualty.** Purchaser may terminate this Agreement by written notice to Seller if a material portion of the Acquired Assets (taken as a whole) is damaged, lost or destroyed (whether by fire, theft or other casualty event) prior to the Closing.

d. **By Seller for Purchaser Breach.** If Purchaser is in material breach of its obligation to consummate the transaction contemplated by this Agreement pursuant to the terms hereof, then Seller may at its option elect: (i) to seek specific performance of this Agreement, or (ii) to terminate this Agreement.

e. **By Seller for Unsatisfied Closing Condition.** Seller may terminate this Agreement by written notice to Purchaser if any event occurs or fails to occur, or condition exists, which causes not to be satisfied any condition precedent to the obligation of Seller to consummate the transactions contemplated hereunder as set forth in Section 10(a).

f. **Failure to Close.** Either party may terminate this Agreement upon written notice to the other if the Closing shall not have taken place by December 31, 2012.

18. INDEMNIFICATION.

a. **Seller Indemnification.** Seller, for itself and its respective successors and assigns, hereby indemnifies and agrees to defend and hold Purchaser and its successors,

assigns, affiliates, managers, members, agents, servants and employees harmless from and against any and all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies (including interest, penalties and reasonable attorneys' fees, costs and expenses) which any of them may suffer as a result of any of the following events: (i) the untruth of any of the representations or the breach of any of the warranties of Seller herein or given pursuant hereto; (ii) any default by Seller in the performance of any of its commitments, covenants or obligations under this Agreement, (iii) with respect to any suits, arbitration proceedings, administrative actions or investigations which relate to the ownership and use of the Acquired Assets by Seller on or before the Closing Date; or (iv) for any liability which may arise from operations of the Acquired Assets on or before the Closing Date (including, without limitation, a Medicaid/Medicare overpayment obligations) (collectively, an "Indemnification Event"). It is acknowledged and agreed that any claims, liabilities or charges arising or any provider assessment program, under the Medicare and Medicaid, if any, or other reimbursement programs for the period prior to the Closing Date shall be the sole responsibility of and shall be for the sole benefit of Seller and Purchaser shall in no way be liable or entitled to any of the benefits thereof. Seller shall be solely and exclusively responsible for any Medicaid/Medicare overpayment obligation. The rights of Purchaser under this paragraph are without prejudice to any other remedies not inconsistent herewith which Purchaser may have against Seller. Purchaser shall notify Seller in writing of any claim or demand. Within thirty (30) days after such notice Seller shall promptly pay to Purchaser a sum of money sufficient to pay in full such claim or demand, or promptly cure such breach or contest such claim in accordance with Section 18(c) hereof.

Seller shall have no liability to Purchaser, its successors, agents, assigns, affiliates, managers, members, agents, servants or employees under Section 18(a)(i) if, and to the extent, at or prior to Closing, Purchaser or Genesis as an affiliate of Purchaser had actual knowledge of a breach of a representation or warranty of Seller as a result of Genesis' performance of its obligations under the Management Services Agreement. Further, an Indemnification Event shall not include: (A) any default by Seller in the performance of any of its commitments, covenants or obligations under this Agreement if Seller and Genesis had agreed in writing that Genesis would be responsible for the performance of said commitment event, or obligation; or (B) an Indemnification Event to the extent that it occurs as a consequence of the negligent or intentional act or omission of Genesis.

b. Purchaser Indemnification. Purchaser, for itself and its successors and assigns, hereby indemnifies and agrees to defend and hold Seller, their successors, assigns, affiliates, directors, officers, agents, servants and employees harmless from and against any and all claims, demands, obligations, losses, liabilities, damages, recoveries and deficiencies (including interest, penalties and reasonable attorneys' fees, costs and expenses) which Seller may suffer as a result of: (i) the untruth of the representations or the breach of any of the warranties of Purchaser herein or given pursuant hereto, (ii) any default by Purchaser in the performance of any of its commitments, covenants or obligations under this Agreement, (iii) with respect to any suits, arbitration proceedings, administrative actions or investigations which relate to the ownership and use of the Acquired Assets by Purchaser following the Closing Date; or (iv) for any liability which may arise from operation of the Acquired Assets or the nursing home located thereon

following the Closing Date. The rights of Seller under this paragraph are without prejudice to any other remedies not inconsistent herewith which Seller may have against Purchaser. Seller shall notify Purchaser in writing of any claim or demand. Within thirty (30) days after such notice Purchaser shall promptly pay to Seller a sum of money sufficient to pay in full such claim or demand, or promptly cure such breach or contest such claim in accordance with Section 18(c) hereof.

c. **Basket and Liability Cap.** Seller and Purchaser shall be liable, as the case may be, under Section 18(a) or 18(b), as applicable, for indemnification claims only when the total amount of such indemnification claims exceeds \$50,000 (the "*Basket Amount*"), after which Purchaser or Seller, as the case may be, shall be liable provided that if and when such damages on a cumulative basis equal or exceed the Basket Amount, the Purchaser or the Seller, as the case may be, shall be entitled to recover one hundred percent of the damages suffered subject to the limitations set forth herein. The maximum aggregate liability of the Seller or Purchaser for the breach of any representations and warranties under Section 18(a) or 18(b) hereof, as the case may be, shall be limited to an amount equal to \$2,250,000 (the "*Liability Cap*"). The amount of each indemnity claim shall be determined only after giving credit for the amount of the net monetary benefit, including, without limitation, insurance coverage, and any other payments received by Purchaser or Seller, as applicable, by reason of recompense, contribution, indemnification or subrogation from any third party, resulting from or attributable to, the event, occurrence, state of facts, actions or other circumstance causing or giving rise to any such indemnity claim. The foregoing shall be taken into consideration when calculating the indemnification limitations set forth in this Section 18(c). Except as otherwise expressly set forth in Section 27, no insurance company or any other third party shall be a beneficiary of Seller's or Purchaser's indemnification obligations under this Agreement and in no way shall any obligations of any insurance company or other third party be reduced or mitigated as a result of this Agreement.

d. **Notice of Claims or Proceedings.** If any party (the "*Indemnitee*") receives notice of any claim or the commencement of any proceeding with respect to which any other party (or parties) is obligated to provide indemnification (the "*Indemnifying Party*") pursuant to Section 18(a) or 18(b), the Indemnitee shall promptly give the Indemnifying Party notice thereof. Except as provided below, the Indemnifying Party may compromise, settle or defend, at such Indemnifying Party's own expense and by such Indemnifying Party's own counsel, any such matter involving the asserted liability of the Indemnitee; provided, however, in no event shall the Indemnifying Party settle any such matter without the consent of the Indemnitee (which may be withheld in the Indemnitee's sole discretion). In any event, the Indemnitee, the Indemnifying Party and the Indemnifying Party's counsel shall cooperate in the compromise of, settlement or defense against, any such asserted Liability. Both the Indemnitee and the Indemnifying Party may participate in the defense of such asserted liability and neither may settle or compromise any claim over the reasonable objection of the other. Notwithstanding anything to the contrary contained herein, either party may, at its option, assume control of the defense or resolution of any such matter if such party reasonably believes that the defense or resolution of such matter might materially and adversely affect the interests of such party and so long as the other party has not commenced a compromise of, settlement or defense

against an asserted liability within thirty (30) days of the date of the notice of any claim, provided that such party shall continue to be obligated to indemnify the other party in connection with such matter and that the other party may not settle or compromise any such matter without the consent of such party which shall not be unreasonably withheld. If the Indemnifying Party chooses to defend any claim, the Indemnitee shall make available to the Indemnifying Party, at reasonable times and upon reasonable notice, any books, records or other documents within its control that are necessary or appropriate for such defense.

19. SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All representations and warranties in this Agreement, or in any certificate or other writing delivered pursuant hereto, shall survive the closing of the transactions described in this Agreement effective. Further, with respect to any matter as to which a claim has been asserted hereunder and is pending or unresolved at the end of the foregoing period, such claim shall continue to be covered by the indemnification provisions hereof, and the indemnitor shall remain liable therefore, until finally terminated or otherwise resolved. All covenants of the parties contained in this Agreement shall survive the Closing indefinitely.

20. CONTINUATION OF SERVICES. For a period of at least five (5) years following the Closing, Purchaser will continue to operate the facility as an Illinois-licensed skilled nursing facility in Mercer County, Illinois subject to changes in governmental policy or reimbursement which make it unduly burdensome for Purchaser to maintain the operations of the Facility.

21. CAPITAL IMPROVEMENT. During the first five (5) years following the Closing, Purchaser will fund at least One Million Dollars (\$1,000,000) of capital expenditures at the Facility. As used in this Section 21, "capital expenditures" shall mean expenditures for new equipment or equipment replacement, facility renovations, new facilities and other capital improvements. Up to \$50,000.00 of associated costs of obtaining a certificate of need from the IHFSRB, if necessary, including commitments incurred pursuant to operating or capital leases, or other off balance sheet financing mechanisms shall also be considered capital expenditures for purposes of Purchaser fulfilling this covenant.

22. INFORMATION TECHNOLOGY INVESTMENT. During the first five (5) years following the Closing, Purchaser will fund information technology investments as may be reasonably necessary for the Facility to comply with applicable law and federal regulations to enable it to continue to serve as a participating provider in Medicare and provide patient services to those residents and patients covered by the Medicare program. Such information technology investments shall be in addition to the capital improvements to be made by Purchaser in accordance with Section 21 above.

23. PATIENT TRUST FUND. Not less than three (3) days prior to the Closing Date, Seller shall provide Purchaser with a Schedule of all Patient Trust Accounts, if any, which Schedule is dated no more than seven (7) days prior to the Closing Date, prepared by Seller or Seller's public accountant and setting forth the names of the residents for whom such funds are held, if any, the amounts held on behalf of each such resident and Seller's warranty that the accounting is true, correct and complete. On the Closing Date, Seller, in accordance with all applicable rules and regulations, shall transfer to or credit Purchaser with the amount of funds set forth on the

Schedule of Patient Trust Accounts, less any amounts disbursed between the date of the Schedule and the Closing Date. Seller will defend, indemnify and hold Purchaser harmless from all liabilities, claims and demands, including reasonable attorney's fees, in the event the amount of funds, if any, transferred to Purchaser, as provided in this Section, did not represent the full amount of the funds then or thereafter shown to have been delivered to Seller as custodian or with respect to any matters relating to patient funds which arise or relate to any period prior to the Closing Date. Purchaser will defend, indemnify and hold Seller harmless from all liabilities, claims and demands, including reasonable attorney's fees, in the event Purchaser fails to properly apply for the benefit of a patient the amount transferred or credited to Purchaser by Seller at Closing or which arise or relate to any period after the Closing Date.

24. **EMPLOYEES.** Effective as of [11:59 p.m.] on the Closing Date, Seller shall terminate the employment of all of the employees of the Facility and shall pay to all of the employees all salaries, wages due or accrued for periods prior to 12:00 a.m. on the day after the Closing Date, other than PTO assumed by Purchaser. Seller shall pay from Cash and Accounts any accrued Employee Benefits to only those employees who demand the same from Seller and such payments shall not be considered PTO assumed by Purchaser. Seller shall timely shall pay (or credit to Purchaser) or all applicable governmental and regulatory authorities all employment-related taxes (including, without limitation, FICA, federal unemployment taxes, social security and state payroll and other taxes) due with respect to the employees for periods prior to 12:00 a.m. on the day after the Closing Date. Within the period of ninety (90) days before the Closing, Seller shall not, and within the ninety (90) days following the closing, Purchaser (or Genesis Health System, as the case may be): (i) permanently or temporarily shut down a single site of employment, or one or more facilities or operating units within a single site of employment, if the shutdown results in an employment loss during any thirty (30)-day period at the single site of employment for twenty five (25) or more employees, excluding any part-time employees; or (ii) have a mass layoff at a single site of employment of at least thirty-three percent (33%) of the employees and at least twenty five (25) employees, excluding part-time employees. The terms "single site of employment," "facility or operating unit," "Part-time" employee," "employment loss" and "mass layoff" shall be as defined in the Workers Adjustment Retraining and Notification Act (the "WARN Act") or the regulations thereunder and the Illinois Workers Adjustment Retraining and Notification Act, or the regulations thereunder. On the Closing Date, Purchaser, or its affiliate, Genesis Health System, shall offer employment to all such employees of the Facility as Purchaser or Genesis Health System may elect in its sole discretion. Such offers of employment shall be on such terms and at such salary or wage levels as Purchaser or Genesis Health System may determine. For hired employees, Purchaser or Genesis Health System will (i) provide benefits available to other similarly situated employees of Purchaser or Genesis Health System for which such hired employees are eligible under the plan participation documents, policies and guidelines in effect as of the Closing Date; and (ii) honor prior service and recognize seniority for determining benefits, except that Purchaser shall credit each hired employee with the number of unused PTO hours accumulated while employed by Seller up to the maximum number of PTO hours permitted under Purchaser or Genesis Health System policy. Seller shall be and remain responsible for any employee severance pay which may be or become payable arising out of any contractual obligation between Seller and any of their employees at the Facility. Anything to the contrary notwithstanding, this Agreement shall not be deemed to create any third party beneficiary rights to any third party. As soon as practicable after the Closing, Seller shall provide to Purchaser a copy of any payroll records (or

copies thereof) in Seller's possession for each employee of Seller as of the Closing Date for the calendar year including the Closing Date.

25. RIGHT OF SELLER TO REACQUIRE FACILITY. In the event Purchaser determines that it will no longer provide health care services at the Facility, Seller shall have the option to reacquire the Facility and its operations (the "*Reacquisition Option*") under the terms set forth below:

a. **Triggering Events.** Purchaser shall give Seller notice of either of the following events (the "*Triggering Events*"):

i. Purchaser has received an offer (a copy of which shall be included with the notice) from an unrelated third party to acquire substantially all of the assets of the Facility which offer is acceptable to Purchaser subject to the rights of the County to exercise its Reacquisition Option ("*Third Party Offer*"); or

ii. Purchaser has determined by action of its governing board that it no longer desires to provide health care services at the Facility ("*Action to Withdraw*").

A Triggering Event shall not include: (A) any internal reorganization or other transaction in which Genesis Health System or an affiliate owns or controls the Facility assets; (B) any relocation of the Facility to a different facility so long as such relocated facility is within fifteen (15) miles of the current Facility; or (C) any change in the nature or level of health care services provided at the Facility.

b. **Election Notice.** Seller may exercise its Reacquisition Option by providing notice to Purchaser of its intent to do so (the "*Election Notice*") within forty-five (45) days of the receipt of notice of the Triggering Event. In the event Seller fails to present an Election Notice within forty-five (45) days, it shall have waived its Reacquisition Option and Purchaser may take whatever action it deems necessary to proceed with plans to sell or otherwise cease providing services at the Facility without further notice to Seller subject to the following:

i. In the event the Triggering Event is a Third Party Offer and Purchaser has not consummated the transaction with the third party designated in the notice of Triggering Event within one year after said notice was delivered to Seller, the Seller's Reacquisition Option shall be renewed and Purchaser may not engage in another Triggering Event without proceeding in the manner set forth in this Section 25; and

ii. In the event that the Triggering Event is an Action to Withdraw and Purchaser continues to provide health care services at the Facility twenty-four (24) months following the receipt of Purchaser's notice of the Action to Withdraw, the Seller's Reacquisition Option shall be renewed and Purchaser may not engage in another Triggering Event without proceeding in the manner set forth in this Section 25.

c. **Exercise in the Event of Third Party Offer.** In the event that Seller exercises its Reacquisition Option and the Triggering Event is a Third Party Offer, Purchaser shall proceed to transfer the assets of the Facility to Seller and Seller shall acquire the assets of the Hospital from Purchaser under the terms of the Third Party Offer.

d. **Exercise in the Event of Action to Withdraw.** In the event that Seller exercises its Reacquisition Option and the Triggering Event is an Action to Withdraw, Purchaser shall transfer the assets of the Facility to Seller on such terms and conditions that the Purchaser and the Seller may agree. In the event that Purchaser and Seller aren't able to agree, they shall mutually agree upon a third party appraiser to value the assets of the Facility as a going concern. If the parties cannot agree upon an appraiser, each shall select an appraiser who shall conduct an appraisal of the Facility assets as a going concern. If the lower appraisal is within 10% of the higher appraisal, the purchase price of the assets will be the difference between the two appraisals. In the event the difference of the two appraisals is greater than 10%, the two appraisers shall select a third appraiser which third appraiser shall make a final determination of the value of the going concern of the Facility. The closing of the transaction shall be within one hundred twenty (120) days upon determination of the purchase price. The purchase price shall be reduced by the value of any liabilities of the Facility which are assumed by Seller (as the purchaser).

e. **Approvals.** Notwithstanding the foregoing, any change of ownership shall be subject to the approval of the IHFSRB if such approval is required by Illinois law or regulation at the time of the transaction, and all other governmental consents, licensure and approvals as may be necessary.

26. **NOTICES.** Any notice, request or other communication to be given by any party hereunder shall be in writing and shall be sent by recognized overnight courier, facsimile or registered or certified mail, postage prepaid, return receipt requested to the following address:

To Seller: Mercer County Illinois
 c/o Mercer County Board
 100 S.E. Third Street
 Aledo, IL 61231
 Attention: Chair
 Fax:

with a copy to: Mercer County State's Attorney
 100 SE Third Street
 Aledo, IL 61253
 Attn: State's Attorney
 Fax:

To Purchaser: GSJM
c/o Genesis Health System
1227 East Rusholme St.
Davenport, IA 52802
Attention: President & CEO
Fax: (563) 421-6500

with a copy to: Genesis Health System
1227 East Rusholme St.
Davenport, IA 52802
Attention: Vice President Legal Affairs
Fax: (563) 421-6500

Each such notice and other communication under this Agreement shall be effective or deemed delivered or furnished (a) if given by mail, on the third business day after such communication is deposited in the mail; (b) if given by facsimile, when such communication is transmitted to the appropriate number specified above; and (c) if given by hand delivery or overnight courier, when left at the address specified above.

27. **BROKER.** Seller and Purchaser each hereby represents, covenants and warrants to the other that it has not employed a broker and agrees to indemnify the other against any claim for any commission made by any broker claiming to have been retained by Seller or Purchaser, as the case may be.

28. POST CLOSING ACCESS TO INFORMATION; PRESERVATION OF RECORDS.

a. **Access to Information.** Seller and Purchaser acknowledge that subsequent to Closing each party may need access to information or documents in the control or possession of the other party (or parties) for the purposes of concluding the transactions herein contemplated, audits, compliance with governmental requirements and regulations, and the prosecution or defense of third party claims. Accordingly, Seller agrees that, following the Closing, subject to applicable law, Seller will make reasonably available to Purchaser and its agents, independent auditors, counsel, and/or governmental agencies upon written request and at the expense of the requesting party such documents and information as may be available relating to the Acquired Assets for periods prior to Closing to the extent necessary to facilitate concluding the transactions herein contemplated, audits, compliance with governmental requirements and regulations, and the prosecution or defense of claims. Furthermore, Purchaser agrees that, following the Closing, subject to applicable law, Purchaser will make reasonably available to Seller and Seller's agents, independent auditors, counsel, and/or governmental agencies upon written request and at the expense of the requesting party such documents and information as may be available relating to the Acquired Assets for periods prior to Closing to the extent necessary to facilitate concluding the transactions herein contemplated, audits, compliance with governmental requirements and regulations, and the prosecution or defense of claims.

b. **Retention of Records.** For a period not to exceed seven (7) years after the Closing Date (or such shorter period as may be prescribed by applicable law), Purchaser shall, in the ordinary course of business and as required by law, keep and preserve all medical and other records of the Facility existing as of the Closing, and which constitute a part of the Acquired Assets delivered to Purchaser at the Closing. For purposes of this Agreement, the term "*records*" includes all documents, electronic data and other compilations of information in any form. Purchaser acknowledges that as a result of closing the transactions contemplated by this Agreement and operating the Facility it will gain access to patient and other information which is subject to rules and regulations regarding confidentiality. Purchaser agrees to abide by any such rules and regulations relating to the confidential information it acquires. Purchaser agrees to maintain the patient records delivered to Purchaser at the Closing in accordance with applicable law (including, if applicable, Section 1861(v)(i)(I) of the Social Security Act (42 U.S.C. §1395(v)(I)(i)), the privacy requirements of the Administrative Simplification subtitle of HIPAA and applicable state requirements with respect to medical privacy and requirements of relevant insurance carriers, all in a manner consistent with the maintenance of patient records generated after Closing.

c. **Indemnification.** Seller and Purchaser each agree to indemnify and hold each other harmless from and against its own improper use or disclosure of confidential information of any party disclosed to any other party pursuant to this Section 28.

29. CONFIDENTIALITY.

a. **Confidential Information.** It is understood by the parties hereto that certain of the information, documents, and instruments delivered to Purchaser by Seller and its agents and that certain of the information, documents, and instruments delivered to Seller by Purchaser and its agents are of a confidential and proprietary nature (collectively, the "*Confidential Information*"). However, Confidential Information shall not include any information that (i) is or becomes publicly available other than as a result of a disclosure by Purchaser or its agents (ii) is or becomes available to Purchaser or its agents on a non-confidential basis from a source (other than the Seller or its agents) which is not prohibited from disclosing such information to Purchaser or its agents by a legal, contractual or fiduciary obligation to Seller, or (iii) was known to Purchaser or its representatives on a non-confidential basis prior to being provided by Seller or any of its representatives or obtained by Purchaser as a result of its inspection of the Acquired Assets or examination of Seller's files pursuant to this Agreement

b. **Confidentiality Obligations.** Purchaser agrees that, prior to the Closing it will maintain the confidentiality of all such Confidential Information delivered to it by Seller or its agents in connection with the negotiation of this Agreement or in compliance with the terms, conditions, and covenants hereof and will only disclose such Confidential Information to its duly authorized officers, members, directors, representatives, and agents (including consultants, attorneys, and accountants of each party) and applicable governmental authorities in connection with any required notification or application for approval or exemption therefrom. Seller agrees that, prior and subsequent to the Closing, it will maintain the confidentiality of all such Confidential Information. Each of the

parties hereto further agrees that if the transactions contemplated hereby are not consummated, it will return all such Confidential Information and all copies thereof in its possession to the other parties to this Agreement. Each of the parties hereto recognizes that any breach of this Section 29 would result in irreparable harm to the other party to this Agreement and its affiliates and that therefore Seller or Purchaser shall be entitled to an injunction to prohibit any such breach or anticipated breach, without the necessity of posting a bond, cash, or otherwise, in addition to all of its other legal and equitable remedies. Nothing in this Section 29, however, shall prohibit the use of such confidential information, documents, or information for such governmental filings as in the opinion of Seller's counsel or Purchaser's counsel are required by law or governmental regulations or are otherwise required to be disclosed pursuant to applicable law.

c. **Permitted Disclosure.** Notwithstanding anything contained herein to the contrary, prior to the Closing, Purchaser may disclose the Confidential Information (i) as consented to by Seller, which consent shall not be unreasonably withheld, conditioned or delayed, (ii) as required by applicable law or legal process, (iii) in connection with any arbitration and/or litigation between the parties, (iv) to Purchaser's lenders, (v) to the extent Purchaser determines necessary, after consultation with counsel, in any report or other filing made by Purchaser. After the Closing, Purchaser may disclose the Confidential Information in its sole discretion.

30. **ASSIGNMENT.** Neither party may assign its rights hereunder without the other party's prior written consent, *provided, however*, that Purchaser shall have the right to assign its rights and obligations hereunder to an affiliate.

31. **CONSENT.** Whenever the consent of a party is required hereunder, such consent shall not be unreasonably withheld, delayed or conditioned, except as otherwise expressly provided for herein to the contrary.

32. **KNOWLEDGE.** As used in this Agreement, an individual will be deemed to have "*Knowledge*" of a particular fact or other matter if such individual, after reasonable inquiry and investigation into such matter actually is aware or should be aware of such fact or other matter. An entity other than an individual will be deemed to have "*Knowledge*" of a particular fact or other matter if any individual who is currently serving as a director or officer of such person has Knowledge of such fact or other matter.

33. **RECITALS AND EXHIBITS.** Each Recital and Exhibit shall be considered incorporated into this Agreement. All Exhibits not completed at the execution of this Agreement shall be completed within five (5) days hereof.

34. **AMENDMENTS/SOLE AGREEMENT.** This Agreement may not be amended or modified in any respect whatsoever except by an instrument in writing signed by the parties hereto. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter of this Agreement.

35. **SUCCESSORS.** Subject to the limitations on assignment set forth above, all the terms of this Agreement shall be binding upon and inure to the benefit of and be enforceable by and against the heirs, successors and assigns of the parties hereto.
36. **CAPTIONS.** The captions of this Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.
37. **GOVERNING LAW.** This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois.
38. **SEVERABILITY.** Should any one or more of the provisions of this Agreement be determined to be invalid, unlawful or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby and each such provision shall be valid and remain in full force and effect.
39. **USAGE.** All nouns and pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the person or persons, firm or firms, corporation or corporations, entity or entities or any other thing or things may require.
40. **RISK OF LOSS.** Except as otherwise herein provided, until the Closing the risk of loss for the Acquired Assets shall be that of Seller and the Purchaser shall bear the risk of loss of the Acquired Assets from and after the Closing.
41. **ATTORNEYS' FEES.** Notwithstanding anything contained herein to the contrary, if any lawsuit or arbitration or other legal proceeding arises in connection with the interpretation or enforcement of this Agreement, the prevailing party therein shall be entitled to receive from the other party the prevailing party's costs and expenses, including reasonable attorneys' fees incurred in connection therewith, in preparation therefor and on appeal therefrom, which amounts shall be included in any judgment therein.
42. **NON-SOLICITATION.** So long as Purchaser (or its successors or assigns) owns or operates the Facility, for a period of two (2) years following the Closing Date, Seller hereby covenants that Seller shall not directly or indirectly solicit any patients or employees to leave the Facility, provided, however, that the parties agree that general employment advertising made pursuant to newspaper, television, radio or other general advertisement and which are not specifically targeted at the patients or the employees shall not be deemed a violation of this Section 42. This Section 42 shall survive the Closing.
43. **COUNTERPARTS.** This Agreement may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

[Signature page follows]

ATTACHMENT 5, PAGE 42

59

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement by persons legally entitled to do so as of the day and year first set forth above.

SELLER:

Mercer County, an Illinois municipality

By: Chairman of the Board, Maxine Henry
Name: Maxine Henry
Its: Chairman

PURCHASER:

GSLM, an Illinois not for profit corporation

By: Don P. Cropper
Name: Don P. Cropper
Its: DIRECTOR

EXHIBIT A

REAL PROPERTY LEGAL DESCRIPTION -- FACILITY LAND

Address: 309 N.W. 9th Avenue, Aledo, Illinois 61231

Legal Description: Lot Two (2) of Resubdivision of Lots 1 & 2 of Mercer County
Hospital Subdivision to the City of Aledo, Mercer County, Illinois

EXHIBIT B

REAL PROPERTY LEGAL DESCRIPTION - "SCHMIDT PROPERTY"

Legal Description: Lots One (1) and Two (2) in Block 35 in College Addition to the Original Town, now City of Aledo, Mercer County, Illinois