

ORIGINAL

(Agency Use Only)	
Fee Received	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>
Exemption #	E-003-12

2

**ILLINOIS HEALTH FACILITIES PLANNING BOARD
APPLICATION FOR EXEMPTION FOR THE
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY**

RECEIVED

APR 30 2012

**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

1. INFORMATION FOR EXISTING FACILITY

Current Facility Name Mercer County Hospital
 Address 409 NW Ninth Avenue
 City Aledo Zip Code 61231 County Mercer
 Name of current licensed entity for the facility Mercer County Illinois
 Does the current licensee: own this facility OR lease this facility _____ (if leased, check if sublease)
 Type of ownership of the current licensed entity (check one of the following:): _____ Sole Proprietorship
 _____ Not-for-Profit Corporation _____ For Profit Corporation _____ Partnership _____ Governmental
 _____ Limited Liability Company _____ Other, specify _____
 Illinois State Senator for the district where the facility is located: Sen. Mike Jacobs
 State Senate District Number 36 Mailing address of the State Senator 606 19th St., Moline, IL 61265
 Illinois State Representative for the district where the facility is located: Rep. Pat Verschoore
 State Representative District Number 72 Mailing address of the State Representative 1504 3rd Ave.,
Rock Island, IL 61201

2. OUTSTANDING PERMITS. Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes No . If yes, refer to Section 1130.520(f), and indicate the projects by Project #

3. FACILITY'S BED OR DIALYSIS STATION CAPACITY BY CATEGORY OF SERVICE (Complete "APPENDIX A" attached to this application) Please see APPENDIX A.

4. FACILITY'S OTHER CATEGORIES OF SERVICE AS DEFINED IN 77 IAC 1100 (Complete "APPENDIX A" attached to this application) Please see APPENDIX A.

5. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant GMCM
 Address 409 NW Ninth Ave.
 City, State & Zip Code Aledo, IL 61231
 Type of ownership of the current licensed entity (check one of the following:): _____ Sole Proprietorship
 Not-for-Profit Corporation* _____ For Profit Corporation _____ Partnership _____ Governmental
 _____ Limited Liability Company _____ Other, specify _____

*Please note that the current licensed entity has governmental ownership; the Applicant is owned by a not-for-profit corporation.

6. NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.

Exact Legal Name of Entity to be Licensed GMCM
 Address 409 NW Ninth Ave.
 City, State & Zip Code Aledo, IL 61231
 Type of ownership of the current licensed entity (check one of the following:): _____ Sole Proprietorship
 Not-for-Profit Corporation** _____ For Profit Corporation _____ Partnership _____ Governmental
 _____ Limited Liability Company _____ Other, specify _____

**Please note that the current licensed entity has governmental ownership; the proposed future licensee is owned by a not-for-profit corporation.

7. BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY

Exact Legal Name of Entity That Will Own the Site GMCM
 Address 409 NW Ninth Ave.
 City, State & Zip Code Aledo, IL 61231
 Type of ownership of the current licensed entity (check one of the following:): _____ Sole Proprietorship
 Not-for-Profit Corporation*** _____ For Profit Corporation _____ Partnership _____ Governmental
 _____ Limited Liability Company _____ Other, specify _____

***Please note that the current licensed entity has governmental ownership; the proposed future owner of the "bricks and mortar" is owned by a not-for-profit corporation.

5. NAME OF APPLICANT

Exact Legal Name of Applicant Genesis Health System

Address 801 Illini Drive

City, State & Zip Code Silvis, IL 61282

Type of ownership of the current licensed entity (check one of the following:) Sole Proprietorship
 Not-for-Profit Corporation**** For Profit Corporation Partnership Governmental
 Limited Liability Company Other, specify _____

****Please note that the current licensed entity has governmental ownership; the Co-applicant is a not-for-profit corporation.

8. **TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION: PLEASE SEE ATTACHMENT 3**
- Purchase resulting in the issuance of a license to an entity different from current licensee;
 - Lease resulting in the issuance of a license to an entity different from current licensee;
 - Stock transfer resulting in the issuance of a license to a different entity from current licensee;
 - Stock transfer resulting in no change from current licensee;
 - Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
 - Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
 - Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
 - Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
 - Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
 - Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
 - Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"
9. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1**.
10. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2**.
11. **ANTICIPATED ACQUISITION PRICE: \$ 0**
12. **FAIR MARKET VALUE OF THE FACILITY: \$ 0 PLEASE SEE ADDENDUM 1**
(to determine fair market value, refer to 77 IAC 1130.140)
13. **DATE OF PROPOSED TRANSACTION: 9/1/2012**
14. **NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3**.
15. **BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Partnerships must provide the name and address of each partner and specify whether each is a general or limited partner. Append this information to the application as **ATTACHMENT #4**.
16. **TRANSACTION DOCUMENTS.** Provide a copy of the document(s) which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities Planning Board. Append this document(s) to the application as **ATTACHMENT #5**.
17. **FINANCIAL INFORMATION** (co-applicants must also provide this information). Per 77 IAC 1130.520(b)(3), an applicant must demonstrate it has sufficient funds to finance the acquisition and to operate the facility for 36 months by providing evidence of a bond rating of "A" or better (that must be less than two years old) from Fitch, Moody or Standard and Poor's rating agencies or evidence of compliance with the financial viability review criteria (as applicable) to the type of facility being acquired (as specified at 77 IAC 1120). Append as **ATTACHMENT #6**.
18. **PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

Name: Lynn Gordon, Esq., Ungaretti & Harris LLP

Address: 70 W. Madison, Suite 3500

City, State & Zip Code: Chicago, IL 60602

Telephone (312) 977-4134

Ext. _____

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

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Name: Valerie Breslin Montague, Esq., Ungaretti & Harris LLP

Address: 70 W. Madison, Suite 3500

City, State & Zip Code: Chicago, IL 60602

Telephone (312) 977-4485 Ext. _____

20. **CERTIFICATION – GMCM**

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

Signature of Authorized Officer _____

Typed or Printed Name of Authorized Officer _____

Title of Authorized Officer: Director

Address: 801 S. TULLINE DR.

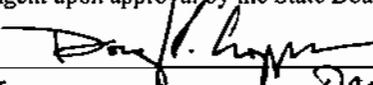
City, State & Zip Code: BIAZZI SILVER, FL.

Telephone (309) 251-4010 Date: 4/26/2012

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

20. CERTIFICATION -- Genesis Health System

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

Signature of Authorized Officer 
Typed or Printed Name of Authorized Officer Douglas P. Cropper
Title of Authorized Officer: Director, Pres/CEO
Address: 801 S. ~~ST~~ ILLINOIS DR.
City, State & Zip Code: SILVER SPRING, IL 61222
Telephone: 309-281-4010 Date: 4/26/2012

**APPENDIX A
FACILITY BED AND DIALYSIS STATION CAPACITY AND CATEGORIES OF SERVICE**

Complete the following for the facility for which the change of ownership is requested. The facility's bed and dialysis station capacity must be consistent with the State Board's Inventory of Health Care Facilities.

FACILITY NAME Mercer County Hospital CITY: Aledo

1. Indicate (by placing an "X") the type of facility for which the change of ownership is requested:

Hospital; Long-term Care Facility; Dialysis Facility; Ambulatory Surgical Treatment Center.

2. Provide the bed capacity by category of service:

SERVICE	# of Beds	SERVICE	# of Beds
Medical/Surgical	<u>22***</u>	Nursing Care	<u>0</u>
Obstetrics	<u>0</u>	Shelter Care	<u>0</u>
Pediatrics	<u>0</u>	DD Adults*	<u>0</u>
Intensive Care	<u>0</u>	DD Children**	<u>0</u>
Acute Mental Illness	<u>0</u>	Chronic Mental Illness	<u>0</u>
Rehabilitation	<u>0</u>	Children's Medical Care	<u>0</u>
Neonatal Intensive Care	<u>0</u>	Children's Respite Care	<u>0</u>

*Includes ICF/DD 16 and fewer bed facilities; **Includes skilled pediatric 22 years and under

3. Chronic Renal Dialysis: Enter the number of ESRD stations: 7; Please note that the ESRD stations are owned and operated by Quad Cities Kidney Center ("QCKC") and will continue to be owned and operated by QCKC after closing.

4. Indicate (by placing an "X") those categories of service for which the facility is approved. The change of ownership of the hospital facility will have no impact on the ESRD stations.

<input type="checkbox"/> Cardiac Catheterization	<input type="checkbox"/> Open Heart Surgery
<input type="checkbox"/> Subacute Care Hospital Model	<input type="checkbox"/> Kidney Transplantation
<input type="checkbox"/> Selected Organ Transplantation	<input type="checkbox"/> Postsurgical Recovery Care Center Model

5. Non-Hospital Based Ambulatory Surgery and Ambulatory Surgical Treatment Centers

Indicate (by placing an "X") if the facility is a limited or multi-specialty facility and indicate the surgical specialties provided.

<input type="checkbox"/> Cardiovascular	<input type="checkbox"/> Ophthalmology
<input type="checkbox"/> Dermatology	<input type="checkbox"/> Oral/Maxillofacial
<input type="checkbox"/> Gastroenterology	<input type="checkbox"/> Orthopedic
<input type="checkbox"/> General/Other (includes any procedure that is not included in the other specialties)	<input type="checkbox"/> Otolaryngology
<input type="checkbox"/> Neurological	<input type="checkbox"/> Plastic Surgery
<input type="checkbox"/> Obstetrics/Gynecology	<input type="checkbox"/> Podiatry
	<input type="checkbox"/> Thoracic
	<input type="checkbox"/> Urology

*** Please see additional detail on bed capacity included in the narrative in Attachment 3.

Ownership, Management and General Information

ADMINISTRATOR NAME: Edward J. Rogalski
 ADMINISTRATOR PHONE: 309-582-3701
 OWNERSHIP: Mercer County Illinois
 OPERATOR: County of Mercer Hospital
 MANAGEMENT: County
 CERTIFICATION: Critical Access Hospital
 FACILITY DESIGNATION: General Hospital
 ADDRESS: 409 N.W 9th Avenue

Patients by Race

White 100.0%
 Black 0.0%
 American Indian 0.0%
 Asian 0.0%
 Hawaiian/ Pacific 0.0%
 Unknown: 0.0%

Patients by Ethnicity

Hispanic or Latino: 0.3%
 Not Hispanic or Latino: 99.7%
 Unknown: 0.0%
 IDPH Number: 3772
 HPA C-05
 HSA 10

CITY: Aledo

COUNTY: Mercer County

Facility Utilization Data by Category of Service

Clinical Service	Authorized CON Beds 12/31/2010	Peak Beds Setup and Staffed	Peak Census	Admissions	Inpatient Days	Observation Days	Average Length of Stay	Average Daily Census	CON Occupancy 12/31/2010	Staff Bed Occupancy Rate %
Medical/Surgical	22	22	15	235	686	272	4.1	2.6	11.9	11.9
0-14 Years				5	8					
15-44 Years				15	35					
45-64 Years				36	94					
65-74 Years				47	117					
75 Years +				132	432					
Pediatric	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Intensive Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Direct Admission				0	0					
Transfers				0	0					
Obstetric/Gynecology	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Maternity				0	0					
Clean Gynecology				0	0					
Neonatal	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Long Term Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Swing Beds				84	794		9.5	2.2		
Acute Mental Illness	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Rehabilitation	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Long-Term Acute Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Dedicated Observation	0					0				
Facility Utilization	22			319	1,480	272	5.5	4.8	21.818	

(Includes ICU Direct Admissions Only)

Inpatients and Outpatients Served by Payor Source

	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Charity Care	Totals
Inpatients	72.7%	4.7%	14.7%	0.0%	4.7%	3.1%	319
Outpatients	42.7%	13.3%	35.2%	0.0%	7.9%	0.8%	18,850

Financial Year Reported: 7/1/2009 to 6/30/2010

Inpatient and Outpatient Net Revenue by Payor Source

	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Totals	Charity Care Expense	Total Charity Care Expense
Inpatient Revenue (\$)	79.9%	1.8%	0.0%	14.8%	3.5%	100.0%	33,299	262,011
Outpatient Revenue (\$)	49.4%	4.3%	0.0%	44.3%	1.9%	100.0%	228,712	2.1%

Birthing Data

Number of Total Births: 0
 Number of Live Births: 0
 Birthing Rooms: 0
 Labor Rooms: 0
 Delivery Rooms: 0
 Labor-Delivery-Recovery Rooms: 0
 Labor-Delivery-Recovery-Postpartum Rooms: 0
 C-Section Rooms: 0
 CSections Performed: 0

Newborn Nursery Utilization

Level 1 Patient Days: 0
 Level 2 Patient Days: 0
 Level 2+ Patient Days: 0
 Total Nursery Patientdays: 0

Organ Transplantation

Kidney: 0
 Heart: 0
 Lung: 0
 Heart/Lung: 0
 Pancreas: 0
 Liver: 0
 Total: 0

Laboratory Studies

Inpatient Studies: 1,567
 Outpatient Studies: 17,719
 Studies Performed Under Contract: 1,428

Surgery and Operating Room Utilization

<u>Surgical Specialty</u>	<u>Operating Rooms</u>				<u>Surgical Cases</u>		<u>Surgical Hours</u>			<u>Hours per Case</u>	
	Inpatient	Outpatient	Combined	Total	Inpatient	Outpatient	Inpatient	Outpatient	Total Hours	Inpatient	Outpatient
Cardiovascular	0	0	0	0	0	0	0	0	0	0.0	0.0
Dermatology	0	0	0	0	0	0	0	0	0	0.0	0.0
General	0	0	1	1	0	50	0	143	143	0.0	2.9
Gastroenterology	0	0	0	0	0	0	0	0	0	0.0	0.0
Neurology	0	0	0	0	0	0	0	0	0	0.0	0.0
OB/Gynecology	0	0	0	0	0	0	0	0	0	0.0	0.0
Oral/Maxillofacial	0	0	0	0	0	0	0	0	0	0.0	0.0
Ophthalmology	0	0	1	1	0	13	0	35	35	0.0	2.7
Orthopedic	0	0	1	1	0	6	0	17	17	0.0	2.8
Otolaryngology	0	0	0	0	0	0	0	0	0	0.0	0.0
Plastic Surgery	0	0	0	0	0	0	0	0	0	0.0	0.0
Podiatry	0	0	1	1	0	33	0	121	121	0.0	3.7
Thoracic	0	0	0	0	0	0	0	0	0	0.0	0.0
Urology	0	0	0	0	0	0	0	0	0	0.0	0.0
Totals	0	0	4	4	0	102	0	316	316	0.0	3.1
SURGICAL RECOVERY STATIONS				Stage 1 Recovery Stations		2		Stage 2 Recovery Stations		0	

Dedicated and Non-Dedicated Procedure Room Utilization

<u>Procedure Type</u>	<u>Procedure Rooms</u>				<u>Surgical Cases</u>		<u>Surgical Hours</u>			<u>Hours per Case</u>	
	Inpatient	Outpatient	Combined	Total	Inpatient	Outpatient	Inpatient	Outpatient	Total Hours	Inpatient	Outpatient
Gastrointestinal	0	0	1	1	1	64	2	67	69	2.0	1.0
Laser Eye Procedures	0	0	0	0	0	0	0	0	0	0.0	0.0
Pain Management	0	0	1	1	0	58	0	48	48	0.0	0.8
Cystoscopy	0	0	0	0	0	0	0	0	0	0.0	0.0
Multipurpose Non-Dedicated Rooms											
	0	0	0	0	0	0	0	0	0	0.0	0.0
	0	0	0	0	0	0	0	0	0	0.0	0.0
	0	0	0	0	0	0	0	0	0	0.0	0.0

Cardiac Catheterization Labs

Total Cath Labs (Dedicated+Nondedicated labs):	0
Cath Labs used for Angiography procedures	0
Dedicated Diagnostic Catheterization Labs	0
Dedicated Interventional Catheterization Labs	0
Dedicated EP Catheterization Labs	0

Cardiac Catheterization Utilization

Total Cardiac Cath Procedures:	0
Diagnostic Catheterizations (0-14)	0
Diagnostic Catheterizations (15+)	0
Interventional Catheterizations (0-14):	0
Interventional Catheterization (15+)	0
EP Catheterizations (15+)	0

Emergency/Trauma Care

Certified Trauma Center	No	
Level of Trauma Service	Level 1 Not Applicable	Level 2 Not Applicable
Operating Rooms Dedicated for Trauma Care	0	
Number of Trauma Visits:	0	
Patients Admitted from Trauma	0	
Emergency Service Type:	Comprehensive	
Number of Emergency Room Stations	4	
Persons Treated by Emergency Services:	3,511	
Patients Admitted from Emergency:	282	
Total ED Visits (Emergency+Trauma):	3,511	

Cardiac Surgery Data

Total Cardiac Surgery Cases:	0
Pediatric (0 - 14 Years):	0
Adult (15 Years and Older):	0
Coronary Artery Bypass Grafts (CABGs) performed of total Cardiac Cases :	0

Outpatient Service Data

Total Outpatient Visits	19,059
Outpatient Visits at the Hospital/ Campus:	18,358
Outpatient Visits Offsite/off campus	701

Diagnostic/Interventional Equipment

Examinations

Radiation Equipment

Therapie:

	<u>Own</u>			<u>Contract</u>				<u>Owned</u>		<u>Contract</u>	<u>Treatments</u>
	Own	Contract	Inpatient	Outpt	Contract	Owned		Contract			
General Radiography/Fluoroscopy	2	0	162	3,960	0	Lithotripsy	0	0	0		
Nuclear Medicine	0	1	8	111	0	Linear Accelerator	0	0	0		
Mammography	1	0	0	602	0	Image Guided Rad Therapy	0	0	0		
Ultrasound	1	0	32	473	0	Intensity Modulated Rad Thrpy	0	0	0		
Angiography	0	0				High Dose Brachytherapy	0	0	0		
Diagnostic Angiography			0	0	0	Proton Beam Therapy	0	0	0		
Interventional Angiography			0	0	0	Gamma Knife	0	0	0		
Positron Emission Tomography (PET)	0	1	0	7	0	Cyber knife	0	0	0		
Computerized Axial Tomography (CAT)	1	0	69	1,363	0						
Magnetic Resonance Imaging	0	1	8	321	0						

Source: 2010 Annual Hospital Questionnaire, Illinois Department of Public Health, Health Systems Development.

ATTACHMENT 1
Application Fee

ATTACHMENT 2

Funding

The proposed change of ownership does not involve a financial transaction. As described further in Attachment 3, as part of the transaction, GMCM agrees to take on certain of Mercer County Hospital's debt and to fund capital improvements in the amount of \$11,500,000 (subject to any necessary regulatory approvals).

ATTACHMENT 3
Narrative

GMCM and Genesis Health System ("Genesis") hereby seek a Certificate of Exemption ("COE") from the Illinois Health Facilities and Services Review Board ("Board") to allow a proposed transaction between GMCM, Mercer County, Illinois ("Mercer County") and Mercer County Hospital ("Hospital") (Mercer County and Hospital, collectively, "MCH Parties"), whereby GMCM will assume title and rights to certain assets and liabilities of the MCH Parties (the "Transaction"). In summary, Genesis' newly formed and wholly owned and controlled subsidiary, GMCM, will acquire the Hospital assets, resulting in a change of ownership of the hospital facility licensee, triggering the need for a COE prior to such transition. The proposed change of ownership qualifies for review as a COE as a result of Genesis' "A-1" rating. A copy of that rating is provided in Attachment 6.

Genesis is a not-for-profit corporation that is tax-exempt under Section 501(c)(3) of the Internal Revenue Code ("Code") whose charitable health care mission is to improve the quality, extend the scope, and enhance the accessibility of affordable health care and related services to the residents of Western Illinois and Eastern Iowa. In furtherance thereof, Genesis operates an integrated health system that includes three hospitals. These are Genesis Medical Center – Davenport, a tertiary care hospital which operates on two campuses in Davenport, Iowa ("GMC Davenport"); Genesis Medical Center – Illini, a general acute care hospital in Silvis, Illinois ("GMC – Illini"); and Genesis Medical Center – DeWitt, a critical access hospital and intermediate care facility located in DeWitt, Iowa ("GMC DeWitt").

Genesis also operates a number of programs and services at multiple locations throughout the Western Illinois and Eastern Iowa area, including physician practices, convenient care clinics, a pain center, home health and hospice services, a psychology practice, and a workplace services program. Additionally, Genesis operates a licensed skilled nursing facility known as Genesis Restorative Care Center and an independent living facility known as Genesis Crosstown Square, each located on the campus of GMC – Illini.

On February 3, 2012, Genesis formed GMCM, an Illinois not-for-profit corporation of which Genesis is the sole corporate member, to assume ownership and control of the Hospital facility and operations. As such, Genesis has retained certain significant control over GMCM. For example, Genesis has exclusive authority to determine the number of Directors of GMCM and elect, appoint, remove, or fill vacancies in the Board of Directors of GMCM ("Board of Directors"). It also maintains the following reserved powers over GMCM:

- (a) the interpretation of or any change in a statement of mission, philosophy, role, or purpose of GMCM or any Affiliate;
- (b) the adoption of amendments to the Articles of Incorporation, Bylaws, or other governing documents of GMCM or any Affiliate;
- (c) the merger, dissolution, consolidation or reorganization of GMCM or any Affiliate;

- (d) the formation or restructuring of Affiliates;
- (e) the acquisition, sale, lease, transfer, encumbrance or other alienation of property of GMCM 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 Genesis;
- (f) the adoption or authorization of annual capital and operating budgets of GMCM or any Affiliate as developed by its Board of Directors or Management or the making of non-budgeted expenditures in excess of financial levels set in accordance with policies established by Genesis;
- (g) the incurrence of debt or the guarantee of the debt of another by GMCM or an Affiliate which is in excess of such limits as are established by Genesis;
- (h) the adoption of a plan of distribution or disposition of the assets of GMCM or any Affiliate at the time of its dissolution;
- (i) the adoption or approval of strategic and long-range financial plans for GMCM or any Affiliate;
- (j) the adoption of an internal auditing program for GMCM or any Affiliate which is consistent with the internal auditing program established by Genesis;
- (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 Genesis in the Articles of Incorporation or the Bylaws.

GMCM is applying for tax-exempt status under Section 501(c)(3) of the Code and will adhere to the charity care and other patient access policies and procedures of Genesis, none of which are more restrictive than the Hospital's current policies and procedures.

The Hospital is a 22-bed critical access hospital located in Aledo, Illinois that is currently owned by Mercer County. As a centrally-located critical access hospital and the only hospital in Mercer County, the Hospital provides vital services to residents of Mercer County, a largely rural area with approximately 16,500 residents. Without the Hospital's continued presence in Mercer County, these residents would be required to travel longer distances for emergency and other medical services. Due to increased costs and declining reimbursement that many hospitals are facing in the industry, the Hospital has unmet capital needs. It also has needed management support from Genesis, as a larger, stronger provider in neighboring communities better able to deal with the complexities and challenges providers are facing in a rapidly evolving health care industry.

The Hospital was granted a permit in January 2009 to engage in a modernization of its facility, part of which had been suggested through the Illinois Department of Public Health ("IDPH") survey process. Approximately two and a half years later and after much due diligence the Hospital was unable to secure the financing for the modernization and had to abandon that portion of the project, formally advising the Board of the same. That same permit in 2009 also approved the Hospital's discontinuing three intensive care unit ("ICU") beds and 14 long-term care ("LTC") beds. The Hospital no longer staffs the three ICU and 14 LTC beds and has reported the related changed bed numbers accordingly in its annual reports to IDPH. A new Certificate of Need application has been submitted to address the discontinuation of these beds.

Regarding needed management support, subject to the ultimate control, direction and authority of the Mercer County Board, Genesis has provided management services to the Hospital for the past three years in order to help ensure the Hospital's continued operation in the Mercer County community.

The parties subsequently entered into an Option Agreement in November 2010 creating a formal affiliation between Genesis and the MCH Parties, allowing Genesis to assume ownership and control of the Hospital over a four year period. A copy of the complete Option Agreement, and the related Genesis exercise of such option on April 26, 2012 to acquire the Hospital, is attached hereto at Attachment 5 (please note that the schedules referenced therein are deliverables at closing). Genesis, GMCM, and the MCH Parties also entered into a written Addendum to the Option Agreement ("Addendum") on March 6, 2012. The Addendum clarifies certain aspects of the Transaction and provides that Genesis assigns to GMCM its option to acquire certain assets and liabilities of the MCH Parties and to operate the Hospital upon closing of the Transaction. A copy of the Addendum is attached hereto at Attachment 5. The entirety of the definitive agreement between Genesis, GMCM, and the MCH Parties (the Option Agreement, the Addendum, and the Exercise of Option) is attached hereto at Attachment 5. All other agreements referenced therein will be superseded at closing of the Transaction.

Liabilities to be acquired in the Transaction include all of the Hospital's current debt which amounts to \$3,355,757 as of February 29, 2012. GMCM will also acquire any new debt incurred by Mercer County and attributable to the Hospital after the effective date of the written exercise of the option ("New Debt"). The MCH Parties have not incurred any New Debt as of April 1, 2012, other than Trade Payables incurred in the ordinary course of business. GMCM will also assume all obligations of any of the MCH Parties under the terms of any assigned contracts. Following the Transaction, GMCM and Genesis intend to facilitate the modernization \$11,500,000.00, subject to all necessary regulatory approvals.

The Transaction will support community health in Mercer County in furtherance of the charitable mission of Genesis, which focuses on providing quality compassionate care to all patients regardless of ability to pay. To meet the needs of the Western Illinois and Eastern Iowa community, Genesis' charitable practices allow Genesis and its affiliates to serve those individuals who are unable to sustain the extraordinary burden of medical expenses due to limited income and resources. In rural Mercer County, where residents have a median household income of approximately \$50,000, the Genesis system, through GMCM, will expand its charitable mission through ownership and operation of the Hospital. In addition to furthering its

charitable practices, GMCM plans to expand the Hospital's admissions policies and facilitate modernization of the Hospital, subject to all necessary regulatory approvals.

The Transaction will also relieve the taxpayers of Mercer County the annual cost of the hospital employee pension plan which has been funded through a property tax levy. The cost of that tax levy is expected to exceed \$550,000 in 2012. Genesis will provide employees pension benefits as available to other similarly-situated employees. The Transaction provides a significant financial benefit to the community through the elimination of this property tax burden.

The Transaction will close subject to the approval of the Board. Because the Transaction will result in a change in the person who has ownership and control of a health care facility's physical plant and capital assets, the Transaction constitutes a change of ownership under Section 1130.140 of the Board's rules. The Transaction is contingent upon the approval of the Board and the granting of a COE as referenced in Sections 3(a), 4, and 5(e) of the Addendum and in the Exercise of Option.

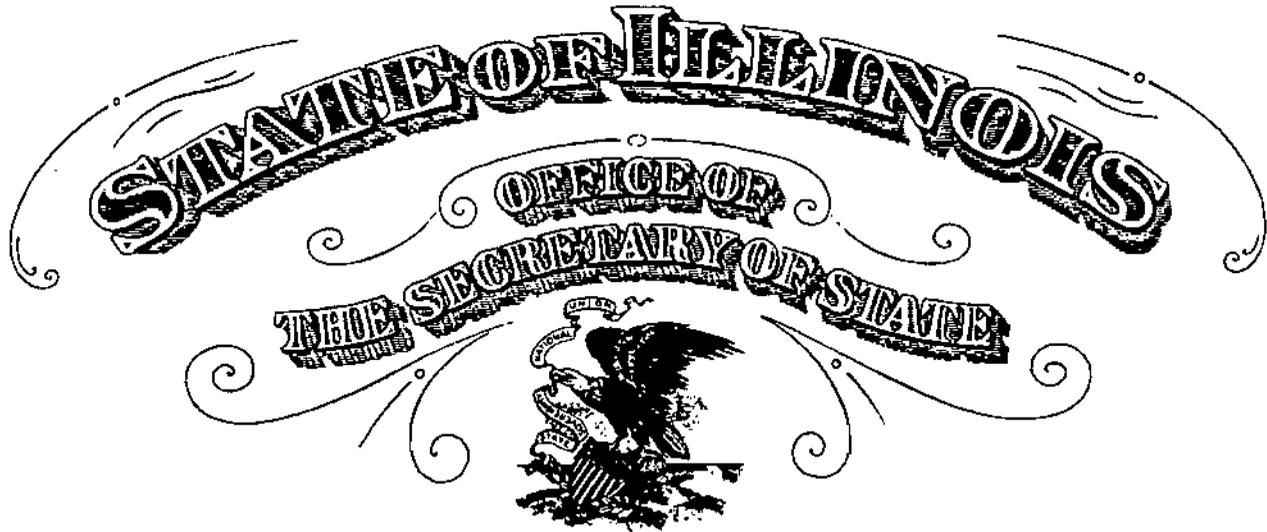
Genesis is a co-applicant for the COE pursuant to Section 1130.220 of the Board's rules, which provide that the person who has final control of the person who will hold the license (or Medicare and/or Medicaid certification) for each facility or any related person who is or will be financially responsible for guaranteeing or making payments on any debt related to the project must be included as an applicant for an exemption. Genesis' powers over GMCM vest Genesis with final control over GMCM and therefore require that Genesis be a co-applicant for the COE.

The Transaction is expected to close on September 1, 2012, subject to the Board's approval.

Finally, the applicants will implement the Transaction consistent with the regulatory requirements of Sections 1130.520 (Requirements for Exemptions Involving the Change of Ownership of a Health Care Facility) and 1110.240 (Change of Ownership, Mergers and Consolidations) of the Board's rules. It is not anticipated that any changes to the Hospital's number of beds or clinical services will result from the Transaction, nor will access to the services provided by the hospital be diminished as a result of the Transaction. For a period of at least 12 months after the Transaction closing date ("Closing Date"), the current number of beds and categories of service at the Hospital will not substantially change. For a period of at least three years after the Closing Date, Genesis/GMCM expects to retain ultimate ownership and control of the Hospital. For a period of at least two years after the Closing Date, the Hospital will maintain a charity care policy no more restrictive than the policy that was in effect at the Hospital one year prior to the Closing Date.

Moreover, the applicants expect that for a period of at least two years after the Closing Date, there will be no material reductions in the levels of clinical and non-administrative operational staff employed by the Hospital, other than those typically associated with the ongoing operations of hospitals.

ATTACHMENT 4
Background of Applicant



To all to whom these Presents Shall Come, Greeting:

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

GCMC, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON FEBRUARY 03, 2012, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



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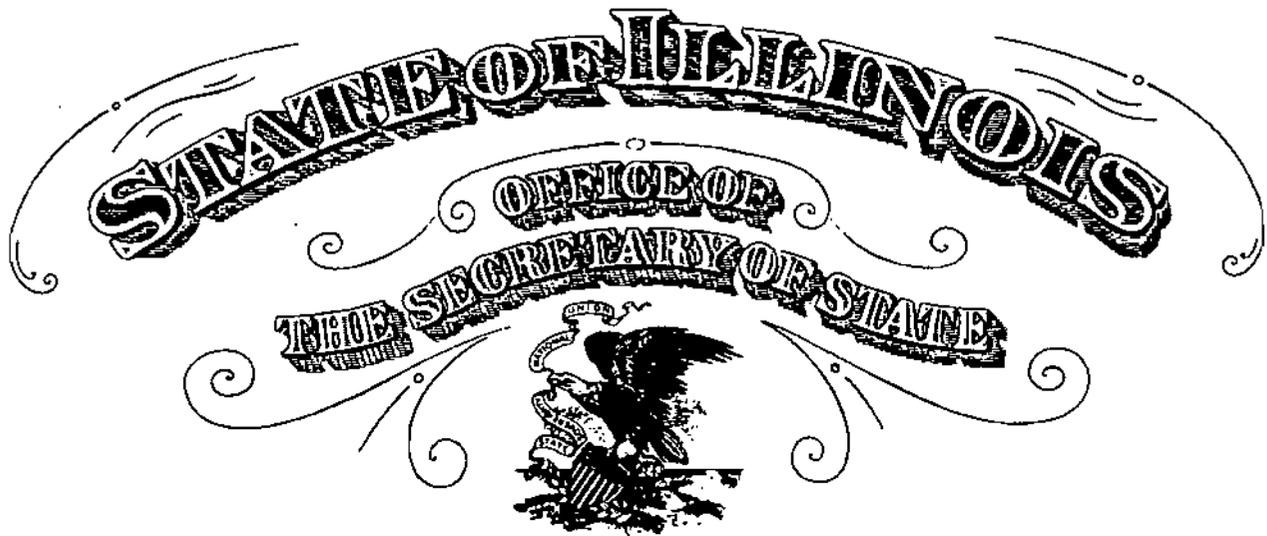
Authenticate at: <http://www.cyberdriveillinois.com>

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 27TH day of FEBRUARY A.D. 2012 .

Jesse White

SECRETARY OF STATE

ATTACHMENT 4, PAGE 2



To all to whom these Presents Shall Come, Greeting:

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

GENESIS HEALTH SYSTEM, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON NOVEMBER 22, 1988, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1205801150

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

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 27TH day of FEBRUARY A.D. 2012 .

Jesse White

SECRETARY OF STATE

ATTACHMENT 4, PAGE 3

ATTACHMENT 5
Transaction Documents

The Option Agreement, Addendum, and Exercise of Option are attached hereto at Attachment 5. Together, these agreements constitute the entirety of the definitive agreement between GMCM, Genesis, and the MCH Parties. Please note that the Transaction is subject to the granting of a COE by the Board, as stated in Sections 3(a), 4, and 5(e) of the Addendum and the Exercise of the Option.

OPTION AGREEMENT

THIS OPTION AGREEMENT (this "Agreement") is made and entered into this ___ day of November, 2010, by and among GENESIS HEALTH SYSTEM, an Iowa nonprofit corporation ("Genesis"), MERCER COUNTY, ILLINOIS, an Illinois municipality (the "County"), MERCER COUNTY HOSPITAL, an unincorporated business unit of the County ("MCH") acting under the authority of its Governing Board (the "MCH Board"; the MCH Board, MCH and the County are collectively referred to herein as the "MCH Parties"); (Genesis and the MCH Parties are referred to herein individually as a "Party" and collectively as the "Parties").

RECITALS

- A. Genesis is a tax-exempt organization whose charitable health care mission is to improve the quality, extend the scope and enhance the accessibility of affordable health care and related services for the residents of Eastern Iowa and Western Illinois (collectively, the "Regional Community"). In furtherance thereof, Genesis operates Genesis Health System (the "System"), an integrated health system located in the Regional Community.
- B. MCH, under the authority of the MCH Board, operates and governs Mercer County Hospital (the "Hospital"), a 22-bed critical access hospital located in Aledo, Illinois, with an affiliated physician clinic, health care facilities and programs that provide quality health care and promote wellness.
- C. The Parties entered into a Memorandum of Understanding on October 7, 2010 (the "MOU"), pursuant to which the Parties agreed to pursue the development of a formal affiliation relationship and to grant Genesis the option to assume certain assets and liabilities of the MCH Parties (the "Option").
- D. Concurrently herewith, the Parties are entering into an Affiliation Agreement (the "Affiliation Agreement") which sets forth the terms of the formal, contractual affiliation of the Parties.
- E. Genesis has determined that the Option will support community health in furtherance of its charitable mission, and the MCH Parties have determined that granting such Option will be in their best interests.
- F. The Parties wish to set forth the terms of the Option as contemplated in the MOU, and as referenced in the Affiliation Agreement, by the execution of this Agreement.

AGREEMENT

NOW, THEREFORE, the Parties, intending to be legally bound, and in consideration of the premises and the mutual covenants, representations and warranties set forth in this Agreement, as well as other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, do hereby agree as follows:

**ARTICLE I
TERM**

1.1 Term. The term of this Agreement (the "Option Term") shall commence on December 1, 2010, at 12:01 a.m. (the "Effective Date") and, unless extended as set forth herein, shall terminate on the later of: (a) 11:59 p.m. on November 30, 2014; or (b) the effective date of the termination of the Affiliation Agreement. If the Option Exercise Date (as defined in Section 3.1) is within the last ninety (90) days of the Option Term, the Parties agree that the Option Term (and the term of the Affiliation Agreement, if then in place) shall be extended through the Closing Date.

1.2 Early Termination. The MCH Parties may terminate this Agreement in the event the Affiliation Agreement is terminated as a consequence of a breach of the Affiliation Agreement by Genesis.

1.3 Obligations upon Termination. Upon termination of this Agreement, no Party hereto shall have any further rights or obligations hereunder except for rights and obligations: (i) accruing prior to the effective date of such termination; (ii) arising as a result of any breach of or default under this Agreement; or (iii) that are to survive as indicated by the text or context thereof.

**ARTICLE II
THE OPTION**

The MCH Parties hereby grant to Genesis the Option to assume title and rights of the MCH Parties in the Included Assets (as hereinafter defined) and to assume the obligations associated with the Included Liabilities (as hereinafter defined) pursuant to the terms and conditions set forth herein. In the event Genesis exercises the Option during the Option Term, the following shall occur at or after the Closing Date, as hereafter defined (subject to the satisfaction of other terms and conditions set forth in Article III):

2.1 Transfer of Assets.

(a) **Transferred Assets.** Subject to the terms and conditions herein, the MCH Parties shall cause to be transferred, conveyed, assigned and delivered to Genesis, and Genesis will accept and take title from the MCH Parties, as applicable, all right title and interest of the MCH Parties in the following assets and agreements as of the Closing Date (collectively, the "Included Assets"):

(i) The MCH hospital facility and the land on which it is located, having an address of 409 NW 9th Avenue, Alledo, Illinois 61231, as legally described on Exhibit A attached hereto (collectively, the "Premises");

(ii) All fixed and moveable furniture, fixtures and equipment, including any medical equipment, used or useful in the operation of MCH and the Hospital (collectively, the "Furniture, Fixtures and Equipment");

(iii) All inventory and supplies on hand or ordered by the MCH Parties for the operation of MCH and the Hospital (collectively, the "Inventory and Supplies");

(iv) All accounts receivable or other amounts due to the MCH Parties from patients or third party payors for services rendered by the MCH Parties, or other receivables from any third party resulting from the operation of MCH (collectively, the "Accounts Receivable");

(v) Funds designated or restricted for MCH improvements or operations and use, including Board designated funds for capital improvements and donor restricted assets, provided that such funds shall be utilized by Genesis in accordance with their restricted purposes (collectively, the "Funds");

(vi) Cash, marketable securities and other readily available funds in accounts or otherwise designated to support operation or capital support of MCH, (collectively, the "Cash");

(vii) All rights of any of the MCH Parties in any contracts or agreements used or useful in the operation of MCH (the "Contracts") and which are assigned to and assumed by Genesis pursuant to the Assignment and Assumption Agreement, as defined in Section 3.4(e)(vii) (collectively, the "Assigned Contracts"); and

(viii) All rights in any intellectual Property, prepaid expenses and other material assets of the MCH Parties used or useful in the operation of MCH (collectively, the "Other Assets").

(b) **Excluded Assets.** The Included Assets shall not include the following:

(i) Certain rural property owned by the any of the MCH Parties which was donated for the benefit of MCH, as legally described on Exhibit B (the "Excluded Real Property"); provided however, that (i) such property shall be titled and held in the name of the Mercer Foundation for Health (the "Foundation") and (ii) any revenues from such property shall continue to support the operations of MCH consistent with the intent of the donors of the property;

(ii) Rights under any Contracts of any of the MCH Parties which are not Assigned Contracts; and

(iii) Any assets held by the Foundation, provided that the Foundation shall continue to exist to support the operations of MCH and the health and well-being of Mercer County residents.

2.2 Assumption of Liabilities. Genesis agrees to assume the following obligations related to the operation of MCH and the Hospital, as of the Closing Date (or such other date as specifically set forth below) (collectively, the "Included Liabilities"):

(a) **Current Debt.** The outstanding balance of all debt attributable to MCH or the County (with respect to its ownership of MCH) that is set forth on Exhibit C attached hereto and made a part hereof, incurred before the Effective Date (collectively, the "Current Debt").

(b) **Renovation Debt.** The outstanding balance of debt related to the renovation project defined in the Project Management Services Addendum to the Management Services Agreement dated as of July 1, 2010, as further detailed and described on Exhibit C (the "Renovation Debt").

(c) **New Debt.** Any new debt incurred by or on behalf of the MCH Parties (with respect to its ownership of MCH), after the Effective Date (including any additional advances on Current Debt or Renovation Debt) which has been approved by Genesis (the "New Debt").

(d) **Trade Payables.** All accounts payable of the MCH Parties as of the Effective Date attributable to the operations of MCH (collectively, "Trade Payables").

(e) **Assigned Contracts.** All obligations of any of the MCH Parties under the terms of any Assigned Contracts.

2.3 Post-Closing Covenants. As further consideration for the transfer of the Included Assets and the assumption of the Included Liabilities, in the event Genesis elects to exercise its Option, the Parties covenant and agree as follows:

(a) **Services.** Genesis agrees to continue to operate MCH as an acute care hospital for a minimum of five (5) years from the Closing Date. The operation of the hospital by Genesis shall include the delivery of care and services to the indigent population of Mercer County and all those in need in a manner consistent with the mission of Genesis.

(b) **Employees.** Employees of MCH currently participate in the Illinois Municipal Retirement Fund ("IMRF"), and the County makes contributions to the IMRF for the benefit of these employees. As of the Closing Date, the employees of MCH shall become employees of Genesis, and said employees will no longer be able to participate in IMRF but will receive other benefits available to other similarly-situated Genesis employees for which they are eligible under current plan participation documents, policies or guidelines in effect as of the Option Exercise Date, as defined in Section 3.1. So long as any MCH employee is continuously employed by Genesis after the Closing Date, the employee will, for purposes of seniority and benefit participation, be given credit for the continuous years of service such employee had with MCH subject, however, to any limitation that may be imposed by a benefit participation plan.

**ARTICLE III
EXERCISE OF OPTION: CLOSING**

3.1 Exercise of Option. At any time during the Term, Genesis may provide the MCH Parties with written notice of its election to exercise the Option (the "Option Notice"), subject to the terms and conditions set forth herein. The date Genesis sends the Option Notice is referred to herein as the "Option Exercise Date."

3.2 Closing. 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, set forth herein within ninety (90) days of the Option Exercise Date (the "Closing Date").

3.3 Covenants Following Exercise of Option. In the event Genesis elects to exercise its Option, the Parties covenant and agree as follows:

(a) **Updated Schedules and Exhibits.** The Schedules and Exhibits shall be true and correct at all times during the Option Term, unless the MCH Board and Genesis have approved of any change to such Exhibits and Schedules (an "Approved Change"). If there is an Approved Change, the MCH Parties agree to promptly furnish to Genesis the applicable updated Schedules and Exhibits as soon as reasonably practicable prior to the Closing Date. Upon approval by Genesis and the MCH Board of any updated Schedules and Exhibits (collectively, the "Updated Schedules and Exhibits"), such Updated Schedules and Exhibits shall be attached to this Agreement and made a part hereof without the further action of any Party.

(b) **Additional Schedules.** The MCH Parties agree to diligently prepare and furnish to Genesis as soon as reasonably practicable after the Option Exercise Date, and in no event later than thirty (30) days after the Option Exercise Date, drafts of each of the informational schedules described in this Section 3.3(b) (collectively, the "Draft Post-Exercise Schedules"). The MCH Parties agree to promptly (i) revise any of the Draft Post-Exercise Schedules upon request from Genesis and, (ii) if necessary, update any Draft Post-Exercise Schedules so that, as of the Closing Date, the information contained therein is true, complete, and, as set forth in Section 3.4(d), acceptable to Genesis. At Closing, the schedules described in this Section 3.3(b), revised and updated as set forth herein (collectively, the "Post-Exercise Schedules"), shall be attached to this Agreement and made a part hereof without the further action of any Party. The Post-Exercise Schedules shall contain the following information:

(i) All Encumbrances affecting the Premises (other than Included Liabilities and Premises Debt, as set forth on Exhibit C) which are acceptable to Genesis in its sole discretion (collectively, the "Permitted Encumbrances"); which such schedule, upon approval by Genesis, shall be attached as Schedule 3.3(b)(i);

(ii) All Furniture, Fixtures and Equipment, as defined in Section 2.1(a)(ii), which such schedule, upon approval by Genesis, shall be attached as Schedule 3.3(b)(ii);

(iii) Any exceptions to the accuracy of the representations and warranties contained in Sections 4.5(b) and (c); which such schedule, upon approval by Genesis, shall be attached as Schedule 3.3(b)(iii);

(iv) A list of each of the Contracts described in Section 4.6(a); which such schedule, upon approval by Genesis, shall be attached as Schedule 3.3(b)(iv);

(v) A description of the Intellectual Property of the MCH Parties used or useful in the operation of MCH, which such schedule, upon approval by Genesis, shall be attached as Schedule 3.3(b)(v);

(vi) a list of the name, job title and current compensation for each employee of MCH and any agreement or arrangement with the employee not available to all employees of MCH Parties, and a list of each Benefit Plan which such schedule; upon approval by Genesis, shall be attached as Schedule 3.3(b)(vi);

(vii) a list of all Permits, as defined in Section 4.12; which such schedule, upon approval by Genesis, shall be attached as Schedule 3.3(b)(vii); and

(viii) a list of the insurance certificates described in Section 4.14; which such schedule, upon approval by Genesis, shall be attached as Schedule 3.3(b)(viii).

(c) **Transfer and Assignment Documents.** The Parties shall work in good faith to finalize the forms of each of the following closing deliverables as soon as practicable after the Option Exercise Date: MCH Parties' Closing Certificate; Genesis Closing Certificate; MCH Parties' Closing Resolution; Genesis Closing Resolution; Real Estate Transfer Documents; Ownership Transfer Documents; Foundation Lease Assignment; Assignment and Assumption Agreement; Third-Party Consents; and any other closing deliverables as described in Section 3.4(e)(x) and Section 3.5(d)(vi).

(d) **Real Estate.** At Closing, the MCH Parties' title in the Premises shall be free of liens, encumbrances, easements or defects, subject only to the encumbrances which secure Included Liabilities and Premises Debt, as set forth on Exhibit C, and any Permitted Encumbrances. The MCH Parties agree to remove on or before the Closing Date all monetary liens and Encumbrances affecting the Premises, except the lien of real property taxes not yet due and payable and any Permitted Encumbrances.

(e) **Non-Assignable Contracts.** Anything in this Agreement to the contrary notwithstanding, no provision of this Agreement or the Exhibits and Schedules shall constitute an agreement to assign, and the Included Assets shall not include any of the Contracts if an attempted assignment thereof, without the consent of a third party thereto,

would constitute a breach thereof or in any way affect the rights of the MCH Parties thereunder. To the extent any of the Contracts are not assignable or if the MCH Parties do not know if any of the Contracts are assignable, the MCH Parties shall extend commercially reasonable efforts to obtain such consents to assignment; provided that Genesis shall not be required to agree to any change in the terms of such Contract or pay any fee or other consideration to a third party in order to obtain any such third party consent. To the extent the MCH Parties are unable to obtain any such consent to assignment or instrument or other document of conveyance with respect to any of such Contracts as reasonably requested by Genesis pursuant to Section 4.6(a) herein within ten (10) days prior to the Closing Date, Genesis shall have no obligation to assume such Contracts, and the MCH Parties, as applicable shall be responsible for such Contracts.

(f) **Working Capital.** The MCH Parties agree that Working Capital of MCH on the Closing Date shall be no less than the working Capital of MCH on the Option Exercise Date (the "Minimum Working Capital"). If Working Capital is less than the Minimum Working Capital on the Closing Date, the County shall provide funds (the "Working Capital Funds") such that the Working Capital equals the Minimum Working Capital by the Closing Date. As used herein, the term "Working Capital" means current assets of MCH minus current liabilities of MCH, determined according to GAAP.

3.4 Closing Conditions – Genesis. The obligation of Genesis to consummate the transactions contemplated herein following its exercise of the Option is subject to satisfaction of the following conditions by the MCH Parties by the Closing Date:

(a) **Representations and Warranties of MCH.** All of the MCH Parties' representations and warranties made herein, considered collectively, and each of such representations and warranties, considered individually, must have been true and correct in all material respects as of the Option Exercise Date and shall be true and correct as of the Closing Date (except for those representations and warranties made as of a particular date, which shall be true and correct as of such date), as though then made.

(b) **Performance of Covenants and Agreements.** The MCH Parties shall have performed in all material respects all of the covenants and agreements required to be performed by it hereunder at or prior to the Closing Date.

(c) **Actions and Proceedings.** No action or proceeding before any Governmental Authority shall be pending wherein an unfavorable judgment, decree or order would (i) prevent the performance of this Agreement or the consummation of any of the transactions contemplated hereby, declare unlawful the transactions contemplated by this Agreement or cause such transaction to be rescinded, or (ii) have a Material Adverse Effect, nor shall there be any change in any applicable law or regulation which would have the same effect.

(d) **Condition of MCH.** Genesis shall be satisfied with its inspection, survey, audit and review of the assets, records and operations of the MCH Parties and the condition of the assets, records and operations of the MCH Parties shall be acceptable to

Genesis in its discretion in all material respects. The Updated Schedules and Exhibits, if applicable, and all Post-Exercise Schedules shall be acceptable to Genesis in its discretion in all material respects.

(e) **Closing Deliverables.** The MCH Parties, as applicable, shall have delivered to Genesis each of the following:

(i) the Working Capital Funds, if applicable;

(ii) a certificate (or certificates) of the MCH Parties, dated on the Closing Date, stating that the conditions specified in subsections (a) and (b) above have been satisfied, which such certificate (or certificates) shall: (A) specifically remake each of the representations and warranties of the MCH Parties set forth in Article IV, (B) certify that there have been no changes to any of the Schedules since the Effective Date, except as set forth in Section 3.3(a); (C) certify that any Updated Schedules and Exhibits are true and correct; and (D) certify that the Post-Exercise Schedules are true and correct.

(iii) certified copies of resolutions or consents duly adopted by the MCH Parties authorizing (A) the execution, delivery and performance of the agreements contemplated hereby, and (B) the consummation of all transactions contemplated hereby;

(iv) a warranty deed transferring ownership of the Premises to Genesis, in form and substance satisfactory to Genesis, executed by the County and other items required to transfer title to the Premises to Genesis (collectively, the "Real Estate Transfer Documents");

(v) documentation transferring ownership of the Included Assets set forth in Sections 2.1(a)(ii)-(vi), (viii), in form and substance satisfactory to Genesis, executed by the MCH Parties, as applicable;

(vi) an assignment of the Foundation Lease (as defined in Section 4.5(a)(ii)) in favor of Genesis (the "Foundation Lease Assignment"), in form and substance satisfactory to Genesis, executed by MCH;

(vii) an assignment and assumption agreement assigning the Assigned Contracts to Genesis, in form and substance satisfactory to Genesis (the "Assignment and Assumption Agreement"), executed by the MCH Parties, as applicable;

(viii) an assignment of any owner's title insurance policy with respect to the Premises, to the extent assignable;

(ix) consents from third-parties to the Assigned Contracts, to the extent reasonably required by Genesis;

(x) certificates of insurance required pursuant to Section 4.14; and

(xi) such other documents as Genesis may reasonably request for the purpose of (A) evidencing the accuracy of any of the MCH Parties' representations and warranties, (B) evidencing the performance by the MCH Parties of, or the compliance by the MCH Parties with, any covenant or obligation required to be performed or complied with by the MCH Parties, as applicable, (C) evidencing the satisfaction of any condition referred to in this Section 3.4, or (D) otherwise facilitating the consummation or performance of transactions contemplated by this Agreement, including the assignment of the Assigned Contracts and the transfer of any other Included Assets.

3.5 Closing Conditions – MCH Parties. The obligation of the MCH Parties to consummate the transactions contemplated herein following exercise of the Option by Genesis is subject to satisfaction of the following conditions by Genesis by the Closing Date:

(a) **Representations and Warranties of Genesis.** All of the representations and warranties of Genesis hereunder, considered collectively, and each of these representations and warranties, considered individually, must have been true and correct in all material respects as of the date of the Option Exercise Date and shall be true and correct as of the Closing Date (except for those representations and warranties made as of a particular date, which shall be true and correct as of such date) as though then made.

(b) **Performance of Covenants and Agreements.** Genesis shall have performed in all material respects all of the covenants and agreements required to be performed by it under this Agreement at or prior to the Closing Date.

(c) **Actions and Proceedings.** No action or proceeding before any Governmental Authority shall be pending wherein an unfavorable judgment, decree or order would (i) prevent the performance of this Agreement or the consummation of any of the transactions contemplated hereby, declare unlawful the transactions contemplated by this Agreement or cause such transaction to be rescinded, or (ii) have a Material Adverse Effect, nor shall there be any change in any applicable law or regulation which would have the same effect.

(d) **Closing Deliverables.** Genesis shall have delivered to the MCH Parties each of the following:

(i) a certificate of Genesis dated the Closing Date, stating that the conditions specified in subsections (a) and (b) above have been satisfied by Genesis;

(ii) a copy of the articles of incorporation for Genesis, certified by the Secretary of State of Iowa dated within fifteen (15) days of the Closing Date;

(iii) certified copies of resolutions or consents duly adopted by the board of directors of Genesis authorizing (A) the exercise of the Option, (B) the execution, delivery and performance of the agreements contemplated hereby, and (C) the consummation of all transactions contemplated hereby;

(iv) a copy of the Foundation Lease Assignment executed by Genesis;

(v) a copy of the Assignment and Assumption Agreement executed by Genesis; and

(vi) such other documents as the MCH Parties may reasonably request for the purpose of (A) evidencing the accuracy of any of Genesis's representations and warranties, (B) evidencing the performance by Genesis of, or the compliance by Genesis with, any covenant or obligation required to be performed or complied with by Genesis, (C) evidencing the satisfaction of any condition referred to in this Section 3.5, or (D) otherwise facilitating the consummation or performance of transactions contemplated by this Agreement, including the assumption of the Included Liabilities.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF THE MCH PARTIES

Each MCH Party hereby represents and warrants to Genesis (provided, however, that the representations and warranties made by the County are limited to its ownership and operation of the Hospital), as of the date hereof (except, as to any representations and warranties that specifically relate to an earlier date, and then as of such earlier date), that:

4.1 Organization. Each MCH Party has all requisite power and authority to carry on business relating to MCH and the operation of the Hospital and to own and use the properties presently owned and used by each of them, respectively.

4.2 Authorization. This Agreement and the consummation of the transactions contemplated hereby have been duly authorized, executed and delivered by each MCH Party, and, assuming the due authorization, execution and delivery by Genesis, constitute legal, valid and binding obligations of each MCH Party enforceable against each MCH Party in accordance with their terms, except as enforceability may be limited by bankruptcy laws, other similar laws affecting creditors' rights and general principles of equity affecting the availability of specific performance and other equitable remedies.

4.3 Noncontravention; Notice and Consents

(a) **Noncontravention.** The execution and delivery of this Agreement by each MCH Party, and the consummation of the transactions contemplated hereby, will not (i) violate any law, order or decree or any provision of the governing documents of any of the MCH Parties, (ii) result in a breach of, constitute a default under (with or without notice or lapse of time, or both), result in the termination, cancellation or acceleration of, or create in any party the right to accelerate, terminate or cancel any

Contract or Permit; or (iii) result in the creation of any Encumbrance upon any of the assets of the MCH Parties.

(b) **Notice and Consents.** The MCH Parties are not required to submit any notice, report or other filing with any Governmental Authority (or, if required to submit any notice, such notice requirement has been fulfilled prior to the date hereof) in connection with the execution, delivery or performance by it of this Agreement or the consummation of the transactions contemplated hereby, and no consent, approval or authorization of any Governmental Authority or any other Person is required to be obtained in connection with the MCH Parties' execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby, including the Closing. The County represents and warrants that, as of the Effective Date, all notice and authorization requirements set forth in 55 ILCS 5/5-1040 have been met, and no further notice or authorization is needed to consummate the Closing, as set forth herein.

4.4 Financial Statements; Books and Records. The books of account, financial statements prepared in accordance with GAAP, and other accounting records of MCH, all of which have been made available to Genesis pursuant to Section 6.5(b), are complete and correct in all material respects.

4.5 Properties.

(a) **Real Property.**

(i) **Owned Property.** The County is the fee simple owner of the Premises and has good and marketable title to the Premises. MCH does not own any real property other than the Excluded Real Property.

(ii) **Leased Property.** MCH leases a medical office building (the "Foundation Building") from the Foundation pursuant to that certain Lease Agreement by and between the Foundation as landlord and MCH as tenant, dated as of November 11, 2010 (the "Foundation Lease"), which such Foundation Lease is in full force and effect. MCH does not lease any real property other than the Foundation Building. In the event Genesis chooses to exercise its Option, the Foundation has agreed to assign the Foundation Lease to Genesis by the Closing Date pursuant to the landlord certificate, consent and estoppel substantially in the form attached hereto as Exhibit D (the "Foundation Consent"). The MCH Parties have delivered a copy of the Foundation Consent executed by the Foundation to Genesis on or prior to the Effective Date.

(iii) **General.** There are no applicable adverse zoning, building or land use codes or rules, ordinances, regulations or other restrictions relating to zoning or land use that currently or may prospectively (i) prevent or impair the continued use of the Premises or the Foundation Building for the conduct of the MCH Parties' business as currently conducted, or (ii) cause the imposition of material fines or penalties as the result of the use of all or any portion of the Premises or the Foundation Building for the conduct thereon of the MCH Parties' business as presently conducted.

(b) **Furniture Fixtures and Equipment.** The MCH Parties own good title to, or hold pursuant to valid and enforceable leases (subject to proper authorization and execution of each such lease by the other party thereto and the application of bankruptcy and other laws relating to creditors' rights), all of the Furniture, Fixtures and Equipment, supplies and any other personal property necessary and useful for the operation of MCH, free and clear of all Encumbrances.

(c) **Condition and Adequacy of Assets.** The Furniture, Fixtures and Equipment and other personal property of the MCH Parties, with respect to the operation of MCH, are in operating condition and are adequate for the uses to which they are being put, and, to the Knowledge of the MCH Parties, none of the Equipment is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are not material in nature or cost. The Furniture, Fixtures and Equipment and supplies of the MCH Parties are sufficient for the continued conduct of MCH after the Effective Date and, if applicable, the Closing Date, in substantially the same manner as conducted prior to the Effective Date and, if applicable, the Closing Date.

4.6 **Contracts.**

(a) **Material Contracts.** The MCH Parties have made available to Genesis correct and complete copies of each written Contract, and a description of each oral Contract, of the following types to which any of the MCH Parties are a party and are bound by as of the date hereof with respect to the ownership or operation of MCH: (i) Contracts with third party payors for services rendered by MCH to its patients; (ii) Contracts or groups of related Contracts with the same party providing for the purchase or sale of products or services by the MCH Parties of an outstanding amount in excess of Twenty-Five Thousand Dollars (\$25,000); (iii) Contracts which have a fixed term extending more than twelve months from the date hereof and which involve an annual commitment or annual payment by any party thereto of more than Twenty Thousand Dollars (\$20,000) or cumulative payments in excess of Fifty Thousand Dollars (\$50,000); (iv) any partnership or joint venture Contract; (v) any contract with a physician or physician group; (vi) any license of material Intellectual Property with a third party; (vii) any written Contract for the employment of any Person on a full-time or consulting basis; (viii) any Contract relating to long-term debt owed by the any of the MCH Parties as of the Effective Date; (ix) all Contracts imposing a noncompetition obligation on any of the MCH Parties, or any similar restriction on the activities of the MCH Parties, as applicable; and (x) any other Contract reasonably requested by Genesis.

(b) **No Breach.** Each such Contract as set forth in subsection (a) above is valid and enforceable by and against the MCH Parties, as applicable, in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, or other similar laws affecting the rights and remedies of creditors generally and the general principles of equity. None of the MCH Parties, nor, to the Knowledge of the MCH Parties, any other party is in breach or default under any such Contract as set forth in subsection (a) above or any other contract or agreement of the MCH Parties, except for any breaches, defaults, terminations, modifications or accelerations which have been cured or waived or which would not reasonably be expected to have a Material Adverse

Effect.

4.7 Intellectual Property. The MCH Parties own or have the right to use all Intellectual Property used in the conduct of the business of MCH and the consummation of the transactions contemplated hereby will not alter or impair any such rights. The current use by the MCH Parties of any Intellectual Property does not infringe on the rights of any Person and there are no pending, or to the Knowledge of the MCH Parties, threatened, claims by any third party against the MCH Parties alleging that either of their use of any Intellectual Property infringes the intellectual property rights of such third party.

4.8 Absence of Certain Changes or Events. Except as disclosed to Genesis in writing, since December 31, 2009, there has not been (i) any material adverse change in the financial condition or in the operations, business or property of the MCH Parties, or (ii) any damage, destruction or loss, whether or not covered by insurance, that materially or adversely affects the operations, business or property of the MCH Parties.

4.9 Tax Matters. MCH has filed on a timely basis all tax returns that are or were required to be filed by or with respect to it. MCH has paid, or made provision for the payment of, all taxes that have or may have become due pursuant to those tax returns or otherwise, or pursuant to any assessment received by MCH and there exists no proposed tax assessment against MCH. All taxes that MCH is or was required to withhold or collect have been duly withheld or collected and, to the extent required, have been paid to the proper Governmental Authority or other Person. There are no liens for taxes on any assets of MCH, and MCH is not subject to any currently pending tax audits or other proceedings with regard to any taxes for which MCH would be liable.

4.10 Litigation. There are no actions, suits, claims, investigations or proceedings pending or, to the Knowledge of the MCH Parties, threatened against the MCH Parties, at law or in equity, or before or by any Governmental Authority. The MCH Parties are not subject to any judgment, decree, injunction, rule or order of any Government Authority which could reasonably be expected to have a Material Adverse Effect.

4.11 Employees; Employment Matters.

(a) **Employees.** Each employee of MCH is duly licensed and qualified to perform the functions assigned to the employee and no employee has been disbarred or otherwise excluded or ineligible from serving as provider of services reimbursed under Medicare and Medicaid programs. MCH is not a party to or bound by any collective bargaining agreement.

(b) **Compliance with Laws.** MCH has, in all material respects, complied with all applicable laws relating to labor or labor relations and employment standards, including any provisions thereof relating to wages, hours, immigration control, employee safety, termination pay, vacation pay, fringe benefits, employee benefits, collective bargaining and the payment and/or accrual of the same and all insurance and all other costs and expenses applicable thereto. There is no unlawful employment discrimination charge pending before Governmental Authority or, to the Knowledge of the MCH Parties, threatened, against or involving the MCH Parties.

(c) **Employee Benefit Plans.** The Benefit Plans comply in form and, to the Knowledge of the MCH Parties, in operation with the requirements of the Code and ERISA. No event has occurred, and there exists no condition or set of circumstances in connection with which the MCH Board is now or could be in the future subject to any liability under ERISA. All required contributions have been made or properly accrued.

4.12 Licenses, Permits and Approvals. The MCH Parties have obtained all material governmental and regulatory licenses, authorizations, franchises, certificates, permits and approvals (collectively, the "Permits") necessary for the conduct of the business of MCH including the ownership and operation of the Furniture, Fixtures and Equipment. The MCH Parties are in compliance with the terms of the Permits, except for such noncompliance as would not reasonably be expected to have a Material Adverse Effect.

4.13 Medicare and Medicaid. MCH is a participating provider under the rules and regulations for, and eligible to receive, Medicare and Medicaid reimbursement, and has not been debarred or excluded from participating in the Medicare program, the Medicaid program of any state, or any other federal health care program. MCH represents and warrants that, to its Knowledge, none of its officers, directors, employees or agents who may provide services or otherwise act with regard to this Agreement have been so debarred or excluded. MCH has duly filed any required reports on a timely basis and all such reports are true and correct in all material respects. Claims for reimbursement filed by MCH do not seek, and MCH has not received, reimbursement in an amount in excess of that permitted by law.

4.14 Insurance. The MCH Parties have in place all insurance policies required pursuant to Section 3.7 of the Affiliation Agreement. All such insurance policies are in full force and effect, and all premiums that are due and payable on such policies have been paid.

4.15 Environmental Matters. The MCH Parties' business complies and has at all times complied with, and it is not in violation of, and has not violated, in connection with the ownership, use, maintenance or operation of its properties and the conduct of its businesses related thereto, any applicable federal, state, county or local statutes, laws, regulations, rules, ordinances, codes, licenses or permits of all governmental authorities relating to environmental matters. The MCH Parties are in compliance with all laws regarding the disposal of medical waste.

4.16 Compliance with Laws. The MCH Parties have complied with all applicable laws of federal, state, local, and foreign governments, except where the failure to comply would not have a Material Adverse Effect. MCH specifically represents that MCH is in compliance with the laws governing payment or reimbursement under Medicare and Medicaid and other entitlement programs.

4.17 Accounts Receivable. All of the accounts receivable of the MCH Parties including, but not limited to Medicare and Medicaid patient accounts receivable, (collectively, the "Accounts Receivable") constitute bona fide indebtedness owing to the MCH Parties, as applicable, for services actually provided and have been recorded in the ordinary course of business and such Accounts Receivable have been carried on the books of the MCH Parties at

values in conformity with past practices and reflect all facts known to the MCH Parties as of the date hereof pertaining to the valuation thereof.

4.18 Disclosure. No representation or warranty by the MCH Parties in this Agreement or any Schedule or Exhibit furnished or to be furnished to Genesis pursuant hereto, or in connection with the transactions contemplated hereby, contains an untrue statement of a material fact or to the best of the MCH Parties omits a material fact necessary to make the statements contained therein not misleading.

ARTICLE V REPRESENTATIONS AND WARRANTIES OF GENESIS

Genesis hereby represents and warrants to the MCH Parties, as of the date hereof (except, as to any representations and warranties that specifically relate to an earlier date, and then as of such earlier date), that:

5.1 Organization. Genesis is a nonprofit corporation duly organized, validly existing and in good standing under the laws of Iowa. Genesis has all requisite corporate power and authority to carry on the business in which it is presently engaged and to own and use the properties presently owned and used by it.

5.2 Authorization. This Agreement and the consummation of the transactions contemplated hereby has been duly authorized, executed and delivered by Genesis and, assuming the due authorization, execution and delivery by the other Parties hereto, constitutes a legal, valid and binding obligation of Genesis enforceable against Genesis in accordance with its terms, except as enforceability may be limited by bankruptcy laws, other similar laws affecting creditors' rights and general principles of equity affecting the availability of specific performance and other equitable remedies.

5.3 Noncontravention; Consents.

(a) **Noncontravention.** The execution and delivery of this Agreement by Genesis, and the consummation of the transactions contemplated hereby, will not (i) violate any law, order or decree or any provision of Genesis governing documents, (ii) result in a breach of, constitute a default under (with or without notice or lapse of time, or both), result in the termination, cancellation or acceleration of, or create in any party the right to accelerate, terminate or cancel any Contract or Permit; or (iii) result in the creation of any Encumbrance upon any of the assets of Genesis.

(b) **Consents.** Genesis is not required to submit any notice, report or other filing with any Governmental Authority in connection with the execution, delivery or performance by it of this Agreement or the consummation of the transactions contemplated hereby, and no consent, approval or authorization of any Governmental Authority or any other Person is required to be obtained in connection with Genesis's execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby.

5.4 Disclosure. No representation or warranty by Genesis in this Agreement or any Schedule or Exhibit furnished or to be furnished to the MCH Parties pursuant hereto, or in connection with the transactions contemplated hereby, contains an untrue statement of a material fact or to the best of Genesis's Knowledge omits a material fact necessary to make the statements contained therein not misleading.

ARTICLE VI COVENANTS

6.1 Due Diligence, Cooperation. The Parties acknowledge and agree that Genesis may commence a due diligence review of the activities, operations, assets and liabilities of MCH at any time during the Option Term. The MCH Parties agree to cooperate in such investigation, and timely provide such documentation and information as may be requested by Genesis. At any time prior to or after the Option Exercise Date, including as set forth in Section 3.3(a) and Section 3.3(b), Genesis may reasonably request that the MCH Parties provide updated information as to any Schedule, Exhibit, Updated Schedules and Exhibits, or Post-Exercise Schedules, as applicable, and may request any additional disclosure schedules, financial statements or other information that Genesis deems necessary to evaluate the content and condition of the Included Assets and the accuracy of the representations and warranties contained herein. The MCH Parties shall furnish any such requested schedules, statements and information to Genesis as soon as reasonably practicable.

6.2 Exclusivity. During the Term, none of the MCH Parties shall participate in discussions or negotiations with any third party for any transaction that is inconsistent with the transactions contemplated in this Agreement or in the Affiliation Agreement. Notwithstanding the foregoing, in the event Genesis and the MCH Parties have determined not to extend the Term and Genesis has not provided the MCH Parties with the Option Notice, the MCH Parties may engage in discussions with third parties about possible transactions or relationships during the last six (6) months of the Term; provided, however, that any such transactions or relationships with third parties shall commence only after the expiration of the Term, and no such transactions or relationships shall commence if Genesis exercises its Option during the Term.

6.3 Best Efforts. Subject to the terms and conditions herein provided, each Party hereto shall act in good faith and use its best efforts to take, or cause to be taken, all action, or do, or cause to be done, all things, necessary, proper or advisable under the laws of the State of Illinois to consummate and make effective the transactions contemplated by this Agreement and to finalize and execute the remaining agreements referenced herein, subject, however, to the appropriate consent of the board of directors of Genesis.

6.4 Notice of Breach. Each Party will give prompt notice to the other Parties of the occurrence of any event, or the failure of any event to occur, that results in a breach of any representation or warranty by the applicable Party or a failure by the applicable Party to comply with any covenant, condition or agreement contained herein.

6.5 Covenants of MCH. During the period commencing on the Effective Date and ending on the later of the Closing Date or termination of the Term:

(a) **Conduct of Business.** The MCH Parties shall conduct the business and operations of the Hospital and other business of MCH in the Ordinary Course of Business, in a safe and prudent manner, consistent with past practices and procedures and, to the extent consistent with such business, shall use all reasonable efforts to preserve intact the business organization, to keep available the services of the employees and agents, and to preserve its relationships with patients, physicians, and others having business dealings with MCH to the end that the goodwill and continuing business of MCH shall not be suffer any Material Adverse Effect through the later of the Closing Date or the termination of the Term. Without the written consent of Genesis or as otherwise provided for herein, the MCH Parties shall (i) not amend the Bylaws of the MCH Board other than as specifically required pursuant to the Affiliation Agreement; (ii) not acquire or enter into an agreement to acquire, by merger, consolidation or purchase of stock or assets, any business or entity; (iii) not sell, dispose of, or encumber, or enter into any agreement to sell, dispose of, or encumber any assets of MCH outside the Ordinary Course of Business, (iv) not (1) create, incur or assume any long-term debt (including obligations in respect of capital leases which individually involve annual payments in excess of \$25,000 or \$50,000 in the aggregate) or, except in the Ordinary Course of Business under existing lines of credit, create, incur or assume any short-term debt for borrowed money, (2) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other Person, (3) create, or allow the creation of, any lien or security interest to any of MCH's assets, (4) make any loans or advances to any Person, or (5) make any capital contributions to, or investments in, any person; (v) not enter into, modify or extend in any manner the terms of any employment, severance or similar agreements with members or managers nor grant any increase in the compensation of members, managers or employees, whether now or hereafter payable (except for compensation increases in the Ordinary Course of Business and consistent with past practice with respect to employees other than executive officers and directors), including any such increase pursuant to any option, bonus, stock purchase, pension, profit-sharing, deferred compensation, retirement or other plan, arrangement, contract or commitment; (vi) perform in all material respects all of its obligations under all contracts (except those being contest in good faith) and not enter into, assume or amend any contract or commitment that would be a Contract, other than a contract entered into in the Ordinary Course of Business and consistent with past practices and procedures; (vii) use commercially reasonable efforts to maintain in full force and effect and in the same amounts policies of insurance comparable in amount and scope of coverage to that now maintained by the MCH Parties and not amend or cancel any policies of insurance now maintained by the MCH Parties; and (viii) not permit a change in its methods of maintaining its books, accounts or business records or, except as required by GAAP (in which event prior notice shall be given to Genesis), change any of its accounting principles or the methods by which such principals are applied for tax or financial reporting purposes.

(b) **Access to Books and Records.** The MCH Parties shall provide Genesis and its authorized representatives with full access during normal business hours of MCH and upon at least 48 hours' prior notice to the offices, properties, senior management, books and records of MCH in order for Genesis to have the opportunity to make such investigation as it shall reasonably desire to make of the affairs of the MCH Parties;

provided, however, that the activities of Genesis and its representatives shall be conducted in a manner as not to interfere unreasonably with the operation of the business of the MCH Parties.

ARTICLE VII DEFINITION OF TERMS

For purposes of this Agreement, the terms set forth below shall have the following meanings. All other capitalized terms have the meanings given to them in the text of this Agreement or the Affiliation Agreement, as applicable.

7.1 **"Benefit Plan"** means pension, retirement, savings, profit sharing, deferred compensation, salary continuation, incentive compensation, stock option, severance, (change in control) or termination pay, medical, dental, life or other insurance, disability plan, sick leave, vacation, personal time off with pay (including personal time off days, flex days and illness of family member days) or other employee benefit plan or program, agreement or arrangement maintained, sponsored or contributed to by any MCH Party or required to be contributed to the any MCH Party, whether covering employees of any MCH Party, former employees of any MCH Party, or managers or former managers of any MCH Party (including, but not limited to, any "Employee Benefit Plan," as defined in Section 3(3) of ERISA).

7.2 **"Code"** means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

7.3 **"Encumbrance"** means any mortgage, pledge, lien, encumbrance, charge, or other security interest, option, right or restriction, other than (a) statutory liens of landlords and liens of carriers, warehousemen, mechanic's, materialmen's, and similar liens for amounts not yet due and payable or that are being contested in good faith through appropriate proceedings, (b) liens for taxes not yet due and payable or for taxes that the taxpayer is contesting in good faith through appropriate proceedings, (c) purchase money liens and liens securing rental payments under capital lease arrangements that have been disclosed pursuant hereto to the extent required to be disclosed; (d) liens incurred or deposits made in the Ordinary Course of Business in connection with workers' compensation, unemployment insurance or other types of social security; (e) with respect to real property only, zoning restrictions, building codes and other land use laws regulating the use or occupancy of property, and defects of title, easements, rights of way, covenants and restrictions that do not, individually or in the aggregate, materially impair the marketability or use of such real property, or materially interfere with the Ordinary Course of Business, and (f) other liens and encumbrances not incurred in connection with the borrowing of money, that do not have a Material Adverse Effect.

7.4 **"Exhibits"** means the exhibits that are attached to this Agreement and are incorporated by reference herein.

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

7.6 "GAAP" means generally accepted accounting principles as in effect in the United States of America.

7.7 "Governmental Authority" means any of the following: (i) the United States of America, (ii) any state, commonwealth, territory or possession of the United States of America and any political subdivision thereof (including counties, municipalities and the like), and (iii) any agency, authority or instrumentality of any of the foregoing, including any court, tribunal, department, bureau, commission, board, arbitrator or panel of arbitrators.

7.8 "Intellectual Property" means all fictitious or assumed business names, trading names, registered and non-registered trademarks, service marks and applications; all patents, patent applications, inventions and discoveries that may be patentable; all copyrights and both published works and unpublished works; and all knowhow, trade secrets, confidential information, patient lists, software, technical information, data, process technology, plans, drawings and blueprints owned, used or licensed to or by a Party.

7.9 "Knowledge" as to the MCH Parties means (i) the actual knowledge of any physician, manager or designated officer or key employee or (ii) knowledge that a reasonable person under similar circumstances would have known or been made aware of in the course of his or her role with MCH as a manager or key employee; and as to Genesis, means (i) the actual knowledge of any administrative officer or (ii) knowledge that a reasonable person under similar circumstances would have known or been made aware of in his or her role with Genesis as an administrative officer.

7.10 "Material Adverse Effect" means a material adverse effect or impact upon the assets, financial condition, results of operations or business of MCH or the County (with respect to the ownership or operation of MCH), as the case may be, taken as a whole or on the ability of any of the Parties, as the case may be, to consummate the transactions contemplated hereby or the occurrence of any event reasonably likely to result in such a material adverse effect; provided, however, that none of the following shall be deemed in themselves, either alone or in combination, to constitute, and none of the following shall be taken into account in determining whether there has been or will be, a Material Adverse Effect: any adverse change, impact, effect, event, occurrence, state of facts or development attributable to, resulting from, or relating to (i) the announcement or pendency of the transactions contemplated by this Agreement; (ii) conditions affecting the industry in which the any of the Parties participates, the U.S. economy as a whole or the capital markets in general or any of the markets in which MCH operates; (iii) any change in accounting requirements or principles or any change in applicable laws, rules or regulations or the interpretation thereof; (iv) actions required to be taken under applicable laws, rules, regulations, contracts or agreements; or (v) acts of God, fire, natural disaster, epidemic, riot, terrorism or military action or the threat thereof.

7.11 "Ordinary Course of Business" means an action taken by a Person will be deemed to have been taken in the "Ordinary Course of Business" only if: (i) such action is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person; (ii) such action is not required to be authorized by the board of directors of such Person (or by any Person or group of Persons exercising similar

authority); and (iii) such action is similar in nature and magnitude to actions customarily taken, without any authorization by the board of directors (or by any Person or group of Persons exercising similar authority), in the ordinary course of the normal day-to-day operations of other Persons that are in the same line of business as such Person.

7.12 "Person" means individual, trust, corporation, partnership, limited partnership, limited liability company or other business association or entity or Governmental Authority.

7.13 "Schedules" means the disclosure schedules that are attached to this Agreement and are incorporated by reference herein.

ARTICLE VIII MISCELLANEOUS

8.1 **Costs.** The Parties shall each pay their own expenses including, without limitation, fees and expenses of their agents, employees, representatives, counsel, accountants, and other costs incident to the preparation of this Agreement and the consummation of the transaction provided herein. After the exercise of the Option, Genesis shall pay recording fees transfer taxes, and costs of any title insurance for the benefit of Genesis which is applicable to the transfer of the Premises to Genesis. Genesis shall further reimburse the MCH Parties reasonable attorney fees incurred to transfer the Premises to Genesis; provided, however, that in no event shall Genesis be obligated to pay attorney fees in excess of \$1,000 and any attorney fees in excess of \$1,000 shall be paid by the MCH Parties.

8.2 **Default.** In the event either of the MCH Parties fail to transfer the Included Assets as set forth herein, Genesis shall be entitled to either sue for specific performance of the transfer of the Premises or terminate this Agreement and sue for money damages, so long as Genesis is not in material default of this Agreement.

8.3 **Notices.** All notices or other communications shall be in writing shall be deemed given to them personally, telecopy (which is confirmed) or mailed by registered or certified mail (return receipt requested) to the parties at the addresses set forth in Section 4.1 of the Affiliation Agreement (or such other address for a party as shall be specifically specified by like notice).

8.4 **No Third Party Rights or Remedies.** Except as otherwise provided herein, nothing herein expressed or implied is intended or shall be construed to confer upon or to give any person, firm or corporation any rights or remedies under or by reason of this Agreement.

8.5 **Headings.** Descriptive headings are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

8.6 **Exhibits and Documents.** All Exhibits, Schedules and other documents referred to in or attached to this Agreement and all other writings between the parties, are integral parts of this Agreement as if fully set forth herein, and all statements appearing therein shall be deemed disclosed and relied upon for all purposes and not just in connection with the specific representation to which they are explicitly referenced.

8.7 **Notification.** During the pendency of this Agreement, and so long thereafter as

the Parties are negotiating in good faith concerning the transactions contemplated in this Agreement, each Party agrees to give written notification to the other of any material adverse change in the nature or operation of its business

8.8 Supervening Laws. The Parties recognize that this Agreement at all times is to be subject to applicable state, local and federal law. The Parties further recognize that this Agreement shall be subject to amendment in such laws and regulations and to new legislation. Any provisions of the law that invalidate, or otherwise are inconsistent with, the terms of this Agreement or the intentions of the Parties as stated herein, or that would cause one or more of the Parties to be in violation of law, shall be deemed to have superseded the terms of this Agreement; provided, however, that the Parties shall exercise their best efforts to accommodate the terms and intent of this Agreement to the greatest extent possible consistent with the requirements of law.

The Parties hereby expressly agree that it is not the intention of any Party to violate any public policy, statutory or common laws, that if any sentence, paragraph, clause or combination of the same is in violation of any state or federal law, such sentence, paragraph, clause or combination of the same shall be inoperative and the remainder of this Agreement shall be binding upon the Parties hereto. It is the intention of the Parties to make this Agreement binding only to the extent that it may be lawfully done under existing state and federal laws.

8.9 Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term of this Agreement, such provision shall be fully severable; this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Agreement; and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of each such illegal, invalid or unenforceable provision, there shall be added automatically as part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

8.10 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois.

8.11 Counterparts. This Agreement may be signed in any number of counterparts with the same effect as if the signature of each such counterpart were upon the same instrument.

8.12 Further Assurances. From time to time after execution of this Agreement, each Party, at the request of the other and without further consideration, agrees to execute and deliver or to cause to be executed and delivered at its expense, such other instruments or documents as may reasonably be requested by the other to more effectively carry out the intent and purposes hereof.

8.13 Assignment and Parties in Interest. This Agreement shall be binding upon and inure to the benefit of the Parties, their successors and assigns; provided, however, neither Party shall assign its rights or obligations under this Agreement without the prior written consent of the other Party.

8.14 Waiver. No breach of any of the terms or provisions of this Agreement shall be deemed as consented to or excused, nor shall the validity or performance of any representation, promise or undertaking herein be deemed waived, nor any delay in or deviation from the time or manner of any performance be deemed consented to unless such consent, excuse or waiver, shall be in writing and signed by the Party claimed to have consented, excused or waived. Any such consent, excuse or waiver shall not constitute consent to, waiver of, or excuse for any other similar or dissimilar, breach, delay or deviation.

8.15 Entire Agreement. This Agreement including all Exhibits and Schedules hereto constitutes the entire agreement between the Parties with respect to the subject matter referenced in this Agreement and supersedes any and all prior negotiations, correspondence, understandings and agreements among the Parties. This Agreement may be amended only by written instrument signed by each Party, which incorporates this Agreement by reference.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties have adopted this Option Agreement as of the date first set forth above.

MERCER COUNTY, ILLINOIS

By: Maxine Henry
Mercer County Board, Chair
Its: _____

MERCER COUNTY HOSPITAL
(by action of its Governing Board)

By: [Signature]
Mercer County Hospital Governing Board
Its: Chairman

GENESIS HEALTH SYSTEM

By: [Signature]
Its: CEO

INDEX OF SCHEDULES AND EXHIBITS

Exhibits

Exhibit A	Legal Description of the Premises
Exhibit B	Excluded Real Property
Exhibit C	Current Debt and Renovation Debt
Exhibit D	Form of Foundation Consent

EXHIBIT A

Legal Description of the Premises

The property on which the hospital is located is currently being replatted. The legal description of the Premises, after replatting, shall be "Lot 1 of Lots 1 and 2 of the Mercer County Hospital - Subdivision to the City of Aledo, Mercer County, Illinois."

EXHIBIT B

Excluded Real Property

- Parcel # - 10-10-28-400-002: S28 T14 R3 Lots 3 & 4 SE A/K/A SE ¼ - Less N 66A-10-022-005-00; and
- Parcel # - 10-10-27-300-002: S27 T14 R3 SW - Less Tracts Per Survey By Herman 04/28/2006 - Balance 130.55 Acres - 10-021-012-00; and
- Parcel # - 10-10-27-300-003: Pt SW/1 S27 T14N R3W As Desc By Survey By Herman 04/28/06 - Balance 12.31 Acres; all located in Mercer Township, Mercer County, Illinois, and containing approximately 238.68 Acres.
- Parcel # - 10-10-28-200-006: S28 T14 R3 NE - Less S 337.67' of N 612.97' of W 516' of NE ¼ NE ¼ - Less 2.43 Acres to Rd Row Per Plat 453-579 and Less Tract As Desc Doc 352415 - Balance 132.57 Acres - 10-022-001-00; located in Mercer Township, Mercer County, Illinois, and containing approximately 132.57 Acres.
- Parcel # - 10-10-18-300-002: S18 T14 R3 E ½ SW ¼ - Less 3.41 A for Hwy Garage & Less .45 A for Dog Pound - 10-015-009-00; located in Mercer Township, Mercer County, Illinois, and containing approximately 73 Acres.
- Parcel # - 09-09-03-300-003: S3 T14 R4 8 ½ SW - Less Pt As Desc Doc 352679 - 09-002-003-00; located in Millersburg Township, Mercer County, Illinois, and containing approximately 58.14 Acres.

EXHIBIT C

Current Debt

As of December 31, 2009

USDA Loan*	\$805,000.00
CT Note Payable	\$53,243.00
IT Note Payable	\$437,774.00
Equipment Note Payable	\$2,600.00
Various Revolving Notes Payable	<u>\$1,339,466.00</u>
Total Debt Obligations	<u>\$2,638,083.00</u>

* Denotes Premises Debt

Renovation Debt

Construction costs	
Site Survey/Soil Investigation	\$8,352.00
Site Preparation	\$500,940.00
New Construction Contracts	\$983,104.00
Modernization	\$7,317,030.00
Subtotal	\$8,809,426.00
FF&E	
Movable or other Equip.	\$150,000.00
Owners Costs	
Preplanning costs	\$156,381.00
A/E services	\$710,293.00
Consulting and other fees	\$475,844.00
Bond issue expense	\$222,875.00
Net interest expense	\$560,000.00
Subtotal	\$2,125,393.00
Contingency	
General Contingency	\$641,822.00
Total Construction Costs	<u>\$11,726,641.00</u>

EXHIBIT D

Form of Foundation Consent

CONSENT AND ESTOPPEL CERTIFICATE

This CONSENT AND ESTOPPEL CERTIFICATE (this "Consent"), as executed by the undersigned, is dated this _____ day of November, 2010.

RECITALS

- A. MERCER COUNTY HOSPITAL ("MCH") and MERCER FOUNDATION FOR HEALTH ("Landlord") are parties to that certain lease, a copy of which is attached hereto as Exhibit A (the "Lease"), of the property described on Exhibit B attached hereto and the improvements located thereon (collectively, the "Leased Premises").
- B. MCH desires to grant to GENESIS HEALTH SYSTEM, an Iowa nonprofit corporation, ("Genesis") the option to assume certain assets and liabilities of MCH, including the rights and obligations of MCH under the Lease (the "Option"), as set forth in a certain Option Agreement to be entered into by and between MCH and Genesis (the "Option Agreement").
- C. MCH and Genesis have requested that Landlord (i) consent to such future assignment by MCH to Genesis of its right, title and interest in and to the Lease in the event Genesis exercises the Option, (ii) deliver an estoppel certificate to MCH and Genesis, and (iii) make certain other covenants and agreements regarding the Lease, and Landlord has agreed to such request on the terms and conditions hereinafter set forth.

AGREEMENTS

In consideration of the foregoing, and for other good and valuable consideration, the receipt and adequacy of which are hereby conclusively acknowledged, Landlord hereby covenants, certifies and agrees as follows:

1. Consent to Assignment. Landlord hereby irrevocably consents and agrees to the future assignment by MCH to Genesis its successors or assigns, of the right, title and interest of MCH in and to the Lease (and any extensions, modifications or replacements thereof) and the Leased Premises, (the "Assignment"; the date on which the Assignment occurs, the "Assignment Date").
2. Certifications. The undersigned, as Landlord under the Lease, hereby represents, warrants and certifies to Genesis that the following statements are true, correct and complete as of the date hereof:
 - a. A true, correct and complete copy of the Lease, including all amendments, supplements, and modifications thereto and any renewals, extensions, or replacement leases thereof, is attached hereto as Exhibit A.
 - b. The Lease is a valid Lease, is in full force and effect, represents the entire agreement between the parties and is binding and enforceable in accordance with its terms.
 - c. As of the date hereof, neither the Landlord nor MCH is in default in the performance or observance of any of its obligations under the Lease, and no event has occurred and no condition exists that, with the giving of notice or the passage of time, or both, would constitute a default under the terms of the Lease.

- d. Landlord certifies that the Lease is assignable to Genesis and that upon the assignment to Genesis, the Lease will continue to be legal, valid, binding and enforceable against Landlord on identical terms following the Assignment Date.
- e. Landlord certifies that it has sent no notices of termination to MCH nor does Landlord intend to cancel or terminate the Lease.
- f. Landlord has received no notice from any governmental authority respecting a condemnation or threatened condemnation of all or any portion of the Leased Premises.
- g. Landlord certifies that there have been no disputes, oral agreements, temporary waivers, or forbearances in effect as to the Lease, nor has Landlord or, to the best of Landlord's knowledge, any other party to the Lease repudiated any provision thereof.
- h. Landlord represents, warrants and acknowledges that Landlord has full power and authority to execute and deliver this Consent as the lessor under the Lease.

3. Covenants.

- a. From the date of this Consent until the Assignment Date, (i) Landlord shall not amend, modify, supplement, replace, revise or renew the Lease, or consent to any of the foregoing, without the prior written consent of Genesis, and (ii) Landlord shall promptly notify Genesis of any default under the Lease and give Genesis the opportunity to cure any such default, though Genesis shall be under no obligation to cure any such default.
- b. Landlord shall continue to allow MCH to occupy the Leased Premises as lessee under the Lease until November 1, 2015, whether by holdover, extension or replacement of the Lease, with the consent of Genesis as provided in subsection (a) above.

4. Miscellaneous.

- a. Nothing contained in this Consent shall be deemed to supersede any of the obligations, agreements, covenants or warranties of MCH or Genesis contained in the Option Agreement.
- b. This Consent may not be modified or revoked except by an agreement in writing signed by Landlord Genesis, or their respective successors or assigns, and identified as an amendment to this Consent.
- c. This Consent shall be governed by and construed in accordance with the laws of the State of Illinois without giving effect to any choice or conflict of law provision or rule that would cause the application of the laws of any jurisdiction other than the State of Illinois.
- d. Any term or provision of this Consent that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.
- e. Facsimile signature hereto shall have the same force and effect as an original signature. The parties agree that this Consent shall be legally binding upon the electronic transmission, including by facsimile or email of .pdf files, by each party of a signed signature page to this Consent to the other party.

IN WITNESS WHEREOF, the undersigned has executed this Consent as of the date first written above.

MERCER FOUNDATION FOR HEALTH

By: _____
Its: _____

EXHIBIT A TO CONSENT AND ESTOPPEL CERTIFICATE

Lease Agreement

[See attached]

LEASE AGREEMENT

PREAMBLE

This Lease Agreement is made and entered into this 11th day of ~~October~~^{November}, 2010, at Aledo, Illinois, by and between the MERCER FOUNDATION FOR HEALTH, a not-for profit corporation organized under the laws of the State of Illinois with its principal place of business at Aledo, IL hereinafter called "Lessor", and MERCER COUNTY HOSPITAL, an entity corporate and politic of the State of Illinois, with its principal place of business at Aledo, Illinois, hereinafter called "Lessee".

ARTICLE 1. DEMISE, DESCRIPTION, USE, TERM AND RENT

Section 1.01: Lessor hereby leases to Lessee and Lessee hereby leases from Lessor that certain property, hereinafter called the "leased premises", situated in the City of Aledo, Mercer County, Illinois, and described as follows:

The office building constructed by the Lessor upon the following described real estate, to wit: Lot 2 in Mercer County Hospital Subdivision to the City of Aledo and also described as follows: a part of the East half of Lot 3 in Subdivision of part of the West Half of the Southwest Quarter of Section 17, Township 14 North, Range 3 West of the Fourth Principal Meridian, and part of Lot 1 in Sproston's Subdivision, and part of the North 20 feet of NW 3rd Street that was vacated as shown in Plat Book

505, page 477 wit the Mercer County Recorder of Deed's Office, and all in the City of Aledo, Mercer County, Illinois, being more particularly bounded and described as follows:

Commencing at the Southeast corner of said Lot 3, thence South 00° 15' 33" West, a distance of 25.48 feet to the South line of said portion of vacated NW 3rd Street, thence North 89° 44' 48" West along the South line of said portion of vacated NW 3rd Street, a distance of 391.00 feet to the point of beginning, thence North 00° 15' 33" East, a distance of 362.18 feet, thence South 67° 33' 12" East, a distance of 38.35 feet, thence North 21° 53' 56" East, a distance of 173.00 fee, thence North 67° 33' 12" West, a distance of 181.00 feet, thence South 21° 53' 56" West, a distance of 173.00 feet, thence South 67° 33' 12" East, a distance of 115.65 feet, thence South 00° 15' 33" West, a distance of 372.38 feet to a point on the South Line of said portion of vacated NW 3rd St, a distance of 25.00 feet to the point of beginning and containing 0.930 acres, more or less.

The Lessee shall have the exclusive use of the office area built upon the above described premises and shall have the non-exclusive use of the common areas of said building, including but not limited to public restrooms, reception areas, entry ways, mechanical rooms and janitorial rooms. In addition, the Lessee shall also have the non-exclusive use of the parking areas and access areas adjoining and servicing the building built upon the above described real estate.

The Lessee shall only use the above described premises for commercial office space incident to the provision of medical services and in conjunction with the usual and customary services provided to the public by the Lessee.

The term of this lease shall be 5 years commencing upon the first day of November 2010.

ARTICLE 2. RENT

Rent Payments

Section 2.01: Lessee shall make its rent payments to the Lessor at P.O. Box 52, Aledo, Illinois 61231, or at such other place as the Lessor shall designate from time to time in writing, as rent for the leased premises, said rent being the sum of \$72,600.00 per year and payable in advance in monthly installments of \$6,050.00 each commencing on the 1st day of November 2010, which is when the Lessee took possession of the above demised premises under the terms of the lease. Such rent shall be payable without prior demand and without any set-off or deduction whatsoever, except as expressly provided herein.

Taxes and Charges

A. The Lessor anticipates that there will be no real estate taxes assessed against the above described demised premises because the Lessor believes it to be exempt from such real estate taxes. In the event of the assessment of any such taxes, these taxes shall be paid as more fully described in Article 3 herein.

Fire Insurance Premiums

B. All extended coverage and fire insurance premiums on the leased premises due during the term of this lease shall be paid as more fully described in Article 4 herein.

Water and Sewage Charges

C. All metered water connecting to said premises and all sewer rental or charges for use of sewers, sewage system, and sewage treatment works servicing the leased premises shall be paid as more fully described in Article 5 herein.

Maintenance

D. All maintenance charges shall be paid as more fully described in Article 7 herein.

Effect of Default In Rent And Other Payments

Section 2.04: If Lessee defaults in the payment of any installment of rent hereunder, such installment shall bear interest at the rate of Nine per cent (9%) per annum from the day it is due until actually paid. In like manner, all other obligations, benefits and monies which may become due to Lessor from Lessee under the terms hereof or which are paid by Lessor because of Lessee's default hereunder, shall bear interest at the rate of Nine per cent (9%) per annum from the due date until paid, or, in the case of sums paid by Lessor because of Lessee's default hereunder, from the date such payments are made by Lessor until the date Lessor is reimbursed by Lessee therefor.

ARTICLE 3. TAXES AND ASSESSMENTS

Payment By Lessee

Section 3.01: In addition to the foregoing rental sums, Lessee shall, as further consideration for this lease, pay and discharge all taxes, general and special assessments, and other charges of every description which during the term of this lease may be levied on or assessed against the leased premises and all interests therein and all improvements and other property thereon, whether belonging to Lessor or to Lessee, or for which either of them may become liable in relation thereto.

Hold Harmless Clause

Section 3.02: Lessee agrees to and shall protect and hold harmless Lessor and the leased premises from liability for any and all such taxes, assessments, and charges, together with any interest, penalties or other sums thereby imposed, and from any sale or other proceeding to enforce payment thereof.

Time of Payment

Section 3.03: Lessee agrees to and shall pay all such taxes, assessments, and charges prior to the time that penalty will attach for non-payment. The Lessee shall provide the Lessor with a copy of the "paid" receipt for all such taxes paid.

Contesting Levy, Assessment, Or Charge

Section 3.04: Lessee shall have the privilege, acting in the name of the Lessor, before delinquency occurs, of protesting, contesting, objection to, or opposing the legality or amount of any such taxes, assessments, or public charges to be paid by Lessee hereunder. If Lessee shall, in good faith, deem the same to be illegal or excessive, and in the event of any such contest, it may to the extent provided by law defer payment of any such tax, assessment, fee, or charge so long as the legality or the amount thereof is so contested in good faith; provided, however, that if at any time payment of the whole or any part thereof shall become necessary in order to prevent the termination, by sale or otherwise, of the right of redemption of any property affected thereby, or to prevent eviction of either Lessor or Lessee because of nonpayment thereof, Lessee shall pay the same in order to prevent such termination of the right of redemption or such eviction. Any such contest, whether before or after payment may be made in the name of Lessor or Lessee, or both, as Lessee may determine. Any such contest shall be at the sole cost and expense of Lessee. Each refund of any tax, assessment, fee or charge so contested shall be paid to Lessee.

Lessor shall not, without the prior approval of the Lessee, compromise, or make any disposition of any contest, or discontinue or withdraw any contest, or accept any refund or other adjustment, or credit of or from any such tax or assessment as a result of any contest.

ARTICLE 4. INSURANCE

Lessor's Obligation

Section 4.01: Lessor shall be under no obligation to procure any insurance upon the demised premises or the improvements located thereon. The Lessor's interest in the demised premises and the improvements located thereon shall be insured by and paid for by the Lessee as hereinafter set forth. Lessor shall be responsible for all builder's risk insurance and risk of loss or liability to the demised premises or improvements located thereon up to the actual date of possession of the demised premises by the Lessee.

Lessee's Obligation

Section 4.02: Lessee agrees to and shall upon taking possession of the demised premises secure from a good and responsible company or companies doing insurance business in the State of Illinois and maintain during the entire term of this lease, the following insurance coverage:

A. Public liability insurance in the minimum amount of \$1,000,000.00 for loss from any one accident or \$1,000,000.00 in the aggregate for all accidents resulting in bodily injury to or death of persons, and casualty loss insurance in the amount of the reasonable replacement value of the buildings, improvements, fixtures located upon the demised premises.

B. Fire and extended coverage insurance on Lessee's fixtures, goods, wares, and merchandise in or on the leased premises, with coverage in an amount of not less than the reasonable replacement value of such fixtures, goods, wares and merchandise.

C. The Lessee shall within a reasonable time after taking possession of the demised premise provide the Lessor with certificates of insurance showing the Lessor to be adequately insured as required by this lease and the Lessee shall promptly provide the Lessor with copies of all renewal certificates thereof.

Additional Insureds

Section 4.03: Lessee agrees that the Lessor shall be named as an additional insured on the aforementioned policies of insurance insuring the Lessor against liability loss and insuring the Lessor's building, improvements and fixtures against casualty loss.

Protection Against Cancellation

Section 4.04: Proof must be given by the Lessee along with the provisions of Section 4.02 that each of the policies to be provided by the Lessee expressly provide that the policy shall not be cancelled or altered without thirty (30) days' prior written notice to both the Lessee and the Lessor.

Failure To Secure

Section 4.05: If the Lessee fails to secure or maintain the required foregoing insurance, the Lessor shall be permitted to obtain such insurance in the Lessee's name or as the agent of the Lessee and shall be compensated by the Lessee for the cost of the insurance premiums. The Lessee shall pay the Lessor interest on paid insurance premiums at the rate of Nine per cent (9%) per annum computed from the date such premiums were paid by the Lessor.

Proceeds

Section 4.06: Proceeds from any fire or casualty policy or policies regarding property owned by the Lessor shall be payable jointly to the Lessee and the Lessor. Such proceeds shall be used to make repairs as provided below. Proceeds

from any fire or casualty policy or policies regarding property owned solely by the Lessee shall be payable to the Lessee.

Fire And Casualty Damage

Section 4.07: If the building or other improvements on the leased premises should be damaged or destroyed by fire, flood, or other casualty, Lessee shall give immediate written notice thereof to Lessor.

Total Destruction

A. If the building on the leased premises should be totally destroyed by fire, flood, or other casualty, or if it should be so damaged that rebuilding or repairs cannot reasonably be completed within Ninety (90) working days from the date of written notification by Lessee to Lessor of the occurrence of the damage, this lease shall terminate and rent shall be abated for the unexpired portion of this lease, effective as of the date of said written notification. In such case, all insurance proceeds for the building and Lessor's fixtures shall become the property of the Lessor.

Partial Damage

B. If the building or other improvements on the leased premises should be damaged by fire, flood, or other casualty, but not to such an extent that rebuilding or repairs cannot reasonably be completed within Ninety (90) working days from the date of written notification by Lessee to Lessor of the occurrence of the damage, this lease shall not terminate, but Lessor and Lessee shall, if the casualty has occurred prior to the final Ninety (90) days of the lease term, proceed forthwith to rebuild or repair such building and other improvements to substantially the same condition in which they existed prior to such damage using the proceeds from the insurance coverage. If the casualty occurs during the final Ninety (90) days of the lease term, Lessor and Lessee shall not be required to but may rebuild or repair such damage. If

the building and other improvements are to be rebuilt or repaired and are untenable in whole or in part following such damage, the rent payable hereunder during the period in which they are untenable shall be adjusted equitably. In the event that Lessor and Lessee should fail to complete such rebuilding or repairs within Ninety (90) working days from the date of written notification by Lessee to Lessor of the occurrence of the damage, Lessee may at its option terminate this lease by written notification at such time to Lessor, whereupon all rights and obligations hereunder shall cease.

ARTICLE 5. UTILITIES
Lessee's Obligation

Section 5.01: Lessee shall during the term hereof pay all charges for telephone, gas, electricity, sewage, and water used in or on the leased premises and for the removal of rubbish therefrom immediately on becoming due and shall hold Lessor harmless from any liability therefor. Lessee further agrees to pay all charges for repairs to water meters on the leased premises whether necessitated by ordinary wear and tear, temperature extremes, accident, or any other causes. Such payment shall be made immediately on becoming due.

ARTICLE 6. WASTE AND NUISANCE

Section 6.01: Lessee shall not commit, or suffer to be committed, any waste on the leased premises, nor shall it maintain, commit, or permit the maintenance or commission of any nuisance on the leased premises or use the leased premises for any unlawful purpose.

ARTICLE 7. REPAIRS
Lessee's Duty To Repair And Maintain

Section 7.01: Lessee agrees to keep the leased premises in good order and repair, reasonable wear and tear excepted. Lessee further agrees to keep the leased

premises clean, and to repair or replace all broken or damaged doors, windows, plumbing fixtures and pipes, floors, stairways, railings, or other portions of the leased premises, including damage caused by moisture from broken windows and plumbing fixtures which Lessee is required to repair. The Lessee shall be responsible for all "day-to-day" maintenance and repairs. The Lessor shall be responsible for all structural repairs and other repairs other than "day-to-day" maintenance and repairs. "Day-to-day" maintenance and repairs shall be deemed any maintenance or repairs reasonably calculated to cost less than \$1,000.00. In addition, the Lessee also agrees to maintain the curbs and pavements in and about the leased premises, together with facilities appurtenant thereto, including entryways and awnings, under the same terms as above set forth for the leased premises. Lessee shall keep the said pavements and appurtenances free of ice and snow and trash and expressly agrees to assume sole liability for accidents alleged to have been caused by their defective condition.

Lessor's Duty To Repair and Maintain

Section 7.02: To the extent that the cost to repair or maintain is reasonably calculated to cost more than \$1,000.00, Lessor shall repair and maintain the leased premises so that the premises will have:

- A. Effective waterproofing and weather protection of roof and exterior walls, including unbroken windows and doors.
- B. Plumbing facilities that conform to applicable law in effect at the time of installation, maintained in good working order.
- C. A water supply approved under applicable law which is hot and cold running water, furnished to appropriate fixtures and connected to a sewage disposal system under applicable law.
- D. Heating facilities which conform with applicable law at the time of

installation, maintained in good working order.

E. Electrical lighting, with wiring and electrical equipment which conform with applicable law at the time of installation, maintained in good working order.

F. Building, grounds, and appurtenances at the time of the commencement of the lease in every part clean, sanitary, and free from all accumulations of debris, filth, rubbish, garbage, rodents, and vermin, and all areas under control of Lessor thereafter kept in every part clean, sanitary and free from all accumulations of debris, filth, rubbish, garbage, rodents, and vermin.

G. An adequate number of appropriate receptacles for garbage and rubbish, in clean condition and good repair at the time of the commencement of the lease, with Lessor providing appropriate serviceable receptacles thereafter, and being responsible for the clean condition and good repair of such receptacles under its control.

H. Floors, stairways, and railings maintained in good repair.

Lessee's Duties Correlative to Lessor's Obligations

Section 7.03: No duty on the part of the Lessor shall arise with respect to maintenance or repairs under Sections 7.01 and 7.02 of this lease if Lessee is in substantial violation of any one or more of the following affirmative obligations:

A. To keep that portion of the leased premises which Lessee occupies and uses as clean and sanitary as the condition of the premises permits.

B. To dispose from the leased premises all rubbish, garbage, and other waste, in a clean and sanitary manner.

C. To use and operate properly all electrical, gas and plumbing fixtures and keep them as clean and sanitary as their condition permits.

D. Not to permit any person on the premises with Lessee's permission willfully or wantonly to destroy, deface, damage, impair or remove any part of the

leased premises or the facilities, equipment, or appurtenances thereto.

Lessee's Right To Repair For Lessor Or Vacate

Section 7.04: If, within a reasonable time after Lessee's notice to Lessor of repairs or maintenance which Lessor has a duty to repair, Lessor neglects to make repairs, Lessee may repair the same itself and then bill the Lessor for such repairs. Lessor shall reimburse Lessee for all such payments within 30 days of billing from the Lessee. Further, Lessee shall be entitled to interest on all such payments at the rate of Nine percent (9%) per annum from the date paid until paid by the Lessor.

ARTICLE 8. ALTERATIONS, IMPROVEMENTS, AND FIXTURES

Section 8.01: All fixtures erected in or attached to the premises by the Lessee and purchased solely by the Lessee may be removed by the Lessee at the termination of this lease provided:

- a. The Lessee shall not then be in default in the performance of any of its agreements herein;
- b. That such removable fixture shall not permanently injure the building or improvements; and
- c. The removal shall be made before the expiration of this lease.

ARTICLE 9. QUIET POSSESSION Covenant Of Quiet Possession

Section 9.01: Lessor shall, on the commencement date of the term of this lease herein above set forth, place Lessee in quiet possession of the leased premises and shall secure it in the quiet possession thereof against all persons claiming the same during the entire lease term and each extension thereof:

Covenant Regarding Encumbrances

Section 9.02: Lessor covenants that the leased premises are subject to a first mortgage loan to the United States of America, acting through the Farm Services Agency, f/k/a Farmers Home Administration, Rural Development. Lessor is not in default or arrears in the making of any payment or the performances of any obligation relating to the mortgage on the leased premises with the Farm Services Agency.

**ARTICLE 10. TERMINATION OR EXTENSION
First Right To Renew Or Extend**

Section 10.01: Lessee is hereby granted and shall, if not at that time in default under this lease, have the first right to renew or extend the term of htis lease for an additional period of time on a year to year basis, the terms of the renewal or extension to be renegotiated in good faith by the parties.

Holding Over After Expiration of Lease by Lessee

Section 10.02: If the Lessee shall hold over after the expiration of the term hereby created, with the consent of the Lessor, it shall be deemed a renewal of this Lease, and all of the condidions and agreements herein containedc for the term of one year and so on from year to year until the Lease is terminated by either party given to the other not less than 180 days notice of termination prior to the end of any term.

ARTICLE 11. SURRENDER OF PREMISES

Notice

Section 11.01: Lessee shall, at lease 180 days prior to expiration of the term or any extended term hereof, give to Lessor a written notice of its intention to surrender the leased premises on that date but nothing contained herein shall be construed as an extension of hte term hereof or as a consent of Lessor to any holding over by Lessee.

Removal Of Property

Section 11.02: Lessee shall, without demand therefor and at its own cost and expense within sixty (60) days after expiration or earlier termination of hte term hereof or of any extended terms hereof, remove all property purchased soley by Lessee and belonging to it. All alterations, additions, or improvements and fixtures which were installed as a reslut of the remodeling done to the leased premises in 2010 shall remain. Any other property or fixtures owned soley by Lessee which by the terms hereof it is permitted to remove shall be removed as provided above. Lesse shall reperi all damage to the leased premises caused by such removal;

and restore the leased premises to the condition it was in prior to the installation of the property so removed. Any property not so removed shall be deemed to have been abandoned by Lessee and may be retained or disposed of by Lessor.

Surrender

Section 11.03: Lessee agrees to and shall, on expiration or earlier termination of the term hereof or of any extended term hereof, promptly surrender and deliver the leased premises to Lessor without demand therefor in good condition, ordinary wear and tear and damage by the elements, fire, or act of God, or by other causes beyond the reasonable control of Lessee excepted.

ARTICLE 12. CONDEMNATION

All Of Premises

Section 12.01: If during the term of this lease or any extension or renewal thereof, all of the leased premises should be taken for any public or quasi-public use under any law, ordinance, or regulation or by right of eminent domain, or should be sold to the condemning authority under threat of condemnation, this lease shall terminate and the rent shall be abated during the unexpired portion of this lease, effective as of the date of the taking of said premises by the condemning authority.

Partial Condemnation

Section 12.02: If less than all of the leased premises shall be taken for any public or quasi-public use under any law, ordinance, or regulation or by right of eminent domain, or should be sold to the condemning authority under threat of condemnation, this lease shall not terminate but Lessor shall forthwith at its sole expense, restore and reconstruct the building and other improvements, situated on the leased premises, provided such restoration and reconstructing shall make the same reasonably tenantable and suitable for the uses for which the premises are leased. The rent payable hereunder during the unexpired portion of this lease shall be adjusted

equitably.

Allocation Of Awards

Section 12.03: Lessor and Lessee shall each be entitled to receive and retain such separate awards and portions of lump-sum awards as may be allocated to their respective interests in any condemnation proceedings. ~~The termination of this lease shall not affect the rights of the respective parties to such awards.~~

ARTICLE 13. DEFAULTS AND REMEDIES

Default By Lessee

Section 13.01: If Lessee shall allow the rent to be in arrears more than thirty (30) days after written notice of such delinquency, or shall remain in default under any other condition of this lease for a period of thirty (30) days after written notice from Lessor, or should any person other than Lessee secure possession of the premises, or any part thereof, by reason of any receivership, bankruptcy proceedings, or other operation of law in any manner whatsoever, then Lessor may at its option, without notice to Lessee, terminate this lease, or in the alternative, Lessor may re-enter and re-take possession of said premises and remove all persons and property therefrom without being deemed guilty of any manner of trespass, and re-let the premises or any part thereof, for all or part of the remainder of said term, to a party satisfactory to Lessor, and at such monthly rental as Lessor may with reasonable diligence be able to secure. ~~Should Lessor be unable to re-let after reasonable efforts to do so, or should~~ such monthly rental be less than the rental Lessee was obligated to pay under this lease, or any renewal thereof, plus the expense of reletting, then Lessee shall pay the amount of such deficiency to Lessor.

Cumulative Rights And Remedies

Section 13.02: All rights and remedies of Lessor and the Lessee under this

lease shall be cumulative to them respectively, and none shall exclude any other right or remedy at law. Such rights and remedies may be exercised and enforced concurrently and whenever and as often as occasion therefor arises.

Default By Lessor

~~Section 13.03:~~ If Lessor defaults in the performance of any term, covenant, or condition required to be performed by it under this agreement, Lessee may elect either one of the following:

A. After not less than thirty (30) days' notice to Lessor, Lessee may remedy such default by any necessary action, and in connection with such remedy may pay expenses and employ counsel; all reasonable sums expended or obligations incurred by Lessee in connection there with shall be paid by Lessor to Lessee on demand, and on failure of such reimbursement, Lessee may, in addition to any other right or remedy that Lessee may have, deduct the costs and expenses thereof from rent subsequently becoming due hereunder; or

B. Elect to terminate this agreement on giving at least thirty (30) days' notice to Lessor of such intention, thereby terminating this agreement on the date designated in such notice, unless Lessor shall have cured such default prior to expiration of the thirty (30) day period.

ARTICLE 14. INSPECTION BY LESSOR

~~Section 14.01:~~ Lessee shall permit Lessor and its agents to enter into and upon the leased premises at all reasonable times for the purpose of inspecting the same or for the purpose of maintaining or making repairs or alterations to the building.

ARTICLE 15. ASSIGNMENT AND SUBLEASE

Assignment And Subletting By Lessee

Section 15.01: Lessee shall not assign this lease nor sublet all or any portion of the leased premises without the prior written consent of Lessor and Lessor

shall not arbitrarily or unreasonably withhold its consent.

Assignment By Lessor

Section 15.02: In the event of a sale of the premises by the Lessor, the Lessor is then expressly given the right to assign any or all of its interests under the terms of this lease. In all other cases the Lessor shall not assign this lease without the prior written consent of the Lessee and the Lessee shall not arbitrarily or unreasonably withhold its consent.

ARTICLE 16. MISCELLANEOUS

Notices And Addresses

Section 16.01: All notices provided to be given under this agreement shall be given by regular mail, addressed to the proper party, at the following addresses:

LESSOR: Mercer County Foundation for Health
P. O. Box 52
Aledo IL 61321

LESSEE: Mercer County Hospital
Aledo IL 61231

Parties Bound

Section 16.02: This agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, successors, and assigns when permitted by this agreement.

Applicable Law

Section 16.03: This agreement shall be construed under and in accordance with the laws of the State of Illinois.

Legal Construction

Section 16.04: In case any one or more of the provisions contained in this

lease shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision thereof and this lease shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

Sole Agreement Of The Parties

Section 16.05: This lease contains the sole agreement of the parties hereto and supersedes any prior understanding or written or oral agreements between the parties respecting the subject matter within it.

Amendment

Section 16.06: No amendment, modification, or alteration of the terms hereof shall be binding unless the same be in writing, dated subsequent to the date hereof, and duly executed by the parties hereto.

Waiver Of Default

Section 16.07: No waiver by the parties hereto of any default or breach of any term, condition, or covenant of this lease shall be deemed to be a waiver of any other breach of the same or any other term, condition, or covenant contained herein.

Attorney's Fees

Section 16.08: In the event Lessor or Lessee breaches any of the terms of this agreement whereby the party not in default employs attorneys to protect or enforce its rights hereunder and prevails, then the defaulting party agrees to pay the other party reasonable attorney's fees so incurred by such other party.

Excuse

Section 16.09: Neither Lessor nor Lessee shall be required to perform any term, condition, or covenant in this lease so long as such performance is delayed or prevented by any acts of God, strikes, lockouts, material or labor restrictions by any

governmental authority, civil riot, floods, and any other cause not reasonably within the control of the Lessor or Lessee and which by the exercise of due diligence Lessor or Lessee is unable, wholly or in part, to prevent or overcome.

Time of Essence

Section 16.10: Time is of the essence of this agreement.

Exculpation of Lessor

Section 16.11: If Lessor shall convey title to the demised premises pursuant to a sale or exchange of property, the Lessor shall not be liable to Lessee or any immediate or remote assignee or successor of Lessee as to any act or omission from and after such conveyance.

IN WITNESS WHEREOF, the undersigned Lessor and Lessee hereto execute this agreement as of the day and year first above written.

Mercer Foundation for Health

Mercer County Hospital

By: Vicki Palmer
Vicki Palmer, President

By: Maxine Henry
Maxine Henry, County Board Chairman

ATTEST: Kim DeBlock
Kim DeBlock, Secretary

ATTEST: Phyllis Bewley
Phyllis Bewley, County Clerk

By: David Johnson
Mercer County Hospital Governing Board President

PREPARED BY:
Mark A. Appleton
Attorney at Law
129 E. Main Street
Aledo IL 61231
(309) 582-5121

EXHIBIT B TO CONSENT AND ESTOPPEL CERTIFICATE

Legal Description

The property on which the Clinic is located is currently being replatted. The legal description of such property, after replatting, shall be "Lot 3 of Lots 1 and 2 of the Mercer County Hospital - Subdivision to the City of Aledo, Mercer County, Illinois".

ADDENDUM TO OPTION AGREEMENT

THIS ADDENDUM TO OPTION AGREEMENT (this "**Addendum**") is made and entered into this 6th day of March, 2012, by and among **GENESIS HEALTH SYSTEM**, an Iowa nonprofit corporation ("**Genesis**"), **GMCM**, an Illinois not for profit corporation, ("**GMCM**"), **MERCER COUNTY, ILLINOIS**, an Illinois municipality (the "**County**"), **MERCER COUNTY HOSPITAL**, an unincorporated business unit of the County ("**MCH**") acting under the authority of its Governing Board (the "**MCH Board**"); the MCH Board, MCH and the County are collectively referred to herein as the "**MCH Parties**"; (Genesis, GMCM and the MCH Parties are referred to herein individually as a "**Party**" and collectively as the "**Parties**").

RECITALS

- A.** Genesis and the MCH Parties entered into an Option Agreement (the "**Agreement**") in November, 2010 pursuant to which the MCH Parties granted to Genesis an option to acquire the assets of Mercer County Hospital (the "**Hospital**") under the conditions and pursuant to the terms set forth in the Agreement.
- B.** The Parties to the Agreement and this Addendum wish to address certain additional issues and clarify other issues not fully addressed in the Agreement all as set forth herein.
- C.** All capitalized terms under this Addendum shall have the same meanings as set forth in the Agreement except as otherwise may be provided under this Addendum.

AGREEMENT

NOW, THEREFORE, the Parties, intending to be legally bound, and in consideration of the premises and the mutual covenants, representations and warranties set forth in this Addendum, as well as other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, do hereby agree to clarify, supplement and where applicable, modify the Agreement as follows:

1. **Assignment to GMCM.** Section 8.13 of the Agreement provides that the Agreement shall be binding upon and for the benefit of the Parties provided that neither Party shall assign its rights or obligations under the Agreement without the prior written consent of the other Party. Genesis has caused the formation of GMCM of which Genesis Health System, an Illinois not for profit corporation is the sole member. In the event Genesis exercises its option, Genesis intends to provide for the ownership of the Hospital assets and operation of the Hospital through GMCM. The MCH Parties hereby consent to the assignment of the rights and obligations of Genesis under the Agreement and this Addendum to GMCM provided that GMCM assumes the obligations of Genesis under the Agreement and this Addendum. GMCM hereby agrees to assume such obligations.

2. **Included Assets.** The Parties agree that the Included Assets are intended to include:

(a) financial, patient, medical staff and personnel records relating to the Hospital, including, without limitation, all accounts receivable records, equipment records, medical administrative libraries, medical records, patient billing records, documents, catalogs, books, records, files, operating manuals and current personnel records; and

(b) electronic funds transfer accounts of the Hospital and all information necessary to access such accounts, including, specifically, accounts to which Medicare or other governmental payors make electronic payments.

3. **Conditions of Closing: Approval by the Illinois Health Facilities and Services Review Board; Licensure; Medicare.** The Agreement sets forth a number of conditions that must be satisfied after the Option is exercised and before the Closing can occur. While implied by the terms of the Agreement, the Parties wish to make clear that following the exercise of the Option, the closing of the transaction is expressly subject to the following:

(a) approval of any change of ownership by the Illinois Health Facilities and Services Review Board, and any other governmental approvals or consents which may be necessary;

(b) written confirmation from all applicable licensure agencies that upon the Closing all licenses required by law to operate the Hospital will be transferred to, or issued or reissued in the name of, Genesis; and

(c) reasonable assurance that Medicare and Medicaid certification of the Hospital for its operation by Genesis will be effective as of the Closing and that Genesis may participate in and receive reimbursement from such programs effective as of the Closing.

4. **Closing.** The Agreement provides that the Closing shall occur within ninety (90) days of the Option Exercise Date subject to satisfaction of the terms and conditions set forth in the Agreement. The Parties wish to make clear that the Closing will not occur until all conditions of the Agreement have been satisfied including securing the approval of the Illinois Health Facilities and Services Review Board to the change of ownership of the Hospital from the County to Genesis or its affiliate, and any other governmental approvals or consents which may be necessary. The Parties will exercise best efforts to close the transaction within ninety (90) days of the Option Exercise Date, but recognize that satisfaction of all conditions may require more than ninety (90) days and agree that the Closing Date may be extended to a date not more than thirty (30) days following satisfaction or waiver of all conditions of Closing.

5. **Right of County to Reacquire Hospital Property.** At a public hearing held on November 20, 2010, the motion to approve the Agreement adopted by the County Board included a provision that there be an opportunity for the Hospital to be returned to the County if Genesis no longer decides to operate the Hospital. In satisfaction of this provision of the motion, the MCH Parties and Genesis agree that in the event Genesis makes a decision that it will no longer provide health care services at the Hospital, the County shall have the option to reacquire the Hospital and its operations (the "**Reacquisition Option**") under the terms set forth below:

(a) Genesis shall give the County notice of either of the following events (the "**Triggering Events**"):

- (i) Genesis 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 Hospital which offer is acceptable to Genesis subject to the rights of the County to exercise its Reacquisition Option ("**Third Party Offer**"); or
- (ii) Genesis has determined by action of its governing board that it no longer desires to provide health care services at the Hospital ("**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 Hospital assets; (B) any relocation of the Hospital 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 Hospital.

(b) The County may exercise its Reacquisition Option by providing notice to Genesis 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 County fails to present an Election Notice within forty-five (45) days, it shall have waived its Reacquisition Option and Genesis may take whatever action it deems necessary to proceed with plans to sell or otherwise cease providing services at the Hospital without further notice to the County subject to the following:

- (i) In the event the Triggering Event is a Third Party Offer and Genesis 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 the County, the County's Reacquisition Option shall be renewed and Genesis may not engage in another Triggering Event without proceeding in the manner set forth in this paragraph 4; and
- (ii) In the event that the Triggering Event is an Action to Withdraw and Genesis continues to provide health care services at the Hospital twenty-four (24) months following the receipt of the County's notice of the Action to Withdraw, the County's Reacquisition Option shall be renewed and Genesis may not engage in another Triggering Event without proceeding in the manner set forth in this paragraph 4.

(c) In the event that the County exercises its Reacquisition Option and the Triggering Event is a Third Party Offer, Genesis shall proceed to transfer the assets of the Hospital to the County and the County shall acquire the assets of the Hospital from Genesis under the terms of the Third Party Offer.

(d) In the event that the County exercises its Reacquisition Option and the Triggering Event is an Action to Withdraw, Genesis shall transfer the assets of the Hospital to the County on such terms and conditions that the Hospital and the County may agree. In the event that Genesis and the County aren't able to agree, they shall mutually agree upon a third party appraiser to value the assets of the Hospital as a going concern. If the Parties cannot agree upon an appraiser, each shall select an appraiser who shall conduct an appraisal of the Hospital 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 value that falls between those two appraisal estimates. 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 Hospital. 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 Genesis which are assumed by the County.

(e) Notwithstanding the foregoing, any change of ownership shall be subject to the approval of the Illinois Health Facilities Planning and Services Review Board if such approval is required by Illinois law or regulation at the time of the transaction.

6. **Property Tax Exemption and Assessment Considerations.** The Parties recognize the level of uncertainty as to the availability of property tax exemptions for charitable nonprofit organizations operating hospitals. County agrees until such time as the property tax exemption for nonprofit hospitals and other health care facilities is clarified in the State of Illinois, the County agrees that it shall (i) adopt resolutions supporting its current position that nonprofit health care facilities should be exempt from taxes by the Department of Revenue under Illinois law; and (ii) will not assess the Hospital for real estate tax purposes.

7. **Assumption of Liabilities.** Section 2.2 of the Agreement identifies those specific liabilities of the MCH Parties which Genesis agrees to assume and which are defined as the "Included Liabilities." MCH Parties acknowledge that Genesis shall assume no other liabilities of the operation of the Hospital or otherwise including obligations of the County to fund the Illinois Municipal Retirement Fund as it relates to services provided by employees through the Closing Date. With respect to the Included Liabilities, the Parties wish to further clarify as follows:

(a) The Agreement currently provides that among the Included Liabilities are the Trade Payables of the MCH Parties attributable to the operations of MCH which are in existence as of the Effective Date. The Effective Date is the date that the Agreement was first effective and it was the Parties intention that the Trade Payables to be assumed by Genesis were those in existence on the Closing Date rather than the Effective Date. The Parties further wish to clarify that Trade Payables mean those liabilities of the Hospital reflected as account payables as reflected as current liabilities of MCH on its financial statements for payment of routine services and are not intended to include any contingent or undefined liability of the MCH.

(b) Included Liabilities include those items of Current Debt listed on Exhibit C to the Agreement and Genesis will assume the outstanding balance of the Current Debt in existence as of the Closing Date to the extent such debt has not been paid in full prior to the Closing Date.

(c) Included Liabilities includes the Renovation Debt listed on Exhibit C to the Agreement. To date the MCH parties have incurred approximately \$1.6 million borrowed from the Bank of Orion and, pursuant to the Agreement, this Renovation Debt will be assumed by Genesis. Any additional Renovation Debt will also be assumed by Genesis per the Agreement and regardless of whether additional Renovations Debt is incurred by the MCH Parties prior to the Closing Date, Genesis covenants that it will pursue the project to which the Renovation Debt was to intended to support and will be obligated on all indebtedness related to the project.

(d) Included Liabilities includes any New Debt incurred by the County after the Effective Date of the Option which has been approved by Genesis. The MCH Parties have not incurred any New Debt as of the date of this Addendum other than Trade Payables incurred in the ordinary course of business.

8. **Assignment of Provider Agreement.** The Agreement recognizes that at Closing the MCH Parties will assign certain contracts and take other steps as may be necessary to effect the change of ownership of the MCH assets to Genesis. The Parties wish to clarify that such provisions including the obligation of the County, at the request of Genesis, to assign any provider agreements the County has with Medicare, Medicaid or other third party payer and to the extent the assignment of such provider agreements require that Genesis assume any liability of those provider agreements which arise under such provider agreements prior to the Closing Date, shall remain the responsibility of the County and that the County shall reimburse Genesis for any payments made by Genesis of such amounts.

9. **Post-Closing Covenants.** Section 2.3 of the Agreement identifies certain post-closing covenants of Genesis. The Parties agree that the following will be additional post-closing covenants of Genesis:

(a) For a period of at least two (2) years following the Closing, Genesis will cause the Hospital to maintain in effect a charity care policy that is not more restrictive than the policy in effect at the Hospital during the year prior to the Closing.

(b) For a period of at least twelve (12) months following the Closing, the current number of beds and categories of service provided at the Hospital will not substantially change.

(c) For a period of at least twelve (12) months following the Closing, the admissions policies of the Hospital will not become more restrictive than the policies in effect at the Hospital during the year prior to the Closing.

(d) For a period of at least five (5) years following the Closing, Genesis will maintain ownership and control of the Hospital.

(e) For a period of at least two (2) years following the Closing, there will be no reductions in employees at the Hospital as a result of the Closing, other than those typically associated with the ongoing operations of hospitals.

10. **Material Adverse Effect.** The definition of "Material Adverse Effect" in Section 7.10 of the Agreement is revised to read in its entirety as follows: "**Material Adverse Effect**" means a material adverse effect or impact upon the assets, financial condition, results of operations or business of MCH or the County (with respect to the ownership or operation of MCH), as the case may be, taken as a whole, or the occurrence of any event reasonably likely to result in such a material adverse effect, provided, however, that none of the following shall be deemed in themselves, either alone or in combination, to constitute, and none of the following shall be taken into account in determining whether there has been or will be, a Material Adverse Effect: any adverse change, impact, effect, event, occurrence, state of facts or development

attributable to, resulting from, or relating to (i) the announcement or pendency of the transaction contemplated by this Agreement; (ii) conditions affecting the industry in which any of the Parties participate, the U.S. economy as a whole or the capital markets in general or any of the markets in which MCH operates; (iii) any change in accounting requirements or principles or any change in applicable laws, rules or regulations or the interpretation thereof; (iv) actions required to be taken under applicable laws, rules, regulations, contracts or agreements; or (v) acts of God, fire, natural disaster, epidemic, riot, terrorism or military action or the threat thereof.

[signature page attached]

IN WITNESS WHEREOF, the Parties have adopted this Addendum to Option Agreement as of the date first set forth above.

MERCER COUNTY, ILLINOIS

By: Maxine Henry
Its: Chairperson

**MERCER COUNTY HOSPITAL
(by action of its Governing Board)**

By: Donald Lee Johnson
Its: Chairman

GENESIS HEALTH SYSTEM

By: [Signature]
Its: CEO

GMCM

By: [Signature]
Its: Director

EXERCISE OF OPTION

TO: Mercer County Hospital
409 NW Ninth Avenue
Aledo, IL 61231
Attn: Chairman of the
Governing Board

Mercer County, Illinois
c/o Mercer County Board
100 S.E. Third Street
Aledo, IL 61231
Attn: Maxine Henry, Chair

WHEREAS, Genesis Health System, an Iowa nonprofit corporation ("**Genesis**"), Mercer County, Illinois, an Illinois municipality ("**Mercer County**"), and Mercer County Hospital, an incorporated business unit of Mercer County acting under the authority of its governing board, entered into an Option Agreement effective December 1, 2010 (the "**2010 Option Agreement**") pursuant to which Genesis was granted an option to assume certain assets and liabilities of Mercer County Hospital under the terms and subject to the conditions set forth therein (the "**Option**"); and

WHEREAS, the parties to the 2010 Option Agreement, together with GMCM, an Illinois not for profit corporation ("**GMCM**") entered into an Addendum to Option Agreement dated March 6, 2012 (the "**2012 Addendum**") which supplements the 2010 Option Agreement to include, among other things, the authorization for Genesis to assign to GMCM its rights under the 2010 Option Agreement as supplemented by the 2012 Addendum (collectively the "**Option Agreement**"); and

WHEREAS, Genesis has assigned its rights and obligations to GMCM pursuant to an Assignment and Assumption Agreement dated April 26, 2012, attached hereto, and GMCM wishes to exercise the Option under the terms and subject to the conditions of the Option Agreement.

NOW THEREFORE, pursuant to Section 3.1 of the Option Agreement, GMCM hereby exercises, and provides this notice of its election to exercise, the Option subject to the terms and conditions set forth in the Option Agreement including, but not limited to the condition that the change of ownership be approved by the Illinois Health Facilities and Services Review Board and further subject to the following:

1. This Exercise of Option shall be effective upon the execution and delivery by Mercer County and GSLM, an Illinois not for profit corporation, of an Asset Purchase Agreement (the "**Nursing Home APA**") providing for the sale by Mercer County to GSLM of substantially all of the assets of Mercer County Nursing Home now operated by Mercer County;

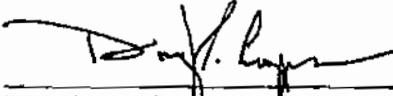
2. The obligation of GMCM to close on the transfer of assets and assumption of liabilities from Mercer County to GMCM under the Option Agreement (the "**Closing**") is subject to satisfaction of all conditions precedent to close the transfer of substantially all the assets of Mercer County Hospital Nursing Home to GSLM pursuant to the terms of the Nursing Home APA (other than those conditions that have been permissibly waived and those conditions to be satisfied at the closing) and it is the desire of Mercer County, Mercer County Hospital and GMCM that the closing of the transactions under the Option Agreement and the Nursing Home APA occur simultaneously;

3. This Exercise of Option may be terminated or withdrawn by GMCM in the event the Closing shall not have taken place by December 31, 2012; and

4. In the event the transactions contemplated by the Option Agreement and hereunder do not occur for any reason, the Option Agreement shall remain in full force and effect and Genesis or its permitted assigns may exercise its option again in accordance with the terms of the Option Agreement.

Dated April 26, 2012

GMCM

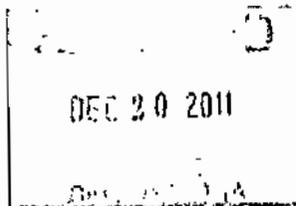
By: 
Douglas P. Cropper, Director

cc: Mercer County Courthouse
County Clerk
P.O. Box 66
Aledo, IL 61231
Attn: Chairman, Governing Board

Mercer County State's Attorney
100 SE Third Street
Aledo, IL 61253
Attn: State's Attorney

ATTACHMENT 6
Financial Information

MOODY'S INVESTORS SERVICE



Worldwide
New York, NY 10001
www.moody's.com

December 7, 2011

Mr. Mark Rogers
Chief Financial Officer
Genesis Health System
1227 E. Rusholme Street
Davenport, IA 52803

Dear Mr. Rogers:

We wish to inform you that Moody's Investors Service has affirmed Genesis Health System's A1 rating on Series 2010 fixed rate revenue bonds issued through the Iowa Finance Authority. The rating outlook remains stable.

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

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

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

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

Sincerely,

A handwritten signature in black ink that reads "Mark Pascaris". The signature is written in a cursive style.

Mark Pascaris
Vice President/Senior Analyst
Phone: 312-706-9963
Fax: 212-298-6377
Email: mark.pascaris@moody's.com

MP:rl

cc: Mr. William Henderson, Piper Jaffray

INDEX TO ADDENDA

1. Financial Statements in Support of Fair Market Value (2011)
2. Attestations of GMCM
3. Attestations of Genesis
4. Letters in Support of Proposed Transaction

ADDENDUM 1
Financial Statements in Support of Fair Market Value

Using the income capitalization approach, the fair market value of Mercer County Hospital is \$0 as of June 30, 2011. As reflected in the attached balance sheets and 2011 financial statements, the Hospital experienced a net loss of \$131,447 for 2011 and a net gain of \$107,836 for 2010 (considering loss on sale of capital assets), which combines for a loss of approximately \$24,000 for the last two years. Similarly, the Hospital experienced a net loss of \$1,268,508 for 2009 and a net loss of \$702,979 for 2008, which combines for a loss of approximately \$1,970,000 for 2008 and 2009. Focusing on this historical data and using the income capitalization approach (dividing net operating income by capitalization rate) results in a fair market value of \$0 for the Hospital as of June 30, 2011.

Mercer County Hospital

Statements of Revenue, Expenses and Changes in Net Assets

	Hospital	
	Year Ended June 30,	
	2011	2010
Operating revenue:		
Net patient service revenue	\$ 12,081,333	\$ 12,257,810
Other revenue	421,667	413,013
Total operating revenue	12,503,000	12,670,823
Operating expenses:		
Salaries and wages	5,515,022	5,565,596
Employee benefits	1,562,913	1,459,721
Purchased services and professional fees	2,716,133	2,423,548
Depreciation and amortization	421,435	415,862
Interest	83,231	105,365
Supplies and other	2,249,587	2,394,874
Total operating expenses	12,548,321	12,364,866
Income (loss) from operations	(45,321)	305,857
Nonoperating revenue (expense):		
Interest earnings		
Tax revenue		
Contribution revenue		
Contribution expense		
Farm income, net		
Loss on disposal of capital assets	(86,126)	(198,021)
	(131,447)	107,836
Change in net assets		

Mercer County Hospital

Statements of Revenue, Expenses and Changes In Net Assets

	Hospital	
	Year Ended June 30,	
	2009	2008
Operating revenue:		
Net patient service revenue	\$ 11,334,379	\$ 11,659,367
Other revenue	468,893	366,106
Total operating revenue	11,803,272	12,025,473
Operating expenses:		
Salaries and wages	5,849,014	5,761,942
Employee benefits	1,408,903	1,337,740
Purchased services and professional fees	2,551,122	2,174,401
Depreciation and amortization	499,770	541,706
Interest	140,279	131,109
Supplies and other	2,622,692	2,781,554
Total operating expenses	13,071,780	12,728,452
(Loss) from operations	(1,268,508)	(702,979)
Nonoperating revenue (expense):		
Interest earnings		
Tax revenue		
Contribution revenue		
Contribution expense		
Farm income, net		

See Notes to Basic Financial Statements.

MERCER COUNTY HOSPITAL

Net Operating Income (Average) / Capitalization Rate = Indicated Value

4 year average of net operating income 2008, 2009, 2010 and 2011 is a loss.

Most recent year 2011 is a loss.

a loss < 0

NOI	÷	Capitalization Rate	=	Value
<u>\$ 0</u>		any (12%)		<u>\$ 0</u>

Mercer County Hospital

Financial Report
June 30, 2011

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Independent Auditor's Report

Governing Board
Mercer County Hospital
Aledo, Illinois

We have audited the accompanying basic financial statements of Mercer County Hospital, a component unit of Mercer County, Illinois, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Mercer Foundation for Health, the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Mercer Foundation for Health, is based on the report of 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Mercer County Hospital, and its discretely presented component unit, and the respective changes in the financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America and on the basis of accounting described in Note 1 to basic financial statements, respectively. As described in Note 1, the financial statements of Mercer Foundation for Health were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The supplementary information on pages 36 through 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information for the years ended June 30, 2011 and 2010 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Davenport, Iowa
October 18, 2011

Mercer County Hospital

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Management's discussion and analysis of Mercer County Hospital's financial performance provides an overall review of the Hospital's activities for the fiscal years ended June 30, 2011 and 2010. The intent of this discussion is to provide an overview of the Hospital's performance for the years and should be read in conjunction with the Hospital's financial statements and notes thereto.

Mercer County Hospital operates a critical access hospital with 22 acute care beds as well as a physician clinic located in Aledo, Illinois. Mercer County Hospital serves the citizens of the greater Mercer County area and particularly the residents of Aledo, Illinois.

The financial statements also include Medical Associates Clinic and Serenity Hospice, which are departments of the Hospital.

Mercer Foundation for Health (Foundation) is a legally separate, tax-exempt, discretely presented component unit of Mercer County Hospital. The Foundation was formed in 1990 to promote, encourage or foster any activity which will promote the health and well-being of people in the Mercer County area. The 11 member Board of the Foundation is self-perpetuating and consists of citizens of Mercer County. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds are contributed to the Hospital. Because these resources held by the Foundation have historically been for the benefit of the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements. Complete financial statements for the Foundation can be obtained from the Treasurer at 1007 NW 3rd Avenue, Aledo, Illinois 61231.

Financial Highlights

The assets of the Hospital exceeded its liabilities as of June 30, 2011 and 2010. Total net assets as of June 30, 2011 and 2010 increased 139% and 26%, respectively, from net assets as of June 30, 2010 and 2009.

The Hospital's total assets increased by \$368,466 or 4.8% from June 30, 2010 and by \$311,881 or 4.3% from June 30, 2009.

The Hospital's total liabilities decreased by \$168,326 or 4.5% from June 30, 2010 and by \$485,694 or 11.4% from June 30, 2009.

Overview of Financial Statements

The audited financial statements include: Balance Sheets, Statements of Revenue, Expenses and Changes in Net Assets, and Statements of Cash Flows plus the Notes to Basic Financial Statements.

Our financial position is measured in terms of resources (assets) we own and obligations (liabilities) we owe at a given date. This information is reported in the Balance Sheets, which reflect the Hospital's assets in relation to its debts to bondholders, suppliers, employees and other creditors. The excess of our assets over our liabilities is reported as Net Assets.

Information regarding the results from operations during the year is reported in the Statements of Revenue, Expenses and Changes in Net Assets. This statement shows how much our net assets increased or decreased during the year as a result of our operations, nonoperating activities and other changes.

Mercer County Hospital

**Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010**

The Statements of Cash Flows disclose the flow of cash resources into and out of the Hospital during the year. It identifies all cash received during the year from operating activities, contributions and other sources, and how we applied those funds (for example, payment of expenses, repayment of debt, purchases of new property and equipment, additions and deletions to the investment accounts, and transfers to related entities).

The Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Condensed Statements of Revenue, Expenses and Changes in Net Assets

A summary version of the Statements of Revenue, Expenses and Changes in Net Assets for the years ended June 30, 2011, 2010 and 2009 follows:

	Year Ended June 30,		
	2011	2010	2009
Net patient revenue	\$ 12,081,000	\$ 12,258,000	\$ 11,334,000
Other operating revenue	421,000	413,000	469,000
Total operating revenue	12,502,000	12,671,000	11,803,000
Nonoperating revenue	582,000	491,000	500,000
Total revenue	13,084,000	13,162,000	12,303,000
Expenses:			
Salaries, wages and benefits	7,078,000	7,026,000	7,258,000
Purchased services and professional fees	2,716,000	2,423,000	2,551,000
Supplies and other	2,250,000	2,395,000	2,623,000
Depreciation and amortization	421,000	416,000	499,000
Interest	83,000	105,000	140,000
Total expenses	12,548,000	12,365,000	13,071,000
Change in net assets	536,000	797,000	(768,000)
Net assets:			
Beginning	3,869,000	3,072,000	3,840,000
Ending	\$ 4,405,000	\$ 3,869,000	\$ 3,072,000

Mercer County Hospital

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Operations

Year Ended June 30, 2011: Hospital operations during fiscal year 2011 showed a decrease in revenue compared to prior year performance. The change in net assets for the year was approximately \$536,000. Total operating revenue decreased approximately \$169,000 to \$12,502,000 in 2011 from \$12,671,000 in 2010, a 1.4% decrease. Inpatient acute days and associated ancillary revenue volumes increased from the prior year. Outpatient lab volumes increased with the purchase of equipment that performs more tests. A physical therapist was hired in the fall of 2010 increasing service and volumes. Pharmacy volumes increased while taking advantage of the 340B Drug Pricing Program for outpatient meds. ED staff received coding training and tools to ensure accurate coding in conjunction with increase emergency volumes. However, contractual adjustments also increased due to establishing a Medicare reserve based on the interim cost report showing an increase in Medicare volumes and decreased operating costs. Pre-certification procedure was established in April 2011 utilizing a designated Pre-Certification Clerk.

Operating expenses increased 1.5% or approximately \$183,000 from fiscal year 2010 from \$12,365,000 to \$12,548,000. Although wages increased as a result of increased utilization of RNs and higher overtime, the overall mix of employees in terms of their experience levels caused overall salary and wage expense to decrease. Employee benefits increased due to recognizing IMRF underfunding obligation. Professional fees increased due to Home Health Audit, Anesthesia Contract, Lab/Radiology Services and external Transcription Fees. Purchased supplies decreased with better GPO pricing options. Pharmaceutical cost decreased with utilization of the 340B drug pricing program. Interest expense decreased due to debt pay down. Purchased assets increased which contributed to depreciation expense increasing.

Mercer County Hospital's net result was an overall loss from operations of \$45,000. This is a decrease of \$351,000 compared to the gain from operations of \$306,000 in fiscal year 2010.

Year Ended June 30, 2010: Hospital operations during fiscal year 2010 showed an improvement compared to prior year performance. The change in net assets for the year was \$797,000, an increase of \$1,565,000. Total operating revenue improved \$1,008,000 to \$12,811,000 in 2010 from \$11,803,000 in 2009, an 8.5% increase. This increase was primarily due to a strategic pricing initiative implemented July 1, 2009 which increased hospital wide charges an average of 12%. While outpatient volumes in many of the facility's service lines remained consistent with prior year volumes, improvement was seen in podiatry services, a 6% increase, physical therapy, an 11% increase, and occupational therapy services, a 178% increase. Discounts and Allowances decreased as percent of charges to 37.6% in 2010 from 38.4% in 2009. Charity care and bad debt adjustments decreased as improvements to the revenue cycle continued through the year. Nonoperating revenue increased slightly due to increased donations from the Mercer Foundation for Health and the Mercer County Hospital Auxiliary.

Operating expenses decreased 5.4% or \$706,000 below fiscal year 2009 from \$13,071,000 to \$12,365,000. Salaries, wages and benefits decreased due to a reduction in staffing. Full time equivalents (FTE's) for 2010 were 122.5 or 11.4 FTE's below 2009 levels. Supplies and other expense decreased 8.7% or \$228,000 due to volume changes, cost reduction initiatives and the transition to Genesis Health System purchasing contracts.

Mercer County Hospital's net result was an overall gain from operations of \$306,000. This is an increase of \$1,575,000 compared to the loss from operations of \$1,269,000 in fiscal year 2009.

Mercer County Hospital

**Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010**

Condensed Balance Sheets

Condensed versions of the Balance Sheets as of June 30, 2011, 2010 and 2009 follow:

	June 30,		
	2011	2010	2009
Assets:			
Current assets	\$ 3,452,000	\$ 3,234,000	\$ 2,801,000
Assets limited as to use, noncurrent	1,541,000	1,626,000	1,629,000
Capital assets, net	2,967,000	2,723,000	2,832,000
Other assets	52,000	61,000	70,000
Total assets	\$ 8,012,000	\$ 7,644,000	\$ 7,332,000
Liabilities:			
Current liabilities	\$ 3,102,000	\$ 3,035,000	\$ 2,730,000
Deferred rental revenue	139,000	158,000	176,000
Net pension obligation	108,000	44,000	-
Other postemployment benefits	2,000	45,000	-
Estimated professional liability reserves	41,000	43,000	41,000
Long-term debt	215,000	450,000	1,313,000
Total liabilities	\$ 3,607,000	\$ 3,775,000	\$ 4,260,000
Net Assets:			
Invested in capital assets, net of related debt	\$ 965,000	\$ 697,000	\$ 394,000
Restricted:			
By donor	1,099,000	1,185,000	1,189,000
Under bond indenture	239,000	138,000	122,000
Unrestricted	2,102,000	1,849,000	1,367,000
Total net assets	\$ 4,405,000	\$ 3,869,000	\$ 3,072,000

June 30, 2011: Total assets increased \$368,000 from fiscal year 2010 balances of \$7,644,000. Current assets increased approximately \$218,000. The increase was the result of cash increasing approximately \$782,000, offset by a decrease in patient receivables totaling approximately \$454,000. Accounts receivable policy was reviewed in December 2010 and adjusted resulting in more prompt collections and quicker recognition of Charity Care. An additional employee was added to focus on patient collections.

Total liabilities decreased \$168,000 or 4.5% to \$3,607,000 from 2010 balances of \$3,775,000. Accounts payable and other accrued expenses decreased approximately \$425,000 or 72.8% compared to 2010. This decrease is a result of payments on accounts payable done on June 30, 2011. In addition, equipment bank loans decreased with early pay off of notes from increased cash flow. While there were decreases in accounts payable and loans, the estimated amounts due to third-party payors totaled \$383,000 as of June 30, 2011 compared to an estimated amount due from third-party payors totaling \$196,000 as of June 30, 2010.

Mercer County Hospital

**Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010**

June 30, 2010: Total assets increased to \$7,644,000 from fiscal year 2009 balances of \$7,332,000. Current assets increased approximately \$433,000. This increase was in both net patient receivables and estimated amounts due from third-party payors.

Total liabilities decreased \$485,000 or 11.4% to \$3,775,000 from 2009 balances of \$4,260,000. Total debt fell 30.9% or \$907,000 to \$2,026,000 from \$2,933,000 as the facility continued to reduce the reliance on operating lines of credit. Plans for the issuance of additional debt and defeasance of existing debt are in the preliminary planning stages. Please see the Notes to Basic Financial Statements for additional information.

Condensed Statements of Cash Flows

	Year Ended June 30,		
	2011	2010	2009
Cash provided by (used in) operating activities	\$ 1,083,000	\$ 729,000	\$ (34,000)
Cash (used in) capital and related financing activities	(912,000)	(1,279,000)	(331,000)
Cash provided by non-capital financing activities	506,000	411,000	394,000
Cash provided by investing activities	892,000	118,000	46,000
Net increase (decrease) in cash	<u>1,569,000</u>	<u>(21,000)</u>	<u>75,000</u>
Cash:			
Beginning	370,000	391,000	316,000
Ending	<u>\$ 1,939,000</u>	<u>\$ 370,000</u>	<u>\$ 391,000</u>

Year Ended June 30, 2011: Liquidity as measured by the change in cash increased by \$1,569,000 to \$1,939,000 in 2011 from \$370,000 in 2010. Cash provided changed with an increase of net revenue and lower than anticipated capital purchases. Aggressive collections reduced patient accounts receivables by \$454,000. The majority of vendor invoices were received and paid before year-end, with the last payable run on June 30th decreasing accounts payable by \$461,000. An accrual was estimated for amounts owed to Medicare, based on the Interim cost report, which increased due to third-party payors. Cash provided by investing activities increased due to an increase in proceeds from sale of investments. The ending cash balance for 2011 was \$1,939,000.

Year Ended June 30, 2010: Liquidity as measured by the change in cash decreased \$21,000 to \$370,000 in 2010 from \$391,000 in 2009. Cash provided by operating activities increased \$904,000 from 2009 balances to \$870,000 in 2010. This was offset by an increase in cash used in capital and related financing activities as Mercer County Hospital paid off debt in excess of additional borrowings. Cash provided by investing activities increased. The ending cash balance for 2010 was \$370,000.

Mercer County Hospital

**Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010**

Capital Assets

June 30, 2011: During the year ended June 30, 2011 Telemetry Equipment was purchased using a HRSA Grant. A sleep lab was established in the fall of 2010. Clinic renovation was done using donations from the Mercer County Hospital Foundation and Genesis Foundation. Hospital renovation fees associated with construction planning were incurred increasing Construction In Progress.

June 30, 2010: At June 30, 2010 Mercer County Hospital had \$2,723,000 invested in capital assets described in more detail in the notes to the basic financial statements. The facility continued to expend funds on the planned Hospital renovation project. During 2010, \$155,000 of these costs were determined to be not applicable to the current project plans and were expensed. Purchases of depreciable assets totaled \$209,763 during the fiscal year.

	June 30,		
	2011	2010	2009
Capital assets not being depreciated:			
Land	\$ 44,000	\$ 44,000	\$ 44,000
Furniture and equipment	145,000	-	-
Construction in process	1,292,000	1,086,000	1,083,000
Construction in process- HMS	95,000	-	-
Capital assets net of depreciation:			
Land improvements	17,000	19,000	4,000
Buildings	726,000	796,000	868,000
Furniture and equipment	648,000	778,000	833,000
Total capital assets, net	\$ 2,967,000	\$ 2,723,000	\$ 2,832,000

Long-Term Debt

Long-term debt consists mainly of one revenue bond issue, described in more detail in Note 5 to the basic financial statements. As of June 30, 2011 the Hospital had \$425,000 in bonds outstanding versus \$620,000 at June 30, 2010. Also, as of June 30, 2011, the Hospital had \$1,578,000 in notes payable and revolving notes payable outstanding versus \$1,406,000 as of June 30, 2010. The net decrease in long-term debt is attributable to borrowings on the notes payable offset by the bond principal payments made in 2011.

Economic Factors

Year Ended June 30, 2011: Economic challenges in the community continued over the past year resulting in higher than expected Medicaid volumes, bad debt and charity care. Mercer County had the highest unemployment levels in the region leading to these higher metrics.

Mercer County Hospital

**Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010**

Year Ended June 30, 2010: During 2010 Mercer County Hospital saw the benefits of the various physician initiatives implemented over the prior four years. In addition, in 2010 the facility signed an agreement with Genesis Health Group to assist in the management of the clinic staff and business practice. With this partnership the service line has seen increases in visits, productivity and profit margins. The Hospital also extended and enhanced the management agreement with Genesis Health System. As part of this upgraded contract a review of the information technology infrastructure was conducted. A plan was then developed to ensure Mercer County Hospital fulfills the qualifications of meaningful use in order to benefit from the full impact of the health information technology Incentives. Initiatives continue to implement process improvements in an ongoing effort to improve the revenue cycle.

Financial Information Contact

The Hospital's financial statements are designed to provide a general overview of the Hospital's finances for all those with an interest in the Hospital's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mercer County Hospital.

Mercer County Hospital

Balance Sheets

Assets	Hospital		Component Unit (Foundation)	
	June 30,		December 31,	
	2011	2010	2010	2009
Current Assets:				
Cash	\$ 862,031	\$ 79,672	\$ 865,470	\$ 714,772
Assets limited as to use or restricted, current portion	239,349	138,330	74,513	68,946
Receivables:				
Patients, less allowance for contractual adjustments and doubtful accounts 2011 \$1,859,540; 2010 \$1,850,329	1,940,836	2,394,808	-	-
Other	64,083	88,154	-	-
Property taxes	30,256	25,208	-	-
Inventories	209,640	207,003	-	-
Prepaid expenses and other	106,720	104,710	-	-
Estimated amounts due from third-party payors	-	196,237	-	-
Total current assets	3,452,915	3,234,122	939,983	783,718
Noncurrent Assets:				
Assets limited as to use or restricted:				
Restricted under bond indenture	239,349	138,330	74,513	68,946
Board-designated for capital expenditures	440,982	440,524	-	-
Restricted by donor	1,099,591	1,185,368	-	-
	1,779,922	1,764,222	74,513	68,946
Less amount required to meet current obligations	239,349	138,330	74,513	68,946
	1,540,573	1,625,892	-	-
Capital assets:				
Nondepreciable	1,575,261	1,130,129	12,300	12,300
Depreciable, net	1,391,959	1,592,817	644,265	669,307
	2,967,220	2,722,946	656,565	681,607
Intangible Assets, net of accumulated amortization	51,000	59,500	-	-
Other assets	664	1,446	-	-
	\$ 8,012,372	\$ 7,643,906	\$ 1,596,548	\$ 1,465,325

See Notes to Basic Financial Statements.

Liabilities and Net Assets	Hospital		Component Unit (Foundation)	
	June 30,		December 31,	
	2011	2010	2010	2009
Current Liabilities:				
Current maturities of long-term debt	\$ 1,787,622	\$ 1,575,723	\$ 26,492	\$ 25,328
Accounts payable	92,558	399,909	-	-
Accrued payroll and related expenses	744,049	846,108	-	-
Other accrued expenses	65,867	184,420	-	-
Deferred rental revenue	18,396	18,396	-	-
Deferred revenue for succeeding year				
taxes receivable	10,000	10,000	-	-
Estimated amounts due to third-party payors	382,933	-	-	-
Total current liabilities	3,101,325	3,034,556	26,492	25,328
Deferred Rental Revenue, less current portion	139,498	157,893	-	-
Net Pension Obligation	107,559	43,846	-	-
Other Postemployment Benefits	2,000	45,000	-	-
Estimated Professional Liability Reserves	41,041	43,357	-	-
Long-Term Debt, less current maturities	215,000	450,297	584,240	610,732
Total liabilities	3,606,423	3,774,749	610,732	636,060
Commitments and Contingencies (Note 6)				
Net Assets:				
Invested in capital assets, net of related debt	964,698	696,926	-	-
Restricted:				
By donor	1,099,591	1,185,368	-	-
Under bond indenture	239,349	138,330	74,513	68,946
Unrestricted	2,102,311	1,848,533	911,303	760,319
	4,405,949	3,869,157	985,816	829,265
	\$ 8,012,372	\$ 7,643,906	\$ 1,596,548	\$ 1,465,325

Mercer County Hospital

Statements of Revenue, Expenses and Changes in Net Assets

	Hospital		Component Unit (Foundation)	
	Year Ended June 30,		Year Ended December 31,	
	2011	2010	2010	2009
Operating revenue:				
Net patient service revenue	\$ 12,081,333	\$ 12,257,810	\$ -	\$ -
Other revenue	421,667	413,013	136,668	105,302
Total operating revenue	12,503,000	12,670,823	136,668	105,302
Operating expenses:				
Salaries and wages	5,515,022	5,565,596	-	-
Employee benefits	1,562,913	1,459,721	-	-
Purchased services and professional fees	2,716,133	2,423,548	2,615	4,703
Depreciation and amortization	421,435	415,862	25,042	25,042
Interest	83,231	105,365	28,120	29,232
Supplies and other	2,249,587	2,394,874	23,620	19,564
Total operating expenses	12,548,321	12,364,966	79,397	78,541
Income (loss) from operations	(45,321)	305,857	57,271	26,761
Nonoperating revenue (expense):				
Interest earnings	8,406	9,599	9,197	15,469
Tax revenue	511,224	415,760	-	-
Contribution revenue	35,600	140,186	139,707	143,940
Contribution expense	-	-	(49,624)	(162,304)
Farm income, net	113,009	124,194	-	-
Loss on disposal of capital assets	(86,126)	(198,021)	-	-
	582,113	491,718	99,280	(2,895)
Change in net assets	536,792	797,575	156,551	23,866
Net assets:				
Beginning	3,869,157	3,071,582	829,265	805,399
Ending	\$ 4,405,949	\$ 3,869,157	\$ 985,816	\$ 829,265

See Notes to Basic Financial Statements.

Mercer County Hospital

Statements of Cash Flows

	Hospital		Component Unit (Foundation)	
	Year Ended June 30,		Year Ended December 31,	
	2011	2010	2010	2009
Cash Flows from Operating Activities:				
Receipts from patients and third-party payors	\$ 13,114,475	\$ 11,735,217	\$ -	\$ -
Payments to suppliers	(6,508,758)	(4,560,121)	(26,235)	(24,267)
Payments to employees	(6,868,376)	(6,884,042)	-	-
Other receipts	445,738	438,336	136,668	105,302
Net cash provided by operating activities	1,083,078	729,390	110,433	81,035
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	(837,106)	(401,533)	-	-
Proceeds from sale of capital assets	500	-	-	-
Contributions received	35,600	140,186	-	-
Borrowings on long-term debt	1,376,341	3,599,815	-	-
Principal payments on long-term debt	(1,399,839)	(4,507,009)	(25,328)	(24,216)
Interest payments on long-term debt	(88,106)	(109,990)	(28,120)	(29,232)
Net cash (used in) capital and related financing activities	(912,610)	(1,278,531)	(53,448)	(53,448)
Cash Flows from Non-Capital Financing Activities:				
Tax collections	506,176	410,697	-	-
Contributions received	-	-	139,707	143,940
Contributions made	-	-	(49,624)	(162,304)
Net cash provided by non-capital financing activities	506,176	410,697	90,083	(18,364)
Cash Flows from Investing Activities:				
(Purchase of) proceeds from sale of assets limited as to use or restricted	770,268	(16,274)	(5,567)	(5,587)
Earnings from Investments	8,406	9,599	9,197	15,469
Farm Income	113,009	124,194	-	-
Net cash provided by investing activities	891,683	117,519	3,630	9,902
Increase (decrease) in cash	1,568,327	(20,925)	150,698	19,125
Cash:				
Beginning, including cash limited as to use 2011 \$290,481; 2010 \$292,944	370,163	391,078	714,772	695,647
Ending, including cash limited as to use 2011 \$1,076,449; 2010 \$290,481	\$ 1,938,480	\$ 370,153	\$ 865,470	\$ 714,772

(Continued)

Mercer County Hospital

Statements of Cash Flows (Continued)

	Hospital		Component Unit (Foundation)	
	Year Ended June 30,		Year Ended December 31,	
	2011	2010	2010	2009
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Cash Flows from Operating Activities:				
Income (loss) from operations	\$ (45,321)	\$ 305,857	\$ 57,271	\$ 26,761
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:				
Depreciation and amortization	421,435	415,862	25,042	25,042
Amortization of deferred rent	(18,395)	(18,395)	-	-
Interest expense	83,231	105,365	28,120	29,232
Changes in assets and liabilities:				
(Increase) decrease in:				
Patient receivables	453,972	(410,356)	-	-
Other receivables	24,071	25,323	-	-
Inventories, prepaid expenses and other	(4,647)	67,504	-	-
Increase (decrease) in:				
Accounts payable and accrued expenses	(410,438)	350,467	-	-
Third-party payor settlements	579,170	(112,237)	-	-
Net cash provided by operating activities	\$ 1,083,078	\$ 729,390	\$ 110,433	\$ 81,035

Supplemental Disclosures of Noncash Investing and Financing Activities:

Increase (decrease) in accounts payable related to construction in progress	\$ (94,053)	\$ 94,053	\$ -	\$ -
Loss on disposal of capital assets	86,126	198,021	-	-

See Notes to Basic Financial Statements.

Mercer County Hospital

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

Mercer County Hospital operates a critical access hospital with 22 acute care beds and 14 long-term care beds as well as a physician clinic located in Aledo, Illinois. The Hospital is established under Illinois State statutes and is governed by a ten member Governing Board. The members are nominated by the Hospital Board and approved by the Mercer County Board of Supervisors. Therefore, under generally accepted accounting principles, the Hospital constitutes as a component unit of Mercer County, Illinois, for financial reporting purposes. The Hospital is a blended component unit for the financial reporting purpose of Mercer County, Illinois.

The Hospital primarily earns revenue by providing inpatient, outpatient, skilled nursing and home health care services to area residents.

The Hospital is exempt from income taxes under provisions of the Internal Revenue Code as a political subdivision of the State of Illinois.

Mercer Foundation for Health (Foundation) is a legally separate, tax-exempt, discretely presented component unit of Mercer County Hospital. The Foundation was formed in 1990 to promote, encourage or foster any activity which will promote the health and well-being of people in the Mercer County area. The 11 member Board of the Foundation is self-perpetuating and consists of citizens of Mercer County. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds are contributed to the Hospital. Because these resources held by the Foundation have historically been for the benefit of the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements. The Foundation has a December 31 year-end. Complete financial statements for the Foundation can be obtained from the Treasurer at 1007 NW 3rd Avenue, Aledo, Illinois 61231.

Significant accounting policies:

Accrual basis of accounting: The accrual basis of accounting is used by the Hospital. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred.

Modified cash basis of accounting: The modified cash basis of accounting is used by the Foundation. Under the modified cash basis of accounting, revenue is recognized when received and expenses are recognized when paid. Capital expenditures are capitalized and depreciated over their estimated useful lives. This is a comprehensive basis of accounting other than generally accepted accounting principles.

Accounting pronouncements: The Hospital has elected to apply all applicable Governmental Accounting Standards Board (GASB) Pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB Pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's). The Hospital has elected not to apply FASB guidance subsequent to November 30, 1989.

Mercer County Hospital

Notes to Basic Financial Statements

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

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.

Patient receivables: 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.

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. 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 Hospital does not charge interest on patient receivables. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received. The provision for doubtful accounts was \$739,987 and \$481,364 for the years ended June 30, 2011 and 2010, respectively.

Receivables or payables related to estimated settlements on various risk contracts that the Hospital participates in are reported as third-party payor receivables or payables.

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

Assets limited as to use or restricted: Assets limited as to use or restricted include assets restricted by revenue bond ordinance, donor-restricted assets and assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes.

Mercer County Hospital

Notes to Basic Financial Statements

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

Capital assets: Capital assets are carried at cost or fair value if donated. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. Amortization on assets under capital leases is included with depreciation expense on owned capital assets. Depreciation is computed by the straight-line method over estimated useful lives as follows:

	<u>Years</u>
Hospital:	
Land improvements	5 - 20
Building	5 - 40
Furniture and equipment	5 - 20
Foundation:	
Furniture and equipment	10
Building	39

Donations of capital assets are reported at fair value as an increase in unrestricted net assets unless use of the asset is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted net assets. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Intangible assets: Intangible assets consist of medical records purchased from a physician and a noncomplete agreement with the physician which are being amortized over ten years using the straight-line method.

Other assets: Other assets include debt issuance costs which are being amortized over the approximate 30-year term of the Hospital revenue bond issue using the bonds outstanding method.

Deferred rental revenue: The Hospital has entered into an agreement with a third-party whereby the third-party has renovated a portion of the Hospital in return for rent forgiveness for a period of twenty years. The renovations were completed in February 2005 for a total cost of \$275,931 at which time the amortization of the deferred rental revenue commenced. The accompanying balance sheets include total deferred rental revenue of \$157,894 and \$176,289 as of June 30, 2011 and 2010, respectively. Amortization of the deferred rental revenue totaling \$18,395 for each of the years ended June 30, 2011 and 2010, is included in other revenue on the accompanying statements of revenue, expenses and changes in net assets.

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 accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue is reported net of provisions for uncollectible accounts.

Mercer County Hospital

Notes to Basic Financial Statements

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

Operating income: The Hospital distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from the primary purpose of the Hospital, which is to provide medical services to the region. Other operating revenue consists of reimbursement of expenses for operating the Board of Health programs, grants, cafeteria sales and other miscellaneous services. Operating expenses consist of salaries and wages, employee benefits, purchased services and professional fees, depreciation, interest and supplies and other. All revenue and expenses not meeting these criteria are considered nonoperating.

For the Foundation, operating revenue and expenses generally result from the operations of the office buildings. Other operating revenue consists of rental income. Operating expenses consist of purchased services and professional fees, depreciation, interest and supplies and other. All revenue and expenses not meeting these criteria are considered nonoperating.

Tax revenue: Property taxes are recognized as assets in the period an enforceable legal claim to the assets arises and are recognized as revenue in the period for which the taxes are levied. Property taxes are collected by the county and remitted monthly to the Hospital and are primarily received by the Hospital in October, November and December. Other county tax revenue is recognized as revenue when received by the Hospital. Property taxes that are not available for current year operations are shown as deferred revenue.

Net assets: Net asset classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints placed on net assets through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt" above.

Charity care: The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care for the years ended June 30, 2011 and 2010 was approximately \$398,000 and \$423,000, respectively.

Gifts, grants and bequests: Gifts, grants and bequests not designated by donors for specific purposes are reported as nonoperating revenue regardless of the use for which they might be designated by the Governing Board.

Mercer County Hospital

Notes to Basic Financial Statements

Note 2. Net Patient Service Revenue

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

Medicare: The Hospital is designated as a critical access hospital. This designation provides for inpatient and outpatient services to be reimbursed on a cost basis methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

The Hospital's Medicare cost reports have been finalized by the Medicare fiscal intermediary through June 30, 2009.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under prospectively determined fee schedules.

In December 2008, CMS approved State of Illinois legislation for a Medicaid Hospital Assessment Program (Program), which is retroactive to July 1, 2008. Under the Program, a hospital receives additional Medicaid reimbursement from the State. Total reimbursement revenue recognized by the Hospital related to this Program during each of the years ended June 30, 2011 and 2010 amounted to approximately \$288,000, which is recorded as a reduction of contractual adjustment expense. There was no receivable as of June 30, 2011 and 2010 as all amounts applicable to those fiscal years were received prior to those dates. As a county-owned hospital, the Hospital did not incur any assessments related to this Program. The Program is effective through June 2014.

In November 2010, CMS approved the State of Illinois' one-time Medicaid stimulus payment plan to Illinois hospitals which provide Medicaid services. The amount received under this plan was based on the amount of Medicaid services provided to patients. Under this program, the Hospital received approximately \$230,000 which was recognized as a reduction of contractual adjustment expense for the year ended June 30, 2011.

Approximately 53% and 55% of net patient service revenue is from participation in the Medicare and state sponsored Medicaid programs for the years ended June 30, 2011 and 2010.

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

Mercer County Hospital

Notes to Basic Financial Statements

Note 2. Net Patient Service Revenue (Continued)

Net patient service revenue is composed of the following for the years ended June 30, 2011 and 2010:

	2011	2010
Gross patient service revenue	\$ 20,988,800	\$ 19,230,539
Less discounts, allowances and estimated contractual adjustments under third-party reimbursement programs	8,167,480	6,491,365
Less provision for doubtful accounts	739,987	481,364
Net patient service revenue	\$ 12,081,333	\$ 12,257,810

Contractual adjustment expense 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 contractual adjustment expense of approximately \$58,000 and \$76,000 for the years ended June 30, 2011 and 2010, respectively, and is related to retroactive adjustments based on final settlements of cost reports.

Note 3. Deposits and Assets Limited as to Use or Restricted

As of June 30, 2011 and 2010 the Hospital and Foundation had no investments.

Credit risk: State statutes authorize the Hospital and Foundation to make deposits and investments in interest-bearing depository accounts in federally insured and/or state chartered banks and savings and loan associations, or other financial institutions as designated by ordinances, and to invest available funds in direct obligations of, or obligations guaranteed by, the U.S. Treasury or agencies of the United States, money market mutual funds whose portfolios consist of government securities, and the Illinois Public Treasurers' Investment Pool. However, the Hospital and Foundation have no formal investment policy.

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the Hospital and Foundation's deposits may not be returned to the Hospital and Foundation. As of June 30, 2011, the combined bank balance of the Hospital and Foundation's deposits in financial institutions totaled \$2,608,547 of which \$189,670 was subject to custodial credit risk.

Investments in farmland: As of June 30, 2011 and 2010, the Hospital holds approximately 58 acres of donated farm land with a carrying value of approximately \$81,000. The carrying value is based upon the fair value of the farm at the date of the donation. No change in the carrying value of this farm land has been made since the original donation was made.

The Hospital also has approximately 444 acres of donated farm land, which is held as an investment by an endowment in accordance with the original donor intent. In accordance with GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, this farmland is recorded at its estimated fair value. The carrying value of this farm land is approximately \$1,309,000. The fair value was estimated by management by obtaining comparable sales data for similar property from the Mercer County Assessor's Office and by periodically obtaining independent appraisals on the land.

Farm income is reported separately from investment income in these financial statements.

Mercer County Hospital

Notes to Basic Financial Statements

Note 3. Deposits and Assets Limited as to Use or Restricted (Continued)

The Hospital's carrying values of cash deposits and assets limited as to use or restricted are as follows:

	<u>2011</u>	<u>2010</u>
Carrying value:		
Petty cash	\$ 1,460	\$ 1,165
Checking account deposits	1,074,989	289,316
Certificates of deposit	175,075	162,984
Investments in farmland	1,390,429	1,390,429
	<u>\$ 2,641,953</u>	<u>\$ 1,843,894</u>

The Hospital's cash, deposits and assets limited as to use or restricted are included in the following balance sheet captions:

	<u>2011</u>	<u>2010</u>
Cash	\$ 862,031	\$ 79,672
Assets limited as to use or restricted	1,779,922	1,764,222
	<u>\$ 2,641,953</u>	<u>\$ 1,843,894</u>

The Foundation's carrying values of checking account deposits are \$939,983 and \$783,718 as of December 31, 2010 and 2009, respectively.

The Foundation's cash, deposits and assets limited as to use or restricted are included in the following balance sheet captions:

	<u>2010</u>	<u>2009</u>
Cash	\$ 865,470	\$ 714,772
Assets limited as to use or restricted	74,513	68,946
	<u>\$ 939,983</u>	<u>\$ 783,718</u>

Mercer County Hospital

Notes to Basic Financial Statements

Note 4. Capital Assets

Capital assets activity is as follows:

	Hospital			
	June 30, 2010	Additions	Transfers and Disposals	June 30, 2011
Capital assets not being depreciated:				
Land	\$ 43,583	\$ -	\$ -	\$ 43,583
Furniture and equipment	-	144,900	-	144,900
Construction in process	1,086,546	360,719	(155,499)	1,291,766
Construction in process- HMS	-	138,424	(43,412)	95,012
Total capital assets not being depreciated	1,130,129	644,043	(198,911)	1,575,261
Capital assets being depreciated:				
Land Improvements	24,966	-	-	24,966
Building	3,828,569	2,872	-	3,832,441
Furniture and equipment	4,394,187	96,138	95,785	4,586,110
Total capital assets being depreciated	8,248,722	99,010	95,785	8,443,517
Less accumulated depreciation for:				
Land Improvements	6,456	1,523	-	7,979
Building	3,033,749	72,315	-	3,106,064
Furniture and equipment	3,615,700	338,315	(16,500)	3,937,515
Total accumulated depreciation	6,655,905	412,153	(16,500)	7,051,558
Total capital assets being depreciated, net	1,592,817	(313,143)	112,285	1,391,959
Capital assets, net	\$ 2,722,946	\$ 330,900	\$ (86,626)	\$ 2,967,220

Construction in process as of June 30, 2011 and 2010 consists primarily of architectural fees incurred related to planned renovations to the Hospital's facilities. The Hospital has not entered into any formal commitments related to this project.

	Foundation			
	December 31, 2009	Additions	Transfers and Disposals	December 31, 2010
Capital assets not being depreciated, land	\$ 12,300	\$ -	\$ -	\$ 12,300
Capital assets being depreciated:				
Furniture and equipment	15,246	-	-	15,246
Building	976,662	-	-	976,662
Total capital assets being depreciated	991,908	-	-	991,908
Less accumulated depreciation for:				
Furniture and equipment	15,247	-	-	15,247
Building	307,354	25,042	-	332,396
Total accumulated depreciation	322,601	25,042	-	347,643
Total capital assets being depreciated, net	669,307	(25,042)	-	644,265
Capital assets, net	\$ 681,607	\$ (25,042)	\$ -	\$ 656,565

Mercer County Hospital

Notes to Basic Financial Statements

Note 4. Capital Assets (Continued)

	Hospital			
	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets not being depreciated:				
Land	\$ 43,583	\$ -	\$ -	\$ 43,583
Construction in process	1,083,353	285,823	(282,630)	1,086,546
Total capital assets not being depreciated	1,126,936	285,823	(282,630)	1,130,129
Capital assets being depreciated:				
Land improvements	9,291	15,675	-	24,966
Building	3,829,569	-	-	3,829,569
Furniture and equipment	4,115,490	184,088	84,609	4,394,187
Total capital assets being depreciated	7,954,350	209,763	84,609	8,248,722
Less accumulated depreciation for:				
Land improvements	5,369	1,087	-	6,456
Building	2,861,847	71,902	-	3,033,749
Furniture and equipment	3,282,410	333,290	-	3,615,700
Total accumulated depreciation	6,249,626	406,279	-	6,655,905
Total capital assets being depreciated, net	1,704,724	(196,516)	84,609	1,592,817
Capital assets, net	\$ 2,831,660	\$ 89,307	\$ (198,021)	\$ 2,722,946
	Foundation			
	December 31, 2008	Additions	Transfers and Disposals	December 31, 2009
Capital assets not being depreciated, land	\$ 12,300	\$ -	\$ -	\$ 12,300
Capital assets being depreciated:				
Furniture and equipment	15,246	-	-	15,246
Building	876,662	-	-	876,662
Total capital assets being depreciated	991,908	-	-	991,908
Less accumulated depreciation for:				
Furniture and equipment	15,247	-	-	15,247
Building	282,312	25,042	-	307,354
Total accumulated depreciation	297,559	25,042	-	322,601
Total capital assets being depreciated, net	694,349	(25,042)	-	669,307
Capital assets, net	\$ 706,649	\$ (25,042)	\$ -	\$ 681,607

Mercer County Hospital

Notes to Basic Financial Statements

Note 5. Notes Payable and Long-Term Debt

Long-term debt for the Hospital as of June 30, 2011 and 2010 consists of:

	2011	2010
1981 Hospital Revenue Bonds, Series B (A)	\$ 425,000	\$ 620,000
Note payable (B)	-	7,719
Revolving note payable (C)	-	292,822
Revolving note payable (D)	1,577,522	1,105,479
	<u>2,002,522</u>	<u>2,026,020</u>
Less current maturities	1,787,522	1,575,723
	<u>\$ 215,000</u>	<u>\$ 450,297</u>

- (A) 1981 Hospital Revenue Bonds, Series B; original amount of \$3,500,000; interest payable semi-annually at 5%; principal payments due on January 1 through 2013; issued to Farmers Home Administration and are secured by the net revenue of the Hospital.

The bond agreement provides for the establishment of bond interest and sinking funds. The bonds also place limits on the incurrence of additional borrowings and require the Hospital to satisfy certain measures of financial performance as long as the bonds are outstanding. The Hospital is in compliance with these covenants or has obtained a waiver for the covenants for which they are not in compliance.

The Hospital has pledged future revenue, net of operating expenses, (net revenue) to repay \$3,500,000 for revenue bonds issued in 1981. Proceeds from the bonds were used for capital improvements, equipment and costs of additions to and renovation and remodeling of the Hospital. The bonds are payable solely from the Hospital's net revenue and are payable through January 2013. The total principal and interest remaining to be paid on the bonds is \$446,375. Principal and interest paid for the current year and total net revenues as defined in the bond agreement were \$230,625 and \$693,853, respectively.

- (B) Note payable, paid-in-full in July 2010.
- (C) The revolving note payable provides for borrowings up to \$1,000,000, with monthly payments of \$23,000, including interest at 4.95%. The scheduled maturity date of the revolving note payable was February 2012 but was paid off early in June 2011. There are no borrowings as of June 30, 2011. The note is collateralized by equipment.
- (D) The revolving note payable provides for borrowings up to \$1,645,498, with monthly interest payments at 3.95%. The entire unpaid balance was due September 2011 and is being renegotiated with the lender. The note is collateralized by equipment.

The Hospital has a revolving note payable which allows for borrowings up to \$540,000, with monthly interest payments at 3.95%. The entire unpaid balance is due November 2011. The note is collateralized by equipment. There were no borrowings as of June 30, 2011.

The Hospital also has a revolving note payable which allows for borrowings up to \$500,000, with monthly interest payments at 3.95%. The entire unpaid balance is due November 2011. There were no borrowings on this note payable as of June 30, 2011.

Mercer County Hospital

Notes to Basic Financial Statements

Note 5. Notes Payable and Long-Term Debt (Continued)

Long-term debt for the Foundation as of December 31, 2010 and 2009 consists of:

	2010	2009
Note payable, FHA (A)	\$ 610,732	\$ 636,060
Less current maturities	26,492	25,328
	<u>\$ 584,240</u>	<u>\$ 610,732</u>

- (A) Note payable to Farmers Home Administration, USDA, original amount of \$850,000, monthly payments of \$4,454 including interest at 4.5% through April 2027, collateralized by the building. The note requires that a reserve fund be established and maintained at a specified level. The assets in the reserve fund are included in assets limited as to use or restricted in the accompanying balance sheets.

Long-term debt activity is as follows:

	Hospital				
	June 30, 2010	Borrowings	Payments	June 30, 2011	Due Within One Year
1981 Hospital Revenue Bonds, Series B	\$ 620,000	\$ -	\$ (195,000)	\$ 425,000	\$ 210,000
Notes payable	1,406,020	473,273	(301,771)	1,577,522	1,577,522
Line of Credit	-	903,068	(903,068)	-	-
	<u>\$ 2,026,020</u>	<u>\$ 1,376,341</u>	<u>\$ (1,399,839)</u>	<u>\$ 2,002,522</u>	<u>\$ 1,787,522</u>

	Foundation				
	December 31, 2009	Borrowings	Payments	December 31, 2010	Due Within One Year
Note payable, FHA	\$ 636,060	\$ -	\$ (25,328)	\$ 610,732	\$ 26,492

	Hospital				
	June 30, 2009	Borrowings	Payments	June 30, 2010	Due Within One Year
1981 Hospital Revenue Bonds, Series B	\$ 805,000	\$ -	\$ (185,000)	\$ 620,000	\$ 195,000
Notes payable	2,128,214	3,599,815	(4,322,009)	1,406,020	1,380,723
	<u>\$ 2,933,214</u>	<u>\$ 3,599,815</u>	<u>\$ (4,507,009)</u>	<u>\$ 2,026,020</u>	<u>\$ 1,575,723</u>

	Foundation				
	December 31, 2008	Borrowings	Payments	December 31, 2009	Due Within One Year
Note payable, FHA	\$ 660,276	\$ -	\$ (24,216)	\$ 636,060	\$ 25,328

Mercer County Hospital

Notes to Basic Financial Statements

Note 5. Notes Payable and Long-Term Debt (Continued)

Aggregate annual maturities of long-term debt for the Hospital as of June 30, 2011 are:

Year ending June 30:	Principal	Interest	Total
2012	\$ 1,787,522	\$ 78,312	\$ 1,865,834
2013	215,000	5,375	220,375
	<u>\$ 2,002,522</u>	<u>\$ 83,687</u>	<u>\$ 2,086,209</u>

Aggregate annual maturities of long-term debt for the Foundation as of December 31, 2010 are as follows:

Year ending December 31:	Principal	Interest	Total
2011	\$ 26,492	\$ 26,956	\$ 53,448
2012	27,635	25,813	53,448
2013	28,979	24,469	53,448
2014	30,310	23,138	53,448
2015 to 2020	173,693	93,547	267,240
2021 to 2025	217,428	49,812	267,240
2026 to 2027	106,195	5,295	111,490
	<u>\$ 610,732</u>	<u>\$ 249,030</u>	<u>\$ 859,762</u>

Note 6. Contingent Liabilities and Commitments

Medical malpractice and general liability insurance:

Effective January 10, 1994, the Hospital began participation in the Illinois Provider Trust (IPT), an organization sponsored by the Illinois Hospital Association (IHA) to provide professional and general liability coverage to Illinois hospitals which are members of IHA. The IPT is a multi-hospital self-insurance trust formed pursuant to the provisions of the Illinois Religious and Charitable Risk Pooling Act. Member hospitals make contributions to IPT which provides mutual insurance protection for all members of the Trust. Coverage is limited to \$5,000,000 per claim, with no aggregate limits. The Hospital could also be required to make additional retroactive contributions based on actuarial calculations of trust loss experience. Management has evaluated the potential retroactive assessment and deemed no liability is necessary as of June 30, 2011 and 2010. Claims-made coverage is currently arranged through December 31, 2011. Coverage for claims made subsequent to December 31, 2011 is dependent upon the Hospital's ability to obtain claims-made insurance in the future.

The Hospital uses an actuary to calculate an estimate of incurred, but not reported (IBNR) claims at year-end. This accrual is included in other accrued expenses and estimated professional liability reserves on the Hospital's balance sheet. For the years ended June 30, 2011 and 2010, there were no claims paid.

The Hospital also purchases claims-made medical malpractice insurance coverage for one employee physician. This policy contains loss limits of \$1,000,000 per claim and an annual limit of \$3,000,000, with no deductible.

Mercer County Hospital

Notes to Basic Financial Statements

Note 6. Contingent Liabilities and Commitments (Continued)

The Hospital is involved in litigation arising in the ordinary course of business. It is the opinion of management, however, that the Hospital's malpractice insurance coverage is adequate to provide for potential losses resulting from pending or threatened litigation. Additional claims may be asserted against the Hospital arising from services provided to patients through June 30, 2011. The ultimate cost of the resolution of such potential claims is not considered to be material and, accordingly, no accrual has been made for these costs.

The medical malpractice and general liability insurance costs of the Hospital totaled approximately \$179,000 and \$173,000 for the years ended June 30, 2011 and 2010, respectively. Settled claims from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Worker's compensation:

The Hospital is a participant in the Illinois Compensation Trust (ICT), an organization sponsored by the Illinois Hospital Association (IHA) to provide worker's compensation coverage to Illinois hospitals which are members of IHA. The ICT is a multi-hospital self-insurance trust formed pursuant to the provisions of the Illinois Religious and Charitable Risk Pooling Act. Member hospitals make contributions to ICT which provides mutual insurance protection for all members of the Trust. According to the Trust Agreement, a refund may be made to the participating hospitals if the Trust's loss experience is better than anticipated. If, however, the Trust's loss experience is worse than anticipated, the hospitals may be required to make additional contributions. Management has evaluated the potential retroactive assessment and deemed no liability is necessary as of June 30, 2011 and 2010. The Hospital incurred expenses of approximately \$8,000, net of \$41,000 dividends, and \$48,000, net of \$51,000 dividends, under the ICT program for the years ended June 30, 2011 and 2010, respectively.

Unemployment compensation:

The Hospital is also self-insured for unemployment compensation claims through ICT. The total expenses relating to unemployment compensation for the years ended June 30, 2011 and 2010 were approximately \$600 and \$17,800, respectively.

Health Insurance:

The Hospital's employees participate in Mercer County's self-insurance program for health insurance. Self-insurance is in effect up to an individual stop/loss amount of \$50,000 and aggregate stop/loss amount of approximately \$1,608,000 with coverage from a private insurance company maintained for all claims in excess of the stop/loss amounts. All claim handling procedures are performed by an independent claims administrator.

The Hospital pays the County a monthly amount for each participant covered by the program. A reserve equal to 25% of the previous 12 months' claims experience is maintained by the County. A refund may be made to the Hospital if the program's loss experience is better than anticipated; if, however, the program's loss experience is worse than anticipated, the Hospital may be required to make additional contributions. Management has evaluated the potential retroactive assessment and deemed no liability is necessary as of June 30, 2011 and 2010. Expense related to the Hospital's health insurance for the years ended June 30, 2011 and 2010 was approximately \$372,000 and \$375,000, respectively.

Mercer County Hospital

Notes to Basic Financial Statements

Note 6. Contingent Liabilities and Commitments (Continued)

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. While the Hospital is subject to similar regulatory reviews, management believes the outcome of any such regulatory review will not have a material adverse effect on the Hospital's financial position.

The Hospital has been named as a defendant in various legal actions arising from normal business activities in which damages in various amounts are claimed. The amount of ultimate liability, if any, with respect to such matters cannot be determined, but management believes that any such liability would not have a material effect on the Hospital's financial position.

Medicare reimbursement:

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. During fiscal year 2007, the RAC's identified and corrected a significant amount of improper overpayments 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. CMS is in the process of rolling out this program nationally. As such, the Hospital may be subject to such an audit at some time in the future. The final impact of this program cannot be quantified at this time.

Management contract:

Effective March 2009, the Hospital entered into a one-year contractual arrangement with Genesis Health System, under which Genesis Health System (GHS) provides management consultation and other services to the Hospital. The arrangement does not alter the authority or responsibility of the Board of Directors of the Hospital. During the current year, this agreement was replaced with a new management agreement under which GHS will continue to provide various management services through November 2014. The new agreement also allows for the Hospital and GHS to move forward with an affiliation agreement upon approval by both parties. Expenses for services received amounted to approximately \$516,000 and \$370,000 for the years ended June 30, 2011 and 2010.

Mercer County Hospital

Notes to Basic Financial Statements

Note 6. Contingent Liabilities and Commitments (Continued)

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 healthcare 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.

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 Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Hospital'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 payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital'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.

Note 7. Defined Benefit Pension Plan

Plan description:

Mercer County contributes on behalf of the Hospital to the Illinois Municipal Retirement Fund ("IMRF"), an agent multiple-employer defined benefit pension plan administered by the State of Illinois. Pension expense and the related tax revenue are recorded for the amount the County is legally required to contribute for the year. The plan provides retirement benefits, including annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. State law assigns the authority to establish and amend benefit provisions to the plan's Board of Trustees, which is appointed by the Governor with the approval of the State Legislature. The plan issues a publicly available financial report that includes financial statements and requires supplementary information for the plan. The report may be obtained by writing to the plan at Illinois Municipal Retirement Fund, 2211 York Road, Suite 500, Oak Brook, IL 60523-2374, or by calling 1-800-ASK-IMRF.

Mercer County Hospital

Notes to Basic Financial Statements

Note 7. Defined Benefit Pension Plan (Continued)

Annual pension cost and net pension asset:

The Hospital's annual pension cost and net pension obligation for the years ended June 30, 2011 and 2010 were as follows:

	2011	2010
Annual required contributions	\$ 555,201	\$ 260,597
Interest on net pension obligation	3,273	-
ARC Adjustment	(2,340)	-
Annual pension cost	556,134	260,597
Annual contributions made	492,221	216,951
Increase in net pension obligation	63,913	43,646
Net pension obligation:		
Beginning	43,646	-
Ending	\$ 107,559	\$ 43,646

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Year ended June 30:			
2011	\$ 556,134	88.5%	\$ 107,559
2010	260,597	83.3	43,646

Funding policy:

The authority to establish and amend the requirements of plan members and the Hospital is set forth in state law and is vested in the Plan's Board of Trustees. Plan members (enrolled employees) are required to contribute 4.50% of their annual covered salary for each of the calendar years 2011 and 2010. The Hospital is required to contribute at an actuarially determined rate. The rate was 9.92% and 10.21% of annual covered payroll for the calendar years 2011 and 2010, respectively. Beginning January 1, 2010, the IMRF Board of Trustees adopted an optional phase-in rate, which employers could elect for 2010 and thereafter for employer contribution rates. Mercer County opted for the optional phase-in rate of 9.35% and 8.50% during calendar years 2011 and 2010, respectively, creating a net pension obligation of approximately \$108,000 and \$44,000 as of June 30, 2011 and 2010, respectively. The information required to be presented as supplementary information is presented at the county level in the Mercer County, Illinois financial statements. The amounts specifically related to Mercer County Hospital, other than contributions presented above, are not determinable.

Mercer County Hospital

Notes to Basic Financial Statements

Note 8. Other Postemployment Benefits (OPEB)

Plan description and funding policy:

The Hospital participates with other funds of Mercer County in a postretirement medical plan that provides post-termination medical insurance coverage for the participant and the participant's family through age 65. The employees eligible under this plan are all full-time employees retiring under the IMRF retirement plan. Eligible participants are responsible for payment of the entire premium at the County rate. Prior to the participants' or participating family members' age 65, the coverage shall be the insured coverage and benefits provided to Mercer County full-time employee participants under the plan. The plan coverage terminates upon the participant reaching Medicare eligibility (age 65).

The Hospital pays for all or a portion of active employees' coverage. The amount depends on whether single or family coverage is elected. Upon retirement, the retired participant continuing their coverage pays the premium including any increase in single premium after retirement. The required contribution is based on projects pay-as-you-go financing requirements. The Hospital made no contributions to the plan during the year ended June 30, 2011.

Annual OPEB cost and net OPEB obligation:

The Hospital's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for the year, the amount actuarially contributed to the plan, and changes in the Hospital's annual OPEB obligation:

Annual required contribution	\$ 4,951
Interest on net OPEB obligation	-
Annual OPEB cost (expense)	<u>4,951</u>
Contributions made	<u>3,846</u>
Increase in net OPEB obligation	<u>1,105</u>
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	<u><u>\$ 1,105</u></u>

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for fiscal year 2011 are as follows:

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Year ended June 30, 2011	\$ 4,951	77.68%	\$ 1,105

Mercer County Hospital

Notes to Basic Financial Statements

Note 8. Other Postemployment Benefits (OPEB) (Continued)

Funded status and funding progress:

As of November 30, 2010, the most recent actuarial valuation date, the plan was 0% funded. The Hospital's actuarial accrued liability for benefits was \$37,413 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$37,413. The Hospital's covered payroll was \$5,496,111 and the ratio of the UAAL to the covered payroll was 0.68%. These amounts represent the Hospital's information along with all other funds of Mercer County. The results of the November 30, 2010 valuation were rolled forward to June 30, 2011.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial methods and assumptions:

The actuarial calculations are performed in accordance with the Frozen Entry Age Actuarial Cost Method as allowed under GASB Statement No. 45. The excess of the AAL over the actuarial value of plan assets is the Unfunded Actuarial Accrued Liability. The Unfunded Actuarial Accrued Liability is amortized over a maximum of 30 years in level percentage of pay dollar amounts on an open period amortization basis. The sum of the normal cost and the amortization of the unfunded actuarial accrued liability is the annual required contribution, which with interest at the valuation date, determines the annual OPEB cost.

Economic cost assumptions:

The rate at which projected cash flows are to be discounted is 5.0% based on estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits.

Actuarial calculations reflect a long-term perspective that involves estimates of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Mercer County Hospital

Notes to Basic Financial Statements

Note 9. Deferred Compensation Agreement

The Hospital offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457(g). The plan, available to all hospital employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The assets of the plan are held in a trust and are not included in the financial statements of the Hospital.

Note 10. Concentrations of Credit Risk

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

	2011	2010
Medicare	34%	44%
Medicaid	16	10
Other third-party payors	34	33
Patients	16	13
	<u>100%</u>	<u>100%</u>

Note 11. Related Party Transactions

Lease agreement:

The Hospital has entered into a lease agreement with the Foundation for a medical office building. Monthly rentals of \$6,050 plus the payment of insurance and normal maintenance continue for the lease term through 2015. Rent expense under this lease was \$72,600 for the years ended June 30, 2011 and 2010. The total minimum rental commitment as of June 30, 2011 under this lease is due as follows:

Year ending June 30:	
2012	\$ 72,600
2013	72,600
2014	72,600
2015	24,200
	<u>\$ 242,000</u>

The Hospital also leases another office building from the Foundation under a lease agreement that has annual renewal options. Rent expense under this lease was \$1,200 for each of the years ended June 30, 2011 and 2010.

Contributions:

The Foundation makes discretionary contributions to the Hospital. Contributions made by the Foundation to the Hospital during the Foundation's years ended December 31, 2010 and 2009 were approximately \$35,600 and \$140,000, respectively.

Mercer County Hospital

Notes to Basic Financial Statements

Note 12. New and Pending Pronouncements

The Hospital implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, and GASB Statement No. 59, *Financial Instruments Omnibus*, during the year ended June 30, 2011. The adoption of these Statements had no material effect on the financial statements.

The Governmental Accounting Standards Board (GASB) has issued the following Statements not yet implemented by the Hospital. The Statements which might impact the Hospital are as follows:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the Hospital beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the Hospital beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the Hospital beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis- for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets*.

The Hospital's management has not yet determined the effect these Statements will have on the Hospital's financial statements.

Mercer County Hospital

**Required Supplementary Information, Other Postemployment Benefit Plan
Year Ended June 30, 2011**

Schedule of Funding Progress

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over-funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
June 30, 2011	11/30/2010	\$ -	\$ 56,897	\$ 56,897	- %	\$ 5,496,111	0.68%

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of November 30, 2010. Additional information follows:

1. The cost method used to determine the ARC is the Frozen Entry Age Actuarial Cost method.
2. There are no plan assets.
3. Economic assumptions are as follows: health care cost trend rates of 6%; discount rate of 5.0%.
4. The amortization method is open period, level percentage of pay basis.

The Hospital participates with other funds of Mercer County in the postretirement medical plan. The amounts presented in the required supplementary schedule represent the Hospital's information along with all other funds of the County.

Mercer County Hospital

**Net Patient Service Revenue
(Hospital Only)**

Years Ended June 30, 2011 and 2010

	2011		
	Inpatient	Outpatient	Total
Daily patient services:			
Medical and surgical	\$ 671,502	\$ -	\$ 671,502
Swing bed unit	448,261	-	448,261
Extended care unit	223	-	223
	<u>1,119,986</u>	<u>-</u>	<u>1,119,986</u>
Other nursing services:			
Operating and recovery rooms	3,785	450,082	453,867
Central services and supply	123	20,886	21,009
Emergency services	72,119	3,453,681	3,525,800
Monitoring	24,857	238,465	263,322
Home health services	-	1,096,107	1,096,107
Hospice	4,272	59,410	63,682
	<u>105,166</u>	<u>5,318,631</u>	<u>5,423,787</u>
Other professional services:			
Laboratory	325,135	3,564,205	3,889,340
Electrocardiology	12,437	211,794	224,231
Electroencephalography	-	7,867	7,867
Radiology	120,735	3,365,169	3,485,904
ECHO cardiography	9,455	119,133	128,588
Pharmacy	806,927	706,800	1,513,727
Anesthesiology	549	170,393	170,942
Respiratory therapy	260,376	87,288	347,664
Physical therapy	221,779	953,892	1,175,671
Sleep Lab	-	311,457	311,457
Occupational Health	-	4,392	4,392
Specialty Clinic	-	201,690	201,690
Clinics	-	2,670,494	2,670,494
Other	35,350	675,978	711,328
	<u>1,792,743</u>	<u>13,050,552</u>	<u>14,843,295</u>
	<u>\$ 3,017,885</u>	<u>\$ 18,369,183</u>	<u>21,387,068</u>
Less charity care			398,268
Gross patient service revenue			<u>20,988,800</u>
Less discounts, allowances and estimated contractual adjustments under third-party reimbursement programs			8,167,480
Less provision for doubtful accounts			739,987
Net patient service revenue			<u><u>\$ 12,081,333</u></u>

2010		
Inpatient	Outpatient	Total
\$ 456,419	\$ -	\$ 456,419
453,351	-	453,351
-	-	-
909,770	-	909,770
2,332	565,635	567,967
-	38,485	38,485
47,102	2,992,187	3,039,289
12,570	199,102	211,672
-	1,198,654	1,198,654
7,176	145,937	153,113
69,180	5,140,000	5,209,180
267,796	3,426,664	3,694,460
7,061	200,431	207,492
-	4,656	4,656
112,006	3,297,942	3,409,948
16,364	67,278	83,642
735,836	670,842	1,406,678
2,639	95,782	98,421
212,975	91,804	304,779
198,044	696,124	894,168
-	-	-
-	-	-
-	-	-
-	2,559,187	2,559,187
30,113	840,567	870,680
1,582,834	11,951,277	13,534,111
\$ 2,561,784	\$ 17,091,277	19,653,061
		422,522
		19,230,539
		6,491,365
		481,364
		\$ 12,257,810

Mercer County Hospital

**Operating Expenses
(Hospital Only)**

Years Ended June 30, 2011 and 2010

	2011		
	Salaries, Wages and Benefits	Supplies and Other	Total
Nursing services:			
Nursing administration	\$ 103,976	\$ 1,255	\$ 105,231
Medical and surgical	877,756	62,248	940,004
Operating and recovery rooms	67,079	67,103	134,182
Intravenous therapy	-	485	485
Emergency room	449,046	755,293	1,204,339
Home health services	346,794	73,812	420,606
Hospice	45,118	40,022	85,140
	1,889,769	1,000,218	2,889,987
Other professional services:			
Laboratory	427,121	614,458	1,041,579
Electrocardiology	-	17,014	17,014
Electroencephalography	-	1,120	1,120
Radiology	421,974	139,973	561,947
ECHO cardiography	-	219,288	219,288
Pharmacy	188,426	312,942	601,368
Anesthesiology	-	152,710	152,710
Respiratory therapy	148,811	24,611	173,422
Physical therapy	288,877	67,390	356,267
Medical records	83,038	98,885	181,923
Social services	55,367	384	55,751
Sleep Lab	60	70,410	70,470
Occupational Health	-	3,813	3,813
Specialty Clinic	81,343	19,966	101,309
Clinics	1,115,273	633,537	1,748,810
Special Services	101,806	55,961	157,767
	\$ 2,912,096	\$ 2,432,462	\$ 5,344,558

2010

Salaries, Wages and Benefits	Supplies and Other	Total
\$ 97,242	\$ 943	\$ 98,185
802,978	65,149	868,127
120,109	89,161	209,270
-	234	234
450,252	788,296	1,238,548
364,636	90,331	454,967
47,772	51,579	99,351
<u>1,882,989</u>	<u>1,085,693</u>	<u>2,968,682</u>
399,270	474,597	873,867
-	13,797	13,797
-	800	800
407,516	138,124	545,640
-	318,766	318,766
189,627	312,828	502,455
-	197,747	197,747
133,194	17,985	151,179
231,071	43,690	274,761
106,692	114,755	221,447
52,862	734	53,596
-	-	-
-	-	-
-	-	-
1,254,500	520,737	1,775,237
192,198	42,172	234,370
<u>\$ 2,966,930</u>	<u>\$ 2,196,732</u>	<u>\$ 5,163,662</u>

Mercer County Hospital

**Operating Expenses (Continued)
(Hospital Only)
Years Ended June 30, 2011 and 2010**

	2011		
	Salaries, Wages, and Benefits	Supplies and Other	Total
General services:			
Dietary	\$ 164,636	\$ 100,812	\$ 265,448
Operation and maintenance of plant	148,445	400,001	548,446
Housekeeping	78,385	24,971	103,356
Laundry	4,381	34,669	39,050
	<u>395,847</u>	<u>560,453</u>	<u>956,300</u>
Administrative services:			
Fiscal	543,790	231,625	775,415
Administrative	167,569	740,637	908,206
Disaster Plan	9,837	325	10,162
Employee benefits	1,159,027	-	1,159,027
	<u>1,880,223</u>	<u>972,587</u>	<u>2,852,810</u>
Depreciation and amortization	-	421,435	421,435
Interest	-	83,231	83,231
Total	<u>\$ 7,077,936</u>	<u>\$ 5,470,386</u>	<u>\$ 12,548,321</u>

2010		
Salaries, Wages, and Benefits	Supplies and Other	Total
\$ 161,109	\$ 116,643	\$ 277,752
167,216	366,717	533,933
76,957	33,158	110,115
11,421	37,402	48,823
<u>416,703</u>	<u>553,920</u>	<u>970,623</u>
502,651	230,688	733,339
232,081	751,389	983,470
1,023,963	-	1,023,963
<u>1,758,695</u>	<u>982,077</u>	<u>2,740,772</u>
-	415,862	415,862
-	105,365	105,365
<u>\$ 7,025,317</u>	<u>\$ 5,339,649</u>	<u>\$ 12,364,966</u>

ADDENDUM 2
Attestations of GMCM



April 26, 2012

Douglas P. Cropper
1227 E. Rusholme Street
Davenport, IA 52803

Illinois Health Facilities Planning Board
525 W. Jefferson Street
Second Floor
Springfield, Illinois 62761-0001

Re: Change of Ownership of Mercer County Hospital

Dear Sir or Madam:

I hereby attest to the following:

1. The categories of service provided and number of beds at Mercer County Hospital ("Hospital") will not substantially change for at least 12 months following the proposed change of ownership as required by 77 Ill. Admin. Code § 1130.520(b)(1).
2. For at least two years after the proposed change of ownership, the charity care policy at the Hospital will not become more restrictive than the policy in place at the Hospital a year prior to the proposed change of ownership as required by 77 Ill. Admin. Code § 1130.520(b)(7).
3. GMCM intends to maintain ownership and control of the Hospital for a minimum of three years after the proposed change of ownership as required by 77 Ill. Admin. Code § 1130.520(b)(5).
4. There has been no adverse action taken by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against GMCM within three years prior to the filing of the Certificate of Exemption application for the proposed change of ownership as required by 77 Ill. Admin. Code § 1130.520(b)(3).¹
5. GMCM intends to close the proposed transaction on September 1, 2012, subject to regulatory approval, in accordance with 77 Ill. Admin. Code § 1130.520(b)(8).

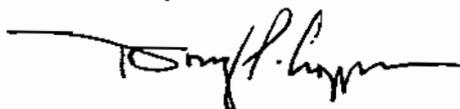
This information is true and correct, to the best of my knowledge.

¹ Please note that GMCM is a new entity created on February 3, 2012 for the purposes of owning and operating the Hospital, subject to regulatory approval.

Illinois Health Facilities Planning Board
525 W. Jefferson Street
Second Floor
Springfield, IL 62761-0001
p. 2

GMCM authorizes the Illinois Health Facilities Planning Board ("Board") and Illinois Department of Public Health ("IDPH") access to information to verify documentation or information submitted in response to the requirements of 77 Ill. Admin. Code § 1110.230(b) or to obtain any documentation or information which the Board or IDPH find pertinent to this Certificate of Exemption application for the proposed change of ownership.

Sincerely,



Douglas P. Cropper
Director

Notarized:

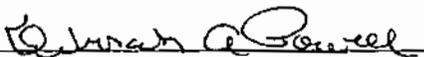
STATE OF IOWA)

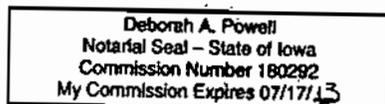
)

COUNTY OF SCOTT)

On this 24 day of April in the year 2012, before me, the undersigned notary public, personally appeared Douglas P Cropper, known to me to be the person(s) whose name(s) is/are subscribed to within the instrument and acknowledged that he/she/they executed the same for the purposes therein contained.

In witness whereof, I hereunto set my hand an official seal.


Notary Public



ADDENDUM 3
Attestations of Genesis



April 26, 2012

Douglas P. Cropper
1227 E. Rusholme Street
Davenport, IA 52803

Illinois Health Facilities Planning Board
525 W. Jefferson Street
Second Floor
Springfield, Illinois 62761-0001

Re: Change of Ownership of Mercer County Hospital

Dear Sir or Madam:

I hereby attest to the following:

1. The categories of service provided and number of beds at Mercer County Hospital ("Hospital") will not substantially change for at least 12 months following the proposed change of ownership as required by 77 Ill. Admin. Code § 1130.520(b)(1).
2. For at least two years after the proposed change of ownership, the charity care policy at the Hospital will not become more restrictive than the policy in place at the Hospital a year prior to the proposed change of ownership as required by 77 Ill. Admin. Code § 1130.520(b)(7).
3. Genesis Health System ("Genesis"), through a controlled subsidiary, intends to maintain ownership and control of the Hospital for a minimum of three years after the proposed change of ownership as required by 77 Ill. Admin. Code § 1130.520(b)(5).
4. There has been no adverse action taken by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against Genesis within three years prior to the filing of the Certificate of Exemption application for the proposed change of ownership as required by 77 Ill. Admin. Code § 1130.520(b)(3).
5. Genesis intends to close the proposed transaction on September 1, 2012, subject to regulatory approval, in accordance with 77 Ill. Admin. Code § 1130.520(b)(8).

This information is true and correct, to the best of my knowledge.

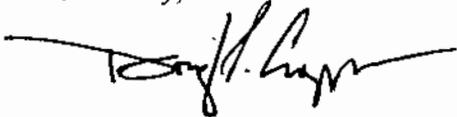
ADDENDUM 3, PAGE 2

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Illinois Health Facilities Planning Board
525 W. Jefferson Street
Second Floor
Springfield, IL 62761-0001
p. 2

Genesis authorizes the Illinois Health Facilities Planning Board ("Board") and Illinois Department of Public Health ("IDPH") access to information to verify documentation or information submitted in response to the requirements of 77 Ill. Admin. Code § 1110.230(b) or to obtain any documentation or information which the Board or IDPH find pertinent to this Certificate of Exemption application for the proposed change of ownership.

Sincerely,



Douglas P. Cropper
President and CEO

Notarized:

STATE OF IOWA)

)

COUNTY OF SCOTT)

On this 24 day of April in the year 2012, before me, the undersigned notary public, personally appeared Douglas P Cropper, known to me to be the person(s) whose name(s) is/are subscribed to within the instrument and acknowledged that he/she/they executed the same for the purposes therein contained.

In witness whereof, I hereunto set my hand an official seal.


Notary Public

Deborah A. Powell
Notarial Seal - State of Iowa
Commission Number 180292
My Commission Expires 07/17/13

ADDENDUM 4
Letters in Support of Proposed Transaction

CAPITOL OFFICE
259-S Stratton Building
Springfield, Illinois 62706
217-782-5970 Fax 217-558-1253

DISTRICT OFFICE
County Office Building
1504 3rd Ave.
Rock Island, Illinois 61201
309-558-3612 Fax 309-793-4764



PATRICK J. VERSCHOORE
STATE REPRESENTATIVE
72ND DISTRICT

COMMITTEES
CHAIRMAN
COUNTIES & TOWNSHIPS
VICE CHAIRMAN
AGRICULTURE & CONSERVATION
MEMBER
ENVIRONMENT & ENERGY
FINANCIAL INSTITUTIONS
HEALTH CARE LICENSES
VETERANS' AFFAIRS

February 20, 2012

Ms. Courtney Avery
Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, IL 62761

**Re: Letter of Support for Mercer County Hospital Affiliation with
Genesis Health System**

Dear Ms. Avery:

I am writing to express my full support for the proposed affiliation of Mercer County Hospital with Genesis Health System. I believe that the affiliation is in the best interest of the community served by Mercer County Hospital, the people of the city of Aledo, Mercer County and surrounding areas as it will (i) enhance quality healthcare and other services provided to the community; (ii) provide greater access to healthcare services in the community; and (iii) promote and enhance the various charitable and educational missions of Mercer County Hospital. In addition, I feel that Genesis Health System is a particularly good choice for the affiliation as they have successfully demonstrated the ability to deliver these benefits after their affiliation with Illini Hospital in Silvis (which is also part of my district), over fifteen years ago.

Finally, this affiliation eliminates a tax burden on the residents of Mercer County who have been paying a property tax levy to fund the pension costs of the Hospital employees. This tax levy, has grown to over \$500,000. For these reasons, I am submitting this letter of support for the proposed affiliation and encourage the Review Board to approve the Certificate of Exemption for the change of ownership of Mercer County Hospital.

Sincerely,

A handwritten signature in black ink that reads "Patrick Verschoore".

Patrick Verschoore
State Representative



STATE OF ILLINOIS

SENATE

SENATOR
MIKE JACOBS

STATE CAPITOL
SPRINGFIELD, ILLINOIS
62706
217/782-5957

February 20, 2012

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Administrator
Illinois Health Facilities and Services Review Board
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Finally, this affiliation eliminates a tax burden on the residents of Mercer County who have been paying a property tax levy to fund the pension costs of the Hospital employees. This tax levy, has grown to over \$500,000. For these reasons, I am submitting this letter of support for the proposed affiliation and encourage the Review Board to approve the Certificate of Exemption for the change of ownership of Mercer County Hospital.

Thank you in advance for your consideration in approving the affiliation.

Sincerely,

A handwritten signature in cursive script that reads "Mike".

Mike Jacobs
State Senator
36th District

ADDENDUM 4, PAGE 3



February 20, 2012

Ms. Courtney Avery
Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, IL 62761

**Re: Letter of Support for Mercer County Hospital Affiliation with
Genesis Health System**

Dear Ms. Avery:

I am writing to express the full support of the Mercer County Hospital Medical Staff for the proposed affiliation of Mercer County Hospital with Genesis Health System. We believe that the affiliation is in the best interest of the patients in our community as it will enhance the quality of healthcare; provide greater access to healthcare services; and allow us to successfully continue the mission of Mercer County Hospital. We have already experienced many of these enhancements through our management agreement with Genesis over the past three years. Quite frankly, prior to the relationship with Genesis our hospital was on the brink of financial collapse. We have successfully overcome the financial challenges through the change in leadership and access to a greater level of resources. We look forward to continued growth through new state-of-the-art technology and services for our community. The Medical Staff has actively advocated for the relationship with Genesis to our County Board and the residents of the community and we are pleased to share that all parties support this affiliation.

For these reasons, I am submitting this letter of support for the proposed affiliation, on behalf of our entire Medical Staff, and encourage the Board to approve the Certificate of Exemption for the change of ownership of Mercer County Hospital.

Thank you in advance for your consideration in approving the affiliation.

Sincerely,

Travis Figanbaum, M.D.
Chief of Medical Staff
Mercer County Hospital

ADDENDUM 4, PAGE 4

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P. Rattanant, MD & FACS
General Surgery
*Independent Contractor

K. Wurzbarger, MD
Board Certified-Internal Medicine
Women's Health

M. Dicklin, PA-C
Certified-Physician Assistant

J. Santiago, MD
Board Certified-Family Practice

T. Figanbaum, MD
Board Certified-Internal Medicine



February 20, 2012

Ms. Courtney Avery
Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, IL 62761

**Re: Letter of Support for Mercer County Hospital Affiliation with
Genesis Health System**

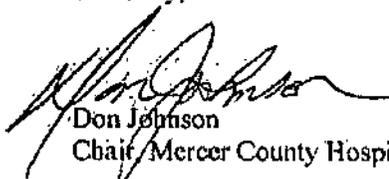
Dear Ms. Avery:

On behalf of the Mercer County Hospital Board Directors, please accept this letter in support of the proposed affiliation of Mercer County Hospital with Genesis Health System. The Board had actively pursued a relationship with a larger system four years ago in order to save our hospital from closure and partner with someone who would keep this critical resource vibrant for our community. We have found that partner in Genesis Health System. They have successfully guided our organization over the past three years. During this time, they have turned around our financials, enhanced the quality of care and promoted growth of our services which has increased access to our patients who would have to travel forty-five minutes for this care. Our Board believes that the affiliation is in the best interest of our community and know that it will allow us to purchase and improve upon the equipment and services we offer. We have actively pursued funding for a badly needed and IDPH mandated renovation of \$11.5 million. Unfortunately, we could not secure funding for this project as a stand-alone entity. Genesis has committed to fund this project as part of our agreement.

Our hospital is the second largest employer in our county and a critical economic asset. The affiliation will secure our ability to continue to provide outstanding healthcare services for our community well into the future. For these reasons, the Board of Directors encourages the Review Board to approve the Certificate of Exemption for the change of ownership of Mercer County Hospital.

Thank you in advance for your consideration in approving the affiliation.

Sincerely,



Don Johnson
Chair, Mercer County Hospital Governing Board

409 NW Ninth Ave.
Aledo, Illinois 61231

309.582.5301
fax: 309.582.3737

www.mercerhospital.org