

ORIGINAL

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Exemption #	E- <u>004-12</u>

2

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

RECEIVED

APR 30 2012

1. INFORMATION FOR EXISTING FACILITY

HEALTH FACILITIES & SERVICES REVIEW BOARD

Current Facility Name Mercer County Nursing Home
 Address 309 NW Ninth Ave.
 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 GSLM
 Address 309 NW Ninth Ave.
 City, State & Zip Code Aledo, Illinois 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.

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 GSLM
 Address 309 NW Ninth Ave.
 City, State & Zip Code Aledo, Illinois 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 GSLM
 Address 309 NW Ninth Ave.
 City, State & Zip Code Aledo, Illinois 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:** \$ 2,250,000
12. **FAIR MARKET VALUE OF THE FACILITY:** \$ 2,300,000 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. 4

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 -- GSLM**

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
Address: 801 S. LEE ST DR
City, State & Zip Code: SILVER SPRING IL 61282
Telephone (309) 281-4010 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 _____

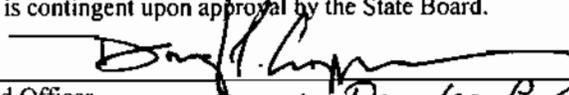
Title of Authorized Officer: _____

Address: _____

City, State & Zip Code: _____

Telephone: _____

Date: _____


Douglas P. Cropper
Director, Pres./CEO
801 S. ~~W.~~ Illinois St.
Silvis IL 61282
309-281-4010 4/26/2012

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 Nursing Home 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	_____	Nursing Care	<u>92</u>
Obstetrics	_____	Shelter Care	_____
Pediatrics	_____	DD Adults*	_____
Intensive Care	_____	DD Children**	_____
Acute Mental Illness	_____	Chronic Mental Illness	_____
Rehabilitation	_____	Children's Medical Care	_____
Neonatal Intensive Care	_____	Children's Respite Care	_____

*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: _____

4. Indicate (by placing an "X") those categories of service for which the facility is approved.

- | | |
|--------------------------------------|---|
| _____ Cardiac Catheterization | _____ Open Heart Surgery |
| _____ Subacute Care Hospital Model | _____ Kidney Transplantation |
| _____ Selected Organ Transplantation | _____ 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.

- | | |
|--|--------------------------|
| _____ Cardiovascular | _____ Ophthalmology |
| _____ Dermatology | _____ Oral/Maxillofacial |
| _____ Gastroenterology | _____ Orthopedic |
| _____ General/Other (includes any procedure that is not included in the other specialties) | _____ Otolaryngology |
| _____ Neurological | _____ Plastic Surgery |
| _____ Obstetrics/Gynecology | _____ Podiatry |
| | _____ Thoracic |
| | _____ Urology |

MERCER COUNTY NURSING HOME		ADMISSION RESTRICTIONS		RESIDENTS BY PRIMARY DIAGNOSIS	
309 NW 9TH AVENUE		Aggressive/Anti-Social 1		DIAGNOSIS	
ALEDO, IL. 61231		Chronic Alcoholism 0		Neoplasms 0	
Reference Numbers	Facility ID 6006076	Developmentally Disabled 1		Endocrine/Metabolic 8	
Health Service Area 010	Planning Service Area 131	Drug Addiction 1		Blood Disorders 0	
Administrator		Medicaid Recipient 0		*Nervous System Non Alzheimer 5	
Roger Brannan		Medicare Recipient 0		Alzheimer Disease 10	
Contact Person and Telephone		Mental Illness 0		Mental Illness 2	
MARYBETH SACKVILLE		Non-Ambulatory 0		Developmental Disability 1	
309-582-5361		Non-Mobile 0		Circulatory System 21	
Registered Agent information	Date Completed	Public Aid Recipient 0		Respiratory System 0	
Thomas Haines	2/24/2011	Under 65 Years Old 0		Digestive System 5	
Mercer County Courthouse		Unable to Self-Medicate 0		Genitourinary System Disorders 2	
Aledo, IL 61231		Ventilator Dependent 1		Skin Disorders 2	
FACILITY OWNERSHIP		Infectious Disease w/ Isolation 1		Musculo-skeletal Disorders 16	
COUNTY		Other Restrictions 1		Injuries and Poisonings 13	
CONTINUING CARE COMMUNITY	No	No Restrictions 0		Other Medical Conditions 0	
LIFE CARE FACILITY	No	<i>Note: Reported restrictions denoted by 'I'</i>		Non-Medical Conditions 0	
				TOTALS 85	
				Total Residents Diagnosed as Mentally Ill 3	

LEVEL OF CARE	LICENSED BEDS, BEDS IN USE, MEDICARE/MEDICAID CERTIFIED BEDS							ADMISSIONS AND DISCHARGES - 2010		
	LICENSED BEDS	PEAK BEDS SET-UP	PEAK BEDS USED	BEDS SET-UP	BEDS IN USE	AVAILABLE BEDS	MEDICARE CERTIFIED	MEDICAID CERTIFIED	Residents on 1/1/2010	
Nursing Care	92	92	92	92	85	7	0	92	89	
Skilled Under 22	0	0	0	0	0	0	0	0	50	
Intermediate DD	0	0	0	0	0	0	0	0	54	
Sheltered Care	0	0	0	0	0	0	0	0	85	
TOTAL BEDS	92	92	92	92	85	7	0	92		Identified Offenders 0

FACILITY UTILIZATION - 2010											
BY LEVEL OF CARE PROVIDED AND PATIENT PAYMENT SOURCE											
LEVEL OF CARE	Medicare		Medicaid		Other Public	Private Insurance	Private Pay	Charity Care	TOTAL	Licensed Beds	Peak Beds Set Up
	Pat. days	Occ. Pct.	Pat. days	Occ. Pct.	Pat. days	Pat. days	Pat. days	Pat. days	Pat. days	Occ. Pct.	Occ. Pct.
Nursing Care	734	0.0%	15080	44.9%	0	116	16650	0	32580	97.0%	97.0%
Skilled Under 22			0	0.0%	0	0	0	0	0	0.0%	0.0%
Intermediate DD			0	0.0%	0	0	0	0	0	0.0%	0.0%
Sheltered Care					0	0	0	0	0	0.0%	0.0%
TOTALS	734	0.0%	15080	44.9%	0	116	16650	0	32580	97.0%	97.0%

RESIDENTS BY AGE GROUP, SEX AND LEVEL OF CARE - DECEMBER 31, 2010												
AGE GROUPS	NURSING CARE		SKL UNDER 22		INTERMED. DD		SHELTERED		TOTAL		GRAND TOTAL	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	TOTAL	
Under 18	0	0	0	0	0	0	0	0	0	0	0	
18 to 44	0	0	0	0	0	0	0	0	0	0	0	
45 to 59	0	0	0	0	0	0	0	0	0	0	0	
60 to 64	0	3	0	0	0	0	0	0	0	3	3	
65 to 74	1	1	0	0	0	0	0	0	1	1	2	
75 to 84	4	14	0	0	0	0	0	0	4	14	18	
85+	9	53	0	0	0	0	0	0	9	53	62	
TOTALS	14	71	0	0	0	0	0	0	14	71	85	

MERCER COUNTY NURSING HOME

309 NW 9TH AVENUE
ALEDO, IL. 61231

Reference Numbers Facility ID 6006076

Health Service Area 010 Planning Service Area 131

RESIDENTS BY PAYMENT SOURCE AND LEVEL OF CARE

LEVEL OF CARE	Other				Private Pay	Charity Care	TOTALS
	Medicare	Medicaid	Public	Insurance			
Nursing Care	2	40	0	0	43	0	85
Skilled Under 22	0	0	0	0	0	0	0
ICF/DD		0	0	0	0	0	0
Sheltered Care			0	0	0	0	0
TOTALS	2	40	0	0	43	0	85

AVERAGE DAILY PAYMENT RATES

LEVEL OF CARE	SINGLE	DOUBLE
Nursing Care	136	125
Skilled Under 22	0	0
Intermediate DD	0	0
Shelter	0	0

RESIDENTS BY RACIAL/ETHNICITY GROUPING

RACE	Nursing	SkiUnd22	ICF/DD	Shelter	Totals
Asian	0	0	0	0	0
Amer. Indian	0	0	0	0	0
Black	0	0	0	0	0
Hawaiian/Pac. Isl.	0	0	0	0	0
White	85	0	0	0	85
Race Unknown	0	0	0	0	0
Total	85	0	0	0	85

ETHNICITY	Nursing	SkiUnd22	ICF/DD	Shelter	Totals
Hispanic	0	0	0	0	0
Non-Hispanic	85	0	0	0	85
Ethnicity Unknown	0	0	0	0	0
Total	85	0	0	0	85

STAFFING

EMPLOYMENT CATEGORY	FULL-TIME EQUIVALENT
Administrators	1.00
Physicians	0.00
Director of Nursing	1.00
Registered Nurses	3.00
LPN's	12.00
Certified Aides	38.00
Other Health Staff	4.00
Non-Health Staff	30.00
Totals	89.00

NET REVENUE BY PAYOR SOURCE (Fiscal Year Data)

Medicare	Medicaid	Other Public	Private Insurance	Private Pay	TOTALS	Charity Care Expense*	Charity Care Expense as % of Total Net Revenue
0.0%	52.4%	0.0%	0.0%	47.6%	100.0%		0.0%
0	2,261,687	292	0	2,053,376	4,315,355	0	

*Charity Expense does not include expenses which may be considered a community benefit.

ATTACHMENT 1
Application Fee

ATTACHMENT 2
Funding

As described further in Attachment 3 and in the Asset Purchase Agreement between Mercer County, Illinois ("Mercer County" or "Seller") and GSLM ("GSLM" or "Purchaser") attached at Attachment 5, the purchase price payable by Purchaser to Seller for the acquired assets is \$2,250,000, plus or minus normal and customary prorations or adjustments ("Purchase Price"). Purchaser shall pay to Seller the Purchase Price by federal wire transfer of immediately available U.S. funds at the Closing.

ATTACHMENT 3
Narrative

GSLM 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 GSLM and Mercer County, Illinois ("Mercer County"), whereby GSLM will assume title and rights to certain assets of Mercer County (the "Transaction"). In summary, Genesis' newly formed and wholly owned and controlled subsidiary, GSLM, will acquire assets relating to Mercer County Nursing Home, a skilled nursing facility located in Aledo, Illinois ("Nursing Home"). The Transaction will result in a change of ownership of the skilled nursing 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 general acute care hospital which operates two hospital 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 GSLM, an Illinois not-for-profit corporation of which Genesis is the sole corporate member, to assume ownership and control of the Nursing Home facility and operations. As such, Genesis has retained certain significant control over GSLM. For example, Genesis has exclusive authority to determine the number of Directors of GSLM and elect, appoint, remove, or fill vacancies in the Board of Directors of GSLM ("Board of Directors"). It also maintains the following reserved powers over GSLM:

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

- (d) the formation or restructuring of Affiliates;
- (e) the acquisition, sale, lease, transfer, encumbrance or other alienation of property of GSLM or any Affiliate, other than in the usual and regular course, when such acquisition, sale, lease, transfer, encumbrance, or other alienation is above specified financial levels set in accordance with policies established by Genesis;
- (f) the adoption or authorization of annual capital and operating budgets of GSLM 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 GSLM 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 GSLM or any Affiliate at the time of its dissolution;
- (i) the adoption or approval of strategic and long-range financial plans for GSLM or any Affiliate;
- (j) the adoption of an internal auditing program for GSLM 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.

GSLM 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 Nursing Home's current policies and procedures.

The Nursing Home is a 92-bed skilled nursing facility located in Aledo, Illinois that is currently owned by Mercer County. As a skilled nursing facility and the only county-owned skilled nursing facility in Mercer County, the Nursing Home provides vital nursing, rehabilitation, social services, activities, and transportation to senior residents of Mercer County. Without the Nursing Home's continued presence in Mercer County, current residents would be dislocated from their place of residence and would risk losing access to the services that the Nursing Home provides.

Due to increased costs and declining reimbursement that many skilled nursing facilities are facing in the industry, the Nursing Home has unmet capital needs. Genesis is a larger, stronger provider that is better able to deal with the complexities and challenges providers are facing in a rapidly evolving health care industry. Additionally, the annual cost of the Nursing Home's employee pension plan, which has been funded through a property tax levy, has placed a

significant financial burden on the residents of Mercer County. The cost of the tax levy for 2012 is expected to exceed \$450,000. If the Transaction is approved, the property tax burden will be eliminated upon transfer of ownership to a non-governmental entity. As the new owner of the Nursing Home, Genesis will provide employees pension benefits as available to other similarly-situated employees.

GSLM and Mercer County entered into an Asset Purchase Agreement on April 26, 2012 in which GSLM agrees to purchase from Mercer County certain assets, including the real property on which the Nursing Home is located ("Facility Land") and certain land adjacent to the Facility Land ("Schmidt Property") (Facility Land and Schmidt Property collectively known as "Land"). In addition to the Land, GSLM will purchase certain other assets of the Nursing Home, including personal property, intangible property, cash and accounts. A copy of the Asset Purchase Agreement is attached hereto at Attachment 5.

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 long-term care 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 GSLM, will expand its charitable mission through ownership and operation of the Nursing Home.

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 Section 13(g)(v) of the Asset Purchase Agreement between Mercer County and GSLM.

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 GSLM vest Genesis with final control over GSLM and therefore require that Genesis be a co-applicant for the COE.

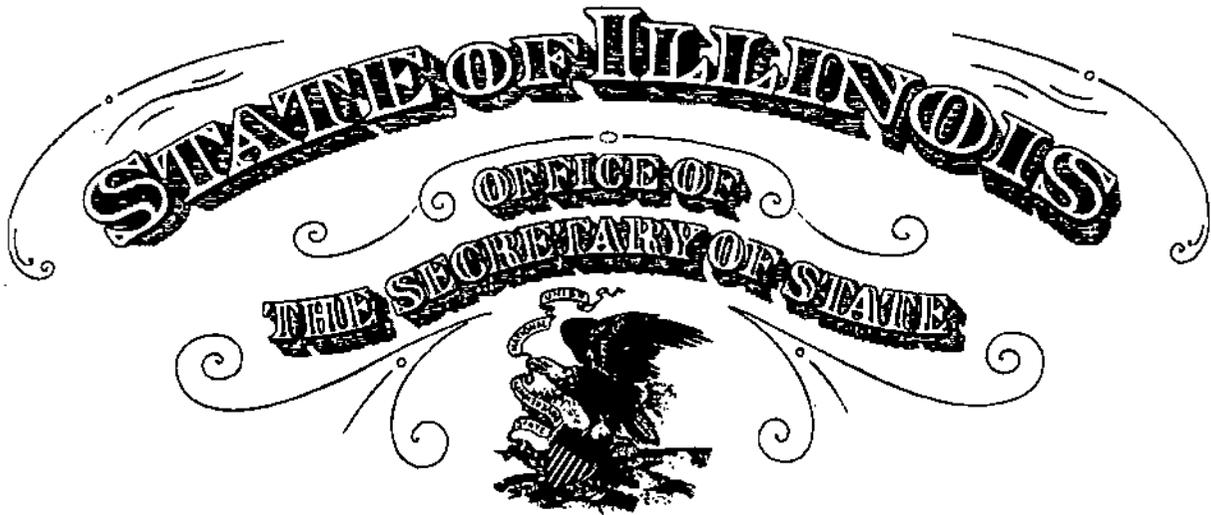
The Transaction is expected to close on September 1, 2012, subject to the Board's approval.

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 Nursing Home's categories of service or number of beds will result from the Transaction, nor will access to the services provided by the Nursing Home 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 at the Nursing Home will not substantially change. For a period of at least three years after the Closing Date, Genesis/GSLM expects to retain ultimate ownership and control of the Nursing Home.

After closing, Mercer County Hospital ("Hospital"), which has simultaneously applied for a COE for change of ownership to a Genesis entity, and the Nursing Home will benefit from the managerial oversight of Genesis. Both the Hospital and Nursing Home plan to access more efficient and cost-effective mechanisms for ordering equipment and supplies and providing services to the residents of Mercer County.

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

GSLM, 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.



Authentication #: 1210901548

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 18TH day of APRIL A.D. 2012 .

Jesse White

SECRETARY OF STATE



To all to whom these Presents Shall Come, Greeting:

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

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.cyberdrivellinois.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

ASSET PURCHASE AGREEMENT

by and between

Mercer County, Illinois,
as Seller

and

GSLM,
as Purchaser

April 26, 2012

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

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

ASSET PURCHASE AGREEMENT

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

RECITALS

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

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

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

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

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

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

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

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

AGREEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- i. the Assumed Contracts;

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

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

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

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

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

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

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

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

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

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

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

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

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

3. PURCHASE PRICE.

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

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

4. COSTS AND CREDITS.

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

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

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

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

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

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

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

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

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

6. DUE DILIGENCE AND INSPECTION.

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

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

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

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

7. TITLE AND SURVEY.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. CLOSING DOCUMENTS.

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

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

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

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

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

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

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

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

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

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

ii. Bill of Sale from Seller to Purchaser.

iii. Assignment from Seller to Purchaser.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

i. Resident Records and Agreements. All patient records at the Facility, including, without limitation, those relating to patient trust fund accounts or deposits, if any, are the records kept by Seller in the ordinary course of business and the amount of patient trust funds to be transferred to Purchaser at Closing, if any, shall be the true, accurate and complete amount of all patient trust funds held by Seller, if any, as required by all applicable laws.

j. Employee Contracts. Seller: (i) is not a party to any employment contracts, collective bargaining agreements, union contracts, severance pay, or pension or retirement plans with respect to the employees at the Facility, (ii) is not aware of any labor dispute or grievance with respect to the Facility, and (iii) is not party to any collective bargaining agreements, contracts of employment, profit sharing, bonus, deferred compensation, stock option, severance pay, or pension or retirement plans with respect to any of its employees at the Facility, including, without limitation, Employee Welfare Benefit Plans or Employee Pension Benefit Plans (as each is defined in Sections 3(1) and 3(2), respectively, of the Employee Retirement Income Security Act of 1974, as amended), regardless of whether such plans are exempt from ERISA as governmental plans. At least thirty (30) days prior to Closing Seller shall provide an accurate and complete list of all current employees of the Facility, listing each employee's pay rates and hire dates and all accrued PTO accrued by such employee.

k. Employee Litigation. Except as disclosed in writing between the parties at least thirty (30) days prior to Closing, no person or party, including, without limitation, any governmental agency, has asserted, or to the best Knowledge of Seller, has threatened to assert, any claim for any action or proceeding, against Seller (or any officer, director, employee, agent or shareholder of either Seller) arising out of any statute, ordinance or regulation relating to wages, collective bargaining, discrimination in employment or employment practices or occupational safety and health standards, including, without limitation, the Fair Labor Standards Act, Title VII of the Civil Rights Act of 1964, as amended, the Occupational Safety and Health Act, the Age Discrimination in Employment Act of 1967, the Americans With Disabilities Act or the Family and Medical Leave Act. The claims disclosed in writing between the parties at least thirty (30) days prior to Closing will not result in any liability to or obligation of Purchaser, and will not cause or lead to any lien or encumbrance being placed, created or filed against or upon any of the Acquired Assets.

l. Personal Property and Improvements. All rights, properties and assets used in the operation of the Facility are either owned by Seller or licensed or leased to Seller and are included in the Acquired Assets to be transferred hereunder. Except as set forth in writing between the parties at least thirty (30) days prior to Closing, to the best of Seller's Knowledge, there are no defects in the Personal Property or Improvements on the Real Property.

m. Tax Returns. All sales, franchise and payroll tax returns and informational reports required by law to be filed by Seller prior to the date of this Agreement (collectively, "Tax Returns") have been properly and timely filed (subject to the right to extend or delay the filing thereof) and correctly reflect the tax position of Seller, and all

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

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

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

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

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

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

s. Medicare Participation / Accreditation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16. CASUALTY/CONDEMNATION.

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

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

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

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

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

17. TERMINATION.

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

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

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

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

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

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

18. INDEMNIFICATION.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b. Retention of Records. For a period not to exceed seven (7) years after the Closing Date (or such shorter period as may be prescribed by applicable law). Purchaser shall, in the ordinary course of business and as required by law, keep and preserve all medical and other records of the Facility existing as of the Closing, and which constitute a part of the Acquired Assets delivered to Purchaser at the Closing. For purposes of this Agreement, the term "records" includes all documents, electronic data and other compilations of information in any form. Purchaser acknowledges that as a result of closing the transactions contemplated by this Agreement and operating the Facility it will gain access to patient and other information which is subject to rules and regulations regarding confidentiality. Purchaser agrees to abide by any such rules and regulations relating to the confidential information it acquires. Purchaser agrees to maintain the patient records delivered to Purchaser at the Closing in accordance with applicable law (including, if applicable, Section 1861(v)(i)(I) of the Social Security Act (42 U.S.C. §1395(v)(1)(i)), the privacy requirements of the Administrative Simplification subtitle of HIPAA and applicable state requirements with respect to medical privacy and requirements of relevant insurance carriers, all in a manner consistent with the maintenance of patient records generated after Closing.

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

29. CONFIDENTIALITY.

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

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

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

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

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

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

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

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

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

35. SUCCESSORS. Subject to the limitations on assignment set forth above, all the terms of this Agreement shall be binding upon and inure to the benefit of and be enforceable by and against the heirs, successors and assigns of the parties hereto.

36. CAPTIONS. The captions of this Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

37. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois.

38. SEVERABILITY. Should any one or more of the provisions of this Agreement be determined to be invalid, unlawful or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby and each such provision shall be valid and remain in full force and effect.

39. USAGE. All nouns and pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the person or persons, firm or firms, corporation or corporations, entity or entities or any other thing or things may require.

40. RISK OF LOSS. Except as otherwise herein provided, until the Closing the risk of loss for the Acquired Assets shall be that of Seller and the Purchaser shall bear the risk of loss of the Acquired Assets from and after the Closing.

41. ATTORNEYS' FEES. Notwithstanding anything contained herein to the contrary, if any lawsuit or arbitration or other legal proceeding arises in connection with the interpretation or enforcement of this Agreement, the prevailing party therein shall be entitled to receive from the other party the prevailing party's costs and expenses, including reasonable attorneys' fees incurred in connection therewith, in preparation therefor and on appeal therefrom, which amounts shall be included in any judgment therein.

42. NON-SOLICITATION. So long as Purchaser (or its successors or assigns) owns or operates the Facility, for a period of two (2) years following the Closing Date, Seller hereby covenants that Seller shall not directly or indirectly solicit any patients or employees to leave the Facility, provided, however, that the parties agree that general employment advertising made pursuant to newspaper, television, radio or other general advertisement and which are not specifically targeted at the patients or the employees shall not be deemed a violation of this Section 42. This Section 42 shall survive the Closing.

43. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

[Signature page follows]

ATTACHMENT 5, PAGE 42

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

SELLER:

Mercer County, an Illinois municipality

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

PURCHASER:

GSLM, an Illinois not for profit corporation

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

EXHIBIT A

REAL PROPERTY LEGAL DESCRIPTION – FACILITY LAND

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

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

EXHIBIT B

REAL PROPERTY LEGAL DESCRIPTION - "SCHMIDT PROPERTY"

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

ATTACHMENT 6
Financial Information

MOODY'S
INVESTORS SERVICE

DEC 20 2011

7 World Trade Center
150 Greenwich Street
New York, NY 10006
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.

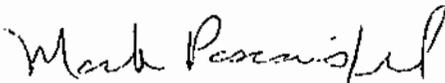
Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time.

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,



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

MP:rl

cc: Mr. William Henderson, Piper Jaffray

INDEX TO ADDENDA

1. Appraisal of Mercer County Nursing Home
2. Attestations of GSLM
3. Attestations of Genesis
4. Letters of Support

ADDENDUM 1
Appraisal of Mercer County Nursing Home

**AN APPRAISAL OF
MERCER COUNTY NURSING HOME
309 NW 9TH AVENUE
ALEDO, ILLINOIS**

As of November 16, 2011

Prepared For:

**Mercer County Hospital
409 NW 9th Avenue
Aledo, Illinois 61231**

Prepared By:

**Dost Valuation Group, Ltd.
419 South 7th Avenue
LaGrange, Illinois 60525**



DOST VALUATION GROUP LTD
COMMERCIAL REAL ESTATE VALUATION
AND ADVISORY SERVICES

December 12, 2011

Mr. Ted Rogalski
Mercer County Hospital
409 NW 9th Avenue
Aledo, Illinois 61231

Mr. Don St. Germaine Jr.
Supervisor of Assessments
Mercer County
100 SE Third Street
Aledo, Illinois 61231

Re: Mercer County Nursing Home
309 NW 9th Avenue
Aledo, Illinois

Gentlemen:

In accordance with your authorization, we have conducted an appraisal of Mercer County Nursing Home, a skilled nursing facility, and presented the conclusions in this summary report. It is our understanding that this analysis is to be used for a potential sale of the facility.

The purpose of the appraisal is to estimate the market value of the fee simple interest in the going concern, as of November 16, 2011. A description of the property, together with information providing a basis for analysis, is presented in the accompanying report. This analysis is subject to the definitions, assumptions, conditions and certification contained in the attached report. We believe that this analysis report has been prepared in compliance with the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute, the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation; and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), amended as of June 7, 1994.

The scope of the appraisal, as agreed upon with the client, called for the preparation of an appraisal of the fee simple interest in the facility and applying all three approaches to value. The specific steps of the assignment are outlined below.

1. Inspecting the property and its environment
2. Conducting an analysis of the city and neighborhood

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WWW.DOSTVALUATION.COM

3. Estimating land value, as vacant, and developable to its highest and best use
4. Estimating the cost of all existing improvements
5. Estimating the depreciation of the improvements from all causes
6. Estimating the market value by the Cost Approach
7. Conducting a search for and analysis of sales of similar properties
8. Estimating the market value by the Sales Comparison Approach
9. Conducting an analysis of the estimated market rent and expenses
10. Estimating the market value via the Income Capitalization Approach
11. Reconciling the three approaches to value for the final value estimate
12. Preparing a summary report based on all findings

This report and its contents are intended solely for your information and assistance for the function stated previously, and should not be relied upon for any other purpose. Otherwise, neither the whole nor any part of this appraisal or any reference thereto may be included in any document, statement, appraisal, or circular without our explicit, prior written approval of the form and context in which it appears.

The subject property is a one-story, skilled nursing facility containing 92 licensed and operating beds. The facility is county owned and operated and has been operating a loss. The facility was built in 1970 and contains a total gross building area of 41,500 square feet. The facility is situated on part of a 9.80-acre, irregular parcel. The primary site contains approximately 208,675 square feet site. The western portion of the site is used for agricultural purposes and contains approximately 218,213 square feet and is considered excess land. The property is described in detail within the attached report.

Based upon the procedures outlined in the report and subject to the incorporated Assumptions and Limiting Conditions, it is estimated that the market value of the fee simple interest in the going concern of Mercer County Nursing Home, as of November 16, 2011, is:

TWO MILLION THREE HUNDRED THOUSAND DOLLARS
\$2,300,000

The allocation of the value among the various assets is shown below.

Land	\$52,000
Excess Land	\$55,000
Improvements	\$1,961,000
Equipment	\$322,000
Business Assets	-\$90,000
Total	\$2,300,000

Respectfully submitted,

DOST VALUATION GROUP, LTD.



Eric W. Dost, MAI
IL Certified General Appraiser
#553.000473

2011.053

CERTIFICATION

CERTIFICATION

We certify that, to the best of our knowledge and belief:

The statements of fact contained in this report are true and correct;

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, unbiased professional analyses, opinions, and conclusions;

We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved;

Neither the engagement to make this appraisal (or any future appraisals for this client) nor the compensation are contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event. The appraisal assignment was not based on a requested minimum valuation, a specific valuation or the approval of a loan;

The analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Uniform Standards of Professional Appraisal Practice;

Eric W. Dost, MAI made a personal inspection of the property;

No one provided significant professional assistance in the preparation of this report;

The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;

The use of this report is subject to the requirements of the Appraisal Institute, relating to review by its duly authorized representatives;

As of the date of this report, Eric W. Dost, MAI, has completed the requirements of the continuing education program of the Appraisal Institute.



Eric W. Dost, MAI
IL Certified General Appraiser
#553.000473

DOST VALUATION GROUP, LTD.

ASSUMPTIONS AND LIMITING CONDITIONS

Dost Valuation Group, Ltd. strives to clearly and accurately disclose the assumptions and limiting conditions that directly affect an appraisal analysis, opinion, or conclusion. To assist the reader in interpreting this report, such assumptions are set forth as follows:

Appraisal assignments are accepted with the understanding that there is no obligation to furnish services after completion of the original assignment. If the need for subsequent services related to an appraisal assignment (e.g., testimony, updates, conferences, reprint or copy services) is contemplated, special arrangements acceptable to Dost Valuation Group, Ltd. must be made in advance. Dost Valuation Group, Ltd. reserves the right to make adjustments to the analysis, opinions and conclusions set forth in the report as we may deem necessary by consideration of additional or more reliable data that may become available.

No opinion is rendered as to legal fee or property title, which are assumed to be good and marketable. Prevailing leases, liens and other encumbrances, including internal and external environmental conditions and structural defects, if any, have been disregarded, unless otherwise specifically stated in the report.

It is assumed that: no opinion is intended in matters that require legal, engineering, or other professional advice which has been or will be obtained from professional sources; the appraisal report will not be used for guidance in legal or professional matters exclusive of the appraisal and valuation discipline; there are no concealed or dubious conditions of the subsoil or subsurface waters including water table and floodplain, unless otherwise noted; there are no regulations of any government entity to control or restrict the use of the property unless specifically referred to in the report; and the property will not operate in violation of any applicable government regulations, codes, ordinances or statutes.

In the absence of competent technical advice to the contrary, it is assumed that the property is not adversely affected by concealed or unapparent hazards, such as, but not limited to, asbestos, hazardous or contaminated substances, toxic waste or radioactivity. The appraiser is not qualified to detect such substances.

No engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area was taken from sources considered reliable, and no encroachment of real property improvements is considered to exist.

Information furnished by others is presumed to be reliable, and where so specified in the report, has been verified; however, no responsibility, whether legal or otherwise, is assumed for its accuracy, and cannot be guaranteed as being certain. All facts and data set forth in the report are true and accurate to the best of Dost Valuation Group, Ltd.'s knowledge and belief. No single item of information was completely relied upon to the exclusion of other information.

ASSUMPTIONS AND LIMITING CONDITIONS

It should be specifically noted by any prospective mortgagee that the appraisal assumes that the property will be competently managed, leased, and maintained by financially sound owners over the expected period of ownership. This appraisal engagement does not entail an evaluation of management's or owner's effectiveness, nor are we responsible for future marketing efforts and other management or ownership actions upon which actual results will depend.

The date of the appraisal to which the conclusions apply is set forth in the letter of transmittal and within the body of the report.

Neither the report nor any portions thereof, especially any conclusions as to value, the identity of the appraiser, or Dost Valuation Group, Ltd., and the Appraisal Institute, or the MAI designation, shall be disseminated to the public through public relations media, news media, sales media or any other public means of communications without the prior written consent and approval of Dost Valuation Group, Ltd.

Unless otherwise noted, Dost Valuation Group, Ltd. assumes that there will be no changes in tax regulations.

This report assumes that the property is in compliance with the various requirements of the Americans with Disabilities Act (ADA) or that the cost of compliance is minimal. As appraisers, we are not qualified to determine compliance with ADA, and this report does not consider any effects of the ADA on the value of the property.

No significant change is assumed in the supply and demand patterns indicated in the report. The appraisal assumes market conditions observed as of the current date of our market research stated in the letter of transmittal. These market conditions are believed to be correct; however, the appraisers assume no liability should market conditions materially change because of unusual or unforeseen circumstances.

It is assumed that the subject will meet all relevant requirements for licensing and occupancy. It is assumed that the property will obtain any necessary building permits, zoning changes, or variances, and meet the occupancy requirements set forth by local (city or county) jurisdictions.

The subject is currently owned by Mercer County and is exempt from property taxes. We have specifically assumed that the subject will retain its tax exempt status.

SUMMARY OF FACTS AND CONCLUSIONS

SUMMARY OF FACTS AND CONCLUSIONS

General Data

Property Name: Mercer County Nursing Home
Property Address: 309 NW 9th Avenue
Aledo, Illinois
Property Type: Skilled Nursing Facility with 92 beds
Interest Appraised: Fee Simple Estate
Value Estimated: Market Value of the Going Concern
Effective Date of Value: November 16, 2011
Improvements: A one-story, 41,500 square foot nursing facility built in 1970.
Land Area: The site is irregular and contains 9.80 acres. The primary site contains approximately 208,675 square feet site. The western portion of the site is used for agricultural purposes and contains approximately 218,213 square feet and is considered excess land.

Valuation Summary

Sales Comparison Approach:	Total	Per Bed
Total Value	\$2,355,000	\$25,598
Income Capitalization Approach:		
Total Value	\$1,990,000	\$21,630
Capitalization Rate	12.0%	
Stabilized Occupancy Rate	95%	
	Total	Per Patient Day
Effective Gross Income	\$4,427,055	\$138.77
Operating Expenses	\$4,194,757	\$131.49
Net Operating Income	\$232,299	\$7.28
Cost Approach:		
	Total	Per Bed
Total Value	\$2,390,000	\$25,978
Land Value	\$107,000	\$1,163
Final Estimate of Value	\$2,300,000	\$25,000

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INTRODUCTION

Property Identification

The subject property is a one-story, skilled nursing facility containing 92 licensed and operating beds. The facility is county owned and operated and has been operating at a loss. The facility was built in 1970 and contains a total gross building area of 41,500 square feet. The facility is situated on part of a 9.80-acre, irregular parcel. The primary site contains approximately 208,675 square feet site. The western portion of the site is used for agricultural purposes and contains approximately 218,213 square feet and is considered excess land. The street address of the property is 309 NW 9th Avenue, Aledo, Illinois.

Legal Description

The property is legally described as part of parcel number 10-10-17-300-004 by the Mercer County Supervisor of Assessments.

Date of Value

The date of value used in this appraisal is November 16, 2011. Eric W. Dost, MAI last inspected the property on November 16, 2011.

Property Rights Appraised

The fee simple interest in the subject is appraised, which is defined as:

Absolute ownership unencumbered by another interest or estate; subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Source: The Appraisal of Real Estate, 13th Edition, The Appraisal Institute, Chicago, 2008.

Purpose and Intended Use of the Appraisal

The purpose of this appraisal is to estimate the market value of the fee simple interest in the subject property as of November 16, 2011. The intended use of the appraisal is to assist the client and Mercer County in a potential sale of the property. The intended users of the appraisal are the client, Mercer County Hospital, and Mercer County Officials.

Scope of the Appraisal

This appraisal is based upon applicable standard appraisal techniques. It entails the collection, analysis and description of data pertaining to the physical, legal, and economic conditions that affect the use and value of the subject property, and any other relevant data that pertain to the appraisal of senior housing facilities.

All of the information requested and considered relevant to the valuation process was received. The scope of the appraisal included, but was not limited to the following:

1. Inspecting the property and its environment
2. Conducting an analysis of the city and neighborhood
3. Estimating land value, as vacant, and developable to its highest and best use
4. Estimating the cost of all existing improvements
5. Estimating the depreciation of the improvements from all causes
6. Estimating the market value by the Cost Approach
7. Conducting a search for and an analysis of sales of similar properties
8. Estimating the market value by the Sales Comparison Approach
9. Conducting an analysis of the estimated market rent and expenses
10. Estimating the market value via the Income Capitalization Approach
11. Reconciling the three approaches to value for the final value estimate
12. Preparing a summary report based on all findings

INTRODUCTION

Ownership History

The owner of the subject property is reportedly Mercer County. To the best of our knowledge no transfers of ownership of the subject property have taken place over the past three-year period. The subject property is reportedly being considered for a sale, however, to the best of our knowledge a purchase price has not been established.

Exposure and Marketing Time

Exposure time is the estimated time it would have taken to sell a property prior to the date of value. Marketing time is a prospective estimate that begins on the date of value. Marketing time and exposure time is often similar, particularly when market conditions are stable. Demand for profitable, good quality facilities is good and a typical marketing time is approximately 6 to 12 months. The current market provides available financing at historically low rates and investment interest remains strong. The exposure and marketing time are both estimated to be 12 months, based on our conversations with active brokers in the senior housing industry.

Definition of Value

Market value is defined as:

the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and

INTRODUCTION

5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Source: The Uniform Standards of Professional Appraisal Practice, Appraisal Standards Board of the Appraisal Foundation, Washington DC, 2010-2011.

Going concern value is defined as:

Going concern value includes the incremental value associated with the business concern, which is distinct from the value of the tangible real property and personal property. The value of the going concern includes an intangible enhancement of the value of the operating business enterprise, which is produced by the assemblage of the land, buildings, labor, equipment and the marketing operation. This assemblage creates an economically viable business that is expected to continue. The value of the going concern refers to the total value of the property, including both the real property and the personal property attributed to business value.

Source: The Appraisal of Real Estate, 13th Edition, The Appraisal Institute, Chicago, 2008.

Going concern value includes all tangible and intangible assets, excluding working capital.

STATE REGULATORY OVERVIEW

Skilled Nursing Facilities

The primary regulatory agencies for the nursing home industry include the federal government (Medicare reimbursement) and state government (Medicaid reimbursement). The programs are summarized below.

Medicare Summary

Medicare is a federal entitlement program administered by the Centers for Medicare and Medicaid Services (CMS) that reimburses nursing homes for the cost of caring for eligible patients. The previous Medicare system was replaced with a new payment methodology as mandated in the 1997-Balanced Budget Act. This new reimbursement system is known as "PPS," which stands for prospective payment system. PPS became effective as of July 1, 1998, depending on the start of a facility's cost reporting period. PPS is a flat rate, case-mix, and prospective system with adjustments for differences in regional labor costs. PPS is based on a patient classification system known as RUG (resource utilization group). There are 53 RUG categories that patients are classified into for reimbursement. The RUG or rate is adjusted for differences in the regional labor costs based on labor indices applied to the labor portion of the rate.

State Medicaid Summary

The Medicaid Program provides medical assistance for certain individuals and families with low incomes and resources. Medicaid eligibility is limited to individuals who fall into specific categories. Although the Federal government establishes general guidelines for the program, the Medicaid program requirements are actually established by each State. A summary of the Medicaid rate system is outlined below.

Commencement Date/Current Methodology	July 1, 1989
Prospective vs. Retrospective	Prospective
Facility Specific Rate	Yes
Cost Based Rate	Yes
Case Mix Component	Yes
Flat Rate	No
Specific Capital Rate	Yes

STATE REGULATORY OVERVIEW

Certificate of Need Summary

CON Requirement	Yes
Moratorium in Place	No
Bed Need Projections	
Population Based	Yes
Utilization Based	Yes

Supply characteristics and demand characteristics for the state by Health Service Area are outlined below. The subject property is located in Health Service Area 10, Planning Area Mercer County.

LONG-TERM CARE BED INVENTORY UPDATES
09/16/2011 - 10/21/2011
LONG-TERM CARE GENERAL NURSING BED NEED

	HEALTH SERVICE AREA	010	
Henry	452	518	(66)
Mercer	222	186	36
Rock Island	1,243	1,326	(83)

According to the *Inventory of Health Care Facilities and Services and Needs Determination*, Planning Area Mercer County has an undersupply of 36 beds, while the Health Service Area has an excess of 113 beds. Based on the state data, it appears unlikely that a new facility would be approved in the Health Service Area over the short term.

REGIONAL SUMMARY

REGIONAL SUMMARY

The subject is located in Aledo, Mercer County, Illinois. Aledo is the County Seat of Mercer County, which is located south of the Davenport-Moline-Rock Island area which commonly known as the Quad Cities. The Quad Cities includes several counties in Illinois and Iowa. The relevant region for Aledo is considered to be Mercer County, which is located on the south end of the Quad Cities area and is largely an agricultural area.

Demographics

Population data from 2000, 2010 and projected figures for 2015, respectively, are shown in the following table.

Total Population	2000	2010 Estimate	% Change 2000-2010	2015 Projection	% Change 2010-2015
City of Aledo	3,613	3,540	-2.0%	3,502	-1.1%
Mercer County	16,957	16,772	-1.1%	16,617	-0.9%
State of Illinois	12,419,293	13,089,726	5.4%	13,268,796	1.4%

Source: STDB Online

Mercer County has had a relatively stable population since 2000 with a very slight decrease. The projected 2015 population for Mercer County is 16,617. The city's population illustrates a similar pattern of a slight decline, which is generally consistent with migration away from more rural areas.

As seen in the following table, the number of households in Aledo and Mercer County follows a similar pattern as the overall population, with a very small decline forecasted by 2015.

Total Households	2000	2010 Estimate	% Change 2000-2010	2015 Projection	% Change 2010-2015
City of Aledo	1,506	1,494	-0.8%	1,482	-0.8%
Mercer County	6,624	6,632	0.1%	6,591	-0.6%
State of Illinois	4,591,779	4,838,349	5.4%	4,904,474	1.4%

Source: STDB Online

REGIONAL SUMMARY

The following table shows median age data for the city, county and state.

Median Age	2000	2010 Estimate	% Change 2000-2010	2015 Projection	% Change 2010-2015
City of Aledo	41.6	45.7	9.9%	46.6	2.0%
Mercer County	39.5	42.6	7.8%	43.3	1.6%
State of Illinois	34.7	36.2	4.3%	36.4	0.6%

Source: STDB Online

The data shows an aging population for the city, county and state, with a rapidly increasing median age forecasted for the County.

Economy

The following table displays median household income statistics for Aledo, Mercer County and Illinois.

Median Household Income	2000	2010 Estimate	% Change 2000-2010	2015 Projection	% Change 2010-2015
City of Aledo	\$33,442	\$43,615	30.4%	\$49,081	12.5%
Mercer County	\$40,924	\$49,217	20.3%	\$55,797	13.4%
State of Illinois	\$46,635	\$60,254	29.2%	\$69,034	14.6%

Source: STDB Online

Median household income in the city, county and state has increased moderately since 2000. This trend is projected to continue into the future albeit at a slower rate. The City of Aledo has a lower median household income than the county and state.

Unemployment statistics for the city, county, state, and nation are shown in the following table.

REGIONAL SUMMARY

Unemployment Rates	2007	2008	2009	2010	Sep-11
Mercer County	6.4%	8.5%	13.0%	9.8%	7.4%
State of Illinois	5.1%	6.4%	10.0%	10.3%	9.5%
U.S.	4.6%	5.8%	9.3%	9.6%	9.1%

Source: Bureau of Labor Statistics

Mercer County experienced unemployment rates higher than the state and nation from 2007 to 2009, but has since decreased substantially from the peak in 2009. The unemployment rate as of September, 2011 is significantly lower than the state and national rates. The following table illustrates employment by sector for Mercer County.

Mercer County	
<u>2010 Employed Population 16+ by Industry</u>	
Total	8,021
Agriculture/Mining	5.4%
Construction	8.6%
Manufacturing	12.1%
Wholesale Trade	3.5%
Retail Trade	11.3%
Transportation/Utilities	7.3%
Information	1.6%
Finance/Insurance/Real Estate	5.6%
Services	40.1%
Public Administration	4.4%
<u>2010 Employed Population 16+ by Occupation</u>	
Total	8,021
White Collar	51.5%
Management/Business/Financial	13.1%
Professional	17.2%
Sales	8.8%
Administrative Support	12.4%
Services	18.6%
Blue Collar	30.0%
Farming/Forestry/Fishing	1.3%
Construction/Extraction	6.6%
Installation/Maintenance/Repair	4.3%
Production	8.7%
Transportation/Material Moving	9.0%

REGIONAL SUMMARY

The region's economy is highly dependent on services, retail trade and manufacturing. The major employers in the County are shown in the following table.

Mercer County Employers		
<u>Organization</u>	<u>Industry</u>	<u>Employees</u>
General Grind and Machine	Manufacturing	385
Sherrard School District #200	Education	250
Mercer County Hospital	Healthcare	195
Wal-Mart	Retail	160
Aledo School District	Education	125
Mercer County Nursing Home	Healthcare	100
Aledo Health Care and Rehab Center	Healthcare	63
County of Mercer	Government	60
Meminger Manufacturing	Manufacturing	50
McDonalds	Restaurant	45
Midwest Fiber Products, Inc.	Manufacturing	40
Mercer Market	Retail Grocery Store	38
Country Bank	Financial Institution	36
Westmer School District #203	Education	35
Essig-Welch	Car Dealership	35
Livermore Shoppes and Restaurant	Retail & Restaurant	30
City of Aledo	Government	27
Farmers State Bank of Western Illinois	Financial Institution	25

Source: Mercer County Community and Economic Development Partnership

Transportation

Transportation in and around Aledo and Mercer County is adequate. The County is served by US Highway 67 and 45 and State Highways 17, 94, and 135. The Quad Cities International Airport is located about 25 miles northeast of Aledo. Water transportation via barge is common on the Mississippi River, which borders Mercer County to the west.

Conclusion

Overall, the population for the region has been generally stable. The economy is largely agriculturally based and economic trends have shown recent improvement. The outlook for the future is for continued stability.

NEIGHBORHOOD DESCRIPTION

NEIGHBORHOOD DESCRIPTION

The subject neighborhood is defined as the City of Aledo, which is the county seat of Mercer County. The subject property is located on the northwest side of Aledo, adjacent to the Mercer County Hospital. Aledo is a relatively small rural community with the economic base tied to agriculture.

Commercial development is primarily located in downtown Aledo and east of downtown, on SR 17, near the intersection with SR 94. There are a variety of free-standing stores, shops, restaurants and commercial establishments in these areas.

The interior portions of the neighborhood are primarily residential in character. The neighborhood is comprised primarily of single-family residential properties. Properties immediately surrounding the subject include Mercer County Hospital to the north, single family residential to the southwest and east and a vacant lot to the south.

Aledo has several parks scattered throughout and the south side of Aledo contains the local high school, a country club, pool and high school athletic fields.

The neighborhood has adequate transportation access. Aledo is served by State Highways 17 and 94, which are the primary thoroughfares in Aledo. SR 17 runs east-west and leads to US 67, which is about eight miles east of Aledo.

Overall, the neighborhood has average transportation access and proximity to employment, services, and recreation. The neighborhood is considered to be in a mature phase and the subject property is compatible with the surrounding uses.

SITE DESCRIPTION

SITE DESCRIPTION

Location:	309 NW 9th Avenue Aledo, Mercer County, Illinois.
Land Area:	208,675 square feet, or 4.79 acres The facility is situated on part of a 9.80-acre, irregular parcel. The primary site contains approximately 208,675 square feet site. The western portion of the site is used for agricultural purposes and contains approximately 218,213 square feet and is considered excess land. The excess land is currently accessible only via an easement across the primary site.
Shape:	Irregular
Frontage:	The subject parcel has approximately 390 feet of frontage on the north side of NW Third Street and approximately 513 feet of frontage on the west side of NW Ninth Avenue.
Access:	Access is available from both fronting streets and is considered to be adequate.
Visibility:	Good
Utilities:	All necessary public utilities are available
Topography:	Generally level.
Drainage:	Upon inspection, no drainage problems were noted.
Easements and Encroachments:	There do not appear to be any easements that negatively impact the marketability or value of the site.
Soil Capacity and Environmental Hazards:	A soil report was not available. It is assumed, based on the surrounding structures, that the site has adequate load bearing capacity.
Flood Zone:	
Map Number	17131 0225F, dated April 19, 2010
Zone	An area of low flood risk
Conclusion:	The subject site is well suited for its existing use.

ZONING DESCRIPTION

ZONING DESCRIPTION

According to Steve Moller of the City of Aledo Department of Public Works, the subject site is zoned B-1, Commercial District under the jurisdiction of the City of Aledo. According to Mr. Moller, nursing homes are an approved use within B-1, Commercial District.

As a result, it appears that the subject use is a legal use and is assumed to be a conforming use.

IMPROVEMENT DESCRIPTION

IMPROVEMENT DESCRIPTION

Building Description

Name of Building: Mercer County Nursing Home

Facility Type: Skilled Nursing Facility

Number of Rooms: 46

Number of Licensed Beds: 92 beds

Number of Operating Beds: 92 beds

Unit Mix:

Type	Rooms	Beds
Private	4	4
Semi-Private	40	80
3-Bed Ward	0	0
4-Bed Ward	2	8
Totals	46	92

Quality of Construction: Average

General Condition: Good

Number of Stories: one-story

Gross Building Area: 41,500 square feet

Date of Construction: Originally built in 1970 with the activity room added in 1980 and the enclosed walkway connecting to the hospital added in 2001.

Layout and Design: The building has a central courtyard surrounded by patient rooms, with wings extending from this central core. The facility has two nurse's stations. The north end of the building has the majority of support areas including kitchen, dining, activities, therapy, laundry and mechanicals. There is also an enclosed corridor on the north end that connects to the adjacent Mercer County Hospital. Administrative offices are located adjacent to the main lobby.

The facility has two tub/shower rooms. The majority of patient rooms have a shared bath. Four private rooms and one semiprivate room have their own bath.

General Condition

Site Preparation: General leveling and grading of the site

Foundation: Reinforced concrete footings and reinforced concrete slabs on grade

Frame: Concrete block and brick

IMPROVEMENT DESCRIPTION

Exterior Walls: Brick
Roof Cover: Flat roof with rubber membrane and asphalt shingle pitched overhangs

Finish Construction

Partitioning & Built-In Items: Walls are primarily painted or wallpapered drywall
Ceilings: Primarily painted drywall.
Floor Coverings: Primarily vinyl tile with ceramic tile in the bath rooms, and non-slip flooring in the kitchen.

Mechanical and Electrical Systems

Plumbing: Average quality fixtures; assumed to be in accordance with applicable codes. Gas-fired domestic hot water boiler (2008) with large storage tank. Separate smaller hot water heater for kitchen.
Heating, Ventilation & Air-Conditioning: Hot water heat system with two boilers and fin tube distribution. Three wings have space pack forced air conditioning units. The activity room addition has separate, package forced air HVAC units.
Electrical: 1,000 ampere service; assumed to be adequate
Other Building Features: Fire alarm system, nurse call system, and a natural gas fired 85,000 kw emergency generator. Fully sprinklered.

Site Improvements

Site improvements include concrete-paved walkways, patios, and curbs, asphalt-paved parking areas and driveways, exterior lighting, signage, and landscaping. There are two, two car garages used for storage. Parking areas include 31 parking spaces in front of building and approximately 40 parking areas at the rear.

Conclusion

The improvements are adequately maintained. and appear to be functionally adequate for their existing use. The facility's layout includes different HVAC systems for different sections of the building, which is a source of functional obsolescence. As of the inspection, the improvements appeared to be in good condition relative to their age. The facility has an effective age of 35 years and the economic life of the property has been estimated at 50 years, leaving a remaining life of 15 years.

PROPERTY TAXES AND ASSESSMENTS

PROPERTY TAXES AND ASSESSMENTS

The subject is within the property tax jurisdiction of Mercer County, Illinois. Taxes are payable in arrears and are calculated by multiplying the assessed value by the equalization factor and the tax rate. In Mercer County, assessed value is calculated as 33.3% of fair market value for commercial properties such as the subject. The subject property is tax exempt and assessments are not maintained for the subject. It is specifically assumed that the subject maintains its tax exempt status. For reference, we have included tax amounts reported on the most recent cost reports for five other nursing facilities in the area. Three of the facilities incurred property taxes, while two were tax exempt. Hillcrest Home is the Henry County facility and Good Samaritan appears to have a non-profit ownership. The tax comparables are shown in the following table.

Real Estate Tax Comparables					
Facility	Aledo Nursing	Good Samaritan	Hillcrest Home	Royal Oaks	Kewanee Care
Address	304 SW 12th	704 S Illinois	14688 SR 82	605 E Church	144 Junior
City	Aledo	Geneseo	Geneseo	Kewanee	Kewanee
Licensed Beds	80	72	106	200	84
Year Built	1973	1971	1971 & 1976	1998	1976 & 1998
2009 Taxes	\$30,661	Exempt	Exempt	\$63,922	\$48,577
Taxes/Bed	\$383	Exempt	Exempt	\$320	\$578
Average of Comparables	\$427				

HIGHEST AND BEST USE

Highest and best use is defined as:

The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value.

Implicit within the definition are a number of factors that must be considered in the highest and best use analysis. These factors include physically possible, legally permissible, financially feasible, and maximally productive.

Source: The Appraisal of Real Estate, 13th Edition, The Appraisal Institute, Chicago, 2008.

In estimating the highest and best use, there are four stages of analysis:

1. **Permissible Legal Use** - What restrictions have been placed on the site (either by government or deed) that might restrict development?
2. **Physically Possible Use** - What type of improvement could this site physically support based upon its size, shape, frontage, soil conditions, topography and flood plain, or any other physical factors?
3. **Financially Feasible Use** - What improvement would yield both a return of and on the land and building that would cover both debt service and capital amortization?
4. **Maximally Productive Use** - What use creates the highest overall present worth based upon the three above criteria?

Highest and Best Use - As Vacant

The highest and best use of the land (site) as if vacant and available for development may be different from the highest and best use of the property as improved. This will be true when the improvement is not a high performing use and does not contribute to total property value. Land is appraised as though vacant and available for development to its highest and best use.

1. Legally Permissible

HIGHEST AND BEST USE

Private restrictions, zoning, building codes, and other regulations establish uses that are legally permitted. The subject site is zoned B-1, Commercial District. This zoning allows commercial uses and specifically allows for nursing homes according to the City of Aledo.

2. Physically Possible

Factors such as size, shape, area, and the topography of a site may affect a site's potential use. The physical attributes of the site can accommodate most types of development. The subject's location on a hospital campus suggests that a healthcare related use such as a nursing facility would be compatible with the neighborhood.

3. Financially Feasible

Access, exposure and other physical attributes are adequate for health care development. The demand for nursing beds appears to be adequate, based on occupancy rates for the subject and competitive facilities. As a result, a nursing home development appears to be financially feasible.

4. Maximally Productive

Based on the preceding, it appears that nursing home development may be the maximally productive use of the site, pending a complete cost-to-benefit analysis, which is outside the scope of this assignment.

The highest and best use for the subject site, as vacant, is for nursing home development.

Highest and Best Use - As Improved

The use that maximizes an income producing property's return on a long-term basis is its highest and best use as improved. The same four tests are applicable for the analysis of highest and best use as improved.

1. Legally Permissible

In the Zoning section, it was concluded that the improvements are a legal use.

2. Physically Possible

HIGHEST AND BEST USE

The subject is improved with a skilled nursing facility. This facility is in harmony with improvements in the area and is physically possible.

3. Financially Feasible

The subject facility contributes significantly to the overall value of the property, as can be seen in the Income Capitalization Approach. Conversion of the specialized facility to an alternate use is not likely since other uses would not be able to generate the income the subject property can achieve.

4. Maximally Productive

The available space, costs and services in the subject are in line with what is available on the open market and should produce the highest net income.

Conclusion

The highest and best use, as improved, is the current use.

VALUATION METHODOLOGY

The market value of an improved property is estimated by three principal valuation approaches.

The Cost Approach: This approach provides an indication of market value by estimating the replacement cost new of the building improvements, and subtracting an estimate of any physical deterioration, functional and external (or economic) obsolescence found. To this number is added the land value, the depreciated cost of the site improvements and in some, cases the depreciated value of the furnishings, fixtures and equipment.

The Sales Comparison Approach: This valuation approach is based upon the principle of substitution; that is, when a property is replaceable in the market, its value tends to be set at the cost of acquiring an equally desirable substitute property, assuming no costly delay in making the substitution. Since no two properties are identical, the sale price is converted to a unit measure such as price per square foot or price per bed, and adjustments are made to the unit sale price for differences in date of sale, location, quality, size, services, market appeal and other factors.

The Income Capitalization Approach: This valuation approach derives a value indication for income producing property by converting anticipated benefits, i.e., cash flows and reversions, into property value. The process begins by establishing a potential gross income using comparable rentals or rates, as well as by examining historical income and expense statements. From this vacancy and collection loss, as well as operating expenses are deducted to arrive at the net operating income. The net operating income is then capitalized into value with an overall rate or by using a discounted cash flow technique.

In this complete appraisal, summary report, each of the approaches to value is applied as outlined in the following sections of the report.

The final step in the valuation process is the Reconciliation. In this section the relative strengths and weaknesses of each of the approaches are considered along with the quality and quantity of data available. The value indications are reconciled into a final value estimate that produces the most reliable indication for the subject property.

COST APPROACH

In the Cost Approach, the subject property is valued based upon the market value of the land, as if vacant, to which the depreciated replacement cost of the improvements and equipment is added. The sum of the market value of the land and the depreciated replacement cost of the improvements and equipment is the estimated market value by the Cost Approach.

Land Valuation

The land is valued in fee simple, assuming the site to be vacant. Several comparable land sales are analyzed. These are located within the general market area of the subject property and are considered to be representative of market activity and conditions as of the valuation date. Items that often require adjustment include market conditions, financing, conditions of sale, size, location, zoning and other factors. A summary of the land sales, along with an adjustment grid is presented on the following page.

COST APPROACH

Land Sales Summary & Adjustment Grid					
Subject	Land Sale 1	Land Sale 2	Land Sale 3	Land Sale 4	
Location	309 NW 9th Ave	SE 11th	NW of SR 94 and SR 17	100th Avenue, W of 175th	NW of 200th St & 70th Ave
City	Aledo	Aledo	Aledo	Aledo	Aledo
Zoning/Use	B-1	Commercial	A-1	Residential	Ag/Res
Date of Sale	N/A	August-11	December-10	June-11	April-11
Price	N/A	\$35,000	\$36,150	\$39,000	\$35,000
Size (Square Feet)	208,875	10,646	158,994	217,800	218,542
Size (Acres)	4.79	0.24	3.65	5.00	5.04
Number of Units	46	N/A	N/A	N/A	N/A
Density (Units/acre)	10	N/A	N/A	N/A	N/A
Unadjusted SF Price		\$3.29	\$0.23	\$0.18	\$0.16
Elements of Comparison					
Property Rights Sold		0%	0%	0%	0%
Conditions of Sale		0%	0%	0%	0%
Market Conditions		0%	0%	0%	0%
Total Adjustments		0%	0%	0%	0%
Equivalent Price		\$3.29	\$0.23	\$0.18	\$0.16
Physical Characteristics					
Size		-25%	0%	0%	0%
Zoning/Density		0%	10%	10%	10%
Utilities		0%	0%	0%	0%
Location		-50%	0%	25%	25%
Other		0%	0%	0%	0%
Total Adjustments		-75%	10%	35%	35%
Adjusted SF Price		\$0.82	\$0.25	\$0.24	\$0.22
Minimum Adjusted Price	\$0.22				
Maximum Adjusted Price	\$0.82				
Mean Adjusted Price	\$0.38				
Median Adjusted Price	\$0.25				
Concluded Price per SF	\$0.25	Primary	Excess		
Land Area	428,888	208,675	218,213		
Land Value	\$106,722	\$52,169	\$54,553		
Rounded	\$107,000	\$52,000	\$55,000		

Land Sales Analysis

The land sales are adjusted to reflect variances with the subject for factors including property rights conveyed, financing terms, conditions of sale, market conditions (time), physical characteristics, economic characteristics and use. The unit of comparison is the price per square foot, since buyers use this unit of comparison when analyzing land sales in this market. The sales selected are the best available sales.

The fee simple interest in each of the comparables sold. As a result, adjustments are not required for property rights conveyed. None of the comparables sold with atypical financing, thus, no adjustments are warranted for financing. Adjustments for market conditions are also applied.

Land Sale 1 is the August 2011 sale of a site located at SE 11th in Aledo. This sale's location is superior to the subject's, warranting a downward adjustment. This site's zoning is similar to the subject's and no adjustment was applied. Smaller parcels typically sell for a higher price per square foot due to economies of scale; a downward adjustment is warranted for size. This sale has similar utilities available and no adjustment is warranted. No further adjustments are required. Overall, a downward adjustment was applied to Land Sale 1.

Land Sale 2 is the December 2010 sale of a site located at NW of SR 94 and SR 17 in Aledo. This sale's location is similar to the subject's, warranting no adjustment. This site's density is inferior to the subject's and an upward adjustment was applied. Smaller parcels typically sell for a higher price per square foot due to economies of scale; no adjustment is warranted for size. This sale has similar utilities available and no adjustment is warranted. No further adjustments are required. Overall, an upward adjustment was applied to Land Sale 2.

Land Sale 3 is the June 2011 sale of a site located at 100th Avenue, W of 175th in Aledo. This sale's location is inferior to the subject's, warranting an upward adjustment. This site's zoning is inferior to the subject's and an upward adjustment was applied. Smaller parcels typically sell for a higher price per square foot due to economies of scale; no adjustment is warranted for size. This sale has similar utilities available and no adjustment is warranted. No further adjustments are required. Overall, an upward adjustment was applied to Land Sale 3.

COST APPROACH

Land Sale 4 is the April 2011 of a site located at NW of 200th St & 70th Ave in Aledo. This sale's location is inferior to the subject's, warranting an upward adjustment. This site's zoning is inferior to the subject's and an upward adjustment was applied. Smaller parcels typically sell for a higher price per square foot due to economies of scale; no adjustment is warranted for size. This sale has similar utilities available and no adjustment is warranted. No further adjustments are required. Overall, an upward adjustment was applied to Land Sale 4.

After all adjustments, a range of \$0.22 to \$0.82 per unit is indicated, with an average of \$0.38 and a median of \$0.25 per square foot. Based on the analysis, the value of the primary site and excess land, as vacant, is estimated to be \$0.25 per square foot. The value of the land is estimated to be \$107,000, calculated as follows.

Primary Site
\$0.25 per square foot x 208,675 square feet = \$52,000 (Rounded)

Excess Land
\$0.25 per square foot x 218,213 square feet = \$55,000 (Rounded)

Building and Site Improvements Valuation

The replacement cost for the building was estimated based on the calculator cost method with cost factors obtained from Section 15 of the Marshall Valuation Service, a nationally published cost manual. The unit costs include both direct and indirect costs, with adjustments made for special building features, construction quality, time and location. The subject is considered an Average quality Class C facility and the base cost, prior to refinement is \$125.58 per square foot.

Site Improvements

Site improvements include concrete-paved walkways, patios, and curbs, asphalt-paved parking areas and driveways, exterior lighting, signage, and landscaping. All site improvements are in average condition. Site improvements are depreciated over a shorter life than the primary improvements.

COST APPROACH

Equipment

The value of the Furniture, Fixtures and Equipment (FF&E) is based on several sources, including the Marshall Valuation Service. A detailed inventory of the subject's FF&E is outside the scope of this assignment and was not completed. According to an asset listing provided to us for the facility, the book cost new of the subject's FF&E was \$702,672 or \$7,638 per bed, which is consistent with the cost new per bed for other facilities. The depreciated value of the FF&E is estimated to be \$3,500 per bed, which equates to \$322,000.

Depreciation

Depreciation of a structure is the loss in value due to physical deterioration, functional obsolescence and external (or economic) obsolescence. These terms are defined as follows:

Curable Physical Deterioration: Curable physical deterioration is commonly referred to as deferred maintenance. It is measured as the cost to cure the item. No deferred maintenance is noted.

Incurable Physical Deterioration: The loss in value due to ordinary wear and tear, i.e., age and natural forces taking their toll on the improvements. This begins at the time the building is completed and continues throughout its physical life. The subject was constructed in 1970 and is in good condition for its age. The facility has an effective age of 35 years and the economic life of the property has been estimated at 50 years, leaving a remaining life of 15 years. Given the effective age estimate of 35 years, physical incurable depreciation has been estimated at 70.00% (35 ÷ 50) using the straight-line method of depreciation.

Functional Obsolescence: The loss in value within the property due to a poor plan, functional inadequacy, or super-adequacy due to size, style, design or other items. This form of depreciation occurs in both curable and incurable forms. The facility's layout includes different HVAC systems for different sections of the building, which is a source of functional obsolescence. Functional obsolescence of 10% is considered appropriate.

External (or Economic) Obsolescence: The loss in value caused by forces outside the property itself. It can take many forms such as excessive noise levels, traffic congestion, over built real estate

COST APPROACH

markets or other factors that affect a property's ability to produce income thereby causing a decline in desirability. No external obsolescence is noted.

Conclusion

A summary of the Cost Approach is outlined in the following table.

The value indication by the Cost Approach, as of November 16, 2011 is estimated to be \$2,390,000.

COST APPROACH

Mercer County Nursing Home			
Cost Approach Summary			
November 16, 2011			
Occupancy		SNF	Site Improvements
Class/Quality of Construction	C	Average	Average
Gross Building/Site Area		41,500	198,300
Effective Age (Years)		35	5
Total Physical Life		50	15
Remaining Useful Life (composite)		15	10
Depreciation Estimate		70.0%	33.3%
Current Multiplier		0.99	0.99
Local Multiplier		1.10	1.10
Composite Multiplier		1.09	1.09
Entrepreneurial Profit		10.0%	10.0%
Soft Costs		5.0%	5.0%
Base Square Foot Cost		\$125.58	\$1.00
Sprinklers		\$2.00	\$0.00
Refinements		\$0.00	\$0.00
Subtotal		\$127.58	\$1.00
Number of Stories Multiplier		1.00	1.00
Height per Story Multiplier		1.00	1.00
Floor Area - Perimeter/Shape Multiplier		1.00	1.00
Refined Cost per Square Foot		\$127.58	\$1.00
Composite Multiplier		1.09	1.09
Final Cost per Square Foot		\$138.93	\$1.09
Gross Building Area		41,500	198,300
Adjusted Base Cost		\$5,765,595	\$216,147
Soft Costs		\$288,280	\$10,807
Subtotal		\$6,053,875	\$226,954
Entrepreneurial Profit		\$605,387	\$22,695
Replacement Cost New		\$6,659,262	\$249,650
Depreciation			
Deferred Maintenance		\$0	\$0
Incurable Physical Deterioration		\$4,661,484	\$83,217
Functional Obsolescence	10%	\$199,778	\$0
External Obsolescence	0%	\$0	\$0
Total Depreciation		\$4,861,261	\$83,217
Depreciated Replacement Cost		\$1,798,001	\$166,433
Total Replacement Cost		\$6,659,262	
Less: Total Depreciation		\$4,861,261	
Total Depreciated Replacement Cost		\$1,798,001	
Depreciated Cost of Site Improvements		\$166,000	
Land		\$52,000	
Depreciated Value of F, F & E	\$3,500	\$322,000	
Excess land		\$55,000	
		\$2,393,001	
Value Indication by the Cost Approach		\$2,390,000	rounded

SALES COMPARISON APPROACH

The Sales Comparison Approach is based upon the principle of substitution, which states that when a property is replaceable in the market, its value tends to be set at the cost of acquiring an equally desirable substitute property, assuming there is no costly delay in making the substitution.

Since no two properties are identical, adjustments are applied to each sale price to compensate for differences between the sale property and the subject based upon numerous elements of comparison. The sale prices are reduced to common units of comparison and the adjustments are applied to the unit prices. The unit of comparison used for facilities similar to the subject is the sale price per unit/bed, the price per square foot, and/or the Effective Gross Income Multiplier (EGIM).

The sale price per unit/bed is calculated by dividing the sale price by the number of units/beds. Price per square foot is calculated by dividing the sale price by the gross building size. The Effective Gross Income Multiplier is calculated by dividing the sale price by the annual gross revenue at the time of sale. The Effective Gross Income Multiplier is a useful indication of market value since it considers the effects of occupancy. This method considers the financial condition of the property as a comparison rather than the property's physical attributes only.

Sales of Skilled Nursing Facilities in the state of Illinois were researched. These sales are found on the following pages along with a summary table and analysis.

SALES COMPARISON APPROACH

Improved Sale 1

General Sale Data

Date of Sale:	April 2011
Facility:	Lincoln Manor
Location:	2650 N Monroe Decatur, Illinois
Grantor:	Lincoln Manor, Inc.
Grantee:	FNR Decatur, LLC
Sale Price:	\$6,500,000
Number of Beds:	140 SNF
Financing:	Cash or equivalent
Verified By:	Cushman & Wakefield, who verified with buyer's representative, Tutera Group.

Property Data

Land Size:	3.35 Acres
Building Area:	38,340 Square Feet
Year Built:	1975
Condition:	Average

Operating Data

Occupancy Percentage:	80%
Revenues:	\$6,057,949
Operating Expenses:	\$5,485,200
Net Operating Income:	\$572,749

Market Value Indicators

Price Per Bed:	\$46,429
Expense Ratio:	90.5%
Gross Income Multiplier:	1.07
Overall Capitalization Rate:	8.8%

Comments

Income data is from the facility's 2010 Illinois Cost Report and includes an estimate of reserves of \$500 per bed.

SALES COMPARISON APPROACH

Improved Sale 2

Date of Sale:	July 2010
Facility:	Lakeland Rehab & Healthcare
Location:	900 W Temple Ave Effingham, Illinois
Grantor:	Midwest Care Center VIII, Inc.
Grantee:	TI Effingham, LLC
Sale Price:	\$6,537,558
Number of Beds:	127 SNF
Financing:	Cash or equivalent
Verified By:	Cushman & Wakefield, who verified with buyer's representative, Tutera Group.

Property Data

Land Size:	4.59 Acres
Building Area:	47,020 Square Feet
Year Built:	1971
Condition:	Average

Operating Data

Occupancy Percentage:	90%
Revenues:	\$7,106,041
Operating Expenses:	\$6,240,794
Net Operating Income:	\$865,247

Market Value Indicators

Price Per Bed:	\$51,477
Expense Ratio:	87.8%
Gross Income Multiplier:	0.92
Overall Capitalization Rate:	13.2%

Comments

Financial data was reported was based on the buyer's pro forma and includes management fees and replacement reserves.

SALES COMPARISON APPROACH

Improved Sale 3

Date of Sale:	July 2010
Facility:	Fair Oaks Rehab & Care
Location:	1515 Blackhawk Blvd South Beloit, Illinois
Grantor:	Midwest Care Centers, Inc.
Grantee:	TI South Beloit, LLC
Sale Price:	\$3,195,506
Number of Beds:	78 SNF
Financing:	Cash or equivalent
Verified By:	Cushman & Wakefield, who verified with buyer's representative, Tutera Group.

Property Data

Land Size:	3.47 Acres
Building Area:	21,819 Square Feet
Year Built:	1972
Condition:	Average

Operating Data

Occupancy Percentage:	89%
Revenues:	\$4,769,412
Operating Expenses:	\$4,349,704
Net Operating Income:	\$419,708

Market Value Indicators

Price Per Bed:	\$40,968
Expense Ratio:	91.2%
Gross Income Multiplier:	0.67
Overall Capitalization Rate:	13.1%

Comments

Financial data was reported was based on the buyer's pro forma and includes management fees and replacement reserves.

SALES COMPARISON APPROACH

Improved Sale 4

Date of Sale: April 2010
Facility: Roseville Country Manor
Location: 145 S Chamberlain St
Roseville, Illinois
Grantor: 527 Capital Group
Grantee: Petersen Roseville, LLC
Sale Price: \$3,675,000
Number of Beds: 99 SNF
Financing: Cash to seller
Verified By: Cushman & Wakefield who verified with Senior Living Investment Brokerage.

Property Data

Land Size: 2.54 Acres
Building Area: 29,817 Square Feet
Year Built: 1971
Condition: Average

Operating Data

Occupancy Percentage: 62%
Revenues: \$4,323,529
Operating Expenses: \$3,845,890
Net Operating Income: \$477,639

Market Value Indicators

Price Per Bed: \$37,121
Expense Ratio: 89.0%
Gross Income Multiplier: 0.85
Overall Capitalization Rate: 13.0%

Comments

Financial data was reported was based on the buyer's pro forma and includes management fees and replacement reserves.

Improved Sales Analysis

The preceding sales are adjusted for variances with the subject based upon numerous elements of comparison including property rights conveyed, financing terms, conditions of sale, market conditions (time), location, physical and economic characteristics, and use. The unit of comparison is the price per unit/bed since buyers analyze similar facilities based on this parameter.

All of the sales used convey the fee simple rights in the property and an adjustment for property rights is not necessary. The sales did not require adjustment for conditions of sale. The sales are analyzed on a cash equivalent basis. Therefore, any adjustments for financing, if necessary, are discussed in the comparable sale data sheets. The adjustment for economic characteristics implicitly includes changes in market conditions, and a separate adjustment is not required. The subject property is county owned and is currently operating at a loss.

Improved Sale 1 is the April 2011 sale of Lincoln Manor in Decatur, Illinois. This sale's location is similar to the subject, warranting no adjustment. The building was reportedly built in 1975 and in average condition, warranting no adjustment for age/condition. While some economic or financial parameters may be directly related to physical characteristics such as location, age or condition, consideration may be given to an additional adjustment for economic factors to reflect such factors such as differences in occupancy rates, operating ratios or other intangible factors. In analyzing economic characteristics, consideration is given to the net operating income per bed. Economic characteristics are considered superior to the subject and a downward adjustment is applied. Overall, this sale requires a downward adjustment.

Improved Sale 2 is the July 2010 sale of Lakeland Rehab & Healthcare in Effingham, Illinois. This sale's location is similar to the subject, warranting no adjustment. The building was reportedly built in 1971 and in average condition, warranting no adjustment for age/condition. Economic characteristics are considered superior and a downward adjustment is applied. Overall, this sale requires a downward adjustment.

Improved Sale 3 is the July 2010 sale of Fair Oaks Rehab & Care in South Beloit, Illinois. This sale's location is inferior to the subject, warranting an upward adjustment. The building was reportedly built in 1972 and in average condition, warranting no adjustment for

SALES COMPARISON APPROACH

age/condition. Economic characteristics are considered superior to the subject and a downward adjustment is applied. Overall, this sale requires a downward adjustment.

Improved Sale 4 is the April 2010 sale of Roseville Country Manor in Roseville, Illinois. This sale's location is similar to the subject, warranting no adjustment. The building was reportedly built in 1971 and in good condition, warranting no adjustment for age/condition. Economic characteristics are considered superior to the subject and a downward adjustment is applied. Overall, this sale requires a downward adjustment.

A summary of adjustments is outlined in the table on the following page.

SALES COMPARISON APPROACH

Sales Comparison Approach Summary November 16, 2011						
Subject	Improved Sale 1	Improved Sale 2	Improved Sale 3	Improved Sale 4		
Name	Mercer County Nursing Home	Lincoln Manor	Lakeland Rehab & Healthcare	Fair Oaks Rehab & Care	Roseville Country Manor	
Address	309 NW 9th Avenue	2650 N Monroe	900 W Temple Ave	1515 Blackhawk Blvd	145 S Chamberlain St	
City	Aledo	Decatur	Effingham	South Beloit	Roseville	
State	Illinois	Illinois	Illinois	Illinois	Illinois	
Property Type	SNF	SNF	SNF	SNF	SNF	
Date of Sale	N/A	April-11	July-10	July-10	April-10	
Sale Price	N/A	\$6,500,000	\$6,537,558	\$3,195,508	\$3,675,000	
Number of Beds	92	140	127	78	99	
Gross Building Area	41,500	38,340	47,020	21,819	29,817	
Building Area per Bed	451	274	370	280	301	
Year Built	1970	1975	1971	1972	1971	
Occupancy	95%	80%	90%	89%	82%	
NOI Per Bed	\$2,525	\$4,091	\$6,813	\$5,381	\$4,825	
EGIM	N/A	1.07	0.92	0.67	0.85	
Expense Ratio	94.8%	90.5%	87.8%	91.2%	89.0%	
Capitalization Rate	N/A	8.8%	13.2%	13.1%	13.0%	
Unadjusted Unit Price		\$48,429	\$51,477	\$40,968	\$37,121	
Elements of Comparison						
Property Rights Sold		0%	0%	0%	0%	
Conditions of Sale		0%	0%	0%	0%	
Market Conditions		0%	0%	0%	0%	
Total Adjustments		0%	0%	0%	0%	
Equivalent Price		\$48,429	\$51,477	\$40,968	\$37,121	
Characteristics						
Age/condition		0%	0%	0%	0%	
Location		0%	0%	5%	0%	
Building Area per Bed		5%	5%	5%	5%	
Economic Characteristics		-40%	-50%	-50%	-40%	
Other		0%	0%	0%	0%	
Total Adjustments		-35%	-55%	-40%	-35%	
Adjusted Unit Price		\$30,179	\$23,165	\$24,581	\$24,129	
Minimum Adjusted Price	\$23,165	Minimum EGIM	0.67			
Maximum Adjusted Price	\$30,179	Maximum EGIM	1.07			
Mean Adjusted Price	\$25,513	Mean EGIM	0.88			
Median Adjusted Price	\$24,355	Median EGIM	0.89			
Concluded Unit Price	\$25,000	Stabilized EGI	4,427,055			
Number of Beds	92	Implied EGIM	0.53			
Indicated Value	\$2,300,000					
Plus: Excess Land	\$55,000					
Total Value	\$2,355,000					

SALES COMPARISON APPROACH

The adjusted value indicators range from \$23,165 to \$30,179 per bed, with a mean of \$25,513 and a median of \$24,355. Equal emphasis is placed on all sales. Based on this, the value of the subject going concern is estimated at \$25,000 per bed, or \$2,355,000, calculated as follows:

92 beds x \$25,000 per bed	\$2,300,000
Value of Excess Land	\$55,000
Total Value	\$2,355,000
Rounded	\$2,355,000

Effective Gross Income Multiplier Method

The effective gross income of the subject is forecasted to be \$4,427,055 as shown in the Income Capitalization Approach. Dividing the value estimated above (\$2,355,000) by the forecasted EGI results in an EGIM of 0.53. The EGIM's of the comparables range from 0.67 to 1.07 with a mean EGIM of 0.88 and a median of 0.89. The subject is currently actually operating at a loss due to relatively high expense levels. In the Income Capitalization Approach we have estimated that the property can achieve profitability through expense reductions however there is risk involved with this process. Each of the comparable sales was operating profitably and generating positive net operating income. As a result, an EGIM for the subject below the range of the comparables is considered reasonable.

Conclusion

The market value of the going concern subject property by the Sales Comparison Approach, as of November 16, 2011, is:

\$2,355,000

INCOME CAPITALIZATION APPROACH

The Income Capitalization Approach is based on the premise that the value of the subject property can be estimated by the worth of its net income stream. The net income is calculated by estimating the gross annual income applicable to the property, deducting allowances for vacancy, uncollectible accounts, and operating expenses. The net operating income thus derived is then capitalized at an appropriate rate to arrive at an indication of value.

Real estate investors analyze senior housing properties by either a discounted cash flow analysis or direct capitalization analysis. A discounted cash flow analysis may be prepared over a typical holding period, which may range from 5 to 10 years and allows for a current estimate of value based on changing market conditions in the future. Direct capitalization converts a single year's income expectancy, or an average of several years, into a value indication in one step by dividing by an appropriate rate. Although we have not prepared a discounted cash flow analysis, our selection of the payor mix, stabilized rates, occupancy and expenses are reflective of longer term market-oriented trends that the subject should be able to achieve over a typical holding period.

Background Analysis

In estimating income and expenses for the subject property, the facility's historical financial statements for the 12-month periods ended February 28, 2009, February 28, 2010, February 28, 2011, and the annualized 7-month period ended September 30, 2011 are analyzed. The historic expenses did not include a management fee and we have included a market management fee for analytical purposes.

The subject is county owned and operated and has been operating at a loss. As a result, expense comparables located within the Health Service Area were also analyzed for comparison with the actual historic figures in order to stabilize the expenses at market levels, where appropriate. Hillcrest Home, the fifth comparable in the expense comparable table is the Henry County nursing home. The expense comparables shown on the following pages represent the reported figures for each property obtained from the most recent cost reports and are also adjusted for inflation for a consistent, current comparison.

INCOME CAPITALIZATION APPROACH

Mercer County Nursing Home
Historical Occupancy Statistics

Patient Days by Payor	12 Months Ended 2/28/2009		12 Months Ended 2/28/2010		12 Months Ended 2/28/2011		Annualized 7 Months Ended 9/30/2011	
	Total	%	Total	%	Total	%	Total	%
Private Pay	16,160	52.0%	16,512	51.7%	16,802	51.6%	16,482	51.2%
Medicare	-	0.0%	-	0.0%	822	2.5%	960	3.0%
Medicaid	14,892	48.0%	15,436	48.3%	14,923	45.9%	14,721	45.8%
Other	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Total Patient Days	31,052	100.0%	31,948	100.0%	32,547	100.0%	32,143	100.0%
Number of Beds	95		95		92		92	
Total Possible Days	34,675		34,675		33,580		33,672	
Occupancy as a % of Beds	89.6%		92.1%		98.9%		95.5%	

INCOME CAPITALIZATION APPROACH

Mercer County Nursing Home
Historical Income and Expense Statements

Revenue	12 Months Ended 2/28/2009			12 Months Ended 2/28/2010			12 Months Ended 2/28/2011			Annualized 7 Months Ended 9/30/2011		
	Amount	PRD	%	Amount	PRD	%	Amount	PRD	%	Amount	PRD	%
Private Pay	1,795,208	111.09	48.2%	2,028,041	122.82	53.0%	2,177,188	129.58	52.5%	2,185,713	132.77	49.5%
Medicare	0	0.00	0.0%	0	0.00	0.0%	354,284	431.00	8.5%	419,221	436.69	9.5%
Medicaid	1,875,258	125.92	50.3%	1,737,552	112.56	45.4%	1,618,436	108.45	39.0%	1,695,042	115.15	38.4%
Total Routine Revenue	3,670,466	118.20	98.5%	3,765,593	117.87	98.4%	4,149,908	127.51	100.0%	4,299,976	133.78	97.3%
Ancillary Income	0	0.00	0.0%	0	0.00	0.0%	0	0.00	0.0%	0	0.00	0.0%
Other Revenue	55,211	1.78	1.5%	61,168	1.91	1.6%	0	0.00	0.0%	117,309	3.65	2.7%
Total Revenue	3,725,677	119.98	100.0%	3,826,761	119.78	100.0%	4,149,908	127.51	100.0%	4,417,286	137.43	100.0%
Operating Expenses												
Dietary	484,810	15.61	13.0%	446,282	13.97	11.7%	496,921	15.27	12.0%	542,512	16.88	12.3%
Housekeeping & Laundry	258,234	8.32	6.9%	266,984	8.36	7.0%	255,070	7.84	6.1%	282,968	8.80	6.4%
Nursing & Resident Care	1,693,658	54.54	45.5%	1,831,146	57.32	47.9%	2,091,900	64.27	50.4%	2,209,469	68.74	50.0%
Activities & Social Services	142,898	4.60	3.8%	147,945	4.63	3.9%	154,394	4.74	3.7%	158,280	4.92	3.6%
Maintenance	120,614	3.88	3.2%	125,826	3.94	3.3%	109,264	3.36	2.6%	114,525	3.56	2.6%
Utilities	77,617	2.50	2.1%	63,898	2.00	1.7%	66,915	2.06	1.6%	68,826	2.14	1.6%
Employee Welfare**	654,660	21.08	17.6%	691,457	21.64	18.1%	800,808	24.60	19.3%	459,624	14.30	10.4%
Administrative	269,755	8.69	7.2%	308,324	9.65	8.1%	293,079	9.00	7.1%	351,354	10.93	8.0%
Property Taxes	0	0.00	0.0%	0	0.00	0.0%	0	0.00	0.0%	0	0.00	0.0%
Insurance	58,936	1.90	1.6%	55,636	1.74	1.5%	47,884	1.47	1.2%	44,869	1.40	1.0%
Other	0	0.00	0.0%	0	0.00	0.0%	0	0.00	0.0%	0	0.00	0.0%
Management Fee	149,027	4.80	4.0%	153,070	4.79	4.0%	165,996	5.10	4.0%	176,691	5.50	4.0%
Replacement Reserves	0	0.00	0.0%	0	0.00	0.0%	0	0.00	0.0%	0	0.00	0.0%
Total Expenses	3,910,209	125.92	105.0%	4,090,568	128.04	106.9%	4,482,231	137.72	108.0%	4,409,121	137.17	99.8%
Net Operating Income	-184,532	-5.94	-5.0%	-263,807	-8.26	-6.9%	-332,323	-10.21	-8.0%	8,165	0.25	0.2%

* The historic financial statements did not include management fees. A market management fee was included for analytical purposes.

** The year to date employee welfare expense reportedly does not contain the annual county pension obligation.

INCOME CAPITALIZATION APPROACH

Mercer County Nursing Home Expense Comparables													
Property Name	Aledo Rehab & Nursing		Good Samaritan		Royal Oaks Care Center		Kewanee Care Center		Hillcrest Home				
City, State	Aledo, IL		Geneseo, IL		Kewanee, IL		Kewanee, IL		Geneseo, IL				
Facility Type	SNF		SNF		SNF		SNF & ICF		SNF				
Number of Beds/Occ	80	62.7%	72	89.5%	200	71.9%	84	73.5%	106	84.1%			
Medicaid %	55.3%		45.8%		87.1%		55.1%		50.4%				
Medicare %	6.6%		0.0%		2.9%		15.7%		5.1%				
	12 Months Beginning		12 Months Beginning		12 Months Beginning		12 Months Beginning		12 Months Beginning		Minimum	Maximum	Average
	01/01/10	PRD	01/01/10	PRD	01/01/10	PRD	01/01/10	PRD	12/01/09	PRD			
Total Revenue	\$2,186,675	\$119.41	\$4,009,789	\$170.51	\$5,794,554	\$110.44	\$3,708,331	\$164.66	\$4,798,088	\$147.47	\$110.44	\$170.51	\$142.50
Operating Expenses													
Dietary	\$266,034	\$14.53	\$418,810	\$17.81	\$553,593	\$10.55	\$266,838	\$11.85	\$512,950	\$15.77	\$10.55	\$17.81	\$14.10
Housekeeping & Laundry	\$160,137	\$8.74	\$196,696	\$8.36	\$324,954	\$6.19	\$199,029	\$8.84	\$161,138	\$4.95	\$4.95	\$8.64	\$7.42
Nursing & Resident Care	\$1,422,407	\$77.68	\$1,625,603	\$69.12	\$2,437,437	\$46.46	\$1,476,022	\$65.54	\$2,295,023	\$70.54	\$46.46	\$77.68	\$65.87
Activities & Social Service	\$79,639	\$4.35	\$151,739	\$6.45	\$228,115	\$4.35	\$99,000	\$4.40	\$117,198	\$3.60	\$3.60	\$6.45	\$4.63
Maintenance	\$67,005	\$3.66	\$198,172	\$8.43	\$105,821	\$2.02	\$112,545	\$5.00	\$209,885	\$6.45	\$2.02	\$8.43	\$5.11
Utilities	\$92,207	\$5.04	\$86,788	\$3.69	\$227,298	\$4.33	\$66,306	\$2.94	\$121,373	\$3.73	\$2.94	\$5.04	\$3.95
Employee Welfare	\$166,303	\$9.08	\$451,703	\$19.21	\$331,978	\$6.33	\$229,067	\$10.17	\$637,183	\$25.73	\$6.33	\$25.73	\$14.10
Administrative	\$171,047	\$9.34	\$441,609	\$18.78	\$407,333	\$7.76	\$211,695	\$9.40	\$387,201	\$11.90	\$7.76	\$18.78	\$11.44
Property Taxes	\$33,131	\$1.81	\$11,765	\$0.50	\$62,619	\$1.19	\$66,046	\$2.93	\$0	\$0.00	\$0.00	\$2.93	\$1.29
Insurance	\$31,568	\$1.72	\$26,953	\$1.15	\$78,668	\$1.50	\$33,041	\$1.47	\$50,350	\$1.55	\$1.15	\$1.72	\$1.48
Other	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0.00	\$0.00	\$0.00
Management Fee	\$114,000	\$6.23	\$157,053	\$6.68	\$266,000	\$5.07	\$0	\$0.00	\$0	\$0.00	\$0.00	\$6.68	\$3.59
Replacement Reserves	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0.00	\$0.00	\$0.00
Total Expenses	\$2,603,478	\$142.17	\$3,766,889	\$160.18	\$5,023,816	\$95.75	\$2,759,589	\$122.53	\$4,692,301	\$144.22	\$95.75	\$160.18	\$132.97
Net Operating Income	-\$416,803	-\$22.76	\$242,900	\$10.33	\$770,738	\$14.69	\$948,742	\$42.13	\$105,787	\$3.25	-\$22.76	\$42.13	\$9.53

INCOME CAPITALIZATION APPROACH

**Mercer County Nursing Home
Inflation Adjusted Expense Comparables**

Property Name	Aledo Rehab & Nursing		Good Samaritan		Royal Oaks Care Center		Kewanee Care Center		Hillcrest Home				
City, State	Aledo, IL		Geneseo, IL		Kewanee, IL		Kewanee, IL		Geneseo, IL				
Facility Type	SNF		SNF		SNF		SNF & ICF		SNF				
Number of Beds/Occ	80	62.7%	72	89.5%	200	71.9%	84	73.5%	106	84.1%			
Medicaid %	55.3%		45.8%		87.1%		55.1%		50.4%				
Medicare %	6.6%		0.0%		2.9%		15.7%		5.1%				
	12 Months Beginning		12 Months Beginning		12 Months Beginning		12 Months Beginning		12 Months Beginning				
	01/01/10	PRD	01/01/10	PRD	01/01/10	PRD	01/01/10	PRD	12/01/09	PRD	Minimum	Maximum	Average
Total Revenue	\$2,268,630	\$123.89	\$4,160,074	\$176.90	\$6,011,731	\$114.58	\$3,847,317	\$170.83	\$4,986,068	\$153.25	\$114.58	\$176.90	\$148.24
Operating Expenses													
Dietary	\$276,005	\$15.07	\$434,507	\$18.48	\$574,341	\$10.95	\$276,839	\$12.29	\$533,046	\$16.38	\$10.95	\$18.48	\$14.63
Housekeeping & Laundry	\$166,139	\$9.07	\$204,068	\$8.68	\$337,133	\$6.43	\$206,488	\$9.17	\$167,451	\$5.15	\$5.15	\$9.17	\$7.70
Nursing & Resident Care	\$1,475,718	\$80.59	\$1,686,530	\$71.72	\$2,528,791	\$48.20	\$1,531,342	\$88.00	\$2,384,938	\$73.30	\$48.20	\$80.59	\$68.36
Activities & Social Service	\$82,824	\$4.51	\$157,426	\$6.69	\$236,665	\$4.51	\$102,710	\$4.56	\$121,790	\$3.74	\$3.74	\$6.69	\$4.80
Maintenance	\$69,516	\$3.80	\$205,599	\$8.74	\$109,787	\$2.09	\$116,763	\$5.18	\$218,108	\$6.70	\$2.09	\$8.74	\$5.30
Utilities	\$95,663	\$5.22	\$90,039	\$3.83	\$235,817	\$4.49	\$68,791	\$3.05	\$126,128	\$3.88	\$3.05	\$5.22	\$4.10
Employee Welfare	\$172,536	\$9.42	\$468,633	\$19.93	\$344,420	\$6.56	\$237,652	\$10.55	\$869,982	\$26.74	\$6.56	\$26.74	\$14.64
Administrative	\$177,458	\$9.69	\$458,160	\$19.48	\$422,600	\$8.05	\$219,629	\$9.75	\$402,371	\$12.37	\$8.05	\$19.48	\$11.87
Property Taxes	\$34,373	\$1.88	\$12,206	\$0.52	\$64,966	\$1.24	\$68,521	\$3.04	\$0	\$0.00	\$0.00	\$3.04	\$1.34
Insurance	\$32,751	\$1.78	\$27,963	\$1.19	\$81,616	\$1.56	\$34,279	\$1.52	\$52,323	\$1.61	\$1.19	\$1.79	\$1.53
Other	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0.00	\$0.00	\$0.00
Management Fee	\$118,273	\$6.46	\$162,939	\$6.93	\$275,970	\$5.26	\$0	\$0.00	\$0	\$0.00	\$0.00	\$6.93	\$3.73
Replacement Reserves	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00	\$0.00	\$0.00	\$0.00
Total Expenses	\$2,701,055	\$147.50	\$3,908,070	\$166.18	\$5,212,106	\$99.34	\$2,863,017	\$127.13	\$4,876,136	\$149.87	\$99.34	\$166.18	\$138.00
Net Operating Income	-\$432,425	-\$23.61	\$252,004	\$10.72	\$799,625	\$15.24	\$984,300	\$43.71	\$109,932	\$3.38	-\$23.61	\$43.71	\$9.89

Market Summary

These facilities were surveyed for daily private pay rates, services provided, and current occupancies.

- Aledo Rehab & Healthcare
- Good Samaritan
- Hillcrest Home
- Royal Oaks
- Kewanee Care

The following page outlines the information obtained from these facilities, which was obtained from the IDPH's *2010 Long-Term Care Facility Profiles*, which is the most recent published report.

INCOME CAPITALIZATION APPROACH

**Rent Comparable Summary
Skilled Nursing Facilities**

Facility	Subject	Aledo Rehab & Healthcare	Good Samaritan	Hillcrest Home	Royal Oaks	Kewanee Care
		304 SW 12th Street	704 S Illinois	14688 SR 82	605 E Church	144 Junior Ave
		Aledo	Geneseo	Geneseo	Kewanee	Kewanee
Facility Type	SNF	SNF	SNF	SNF	SNF	SNF
Total Number of Licensed Beds	92	80	72	106	200	84
SNF	92	80	72	106	200	84
Overall Occupancy	96%	63%	89%	84%	72%	72%
Year Built	1970	1973	1971	1971 & 1976	1998	1976 & 1998
Private Pay Base Daily Rates						
SNF						
Private	\$140	\$118	\$181	\$196	\$140	\$150
Semi-Private	\$132	\$100	\$171	\$98	\$115	\$128
Levels of Care Available		NA	NA	NA	NA	NA
Fee for increase in Care Level		NA	NA	NA	NA	NA
Second Occupant Fee	NA	None	None	None	None	None
Services						
Meals Per Day	3	3	3	3	3	3
Activities	Yes	Yes	Yes	Yes	Yes	Yes
Housekeeping	Yes	Yes	Yes	Yes	Yes	Yes
Laundry	Yes	Yes	Yes	Yes	Yes	Yes
Transportation	Yes	Yes	No	Yes	No	Yes
Fee for Health Services	Included in rates	Included in rates	Included in rates	Included in rates	Included in rates	Included in rates
Market Appeal		Inferior	Superior	Inferior	Similar	Similar

Source: Illinois Long Term Care Profile - 2010

INCOME CAPITALIZATION APPROACH

Routine Revenue

The revenue categories for skilled nursing facilities typically include routine resident revenue as well as other income.

The subject's skilled nursing revenue is comprised of private pay, Medicaid, and Medicare. The facility provides three meals per day, housekeeping and laundry services, and social activities.

Private Pay

The subject's private pay nursing rates as of November, 2011 are \$143 per resident day for a private room, \$132 for a semi-private room, N/A for a 3-bed ward room, and \$132 for a 4-bed ward room. The competitors indicate a range of rates from \$118 to \$196 per day for private units and \$98 to \$171 for semi-private beds. The subject's rates are within the range of the competitors.

Since the subject has an established history, primary emphasis is given to the subject's current rates. Based on this, the stabilized private pay rates are estimated at \$143.00 per resident day for private rooms, \$132.00 per resident day for semi-private rooms, \$132.00 per resident day for 3-bed ward rooms, and \$132.00 per resident day for 4-bed ward rooms.

The weighted average private pay rate for the subject property is calculated as follows.

Weighted Average Private Pay Rate			
	<u>Bed Mix</u>	<u>Rate</u>	<u>Weighted</u>
Private	4	\$143.00	\$ 6.22
Semi-Private	80	\$132.00	\$ 114.78
3-Bed Ward	0	\$132.00	\$ -
4-Bed Ward	8	\$132.00	\$ 11.48
	92		\$ 132.48

The subject's historic average private pay rates were \$111.09, \$122.82, \$129.58 and \$132.77 over the past four periods and the stabilized rate is consistent with the historic trend and most recent period.

Medicare

The subject became Medicare certified in calendar year 2010 and the subject's historical weighted average Medicare revenues were \$0.00 per resident day in 2008, \$0.00 per resident day in 2009, \$431.00 in 2010, and \$436.69 in the annualized seven months of 2011.

Based on this, the subject's full-year historical Medicare revenues appear reasonable and are given primary emphasis with an adjustment for inflation. The subject's stabilized Medicare rate is estimated at \$439.62 per resident day.

Medicaid

The subject's historical weighted average Medicaid revenues were \$125.92 in 2008, \$112.56 per resident day in 2009, \$108.45 per resident day in 2010 and \$115.15 in the annualized seven months ending 9/30/11. According to the subject's administrator, the subject's current Medicaid rate is \$110.28 per patient day for skilled nursing care. Based on this information, the stabilized Medicaid rate is estimated to be \$110.28 per resident day.

Occupancy

The subject's historical occupancy rates were 89.6% in 2008, 92.1% in 2009, 96.9% in 2010, and 95.5% in the annualized seven months of 2011. Additionally, at the time of inspection, the subject had an occupancy rate of 95.7%. The competitive facilities indicate a range of occupancies from 63% to 89% with a weighted average of 78%. According to the Illinois Department of Public Health's *2010 Long-Term Care Data Summary*, the occupancy rate for skilled nursing facilities in Planning Area 10-Mercer County is 81.1% of licensed beds, while the occupancy rate for Health Service Area 10 is 78.3%.

The subject has outperformed the market in terms of occupancy and based on the subject's current and historical occupancy, the stabilized occupancy rate is estimated to be 95%.

INCOME CAPITALIZATION APPROACH

Payor Mix

The subject's historic occupancy and payor mix is along with data for the expense comparables is outlined below.

Mercer County Nursing Home Historical Occupancy Statistics								
Patient Days by Payor	12 Months Ended 2/28/2009		12 Months Ended 2/28/2010		12 Months Ended 2/28/2011		Annualized 7 Months Ended 9/30/2011	
	Total	%	Total	%	Total	%	Total	%
Private Pay	16,160	52.0%	16,512	51.7%	16,802	51.6%	16,462	51.2%
Medicare	-	0.0%	-	0.0%	822	2.5%	980	3.0%
Medicaid	14,892	48.0%	15,436	48.3%	14,923	45.9%	14,721	45.8%
Other	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Total Patient Days	31,052	100.0%	31,948	100.0%	32,547	100.0%	32,143	100.0%
Number of Beds	95		95		92		92	
Total Possible Days	34,675		34,675		33,580		33,672	
Occupancy as a % of Beds	89.6%		92.1%		96.8%		95.5%	

Facility	Private Pay	Medicare	Medicaid
Aledo Rehab & Nursing	38.1%	6.6%	55.3%
Good Samaritan	54.2%	0.0%	45.8%
Royal Oaks Care Center	10.1%	2.9%	87.1%
Kewanee Care Center	29.3%	15.7%	55.1%
Hillcrest Home	44.5%	5.1%	50.4%
Simple Average	35.2%	6.0%	58.7%
Weighted Average	29.8%	5.5%	64.8%

The stabilized payor mix is estimated to be 51.0% private, 4.0% Medicare, and 45.0% Medicaid.

Ancillary Income

Ancillary income includes physical therapy, occupational therapy, speech therapy, and other therapy services not included in the per diem rates. The subject's historical ancillary income was \$0.00 in 2008, \$0.00 in 2009, \$0.00 in 2010, and \$0.00 in the annualized three months of 2011. Ancillary income is estimated at \$0 or \$0.00 per resident day.

INCOME CAPITALIZATION APPROACH

Other Income

This income includes miscellaneous additional charges such as barber/beauty income, employee/guest meals, and vending income. The subject's historical other income was \$1.78 per resident day in 2008, \$1.91 in 2009, \$0.00 in 2010, and \$3.65 in the annualized seven months of 2011. Other income is estimated at \$127,604 or \$4.00 per resident day.

Total Revenue

Total revenue is estimated to be \$4,427,055 or \$138.77 per resident day. The subject's historical total revenue was \$119.98 in 2008, \$119.78 in 2009, \$127.51 in 2010, and \$137.43 in the annualized 7 months of 2011. The estimated figure is within the range of the historical financials and is considered reasonable based on the current rates and payor mix.

Estimated Operating Expenses

The expenses for the subject facility were estimated using expense comparables and the subject's historical expenses. The expense items are estimated on a per resident day basis to account for occupancy variation. The subject has been operating at loss and several of the expense categories appear to be operating at levels higher than market levels, particularly when considering the subject's relatively high occupancy rate. As a result, consideration was given to the performance of the expense comparables.

Dietary

Food cost is the primary item in this category. The subject's historical expense was \$15.61 per resident day in 2008, \$13.97 in 2009, \$15.27 in 2010, and \$16.88 in the annualized seven months ended 9/30/11. Information from the expense comparables, on a patient day basis, along with the stabilized amount is outlined in the following table. Based on the subject's high occupancy rate, the stabilized expense is estimated slightly below the comparable average.

<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>	<u>YTD Amount</u>	<u>Stabilized Amount</u>
\$10.95	\$18.48	\$14.63	\$16.88	\$14.50

INCOME CAPITALIZATION APPROACH

Housekeeping

This category represents cleaning supplies and other housekeeping expenses. The subject's historical expense was \$8.36 per resident day in 2009, \$7.84 in 2010, and \$8.80 in the annualized seven months ended 9/30/11. Information from the expense comparables, on a patient day basis, along with the stabilized amount is outlined in the following table. Based on the subject's high occupancy rate, the stabilized expense is estimated slightly below the comparable average.

<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>	<u>YTD Amount</u>	<u>Stabilized Amount</u>
\$5.15	\$9.17	\$7.70	\$8.80	\$7.50

Nursing & Resident Care

This expense includes all nursing and resident care expenses. The subject's historical expense was \$57.32 per patient day in 2009, \$64.27 in 2010, and \$68.74 in the annualized seven months ended 9/30/11. Information from the expense comparables, on a patient day basis, along with the stabilized amount is outlined in the following table. Based on the subject's payor mix which includes a relatively low proportion of Medicare patients, and its high occupancy rate, a nursing and resident care expense well below the average of the comparables is indicated.

<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>	<u>YTD Amount</u>	<u>Stabilized Amount</u>
\$48.20	\$80.59	\$68.36	\$68.74	\$65.00

Activities

Activities expenses are minor and information from the expense comparables on a patient day basis, along with the stabilized amount is outlined in the following table. Emphasis was given to the subject's historical expense as well as the comparable average.

<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>	<u>YTD Amount</u>	<u>Stabilized Amount</u>
\$3.74	\$6.69	\$4.80	\$4.92	\$5.00

INCOME CAPITALIZATION APPROACH

Maintenance

This expense includes utilities and maintenance costs including such items as inspection fees, janitorial supplies, uniforms and vehicle expenses. The subject's historical expense was \$3.94 per resident day in 2009, \$3.36 in 2010, and \$3.56 in the annualized seven months ended 9/30/11. Information from the expense comparables, on a patient day basis, along with the stabilized amount is outlined in the following table. Emphasis was given to the subject's historical expenses as well as the comparable average.

<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>	<u>YTD Amount</u>	<u>Stabilized Amount</u>
\$2.09	\$8.74	\$5.30	\$3.56	\$4.00

Utilities

Utilities expenses from the expense comparables, on a patient day basis, along with the stabilized amount are outlined in the following table. The subject's historical expense was \$2.00 per resident day in 2006, \$2.06 in 2007, and \$2.14 in the annualized seven months ended 9/30/11. Emphasis was given to the subject's historical expenses as well as the comparable average.

<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>	<u>YTD Amount</u>	<u>Stabilized Amount</u>
\$3.05	\$5.22	\$4.10	\$2.14	\$2.50

Employee Welfare

The subject's historical expense was \$21.64 per patient day in 2009, \$24.60 in 2010, and \$14.30 in the annualized seven months ended 9/30/11. Information from the expense comparables, on a patient day basis, along with the stabilized amount is outlined in the following table. Employee welfare costs at the subject are at the upper end of the range of the comparables and the only facility with higher costs in 2010 was the Henry County facility, Hillcrest Home. Emphasis was given to the subject's year to date figures and the comparable average.

INCOME CAPITALIZATION APPROACH

<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>	<u>YTD Amount</u>	<u>Stabilized Amount</u>
\$6.56	\$26.74	\$14.64	\$14.30	\$14.50

Administrative

Administrative expenses include consulting fees, office expenses, legal expenses, bookkeeping fees, and miscellaneous expenses. The subject's historical expense was \$9.65 per resident day in 2009, \$9.00 in 2010, and \$10.93 in the annualized seven months ended 9/30/11. Emphasis was placed on the subject's history with consideration of the comparables.

<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>	<u>YTD Amount</u>	<u>Stabilized Amount</u>
\$8.05	\$19.48	\$11.87	\$10.93	\$10.00

Property Taxes

In the Property Taxes and Assessments section of this appraisal, the stabilized property tax expense was determined to be \$0. This estimate equates to \$0 per bed. For additional information refer to the Property Taxes and Assessments section of this report.

Insurance

The subject's historical expense was \$1.74 per resident day in 2009, \$1.47 in 2010, and \$1.40 in the annualized seven months ended 9/30/11. Information from the expense comparables, on a patient day basis, along with the stabilized amount is outlined in the following table. Emphasis was given to the subject's historical expenses as well as the comparable average.

<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>	<u>YTD Amount</u>	<u>Stabilized Amount</u>
\$1.19	\$1.79	\$1.53	\$1.40	\$1.50

Other

INCOME CAPITALIZATION APPROACH

The subject's historical expense was \$0.00 per resident day in 2009, 2010, and YTD 2011. Information from the expense comparables, on a patient day basis, along with the stabilized amount of miscellaneous expenses is outlined in the following table.

<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>	<u>YTD Amount</u>	<u>Stabilized Amount</u>
\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Management Fee

Fees currently being charged by professional management companies in the area range from 3% to 6% of the property's effective gross income. The lower percentage fee would be typical for a newer, large project. The percentage fee typically increases as the size of the project decreases given economies of scale. Items included in this fee are accounting, bookkeeping, property and personnel supervision, and computer services.

The subject has not historically charged a management fee expense. A management fee of 4.0% effective gross income or total revenue is considered reasonable and market oriented.

Reserves for Replacement

Reserves for replacing short-lived building components are usually established to even out cash flows over the course of the investment. Replacing equipment, installing new carpeting, roofing, HVAC equipment, resurfacing of the parking lot, etc., involve substantial capitalized costs that do not occur on a consistent basis. Therefore, establishing a reserve for these eventual costs is considered prudent. We have deducted an annual replacement reserve estimate of \$500 per bed or \$46,000.

INCOME CAPITALIZATION APPROACH

Total Expenses

The above analysis indicates a total expense estimate of \$4,194,757 (\$131.49 per resident day) for the subject property, inclusive of reserves, and \$4,148,757 (\$130.05 per resident day), excluding reserves. The expense comparables range from \$99.34 to \$166.18 per resident day, or 74.4% to 119.1% of total revenue, excluding reserves. The subject's expense as a percentage of revenue is 93.7%, excluding reserves, which is within the range of the expense comparables and consistent with the subject's full-year historical expenses. The table below outlines the stabilized expense ratio and total expense estimate per patient day (PPD) compared to the expense comparables.

	<u>Minimum</u>	<u>Maximum</u>	<u>Average</u>	<u>YTD</u> <u>Amount</u>	<u>Stabilized</u> <u>Amount*</u>
Expense Ratio	74.4%	119.1%	94.4%	99.8%	93.7%
PPD	\$99.34	\$166.18	\$138.00	\$137.17	\$130.05

* Excluding replacement reserves for comparison purposes.

The subject has been operating at a loss and the stabilized expenses reflect market-oriented levels that the subject should be reasonably able to achieve. The stabilized expense ratio of 93.7% is generally consistent with the market average as represented by the expense comparable average of 94.4%.

Net Operating Income

The estimated net operating income is \$232,299 or \$7.28 per resident day. The stabilized operating statement is shown on the following page.

INCOME CAPITALIZATION APPROACH

Mercer County Nursing Home
 Stabilized Operating Statement
 November 16, 2011

	Total		
Licensed Resident Days	33,580		
Stabilized Occupancy	95%		
Effective Resident Days	<u>31,901</u>		
Revenue	Patient Days	Daily Rate	Total Income
Private	16,270	132.48	2,155,356
Medicare	1,276	439.62	560,976
Medicaid	14,355	110.28	1,583,119
Total Routine Revenue	<u>31,901</u>	<u>134.77</u>	<u>4,299,451</u>
Ancillary Income		0.00	0
Other Revenue		4.00	127,604
Total Revenue		<u>138.77</u>	<u>\$4,427,055</u>
Operating Expenses	Percent of Revenue	PPD	Total
Dietary	10.4%	14.50	462,565
Housekeeping & Laundry	5.4%	7.50	239,258
Nursing & Resident Care	46.8%	65.00	2,073,565
Activities & Social Services	3.6%	5.00	159,505
Maintenance	2.9%	4.00	127,604
Utilities	1.8%	2.50	79,753
Employee Welfare	10.4%	14.50	462,565
Administrative	7.2%	10.00	319,010
Property Taxes	0.0%	0.00	0
Insurance	1.1%	1.50	47,852
Other	0.0%	0.00	0
Management Fee	4.0%	5.55	177,082
Replacement Reserves	1.0%	1.44	46,000
Total Expenses	<u>94.8%</u>	<u>131.49</u>	<u>4,194,757</u>
Net Operating Income	<u>5.2%</u>	<u>7.28</u>	<u>232,299</u>

INCOME CAPITALIZATION APPROACH

Direct Capitalization

After estimating cash flow from operations, it is necessary to process it into value. In the valuation of the subject, direct capitalization is employed. This technique reflects the analysis that typical investors perform when analyzing a stabilized property.

Direct capitalization converts a single year's income expectancy into a value indication in one step by dividing by an appropriate rate. There are several methods to estimate an appropriate capitalization rate including the weighted average cost of capital (Band of Investment), analysis of comparable sales, and investor surveys. The selection of the capitalization rate is discussed as follows.

Investor Survey

The following survey results are from the Spring 2011 *Senior Housing Investment Survey*, and is the most recent data available. The capitalization rates in the survey represent rates for the going concern, and include intangible business value. These capitalization rates have also been adjusted to exclude the 5% highest and 5% lowest responses.

<u>Property Type</u>	<u>Low</u>	<u>High</u>	<u>Average</u>
Age Restricted Apartments	7.0%	9.0%	7.5%
Unlicensed Congregate Care	7.0%	9.0%	8.2%
Licensed Assisted Living	7.0%	10.0%	8.8%
Licensed Alzheimer/Dementia Care	7.5%	10.5%	9.1%
Nursing Homes – Long Term Care	10.0%	15.0%	12.5%
Nursing Homes – Sub Acute	10.5%	15.0%	13.0%
CCRCs	7.0%	12.0%	9.8%

The overall capitalization is the relationship between the first year's net operating income and value. The subject is a nursing home, long term care and these nursing facilities have an average overall rate of 12.5% for the going concern.

The subject property is a skilled nursing facility. Due to its age and condition, location on a hospital campus and strong historic occupancy, a capitalization rate slightly below the average for skilled nursing facilities is considered appropriate for the subject as a going concern.

INCOME CAPITALIZATION APPROACH

Band of Investment

Development of the capitalization rate can be accomplished using the Band of Investment or more specifically, the Mortgage Equity technique. The two capital components (debt and equity) are synthesized into the weighted average cost of capital. According to the Fourth quarter 2011 *RealtyRates.com Investor Survey*, the interest rates for senior housing range from about 3.5% to 8.5%. Based on our analysis typical mortgage terms for the subject would include 25-year amortization, 70.0% loan to value ratio, and 7.0% interest rate.

According to the Spring 2011 *Senior Housing Investment Survey*, the average adjusted equity dividend rate was 15.8% for skilled nursing facilities. A 16.0% equity dividend appears to be reasonable for the subject. The assumptions used to develop the capitalization rate by the band of investment method are outlined below.

Mortgage Interest Rate	7.0%
Amortization Term (years)	25
Loan-to-Value	70.0%
Annual Mortgage Constant (AMC)	0.0848
Equity Dividend Rate:	16.0%

Based on the above assumptions, the overall capitalization rate is calculated as follows:

	Portion		Rate		Weighted Average
Mortgage Loan (Principal & Interest)	70.0%	x	0.0848	=	0.0594
Equity Investments	30.0%	x	0.1600	=	0.0480
Weighted Average					0.1074
					10.7%

Analysis of Comparable Sales

The comparable sales have capitalization rates on a going concern basis ranging from 8.8% to 13.2%, with an average of 12.0%.

INCOME CAPITALIZATION APPROACH

Conclusion

The three methods indicate capitalization rates on a going concern basis of 12.0%, 10.7%, and 8.8% to 13.2%. Considering the strengths and weaknesses of the subject as well as the strength of the data, a capitalization rate for the going concern of 12.0% is considered reasonable for the subject. Based on this, the value indication by the Income Capitalization Approach, as of November 16, 2011 is calculated as follows:

Net Operating Income/Capitalization Rate = Indicated Value				
NOI	+	Capitalization Rate	=	Value
\$232,299		12.0%		\$1,935,821
			Plus Excess Land	\$55,000
			Total Indicated Value	\$1,990,821
			Rounded	\$1,990,000

The market value of the fee simple interest in the going concern of the subject facility, as of November 16, 2011, by the Income Capitalization Approach, is:

\$1,990,000

RECONCILIATION

RECONCILIATION AND FINAL VALUE CONCLUSION

In the valuation of the fee simple interest in the subject property, each of the three traditional approaches to value were applied and their results are as shown below.

Cost Approach	\$2,390,000
Sales Comparison Approach	\$2,355,000
Income Capitalization Approach	\$1,990,000

The quantity and quality of data used to estimate the value of the tangible components of the subject (land and buildings) is considered good. The value of the land was estimated by a comparison with several recent sales, which provided a well-supported estimate. Building costs were estimated using cost factors obtained Marshall Valuation Service. However, the Cost Approach does not include intangible assets such as, the assembled work force, licensing, occupancy, waiting lists, referral network, marketing plan, and systems and procedures. Furthermore, buyers of this property type typically do not rely upon the Cost Approach when making purchase decisions. However, the subject has been operating at a loss over the past several years and a large proportion of its value is in the physical assets. As a result, some emphasis is placed on the Cost Approach.

In the Sales Comparison Approach adjustments were based primarily on the net operating income reported for each property. This method takes into consideration the difference in the income between the sales and the subject and draws a direct correlation between income capacity and sale price. Since this method emphasizes the income potential inherent in properties of this type, it provides a reliable indication of value, which is supportive of the Income Capitalization Approach. However, the Sales Comparison Approach receives secondary emphasis.

The Income Capitalization Approach, which considers both the tangible and intangible assets of the going concern, involved a detailed analysis of the earnings potential of the facility. The quality and quantity of data in the Income Capitalization Approach are considered strong. In addition, buyers of similar facilities typically base their purchase decisions on the facility's ability to generate cash flow and income. The value estimate by the Income Capitalization Approach is typically considered the best indicator of value for nursing homes. However, the subject is currently actually operating at a loss due to relatively high expense levels. In the Income Capitalization Approach we have estimated

RECONCILIATION

that the property can achieve profitability through expense reductions. Overall, some emphasis is placed on the value indication by the Income Capitalization Approach.

Based upon the analysis as presented in this report and subject to the incorporated Assumptions and Limiting Conditions, it is estimated that the market value of the fee simple interest in the going concern of Mercer County Nursing Home as of November 16, 2011 is:

TWO MILLION THREE HUNDRED THOUSAND DOLLARS
\$2,300,000

The allocation of the value among the various assets is shown below.

Land	\$52,000
Excess Land	\$55,000
Improvements	\$1,961,000
Equipment	\$322,000
Business Assets	-\$90,000
Total	\$2,300,000

QUALIFICATIONS

PROFESSIONAL QUALIFICATIONS

ERIC W. DOST, MAI

EXPERIENCE

Experience includes preparation and review of appraisals on a variety of proposed and existing properties. Interests appraised include fee simple, leased fee, leasehold, and a variety of partnership, participation, and low-income housing tax credit interests. Property types appraised are outlined below:

- Apartment Complexes
- Assisted Living Facilities
- Business Parks
- Charter Schools
- Community Shopping Centers
- Congregate Care Facilities
- Distribution Facilities
- Food Processing Facilities
- Hospitals
- Hotels
- Land
- Mall Anchor Stores
- Manufactured Home Communities
- Manufacturing Plants
- Medical Office Buildings
- Neighborhood Shopping Centers
- Nursing Homes
- Office Buildings
- Parking Garages
- Professional office buildings
- Regional Malls
- Residential Subdivisions
- Retail
- Surgery Centers

EMPLOYMENT

- 2003 to Present* Dost Valuation Group, Ltd. President
- 1995 to 2003:* CBIZ Valuation Group, Inc., Director
National Practice Leader and Regional Manager for real estate department.
- 1992-1995:* Wells Fargo Bank, Assistant Vice President
Responsibilities included the technical review of investment grade real estate appraisals.
- 1986 to 1992:* Joseph J. Blake & Associates, Senior Appraiser
Prepared appraisals on a variety of investment grade real estate.

EDUCATION

University of Illinois, Urbana, May 1986
Bachelor of Science in Finance, Real Estate

Courses sponsored by the Appraisal Institute and successfully completed include: Principles of Appraisal, Basic Valuation Procedures, Capitalization Theory and Technique Parts A and B, Case Studies in Real Estate Valuation, Report Writing and Valuation Analysis, and Standards of Professional Practice.

QUALIFICATIONS

REPRESENTATIVE CLIENTS SERVED

- Lenders & REITS
 - American National Bank & Trust Co.
 - AmSouth Bank
 - Berkadia Commercial Mortgage LLC
 - Bremer Bank
 - Capital Funding Group, Inc.
 - Chase Bank
 - Clinton National Bank
 - Cole Taylor Bank
 - CSFB Realty Corp.
 - CWCcapital
 - Draper and Kramer
 - First Northwest Bank
 - Guaranty Federal Bank, FSB
 - Harris Bank
 - Health Care Property Investors
 - Health Care REIT
 - Illinois Housing Development Authority
 - Lake Forest Bank & Trust
 - Links Mortgage Corporation
 - LTC Properties, Inc.
 - National City Bank
 - Prudential Huntoon Paige
 - Quaker Capital
 - Wells Fargo Bank

- Corporations
 - American Publishing
 - AutoZone, Inc.
 - Bowne & Co.
 - Davisco Foods International, Inc.
 - Great Northern Industrial
 - Hajoca Corporation
 - Lancaster Corporation
 - Merrill Corporation
 - Metal Improvement Company
 - Monsanto Company
 - Pathways Senior Living
 - Performance Chemical and Supply
 - Tootsie Roll Industries
 - Vesuvius USA

- Law and Accounting Firms
 - Business Valuation Group, Inc.
 - Drinker Biddle
 - Franczek Radelet PC
 - Handler Thayer & Duggan
 - Hamilton, Thies, Lorch & Hagnell LLP
 - Lane and Waterman
 - McGuire Woods
 - Pugh Jones Johnson & Quandt
 - Robbins Schwartz Nicholas Lifton
 - Wildman, Harrold, Allen & Dixon LLP
 - Ungaretti & Harris

PROFESSIONAL AFFILIATIONS

Member of the Appraisal Institute (MAI), Certificate Number 10135

Certified General Appraiser in the following states:

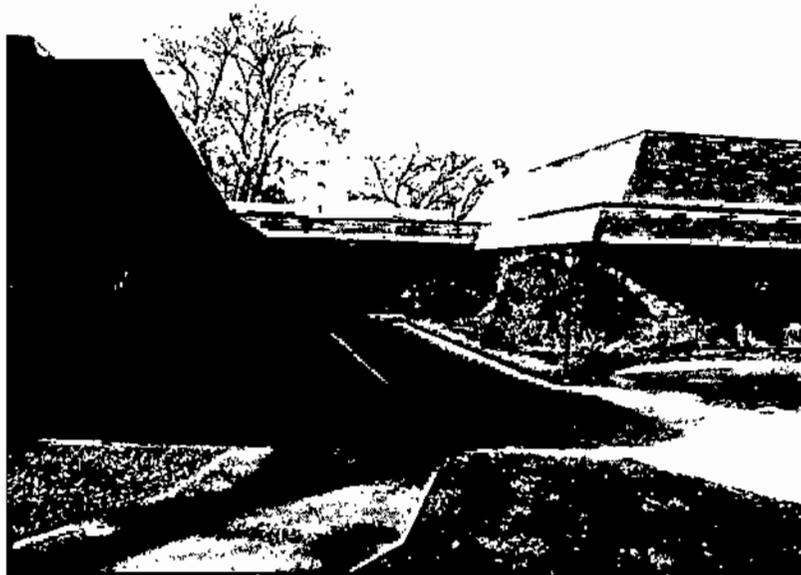
<u>State</u>	<u>Cert. Number</u>	<u>Expires</u>	<u>State</u>	<u>Cert. Number</u>	<u>Expires</u>
Illinois	553.000473	9/30/2013	Michigan	1201005184	7/31/2012
Indiana	CG49500122	06/30/2012	Wisconsin	743-010	12/14/2013
Iowa	CG01870	6/30/2012			

EXHIBITS

SUBJECT PHOTOGRAPHS



Front View From NW Ninth Avenue



Main Entrance



Typical Wings



West Side of Activity Room Addition

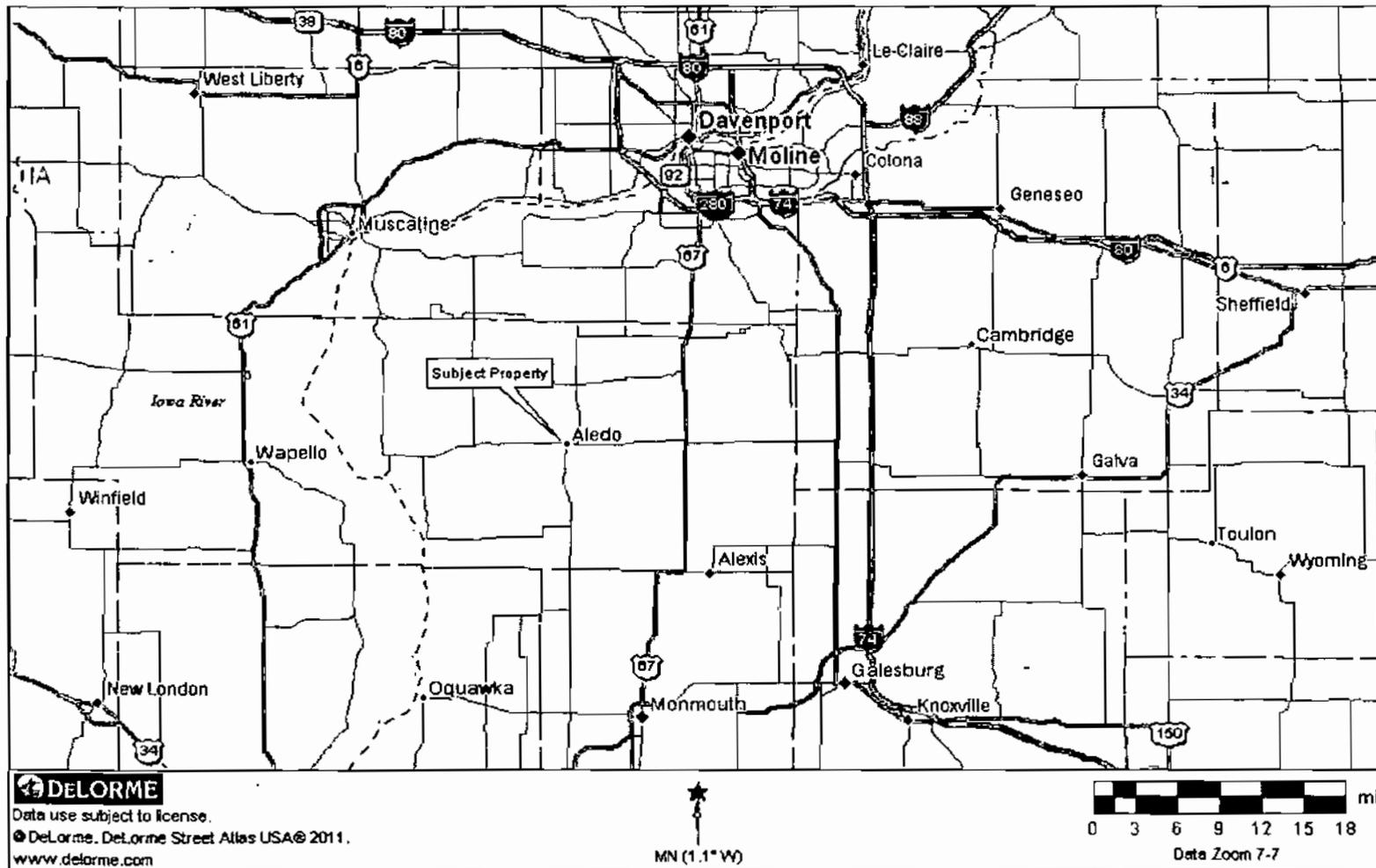


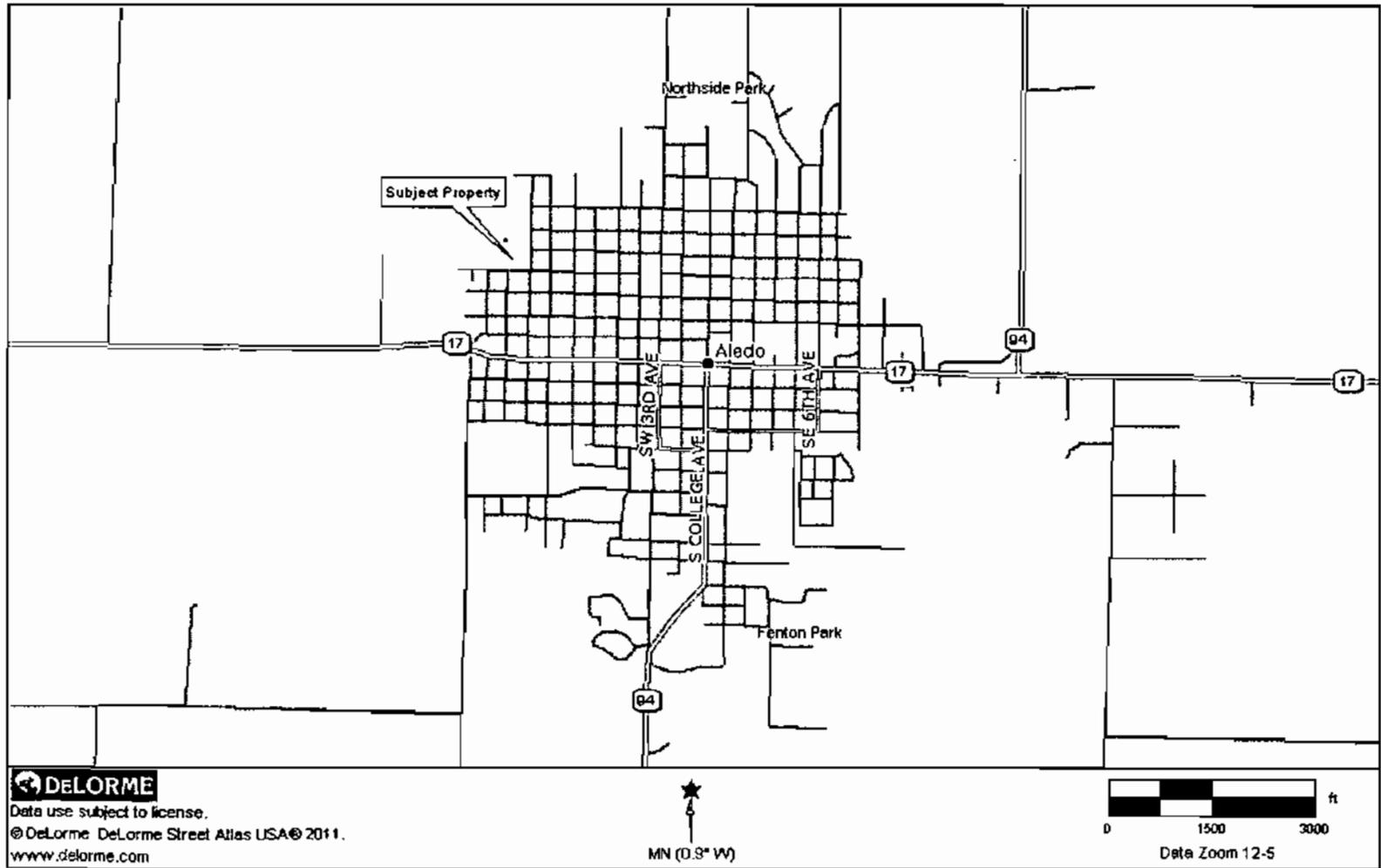
Typical Patient Room



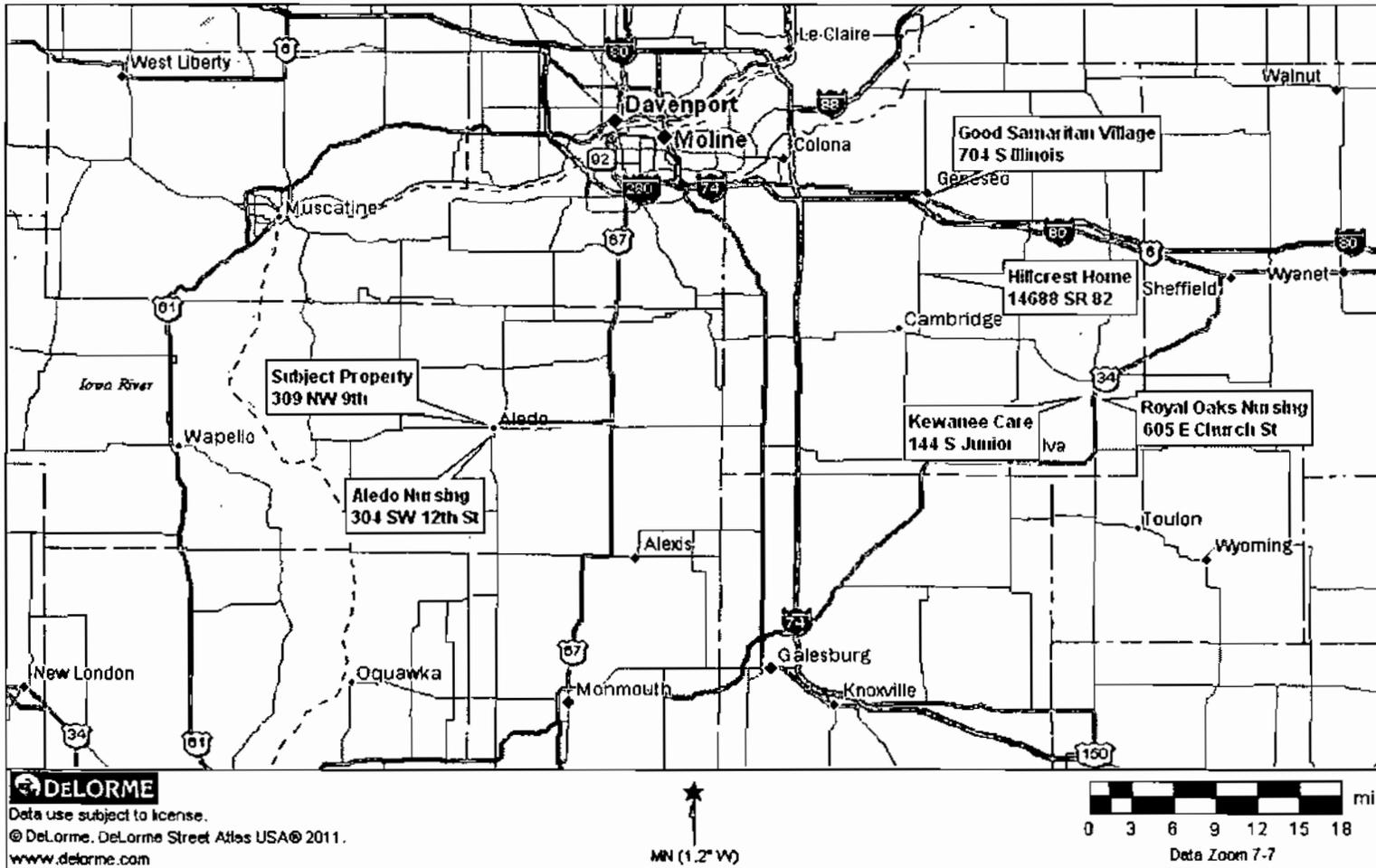
Excess Land Area on West Side

LOCATION MAPS





RENT COMPARABLE MAP



RENT COMPARABLE PHOTOGRAPHS



Rent Comparable 1 – Aledo Rehab



Rent Comparable 2 – Good Samaritan - Geneseo



Rent Comparable 3 – Hillcrest Home



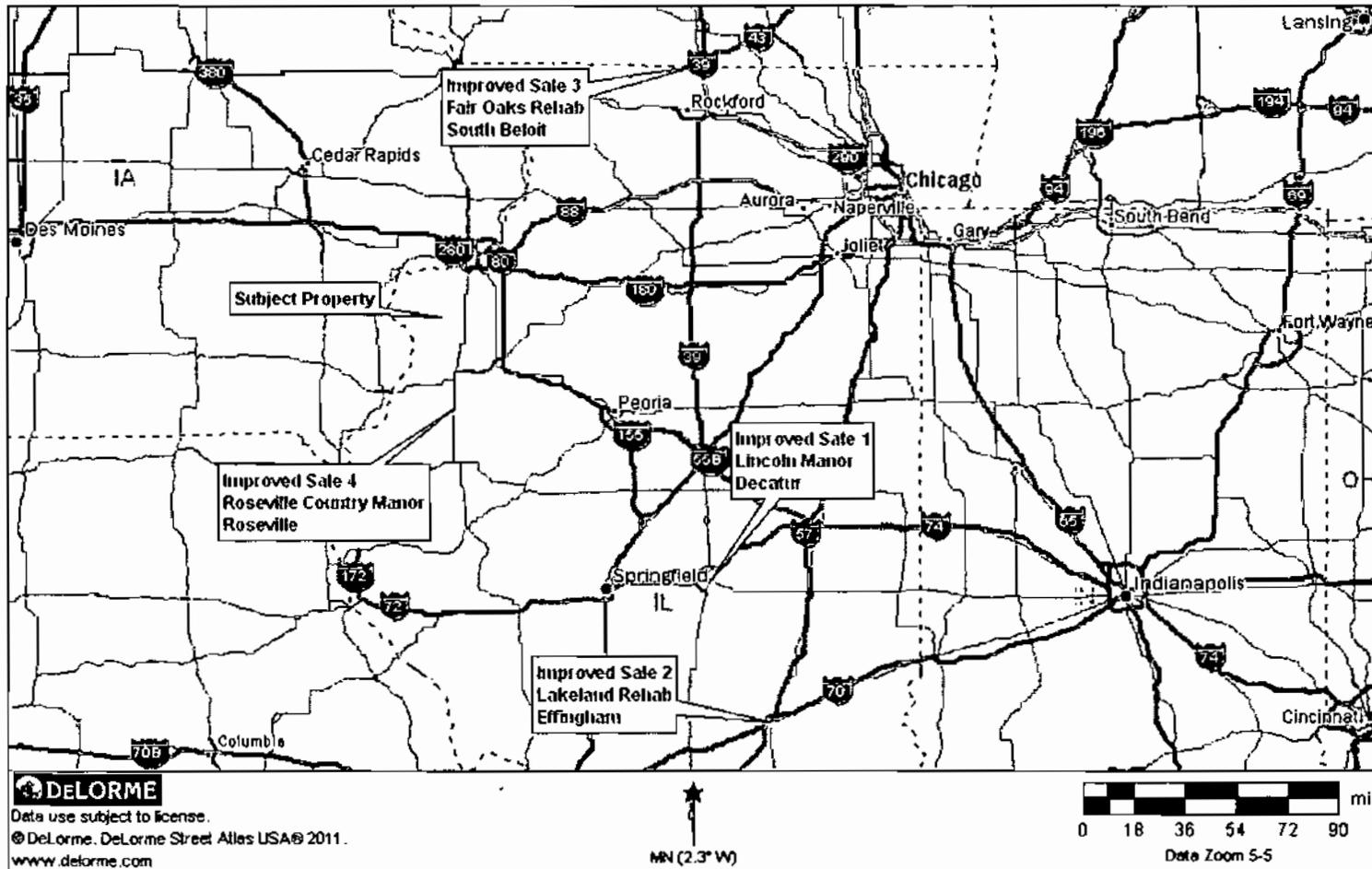
Rent Comparable 4 – Royal Oaks



Rent Comparable 5 – Kewanee Care Center

IMPROVED SALES MAP

EXHIBITS



ADDENDUM 2
Attestations of GSLM



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 Nursing Home

Dear Sir or Madam:

I hereby attest to the following:

1. The categories of service provided and number of beds at Mercer County Nursing Home ("Nursing Home") 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. GSLM intends to maintain ownership and control of the Nursing Home for a minimum of three years after the proposed change of ownership as required by 77 Ill. Admin. Code § 1130.520(b)(5).
3. 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 GSLM 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
4. GSLM 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.

GSLM 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

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

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

Exemption application for the proposed change of ownership.

Sincerely,



Douglas P. Cropper
Director

Notarized:

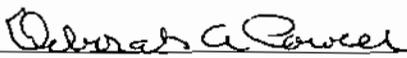
STATE OF IOWA)

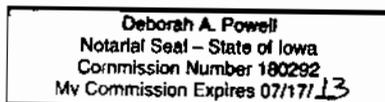
)

COUNTY OF SCOTT)

On this 26 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 Nursing Home

Dear Sir or Madam:

I hereby attest to the following:

1. The categories of service provided and number of beds at Mercer County Nursing Home ("Nursing Home") 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. Genesis Health System ("Genesis"), through a controlled subsidiary, intends to maintain ownership and control of the Nursing Home for a minimum of three years after the proposed change of ownership as required by 77 Ill. Admin. Code § 1130.520(b)(5).
3. 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).
4. 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.

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.

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

Certificate of Exemption application for the proposed change of ownership.

Sincerely,



Douglas P. Cropper
President and CEO

Notarized:

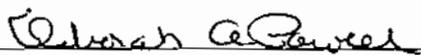
STATE OF IOWA)

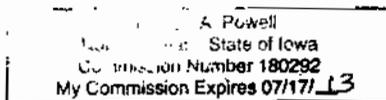
)

COUNTY OF SCOTT)

On this 26 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 4
Letters of Support

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

April 23, 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 Nursing Home Purchase by
Genesis Health System**

Dear Ms. Avery:

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

Finally, this purchase 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 Nursing Home employees. This tax levy, has grown to over \$500,000. For these reasons, I am submitting this letter of support for the proposed purchase and encourage the Review Board to approve the Certificate of Exemption for the change of ownership of Mercer County Nursing Home.

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

Sincerely,

A handwritten signature in cursive script that reads "Patrick Verschoore".
Representative Patrick Verschoore

ADDENDUM 4, PAGE 2
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Mercer Health Center, S. C.

DR. DENNIS D. PALMER, D. O.

409 N.W. 4th Street - Alledo, Illinois 61231 - Telephone 309/582-7259

April 24, 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 Nursing Home Affiliation with Genesis Health System

Dear Ms. Avery:

I am writing to express my full support for the proposed affiliation of Mercer County Nursing Home with Genesis Health System. As the Medical Director, I believe that the affiliation is in the best interest of our residents 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 Nursing Home. We have already experienced many of these enhancements through our management agreement with Genesis over the past year. Quite frankly, prior to the relationship with Genesis our nursing home has struggled with good leadership and management. We have successfully overcome these challenges through the change in leadership and access to a greater level of resources. We look forward to continued growth through new technology and investment in our facility. The staff and physicians of the nursing home 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 and encourage the Board to approve the Certificate of Exemption for the change of ownership of Mercer County Nursing Home.

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

Sincerely,


Dennis Palmer, D.O.
Medical Director
Mercer County Nursing Home



STATE OF ILLINOIS

SENATE

SENATOR
MIKE JACOBS

STATE CAPITOL
SPRINGFIELD, ILLINOIS
62706
217/782-5957

April 23, 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 Nursing Home Purchase by
Genesis Health System**

Dear Ms. Avery:

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

Finally, this purchase 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 Nursing Home employees. This tax levy has grown to over \$500,000. For these reasons, I am submitting this letter of support for the proposed purchase and encourage the Review Board to approve the Certificate of Exemption for the change of ownership of Mercer County Nursing Home.

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

Sincerely,

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

Senator Mike Jacobs