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VIA FEDERAL EXPRESS AND EMAIL

Mr. Michael Constantino
Project Review Supervisor
Illinois Health Facilities & Services Review Board
535 West Jefferson Street
Springfield, IL 62761-0001

RECEIVED

MAR 30 2015

**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

Re: 2015 Annual Report Project No. 10-031,
Pecatonica Pavilion (the "Project")

Dear Mr. Constantino:

We are counsel to Pecatonica Pavilion LLC (the "Permit Holder"). Pursuant to 77 Ill. Admin. Code § 1130.760, and on behalf of the Permit Holder, we are hereby submitting this annual report for Project No. 10-031.

Background Facts

On May 19, 2010, the Permit Holder filed its original application (the "Original Application") for permit under the Illinois Health Facilities Planning Act seeking to establish and operate a forty six (46) bed skilled nursing unit, as part of a much larger 120 bed independent living, assisted living, and Alzheimer's continuing care retirement community ("CCRC"), in Pecatonica, Illinois. Pecatonica is a small rural community situated in western Winnebago County, and bordering Stephenson County, Illinois. Pecatonica does not currently have a skilled nursing facility in its town.

The Original Application was supported by a Market Feasibility Analysis conducted by Revere Healthcare, Inc. and contained 35 separate letters of support. The Original Application was backed by State elected officials representing the Pecatonica region, hospital administrators and executives, physicians serving the Winnebago County community, and 27 members of the public who sought a nursing care facility located in their rural community so that they would not be forced to later leave their home town.

On October 18, 2010, the Permit Holder filed a Type B Modification to the Application (the “Modified Application”), reducing the number of skilled beds from forty six (46) to twenty four (24) (the “Modified Project”). The Modified Application was filed after the Illinois Health Facilities & Services Review Board (the “Board”) approved a ninety (90) bed skilled nursing facility in Freeport, Illinois, on July 27, 2010. See Project No. 10-007 (Manor Court of Freeport). Meaning, in light of the changing demand for services, the Permit Holder voluntarily chose to reduce the size of the Project. So, as of the Modified Application, the Permit Holder was proposing to establish and operate a twenty four (24) bed skilled nursing unit, as part of a much larger 120 bed CCRC (the “CCRC Development”). In other words, the skilled nursing beds would only constitute twenty percent (20%) of the beds in the planned CCRC Development.

The Modified Application stated that the Modified Project would cost \$1,767,400 (the “Permit Amount”) and that the Modified Project would be completed on March 31, 2012 (the “Original Project Completion Date”).

On March 21, 2011, the Permit Holder appeared before the Board and the Board unanimously approved the Modified Project. On March 24, 2011, the Board issued a permit letter for the Modified Project. Shortly thereafter, the Permit Holder began work on the overall CCRC Development (and the Modified Project). On December 30, 2011, the Permit Holder obligated the Modified Project as set forth in the Modified Application.

On or about April 26, 2011, Medina Nursing Center, Inc., Alpine Fireside Health Center, Ltd., Neighbors Rehabilitation Center, LLC, and Fairview Nursing Plaza, Inc. (the “Plaintiffs”) filed a complaint for administrative review of the Board’s approval of the Modified Project in the Circuit Court for the Seventh Judicial Circuit of Illinois, Sangamon County, case No. 2011 MR 000176 (the “Administrative Review Complaint”). The Plaintiffs are four competing skilled nursing facilities located in Winnebago County. Over the next few years, the Administrative Review Complaint worked its way through the Illinois judicial system, ultimately resulting in a decision from the Illinois Appellate Court on July 12, 2013 (the “Remand Order”). It should be noted that the Permit Holder vigorously challenged the Administrative Review Complaint in the Circuit Court and the Appellate Court and has incurred tens of thousands of dollars in legal fees in doing so. On September 25, 2013, the Board issued its Response to the Remand Order and offered strong and compelling support for the Board’s approval of the Permit Holder’s Modified Application.

On or about February 15, 2012, the Permit Holder filed its first permit renewal request for the Modified Project, seeking to extend the Original Project Completion Date to September 30, 2013 (the “Extended Project Completion Date”). On February 28, 2012, the Board approved the Permit Holder’s First Permit Renewal Request.

On or about September 27, 2013, the Permit Holder filed its second permit renewal request for the Modified Project (the "Second Permit Renewal Request"), seeking to extend the Extended Project Completion Date to March 31, 2015. The need for the Second Permit Renewal Request was mainly attributable to the delays and uncertainty caused by the Administrative Review Complaint. On November 5, 2013, the Board approved the Permit Holder's Second Permit Renewal Request.

On or about March 28, 2015, the Permit Holder filed its third permit renewal request for the Modified Project, seeking to extend the Extended Project Completion Date to September 30, 2016 because of delays associated with the financing for the CCRC Development (of which the Modified Project is a component). Those delays were caused, in part, by the Administrative Review Complaint and the various court rulings and appeals (which created an inordinate amount of consternation and follow-up analysis by the Permit Holder's lenders and lenders' appraisers) and, in part, by delays associated with the EB-5 component of the financing of the Modified Project (of which the Modified Project is a component). The United States Department of Homeland Security, Office of United States Citizenship and Immigration Services (the "Immigration Office") administers the Immigrant Investor Program (also known as the "EB-5 Program"), which was created by the United States Congress in 1990 to stimulate the US economy through job creation and capital investment. The Immigration Office has been overwhelmed with EB-5 Program applications and the processing of EB-5 Program applications associated with the financing for the CCRC Development (of which the Modified Project is a component) has taken longer than expected.

Fortunately, the Permit Holder's transaction counsel, Mr. David Waggoner of the Waggoner Law Firm, and the Permit Holder's lender have been able to navigate around the Immigration Office delays and the financing for the CCRC Development (of which the Modified Project is a component) is scheduled to close on **April 24, 2015**. To that end, \$3,500,605 has already been deposited into Chicago Title & Trust Company, Escrow Account Number DIF 201314327, to serve as an escrow for the financing transaction (which covers both the CCRC Development and the Modified Project).

Elements Required by 77 Ill. Admin. Code § 1130.760

As you know, 77 Ill. Admin. Code § 1130.760 requires a permit holder to file an annual report that includes: (1) a current status of the project; (2) the costs incurred by the permit holder to date on the project; (3) the method of financing the project and sources of funds; and (4) the anticipated date of completion for the project.

Status of the Project

As stated above, the Permit Holder obligated the Modified Project on December 30, 2011.

The Permit Holder has: (1) leveled and excavated the Modified Project Site (and the entire site for the CCRC Development); (2) completed all of the engineering for the Modified Project; (3) completed the final architectural drawings for the Modified Project; (4) installed electric service for construction trailers and administration on the Modified Project Site; (5) installed transformer, cable, meter and distribution for 110 volt service for the Modified Project Site; (6) initiated EPA requirements toward maintaining the Modified Project Site for building and equipment; (7) graded and maintained drainage, storm water inlets and curbing on the Modified Project Site; (8) surveyed, dug to, and located water service lines on the Modified Project Site to accommodate fire and sanitary water lines onto the Modified Project Site; (9) installed new utility services throughout the Modified Project Site (including, electric, telephone, and cable); (10) disconnected and/or removed “old” service lines from the Modified Project Site; (11) controlled illegal and vandalized dumping at the Modified Project Site by daily monitoring and cleanup/removals; and (12) conducted local public seminars and discussions regarding the status of the Modified Project.

Costs Incurred to Date

The Permit Holder has obligated 100% of the \$1,767,400 in funds committed in the Modified Application for the Modified Project.

Method of Financing

As set forth in the Permit Holder’s Application and Modified Application, the Permit Holder is financing the Modified Project with debt. The funding for the Modified Project is in place.

Anticipated Project Completion Date

The anticipated completion date for the Modified Project is September 30, 2016.

Mr. Michael Constantino
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If you need any other information, please call.

Sincerely,

A handwritten signature in black ink that reads "Edward J. Green". The signature is written in a cursive style with a large, sweeping "E" and "G".

Edward J. Green

cc: George Anderson, Pecatonica Pavilion LLC
Grant Shumway, Revere Healthcare Ltd.