

 ORIGINAL

Type A Modification
CON PERMIT APPLICATION PROJECT 14-056

Development of an
Ambulatory Care Center (ACC)
Within
Leased Space in a Hospital Campus-based
Physician Office Building (POB)

RECEIVED

JAN 26 2015

HEALTH FACILITIES &
SERVICES REVIEW BOARD

at

St. Anthony's Memorial Hospital,
Effingham, Illinois

On behalf of

Hospital Sisters Health System
Springfield, Illinois
(Co-applicants)

In conjunction with Agracel
(Third-party developer)

January 23, 2015



**St. Anthony's
Memorial Hospital**

AN AFFILIATE OF HOSPITAL SISTERS HEALTH SYSTEM

January 22, 2015

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

Re: Type A Permit Application Modification
Project 14-056
St. Anthony's Memorial Hospital
Ambulatory Care Center

Dear Ms. Avery,

As requested, we have modified our original Permit Application to include the total project costs, some of which are attributable to Agracel, our third-party independent developer, and also those attributable to St. Anthony's as they were included in the original Permit Application submission. The total project cost is \$14,004,619 including St. Anthony's FMV of leased space which is \$5,351,337, as well as our direct capital investment of \$3,111,529. Included in this modification are the original Permit Application pages and those requiring modification. (Narrative; Attachments 7, 9, 36, and 39)

Pursuant to Section 1130.650 we anticipate some additional fees may be assessed. Please advise us of any additional amounts so that our review can quickly proceed.

Additionally, we were requested to provide an attestation letter indicating the proposed ACC/POB project would be completed if Agracel, our independent third-party developer, defaulted in any manner. This attestation letter has been submitted under separate cover.

We look forward to securing a positive response from the State Board at its March 10th meeting for this important project which is consistent with healthcare delivery trends. Please contact me if you have any questions. I can be reached by e-mail at Theresa.Rutherford@hshs.org or by telephone at 217-347-1494.

Sincerely,

Theresa Rutherford
President/CEO

Cc: Mike Constantino, Supervisor, Project Review Section

2. Narrative Description

Provide in the space below, a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms**, **NOT WHY** it is being done. If the project site does NOT have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

In an Assessment of Applicability Request dated June 2, 2014 to the Illinois Health Facilities and Services Review Board (IHFSRB), St. Anthony's Memorial Hospital (SAE), 503 North Maple Street, Effingham, Illinois, 62401, sought an advisory opinion related to developing an ambulatory care center (ACC) within a physician / professional office building (POB) to be constructed on leased property, on the Hospital Campus, by a third-party developer (Agracel).

The IHFSRB determined the proposed ACC/POB facility was "on-or-behalf of the Hospital and that a CON was required even though neither SAE or the Hospital Sisters Health System (HSBS) were at risk for financing the proposed development as attested to in the CON Applicability request (see Narrative, Exhibit 1).

This specific Application for Permit responds to the IHFSRB applicability determination and includes those services and related costs for which the Hospital will lease space (see Narrative Exhibit 2) as well as the overall project.

SAE proposes to relocate and consolidate select clinical and non-clinical services into leased spaced within a Hospital-campus based physician office building (ACC/POB) to be constructed by an independent third-party developer (Agracel), on leased property, in order to create an ambulatory care center (ACC). The proposed Hospital services will be located in the new ACC/POB facility which will also include a local independent physician office (Marshall Clinic).

ACC related space associated with St. Anthony's Hospital will approximate 25,710 sq. ft. (BGSF) with approximately 20,942 being rentable (see Narrative, Exhibit 3, LOI). The leased area includes outpatient clinical space such as laboratory testing services (Express Testing), imaging services, a woman's wellness center, a walk-in clinic (convenient care), in addition to select non-clinical services. Consistent with emerging healthcare trends, the services proposed in the ACC leased space, coupled with co-located independent physician offices and the Marshall Clinic space, will assist the Hospital in meeting care delivery trends emphasizing ambulatory care services. The new ACC/POB facility will approximate 49,500 (corrected; 45,730 in the original permit application) total square feet including a connection to an existing hospital-owned medical office building on the campus (Effingham Medical Center).

Project costs for developing the proposed ACC/POB facility are not a Hospital nor HSHS cost. Rather, the third-party developer of the Effingham MOB, LLC (ACC/POB), Agracel, is assuming all costs and risk for the facility at their estimated total project cost of \$10,893,090 (rounded) of which approximately \$5,351,337 is applicable to SAE leased space, plus additional Hospital related project costs including such items as equipment and furnishing costs. (See Attachment 7)

The total project cost for SAE approximates \$8,462,866 of which \$5,351,337 is the FMV of leased space. The Fair Market Value (FMV) of the leased space is the third-party developer's allocated project cost for the Hospital component of the new ACC/POB building. St. Anthony's and HSHS will fund the incremental \$3,111,529 project costs over and above the developer's obligation.

In aggregate, the total project cost attributable to SAE and the third-party developer approximates \$14,004,619.

In accordance with Public Act 93-31 (a), this Application for Permit is classified as non-substantive.

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The IHFSRB determined the proposed ACC/POB facility was "on-or-behalf of the Hospital and that a CON was required even though neither SAE or the Hospital Sisters Health System (HSHS) were at risk for financing the proposed development as attested to in the CON Applicability request (see Narrative, Exhibit 1).

This specific Application for Permit responds to the IHFSRB applicability determination and includes those services and related costs for which the Hospital will lease space (see Narrative Exhibit 2) as well as the overall project.

SAE proposes to relocate and consolidate select clinical and non-clinical services into leased spaced within a Hospital-campus based physician office building (ACC/POB) to be constructed by an independent third-party developer (Agracel), on leased property, in order to create an ambulatory care center (ACC). The proposed Hospital services will be located in the new ACC/POB facility which will also include a local independent physician office (Marshall Clinic).

ACC related space associated with St. Anthony's Hospital will approximate 25,710 sq. ft. (BGSF) with approximately 20,942 being rentable (see Narrative, Exhibit 3, LOI). The leased area includes outpatient clinical space such as laboratory testing services (Express Testing), imaging services, a woman's wellness center, a walk-in clinic (convenient care), in addition to select non-clinical services. Consistent with emerging healthcare trends, the services proposed in the ACC leased space, coupled with co-located independent physician offices and the Marshall Clinic space, will assist the Hospital in meeting care delivery trends emphasizing ambulatory care services. The new ACC/POB facility will approximate 49,500 (corrected; 45,730 in the original permit application) total square feet including a connection to an existing hospital-owned medical office building on the campus (Effingham Medical Center).

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The total project cost for SAE approximates \$8,462,866 of which \$5,351,337 is the FMV of leased space. The Fair Market Value (FMV) of the leased space is the third-party developer's allocated project cost for the Hospital component of the new ACC/POB building. St. Anthony's and HSHS will fund the incremental \$3,111,529 project costs over and above the developer's obligation for certain Hospital related expenses.

In aggregate, the total project cost attributable to SAE and the third-party developer approximates \$14,004,619. The costs are allocated as follows:

Source of Funds

By Source

Cash and Securities

SAE/HSHS	\$3,111,529
Agracel (Developer)	<u>2,723,272</u>
Subtotal	<u>\$5,834,801</u>

Mortgage / Bank Loan

Agracel (Developer)	<u>\$8,169,818</u>	(Attachment 37 and Appendix A)
Grand Total	<u>\$14,004,619</u>	(Attachment 7, Full Project Costs)

By Organization

Agracel (Project Construction Cost)

<u>Cash / Securities</u>	\$2,723,272
<u>Bank Loan</u>	<u>8,169,818</u>
Subtotal	\$10,893,090 *
<u>SAE/HSHS</u>	<u>3,111,529</u> **
Grand Total	<u>\$14,004,619</u> (Attachment 7, Full Project Costs)

* Of which \$5,351,337 is the FMV of SAE leased space

** Consulting fees, equipment, etc. (See Attachment 7 for detail)

SAE Project Cost Related

Cash / Securities	\$3,111,529	(Attachment 7, Page 25, Source of Funds)
FMV Leased Space	<u>5,351,337</u>	(Attachment 7, Page 25, Use of Funds)
Total SAE	<u>\$8,462,866</u>	

In accordance with Public Act 93-31 (a), this Application for Permit is classified as non-substantive

Project Costs and Sources of Funds (St. Anthony's Hospital only)

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

Project Costs and Sources of Funds (Hospital Only)			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs	--	--	--
Site Survey and Soil Investigation	--	--	*
Site Preparation	--	--	*
Off Site Work	--	--	*
New Construction Contracts (See FMV)	--	--	*
Modernization Contracts	--	--	*
Contingencies (Allowance)	--	--	*
Architectural/Engineering Fees	--	--	*
Consulting and Other Fees	48,300	44,598	92,898
Movable or Other Equipment (not in construction contracts)	2,317,713	136,798	2,454,511
Bond Issuance Expense (project related)	--	--	*
Net Interest Expense During Construction (project related)	--	--	*
Fair Market Value of Leased Space or Equipment	3,382,838	1,968,499	5,351,337 *
Other Costs To Be Capitalized (Allowance)	204,280	359,840	564,120
Acquisition of Building or Other Property (excluding land)	--	--	--
TOTAL USES OF FUNDS (Estimated)	\$ 5,953,131	\$ 2,510,735	\$ 8,462,866
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	2,570,293	542,236	3,111,529
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)	3,382,838	1,968,499	5,351,337
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	\$ 5,953,131	\$ 2,510,735	\$ 8,462,866
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

* Construction cost (Agracel 10/22/14)

80H SAE ACC/POB 07 12 2014

1/23/2015 10:04 AM

25 (Corrected Original)

Attachment 7
Hospital Only

Attachment 7, Hospital Allocation

Use of Funds

	<u>Clinical</u>	<u>Non Clinical</u>	<u>Total</u>
Consulting and Other Fees	\$ 48,300	\$ 44,598	\$ 92,898
Moveable or Other Equipment			
Imaging	\$2,066,200	--	\$2,066,200
Furniture / support	141,145	130,285	271,430
Contingency @ 5%	<u>110,368</u>	<u>6,513</u>	<u>116,881</u>
Total	<u>\$2,317,713</u>	<u>\$136,798</u>	<u>\$2,454,511</u>
Other Costs to be Capitalized			
MRI Relocation	\$ 165,570	--	\$ 165,570
Building Demolition	--	30,000	30,000
CON and related fees	32,760	30,240	63,000
Connecting Corridor (allowance)	--	180,000	180,000
Canopies (allowance)	--	10,000	10,000
Parking lot improvements	--	100,000	100,000
Other (allowance)	<u>5,950</u>	<u>9,600</u>	<u>15,500</u>
Total	<u>\$ 204,280</u>	<u>\$ 359,840</u>	<u>\$ 564,120</u>

Project Costs and Sources of Funds (Total Project Cost)

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

Project Costs and Sources of Funds (Total Project)			
USE OF FUNDS	CLINICAL (SAE)	NONCLINICAL (SAE) (DEVL)	TOTAL
Preplanning Costs	0	41,000	41,000
Site Survey and Soil Investigation	0	80,000	80,000
Site Preparation	0	40,000	40,000
Off Site Work	0	0	0
New Construction Contracts	3,382,838	5,087,925	8,470,763
Modernization Contracts	0	0	0
Contingencies (Allowance)	0	720,000	720,000
Architectural/Engineering Fees	0	565,937	565,937
Consulting and Other Fees	48,300	44,598	92,898
Movable or Other Equipment (not in construction contracts)	2,317,713	136,798	2,454,511
Bond Issuance Expense (project related)	0	55,000	55,000
Net Interest Expense During Construction (project related)	0	199,965	199,965
Fair Market Value of Leased Space or Equipment	0	0	0
Other Costs To Be Capitalized	204,280	1,080,265	1,284,545
Acquisition of Building or Other Property (excluding land)	0		0
TOTAL USES OF FUNDS	5,953,131	8,051,488	14,004,619
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities (SAE/HS/SHS/Agracel)	2,570,293	3,264,508	5,834,801
Pledges	--	--	0
Gifts and Bequests	--	--	0
Bond Issues (project related)	--	--	0
Mortgages (Includes FMV Cost)	3,382,838	4,786,980	8,169,818
Leases (fair market value)	--	--	0
Governmental Appropriations	--	--	0
Grants	--	--	0
Other Funds and Sources	--	--	0
TOTAL SOURCES OF FUNDS	5,953,131	8,051,488	14,004,619
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT -7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

Project Development Costs

Agracel Related (Attachment 7, Modified)

New Construction	\$8,470,763	*
Contingencies	<u>720,000</u>	
Subtotal	\$9,190,763	
Pre-planning costs	41,000	
Site Survey / Soils	80,000	
Site Preparation	40,000	
A & E Fees	565,937	
Bond Issue Expense	55,000	
Capitalized Interest	199,965	
Other Costs to be Capitalized	<u>720,425</u>	
Subtotal – Agracel	\$10,893,090	

SAE/HSHS Related (Attachment 7, Original)

Consulting / Other	\$92,898	
Equipment	2,454,511	
Other Costs to be Capitalized	564,120	
FMV Leased Space	<u>5,351,337</u>	
Subtotal – SAE	<u>\$8,462,866</u>	
Subtotal	\$19,355,956	
Less SAE FMV	<u>(5,351,337)</u>	(Double counted)
Project Total	<u>\$14,004,619</u>	

* Includes SAE FMV of leased space @ \$5,351,337

After paginating the entire, completed application, indicate in the chart below, the page numbers for the attachments included as part of the project's application for permit:

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27	Non-Hospital Based Ambulatory Surgery	NA
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* Included in Permit Modification Submittal

Project Costs and Sources of Funds (St. Anthony's Hospital only)

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Attachment 7, Allocation

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Grants	--	--	0
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Agracel Related (Attachment 7, Modified)

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Site Survey / Soils	80,000	
Site Preparation	40,000	
A & E Fees	565,937	
Bond Issue Expense	55,000	
Capitalized Interest	199,965	
Other Costs to be Capitalized	<u>720,425</u>	
Subtotal – Agracel	\$10,893,090	

SAE/HSHS Related (Attachment 7, Original)

Consulting / Other	\$92,898	
Equipment	2,454,511	
Other Costs to be Capitalized	564,120	
FMV Leased Space	<u>5,351,337</u>	(Included in Agracel)
Subtotal – SAE	<u>\$8,462,866</u>	
Subtotal	\$19,355,956	
Less SAE FMV	<u>(5,351,337)</u>	(Double counted)
Project Total	<u>\$14,004,619</u>	(Modified Attachment 7)

* Includes SAE FMV of leased space @ \$5,351,337

St. Anthony's Space in ACC/POB

Project Cost / Space Requirements - SAE Only								
Department	Project Cost	Gross Square Feet		Amount of Proposed Total GSF That Is:				
		Existing	Proposed	New Construction	Work Column	Remodeled	As Is	Vacated Space
Reviewable / Clinical								
Express Testing (Lab)	\$ 238,125	639	1,066	1,066		--	--	557 *
Women's Wellness	\$ 1,488,280	2,619	5,031	5,031		--	--	2,619
Diagnostic Imaging	\$ 3,899,306	5,171	5,987	5,987		--	--	1,797 **
Walk-In Clinic (Convenient Care)	\$ 327,420	4,915	1,402	1,402				4,915
Total Clinical	\$ 5,953,131	13,344	13,486	13,486				9,888
Non Clinical								
Patient Access (Registration)	\$ 50,215	0	251	251		--	--	--
Education Center / Employee Support	\$ 282,141	0	1,404	1,404		--	--	0
Physician Office	\$ 499,975	1,197	2,488	2,488				1,197
Circulation / Mechanical/ Connecting Corridor / Canopies	\$ 1,678,404	0	8,081	8,081		--	--	0
Total Non-Clinical	2,510,735	1,197	12,224	12,224				1,197
Total Project	\$8,462,866	14,541	25,710	25,710				11,085

* 82 sq. ft. is leased, 557 sq. ft. is Hospital owned for a total 639 existing sq. ft.

** Open MRI Building at 3,374 sq. ft. will be demolished

Total Space in ACC/POB (SAE and Marshall Clinic)

Project Cost / Space Requirements - SAE Only								
Department	Project Cost	Gross Square Feet		Amount of Proposed Total GSF That Is:				
		Existing	Proposed	New Construction	Work Column	Remodeled	As Is	SAE Vacated Space
Reviewable / Clinical								
Express Testing (Lab)	\$ 238,125	639	1,066	1,066		--	--	557
Women's Wellness	\$ 1,488,280	2,619	5,031	5,031		--	--	2,619
Diagnostic Imaging	\$ 3,899,306	5,171	5,987	5,987		--	--	1,797
Walk-In Clinic (Convenient Care)	\$ 327,420	4,915	1,402	1,402				4,915
Total Clinical	\$ 5,953,131	13,344	13,486	13,486				9,888
Non Clinical								
Patient Access (Registration)	\$ 50,215	0	251	251		--	--	--
Education Center / Employee Support	\$ 282,141	0	1,404	1,404		--	--	0
Physician Office (SAE)	\$ 499,975	1,197	2,488	2,488				1,197
Circulation / Mechanical /	\$ 1,678,404	0	8,081	8,081		--	--	0
Connecting Corridor / Canopies								
Marshall Clinic (POB) and related costs ***	\$ 5,540,753	NA	23,784	23,784				NA
Total Non-Clinical	\$ 8,051,488	1,197	36,008	36,008				1,197
Total Project	\$ 14,004,619	14,541	49,494	49,494				11,085

* 82 sq. ft. is leased, 557 sq. ft. is Hospital owned for a total 639 existing sq. ft.

** Open MRI Building at 3,374 sq. ft. will be demolished

*** Includes Marshall Clinic and related allocated space at 23,784 sq. ft. plus developers related costs not allocated to the SAE FMV (Developers construction cost) of leased space which is \$5,351,337

VIII. - 1120.120 - Availability of Funds (Agracel – Third Party Developer)

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable: **Indicate the dollar amount to be provided from the following sources:**

This section is not applicable.

<u>\$2,723,272</u> *	a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
	1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
	2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
_____	b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_____	c) Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
<u>\$8,169,818</u>	d) Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:
	1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
	2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;
	** 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;
	4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;
	5) For any option to lease, a copy of the option, including all terms and conditions.
_____	e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_____	f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
_____	g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
<u>\$10,893,090</u>	TOTAL FUNDS AVAILABLE

* See Appendix D, Agracel Auditors Statement, Modified Permit Application Pages 251 – 253

** See Appendix A, Pages 136 – 138 Loan agreement dated 10/23/14 between Effingham MOB, LLC (Agracel) and The First National Bank of Dieterich. (Original Application)

WEST & COMPANY, LLC

MEMBERS

E. LYNN FREESE
RICHARD C. WEST
BRIAN E. DANIELL
JANICE K. ROMACK
DIANA R. SMITH
D. RAIF PERRY
JOHN H. VOGT
JOSHUA D. LOWE

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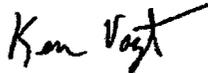
July 23, 2014

To: Ms. Courtney R. Avery,

Our firm has audited the financial statements of Agracel, Inc for several years. (A copy of our most recent independent auditors' report is attached hereto.)

The stockholders' equity at December 31, 2013 and 2012, as reported on the audited balance sheets, exceeded \$20,000,000.

The net income for the years ended December 31, 2013 and 2012, as reported on the audited income statements, exceeded \$5,000,000 for each year.



Ken L. Vogt, CPA

Member of Private Companies Practice Section

WEST & COMPANY, LLC

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INDEPENDENT AUDITORS' REPORT

To the Stockholders of
Agracel, Inc.
Effingham, Illinois

We have audited the accompanying financial statements of Agracel, Inc. (an Illinois corporation), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Member of Private Companies Practice Section

Basis for Qualified Opinion

Agracel, Inc. has elected to not consolidate the financial statements of various real estate investments. These investments are accounted for on the equity method. Under accounting principles generally accepted in the United States of America, the investments should have been consolidated because they are controlled by Agracel, Inc. Had the investments been consolidated, assets would have increased by \$6,026,777 and \$4,972,487, liabilities would have increased by \$4,845,553 and \$3,879,861, and non-controlling interest equity would have increased by \$1,181,244 and \$1,092,626, as of and for the years ended December 31, 2013 and 2012, respectively.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Agracel, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of general administrative expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

West & Company, LLC

April 14, 2014